RISK- RETURN ANALYSIS

تحليل المخاطر و العوائد

by

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ABSTRACT

The study presents the influence of defensive investment strategies on shareholder earnings and focuses on the use of anti-takeover approaches and their effect on the stocks of involved companies. The purposive sampling method is adopted, and the paper evaluates the case of the Microsoft's attempted acquisition of Yahoo! of 2008, the acquisition of Akbastau and Zarechnoye Uranium Mines by Uranium Inc. of 2010, and the takeover of Andean by Goldcorp of 2010. The findings prove that the use of the strategies does expose owners to risk because they do not necessarily create value for shareholders. Results show that the Yahoo! Company's value fell following its adoption of anti-takeover measures. Lundin Mining suffered a similar fate as its share price dropped when the company rejected Equinox Minerals' offer.

تعرض الدراسة تأثير استراتيجيات الاستثمار الدفاعية على أرباح المساهمين و تركز على استخدام مناهج مكافحة الاستحواذ و تأثيرها على أسهم الشركات المشاركة. تم اعتماد طريقة أخذ العينات الهادفة ، و تقوم الدراسة بتقييم حالة محاولة شركة ميكروسوفت الاستحواذ على شركة ياهو! عام 2008 ، و استحواذ شركة يورانيوم انك. على شركتي أكباستاو و زاريكنوي لليورانيوم في عام 2010 ، و استحواذ شركة جولدكورب على شركة أنديان في عام 2010. و تثبت النتائج أن استخدام الاستراتيجيات يعرض المالكين للخطر لأنه لا يؤدي بالضرورة إلى خلق قيمة للمساهمين. تظهر النتائج أن انخفضت قيمة شركة ياهو! بعد اعتمادها إجراءات مكافحة الاستحواذ. و عانت شركة لوندين ماينينج من مصير مماثل حيث انخفض سعر سهمها عندما رفضت الشركة عرض إكينوكس مينيرالس.

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Chapter One: Introduction

1.1 Background

Investment is considered to play a significant role in generating income. Investors purchase assets that are anticipated to appreciate in value; thus, they are supposed to earn them revenue in the future (Vanguard 2014). In economic terms, investment involves the production of goods or products for the creation of wealth (Bodie, Kane & Marcus 2008). In terms of finance, investments are viewed as monetary assets that generate income in a later date (Vanguard 2014). Despite popular belief that investment often leads to positive returns, it is not always the case. As a result, there is an element of risk. In the pursuit of return, investors have to manage some risk. Returns and risks apply more to speculative activities. Although the speculation is distinct from the investment, the two have similar objectives of generating earnings. However, speculators focus on short-term gains, while investors are forward-looking and anticipate long-term gains (Vanguard 2014). Given that investments come with different levels of earnings and risks, sophisticated strategies must be developed in order to ensure maximum optimality. For companies that operate in various sectors, there exists a possibility that they might be subject to expansionary tactics from other market players. As a result, it is necessary to build effective defensive strategies in order to overcome any potential takeovers. Owing to the widespread use of acquisitions and defensive strategies in order to ward off such attempts, the study focuses on examining the effectiveness of using defensive tactics for preventing takeover bids in protecting shareholders' interests.

Building a defensive portfolio approach is one of the strategies that businesses use in order to secure owners' interests. Dess et al. (2011) observe that when employing the method, investors need to focus on high-ranked companies that have strong cash flows, high valuations, and robust history as they form the basis for selecting investment options. It is true that in cases of the economic uncertainty, investors feel safer if their portfolios are in reputable companies. According to Vanguard (2014), CDs and cash are some of the greatest defensive tools although they lose their purchasing power in the long-term. Bodie and Hogan (2012) observed that the government bonds and blue-chip stocks pass as solid asset classes for investors, whose objective is to build strong defensive portfolios. Defensive investment strategies are normally adopted depending on the economic environment. For instance, during economic slumps, investors consider the possibility of employing a certain approach. Vanguard (2014) observed that the main objective is minimizing the risk of losing own investments and capital.

There exist many levels of defensive portfolios. The all-cash portfolio is among defensive mechanisms, on which investors rely. Such a portfolio comprises cash only. Although the potential of loss is negligible, cash loses its purchasing power since cash returns do not match inflation rates. However, in 2014, cash outperformed stocks since the S&P 500 fell by 0.71% (Vanguard 2014). Certificates of Deposit (CD) portfolio entails finding a principal protection that extends to overcoming inflationary pressures (Vanguard 2014). Often, CDs come in yearly periods such as terms of six months, one, two, three to ten year.

At the company level, the possibility of takeovers pushes firms to adopt defensive strategies. The takeover defenses have gained dominance since the 1980s following the development and implementation of both reactive and proactive strategies (Hobeika 2011). Preventive measures entail those that lower the likelihood of a possible takeover, while reactive measures focus on the implementation in the case an action on takeover takes place in the target entity (Hobeika 2011). In practice, different legal systems are applicable, and they condition how takeovers are conducted. The implication is that takeover bids and defenses are influenced by the geographical region of the firm's operations.

Preventive measures are largely known as pre-bid objection tactics, which firms take before any attempt to buy the business have been made. The objective is to protect the long-term interests of an organization. On the other hand, Capelle-Blancard and Monjon (2014) consider that reactionary efforts are widely regarded as post-bid defenses, which emerge after a takeover bid has been tabled. Long-term defenses are aimed at reducing the attractiveness of an entity for the takeover or purchase. Such a move is expected to provide the target firm with the opportunity to reorganize its activities and focus on creating value for its shareholders. However, short-term defense measures have the aim of defeating a potential bidder or generating resilience against similar proposals.

Investment in blue-chip stocks entails directing resources into the top-performing companies. Entities that are likely to be affected adversely at hard economic times often trade on high valuation multiples and suffer from weak returns and reduced cash flows (Vanguard 2014). It is also noted that speculative companies lack adequate earnings; as a result, they are aggressively sold. On the contrary, businesses that have robust cash flows, reputation in operations and are reasonably valued in comparison to the S&P 500 encounter less volatility, even at times of hardships (Vanguard 2014). In practice, the Industrial Average of 30 enterprises from the Dow Jones constitutes blue-chip businesses. Proctor&Gamble, the Walt Disney Company, and Exxon Mobil Corporation are some of the blue-chip businesses.

Defensive companies that possess a strong cash flow also provide room for the adoption of the strategy. However, Philips, Walker, and Kinniry (2012) noted that even among the blue-chip companies, each entity has various qualities, on the basis of its industry or fundamentals. For instance, the volatility that characterizes the oil sector implies that the ability of such leaders as ExxonMobil might not perform as well as other leading companies. After the determination of the defensive stocks, in which to invest, one has to construct a defensive asset allocation approach. Bonds, stocks, and money market investments are the three common investment classes to be considered in the asset allocation (Philips, Walker & Kinniry 2012). The amount of resources that are allocated to each class influences the risk profile of a portfolio.

Overall, employing a defensive strategy has a fundamental aim of obtaining a better-managed risk portfolio. Given that the primary objective is the management of absolute risk rather than performing better than counterparts, the advanced analytical knowledge is necessary (Vanguard 2014). While paying attention to the present risk, achieving long-term returns, the data concerning measuring risk based on absolute rather than error tracking becomes necessary. However, in instances where the aim is to attain lower volatility, tracking errors does not help in managing the same risk (Vanguard 2014).

Institutional investment is expected to be indifferent to the error tracking in efforts geared towards assessing the defensiveness of portfolios. However, other metrics for evaluating the defensiveness exist. Given the availability of a variety of such measures, investors must identify the most appropriate ones. For instance, using beta to evaluate the defensiveness of an option is helpful (Vanguard 2014). In practice, defensive managers prefer beta values that are less than one as it implies that the portfolio would move based on the market performance although at a lower magnitude. According to Philips, Walker, and Kinniry (2012), many asset owners do not know that the overall betas in their portfolios are not aligned with the degree of the beta exposure.

In practice, the primary issue to be considered is the performance of a portfolio at a time when the market performance is falling as compared to the peak value. Such measure is significant and helpful to risk-averse investors since the larger drawdown portfolios increase the difficulty of the own recovery (Vanguard 2014). Generally, the benefit of creating a defensive investment strategy is its ability to reduce the loss that is suffered in the case of the poor performance in the market. Besides the maximum drawdown measure, the downside capture ratio is also applicable. When using the measure, ratios less than 100 show a decline in the value of a portfolio (Vanguard 2014). Thus, all investors seek to minimize the ratio; over time, such effective defensive strategies provide the highest downside protection.

Given that the study focuses on explaining the influence of defensive strategies on shareholder earnings, it focuses on the use of anti-takeover approaches, and their effect on the stocks of involved companies. In this case, the failed acquisitions of Microsoft of Yahoo! and Equinox Minerals of Lundin Mining Corp., as well as the successful acquisition of the Schaeffler Group by the Continental AG are chosen for evaluation.

1.2 Rationale of the Study

Investment is an essential activity in the world of business. Through investment, individuals and businesses manage to create value. Without a doubt, the value creation or addition enables the overall development. Behind this backdrop, conducting a study that focuses on the investment is justified. The justification rests on the idea that investment is a critical element in the business environment; thus, the knowledge of the matter is essential. Closely related to the above consideration is the fact that, despite many theories about investment approaches, the area of business remains uncertain. For instance, no investor or investment firm can claim certainty about an investment. In other words, the element of risk and return influences the investment exercise. It is also held that the use of defensive strategies for preventing acquisitions is contested owing to the uncertainty of outcomes. In particular, it remains questionable whether these approaches benefit or disadvantage shareholders. As a result, a study that seeks to add clarity to the returns or risks that are associated with the use of defensive strategies is not only necessary but also timely.

1.3 Objectives of the Research

The present study focuses on the use of defensive investment strategies with the particular emphasis on the return and risk to owners of companies. Whenever an enterprise adopts a certain strategy, it strives to increase returns and face the lowest risk. Consequently, adopting an anti-takeover strategy is expected to increase earnings of investors while lowering the risks, with which they have to cope. In the light of the above information, the paper at hand has the following supplementary objectives:

To explain the extent, to which an anti-takeover strategy is used;

To establish the association between an anti-takeover strategy and returns;

To find the link between an anti-takeover strategy and the risk.

1.4 Statement of the Research Questions

Given that the research focuses on the use of a defensive investment strategy for improving returns and lowering the risk, the main research question is, "What is the impact of adopting an anti-takeover strategy on the shareholder returns and risk?" Below, there are supporting research questions:

To what extent are defensive strategies employed?

What is the association between defensive strategies and returns?

What is the link between defensive investment strategy and risk?

1.5 Limitations of the Study

All studies encounter certain limitations that consider both material and immaterial aspects. The study at hand focuses on assessing the influence of a defensive strategy on the returns and risk. Although being an informative research, it is difficult to tie down the performance of a portfolio to a strategy. For one to establish a causal relationship, managing other variables such as economic cycles might be necessary. However, the present study does not utilize such methods. Another limitation is a short duration of the study is. In such a limited period, collecting the secondary data and analyzing them might not be possible. As a result, the researcher is forced to rely on the primary data that, although being helpful, might contain various inadequacies and inaccuracies.

1.6 Chapter Breakdown

The research is organized into five chapters. The initial chapter introduces the study; it is followed by the literature review, methodology, findings, and conclusion. Chapter one provides an introduction and outlines its rationale of the study, research objectives, research questions, and limitations. In the second chapter, the focus shifts to the literature that is relevant to the research question and objective. The third chapter describes the methodology that is used for collecting relevant data for the project. Thereafter, the fourth chapter covers the data presentation and analysis. In the end, the fifth chapter draws the general conclusion of the research.

Chapter Two: Literature Review

2.1 Introduction

The second chapter covers three major sections, namely: definition of terms, review of the past studies, and critique. The first section presents operational definitions of the key terms that are used in the paper, while the second part reviews available studies that are relevant to the research topic. The objective is to gain an insight into the current knowledge and identify any possible gaps. The critique, which is presented in the final part, explains the gaps that are identified in the existing literature.

2.2 Definition of Terms

Mergers: It is a process that involves two business entities that come together in order to form a single organization. In practice, both companies dissolve and fold into a new entity.

Acquisitions: It is a process, in which one organization acquires a controlling share of the ownership of another one. The exercise is attained through the purchase of the stock of a targeted company.

Friendly takeover: It is a process, in which a company negotiates with another one and achieves an amicable agreement on the sale of stock.

Hostile takeover: It presupposes an unsolicited and unwelcome decision of one entity to acquire another one.

Acquirer: The term refers to a firm that is interested in buying a stake in another one.

Target: The term is contrasted with an entity that is a subject of a bid from another company.

Defense strategies: They comprise a number of tactics that are utilized by a target company with the view to preventing an acquirer from performing a hostile takeover.

Bid premium: It refers to the additional value that the acquirer is willing to pay, normally above the prevailing share price, in order to improve the chances of the deal going through.

Pre-bid defensive strategies: The term entails the tactics that is used for preventing a possible offer from acquirers.

Post-bid defensive strategies: The term refers to the tactics that is used for opposing an offer that has been already made by an acquirer.

2.3 Past Studies

The gains that shareholders get from anti-takeover defenses have been subject to numerous studies. Divisions are evident based on the idea that some researchers believe that the use of defensive strategies leads to beneficial outcomes, while others do not support the same viewpoint. Before tackling past studies on the topic, an attempt is made to cover some defensive strategies that firms employ with the view to resisting possible takeovers.

Pre-bid defenses are adopted with the primary objective of reducing the attractiveness of the business for the takeover. According to Douma and Hein (2013), the rejections also serve the interests of shareholders since the value of their entities are often elevated. Given that shareholders are happy with any moves that can maximize their value, the incentive for changes reduces. In this regard, corporations can rely on the practice of structuring shares with the view to discouraging the takeover.

One of the methods to be used is an employee shareholding scheme. Douma and Hein (2013) observed that, with the help of the approach, corporations are able to establish shareholding structures that will give support to the management. In addition, companies rely on the debt financing of share buyback arrangements in order to lower the attractiveness of entities. In addition, positive public relations can allow for the communication of the full social and financial value; thus, they improve the loyalty to the board and management of the firm.

The blowfish is another pre-bid defense strategy that companies use in order to block any possible takeover bids. In this endeavor, Ferris and Petitt (2013) indicate that a company has to employ a strategy that targets the expansion of its asset base. By buying new assets, the firm is able to grow its base thereby lowering its liquid base and excess cash at hand. Thus, the strategy results in the increased company value. The primary justification for the method is that it intimidates potential suitors. The increased value drives up the acquisition price; thus, an entity becomes unattractive to potential buyers. In other words, a bidder is required to raise more funds in order to buy the desired entity; yet, its liquidity is reduced. Overall, the proposition of a takeover seems unjustified.

The poison pill is another popular strategy. Historically, the approach has proved effective. According to Ferris and Petitt (2013), the idea is the creation of securities that carry specific rights, which can be triggered in the case an unwelcome bid is tabled. In this regard, special privilege securities are placed on the management or board in order to encourage them to reject any bid. However, the corporate charter pertaining to poison pills allows for the withdrawal of acquisition processes are friendly. Therefore, the flexibility of such pills might make an entity attractive for a friendly takeover. One of the poison pill strategies is the Call-Option Plan, which provides an owner with the privilege to buy shares of issuers on some schedule.

In their review, Douma and Hein (2013) observe that the cases of the flip-in-call option strategy are used when the management is expected to buy shares of the targeted firm at discounted prices. The option is often exercised in the anticipation of a hostile takeover approach. Consequently, a bidder's influence on the target organization is diluted since the target management and shareholders are free to resort to the call option. In other words, the control of the targeted entity is redistributed in a manner that favors the target board and management. On the other hand, a flip-over option strategy entails call options that are adopted in acquiring firms by target entities (Douma & Hein 2013). The objective is to allow the target management to take a similar strategy in order to defend the targeted firm by purchasing a large number of shares of the acquiring entity. The flip-over approach is often deployed after the completion of hostile bids. The objective is to ensure that the target organization takes ownership of larger shareholding in a combined firm. As a result, the strategy makes the target business less attractive.

Whether the use of defensive strategies has been effective is a contested issue. Reviewing the extent, to which the poison pill has been effective, is necessary for explaining their role in advancing the shareholder gains. The strategy does not need any approval of shareholders; thus, it is deemed easier for the implementation (Douma & Hein 2013). Essentially, the poison pill strategy serves a dual purpose in its effort to push the bid price up so as to discourage the anticipated acquisition. After a detailed analysis, Douma and Hein (2013) conclude that the poison pill strategy shows that it is effective in fending off potential takeovers. In addition, the implementation of the strategy has a potential of increasing shareholder returns although at an increased risk. The gains are viewed as more beneficial as compared to its negative effect on value. In spite of the effectiveness of the strategy, poison pill possesses certain downsides that undermine its adoption.

According to Marks and Mirvis (2010), triggering the poison pill strategy allows an acquirer to challenge the purpose of its adoption in the court of law. For instance, it is arguable that the approach might be used in order to benefit the management rather than create value for shareholders. In addition, the strategy is flawed because it essentially prevents acquisition firms from pursuing their bids. In addition, cases of poison pill being deactivated raise considerable controversies about the reasoning behind the use of the strategy. In this regard, it is observed that poison pills are effective although they cannot prevent a determined acquirer from achieving its objective.

Understanding the golden parachute approach is also helpful in explaining defensive investment strategies that border on acquisitions. According to Dess et al. (2012), the tactic borders on the provision of the additional compensation to the board or management of a company if a takeover bid succeeds. The same applies to the possibility of a forceful replacement of the management after an acquisition. In such a case, the provision involves the stock or cash compensation. In this regard, the strategy serves as an expensive provision on the part of an acquirer, who is forced to protect the costs. In the view of an acquirer, the strategy might not be considered effective since it pays a premium price in order to take over a target firm. As a result, there is a willingness to spend more funds on the leaving management as a compensation package.

The staggered board is another useful strategy that is used at the pre-bid stage. According to Dess et al. (2012), the strategy is incorporated into the corporate charter of organizations in order to prevent bids deemed hostile. Alternatively, the strategy allows entities to retaliate plausibly. Basically, the staggered board measures entail the prevention of the replacement of an entire board at once. For example, the election of members to the board is performed after some intervals for different members. The spacing of elections implies that it is impossible to replace all board members at the same time. The provision forces the acquirer to take time before replacing them all. Such demands make it difficult for an acquiring firm to gain control over the targeted entity at once. In practice, such circumstances give some form of control to a targeted firm because it is difficult for an acquirer to convince board members selected by an opponent. In other words, the acquirer must wait for a longer period in order to assume the total control over the acquired firm. As a result, the tactic is useful in discouraging any interest of bidders. A few players would be motivated to acquire a firm, the control of which will take their time.

The issue of whether the staggered board approach is effective or not has been studied extensively. For example, in his literature review, Chawla (2015) observed that the defense measure was moderately effective. The author argued that, on a stand-alone basis, the strategy cannot stop a takeover bid, although it can delay the process significantly. In addition, the expenses of staggered boards that are overturned by a potential acquirer harden the exercise; therefore, they are likely to discourage the deal. In his literature review, Chawla (2015) observed that there existed an inverse association between the use of staggered boards and stock price movements. However, the findings are insignificant since many of the studies that Chawla (2015) reviewed did not consider other variables that would potentially affect the study.

Citing studies that had been conducted by Georgeson and Varaiya, Chawla (2015) indicated that firms that used the poison pill strategy tended to receive better offers on the share premiums at the acquisition time. However, the implementation of the strategy did not essentially block takeover bids. Chawla (2015) also indicated that a there existed a negative association between the deployment of the poison pill tool and stock prices.

Referring to the study by Schoenberg and Thornton, Chawla (2015) indicated that target companies were more likely to defeat hostile takeovers if they implemented some pre-bid defense mechanisms in the US. However, in the UK, companies that adopted post-bid mechanisms were more likely to manage a hostile takeover approach successfully.

Given the broad nature of gains from the investment, Chemmanur and Tian (2012) carried out a study that focused on the link between the degree of the firm innovation and anti-takeover defenses in corporations. The two researchers sampled 3,474 publicly traded entities that spanned a period of 16 years (between 1990 and 2006). Based on their study, Chemmanur and Tian (2012) found a positive relationship between anti-takeover defenses that firm with corporate innovation use in competitive markets. In their assessment, the researchers held that the association was based on the short-term pressure that was placed on the stock market. Innovation has an effect on the value of the firms’ equity since it contributes to the long-term value creation.

Another useful study is the one conducted by Gordon (2002). The author assessed the operation of takeover defenses in reference to the staggered board and shareholder gains. Based on the results, Gordon (2002) argued that effective staggered board contributed to balancing the target firm and acquirer’s bargaining powers. The balance of power allows the target firm's management to bargain for higher prices; thus, it results in the raised premiums. A rise in the premiums equates to the value creation for shareholders.

Gompers, Ishii, and Metrick (2003) have also analyzed the connection between defense strategies and the value creation. The authors came up with findings that were dissimilar to the previous authors since they found a negative association between the use of strategies and their benefits. Specifically, the researchers observed that investors’ returns were negatively affected when anti-takeover defenses were invoked. In their study, Gompers, Ishii, and Metrick (2003) sampled 1,500 firms that employed the strategy during the period between 1990 and 1998. Based on the findings of the study, using more anti-takeover defenses affected the performance of the business negatively; thus, it led to the loss in the shareholder value. Furthermore, the research indicated that the adoption of provisions that gave managers confidence in the takeover resulted in the poor operating performance on the net profit margins, sales growth, and return on equity.

Sokolyk (2010) is among the researchers, who have assessed defensive strategies in investments. The study focused on anti-takeover provisions in terms of firms’ acquisition approaches. Sokolyk (2010) found out that, although hostile takeover bids were few during the period of the 1990s-2000s, some anti-takeover strategies were not effective. The findings are consistent with the history since the poison pill strategy has been used for lowering the managerial resistance to acquisition bids. However, Sokolyk (2010) also reported that some anti-takeover strategies were ineffective based on the modern-day investment expectations.

According to the literature review by Sokolyk (2010), takeover defenses provide opportunities that increase takeover premiums or the shareholder value. The strategy provides boards with the additional bargaining power by diluting rushes that push directors to engage in tenders. Under such circumstances, bidders are forced to renegotiate with firm's managers directly. As a result, there exists a possibility that the target shareholders of firms that employ takeover defenses stand a chance to benefit from the increased value of the stock of a company. In addition, gains are likely to accrue from synergies that result from the takeover. Sokolyk (2010) also noted that the resistance by the Board of Directors of a targeted organization was likely to push bidders to raise the stakes by offering better prices for the business. However, the researcher observed that there was a possibility that managers of companies that were being acquired might settle for lower premiums in the hope of collecting high compensation payments upon the completion of the takeover.

The literature review by Sokolyk (2010) found empirical evidence that anti-takeover strategies had a positive influence on the acquisition premiums. In his study, the researcher found out that firms, which had employed the poison pill strategy, received higher payments after takeovers. In addition, parachute payments brought positive effects on premiums that were paid for takeovers. The majority of independent directors received better premiums, as well. As a result, independent boards were more likely to deploy resistance strategies in order to improve the shareholder value as opposed to entrenching target managers.

Further, the results from the research by Sokolyk (2010) indicated that the presence of governance provisions had no effect on the bargaining in the takeover process. However, stock returns, cash flow indicators, and liquidity figures had a certain influence on the bargaining power of the management of target firms. Businesses that demonstrated poor returns before the takeover received higher premiums as compared to those that reported a better performance.

Hartzell, Ofek, and Yermach (2001) have also delved into the link between defensive strategies and the organizational performance. Specifically, the two authors assessed the benefits that CEOs of target entities secured following an acquisition or merger. The researchers drew a sample of 311 big organizations that were involved in takeovers and mergers during the period between 1995 and 1997. Based on the findings, Hartzell, Ofek, and Yermach (2001) concluded that anti-takeover defenses were commonly deployed by CEOs of firms targeted for takeovers. The use of parachute payments was commonly used with the view to generating personal benefits to CEOs. In addition, the study established an inverse relationship between high financial gains to CEOs and premiums to shareholders. In other words, if parachute payments to CEOs were high, the shareholder premium would be low, and vice versa.

2.3 Rejection of Takeovers and Acquisitions

Entities that are interested in expansionary investment activities consider acquisitions an important strategy. The literature on investment strategies regards takeovers as the purchasing of a controlling share (more than 50%) of a target organization (Capelle-Blancard & Monjon 2012). In turn, acquisitions are closely related to merging although the latter strategy entails companies coming together with the view to forming a new bigger enterprise.

Two types of takeovers are considered. First, a bidder or a buying company can try a friendly approach or consider a hostile strategy (Hobeika 2011). Friendly bids are well-orchestrated moves that support negotiations, while hostile takeovers disregard the target company’s management by trying to push through a deal. However, the primary objective of any takeovers remains the same: to take control over a target organization. By achieving this aim, it is possible to create a higher business value.

Given the antagonism that characterizes a hostile takeover, it is often difficult to justify the use of this approach. According to Hobeika (2011), the acquisition strategy is adopted in expansionary activities that involve big corporations. Therefore, the pursuit of the corporate control, as well as synergies in finance, costs, and operations, is the basic reason for utilizing the strategy. In other cases, the management ego that is attainable through the control of big corporations drives the use of the acquisition method. The pursuit of acquisitions is meant to increase shareholder returns, as well. However, such endeavors are associated with some risks. For example, there exists a possibility that a bidding company might pay an overvalued price for the target business. In addition, it is possible that anticipated synergies might not be realized at all. As a result, although it is clear that using the acquisition strategy aims at the value creation, there exists a possibility that the target results might not be achieved. Some caution should also be exercised since it is possible that takeover bids might not be welcome by target entities. In practice, not all takeover bids are accepted whether friendly or hostile.

Based on the empirical evidence, all takeover bids often begin as friendly offers (Hartzell, Ofek & Yermack 2001). However, based on the convergence or divergence of the two parties, the valuation of a target business leads to acrimony. In particular, at the moment, the target entity declines the offer from the bidding company, chances of the deal being an acrimonious increase. When bids are rejected, bidders that want to succeed by whatever means will be likely to resort to hostility. Such a shift from friendly to hostile engagements might have certain ramifications for both parties. As the literature shows, in some cases, pursuing a target with hostility might be positive under some circumstances.

Chawla (2015) observed that the information asymmetry influences the nature of a takeover, as well. If a bidder relies on the incomplete or skewed data while assessing the deal, the possibility of hostility significantly increases. Nevertheless, the overreliance on the share value might not reflect the true value of a company. Thus, when a bidder bases the valuation on the share market prices, a tussle is likely to ensue. In addition, the asymmetry in the information implies that shareholders, the management, and bidders understand various performance metrics in different ways. In addition, the management plays a fiduciary role, which puts its members in a position to act with the view to protecting the interests of shareholders. Despite potential disagreements concerning the value of an organization, there exists some room for negotiations. As a result, it is highly unlikely that it can be the only cause of the hostility in takeover bids.

Further, Chawla (2015) held that the agency cost variations might explain the hostility in the acquisition bids. In some cases, the management does not act with the view to protecting corporate interests of shareholders or other general stakeholders. Often, after a successful takeover, members in the management lose their positions as a bidder restructures the business. In such a case, the management is incentivized in order to be able to take required measures in order to prevent the takeover.

2.4 Comment and Criticism

The use of anti-takeover strategies in the business is well-documented. Many studies have assessed the effectiveness of the tactics and generated useful, although dissimilar, results. In addition, the studies have analyzed different pre-bid and post-bid defensive strategies. Thus, one should note that there is no uniformity in the conduct of research in the field. For example, the study by Chemmanur and Tian (2012) found out that shareholders could gain from the deployment of defensive strategies. Sokolyk (2010) also supported the finding since, in his study organizations that used poison pills were reported to attract higher premiums on their shares. However, in their research, Hartzell, Ofek, and Yermach (2001) arrived at the conclusion that anti-takeover defenses were more likely to benefit boards of directors rather than shareholders. In other words, the strategies did not enhance the earnings for owners but for the management of companies. Although being useful, the study by Chemmanur and Tian

(2012) was limited to defensive options in the competitive product market. Such markets are often characterized by the information asymmetry. In support of the findings, there is the study by Gompers, Ishii, and Metrick (2003), whose findings established that using anti-takeover defenses are risky thus they negatively affect the performance of a firm and resulted in the decline of returns. As a result, additional studies are justified in order to clarify the topic or add to the existing literature.

Chapter Three: Methodology

The present chapter outlines methodological approaches that are used in researching the topic at hand. Given the tracking nature of the study, deploying a longitudinal research design is deemed appropriate. In the selection of the two study units, the purposive sampling method is adopted as it allows for the selection of a sample that is effective in addressing research questions. In addition, the methods to be used in the analysis of the data are considered, as well.

In every research undertaking, an appropriate and efficient research method is to be developed. In the present study, the focus is made on the effectiveness of anti-takeover defense strategies in the case of takeover attempts. The research seeks to assess whether the strategies generate value for shareholders or not. In addition, the study strives to answer the question of whether such mechanism increases the value for investors (bidders). In order to reach this aim, assessing share prices of companies that have been a part of the acquisitions is commendable. In this regard, the paper evaluates the case of the Microsoft's attempted acquisition of Yahoo! of 2008, the acquisition of Akbastau and Zarechnoye Uranium Mines by Uranium Inc. of 2010, and the takeover of Andean by Goldcorp of the same year.

3.1 Research Design

In practice, the construction of a research design is fundamental in conducting any scientific studies. The present one relies on a longitudinal research design, which is based on exceptional features. Firstly, the design incorporates a time dimension because it makes use of distinctions in variables over time (Black 2010). Secondly, the selection of study units is based on the time differences. A longitudinal study design measures the change in phenomena or subjects as opposed to concentrating on static attributes. Nonetheless, researchers that use the method are advised to take a relatively passive approach in interpreting their findings.

3.1.1 Longitudinal study

It terms of the study design, it is noted that a longitudinal method is observational in nature. Researchers that use this method are not expected to influence or trigger any changes in variables but observe them instead (Creswell & Plano 2011). The implication is that scientists that employ the design should focus on observing subjects under review for a specified period.

The use of such design has a number of advantages that justify its use. For instance, the approach permits a researcher to identify any changes in the behavior of subjects that are under interrogation (Creswell & Plano 2011). In practice, a researcher is in a position to assess changes both at individual and group levels. Overall, longitudinal studies track changes over certain time; thus, they avoid the static problem that is associated with cross-sectional study designs. The implication of the above benefit is that the design allows for the establishment of the sequence of events or occurrences.

The present research focuses on the examination of changes in stock prices of involved companies during the period before and after takeover bids. Particularly, the share prices of these organizations are observed. The longitudinal design facilitates the following variations in the prices for shares; thus, it allows for a critical analysis of the effect of the takeover and anti-takeover tactics in reference to the creation of the shareholder value.

The use of the longitudinal research method is intended to find an association between or among variables. The possibility of the design to rely on observations allows studying specific individual or group units for different durations; thus, it helps one to track and evaluate any relevant changes. However, just like many other research designs, some drawbacks are witnessed when using the longitudinal design.

In practice, a tracking approach cannot afford to cover many cases. In other words, the number of cases that a researcher can follow is limited. It is also possible that some subjects in focus might opt out of a study and complicate the whole process as a result. In order to overcome such a challenge, using existing data is deemed necessary. In this regard, the present study adopts a retrogressive longitudinal design, which relies on some historical information with the view to researching the phenomenon holistically.

3.2 Target Population

Each research must be based on a chosen population. Given that the study at hand focuses on the use of anti-takeover strategies, entities that have been involved in acquisitions constitute the target population. Unlike many studies, the present one does not limit itself to the geographical space. However, the research focuses on acquisitions that were made during the period between 2005 and 2010. In such a manner, organizations that have been targets or bidders in such acquisitions are the study units.

3.3 The Sample and Sampling Technique

The identification of the units of study is also a significant element of the research. The current study depends on the purposive sampling method, which is a non-probability sampling tool (Creswell & Plano 2011). The approach allows the researcher the freedom to pick subjects that are to be included in a sample. Although the researcher has the discretion to select the sample, decisions are based on inclusive criteria that encompass the willingness of participants to engage in a study, their capacity to play a part, and their possession of special knowledge concerning the question under investigation.

The purposive sampling technique comprises typical case sampling, maximum variation sampling, extreme case sampling, homogeneous sampling, critical case sampling, expert sampling, and total population sampling. Whereas maximum variation sampling focuses on an array of perspectives, homogenous sampling seeks to pull together homogeneous samples or the identification of a sample that reflects some attributes. Consequently, the current study utilizes the homogenous purposive sampling technique in order to pick up the relevant study units.

The sampling technique also justifies making generalizations whether analytical, logical, or theoretical. However, one of the concerns about using the technique is the fact that it is prone to the researcher bias (Creswell & Plano 2011). Consequently, the popular idea that the researcher's personal judgment can mitigate the adverse effects is questionable. However, subjecting research findings to peer review is deemed adequate in overcoming the challenge of the researcher bias.

3.4 The Data Collection and Period

The chosen cases include both failed and successive takeovers. The choice of these four is meant to facilitate a comparative study. The collection of data is based on the tracking of share prices of the acquisition firms in the acquisition period. The adopted sample considers the monthly closing prices of both Microsoft and Yahoo! and covers the period between January 2007 and December 2009. As one can note, the dates cover a year before and after the failed takeover.

The data are extracted from Yahoo! and Google Finance websites. The present research also relies on the company statistics of both for the data that are analyzed. Both Google Finance and Yahoo! Finance facilitate the tracking of the financial movement of the entities under evaluation. The reputation of both entities is not in dispute; thus, they are plausible sources of data for the project.

3.5 Data Processing and Analysis

Relevant information is collected and presented in tables. For the ease of analysis, all data are transformed into percentages. Both descriptive and inferential methods of statistics are used in order to give meaning to the figures. While describing the data, the focus is made on the attributes of the firms that were selected for the research. Under inferential statics, the return on equity (ROE) and return on assets (ROA) are also covered.

3.5.1 Analytical tools

In analyzing the effect of anti-takeover defense strategies on the gains or losses to shareholders, T-tests based on the monthly share closing are computed. The statistics is calculated for both Yahoo! and Microsoft. The analysis also focuses on the P-values that result from the tests since they show the average values of the monthly closing share price (MCSP) before and after the attempted takeover. The T-test outcomes are tabulated and compared, as well.

3.5.2 Return on Equity - ROE

For the successful acquisition case, ROE is applied in order to assess the performance of the company after its strategic expansion. Historically, returns have been linked to the ownership of the business that generates higher returns based on its equity (Black 2010). As profitability metric, ROE shows the performance of a company as compared to the shareholder equity. The statistic is derived from total assets and total liabilities. Shareholder equity shows the asset creation based on retained earnings; thus, it is treated as a paid-in owner capital. Thus, ROE is critical in evaluating the performance of an entity because it shows the internal generation of cash.

The ROE is calculated as follows:

Net Profit ÷ Average Shareholder Equity for Period

The Return on Investment Ratio/ Return on Assets Ratio

Similar to ROE, the return on investment (ROA) ratio is a reflection of a company’s profitability. In its simplest form, it shows returns to an entity. ROA allows business owners to compute efficiency levels based on assets that are used to generate sales (Black 2010).

The ROA is calculated as follows:

ROA = Net Income (Net Profit)/Total Assets = ______%.

The interpretation of ROA is effective when comparative data are applied. In this regard, it is useful to examine statistics of the company and industry over certain time rather than at a specific point. In practice, higher profitability ratios are preferred to lower ones. The implication of higher ratios is that they indicate a strong performance in the use of resources for generating an income and creating a shareholder value.

Chapter Four: Data Presentation, and Analysis of Findings

The fourth chapter focuses on the presentation of the collected data. As practice dictates, descriptive statistics of the financials surrounding acquisitions and dates are presented first. Thereafter, a detailed analysis is performed.

Table 1: Highlights of the Acquisitions

Bidding company	Targeted business Website	Closing Date	Deal Description	Deal value
Kinross Gold Corporation	Red Back Mining Inc	17 Sep 2010	Kinross takes control of 90.7% stake of Red Back in a share agreement	$7.30 billion
Microsoft	Yahoo!	-	Deal fell through	-

The above table shows successful acquisition of the Red Back Mining Inc. by Kinross Gold Corporation and the attempted takeover of Yahoo! by Microsoft. The table also provides the date of the successful completion of the takeover and its value.

Table 2: Share Prices of Microsoft

Year before the acquisition attempt		Year after the acquisition attempt	
February 2007	$28.17	February 2008	27.20
March 2007	27.87	March 2008	28.38
April 2007	29.94	April 2008	28.52
May 2007	30.69	May 2008	28.32
June 2007	29.47	June 2008	27.51
July 2007	28.99	July 2008	25.29
August 2007	28.73	August 2008	27.29
September 2007	29.46	September 2008	26.69
October 2007	36.81	October 2008	22.33
November 2007	33.60	November 2008	20.22
December 2007	35.60	December 2008	19.44
January 2008	32.60	January 2009	17.10

P value = 0.00829

The above table that is retrieved from Yahoo! Finance shows the trend of the stock prices of Microsoft following the attempted acquisition of the Yahoo! Company.

Table 3: Yahoo! Share Prices

Year before the acquisition attempt		Year after the acquisition attempt	
February 2007	30.86	February 2008	27.78
March 2007	31.29	March 2008	28.93
April 2007	28.04	April 2008	27.41
May 2007	28.70	May 2008	26.76
June 2007	27.13	June 2008	20.66
July 2007	23.25	July 2008	19.89
August 2007	22.73	August 2008	19.38
September 2007	26.84	September 2008	17.30

October 2007	31.10	October 2008	12.82
November 2007	26.81	November 2008	11.51
December 2007	23.26	December 2008	12.20
January 2008	19.18	January 2009	11.73

P value = 0.00138

Table 3, retrieved from Yahoo! Finance, shows the share prices of Yahoo! following the attempted acquisition by the Microsoft Corporation.

4.1 Analysis of Results and Discussions

The analysis of the failed acquisition of Yahoo! by Microsoft is a useful illustration of the effectiveness of defensive investment strategies that are employed by companies. In order to get an informative view regarding this unsuccessful takeover, a background review is deemed necessary in order to establish the utilized anti-takeover defense strategies.

In February 2008, Microsoft made an offer of $43.7 billion for the acquisition of Yahoo! Having failed with the initial bid, the corporation launched a hostile campaign in April of the same year. However, the bids proved unsuccessful, and Microsoft was left with no option but to pull out of the deal. Although the company had declared its intent to buy Yahoo!, it later asserted that the deal was too complicated; thus, Microsoft opted out permanently.

4.1.1 Measures Adopted by Yahoo!

Before Microsoft made its bid, Yahoo! had adopted a number of anti-acquisition defense strategies. Firstly, Yahoo! issued blank check preferred shares, written consent limits, special meetings limits, poison pills, advance notice requirements, various management agreements, and opt-out compensation features (Aktas, Bodt & Roll 2011, pp. 23-24). In addition, once Microsoft made its bid public, Yahoo! adopted a white knight defense strategy and a new severance arrangement for employees.

After a brief overview of the background of the bid, one can note that MCSP of both Yahoo! and Microsoft during the period between 2007 and 2009 generated interesting findings. The T-test on Yahoo!'s MCSP a year before and after the acquisition attempt yielded a P-value of 0.13%. Since the P-value is less than 1% at 99% confidence levels, it is held that there exists a high significant difference between the mean value of Yahoo!'s MCSP before and after the attempt by Microsoft. Consequently, the adoption of antitakeover defense strategies affected the shareholders' returns. It is also evident that the company's stock prices declined after Yahoo! rebuffed the Microsoft's bid.

In the case of Microsoft, the T-test on MCSP generated an outcome of 0.83% over the same period. Given that the value is less than one percent, as in the case of Yahoo!, it is observed that there exists a significant difference between the means. In other words, the variations in the share prices are statistically significant. The share prices of the company fell following the failed bid for Yahoo. Hence, shareholders' earnings, as measured based on the stock prices, declined, as well.

In 2008, before the bid made by Microsoft, Yahoo!'s MCSP reached its lowest level in January, at $19.18 a share. In the case of Microsoft, the company experienced the lowest MCSP in the same month; it was $32.60. At the time of the bid, between February and May of 2008, the stock prices of Yahoo! reacted in a positive way as they rose to $28.26. Based on this account, it is arguable that the defensive strategies employed by Yahoo! might have contributed to strengthening the value of the company's stock. However, at the same time, the share prices of Microsoft reacted to the proposed investment in a negative way. The values oscillated between $27.20 and $28.52 as compared to the same period in 2008, which was $32.60 on average. In addition, the mean closing values of the share prices from February 2008 to May 2008 was $29.93, a lower value as compared to the previous year and subsequent years, which stood at $30.44 and $33.50respectively.

Upon the abandonment of the deal, Yahoo!'s stock lost significantly; this trend had been experienced by the company until 2008. The big loss was marked by a record low of $8.95 a share in November 2008. The finding contradicts the initial observation that the defense strategies by the company might have generated the shareholder value. According to the current evidence, the strategies might have fended off the takeover; nevertheless, they resulted in owners' exposure to risk based on the decline in the share prices.

The same case applies to Microsoft since its shares took a downward trend throughout 2008. However, in 2009, the MCSP of the company has taken an upward trajectory; this fact implied that it managed to recover from the collapsed deal in order to follow a returns generation path. With Yahoo! continuing to struggle, one can observe that its defensive strategies were counterproductive.

It is affirmed that the defensive strategy did not yield positive results in as far as the shareholder value creation is concerned. The negative impact lasted throughout 2009. However, in the bidding period, the share prices of Yahoo! had shown a positive reaction. The reaction is contrasted to that of Microsoft, which was negative during the same period. It is inferred that the bid process influenced the share values of both companies at the time and after the rejection of the bid. However, the announcement by Microsoft that it was no longer interested in the takeover led to a huge loss on the part of Yahoo! because its share price fell to the all-time low level. In other words, the effects of its defensive strategies had exposed owners to the risk of declining value of the company's stock since it had lost significantly.

4.2 Equinox Minerals Ltd and Lundin Mining Corporation

The Lundin Mining Corporation is an entity from Canada that has bases in Portugal, Spain, Ireland, and Sweden. Primarily, the business focuses on the production and processing of nickel, lead, zinc, and copper. According to Market Watch (2011), the company holds developmental interests that span large areas of the world that extend up to the Democratic

Republic of Congo. In turn, Equinox Minerals is a global company that operates in the mining industry with a yearly production of approximately 145,000 tonnes of copper. The entity is based in Australia and Canada. The Equinox Minerals (2011) reported that it had far-flung interests that stretched up to Zambia and Saudi Arabia.

In February 2011, Equinox tabled a hostile bid for Lundin Mining Corp.; the offer valued the target entity at C$4.8 billion. The offer indicated that upon the commencement of the deal, shareholders of Lundin Mining would be provided with the consideration based on a share price of C$8.10 or 1.3 shares of the bidding company, in addition to $0.01 for every common share of a company. The offer was a 26% premium since the closing price of the Lundin Mining share in February was C$6.45. Further, the bidders announced that the deal was to be funded using a loan from Goldman Sach Partners and Credit Suisse Securities.

Some of the highlights of the deal that premised on the success of the acquisition indicated that shareholders of both companies would benefit from the increased share value because of Equinox' general strength. Secondly, the growth would be attained based on lower risk expansions in current operations and ongoing projects. Thirdly, the overall productivity of both companies would increase (Equinox Minerals, 2011).

4.2.1 Reactions

All data pertaining to the case focus on Lundin Mining ("Lundin Mining Corp." 2011). Later in March, the company made an announcement that after a weighted consideration of the Equinox' offer, it recommended a rejection of the bid. Some of the justifications of such a decision included an allegation that Equinox had undervalued the company's assets and desired control without paying enough for it. Since the time of the bid, the share prices had significantly risen as, in March, the bid reflected only six percent of the stock price. The target company proceeded to observe that no strategic benefit would accrue following the unsolicited offer form Equinox. In particular, Lundin asserted that no synergies could be gained. In addition, the weakness of Equinox would lead to a decline in the share pricing of Lundin. Moreover, the use of a loan to finance the deal meant that the shareholder value would be affected, as well. Overall, the Lundin Mining Company cited the impact on shareholder value as the primary reason for declining the bid.

In March 2011, Lundin Mining made an announcement that the management was adopting a short-term Shareholder Rights Plan or a poison pill with the view to enabling a comprehensive consideration of strategic alternatives in order to maximize the owners' returns. The Rights Plan was intended to protect shareholders by ensuring they were treated fairly by getting adequate time for evaluating any potential acquisition. The strategy was implemented in the form of a flip-in; it implied that Lundin Mining was now able to provide its owners with preferred shares at low prices and eliminate the incentive to sell.

In April 2011, a state-owned company from China made a proposal to buy Equinox at C$7.00 a share. The offer was a 33% premium based on the previous 20-day trading prices. Equinox labeled the bid as opportunistic and not reflective of the entity's true worth. Lundin Mining stated that Equinox had declined a deal, which seemed better than the one it had made. In other words, Lundin Mining was surprised that Equinox wanted it to accept a worse offer than the one that the latter had rejected. As a result, Lundin Mining was adamant that the deployment of its strategies was meant to ensure its high shareholder value.

By the end of July, neither the bid had been altered, nor had any renegotiations been carried out. The CEO of Equinox indicated that the company had no intention of improving the offer. However, that position was likely to change if a competitive bid was made for the company given that copper prices kept rising during the period. Owing to these disagreements, Lundin Mining managed to fend off the interest of Equinox.

Table 4: equinox Share PRICES 2011

DATE	OPEN	HIGH	LOW	CLOSE	VOLUME
21/07/11	7.850	7.850	7.850	7.850	0
30/06/11	7.830	7.850	7.810	7.840	79,853
31/05/11	7.610	7.690	7.550	7.680	1,399,430

Table (findata 2012) retrieved from, http://www.findata.co.nz/search.aspx?t=2012

After the failed bid for Lundin Mining, Equinox accepted an offer by Barrick (Equinox Minerals 2012). Hence, an analysis on how the defensive strategies affected the returns creation at Barrick might not be helpful. Instead, the focus is on the behavior of the share prices during the bidding period.

The offer by a Chinese firm for Equinox that valued it 20% more (C$7.00 a share) indicates that the share price was less than C$7 at the time of the deal. This offer was made in April. According to table 4, the share prices of the company rose to 7.61, 7.830, and to 7.850 in March, June, and July respectively, based on the opening values of the shares. The implication is that the strategy that was utilized in order to ward off the interest of the company in Lundin Mining might have influenced the entity's upward share pricing. Based on this idea, it is discerned that such defensive strategies, although being deployed by the target company, yielded positive returns for Equinox's shareholders in terms of creating value for owners.

Table 5: Lundin Mining

2011 February			**2012 February**	
Closing share price	$7.91		Closing share price	$5.19

Opening	8.00		Opening	5.25
High	8.05		High	5.32
Low	7.78		Low	5.19
Volume	812 169		Volume	713 243

Data retrieved fromhttp://www.marketwatch.com/investing/stock/lunmf/historical

The above data relate to the Lundin Mining, the entity that was subject to the takeover bid from Equinox. The offer of C$8.10 a share, a premium of 26%, would have created value for the firm's owners. The position is held in reference to the statistics in table 5, which indicates that the share price of the entity was C$7.91 in February. As a result, holding other factors constant, the shareholders of Lundin Mining gained. However, following the failed takeover, the company's stock depreciated by a big margin. Table 5 shows that after a year following the unsuccessful takeover or the successful use of defensive investment strategies, the entity's share price stood at C$5.19. In addition, the volume of shares fell significantly from C$812,169 to C$713,243. Nevertheless, it must be noted that, at the time Lundin Mining decided to reject the bid, its share prices significantly gained. While relying on short-term movements, it is arguable that defensive strategies had led to an increase in the share value of the company. However, in the long-term, these strategies did not generate value. It is noted that for an investor, who had sold the shares during the bidding process, gains were made based on the temporary spiking of prices. However, for those shareholders that took no action, these shares lost their value eventually. The findings concerning the failed acquisition of Lundin Mining by Equinox mirrors the one of the Microsoft-Yahoo! case since the share prices behaved in the same way; they showed a slight improvement for the target firm, before eventually falling.

4.3 Continental AG and Schaeffler Group

The Schaeffler Group was founded in 1883 following the work of Friedrich Fischer on grinding steel balls. The company is headquartered in Herzogenaurach, Germany. It had grown to become one of Germany's most successful entities under the family ownership. At the time of the bid, the company was owned by Maria-Elisabeth (mother) and Schaeffler Georg (son). The entity specializes in the development and manufacture of high-precision products and parts for machines, vehicles, equipment, aerospace applications, and aviation appliances. The biggest brands of the business included INA, Luk, and FAG; these products are largely used in the automotive world and aerospace fields (Schaeffler Group 2011). Owing to the nature of industries, in which the company operates, the innovation is essential. Therefore, paying attention to the research and development is a part of the company's undertakings.

The Continental AG was also founded at the time when the Schaeffler Group was rising. Being established in 1871 in Hanover, the Continental Corporation was initially called the Stock Corporation (Continental 2011). Primarily, the company focused on the production of rubber items and solid tires. From the time of inception to the point of the acquisition, the company had grown to become one of the top five players in the automotive business worldwide. In addition, the company had two major divisions: the Automotive Group and the Rubber Group.

In July 2008, the Schaeffler Group made a surprising move and decided to acquire the Continental AG, a company three times larger than itself, in a deal valued at €69.37 per share (Schaeffler Group 2011). The objective was to control up to 30% of the company by getting a strategic shareholding. Following the bid, the Executive Board of the Continental AG turned down the offer and indicated that it failed to reflect the true worth of the company

(Continental 2011). The Continental AG further proceeded to attack the bidder citing logic by stating that no strategic benefits would be brought by the cooperation with the Schaeffler Group. Specifically, the target company asserted that the bidder would gain from it, but not the other way round. However, on its part, the Schaeffler Group argued that its proposal followed a sound business arrangement and was not illusionary as suggested by the Continental AG. While negotiations were ongoing, the Schaeffler Group ignored the Board and tried to win shareholders and investors directly. In particular, the company offered €70.12 in cash for each share (Schaeffler Group 2011). They managed to table the offer because they based on the official bid that had been made by the Continental AG. Having lodged an official offer, the Schaeffler Group could creep under the radar and gain control by meeting with shareholders individually. In addition, it was noted that the Schaeffler Group had bought 36% of Continental's stock through a number of swap deals that were organized by banks (Bloomberg, 2010).

The Continental AG rejected the official offer and proceeded to adopt necessary preventive measures. The company also deployed the White Knight strategy by assessing various hedge funds alongside other tire manufacturers. Unfortunately, the company did not secure any serious interest, and as negotiations proceeded, the Schaeffler Group increased its offer by five pounds per share. Although initially, the Continental AG company had rejected the improved bid, the two reached an agreement. Some conditions were to be met by 2012. Among the major conditions were the following: the Schaeffler Group was to buy more than 49.99% of the company by 2012; the Continental AG was to remain publicly traded; the offer was to remain at the improved bid offer of 75 pounds a share; the Schaeffler Group had to pay compensation and cover any negative outcomes for the Continental AG; Hannover center of the Continental AG was to remain the headquarters.

Kinross Gold Corporation acquires Red Back Mining Inc

The Kinross Corporation is a Canadian firm that specializes in gold. Its activities spread across Canada, Russia, Brazil, the US, Ghana, and Mauritania. The Kinross Corporation embraced the acquisition strategy in 2010 and acquired the Red Back Mining. The share prices rose a month after the takeover but fell to almost the same value before the deal. The statistics on the company's profitability was computed based on the data from the appendix that are provided below.

4.4 Kinross Gold Corporation: Profitability

Statistic	**Value**
Return on Assets	24.11
Return on Equity	38.33
Return on Total Capital	29.46
Return on Invested Capital	30.29

Based on the figures, the company was performing well in terms of its use of assets since the ROA was 24.11. In addition, the ROE value of 38.33 shows that the entity's use of assets for generating the shareholder equity was positive. The positivity of the company's performance is also enhanced by the values of the Return on Total Capital and Return on Invested Capital.

4.5 Analysis

The case of Lundin Mining and Equinox Minerals Ltd shows that the use of defensive investment strategies has an effect on the outcome of acquisition attempts. Whereas using the poison pill defensive strategy prevents the takeover of Lundin Mining, the loss of shareholder returns was witnessed. The share price fell significantly in a year after the deal collapsed. Based on the case of the Schaeffler Group and the Continental AG, one can note that it is difficult for publicly-owned entities to protect themselves against hostile bids. Bidding companies, whatever small they are, can manage to buy a controlling stake in big public corporations.

The findings from the study show that using various defensive strategies is an effective step but not always. For instance, Yahoo! succeeded against Microsoft; Lundin Mining also fended off the Equinox' interest, but the Continental AG failed to stop the Schaeffler Group from taking over a controlling share of its business. Despite the successful prevention of the bids in the first two cases, the aspect of the shareholder gain was discouraging. In particular, whereas, the bidding companies did not suffer losses following unsuccessful offers, the target firms lost a significant value on their stock. However, it is noted that both Yahoo! and Lundin Mining's share valuations rose in the bidding period but lost after the subsequent withdrawals of the bids.

Based on the stock prices trend during the campaign, some observations are made. First, shareholders experience some optimism when their company is targeted for the acquisition since, in many cases, bidders are willing to pay premium prices for the shares. In addition, speculating investors explore opportunities to benefit from the impending purchase of companies by increasing the demand for such stocks. As a result, the value of a company is inflated, and it causes a rise in the share prices. Moreover, target companies are more likely to adopt a patient approach in handling such deals in the hope that other bids can arise, thus, opening a bidding war that might ultimately lead to the increase in the pricing of the business. In this regard, the overall objective is to get the best possible offer, which will allow for the maximization of shareholder gains. However, in some instances, the management that had vested interests as observed under the agency costs theory might be pushing for its survival or benefits. In such a case, the Boards of Directors might object to bids not because of the intention to increase the offer made to shareholders but because of the fear of losing a lucrative management position. In the first case, investors' earnings are the main driver; in the latter case, the interest is self-sustenance.

As one can observe, following the withdrawal of the bids by both Microsoft and Equinox, the share prices of the target companies fell significantly. Since stock prices measure the shareholder value or earnings, it is argued that such shifts cause the loss in the worth of the investment. As a result, the pursuit of defensive investment strategies proved anti-shareholder interest because it ultimately led to the shedding of stock values. On the contrary, the bidding companies' stock prices gained momentum and increased in value. As a result, it is arguable that using defensive strategies against bidders led to an increase in their stock prices. However, at the bidding time, the share prices of the companies suffered losses.

The decline in the stock prices of bidders during the period of negotiation is interesting. As already mentioned, at such times, the share valuations of target companies keep appreciating. Hence, the logical explanation for the downward trend of the stock of bidding companies might be explained based on expectations rather than facts. Many investors in bidding companies feel that they buy less competitive entities; thus, they are willing to sell their shares. Hence, a downward pressure is put against the company's shares. However, after a successful implementation of defensive investment strategies, companies are forced to opt out of these deals. As a result, the downward pressure on the stock is overcome.

4.6 Analysis Based on Research Objectives

The research focused on evaluating the effect of anti-takeover strategies on the investors' earnings. Based on the study findings, it is clear that the use of the defensive measures succeeded in preventing some acquisitions but rarely managed to generate value for owners. The cases of Microsoft-Yahoo! Equinox Minerals-Lundin Mining, and Kinross Gold Corporation-Red Back Mining Inc. affirm the idea that the strategies do not generate value for shareholders. In the case of Yahoo!, the company's worth fell following the successful employment of anti-takeover measures. The same case applies to Lundin Mining; the share valuation of which dipped after successfully rejecting the bid from Equinox Minerals. For the case of Kinross Corp, it is observed that although the shares did not fall significantly, no notable gain was achieved following the successful takeover of Red Back Mining Inc. However, in the case of the acquisition of the Schaeffler Group by the Continental AG, the stock of the latter company gained value. Based on the above information, it is held that, in many instances, the use of anti-takeover strategies for resisting acquisitions do not yield value to shareholders.

The extent, to which defensive strategies are adopted, depend on the nature of the bid, whether it is friendly or hostile. In cases of friendly takeovers, the use of anti-takeovers strategies is shunned in favor of negotiations. Nevertheless, according to the findings, when a hostile unsolicited bid is placed, the target companies often react by adopting various defense mechanisms.

On the basis of findings of the research, a risk is encountered both by bidding and target companies. On the part of bidders, the risk of antagonizing other firms is inherent. Entities that sense being targeted for the acquisition often react but do it differently. When the reaction is negative, the use of defensive strategies might erode the value of the target and reduce the attractiveness of the firm as a result. In addition, there exists a danger that the acquirer might lose value on its stocks, especially in the bidding process. The results support this idea since Microsoft and Equinox faced the prospect.

Chapter Five: Conclusion

The current study focused on evaluating the effectiveness of defensive investment strategies that generated value for investors. Specifically, the research analyzed the outcome of using anti-takeover defense mechanism and tools when facing potential takeover bids. From the background of the research, it emerged that acquisitions are a part of the strategies that are deployed by organizations that seek to expand their portfolios with a view to generating the investor value. However, the adoption of the strategy does not guarantee success in terms of increasing earnings for the owners of business. In addition, the use of the approach faces hurdles, which considerably undermine its effectiveness. In other words, the tactics encounters challenges that are caused by the adoption of countermeasures with the view to managing takeover bids.

According to the literature reviews, it became evident that many authors have focused on the effectiveness of anti-takeover measures in various contexts. Numerous sources support the idea that the use of anti-takeover strategies in the business does not serve the expectations of shareholders but those of the management. The researchers that have evaluated the effectiveness of the tactics include Hartzell, Ofek, and Yermach (2001), Gompers, Ishii, and Metrick (2003), Chemmanur and Tian (2012), and Sokolyk (2010). While Hartzell, Ofek, and Yermach (2001) and Gompers, Ishii, and Metrick (2003) found out that anti-takeover defenses yielded negative results regarding the generation of earnings, Chemmanur and Tian (2012) and Sokolyk (2010) found a positive association between the variables. For Hartzell, Ofek, and Yermach (2001), only management teams stood to gain from using the strategies. In this regard, it is evident that the literature on the topic remains divisive. As a result, there emerges a need to add clarity to the question by exploring a number of acquisitions that have attracted the use of defensive strategies in order to evaluate their overall effect.

In order to test the role of anti-takeover defenses in staving off acquisition bids, the study selected four cases: Microsoft and Yahoo!, Equinox Minerals and Lundin Mining, Kinross Gold Corporation and Red Back Mining Inc., and Continental AG and Schaeffler Group. In the selection of the cases, the researcher relied on the purposive sampling approach, which allows selecting study units according to the peculiarities of the study.

The research generates interesting findings regarding the use of defensive investment strategies. First, it emerges that the use of antitakeover approaches has a notable degree of success in fending off hostile bids. The use of the strategy to obstruct investment approaches by other companies highlights a possible risk for organizations that are interested in deploying the strategy with the view to expanding its operations and creating value for shareholders as a result. Given the possibility of the deals failing, it is possible that companies would lose in pursuing such strategies. In addition, the decline in shares after successful bids is also a risk.

The risk is a part of any business, as is the return. In assessing the value of using anti-takeover strategies, the study relied on the analysis of various cases. Based on the findings, the share prices of target firms fell after using the defensive strategies in order to ward off acquisitions. It also emerged that after failing to acquire the target entities, acquirers went to gain value in their shares. In this regard, it is noted that the use of defensive strategies managed to protect firms from takeovers but resulted in exposing the shareholders to the risk of falling stock prices. On the other hand, the employment of defensive strategies denied acquirers an opportunity to expand but preceded an improvement in their share prices. On this basis, it is held that using anti-takeover strategies precipitated an increase in shareholder's earnings by acquirer firms.

It is also noted that the nature of the study demanded that the longitudinal research design, which is based on observations, is used. Companies that have been targets of the acquisition between 2005 and 2012 formed the sample population of the study. The collected data were presented in tables, and the analysis was carried out with the help of various financial metrics with specific focus on share prices. The targeted trend was traced a year before and after the acquisition.

The findings of the present study support the existing literature, which established that the outcome of using defensive strategies against takeovers provided mixed results. The successful bids despite obstacles show that the company equity of acquiring firms rose but fell shortly after deals. The research focused on evaluating the outcome of anti-takeover strategies on the shareholders' earnings and risks. The findings based on the analysis of Microsoft-Yahoo. Equinox Minerals-Lundin Mining, and Kinross Gold Corporation-Red Back Mining Inc. prove that the use of the strategies does expose owners to risk because they do not necessarily create value for shareholders. Results show that the Yahoo! Company's value fell following its adoption of anti-takeover measures. Lundin Mining suffered a similar fate since its share price dropped when the company rejected Equinox Minerals' offer.

The study also finds that the use of defensive strategies depends on the nature of the bid, whether it is friendly or hostile. Friendly takeovers allow for negotiations that lead to amicable negotiations, while hostile bids attract controversy and require the use of anti-takeover measures by a target organization.

Overall, it is evident that the risk and return are at the heart of the use of anti-takeover strategies. Companies face a risk of losing value depending on whether the bids are successful or not. At the same time, a possibility of gaining through the increment of shareholder value remains possible.

5.1 Implications for the Future Research

Measures that are taken in a bid to explain the effectiveness of anti-takeover strategies is to be researched in more details. For instance, understanding the effect of defensive strategies on the shareholders' welfare is shrouded in complexity; thus, the deployment of the analysis of share prices is not enough in the absence of the use of control measures for curbing any outside influence. For example, other possible factors from both the internal and external environment might have affected the movement of the shares, other than the takeover offers and reactions. Against this backdrop, the study suggests that the future research has to consider the use of advanced econometric models in order to allow controlling different variables that would influence share prices.

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