The Evolution of the Market for Corporate Control

2025 Global Corporate Governance Colloquium (GCGC)

Mike Burkart (LSE)

Samuel Lee (Santa Clara)

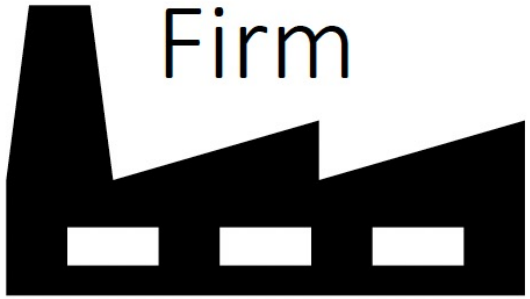
Paul Voss (HEC Paris)

The traditional market for corporate control

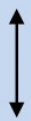
Management teams compete over control of corporate resources in the economy

→ Inefficiently managed firms are taken over through **hostile takeovers**

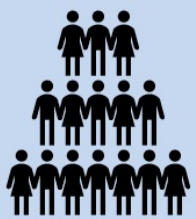
Firm

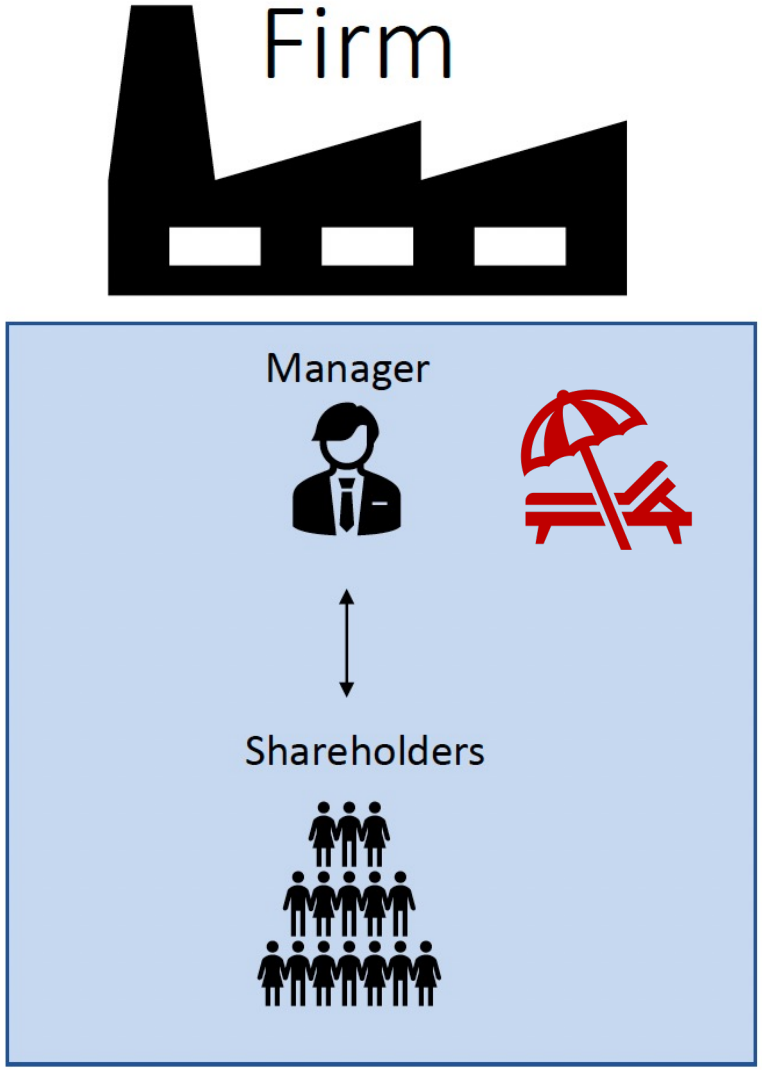


Manager



Shareholders

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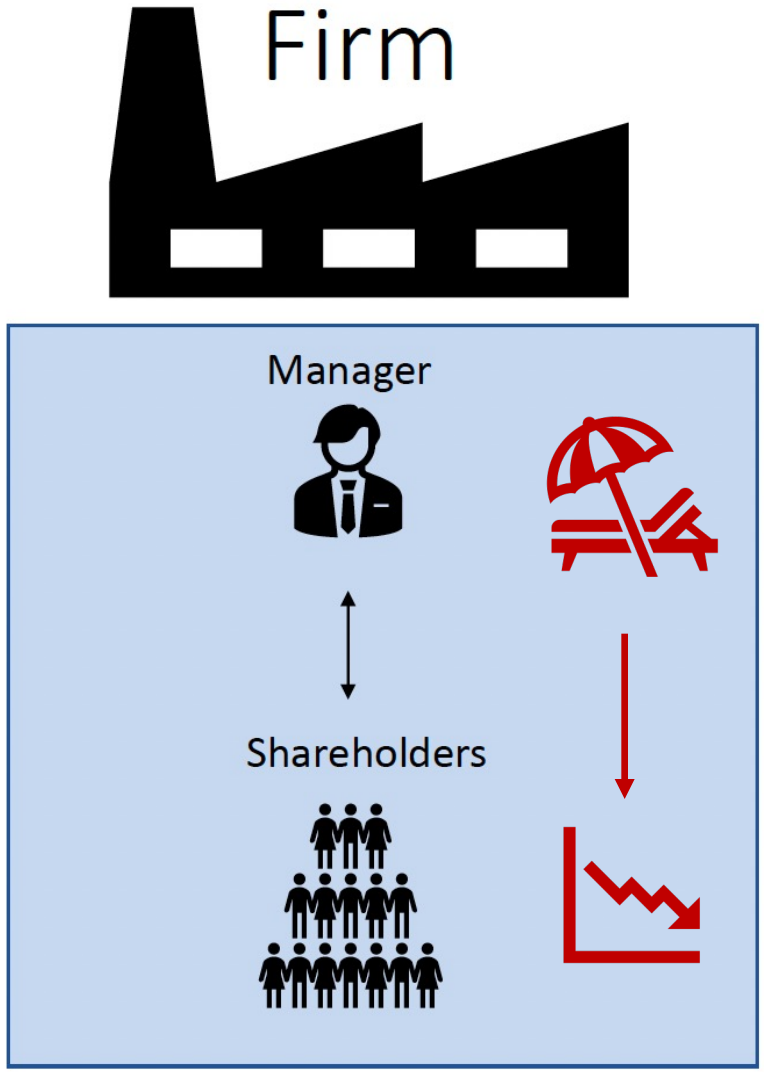
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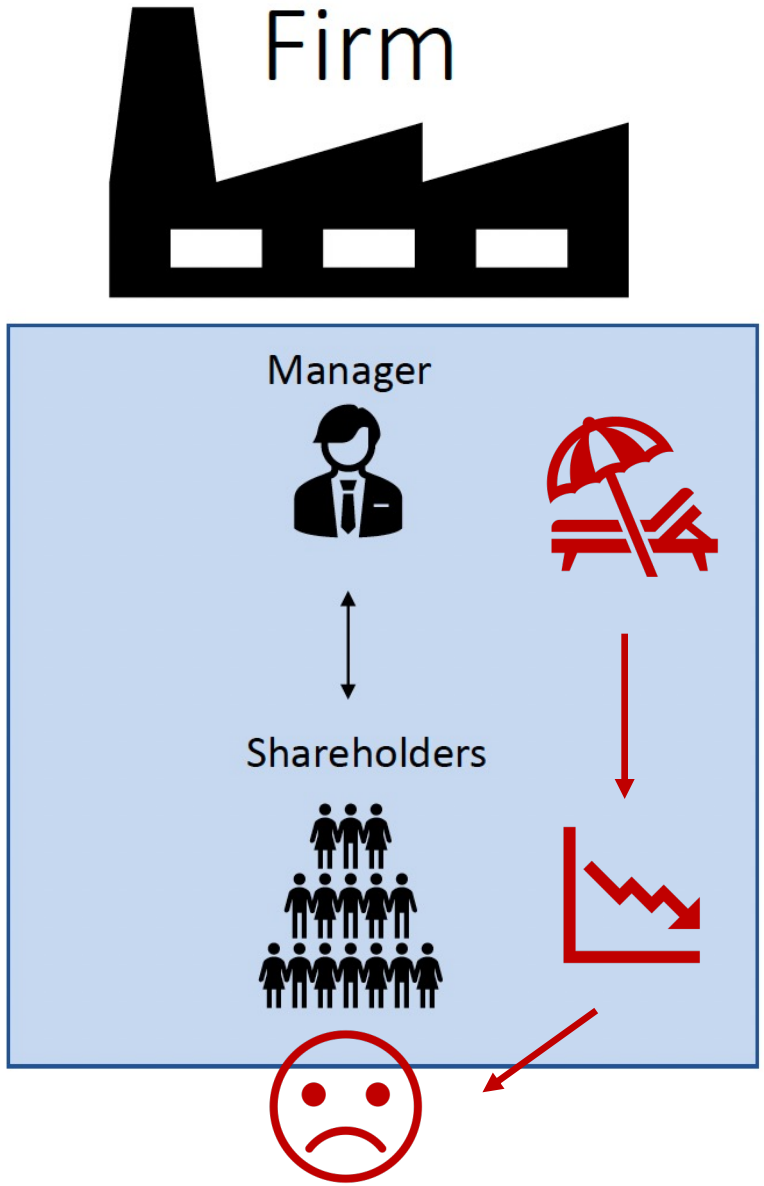
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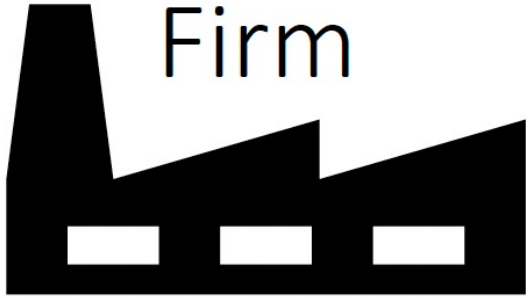

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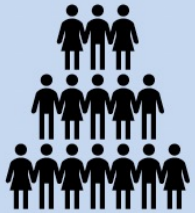


Acquires toehold
at low price

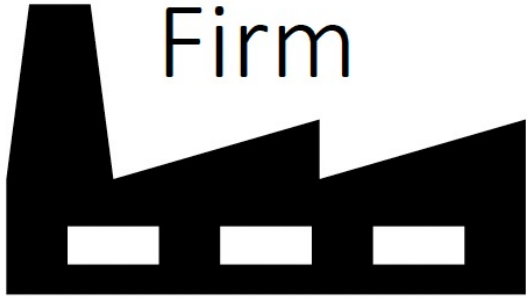
Activist fund

Firm

Manager

Shareholders

Large activist **shareholder**



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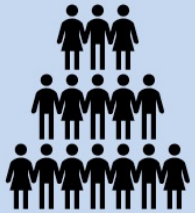
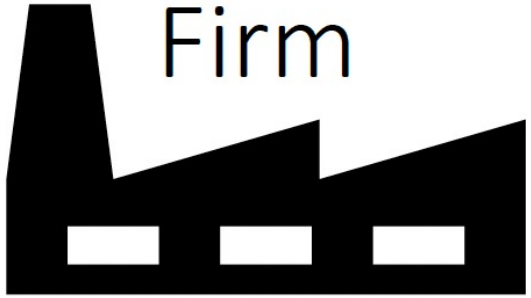


Hostile takeover: offers to buy control

Large activist shareholder



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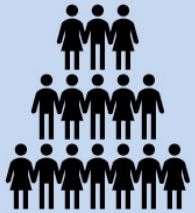


Hostile takeover: offers to buy control

Sell majority of shares

Large activist shareholder

Firm

Manager

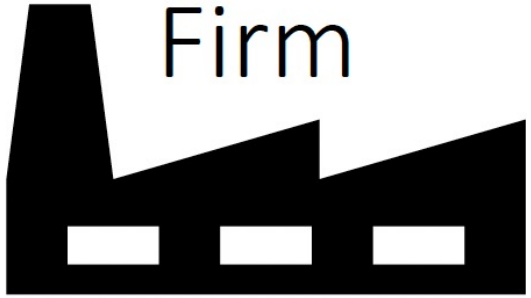
Shareholders

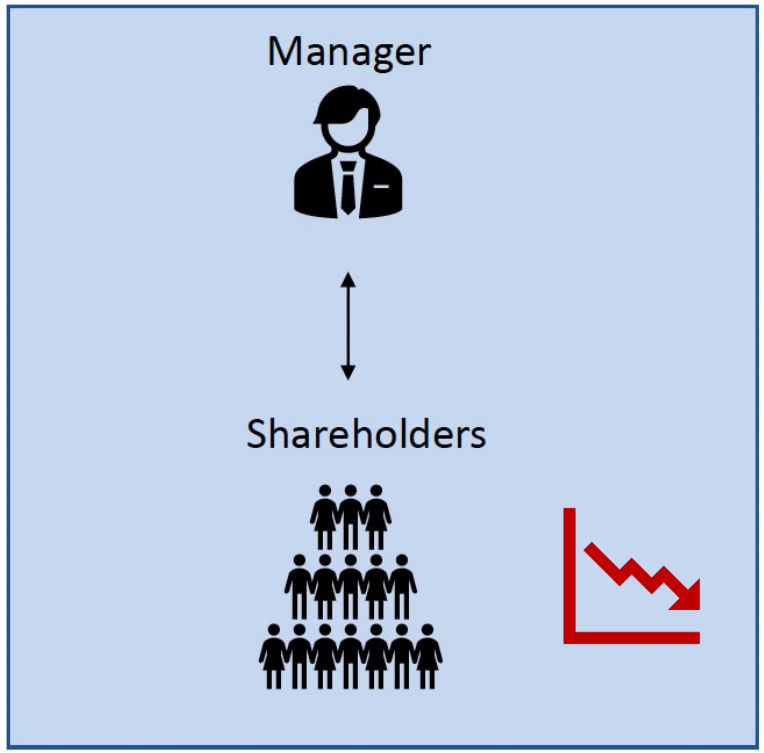
Hostile takeover: offers to buy control

Sell majority of shares

Large activist shareholder

Obtains control, improves management and profits from value-increase (on toehold)





Two major problems:

1. **Free-riding:** small shareholders only sell at
$$P \geq \mathrm{E}[firm\ value\ after\ takeover | P]$$
2. **Asymmetric information:** Activist shareholder knows more than small shareholders

- Conjunction of **1.** & **2.** ⟶ too few hostile takeovers

Hostile takeover: offers to buy control

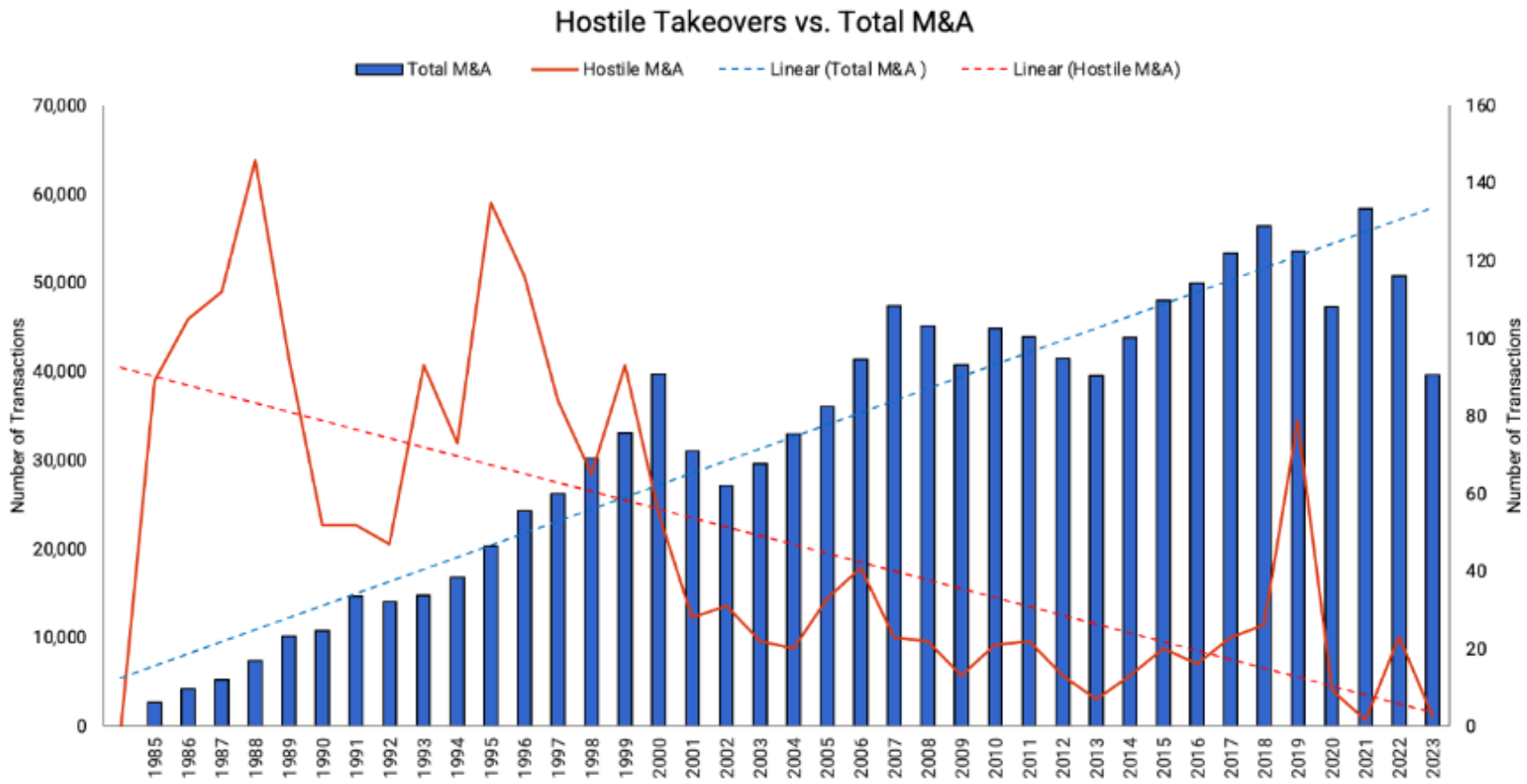
⇄

Sell majority of shares

Large activist shareholder

Obtains control, improves management and profits from value-increase (on toehold)

The decline of hostile takeovers



Growth of capital under management of control investors (who orchestrate buyouts)

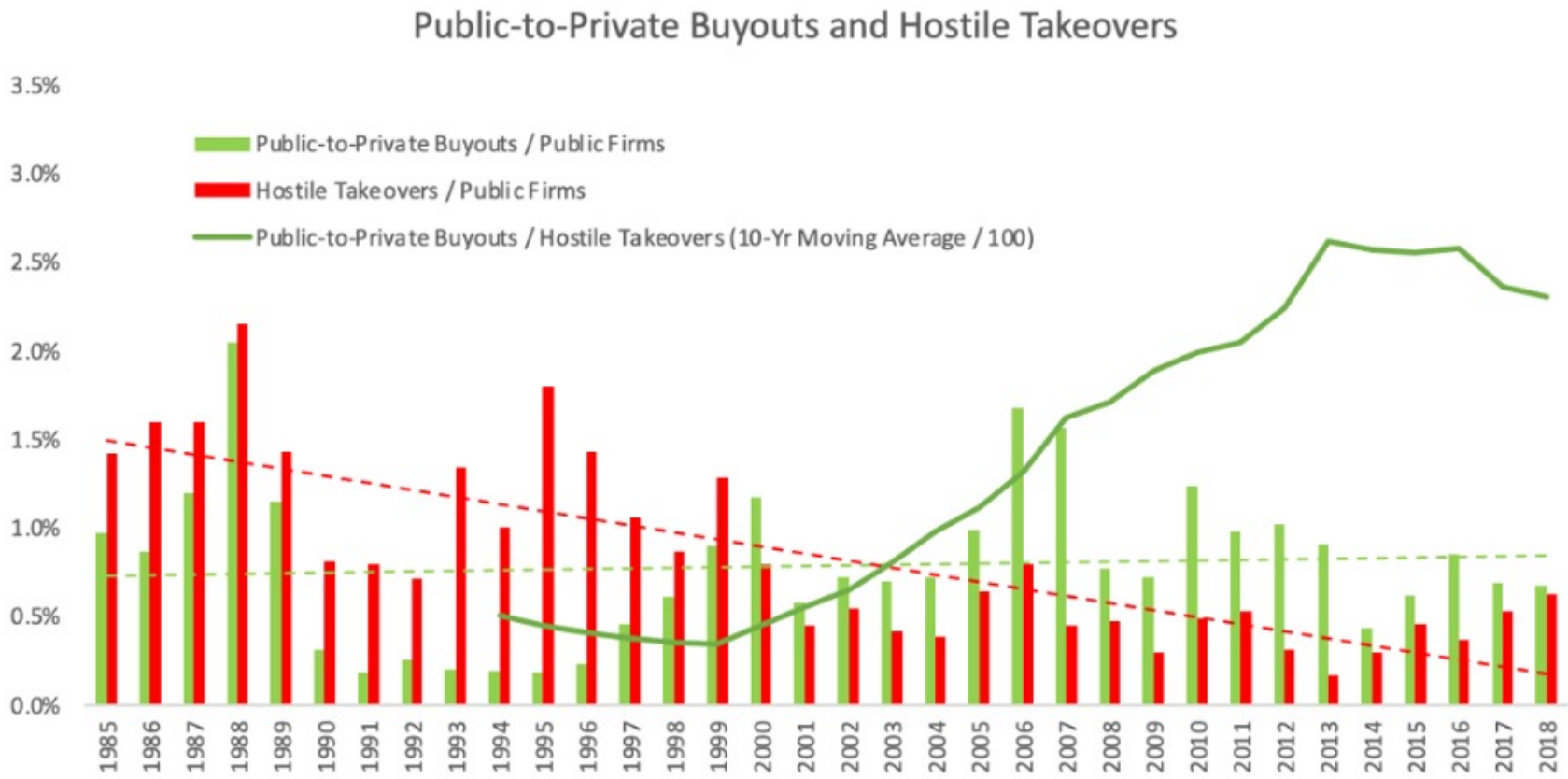
Capital at the disposal of…

activist hedge funds &

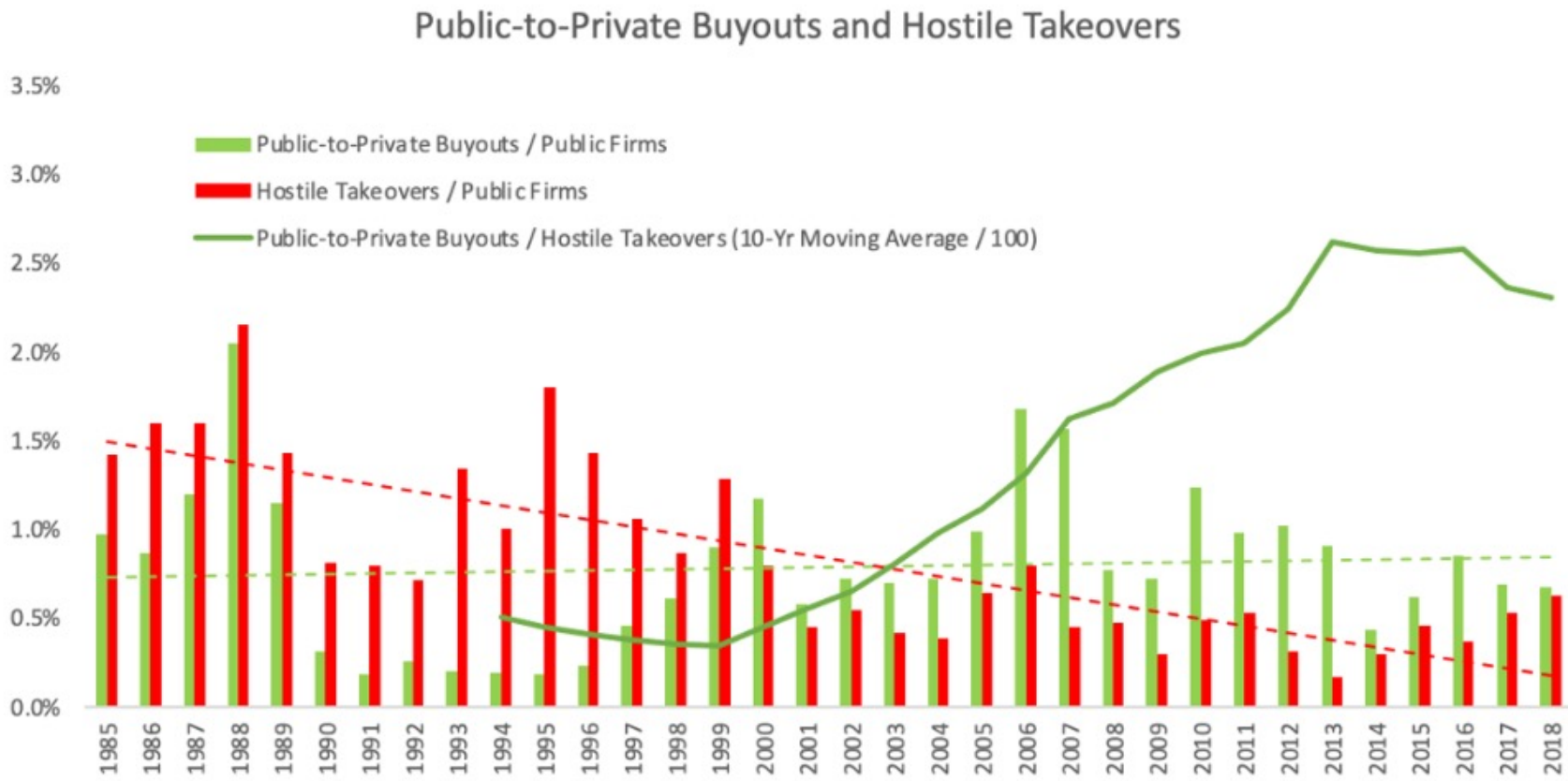
private equity (buyout) funds

exploded

No decline in buyouts



No decline in buyouts



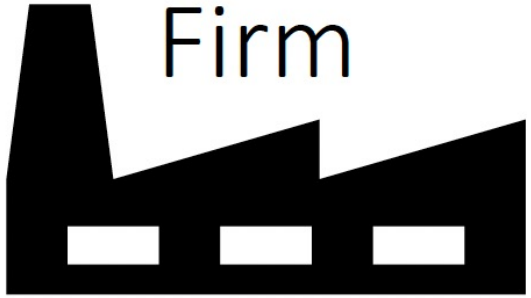
How is the decline in hostile takeovers and rise in buyouts consistent ?

Takeover activism

Activist shareholders rarely buy firms themselves anymore in a hostile takeover, but **broker a sale to outside buyers** (PE funds)

→ **The emergence of takeover activism**

What we do



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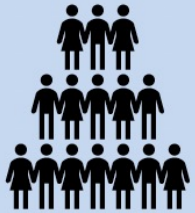
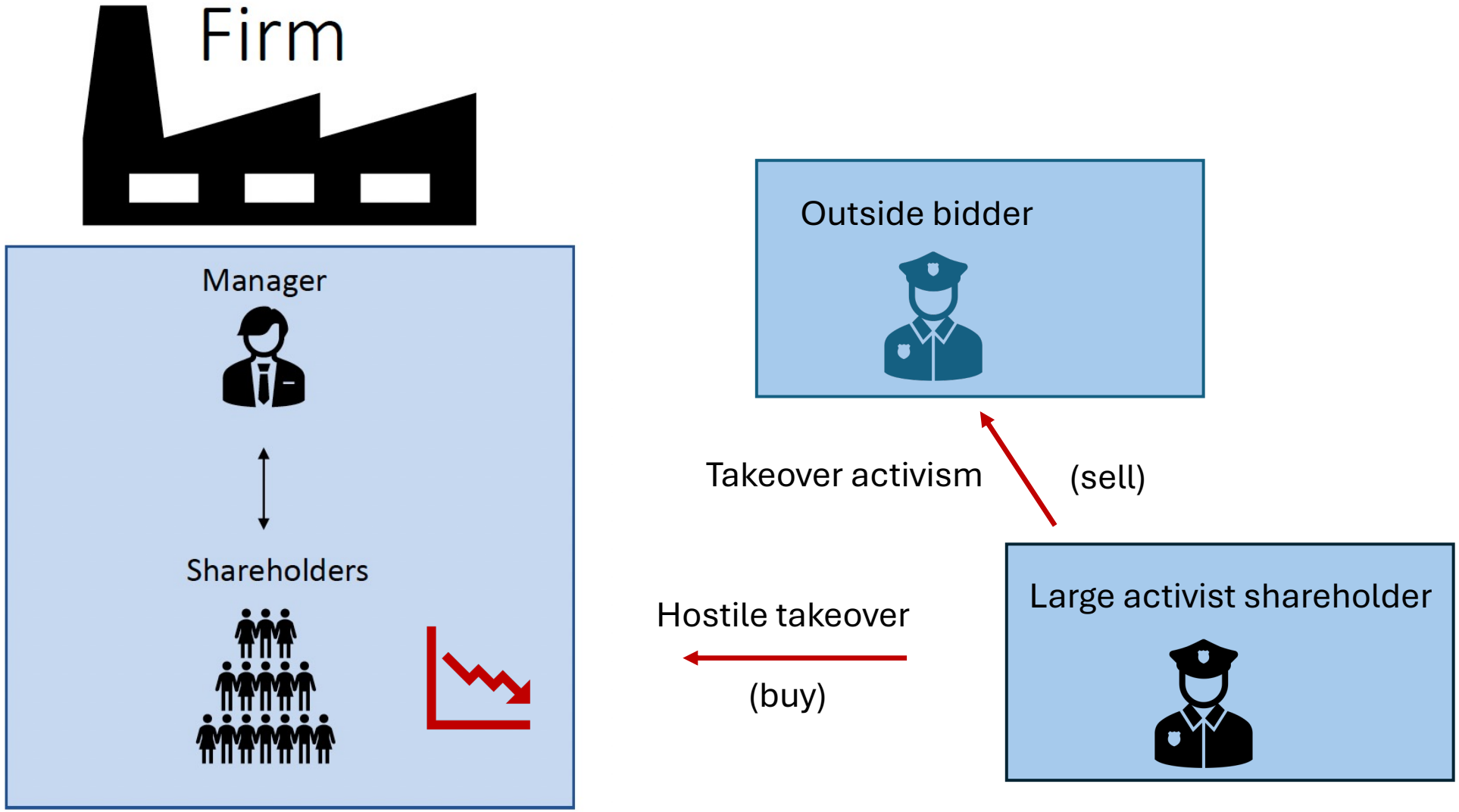


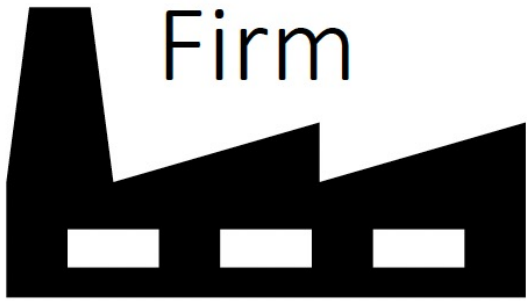
Hostile takeover

(buy)

Large activist shareholder

What we do


Firm
Manager
Shareholders
Outside bidder
Takeover activism
(sell)
Large activist shareholder
Hostile takeover
(buy)

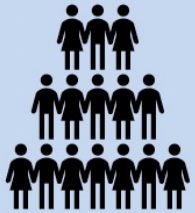


Takes control and improves firm value

Outside bidder

Manager

Shareholders



Takeover activism

(sell)

Hostile takeover

(buy)

Large activist shareholder

Takeover activism improves efficiency

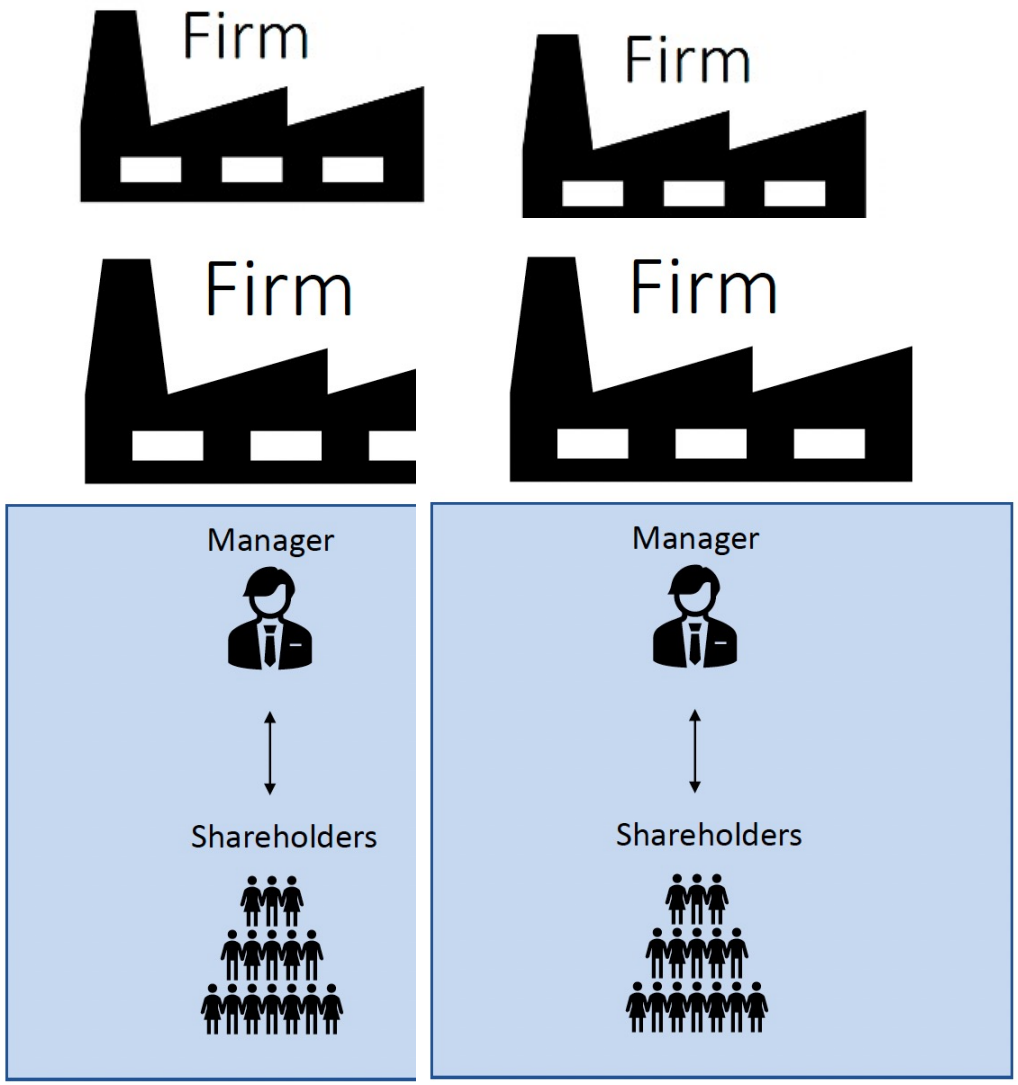
Adding the option to sell firm to outside bidder (takeover activism) enhances efficiency

1. Separates free-rider problem from the asymmetric information problem

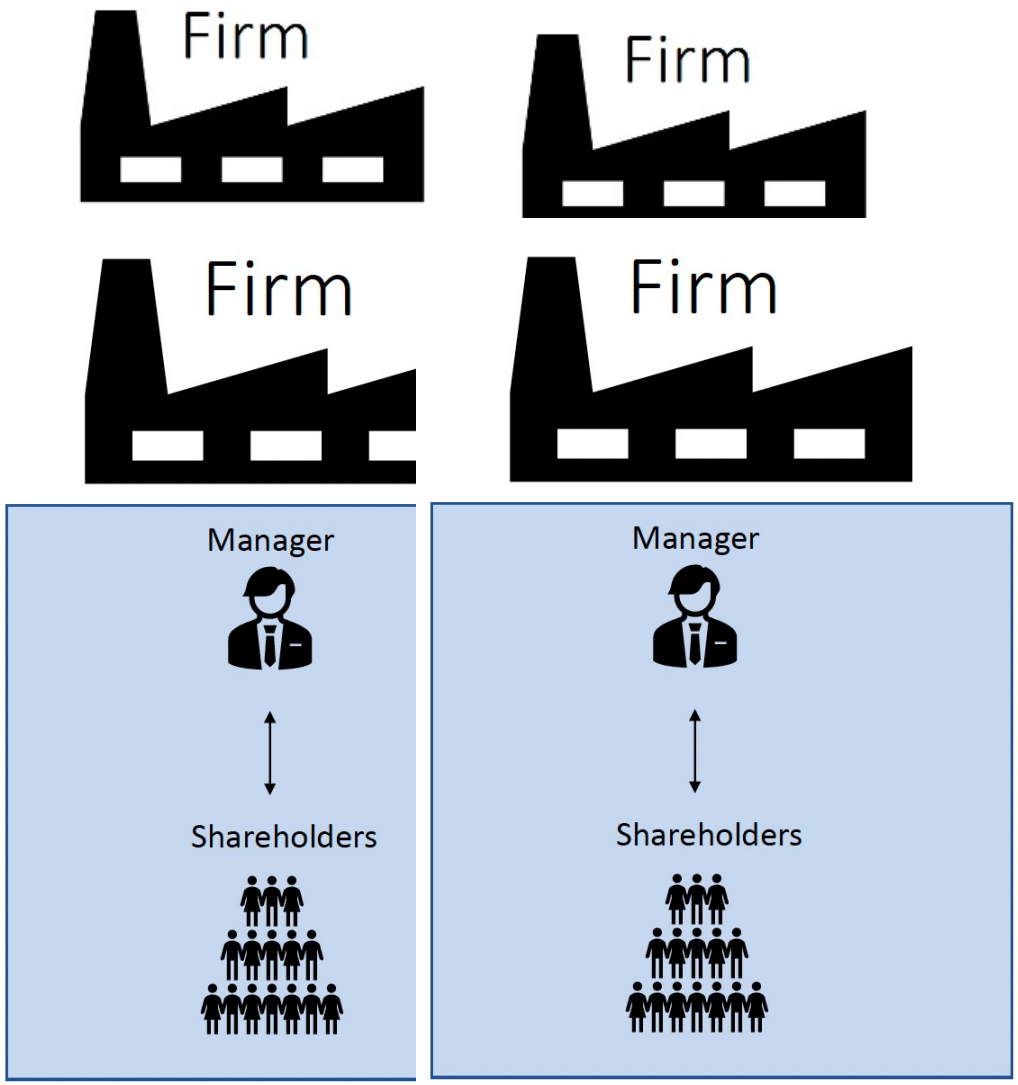
2. The very choice between being on the buy- and sell-side allows the activist to credibly signal to dispersed small shareholders

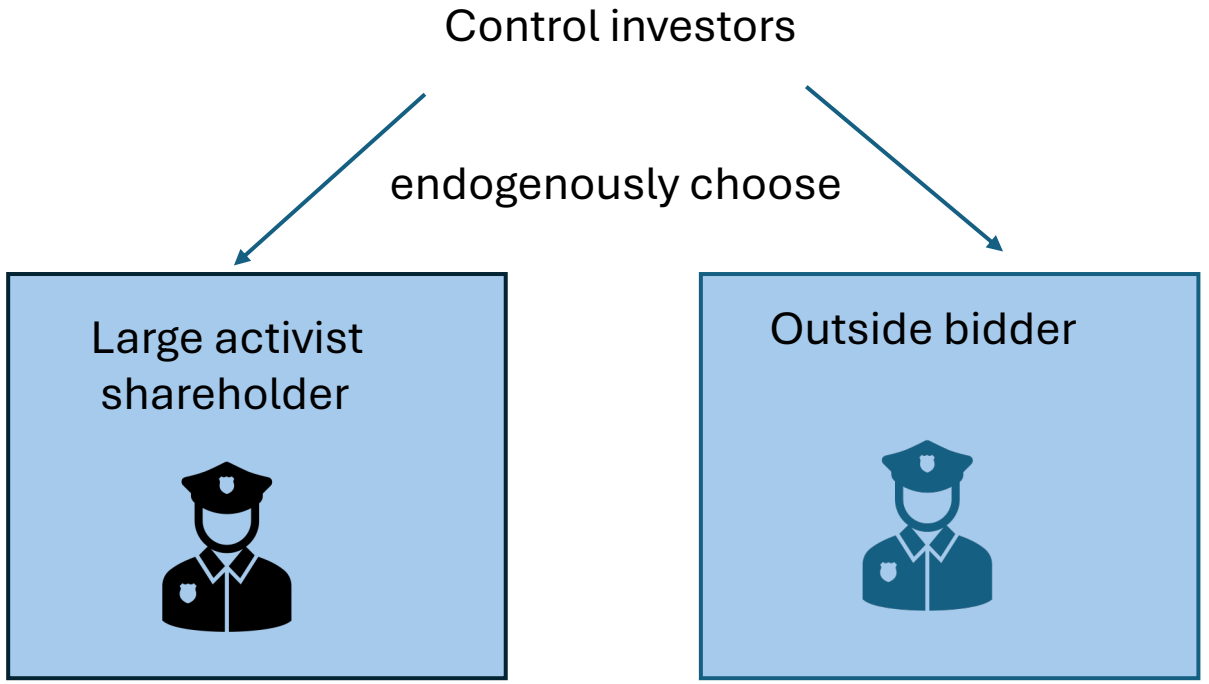
→ Efficiency gains hold in a variety of settings

Market level framework



Market level framework





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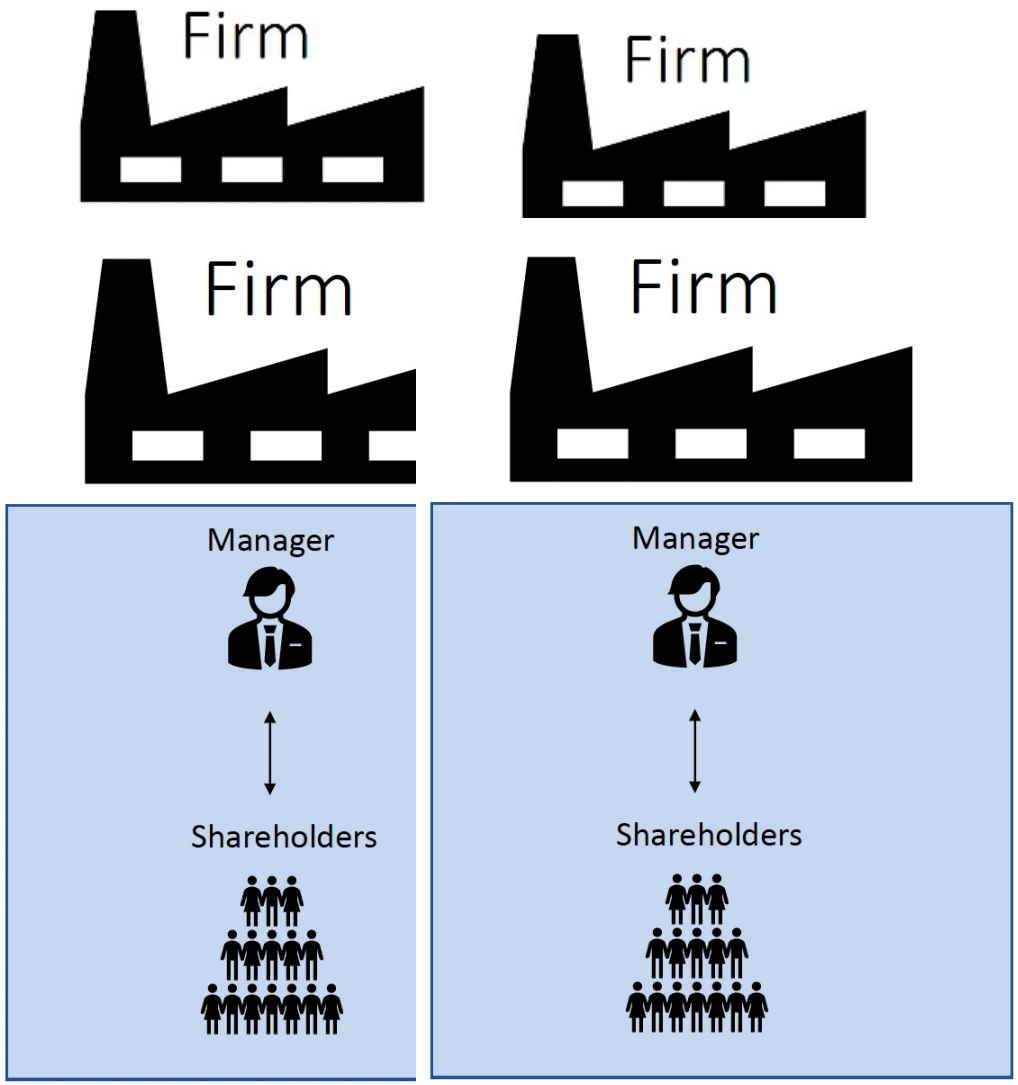
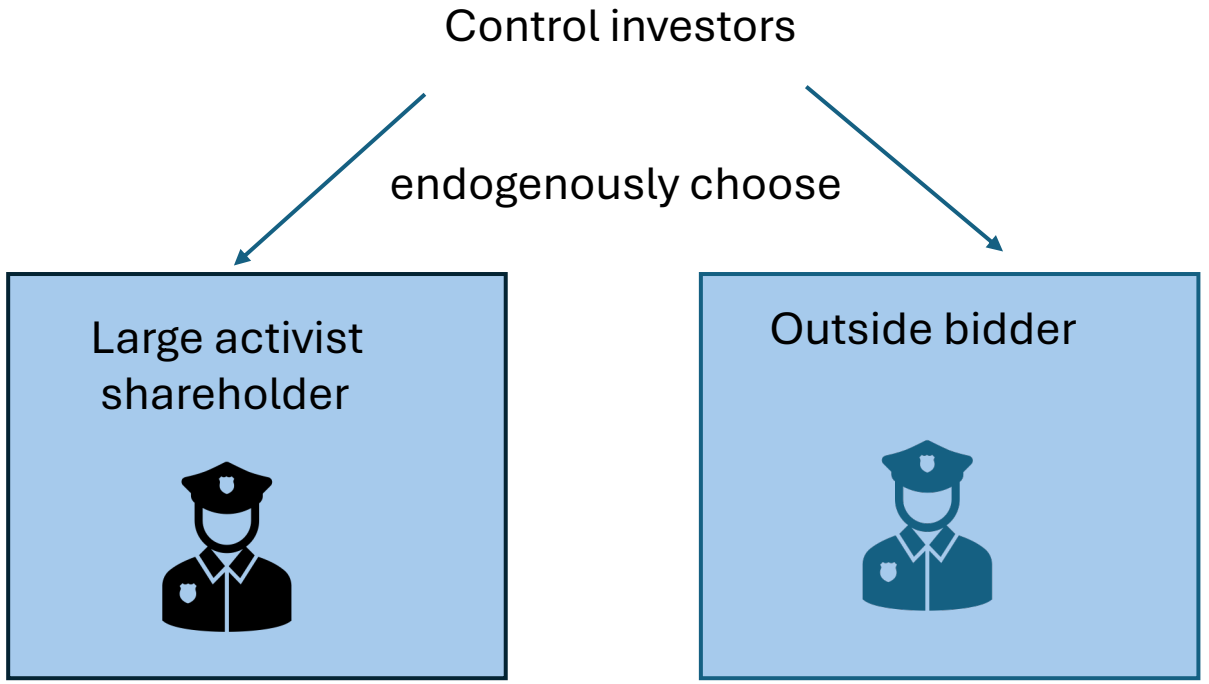
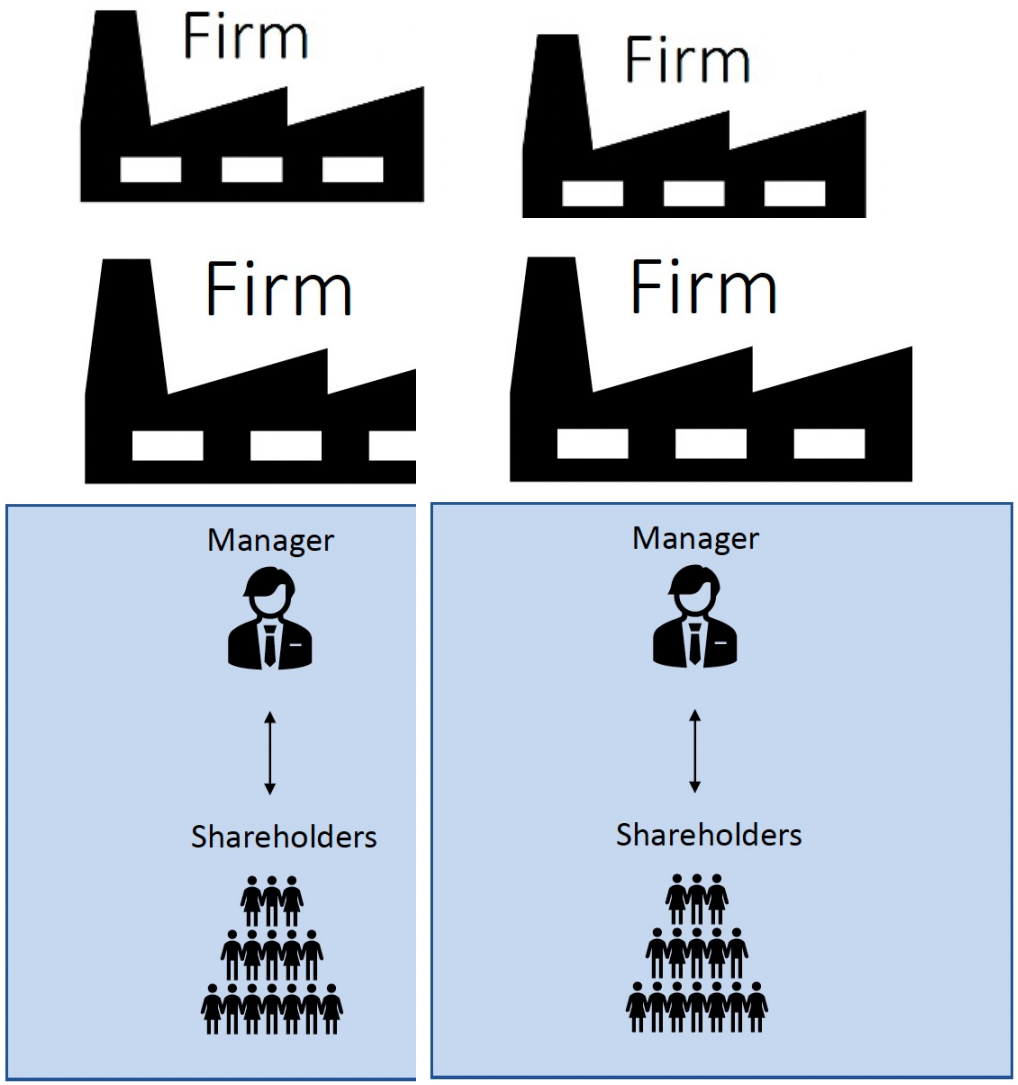
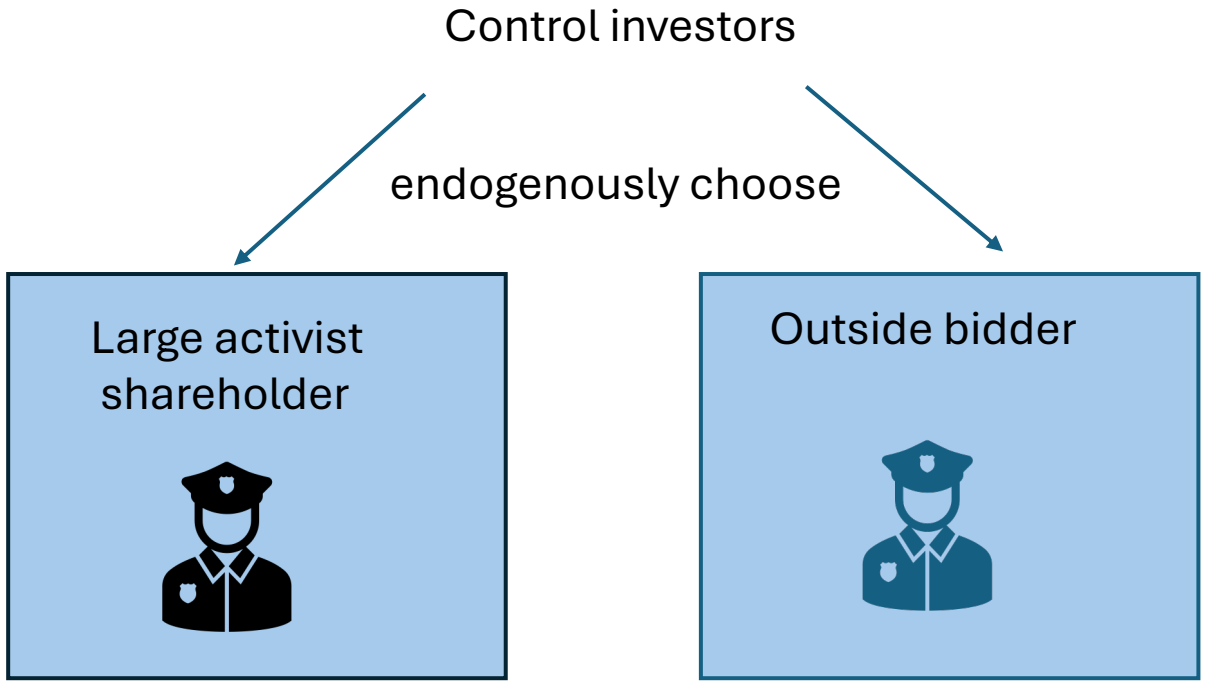




Random matching of
firms + large shareholders + outside bidders

Market level framework

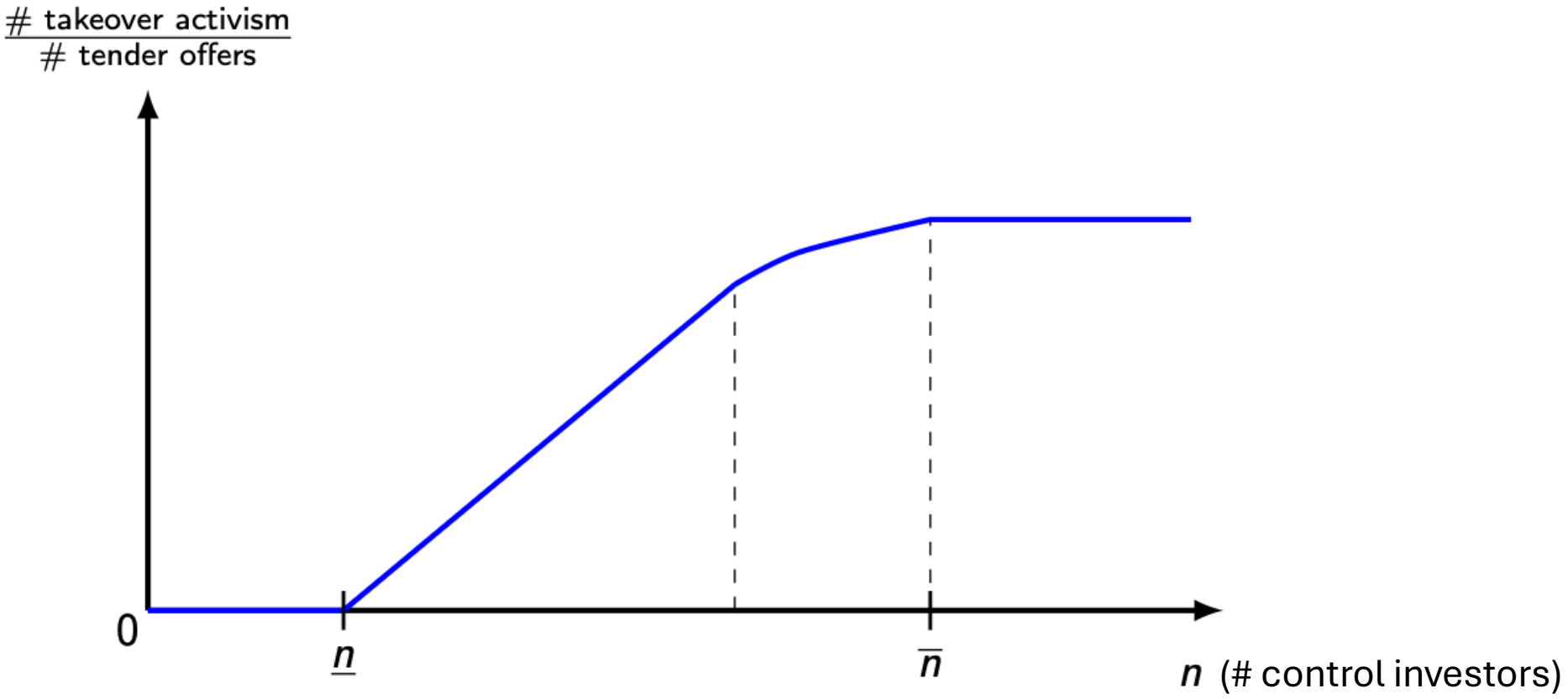




Random matching of
firms + large shareholders + outside bidders

What happens as #control investors increases?

Evolution of the Market for Corporate Control



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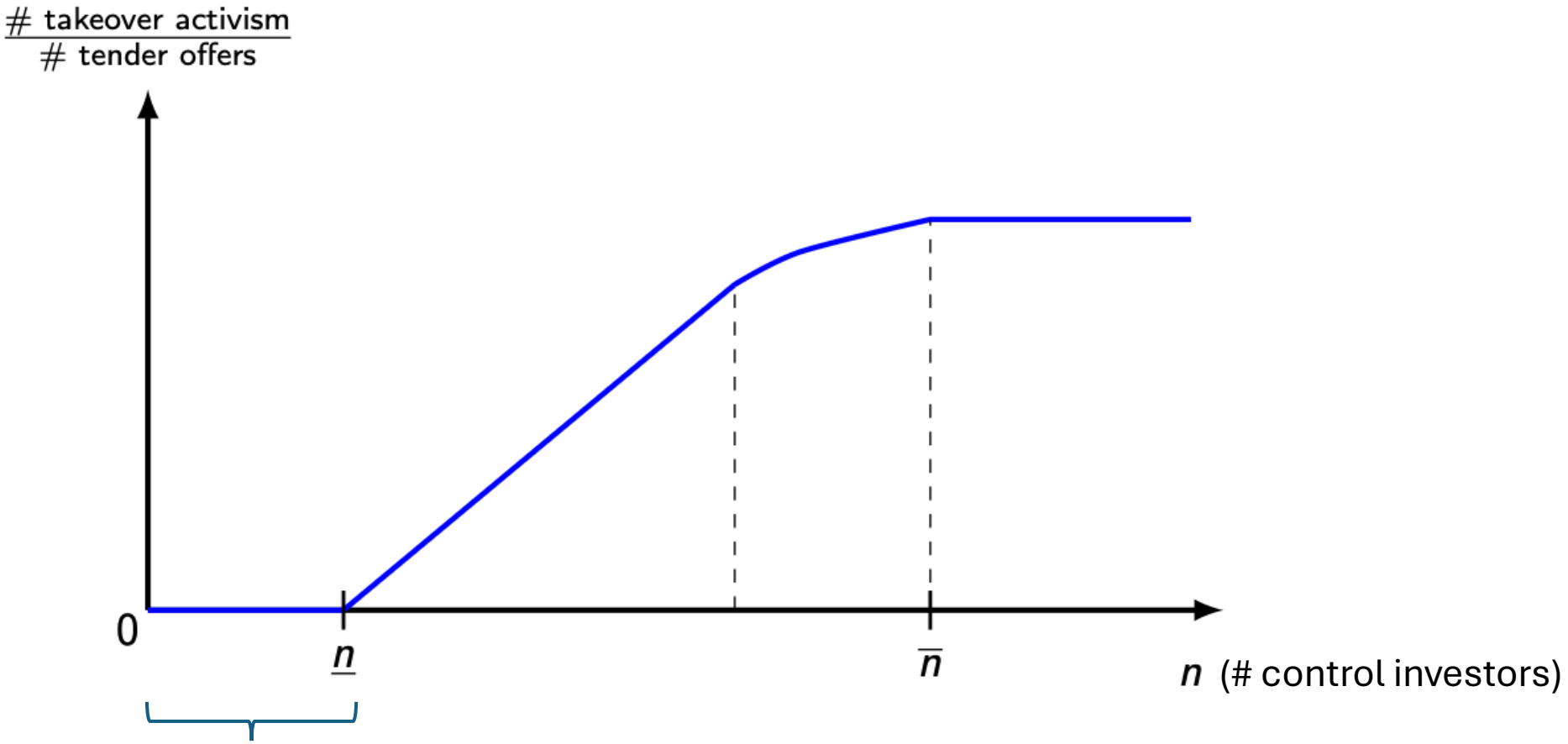
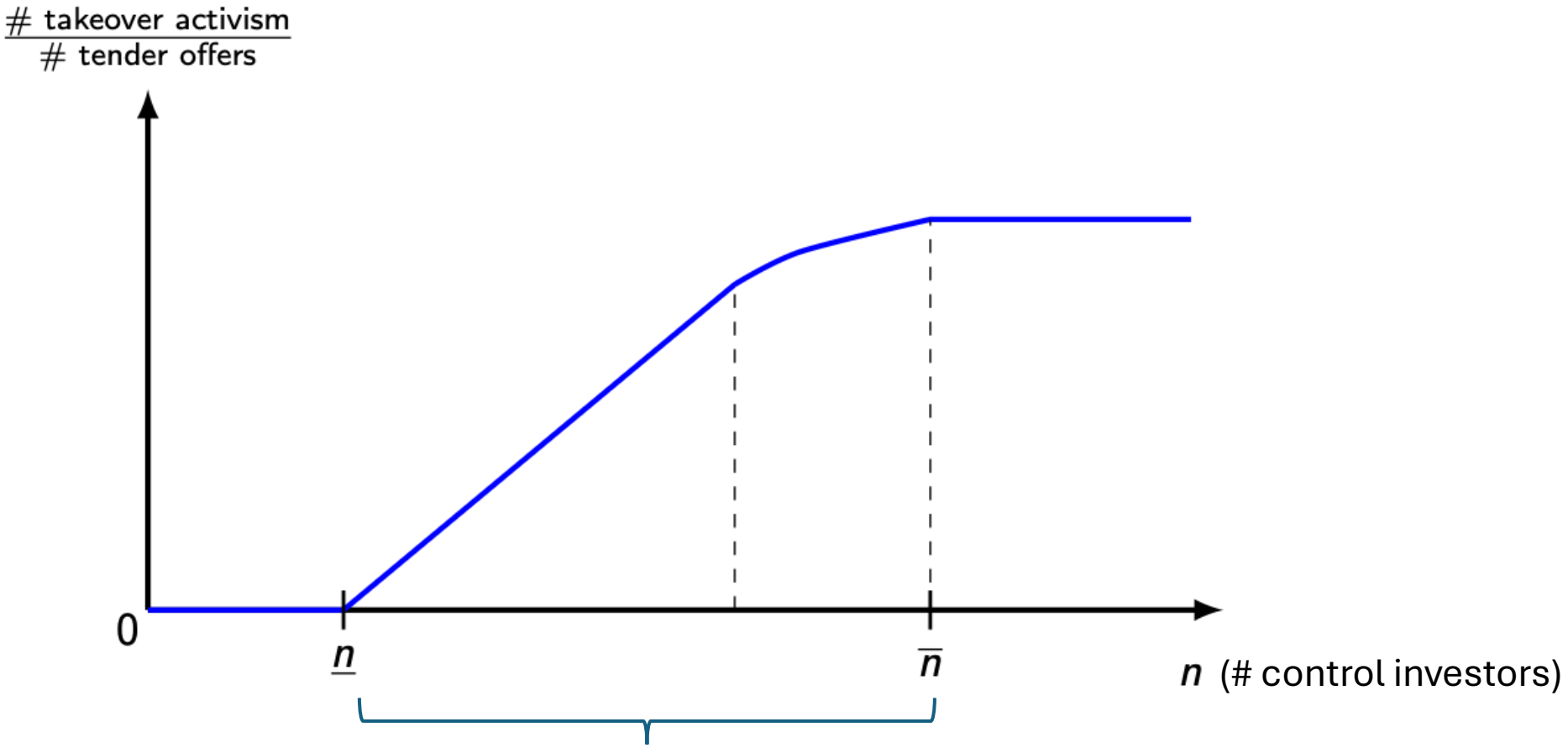


Early phase:
Only large shareholders
and hostile takeovers

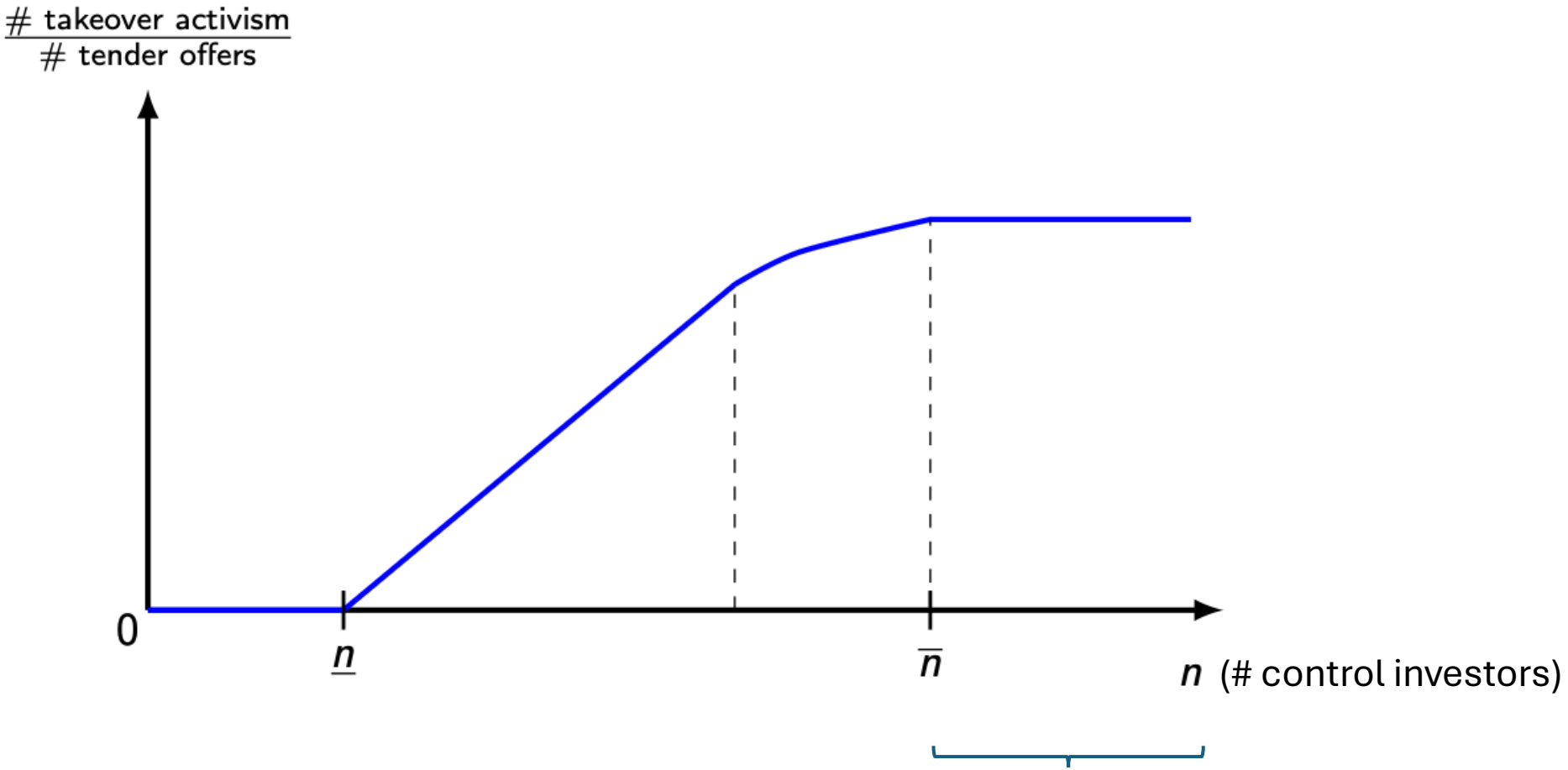
Evolution of the Market for Corporate Control



Transformation phase:

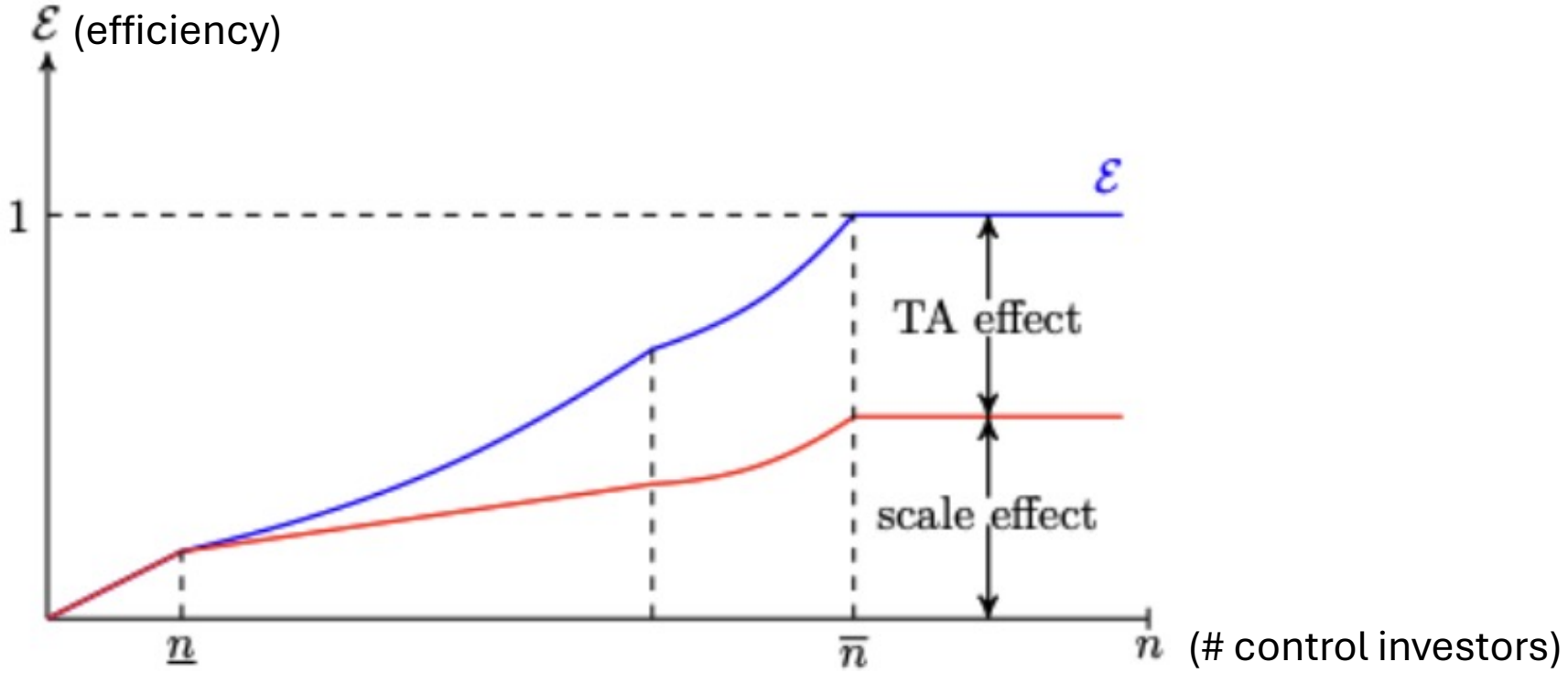
- Outside bidders start entering
- Complementarity between large shareholders and outside bidders

Evolution of the Market for Corporate Control



Mature phase:
Market popoulated with enough large shareholders and outside bidders to realize control changes

Efficiency in the Market for Corporate Control



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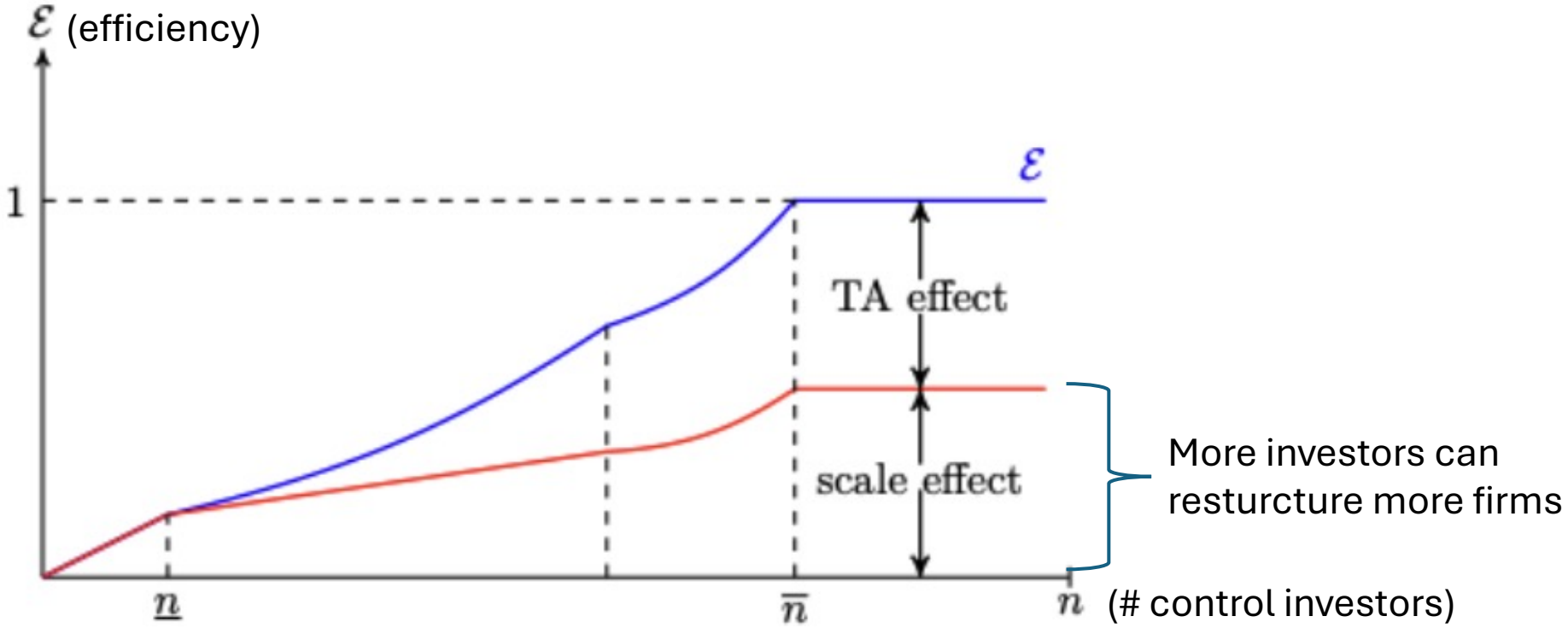

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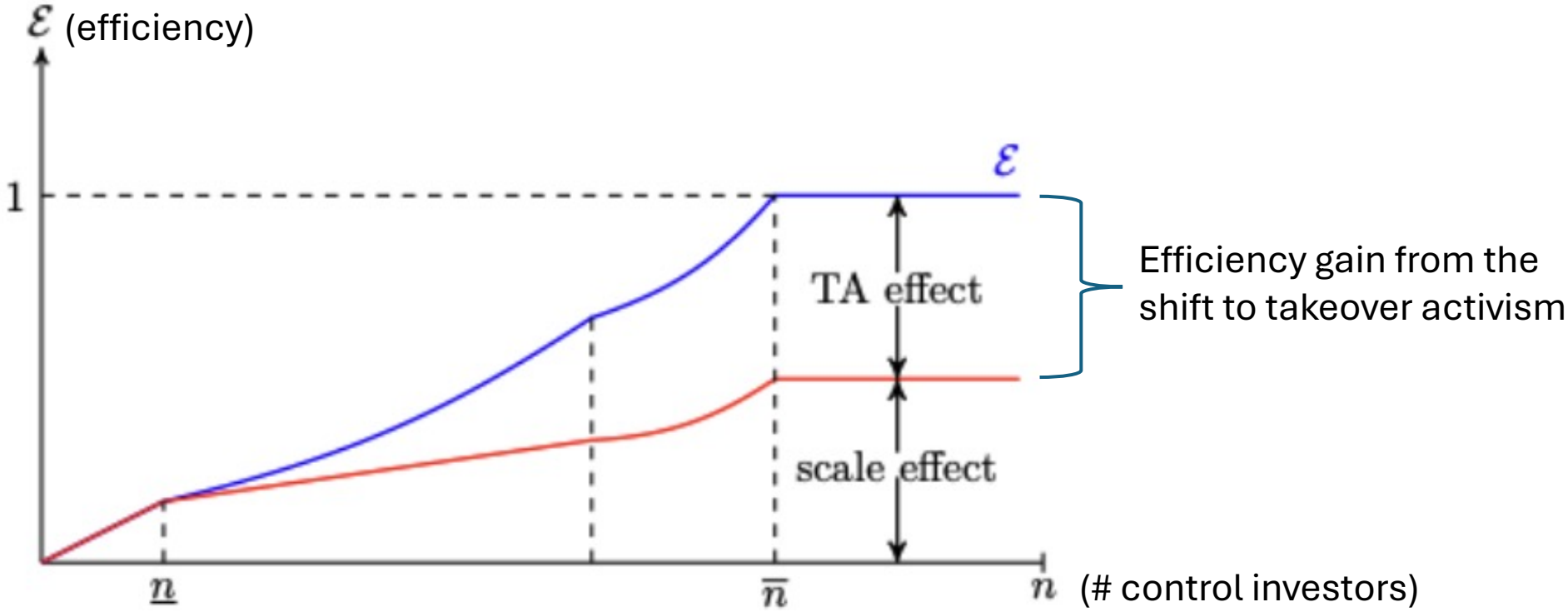

Conluding Remarks

The **shift** from hostile takeovers to takeover activism is **grounded in** the two fundamental frictions of **asymmetric information** and **free-riding**

Evolution naturally occurs as the market for corporate control expands and does not require any legal changes

Intermediated sales (takeover activism) enhance efficiency and lead to

`` **symbiotic relationship of hedge funds and private equity**''

Thank you ☺