The Role of the Broadsheet Newspaper Media in Corporate Governance: An Exploration into the Market for Corporate Control

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DECLARATION

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FOR DADDY AND MAMMY

For your limitless love and support, for all the sacrifices you have made for me and for being my best friends.

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ABC:	Audit Bureau of Circulations
AGM:	Annual General Meeting
AIM:	Alternative Investment Market
BBC:	British Broadcasting Company
BIS:	UK Department of Business, Innovation and Skills
BSkyB:	British Sky Broadcasting
CEO:	Chief Executive Officer
CESR:	European Securities Regulators Committee
CFD:	Contract for Differences
CGQ:	Corporate Governance Quality
ΔCGQ:	Corporate Governance Quality Change
CJA:	Criminal Justice Act
The Code:	The UK Takeover Code
DRRs:	Directors’ Remuneration Regulations 2002
DTRs:	Disclosure and Transparency Rules
EGM:	Extraordinary General Meeting
ESMA:	European Securities and Markets Authority
EURIBOR:	Euro InterBank Offered Rate
FCA:	Financial Conduct Authority
FRC:	Financial Reporting Council
FSA:	Financial Services Authority
FSMA:	Financial Services and Markets Act 2000
GDP:	Gross Domestic Product
ICB:	Industry Classification Benchmark
IPSO:	Independent Press Standards Organisation
IR:	Investor Relations

LBO:	Leveraged Buyout
LIBOR:	London InterBank Offered Rate
M&A:	Mergers and Acquisitions
MAD:	The European Market Abuse Directive (Directive 20034/6/EC)
MAR 1:	The Code of Market Conduct
MBO:	Management Buyout
NPR:	Newspaper Reporting
NRS:	National Readership Survey
OECD:	Organisation for Economic Co-operation and Development
OFT:	Office of Fair Trading
OLS:	Ordinary Least Squares
ONS:	Office for National Statistics
The Panel:	The UK Panel on Takeovers and Mergers
PCC:	Press Complaints Commission
PERG:	Perimeter Guidance Manual
Plc:	Public limited company
PR:	Public Relations
RESNPR	Newspaper Reporting Residual
RIS:	Regulatory Information Service
SEC:	The US Securities and Exchange Commission
The Takeover Directive:	The 13th European Directive on Takeover Bids (Directive 2004/25/EC)
TMA cases:	Takeover and Market Abuse Cases
UKLA:	UK Listing Authority

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Louise Gorman

ABSTRACT

This study examines the impact of broadsheet newspaper reporting of takeover offers and market abuse cases on the corporate governance quality of the UK listed companies involved. The study examined 111 takeover offers and 25 market abuse cases from 2001 to 2010. Corporate governance quality is assessed from the perspective of the board of directors using an original scoring methodology devised herein. The scoring methodology is founded upon principles of best practice set out in UK regulatory guidelines; the statutory responsibilities expected of boards of UK companies; and recommendations expressed in academic commentary and specialist reports on corporate governance. The level of newspaper reporting is measured using the archives of eight prominent UK broadsheet publications. The results of statistical analysis indicate a significant association between changes in corporate governance quality and newspaper reporting on takeover offers but not for market abuse cases. This study sheds insight into the role the broadsheet media plays in corporate governance and contributes to a growing strand of research on the capacity of the media to lower agency costs. Findings imply that the broadsheet newspaper media serves a potentially important function in facilitating the operation of the market for corporate control. Specifically, by reporting on companies' vulnerability to takeover, the newspaper media can create reputational costs for target directors thereby encouraging governance improvements in target companies. This thesis adds to an extensive body of literature on corporate governance and the market for corporate control in the UK by identifying the newspaper media as a significant intermediary in the context of the London Stock Exchange. Findings suggest a need for enhanced shareholder monitoring of boards of targets of failed takeover offers; greater clarity in guidelines on best practice in corporate governance; and increased acknowledgement of the impact of the media on corporate governance at policy level.

CHAPTER ONE: INTRODUCTION

1.1. Introduction

The role of external intermediaries and information gatekeepers is an important issue to consider in any analysis of a system of corporate governance. In the presence of agency problems between shareholders and managers, intermediaries and gatekeepers may reduce information asymmetries by assessing statements made by the company and by providing verification and certification services to shareholders (Coffee, 2002). Academic commentary however indicates that, due to a lack of independence from management and misaligned incentives, the value of traditional gatekeepers such as auditors, investment bankers and analysts to investors is limited (Black, 2001a; Coffee, 2002; 2004). As an implication, investors may have to rely on a range of intermediaries and gatekeepers to monitor management's performance in maximising their wealth (Goergen, 2012).

One party which may avoid many of the conflicts of interests encountered by traditional intermediaries and potentially perform a valuable corporate governance role is the news media. Prior research has found that, by publicising events which may have implications for shareholders' wealth, the news media, particularly the newspaper media, can inform shareholders and other company stakeholders (Healy and Palepu, 2001; Kothari, Li and Short, 2009; Bushee, Core, Guay and Hamm, 2010; Buehlmaier, 2013) and impose reputational penalties on underperforming managers and directors (Dyck, Volchkova and Zingales, 2008; Wiesenfeld, Wurthmann and Hambrick, 2008; Liu and McConnell, 2013).

Two events which may have a significant impact on shareholders' wealth are takeovers and instances where the company's shares are implicated in stock market abuse. Takeovers are a manifestation of the operation of the market for corporate control, a key external method of shareholder protection (Manne, 1965). Market abuse may impede the ability of the market for corporate control to serve this function and thus is undesirable from a shareholders' perspective. There is reason to believe that such events may receive considerable attention in the news media since they have associated elements of newsworthiness including change, conflict, deviant behaviour and transfers of power and wealth (Jamieson and Campbell, 2001 cited in Miller, 2006, p.1007).

This study investigates the impact of broadsheet newspaper coverage of takeover offers and market abuse cases on corporate governance quality in companies involved. Specifically, it measures the volume of reports published in the UK broadsheet newspaper media on takeover offers for UK listed public limited companies (hereinafter, plcs) and instances of market abuse in which shares of UK listed plcs are implicated between 1 January 2001 and 31 December 2010 and it examines how the volume of reports is associated with changes in the structure and practices of their boards of directors.

1.2. Basis of Thesis

The topic of this thesis is corporate governance in UK listed plcs and, in particular, how it is influenced by the UK broadsheet newspaper media. Corporate governance is considered from the perspective of the board of directors, a key governance device operating within the company (Fama, 1980; Fama and Jensen, 1983a).

Takeover offers and instances of market abuse provide attractive subjects on which to base an examination of the influence of the news media on corporate governance. A takeover offer is an offer made to shareholders to purchase their shares with the objective of acquiring control of the company. The theory of the market for corporate control (Manne, 1965), which is discussed at greater length in the next chapter, suggests that shareholders tend to exit underperforming companies by selling their shares. The resulting decline in the company's share price renders it vulnerable to takeover, with the associated implication that a new more effective board will be put in place. Hence, takeovers are the market's mechanism of disciplining underperforming managers and ineffective boards. It follows that a company being targeted for takeover implies that its board has failed as a corporate governance device.

Extant empirical evidence indicates that news media coverage of takeovers has an important impact on the acquiring managers' and directors' decisions and actions by virtue of its influence over their reputations vis-à-vis the labour markets (Liu and McConnell, 2013). It also suggests that the news media's assessment of the value of a potential takeover impacts target shareholders' perceptions of the offeror management and hence their decisions as to whether or not to approve the takeover (Buehlmaier, 2013). Collectively, these findings indicate that by reporting on the operation of the market for corporate control, the news media has considerable influence over the offeror managers and directors and thus may serve a potentially important role in corporate governance. Given that the emergence of a takeover offer also places the offeree directors in the public spotlight, one might expect news media coverage of the offer to also impact their actions and decisions via its influence over their reputations. Accordingly, this study focuses on the influence of the news media on changes in the quality of corporate governance provided by boards in the offeree companies as distinct from the offeror companies.

This study also inquires if the news media may play a further role in situations where the effective operation of the market for corporate control is obstructed by market abuse. Market abuse may involve insider dealing; market manipulation; or improper disclosure, or misuse, of price sensitive inside information[1]. Boards must adhere to certain disclosure and transparency standards and implement robust internal controls so as to limit the potential for market abuse to occur (Cox, 1986; Benabou and Laroque, 1992; Chatterjea, Cherian and Jarrow, 1993; John and Naryanan, 1997; Maug, 2002). Accordingly, even when board members are not directly involved, market abuse may be perceived as a failure on their behalf. News media publicity surrounding such cases may then also impose reputational penalties on directors and signal that shareholders are at a disadvantage in terms of their ability to earn a return on their investment. There is a distinct lack of academic inquiry into the impact of news media coverage of market abuse cases on corporate governance in the companies whose shares are implicated. Consequently, this study investigates if broadsheet newspaper reporting on both the operation and possible breakdown of the market for corporate control impacts corporate governance at the company level.

[1] The Financial Services and Markets Act 2000, s. 118.

1.3. Overview of the Study

1.3.1. Motivation for the Study

Widespread media coverage of collapse of Enron in the US appears to have stimulated the interest of corporate governance researchers in the influence of the media on management and board accountability (Farrell and Whidbee, 2002; Agrawal and Chanda, 2005; Johnson, Ellstrand, Dalton and Dalton, 2005; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009). Research into the capacity of the news media to perform a corporate governance role by reporting on the operation of the market for corporate control is however very much in its infancy (Buehlmaier, 2013; Liu and McConnell, 2013; Ahern and Sosyura, 2014) and the impact of newspaper coverage of takeover offers on the target managers and directors remains to be investigated.

Newspaper publicity surrounding takeover offers may have a perceptible impact on target directors. In the context of the theory of the market for corporate control, newspaper coverage may highlight that the board, the company's internal control device, has failed to correct management's inefficiencies. Furthermore, it subjects the board's response to the offer to the scrutiny of interested parties across the financial and labour markets and throughout society in general. In order to limit any potential reputational damage, directors may improve their efforts to protect shareholders' wealth and to promote the success of the company such that governance improvements may come about before an effective takeover ensues. As such, the newspaper media may facilitate the effective operation of the market for corporate control by enhancing the disciplinary effects of a takeover threat. This study explores this possibility by testing for associations between the amount of reporting by the UK broadsheet newspaper media on takeover offers for UK listed plcs and changes in the quality of corporate governance provided by the boards of companies targeted.

Another issue which may attract the attention of the newspaper media is behaviour which may cause the market for corporate control to fail. By reporting on instances of market abuse, the newspaper media may inform shareholders and other stakeholders in companies of the potential breakdown of the market for corporate control. As considered in the previous section, newspaper reporting on instances of market abuse may impose reputational costs upon the board irrespective of whether or not they are directly involved in the abuse as it can indicate a failure on the board's behalf to observe disclosure and transparency requirements and to implement effective controls over the actions of those afforded access to inside information (Cox, 1986; John and Naryanan, 1997; Maug, 2002). The company's reputation in the financial markets may be tarnished as investors consider that they have been caused an injustice by the incidence of the abuse (Bainbridge, 1993). Accordingly, this study also tests for associations between the amount of reports published in the UK broadsheet newspaper media on cases of market abuse in which the shares of UK listed plcs are implicated and changes in the quality of corporate governance provided by their boards.

1.3.2. Objectives of the Study

This thesis proposes that broadsheet newspaper reporting on takeover offers and instances of market abuse publicises a shortcoming on the behalf of the boards of companies concerned to monitor management and protect shareholders' interests, thereby creating reputational costs for directors. The size of these costs is apt to increase with increasing newspaper coverage as the audience which learns of the shortcoming grows (Dyck, Volchkova and Zingales, 2008). To minimise these costs, boards may take actions to improve the quality of corporate governance within their companies. Hence, the extent of improvements in corporate governance quality may be associated with the volume of reports published on the offer or abuse. Accordingly, the following research question frames the present study:

Is the volume of broadsheet newspaper reports published on takeover targets or companies whose shares are implicated in market abuse associated with changes in the quality of corporate governance provided by their boards of directors?

This broadly posed research question is developed into a specific research hypothesis in Chapter Five.

Thus, the first objective of this study is to measure the volume of broadsheet newspaper reporting on (i) takeover offers for UK listed plcs and (ii) market abuse cases in which the shares of UK listed plcs are implicated. The second objective of the study is to determine the extent of changes in the quality of corporate governance provided by the boards of companies concerned over the course of the newspaper reporting. Finally, the third and main objective of the study is to investigate if the volume of newspaper reports published on takeover offers or market abuse cases is associated with the extent of changes in the corporate governance quality in companies concerned.

1.3.3. Research Context

In addition to the gaps in the literature identified above, a key motivation for the present study is to investigate the corporate governance role of the news media in the context of the UK. Heretofore, research into the news media's influence on corporate governance has been largely US based. The lack of inquiry into the influence of the news media on corporate governance in the UK is curious given that, like US companies, UK listed companies are dispersedly owned such that information asymmetries among shareholders and between shareholders and management are particularly acute. Unlike the US, best practice in corporate governance is not mandated by law, with the implication that external information intermediaries have a particularly important role to play in monitoring managers and directors. Academic commentators have attributed the development of best practice guidelines in the UK in part to public pressure placed on policymakers through news media coverage of corporate governance failures at Polly Peck International, Maxwell Corporate Communications and the Bank of Credit and Commerce (Jones and Pollitt, 2001; 2004). However, the influence of the news media on corporate governance at the company level has not been considered in any great depth.

Takeover offers and instances of market abuse are prolific topics upon which to launch an investigation into the corporate governance role of the news media in the UK. The next chapter will outline that the UK hosts an active market for corporate control which serves an important role in holding the managers and directors of listed companies to account. Accordingly, stock market abuse may have a particularly damaging effect on the wealth of shareholders in listed companies. It follows that an intermediary which reports on the operation and the potential breakdown of the market for corporate control may play an important role in the governance of UK listed plcs.

The takeover offers and instances of market abuse studied herein involve companies listed on the London Stock Exchange's Official List or Alternative Investment Market (hereinafter, the AIM) between 1 January 2001 and 31 December 2010. All companies fall within the regulatory remit of the Panel on Takeovers and Mergers (hereinafter, the Panel), the UK's supervisory authority which performs certain regulatory functions in relation to takeover offers, and the Financial Conduct Authority (hereinafter, the FCA), the authority with statutory responsibility for regulation of market abuse in the UK. Over the sample period, the role of the FCA was fulfilled by the Financial Services Authority (hereinafter, the FSA). Accordingly, all takeover offers studied have been supervised by the Panel and all instances of market abuse have been investigated by the FSA. While only companies listed on the Official List are required to adopt the UK Corporate Governance Code (previously, the Combined Code on Corporate Governance), AIM listed companies are encouraged to do so. Accordingly, it is possible to evaluate the quality of governance provided by boards of sample companies relative to best practice guidelines.

The rationale for selection of the time period in which the study is set stems from the considerable developments which occurred in both the regulation of the UK market for corporate control and in corporate governance regulation over the first decade of the new millennium. In 2001, the Financial Services and Markets Act 2000 (hereinafter, FSMA) established market abuse as a civil offence in the UK and created the FSA. In 2005, FSMA was amended to implement the European Market Abuse Directive (Directive 2003/6/EC) (hereinafter, MAD) which brought about revisions to, the Code of Market Conduct, issued by the FSA, and the Disclosure and Transparency Rules (hereinafter, the DTRs) and the Listing Rules of the London Stock Exchange (hereinafter, the Listing Rules), which were also issued by the FSA in its capacity as the UK Listing Authority (hereinafter, the UKLA). In 2006, the Panel was granted powers to make and enforce the Rules of the Takeover Code (hereinafter, the Code) on a legislative basis[2] pursuant to the 13th European Directive on Takeover Bids (Directive 2004/25/EC) (hereinafter, the Takeover Directive). This study converges upon early cases of takeover offers and market abuse under the new regulatory regimes.

At the beginning of the sample timeframe, the Combined Code on Corporate Governance (hereinafter, the Combined Code) (1998) set out standards of best practice in corporate governance for listed companies. 2003 witnessed the publication of the Smith Report, which provided guidance on audit committees, the Tyson Report on the Recruitment and Development of Non-executive Directors (hereinafter, the Tyson Report), and the Higgs Review of the Role and Effectiveness of Non-executive Directors (hereinafter, the Higgs Review). These three reports led to the revision of the Combined Code in 2003, which was further revised in 2006 and 2008. At the end of the sample period, the Combined Code was replaced by the UK Corporate Governance Code (2010) and the UK Stewardship Code (2010). Furthermore, the Companies Act 2006 introduced a number of provisions intended to clarify the duties expected of directors, making them more legally accountable to both to shareholders and to the company as a whole.

The UK Broadsheet Newspaper Media

The newspaper market in the UK offers 12 daily and 11 Sunday national newspapers (National Newspaper Survey, 2014a). Of the daily newspapers, seven are tabloids, four are mainstream broadsheets and one is a specialist financial broadsheet. Of the Sunday newspapers, seven are tabloids and four are mainstream broadsheets. The readership of mainstream UK broadsheets includes professional investors and other elites with direct interests in companies, such as managers, directors, policymakers, regulators and creditors (Doyle, 2006; Chan and Goldthorpe, 2007). Mainstream broadsheets also reach a broader section of society and report

[2] Companies Act 2006, s. 943.

in a more comprehendible language than specialist financial newspapers and thus can communicate corporate governance issues to a range of company stakeholders.

The impact of a newspaper report on a given issue depends on the degree to which the newspaper circulates among, and is read by, a population or a particular section of a population. Circulation is a precise count of the number of copies of a particular publication distributed among a population, while readership is a measure of how many individual readers a publication has (National Readership Survey, 2014b). In the UK, circulation is measured by the Audit Bureau of Circulations (hereinafter, the ABC) and readership is measured in the National Readership Survey (hereinafter, the NRS). Although circulation is a more accurate measure of a newspaper's presence among a population, it does not account for the likelihood that a given copy will be read by a number of individuals.

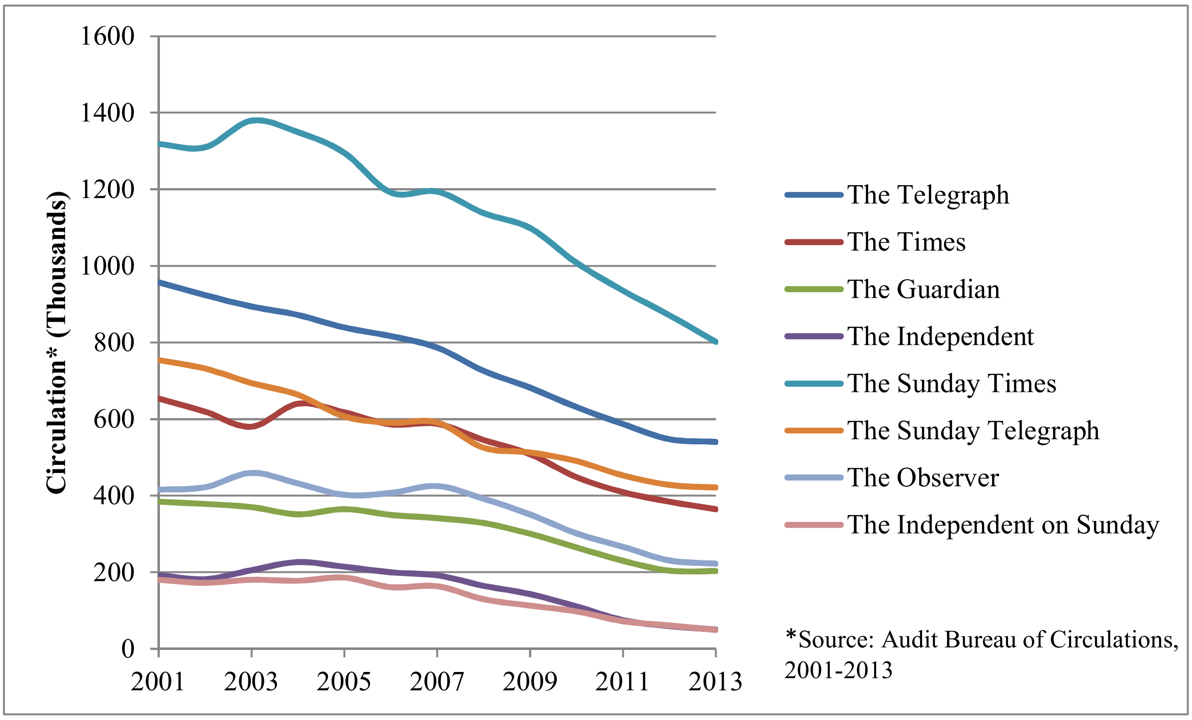
The results of the NRS are classified by audience social grade. The ABC1 demographic classification comprises managerial, administrative, professional, supervisory and clerical workers, while the C2DE category consists of manual workers, casual and low grade workers and the unemployed (NRS, 2014c). Broadsheet newspapers are read predominantly by audiences within the ABC1 category (NRS, 2014a)[3]. These audiences are apt to have a greater interest in and understanding of issues of management, business and finance and may hold professional positions whereby they perform corporate governance roles or are affected by how companies are governed. In addition to investing in companies and serving on their boards, certain members of mainstream broadsheet audiences construct, maintain and enforce national corporate policy; provide companies with credit, labour, materials and other resources; purchase their products; and lobby for issues in the communities in which they operate. Accordingly, broadsheet newspapers are expected to have a more discernible and meaningful influence on corporate governance in UK listed plcs than their tabloid counterparts. While specialist financial broadsheet newspapers may reach the investment community more directly, mainstream broadsheets are accessed by a greater amount of the public in general and thus may expose boards to the scrutiny of a range of

[3] See also Table 5.1, Chapter Five.

stakeholders in the company. As an implication, the potential reputational costs which directors may incur due to the company's being targeted for takeover or the implication of its shares in market abuse are amplified.

This study focuses upon newspaper reports published in the eight UK mainstream broadsheet newspapers (four daily publications and four Sunday publications). These publications are listed in Figure 1.1 below. Figure 1.1 illustrates the changes in the circulation of these newspapers since 2001. As is evident, circulation has declined dramatically since the turn of the century; however, the greatest decline does not appear to have occurred until 2008, toward the end of the sample period. Thus, UK broadsheet newspapers are considered an appropriate media vehicle to employ in this study.

Figure 1.1: UK Broadsheet Newspaper Circulation 2001-2013



1.3.4. Research Sample

The research sample consists of 111 cases of takeover offers and 25 cases of market abuse. Each takeover case involves an offer where the Panel is required to apply one or more of the Rules of the Code. Each market abuse case involves an instance where a civil penalty is imposed by the FSA for market abuse as defined under Section 118 of FSMA. An initial sample of 161 cases (114 takeover offers and 47 instances of market abuse) was refined to exclude cases which commenced prior to 1 January 2001 and those which concern companies not listed on the Official List or the AIM of the London Stock Exchange. Eighty one per cent of takeover offers (90) concern companies on the Official List while 19% (21) concern companies listed on the AIM. Sixty per cent of market abuse cases (15) concern companies on the Official List, while 40% (10) concern companies listed on the AIM. A full description of this sample is provided in Chapter Six.

In addition, this study employs a control sample of companies as a basis for establishing a benchmark of corporate governance quality. This sample consists of 136 UK listed companies which have been targeted for takeover or similar control transaction but have not been subject to any additional regulatory oversight by the Panel or the FSA. Of these companies, 74% are listed on the Official List and 26% are listed on the AIM. A full description of this sample is also provided in Chapter Six.

1.3.5. Research Methodology

To explore the research question set out in Subsection 1.3.2, this study tests for statistically significant associations between the volume of broadsheet newspaper reports published on instances where (i) companies are targeted for takeover or (ii) companies' shares are implicated in market abuse and changes in corporate governance quality, as provided by the boards of companies concerned. Accordingly, the methodology of the study concerns quantitative measurement of newspaper reporting and corporate governance quality.

Newspaper Reporting

Newspaper reporting is assessed by collecting and manually analysing broadsheet newspaper reports published on the sample of takeover offers and market abuse cases. Newspaper reports are obtained from the archives of the eight UK broadsheet newspapers listed in Figure 1.1 for the ten year time period which the study encompasses. A measure of newspaper reporting is achieved by calculating the number of reports published over various timeframes in each takeover offer or market abuse case. In order to alleviate concerns regarding the possibility of endogeneity in the research sample, this measure is adjusted to ensure that it does not reflect the influence of factors which may also influence corporate governance quality. The potential for endogeneity to arise in the sample and the manner in which the newspaper reporting measure is adjusted are outlined in the next section and discussed in detail in Chapter Five.

Corporate Governance Quality

Corporate governance quality is defined herein as the extent to which a company's system of corporate governance lowers the agency costs borne by shareholders. The board of directors is a primary internal mechanism put in place to align the interests of management and shareholders (Fama, 1980; Fama and Jensen, 1983a). It follows that various characteristics of the board of directors should be largely indicative of the quality of a company's internal system of corporate governance.

The quality of sample boards as corporate governance devices is assessed using a specific Corporate Governance Quality (hereinafter, CGQ) scoring system developed for the purposes of this study. CGQ is measured by evaluating ten different characteristics of sample boards, which are introduced in Chapter Three. Each characteristic is scored on a scale of one to ten. Each scale is founded upon the best practice guidelines contained in the UK Corporate Governance Code (2010) and its predecessor the Combined Code; the legislative requirements of the Companies Act 2006 which boards must meet; and recommendations made in the academic literature and policy reports on corporate governance. The ten individual scores are combined to yield an aggregate quantitative measure of CGQ. This procedure is performed for each sample company over three years surrounding the takeover or market abuse cases in which they are involved. This enables annual changes in CGQ over the course of newspaper reporting on cases to be assessed in a quantitative manner. A benchmark of CGQ is established by applying the scoring system to a control sample of companies. This benchmark is used to adjust CGQ and CGQ change for companies in the main research sample to account for the possibility that their governance quality may be influenced by their close involvement with regulatory authorities. The variables employed to measure CGQ and the years over which measurements are made are defined in Chapter Five.

1.3.6. Research Model

The research model involves two stages. Stage one tests for associations between newspaper reporting (NPR_t) and five of its potential determinants and stage two tests for associations between benchmark-adjusted corporate governance quality change ($\Delta CGQ_{t\rightarrow t+1(ad)}$) and newspaper reporting. The model is devised in this manner due to possible issues of endogeneity in the sample. Because the determinants of newspaper reporting on takeover and market abuse cases may simultaneously determine the extent of corporate governance quality change in the companies involved, an endogenous relationship may exist between corporate governance quality change and newspaper reporting. These determinants are company size, age and industrial location, the economic climate and the primary regulatory issue arising in the case. Their influence on newspaper reporting must be accounted for before testing for associations between corporate governance quality change and newspaper reporting. Accordingly, a measure of newspaper reporting which does not reflect the influence of these factors is derived from the first stage model which takes the following general form:

$$NPR_t = \alpha_1 + \sum \alpha_2 \text{ potential determinants} + \varepsilon_t \qquad (1.1)$$

The residual values for this model represent the difference between the observed values of newspaper reporting and those predicted by the potential determinants and thus, offer a suitable measure of newspaper reporting for use in stage two of the modelling process. The residual values are employed to operationalise the adjusted newspaper reporting variable ($RESNPR_t$) in the second stage, where the model takes the following general form:

$\Delta CGQ_{t \to t+1(ad)} = \alpha_1 + \alpha_2\ RESNPR_t + \sum \alpha_3$ potential determinants + $\sum \alpha_4$ additional explanatory variables + ε_t (1.2)

The issue of endogeneity in the present research and the approach taken to address it are discussed in more detail in Chapter Five. Variables measuring the five potential determinants are also discussed and defined in Chapter Five as are the additional explanatory variables included in the second stage model.

1.3.7. Data Employed

Takeover offers are identified from the statements issued by the Panel regarding its supervision and regulation of the offers and instances of market abuse are identified from the final enforcement notices issued by the FSA following its investigations. The control sample is identified from the Zephyr Mergers and Acquisitions database. As mentioned above, newspaper reports are obtained from the archives of the eight UK broadsheet newspapers. The archives are accessed using the Lexis-Nexis (News and Business) database. Reports are collected using a specific search strategy outlined in Chapter Six. Data required to measure CGQ is taken from the annual reports of sample companies for the years surrounding cases and via Datastream.

1.3.8. Analytical Procedures Employed

The study involves three main analytical phases. Firstly, a number of preliminary statistical tests are conducted so as to provide as much insight as possible into the sample and to establish causality. Following this, the research model is applied to the data to test for statistically significant associations between newspaper reporting and changes in corporate governance quality. Finally, tests of robustness and sensitivity are performed as a means of triangulating findings and to facilitate a deeper understanding of the nature of the impact of newspaper reporting on corporate governance quality in UK listed plcs.

1.3.9. Findings of the Study

At a peripheral level, this study finds that takeover cases receive significantly more broadsheet newspaper coverage than market abuse cases. One potential explanation for this finding is that information on takeover offers may be accessed more easily by journalists than that on market abuse. Another is that takeovers are considered more newsworthy in the mainstream newspaper media. Newspaper reporting on takeover cases is also timelier than that on market abuse cases; this may most likely be explained by the fact that signals of potential takeover offers are more perceptible than those on the possibility of market abuse. Belated coverage of market abuse cases may also be attributed to a number of barriers to investigative journalism which are discussed in Chapter Four.

Corporate governance quality is significantly higher in the main research sample than in the control sample in all years studied. The higher governance quality of companies in the main sample may be partly attributable their close involvement with market regulatory authorities; however, the higher ex-ante governance quality observed in the main sample indicates that the additional regulatory oversight to which they are exposed may only have a minor influence. Corporate governance quality is significantly higher in companies involved in takeover cases than in companies whose shares are implicated in market abuse. The corporate governance quality of companies involved in takeover cases also tends to be above the benchmark of CGQ set within the control sample, while the corporate governance quality of companies involved in market abuse cases tends to be in line with the benchmark. For companies which survive the takeover attempt, corporate governance quality tends to increase in the year of the offer before declining once the threat of takeover passes, suggesting that governance improvements may only be a short-term measure taken by boards in an endeavour to overcome the takeover attempt. The corporate governance quality of companies whose shares are implicated in market abuse tends to improve in the year of the abuse and continues to improve thereafter. The lower corporate governance quality observed in companies implicated in market abuse may be indicative of poor internal controls over the disclosure and use of inside information and the trading activity of insiders.

The central finding of this study is that the amount of broadsheet newspaper reporting on takeover offers which eventually fail is significantly positively associated with changes in the corporate governance quality of companies targeted over the year following the publication of these reports. The greater the amount of reports published on a takeover offer prior to the termination of the offer, the greater the improvement in the corporate governance quality of the company targeted in the year in which the offer fails. Having taken measures to establish causality and to address potential endogeneity in the sample, it would appear that governance improvements which arise in the wake of a takeover threat may be partly attributed to the amount of publicity which the offer initially receives in the broadsheet newspaper media. This suggests that the newspaper media may catalyse the disciplinary operation of the market for corporate control by publicising the board's vulnerability to replacement and by subjecting its response to the offer to public scrutiny thereby imposing potential reputational costs on directors.

This study does not find any evidence of a significant association between newspaper reporting on market abuse cases and changes in corporate governance quality in the companies whose shares are implicated. The lack of evidence in this regard may be attributed to low levels of mainstream broadsheet newspaper reporting on market abuse and also to a number of limitations of the study discussed in Chapter Nine.

1.3.10. Implications of Findings

This study has a number of practical and policy-level implications, which are considered in detail in Chapter Eight. A summary of the main implications of the study is presented below.

The main finding of this study indicates that a fundamental aspect of the newspaper media's corporate governance role is its capacity to encourage boards to act within shareholders' interests by compromising directors' reputations with the public in general. Nevertheless, it would appear that the role performed by the broadsheet newspaper media in the context of a takeover offer is only a temporary one. The decline in corporate governance quality observed over the year following a takeover offer suggests that shareholders and other stakeholders in companies which avoid takeover may need to play a greater role in monitoring managers and directors in the wake of the offer. Accordingly, this study highlights the importance of pursuing policy initiatives[4] aimed at reducing the barriers to shareholder activism in the UK.

By illustrating the extensive mainstream newspaper coverage which takeover offers receive, this study demonstrates that the mainstream broadsheet newspaper media may well be exploited as an information intermediary in practice. Notwithstanding this, there may be cause for concern regarding the extent to which newspaper reports are based on material generated by public relations (hereinafter, PR) agents of the offeror and offeree companies (Tambini, 2008; Brennan, Daily and Harrington, 2010; Ahern and Sosyura, 2014). Furthermore, the evidence suggests a reluctance on the part of some newspaper publications to fully expose issues arising over the course of the offer, possibly due to affiliations between newspaper groups and target companies, such that a question remains over the reliability of reports. Accordingly, as the UK system of press regulation currently undergoes extensive reform[5], this study urges policymakers to consider the need to set high standards of independence, credibility and accuracy for journalists, particularly those reporting on topics which may have significant economic implications.

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[4] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012); Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment-implementation of the Kay Review: progress report.

[5] Royal Charter on Self-regulation of the Press 2013.

The study's failure to detect any association between newspaper reporting on market abuse and changes in the corporate governance quality in the companies whose shares are implicated, while attributable to limitations of the study, is also due to a lack of broadsheet newspaper reporting on market abuse cases. Thus, the impediments journalists face in investigating and reporting on corporate crime must be acknowledged to reduce the value of the newspaper media's role in corporate governance in the context of market abuse. As will be discussed in Chapter Eight, these barriers may be difficult to surmount. As an implication, the newspaper media's role appears be limited to reporting on the operation of the market for corporate control, and in doing so, facilitating its disciplinary effects, while signalling behaviour which may cause it to fail may be a task best left to those charged with policing the markets by statute.

1.3.11. Contribution of the Study

This study contributes to existing knowledge on corporate governance on a number of levels. In terms of theory, findings support the theory of the market for corporate control and suggest that the mainstream broadsheet newspaper media may facilitate the disciplinary operation of the market for corporate control by amplifying the reputational consequences of being targeted for takeover, thereby strengthening directors' incentives to serve shareholders' interests, albeit only in the short-term.

At an empirical level, this study contributes to extant research on the corporate governance role of newspaper coverage of takeover offers (Buehlmaier, 2013; Liu and McConnell, 2013). In particular, the present findings, which indicate that newspaper coverage of an offer may encourage the target board to protect the company's shareholders, add to those of Liu and McConnell (2013), who show that the news media aligns the interests of managers and shareholders in the acquiring company.

The present research methodology, which involves development of an aggregate measure of corporate governance quality, contrasts those employed in prior corporate governance research which employ aggregate measures developed by commercial agencies

(Brown and Caylor, 2006; Carcello, Hollingsworth and Klein, 2006; Bhagat and Bolton, 2008). This measure may be adjusted and developed in future studies. Furthermore, by devising and employing a two-stage research model which accounts for the potential simultaneous influence of multiple factors on both newspaper reporting and corporate governance quality change, this study develops research which aims to isolate an exogenous link between the newspaper media and corporate governance (Dyck, Volchkova and Zingales, 2008).

In terms of context, this study contributes to the vast body of research on the market for corporate control in the UK and on corporate governance in UK listed plcs, by identifying that the UK broadsheet newspaper media has an impact on the actions of boards of takeover targets. The present findings indicate that the news media is a factor which ought to receive greater consideration in academic research on corporate governance in the UK, both within and outside takeover situations.

On a practical level, this study shows that the mainstream broadsheet newspaper media is of considerable potential value to shareholders in UK listed companies in the context of takeover offers, due to its capacity to encourage boards to reform their governance practices. The value of the newspaper media as a reliable information intermediary is, however, contingent upon developments in press regulation and the ability of the newspaper media to adapt its business model to the digital age.

A full assessment of the contribution of the study is provided in Chapter Nine.

1.4. <u>Thesis Structure</u>

Having introduced the study, the remainder of this this thesis proceeds as follows; Chapter Two provides the background to the study. The theory framing the research is considered. The rationale for the implementation of corporate governance mechanisms in modern day companies is explained. Both internal and external methods of shareholder protection are assessed and the manner in which such methods interact is considered with a particular emphasis on the relationship between the market for corporate control and the board of directors. The UK system of corporate governance is outlined and the framework of takeover and market abuse regulation in the UK is introduced.

Chapter Three presents a review of the literature on the role of the board of directors in corporate governance. To establish the criteria which boards of UK listed companies ought to meet in order to serve as high quality corporate governance devices, the standards of best practice in corporate governance set out in the UK Corporate Governance Codes of 2010 and 2014 are discussed.

Chapter Four reviews the literature on the role of the news media in corporate governance and in the broader company environment, concentrating primarily on the broadsheet newspaper media. A number of characteristics of the broadsheet newspaper media which may have a bearing on its ability to perform a corporate governance role are discussed. Various factors which may determine the amount of newspaper attention paid to an issue or event in a company are considered and the newsworthiness of takeover offers and instances of market abuse is assessed. Empirical evidence on the role of the newspaper media as an information intermediary, a corporate watchdog and a controller of reputation is reviewed.

Chapter Five discusses the methodology employed to investigate how broadsheet newspaper reporting on takeover offers for UK listed companies and market abuse cases involving the shares of UK listed companies may be associated with changes in corporate governance quality in these companies. The research hypothesis is set out and the approach used to test it and the variables employed to measure the data are introduced.

Chapter Six proceeds to describe the process through which the sample is identified. The sources from which the newspaper reporting and corporate governance quality data is obtained and the manner in which it is collected are discussed. The chapter also addresses the problems and issues which arise in collecting the data.

Chapter Seven presents the results from descriptive statistical analysis of the data and the findings derived from investigating the research hypothesis. The results of further tests of robustness and sensitivity are also presented to provide for a deeper understanding of the nature of the influence of the newspaper media on corporate governance.

Chapter Eight discusses this study's findings in relation to UK broadsheet newspaper media coverage of takeover offers and market abuse cases, the corporate governance quality of the UK listed companies concerned and the association between the two. The implications of these findings are assessed in terms of policy, practice and academic research.

Finally, Chapter Nine presents a number of conclusions regarding the role served by the mainstream broadsheet newspaper media in corporate governance in the UK. The contribution of the study is considered in detail and recommendations are made as to how the potential value of the newspaper media in corporate governance may be exploited in the future. The limitations of the study are then addressed and a roadmap for future research is put forward.

CHAPTER TWO: BACKGROUND TO THE STUDY

2.1. Introduction

A primary focus of this thesis is corporate governance quality in UK listed plcs. This chapter will define corporate governance and explain why it is necessary for companies to have corporate governance systems in place. A number of theoretical models of corporate governance which may be applied to companies in the UK and in other Anglo-American jurisdictions are considered and the model upon which the present study is primarily based is distinguished. Following this the UK system of corporate governance is considered with a specific focus on the guidelines on best practice in corporate governance set out in the UK Corporate Governance Code (2014). This chapter concludes by discussing how managerial discipline and shareholder protection may be implemented by external, as well as internal, means. In doing so, the relationship between the board of directors and the market for corporate control is considered in order to establish the theoretical perspective from which this study is approached

2.2. Theories of the Firm

Before one may begin to define corporate governance, it is necessary to consider how theories of the firm have evolved over time and how capitalism has developed to a stage where the firm's owners and managers are recognised as two distinct parties whose relationship relies on accountability, transparency and appropriate discipline and incentives.

a. Classical Model

The classical model of the firm assumes that the firm's managers are its owners and therefore the sole risk-bearers (Fama, 1980). The owner-managers are thus considered to be entitled to all of the company's profits. Accordingly, in managing the firm, shareholders' interests take priority over those of other stakeholders such as employees and suppliers who also make a contribution to the production of goods and services (Parkinson, 1994; Donaldson and Preston, 1995). The firm is viewed as a utility maximising entity which adjusts to changes in market conditions and issues which might arise internally, such as management underperformance, are not considered. Consequently, the classical model of the company provides little rationale for takeovers or corporate governance which are better explained under neo-classical models.

b. Neo-Classical Models

The concept of the separation of ownership from control was first recognised in the work of Adam Smith (1838). Yet, it was not developed further until 1932 when Berle and Means' thesis, *The Modern Corporation and Private Property,* illustrated that idea of the owner-manager does not apply to the majority of large US public companies. Such companies require financing from a large number of dispersed investors who do not perform a management role. Berle and Means observed that the firm's owners had little control over their wealth and had virtually no method of overseeing how it was managed.

Contractual Theory

Ronald Coase (1937) considered the nature of operations within the company and suggested that relationships inside the company could be thought of as contractual. The 'nexus of contracts' view of the company is founded on the belief that rational economic actors will enter into mutually beneficial transactions. The company, operating in a broader market context, serves as an efficient productive entity such that transaction costs are kept to a minimum (Williamson, 1979). Theoretically, the separation of ownership from control is consistent with the contractual model; in essence, an efficient contractual relationship exists between the firm's owners and its management such that decision-making is divorced from risk-bearing. This allows for a specialised division of labour and an extensive diversification of risk (Deakin and Slinger, 1997). As suppliers of finance to the company, shareholders are afforded property rights (Hart, 1995) which entitles them to legal protection in the event of a breach of contract (Shleifer and Vishny, 1997). The extent of legal protection however varies with the country in which the company is located.

Agency Problems

Alchian and Demsetz (1972) extend the work of Coase to consider how the company operates through joint input and team production. They highlight that contractual relationships within the firm are entered into voluntarily and hence authority is absent. Accordingly, employees may shirk their responsibilities, creating the need to monitor their activities. Jensen and Meckling (1976, p.308) introduce the concept of 'agency costs', which are created when a principal contracts an agent and their interests diverge. Agency costs are defined as the sum of:

- the monitoring expenditures by the principal,
- the bonding expenditures by the agent,
- the residual loss.

Jensen and Meckling explain that the relationship between the shareholders and managers of a company fits the definition of a pure agency relationship. It follows that the issues which arise from the separation of ownership from control are associated with the general problem of agency. Consequently, agency costs are inherent within the modern diffusely owned corporation.

Fama and Jensen (1983a) describe how a fundamental agency problem arises in the decision making process within companies. The company's managers who initiate and implement important decisions are not the company's major residual claimants and therefore, do not bear a major share of the wealth effects of their decisions. Unless effective control procedures are in place, decision managers may take actions that deviate from the interests of the residual claimants. Both external and internal devices have been suggested as methods of limiting agency problems. Externally, the market for corporate control provides one potential solution; however, it is argued that internal control systems may deal with many of the agency problems which exist between shareholders and management in a quicker and less costly manner (Fama, 1980; Fama and Jensen, 1983a; Coffee, 1984). Corporate governance is one such system which effectively constrains management's ability to engage in opportunistic behaviour (Fama, 1980; Fama and Jensen, 1983a; Williamson, 1984).

As noted above, *'decision management'* involves initiation and implementation of decisions (Fama and Jensen, 1983a, p.304). Initiation entails the creation of proposals for resource utilisation and the construction of contracts. Before decisions are implemented, they must be ratified; and once ratified and implemented, decisions must be monitored. Monitoring involves measuring the performance of the decision agents and rewarding them accordingly. Fama and Jensen (1983a, p.304) classify the processes of ratification and monitoring under the term *'decision control'*. They submit that, because the interests of decision managers may deviate from those of the company's shareholders, decision control should be kept separate from decision management. The board of directors serves as the common apex of a decision control system and thus, is a primary corporate governance mechanism which operates within the company. When the board of directors fails to control management decision making, external methods, such as the market for corporate control, must intervene (Fama and Jensen, 1983a; Coffee, 1984).

c. Managerial Theory

The managerial theory of the firm converges on the role of the manager and differs from the contractual theory to the extent that the company is considered from a behavioural rather than a market perspective (Baumol, 1959; Marris, 1964; Williamson, 1964). The theory acknowledges the obligation of management to provide a minimal return to the company's investors but considers management to have considerable discretion in running the company. Marris (1964) submits that the size of the company determines manages' pay, benefits and prestige. Hence, their objective is to increase the size of the company rather than to maximise profits. Growth of the company is viewed as a means through which managers assure themselves of job security (Marris, 1964; Williamson, 1964). There are a number of inefficiencies associated with the operation of the market for corporate control; one such inefficiency arises when the management of a bidding company overpays for a target (Black, 1989; Mitchell and Lehn, 1990; Bhagat, Dong, Hirshleifer and Noah, 2005). The importance attributed to growth under the managerial theory provides one suitable explanation for overpayment in takeovers.

2.3. Corporate Governance

A central argument of this thesis is that corporate governance provides a system which serves to protect shareholders' interests and monitor management, thereby reducing the agency costs which exist between management and shareholders to an extent (Fama, 1980; Fama and Jensen, 1983a). The board of directors serves as one mechanism of corporate governance; however, companies may be governed through various internal and external methods which are not mutually exclusive. These methods include the market for corporate control, which is discussed in Section 2.5, the corporate legal system in the country in which the company is located and the actions of the company's shareholders, the character of which largely relies on the nature of its ownership structure (Denis and McConnell, 2003). Section 2.4 presents an overview of the corporate legal and regulatory infrastructure inherent in the UK system of corporate governance. It also outlines the ownership structure characteristic of UK listed companies.

2.3.1. Defining Corporate Governance

A review of the literature by Nerantzidis, Filos and Lazarides (2012) suggests that no one definition of corporate governance encompasses all dimensions, which is perhaps not surprising given the multifaceted nature of the topic. Generally, one can classify definitions as being broad or narrow. Solomon (2007, p.14) proposes a broad definition which accounts for all of the company's stakeholders and acknowledges that governance may be provided both through external or internal methods:

"The system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity".

The Financial Reporting Council (hereinafter, the FRC) (2014, p.1) also presents a broad definition of corporate governance which focuses specifically on internal methods of governance:

"Corporate Governance is …about what the board of a company does and how it sets the values of the company".

Larcker, Richardson and Tuna (2007, p.964) appreciate that corporate governance is a means of resolving the problems which arise from the separation of ownership from control and offer a more narrow definition:

"The set of mechanisms that influence the decisions made by managers when there is a separation of ownership from control".

Nelson (2005, p.200) also defines corporate governance in a narrow sense, focusing exclusively on managers and shareholders:

"The set of constraints on managers and shareholders as they bargain for the distribution of firm value".

The Report of the Committee on the Financial Aspects of Corporate Governance (hereinafter, the Cadbury Report) (1992, para. 2.5) provides a narrow definition which emphasises shareholders' role in ensuring they get a return on their investment:

"The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place."

2.3.2. Anglo-American Models of Corporate Governance

A number of models of corporate governance have been proposed which fit widely-held companies typical of Anglo-American countries including the UK, the US, Ireland, Canada, Australia, New Zealand and South Africa. There is empirical evidence to support aspects of each model; however, no one model provides a complete assessment of the Anglo-American framework of corporate governance (Daily, Dalton and Cannella, 2003). Indeed, given that there are differences in the legal, regulatory, informational and market frameworks in place in Anglo–American countries, the applicability of any of the models will inevitably vary. The remainder of this section considers the four main models; these are the simple finance model, the stewardship model, the political model and the stakeholder model (Hawley and Williams, 1996).

a. <u>The Simple Finance Model</u>

The simple finance model views shareholders as having an explicit agency relationship with management. Shareholders are the principal who contracts management, the agent, to run the company within their interests such that their wealth is maximised. The prospect of earning a return incentivises shareholders to bear risk when investing in the company. Certain risks are unavoidable; these include economic conditions, the nature of competition and genuine management error. Others may be avoided, such as the risk that management will run the company within their own interests rather than those of the shareholders by shirking their responsibilities, extracting excessive remuneration or other prerequisites from the company or pursuing strategies so as to enhance their own power and prestige rather than the value of the firm (Williamson, 1985).

Under the simple finance model, as defined by Hawley and Williams (1996, p.21), corporate governance is a system which serves to establish:

"rules and incentives (that is, implicit or explicit 'contracts') to effectively align the behaviour of managers (agents) and the desires of principles (owners)".

As such, it is a mechanism of minimising the risk that management will deviate from the maximisation of shareholders' wealth. The model is intrinsically linked to the theory of the market for corporate control such that shareholders voluntarily supply finance and may withdraw their investment, with the effect that management are incentivised to operate the company efficiently to avoid being replaced in a takeover.

Internally, management are incentivised by performance-linked pay and stock options (Jensen and Meckling, 1976; Williamson, 1985; Jensen and Murphy, 1990; Murphy and Oyer, 2003). Rules which exist within the firm govern the composition and activities of the board of directors. In particular, they urge that the roles of CEO and chairman be performed by separate individuals (Fama and Jensen, 1983b; Morck, Shleifer and Vishny, 1989) and that information asymmetries between shareholders and management are minimised (Bushman and Smith, 2001).

There is good deal of substance behind the simple finance model and agency theory is the dominant theoretical perspective applied in research on corporate governance in Anglo-American countries (Dalton, Daily, Certo and Roengpitya, 2003). The occurrence of takeovers alone provides robust support for the finance model of corporate governance. Perhaps the greatest criticism of the finance model is that it fails to account for the interests other stakeholders in the company (Freeman, 1984; Blair and Stout, 2001; Heath and Norman, 2004). Stakeholders such as employees and suppliers are acknowledged; however, shareholders are given primacy (Jensen and Meckling, 1976). It has also been argued that rules which focus on the strict principal-agent relationship make companies bureaucratic and short-term oriented (Vermeulen, 2012; McCahery, Vermeulen and Hisatake, 2013). While the present thesis is largely based on the simple finance model it accepts the alternative viewpoints discussed below.

b. The Stewardship Model

The stewardship model (Donaldson and Davis, 1991; Lorsch, 1995; Davis, Schoorman and Donaldson, 1997) takes a sociological, pro-organisational approach to corporate governance and strongly contests agency theory (Roberts, McNulty and Stiles, 2005). Within this framework, it is assumed that management, being good stewards are motivated by their responsibility to maximise profits and will thus work to earn returns for shareholders (Donaldson and Davis, 1991). The stewardship model argues that shareholders' interests are best served through a shared incumbency of managerial and director roles (Donaldson and Davis, 1991). Sundaramurthy and Lewis (2003) explain that when moving from the agency theoretical lens to that of stewardship theory, managerial behaviour is viewed as cooperative as opposed to opportunistic; intrinsic motivation replaces extrinsic motivation; the board takes on an advisory role rather than one where they are excepted to monitor and discipline management; and the market for corporate control curbs psychological commitment instead of constraining opportunism.

Independent board monitoring of management is strongly advocated as a means of governance in both the academic literature (Coffee, 1984; Baysinger and Butler, 1985; Bhagat and Black, 1999; Harford, 2003; Gordon, 2005) and corporate policy (OECD Principles of Corporate Governance, 2004; the UK Corporate Governance Code, 2014). This accounts for the low incidence of executive-dominated boards and thus inhibits the model's full practical application. Nevertheless, the stewardship model's emphasis on trust and co-operation has received a good deal of support. Many commentators recommend that elements of stewardship theory may be practiced in harmony with governance approaches devised from the finance, political and stakeholder models (Sundaramurthy and Lewis, 2003; Roberts, McNulty and Stiles, 2005; Anderson, Melanson and Maly, 2007; Ward, Brown and Rodiguez, 2009; Elsayed, 2007; 2010). Anderson, Melanson and Maly (2007) propose that the board of directors may act as a strategic partner to management. Indeed, some evidence exists to question whether having a separate CEO and chairman actually does best serve shareholders' interests (Dahya, Garcia and Van Bommel, 2009; Dey, Engel and Liu, 2011). Elsayed (2010) concludes that the degree of trust in management varies with contextual variables including firm size and ownership structure. It would appear that the stewardship model may be a more appropriate fit for smaller companies with high levels of insider ownership. Hence its relevance in the context of large, dispersedly owned UK companies may be limited.

c. The Political Model

The political model evolved from a questioning of the predominantly financial view adopted by seminal corporate governance theorists, in line with a drift from individual share ownership toward ownership mediated by investment institutions (Hawley and Williams, 1996) including pension funds, insurance companies and investment funds (Celik and Isaksson, 2013). The rise of fiduciary capitalism marked a movement toward active ownership or shareholder activism (Nesbitt, 1994; Smith, 1996; Gillan and Starks, 2000; Becht, Franks, Mayer, and Rossi, 2010), whereby control is achieved through non-market approaches such as institutional shareholders' use of lobbying and voting rights (Pound, 1993; Grundfest, 1993), engagement with management on occasions such as company meetings (Edkins and Bush, 2002; Becht *et al.*, 2010) and co-ordinated shareholder intervention in cases of poor company performance (Gillan and Starks, 2000; Edkins and Bush, 2002; Zetzsche, 2005; Becht *et al.*, 2010). There are, however, high barriers to the successful implementation of activist strategies, with information costs and collective action problems being commonly cited (Black, 1991; Black and Coffee, 1994; Lynn, 2007; Lynn and Mulgrew, 2008). Studies have found that by conducting their campaigns in a more public manner, the value of strategies of activist investment funds may be increased (Dyck, Volchkova and Zingales, 2008; Becht *et al.,* 2010). Nevertheless, as the Kay Review (2012) notes, the market infrastructure in the UK, which is characterised by liquidity and dispersion of ownership, tends to be more conducive to exit than to the exercision of voice when shareholders are dissatisfied with management's performance. Consequently, the simple finance model would appear to be a more appropriate fit for the framework of corporate governance in place in UK listed plcs than the political model.

d. <u>The Stakeholder Model</u>

Dodd (1932) put forward the view of the company as an independent entity in society which acts through its management as a good citizen with a sense of social responsibility. The stakeholder model of corporate governance (Freeman, 1984; Blair, 1995; Heath and Norman, 2004) extends this argument to consider broader economic and societal interests in the company (Slinger and Deakin, 1999). The stakeholder model argues that the company is responsible to a range of stakeholders in addition to its shareholders and that socially responsible goals may take preference to that of profit-maximization. Freeman (1984, p.46) defines a stakeholder quite broadly as:

"any group or individual who can affect or is affected by the achievement of the organisation's objectives".

Hawley and Williams (1996, p.27) offer a narrow definition of the stakeholder model as one based on:

"*the fragmentation or 'stripping' of 'ownership' into capital's equity, idiosyncratic equity, debt and other non-equity claims, such that these claimants all have concrete and financial stakes as a function of their participation in the firm's activities"*.

Such claimants include employees, customers, suppliers, peer companies and society in general. It follows that a violation of corporate governance may not necessarily be an action which affects the pre-eminent stakeholder group, the shareholders, but some other party with an interest in the firm (Heath and Norman, 2004). While the market for corporate control and internal governance rules protect shareholders' interests from the effects of management opportunism, there are few options open to broader stakeholders when their interests are neglected by management. Nevertheless, considering that many of their stakes in the firm are financially related, it is likely that by withdrawing their custom, labour or supply of resources, stakeholders' actions will ultimately have consequences for the company's capital, cash flow, revenues, profits or some other element of the balance sheet (Stoney and Winstanley, 2001).

The stakeholder model of corporate governance may be considered from the nexus of contracts view of the firm (Blair and Stout, 1999) or rather from the perspective of a nexus of incomplete contracts (Kim and Mahoney, 2010). The existence of implicit contracts between the company and stakeholders, such as its employees and members of the community in which it is located, is well accepted within the literature (Coffee, 1988; Shleifer and Summers, 1988; Hill and Jones, 1992; Donaldson and Dunfee, 1994; Jenkinson and Mayer, 1994; Donaldson and Preston, 1995; Slinger and Deakin, 1999; Deakin, 2005; Goergen, O'Sullivan and Wood, 2011; 2014). As such, stakeholders make significant investments in the firm based upon trust and the expectation that the company will remain committed to its stakeholders in the long-term. However the company cannot honour all of its contracts simultaneously and the interests of one party must be prioritised. Since many contracts with stakeholders are incomplete, companies face little consequences when they are breached. An implication of the prevalent shareholder-centric view of the company is that measures which serve to protect shareholders often come at a cost to other stakeholders. A primary example is takeovers which, while disciplining management so as to protect shareholders' wealth, can lead to redundancies (Shleifer and Summers, 1988; Slinger and Deakin, 1999; Goergen, O'Sullivan and Wood, 2014) and reduced product market competition (Kim and Singal, 1993; Singal, 1996).

Defined more broadly, the stakeholder model may encompass public regulators and intermediaries such as analysts and the media, who do not have a stake in the company per se but invest time and resources in conducting research into the performance of the company and its management (Donaldson and Preston, 1995; Turnbull, 1997; Freeman, Harrison and Wicks, 2007) and whose perceptions of management are fundamental to their reputations in the capital, labour and product markets (Fama, 1980; Diamond, 1989; Dyck, Volchkova and Zingales, 2008). As noted in the previous chapter, such parties may have a potentially important influence on corporate governance. The role of information intermediaries in corporate governance, particularly that of the news media, is considered in Chapter Four.

It has been argued that attaching greater importance to the social responsibility of the company may come at a cost to effective monitoring of management (Jensen, 2001). Nonetheless, it is claimed that organizational development may only be achieved if companies ensure a level of accountability to all of their stakeholders (Stoney and Winstanley, 2001). The stakeholder model provides the basis for the argument that the continued success of the company, and hence shareholder wealth, cannot be preserved unless management take some responsibility for the interests of broader stakeholders. While the present study is based primarily on the financial model and considers the interests of shareholders to take precedence in corporate governance, it recognises the concerns of broader stakeholders that the board of directors work to promote the long-term success of the company by adeptly monitoring the activities and performance of its management.

2.4. Corporate Governance in the UK

Corporate governance rules are not legally enforced in the UK; nevertheless, company law has an important influence on the manner in which companies are governed. The principle source of legislation which influences corporate governance in the UK is currently contained in the Companies Act 2006. The main corporate governance requirements of the Act are contained in Part X, which outlines specific duties and responsibilities which directors must fulfil, and Part XIII, which sets out specific rights which shareholders must be afforded. These rights provide shareholders with minimum standards of protection and facilitate them in voting and participating in general meetings.

The UK corporate governance system is based primarily on a self-regulatory code, the UK Corporate Governance Code (2014), which sets out guidelines for best practice in corporate governance. The UK Corporate Governance Code (2014), which is considered in detail in the next subsection, is accompanied by the UK Stewardship Code (2012) which aims to promote the generation of long-term returns to shareholders. The Listing Rules of the London Stock Exchange require Main Market listed companies to adopt the UK Corporate Governance Code on a comply-or-explain basis as part of their continuing obligations[6]. Companies are required to include in their annual reports a statement of how they have applied the main provisions of the Corporate Governance Code in a manner that would enable shareholders to evaluate how the principles have been applied. Companies which have not complied with any of the relevant provisions must state those provisions, specify the period of non-compliance and provide reasons for non-compliance. Adoption of the Corporate Governance Code by companies listed on the AIM is encouraged but not mandated. Neither companies listed on the Main Market nor the AIM are required to adopt the Stewardship Code.

While the UK Corporate Governance Code (2014) leaves regulation of corporate governance largely to the discretion of companies, it does so in a highly regulated environment. Various supervisory bodies are responsible for supervision of governance of companies in the UK. Two bodies which perform key functions with regard to the market's role in protecting shareholders, the Takeover Panel and the FCA, are discussed in Section 2.7. In addition, bodies including the Companies House, the FRC and the London Stock Exchange set out rules regarding companies' conduct and require certain information to be published. The corporate informational infrastructure in place in the UK is extensive. The disclosure of company information, particularly accounting information, is highly regulated by the Companies Act 2006, the DTRs, the Listing Rules, the UK Corporate Governance Code (2014) and the AIM Rules for Companies.

[6] Listing Rule 9.8.6.R (5).

The market infrastructure in the UK, which largely concerns the ownership structures of companies and the functioning of the capital markets, has a distinct influence on how UK listed companies are governed. As mentioned in Chapter One, ownership of UK listed companies is traditionally dispersed (Franks and Mayer, 1997; Barca and Becht, 2001; Short and Keasey, 2006). An implication of this is that shareholders may exit underperforming companies more readily than actively voicing their concerns with management since, unlike blockholders in concentrated ownership structures, they lack the voting control necessary to have a meaningful impact. As a result, management discipline may come about through the operation of the market for corporate control more quickly than from shareholders directly. As Table 2.1 illustrates, shareholders in UK listed companies include investment institutions; private individual shareholders, including the company's directors; other companies; and the public sector. The number of blockholders in listed companies is also increasing in line with an increase in the proportion of foreign ownership of UK listed plcs (Cheffins, 2013).

Table 2.1: Proportionate Ownership of UK Listed Shares in 2008, 2010 and 2012
Source: Office for National Statistics, 2012; 2013

Shareholder	%		
	2008	2010	2012
Individuals	10.2	10.2	10.7
UK Investment Institutions			
Insurance Companies	13.4	8.8	6.2
Pension Funds	12.8	5.6	4.7
Unit Trusts	1.8	8.8	9.6
Investment Trusts	1.9	2.1	1.8
Banks	3.5	2.5	1.9
Other Financial Institutions	10.0	12.3	6.6
Overseas Investors	41.5	43.4	53.2
Charities, Church, etc.	0.8	0.8	0.6
Private Non-Financial Companies	3.0	2.3	2.3
Public Sector	1.1	3.1	2.5

2.4.1. The UK Corporate Governance Code (2014)

Over the past two decades, the standards expected of the boards of UK companies have developed considerably through the publication of reports and codes of practice, an overview of which is presented in Appendix A. Presently, the UK Corporate Governance Code (2014) sets out guidelines on best practice in corporate governance for UK companies. The UK Corporate Governance Code originates from the Cadbury Report (1992), the recommendations of which were developed in the Combined Codes of 1998, 2003, 2006 and 2008. In 2010, the UK Corporate Governance Code replaced the Combined Code. The current edition, published in 2014, consists of 18 main principles and 55 provisions which fall under five categories; board leadership, effectiveness, accountability, remuneration and relations with shareholders. Each main principle is accompanied by a number of supporting principles.

As noted above, the UK Corporate Governance Code is adopted on a ‘comply-or explain’ basis. The efficacy of the comply-or-explain approach is subject to some contention. Mandatory governance requirements, such as those set out under the Sarbanes Oxley Act 2002 in the US, have been criticised for restricting managers’ ability to adapt their boards and financial control systems to suit the company’s circumstances (Romano, 2005). The UK Corporate Governance Code avoids taking a ‘one size fits all’ approach and many of its guidelines are set out is quite general terms so as to allow for variations in company size and circumstances. While this approach offers considerably more flexibility, the possibility exists that companies view compliance as a box-ticking exercise and will provide boiler-plate or meaningless explanations for non-compliance (Hahn and Lasfer, 2007; Arcot, Bruno and Faure-Grimaud, 2010; Mulgrew, Lynn and Rice, 2014). Such disclosures are discouraged in the UK Corporate Governance Code (2014)[7]; however, since companies do not face any legal penalties for poor disclosure, it is arguable that there are little disincentives against providing non-descript explanations. The ideal behind the UK Corporate Governance Code is that it will become the norm for companies to follow its guidelines since deviations may raise questions among investors, leading them to voice their concerns with management or exit the company.

[7] The UK Corporate Governance Code (2014), Preface, Para. 7.

This of course relies primarily on the readiness with which investors ask questions (Dallas and Scott, 2006). In the absence of a designated authority which monitors the veracity of explanations for non-compliance, it would appear necessary that shareholders avail of external information intermediaries to monitor managers and directors.

Table 2.2 outlines the guidelines of the UK Corporate Governance Code (2014) which form the basis of this study's evaluation of corporate governance quality. Each principle and provision, with the exception of Principle D.1, was also included in the 2010 edition which was in place at the end of the period in which the study is set. As noted in Chapter One, corporate governance quality is measured by evaluating ten different characteristics of sample boards. The Corporate Governance Code's guidelines on these characteristics fall under the first four of the five categories listed above.

2.5. <u>The Market for Corporate Control</u>

This study converges upon the impact of newspaper reporting on the operation and possible breakdown of the market for corporate control on corporate governance at the company level. As already noted, the theory of the market for corporate control (Manne, 1965) suggests that takeovers are a market-based method of alleviating agency problems. Specifically, the theory submits that when managers and directors make poor decisions, the company's shareholders lose confidence in management and sell their shares. The resulting decline in share price signals that the company is a potential takeover target. Manne (1965, p.113) contends that:

"*the lower the stock price relative to what it could be with more efficient management, the more attractive the takeover becomes to those who believe they can manage the company more efficiently*".

The company is an attractive takeover target because the decline in its market value makes it cheap to acquire. If the management of another company, the prospective bidder, believe they can run the target company more efficiently, possibly by introducing new policies (Jensen,

Table 2.2: UK Corporate Governance Code (2014) Guidance on the Board of Directors

	A: LEADERSHIP
	Board Meetings
Provision A.1.1:	Boards ought to meet sufficiently regularly to discharge their duties effectively.
Provision A.1.2:	The annual report should set out the number of meetings of the board and individual attendance by directors.
	The Roles of CEO and Chairman
Provision A.2.1:	The roles should not be exercised by the same individual. The division of their responsibilities should be clearly established, set out in writing and agreed by the board.
	B: EFFECTIVENESS
	The Balance between Executive and Non-executive Directors
Supporting Principle B.1:	The board should include an appropriate combination of executive directors and non-executive directors such that no individual or group can dominate the process of decision taking.
Provision B.2.3:	A particularly rigorous review is necessary in cases where non-executives serve on the board for a period in excess of six years.
Provision B.7.1:	Non-executives who have served longer than nine years be subject to annual re-election.
	Board Size
Supporting Principle B.1:	The board should be of sufficient size to meet the requirements of the business without becoming so large as to be unwieldy.
Additional related rules/guidance:	The Companies Act, 2006, s. 154 (2): Boards of public companies must have a minimum of two members.
	Director Independence
Provision B.1.1:	The board should identify in the annual report each non-executive director it considers independent. It should determine whether the director is independent in character and judgement and whether there are relationships or circumstances likely to impair his judgement. If a director is considered independent notwithstanding existing relationships with the company the board should make this known in the annual report. Among other factors, the board should consider if the director participates in the company's share option scheme and if he has served on the board for longer than nine years.
Provision B.1.2:	Except for smaller companies[8], at least half the board, excluding the chairman should comprise non-executive directors determined by the board to be independent. Smaller companies should have at least two independent directors.
	C: ACCOUNTABILITY
	Audit Committee Size
Provision C.3.1:	Audit committees should contain at least three independent members. Those in smaller firms should contain at least two. At least one member should have recent and relevant financial experience.
Additional related rules/guidance:	DTR 7.1.1.R: Committees must contain at least one independent member and one member who is competent in accounting and/or auditing. These members may or may not be the same person.
	Audit Committee Independence
Provision C.3.1:	See guidance above. For larger companies, the board chairman should not be a member of the committee.
Additional related rules/guidance:	See DTR 7.1.1.R above; FRC Guidance on Audit Committees (2012a), Paragraph 1.3: The committee has a particular role, acting independently from the executive, to ensure that shareholders' interests are properly protected in relation to financial reporting and internal control. Paragraph 2.5: Appointments and re-appointments to the committee should be made such that its independence is preserved.

[8] One that is below the FTSE 350 throughout the year immediately prior to the reporting year.

Table 2.2 Continued: UK Corporate Governance Code (2014) Guidance on the Board of Directors	
Audit Committee Meetings	
No specific guidance offered in the UK Corporate Governance Code.	
Additional related rules/guidance:	FRC Guidance on Audit Committees (2012a), Paragraph, 2.6: The audit committee chairman, in consultation with the company secretary, should decide the frequency and timing of its meetings. There should be as many meetings as the committee's role and responsibilities require. There should be at least three meetings during the year, held to coincide with key dates[9] within the financial reporting cycle. More frequent meetings may be necessary. Paragraph 2.7: The external auditor and finance director should be regularly invited to attend meetings. Paragraph 2.8: There should a sufficient interval between audit committee meetings and meetings of the full board so that any work arising from a meeting of the audit committee may be carried out and reported at the board meeting. Paragraph 2.9: The committee should, at least annually, meet with the external auditor without management being present to discuss matters relating to its remit and any issues arising from the audit.
D: REMUNERATION/INCENTIVES	
Directors' Remuneration	
Principle D.1:	Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.
Supporting Principle D.1:	In evaluating corporate performance, the remuneration committee may position the company relative to others but should do so cautiously.
Provision D.1.3:	Non-executive directors' remuneration should reflect the time commitment and responsibilities of their roles. Only executive directors' remuneration should include share options and other performance-related elements.
Principle D.2:	There should be a formal, transparent procedure for developing policy on executive remuneration. No director should be involved in deciding his own remuneration.
Provision D.2.2:	The remuneration committee should be responsible for setting remuneration for all executive directors and the chairman.
Provision D.2.4:	Shareholders should be invited specifically to approve all new long-term incentive schemes and significant changes to existing schemes.
Additional related rules/guidance:	The UK Corporate Governance Code (2010), Principle D.1: Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. The Companies Act, 2006, s. 420; Listing Rule 9.8.6 R (7): Boards of quoted companies must prepare a remuneration report for each financial year. The Companies Act, 2006, s. 439: Report must be approved by the company's members by ordinary resolution at the accounts meeting. Listing Rule 9.8.8 R: Report must include details of current and former directors' remuneration for the year, details of long-term incentive schemes offered to directors, an explanation and justification of any elements of directors' pensionable salary other than their basic salary and details of contributions made to directors' pension funds. Listing Rule 9.4.1 R and 9.4.2 R: Shareholder approval of long-term incentive schemes must be secured by ordinary resolution in general meeting unless a new scheme is offered on similar terms to existing ones or in certain circumstances where a scheme is offered to facilitate the recruitment or retention of one single director.
Directors' Shareholdings	
Provisions B.1.1 and D.1.3:	The holding of share options by non-executive directors may impair their independence.

[9] When interim statements, preliminary announcements and the full annual report are near completion.

1987) or implementing a more diligent board (Mikkelson and Partch, 1997) and improve its market value, they can expect to realise rewards from acquiring the company. Accordingly, the threat of takeover constantly jeopardises managers' and directors' positions, thereby aligning their interests with those of shareholders. If this threat does not suffice to incentivise management to maximise shareholders' returns, they are disciplined by being replaced when an actual takeover ensues.

Manne's thesis came shortly after Dewey (1961, p.257) acknowledged takeovers as *"a civilised alternative to bankruptcy"*. Manne devotes considerable attention to Dewey's argument and emphasises the benefits of mergers and takeovers relative to wasteful bankruptcy procedures. Manne admits that certain losses must be incurred by shareholders in order to trigger the market for corporate control; however, he maintains that these losses are small relative to those associated with bankruptcy. Another of Manne's contemporaries, Marris (1964), also submits rationale for the manifestation of a takeover when managers deviate from the creation of shareholder value. As mentioned in Section 2.2, Marris's theory of managerial capitalism is largely concerned with management's capacity to exert discretion when pursing growth objectives. He maintains that when managers fail to maintain an appropriate valuation ratio, which is the ratio of the company's market to book value, the firm will be susceptible to takeover. In his treatment of mergers and takeovers, Manne does not conduct an in-depth consideration of motives for growth; the basic proposition he advances is that control of corporations constitutes as a valuable asset, which exists independent of any interest in economies of scale or monopoly profits.

The theory of the market for corporate control has received much support (Easterbrook and Fischel, 1981; Fama and Jensen, 1983a; Jensen and Ruback, 1983; Franks and Mayer, 1997; Grundmann, 2005) as it proposes a method of alleviating agency problems in a manner that can create economic value through the transfer of assets from inefficient to efficient management (Jensen and Ruback, 1983).

2.5.1. Pre-conditions of the Market for Corporate Control

The theory of the market for corporate control relies on a number of pre-conditions. Firstly, it assumes that share price and management efficiently are strongly positively correlated. Manne (1965, p.113) claims that the stock markets have an exclusive ability to serve as an *"objective standard of managerial efficiency"*. In practice the markets tend not to be strongly efficient, that is to say that they do not reflect private information on the company. Instead they exhibit a semi-strong form of efficiency, whereby all publically available information about the company is impounded into its share price (Fama, Fisher, Jensen and Roll, 1969), with the implication that share price does not indicate the true value of the company in a fully accurate manner.

Secondly, to operate effectively, the market for corporate control requires the presence of bidders who are willing and financially capacitated to purchase the shares of underperforming companies and also that the shareholders of these companies will sell their shares. Hence, a certain degree of market liquidity and sources of finance are necessary for the market for corporate control to function successfully. Takeovers tends to come in waves, which usually arise when bidders realise motives for mergers and acquisitions and when they gain access to a source of finance which enables them to do so. This is evident in takeover waves of the 1980s (Jensen, 1988; Martynova and Renneboog, 2005), the 1990s (Andrade, Mitchell and Stafford, 2001; Martynova and Renneboog, 2005) and in those of the new millennium (Martynova and Renneboog, 2005; Harford, 2005; Lipton, 2006; Alexandridis, Mavrovitis and Travlos, 2012).

Thirdly, the theory expects that the acquirer will be sufficiently rewarded. In order for a bidder to achieve some degree of certainty that it can recoup the costs of the takeover and eliminate the inefficiencies of the incumbent management so as to realise a reward, it requires reliable information on the target. There is no guarantee that the discount in the company's share price accurately reflects managements' inefficiencies (Coffee, 1984); thus, the bidder may need to conduct costly research on the target (Ragozzino and Reuer, 2007).

2.5.2. Limitations of the Market for Corporate Control

One might immediately question the viability of the market for corporate to discipline managers of unlisted companies or of companies listed on stagnant stock exchanges. Indeed, the literature strongly indicates that such heavy reliance on efficient and liquid capital markets renders the market for corporate control particularly susceptible to failure under various circumstances. Firstly, its operation may be impeded when market liquidity is reduced as financing for takeovers is restricted. A post-financial crisis contraction in corporate lending has been associated with a decline in takeover activity in the UK in recent years (Office for National Statistics, 2014).

Secondly, the activity of the market for corporate control in countries characterised by concentrated ownership is lower as blockholders are less willing to sell at a low price than smaller dispersed shareholders (Becht, 1999; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998; 2000; La Porta, Lopez-de-Silanes and Shleifer, 1999; Franks and Mayer, 2001; Berglof, Burkhart, Boeri and Franks, 2003). Section 2.7 provides an overview of the scale of takeover activity in the UK during the time period over which this study is set and in more recent years. This analysis suggests that the management and directors of UK listed companies are largely exposed to the discipline of the market for corporate control.

Finally, the theory of the market for corporate control breaks down in circumstances where share price deviates from the fundamental value of the company beyond what is expected under semi-strong market efficiency. As an implication, bidders may be unable to identify potential targets and even where they can, they may not be able to satisfy themselves that they will reap rewards from an acquisition (Coffee, 1984; Franks, Harris and Mayer, 1988). Certain types of behaviour which may lead to such a situation are considered in Section 2.6.

2.5.3. Other Forms of Market Control

a. Control by the Labour Markets

The labour markets are posited to provide a less expensive method of controlling management than takeovers (Fama, 1980; Coffee, 1984). The labour markets exert discipline both through internal and external methods. Internally, the board of directors is authorised to hire and fire management and thus serves to monitor and discipline managers (Fama, 1980). Directors are expected to attend to this responsibility in order to maintain reputations as expert monitors (Fama and Jensen, 1983a). Reputational capital is important to directors in terms of securing future board positions (Fama and Jensen, 1983a; Morck, Shleifer and Vishny, 1989; Harford 2003). Thus, labour market control which is implemented internally by the board is in turn controlled by the external labour markets. As noted in the previous chapter, the capacity of the media to serve a role in corporate governance is believed to rely largely upon its power to influence directors' reputations vis-à-vis the labour markets.

Labour market discipline is advantageous as it provides its own system of non-monetary incentives and thus reduces the proportion of shareholders' funds which must be paid to managers and directors. When management discipline is provided by the labour markets, the need to create and implement specialised incentive contracts is reduced as are the associated transaction costs. The potential for abuse of the incentive system is also negated. Fama (1980) views takeovers as a force which sensitises the operation of the labour markets in controlling management. As such, the takeover is considered a court of last resort required only in circumstances of extreme management failure which neither the board nor external labour market concerns are able to correct (Fama, 1980; Fama and Jensen, 1983a).

Jensen and Ruback (1983) describe the market for corporate control as an important component of the external labour markets. In their view, the market for corporate control is an arena in which management teams compete for the rights to manage corporate resources. Jensen and Ruback reason that, because management teams are constantly in competition, they will identify an underperforming company and attempt to acquire it so as to better position themselves in the labour markets. The most capable management team should be able to make the highest bid. Shareholders are assumed to possess little detailed knowledge of management policies and are believed to be willing to accept the highest offer when a company is targeted. Accordingly, competition in the labour markets is considered to drive takeovers in a manner that eliminates inefficient use of corporate resources.

The consistency of the effectiveness of labour market discipline throughout a manager's or director's career is subject to some contention; it is argued that future employment concerns have a weaker influence on managers and directors who are close to retirement age (Gibbons and Murphy, 1992; Davidson, Xie, Xu and Ning, 2007; Matta and Beamish, 2008). However, Brickley, Linck and Coles (1999) maintain that post-retirement board positions incentivise management to make profitable decisions. Matta and Beamish also note that directors may not wish to taint their legacies by underperforming at the end of their careers. Parkinson (1994) argues that cohesiveness at board level may be sufficiently robust such as to oppose the threat of displacement. He maintains that non-executive directors often may not be sufficiently independent from their executive colleagues to effectively monitor and discipline them. Furthermore, when career opportunities arise, the CEO may exert his influence so that positions are awarded to his allies rather than to the most suitable candidates (Westphal and Zajac, 1995; Shivdasani and Yermack, 1999; Carcello, Neal, Palmrose and Scholz, 2011). Chan (1996) proposes that in order to incentivise managers to maximise their efforts, companies 'handicap' outside applicants when executive positions become available. Knowing that their opportunities for promotion are greater than those of outsiders, managers will work harder in their existing positions. Consistently, Agrawal, Knoeber and Tsoulouhas (2006) find that external candidates for the position of CEO are only likely to be chosen if they are distinctly more capable of performing the role than the most competent insider. This would suggest that while internal career concerns incentivise managers, external concerns may be a less effective incentive.

b. Control by the Product Markets

Allen and Gale (1998) maintain that management efficiency is preserved by dynamic competition in the product markets where only entrepreneurial managers who make decisions and devise policies which account for the company's strategic direction will survive. Product market competition can incentivise managers to maximise the value of the company by reducing production costs so that it may compete with rivals to maintain its customer base (Hart, 1983; Shleifer and Vishny, 1997). The product markets impose the threat of possible insolvency and, under certain conditions, this threat may help to align managers' interests with those of shareholders, thereby reducing agency costs (Schmidt, 1997). Baags and De Bettignies (2007) find that incentive contracts are stronger in competitive product markets. This lowers the costs shareholders face in incentivising managers.

The reliance of product market control on competition renders it impractical in anti-competitive and monopolistic industries. Furthermore, markets for new products may serve as an unreliable control (Jensen, 1993). The impact of product market competition on managers' incentives is also somewhat ambiguous. While competition may encourage managers to work more productively, they may demand a higher wage in return for the greater efforts they expend. Otherwise, managerial shirking may increase (Scharfstein, 1988). Raith (2003) shows that increased competition enables management to justify greater levels of compensation. This may come at a cost to shareholders' wealth, particularly if the company's revenues decline due to the effects of competition on the price of the company's products (Hermalin, 1992; Schmidt, 1997). Consequently, while the product markets incentivise management to operate companies efficiently, they may not be relied upon exclusively as an instrument of control, rather they form an element of a more complex system of shareholder protection (Shleifer and Vishny, 1997; Gillan, Hartzell and Starks, 2003; Giroud and Mueller, 2011).

2.5.4. Alternative Explanations for Takeovers

The theory of the market for corporate control provides one explanation for takeovers. Under the theory, the motivation for a takeover is efficiency; takeovers and the threat thereof serve to ensure that corporate resources are in the hands of those who will put them to their most efficient use (Jensen and Ruback, 1983). The theory of the market for corporate control predicts that all parties to a takeover will gain; the offeree shareholders receive either a takeover premium or the opportunity to share with the offeror shareholders in the benefits of the acquired or merged entity (Easterbrook and Fischel, 1981).

Another efficiency explanation for takeovers is the synergies which may be created by combining the operations of the offeree company with those of the offeror. Bradley, Desai and Kim (1983) maintain that takeover offers are an attempt by the bidding company to optimise some specialised resource by gaining control of the target and implementing a revised operating strategy which may involve more efficient management, economies of scale, improved production techniques, the combination of complementary resources, increased market power, the redeployment of assets to more profitable uses or some other mechanism of creating corporate synergy. From this perspective, the gains created by takeovers are manifest in the increase in the value derived from the transfer of control of the target's resources and their reallocation subsequent to the acquisition.

Bhagat, Shleifer and Vishny (1990) report that a significant proportion of the gains from hostile takeovers arise from the reallocation of the offeree's assets to the offeror company. Lang, Stulz and Walking (1989) and Serveas (1991) find that the synergies created by takeovers increase with an increasing Tobin's Q in the offeror company and a decreasing Tobin's Q in the offeree company. This indicates that synergies arise from the acquisition of an underperforming company by one with superior performance. Evidence has also been found, however, to indicate a negative relationship between the value of the offeror and the extent of synergies realised from the takeover (Bhagat, Dong, Hirshleifer and Noah, 2005; Dong, Hirshleifer, Richardson and Teoh, 2006). This might indicate that underperforming companies may pursue takeovers in order to improve their own performance through the creation of synergies.

Other explanations for takeovers suggest that they may have inefficient motives. An offeror can gain from a takeover if it can exploit a mispricing of the offeree company; in which case, the offeree shareholders may not receive a real premium. A further manner in which the offeree shareholders might be exploited is in a two-tier or front-loaded offer. A two-tiered offer occurs via a partial offer at a superior, first tier price for a sufficient number of shares to gain control, followed by an offer to acquire the remaining shares at a lower, second-tier price. A partial offer is one made to shareholders of a certain class to acquire only a proportion of their shares. Appendix B outlines how partial offers are regulated in the UK. The tactic of front-loaded offers is viewed as a means of trapping the offeree shareholders into a 'prisoner's dilemma' (Lowenstein, 1983; Bebchuk, 1985; Coates, 2000). In effect, target shareholders are coerced into tendering their shares at a certain price since collective action problems leave them uncertain as to whether or not the other shareholders will tender at that price.

2.5.5. The Nature of the Offer and Management Discipline

A 'friendly' takeover offer refers to one which is supported by target management, while a hostile offer is one that is opposed by target management (Jarrell, Brickley and Netter, 1988). As discussed, the theory of the market for corporate control suggests that takeovers are the market's mechanism of disciplining underperforming managers and directors. Disciplinary takeovers are often characterised as being hostile in nature (Morck, Shleifer and Vishny, 1988a; Jensen, 1988; Shleifer and Vishny, 1991). Morck, Shleifer and Vishny (1988a) find that hostile takeover targets tend to have lower Tobin's Q values, more debt and slower growth than friendly targets. They interpret this evidence to indicate that since hostile targets appear to be managed less efficiently than friendly targets, a hostile takeover serves to discipline management. Due to their superior performance, friendly targets attract bidders who wish to achieve synergies by combining the target's operations with their own.

This distinction between hostile and friendly takeovers may not be so clear cut. A takeover bid may be what Hart (1988, p.132) describes as "*an iron fist in the velvet glove*", in other words it may appear friendly but in fact be hostile. Consequently, some of the synergies detected by Morck, Shleifer and Vishny may actually be the outcome of hostile takeovers. Hart also points out that in order to create synergies, it may be inevitable that least some of the targets managers will lose their jobs, thus it is difficult to clearly identify if the motives of a takeover are to discipline management, create synergies or both.

Certain empirical evidence also challenges the findings of Morck, Shleifer and Vishny. Lang, Stultz and Walking (1989) find no significant difference in the Tobin's Q values of hostile and friendly targets. Martin and McConnell (1991) find that both friendly and hostile takeover targets underperform prior to a takeover bid being made. Furthermore, they find management turnover increases following both hostile and friendly takeovers. Franks and Mayer (1996) compare the pre-bid performance of a sample of hostile takeover targets with that of a random sample of targets and a sample of non-merging companies. They find that hostile takeover targets do not significantly underperform in terms of share price returns, dividends per share or cash flow rate of return on assets employed. However, when performance is measured using Tobin's Q, hostile targets are found to significantly underperform. While the latter finding supports that of Morck, Shleifer and Vishny, the collective findings provided by Franks and Mayer demonstrate little evidence that hostile takeover targets underperform prior to the bid. This would indicate that not all hostile takeovers can be explained by disciplinary motives. Schwert (2000) compares hostile and friendly targets on the basis of a range of accounting and stock market based performance measures and concludes that hostile and friendly takeover targets are indistinguishable. He proposes that it is the negotiation strategy employed by bidder which determines whether the takeover becomes hostile or friendly.

2.6. Behaviour which May Lead to the Breakdown of the Market for Corporate Control

Certain types of behaviour by stock market participants may cause share price to deviate from the intrinsic value of the company and hence can lead to the breakdown of the market for corporate control. One such situation may arise when investors discount the value of a company's shares because they do not trust managers to put the company's free cash flow, the cash which remains once all of the company's projects are funded, to its optimal use. Free cash flow has associated agency costs as management may waste it in the pursuit of self-serving objectives (Jensen, 1986). As such, unless management return free cash flow to shareholders, they may yield excessive power. Because investors assume that management will retain free cash flow and use it to further their personal objectives, they discount the value of the company regardless of how the cash is used. As a consequence, the shares of efficiently managed companies may be mispriced.

Another such situation may be created by irrational behaviour in the stock markets. In an efficient market, the effects of irrational trading should be eliminated by rational arbitrage such that share price reflects the fundamental value of the firm. However, historically, the markets have not behaved in such a manner and prices may reflect noise in the market (Black, 1986; Trueman, 1988). Large scale noise trading occurs during stock market bubbles (De Long, Shleifer, Summers and Waldmann, 1989; 1990a; 1990b) where a sharp rise in share prices leads investors to anticipate further increases causing a high demand for the shares. As a result, the price of shares continues to increase until they move so far from the fundamental value of the firm that investors stop buying and start selling the stocks resulting in a crash (Barnes, 2009). During a bubble, the capacity of share price to indicate managerial efficiency is greatly impeded, leading to the possible breakdown of the operation of the market for corporate control.

Both of the aforementioned types of behaviour are unintentional. In contrast, behaviour which constitutes as market abuse is deliberate and is legally prohibited in the UK. Since the potential for market abuse to occur may be controlled by statutory regulators, and by the board to a certain extent, the attention of this thesis rests on this issue in its consideration of behaviour which may hinder the effective operation of the market for corporate control. The remainder of this section considers how market abuse can obstruct the disciplinary operation of the market for corporate control and adversely affect shareholders' interests both within and outside the context of takeovers.

2.6.1. Market Abuse

The term market abuse refers to insider dealing[10], improper disclosure[11] and misuse[12] of price sensitive inside information and market manipulation[13]. Market abuse can reduce pricing accuracy (Kraakman, 1991) and hence impair the capacity of a bidder to identify a takeover target. It is also considered to impair market fairness and damage investor confidence in market integrity (Lee, 2002; Barns, 2009; Cumming, Johan and Lee, 2011), leading to reduced liquidity (Glosten and Milgrom, 1985; Kyle, 1985; Ausubel, 1990; Leland, 1992) and thus a reduced pool of potential acquirers.

<u>Inside Information and Insider Dealing</u>

Broadly speaking, insider dealing occurs when an insider buys or sells securities on the basis of material, non-public information (Ausubel, 1990). In the UK, anyone who is in possession of such information and could reasonably be expected to know that it is inside information may be considered an insider under the law[14]. As mentioned above, a full acceptance of the theory of the market for corporate control would require that the stock markets exhibit strong-form efficiency; however, private information on companies tends not to be impounded into their share prices. Insider dealing has been argued to serve as a means through which private information about the performance of a company's management may be immediately priced into its securities, thereby strengthening the correlation between share price and management

[10] The Financial Services and Markets Act 2000, s. 118 (2).
[11] The Financial Services and Markets Act 2000, s. 118 (3).
[12] The Financial Services and Markets Act 2000, s. 118 (4).
[13] The Financial Services and Markets Act 2000, s. 118 (5)-(8).
[14] The Financial Services and Markets Act 2000, s. 118B.

efficiency (Manne, 1966). This argument is, however, strongly undermined by a number of aspects of insider dealing which have negative implications both at the company and market level.

Company Level Implications of Insider Dealing

Unregulated, insider dealing can create a significant moral hazard problem whereby managers make short-term decisions, contrary to shareholders' best interests, in order to make trading profits (Easterbrook, 1985). It may also increase information asymmetries between shareholders and management as it can create incentives for management to report misleading information in an effort to prolong the opportunity to make trading gains before news is eventually released to the market (Park and Park, 2004; McVay, Nagar and Tang, 2006; Beneish, Press and Vargus, 2012). Alternatively, it may encourage premature disclosures possibly reducing the value of the company's projects (Bainbridge, 1986).

Insider dealing in a company's shares is associated with poor internal governance. Fidrmuc, Goergen and Renneboog (2006) find evidence to suggest that when directors already have a large stake in the company, insider dealing raises concerns among shareholders regarding entrenchment. Ravina and Sapienza (2010) show that greater insider dealing profits are earned in companies with poorer shareholder rights. Liu and Yermack (2012) find that when CEOs sell large amounts of their companies' shares, company performance deteriorates and the CEOs often use the profits to invest in property for personal use. Cohen, Malloy and Pomorski (2012) find that informative opportunistic insider dealing tends to be performed mostly by non-executive directors who may be affiliated with management. Beneish, Marshall and Yang (2013) find that non-executive directors who fail to replace the CEO following intentional earnings misstatements and who ratify value destroying mergers are more likely to collude with each other to opportunistically sell their shares prior to the announcement of the merger in a manner which emulates the trading behaviour of the CEO.

Although it would appear that insider dealing is undesirable from a governance perspective, a major argument put forward in support of insider dealing is that insiders' trading profits may serve as a substitute for high salaries and therefore significantly reduce the amount of shareholders' funds which must be paid out to managers and directors (Manne, 1966; 2005; Carlton and Fischel, 1983; Ayres and Choi, 2002). Indeed, executive compensation has been found to increase when insider dealing is prohibited as the amount of profits management can make from trading is reduced (Roulstone, 2003; Denis and Xu, 2013). Cziraki, De Goeij and Renneboog (2014) show that when companies face more stringent corporate governance regulations, such that managers' power to influence their compensation is reduced, they use insider dealing as a substitute for the lost private benefits of control.

There are a number of fundamental issues which restrict the viability of using insider dealing as a compensation method; Cox (1986) notes three. Firstly, since insider dealing profits can be earned from both good and bad news, they are not adequately tied to organisational performance and serve as a noisy indicator of managements' efforts to maximise shareholder wealth. Secondly, compensation through insider dealing may not be fully disclosed or authorised by shareholders. Thirdly, insider dealing incentivises management to prioritise their own interests over shareholders'. Moreover, because the potential profits which may be earned from insider dealing increase with share price volatility, managers may face incentives to accept riskier projects which increase the volatility of share price (Carlton and Fischel, 1983) but may ultimately damage shareholders' wealth (Bainbridge, 1986; Manove, 1989; Kraakman, 1991). Finally, as Bainbridge (2001) points out, managers may not have sufficient personal wealth to purchase shares in advance of increases in share price.

Market-Level Implications of Insider Dealing

Although information may be instantaneously impounded into share price through insider dealing, it can also have the opposite effect. Insider dealing may harm market efficiency as it can lead to delayed disclosures of company information (Scott, 1980; Haft, 1982; Fried, 1997). Furthermore, were insiders freely permitted to trade on the basis of their superior knowledge, outside investors would see little reason to conduct research on external factors which might impact the value of shares, further reducing the flow of information in the market (Fishman and Hagerty, 1992).

Insider dealing places certain investors at an advantage over others in their ability to make trading profits (Schotland, 1967; Brudney, 1979; Lee, 2002). The associated lack of transparency may deter investment from a market, resulting in lower liquidity (Glosten and Milgrom, 1985; Kyle, 1985; Aususbel, 1990; Leland, 1992). Accordingly, by mandating insiders to accurately disclose information prior to trading, the markets may be considered to be a more level playing field (Maug, 2002). Maug argues that insider dealing regulation which requires such disclosures is a prerequisite for dispersed ownership and liquid public markets, which as noted above are two of the conditions necessary for an active market for corporate control.

Haft (1982) questions the reliability of share price as a benchmark of management performance when insider dealing is permitted as management may trade in a manner aimed at camouflaging the extent of their inefficiencies. Since the amount and value of inside information is particularly high prior to the announcement of a takeover offer, there is considerable potential for improper disclosures and insider dealing to occur (Bhattacharya and Marshall, 2012). Bainbridge (1986; 1993) posits that the possibility of earning profits from insider dealing can create incentives to disclose a possible takeover offer prematurely, attracting competing bidders and leading the original bidder to demand costly exclusivity protections. Insider dealing on information of a possible bid may create an impression of an artificially high demand for shares in the target (Meulbroek, 1992), increasing the cost to the potential offeror of acquiring the company and possibly leading it to abandon the bid (Meulbroek and Hart, 1997). Thus, there are strong grounds on which to argue that insider dealing interferes with the effective functioning of the market for corporate control such that regulation of disclosure and use of price sensitive inside information is an essential element of a system of shareholder protection.

Market Manipulation

The term market manipulation refers to behaviour aimed at creating a false or misleading impression as to the supply or demand for securities. There are three forms of market manipulation; action-based, information-based and trade-based manipulation (Allen and Gale, 1990). Action-based manipulation is that based on actions that change the actual or perceived value of a stock. This may involve creating the impression that the company faces an impending event which is likely to have a substantial impact on its value such as a takeover (Villa, 1989). Information-based manipulation may involve releasing false information or spreading false rumours to the market so as to affect the price of an investment. Examples include 'bear raids', where traders short sell shares before sending negative signals to depress their price and then buy them back at a discount, and 'bulling' stocks, where traders buy stocks and spread favourable rumours about the company so as to sell out at a profit (Allen and Gale, 1990). Finally, trade-based manipulation occurs when a trader attempts to manipulate a stock simply by buying and then selling, without taking any observable actions to alter the value of the firm or releasing false information to change the price. This may occur when there is sufficient price momentum generated by speculation caused by trading (Jarrow, 1992). While there are academic arguments in favour of insider dealing, scholars tend to oppose market manipulation.

The Implications of Market Manipulation

Market manipulation has a distinct negative impact on levels of market transparency. Information-based manipulation may involve silent insider dealing where insiders make strategic announcements or refrain from making announcements so as to throw investors off the scent of an impending development in the company (Benabou and Laroque, 1992). As a result, investors are unable ascertain the authenticity of announcements made by insiders. Trade-based manipulation also reduces market transparency; by trading in a manner contrary to the nature of the information he possesses, an insider can create uncertainty among investors as to the true nature of his private information. This enables him to maintain an informational advantage over the market for a period of time so that he makes a profit when he eventually trades in the right direction (John and Naryanan, 1997). An uninformed insider may also manipulate the market by creating the impression of being informed and disclosing his trades such that outsiders are induced to mimic his trading behaviour. The uninformed insider can then exploit the opacity he has created and turn around to make a profit from trading in the opposite direction (Fishman and Hagerty, 1995). A market where manipulation may occur is unlikely to appear an attractive setting in which to invest as the lack of transparency means that investors cannot be certain of the extent to which the current price reflects the true value of the company.

Fischel and Ross (1991) identify three negative implications of market manipulation for the efficiency and integrity of the markets. Firstly, it interferes with the forces of supply of and demand for shares; secondly, it induces investors to trade under false pretences; and thirdly, it pushes share prices to artificial levels and thus can reduce the accuracy of share price as an indicator of firm value. Allen, Litov and Mei (2006) find that effective arbitrage is less likely to correct mispricings in stocks where there is a possibility of manipulation, with the effect that share prices do not reflect their values as accurately as they would if there were no manipulators. Allen, Litov and Mei also show that manipulation tends to increase share price volatility and can have an adverse impact on the prices of other assets. Nelemans (2008) argues that the increased volatility and aggravated information asymmetries which arise from market manipulation can deter liquidity traders from markets on which manipulation is likely. Kyle and Viswanathan (2008) contend that intentional manipulations make share prices less accurate as signals for efficient resource allocation and make the markets less liquid for risk transfer and hence undermine both the informational and transactional role of financial markets. Furthermore, as Cumming, Zhan and Aiken (2013) point out, manipulations such as pump and dump schemes can impede the detection of insider dealing as they have the effect of distorting market prices.

Market manipulation may well impede the efficacy of the market for corporate control by impairing the detection of targets for takeover where share prices are artificially high.

When a company's share price eventually crashes, it may be in such a poor state that no bidder will be willing to take on its problems. Moreover, where a false impression of the demand for shares in a takeover target is created, bidders may incur losses by paying unnecessarily large premia. They may even be forced to abandon the bid as company appears too expensive to acquire. While such manipulations are theoretically possible, empirical evidence of such practices is lacking (Eckbo, 2009). This is most likely due to the high risks of being discovered by regulators.

Market manipulation may also lead to a false impression of a possible takeover such that a manipulator can exploit the increase in share price caused by the market's reaction to the suggested bid and profit on selling out before the market realises that the bid may not materialise. One such model put forward by Allen and Gale (1990) depicts how takeover specialists can make substantial profits from engaging in trade-based manipulation of the shares of companies that they do not subsequently acquire. Trade-based manipulation is possible when there is incomplete information in the market such that investors are uncertain as to whether a raider who purchases shares in the possible target does so because he knows it is undervalued or because he intends to manipulate the price of the shares. Bagnoli and Lipman (1996) illustrate how a manipulator may profit by actually announcing an intention to make a bid for the firm rather than creating signals through his trades. When the price has reached a certain level, the manipulator sells his holding at the higher price, makes a profit and abandons the bid. While such manipulations may be possible in theory, one might question the likelihood of such a strategy being pursued in practice since the manipulator-offeror would need to secure financing for the offer, incur further significant expenses in launching it and possibly be subject to regulatory supervision in doing so.

In sum, insider dealing, improper disclosure and misuse of inside information and market manipulation may all potentially damage market efficiency, transparency, fairness, integrity, investor confidence and liquidity. Aside from hindering the effective functioning of the market for corporate control, companies whose shares may be implicated in market abuse face a higher cost of capital as information asymmetries between the firm and its investors become more acute (Read, 2008).

2.7. Takeover Offers and Market Abuse in the UK

In order to assess the potential for the broadsheet newspaper media to report on the operation and possible breakdown of the market for corporate control in the UK, one must consider the frameworks of takeover and market abuse regulation and evaluate the scale of takeover activity and market abuse in the UK. Further detail on regulation of takeovers and market abuse in the UK may be found in Appendices B and C respectively.

2.7.1. Takeover Offers

Presently in the UK, control may be transferred through either a takeover offer or through a scheme of arrangement, both of which are subject to the supervision of the Panel on Takeovers and Mergers (the Panel). A takeover offer is defined under Section 974 of the Companies Act 2006 as an offer to acquire all the shares, or all the shares of one class, in a company on the same terms. A scheme of arrangement is defined under Section 895 as a compromise or arrangement between the company and (i) its creditors, or any class of them, or (ii) its members, or any class of them. With respect to the transfer of control, the arrangement involves an agreement by shareholders of the target company to the cancellation of their shares in the target. The resulting reserve of shares is then used by the target to pay for new shares which are issued to the bidder. The target shareholders receive cash or shares in the bidder company in return for their cancelled shares. This may be referred to as a reduction scheme as it involves a reduction of capital in the target company. Reduction schemes require 75% shareholder approval[15] and court approval[16]. An alternative to a reduction scheme is a transfer scheme, whereby all shares in the target not already owned by the bidder are transferred to the bidder (Payne, 2011).

[15] Companies Act 2006, s. 899.
[16] Companies Act 2006, s. 645-649.

This study focuses on takeover offers for UK listed plcs regulated by the Panel over the years surrounding the implementation of the Takeover Directive in May 2006. Pursuant to the Takeover Directive, the Panel is empowered on a statutory basis to make and enforce the Rules of the Code[17]. The Code applies to takeover bids and merger transactions, however affected, for companies registered and traded in the UK, the Channel Islands or the Isle of Man and certain public and private companies registered and traded elsewhere with registered offices in these jurisdictions. The Code sets out 38 detailed Rules which govern the conduct of all parties to takeover and merger offers and potential offers. These rules are underpinned by six General Principles contained under Article Three of the Takeover Directive. The General Principles contained in the Takeover Directive, which are modelled upon those originally established by the Panel, promote offeree shareholder protection and encourage board neutrality in takeover offers. As a consequence, the Rules of the Code leave the decision as to whether or not to accept the offer largely with the offeree shareholders and greatly restrict target boards from taking actions to frustrate offers. Appendix B presents an overview of selected aspects of the Code which have a particular influence on the manner in which the market for corporate control operates in the UK on the implications for target shareholders and other stakeholders.

The Scale of Takeover Activity

According to the UK Office for National Statistics (hereinafter, the ONS) (2014), between April 2013 and March 2014, there were 225 domestic mergers and takeovers in the UK; 142 mergers and takeovers of UK companies by foreign companies; and 57 mergers and takeovers of foreign companies by UK companies. As can be seen in Table 2.3, the Panel supervised 33 successful takeovers over the same period.

Takeover activity in the UK has declined consistently since 2007. This is mainly attributable to the global financial crisis of 2008, which led to a significant reduction in the amount of financing available for takeovers (ONS, 2014). It is forecasted that 2014 will see an

[17] Companies Act 2006, Part 28, Chapter 1.

Table 2.3: Regulated Takeover and Merger Activity in the UK, 2001-2014

Source: Panel on Takeovers and Mergers, Annual Reports, year ending March 2002-2014

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Published takeover or merger proposals	198	107	108	136	114	151	144	134	104	90	94	80	60	43
Targets concerned	186	104	105	127	109	143	140	128	99	87	91	80	55	42
Proposals which proceeded to the issuing of offer documents	193	106	106	134	112	147	143	130	101	88	91	80	58	43
Offers not recommended	22	10	12	25	11	17	13	13	21	25	16	13	9	9
Successful Proposals Involving Control	161	96	85	110	99	123	127	109	88	74	71	68	48	33

increase in both domestic and cross-border mergers and acquisitions as the UK and international economy improves (Grant Thornton, 2013).

As can be seen from Table 2.4, the involvement of UK companies in both announced and completed merger and takeover deals in 2013 was high by international standards. Involvement by US companies was higher; however, if one considers the greater extent of corporate activity in the US, merger and takeover activity involving UK companies is relatively higher. The value of both announced and completed mergers and takeovers involving UK companies as proportions of the total market capitalisation of UK stock markets (10.99% and 8.61% respectively) are higher than the same proportions in the US context (6.70% and 5.63% respectively). While Table 2.4 illustrates that UK companies are active participants in mergers and takeovers, it does not distinguish the deals in which UK companies are the offeror from those in which they are the offeree. Of the 3,484 announced deals involving UK companies in 2013, 2,129 (61.11%) targeted a UK company. Of the 2,945 completed deals, 1,876 (63.70%) targeted a UK company (Thomson Reuters, 2014). This indicates that the threat of takeover which UK companies face is meaningful.

2.7.2. Market Abuse

In the UK, market abuse constitutes a civil offence under Part VIII of FSMA. The main criminal sanctions for insider dealing are contained under Part V of the Criminal Justice Act 1993 (hereinafter, the CJA). The criminal offence of market manipulation is contained under Section 397 of FSMA. Prior to the implementation of FSMA in December 2001, the law recognised market abuse as a criminal offence only. Because it is notoriously difficult to prove intent to commit market abuse, market participants could engage in insider dealing or manipulate the market without facing a serious threat of being reprimanded. Part VIII of FSMA introduced the civil offence of market abuse. This offense need only be proven on the balance of probabilities and as a consequence, it is easier to establish liability for market abuse. Part I of FSMA created the FSA and conferred responsibility upon it to regulate activities on recognised investment exchanges and other regulated markets in the UK. The

Table 2.4: Worldwide Takeover and Merger Activity					
Source:	*Thomson Reuters Mergers and Acquisitions Review, Full Year 2013*				*World Bank Stock Market Indicators, 2013*
Country (Any Involvement)	Announced		Completed		Market Capitalisation
	No. Deals	Value ($m)	No. Deals	Value	($m)
US	11,305	1,250,383.7	9,485	1,051,145.3	18,668,333
Canada	2,470	142,619.8	1,844	143,085.8	2,016,117
Japan	2,876	134,915.9	1,848	131,960.0	3,680,982
Australia & New Zealand	1,812	109,578.2	1,280	64,354.1	1,366,240
UK	3,484	331,850.4	2,945	259,882.5	3,019,467
France	2,103	136,096.9	1,842	99,135.3	1,823,339
Spain	914	67,779.1	770	50,804.1	995.095
Germany	2,027	131,326.0	1,603	74,933.7	1,486,315
Italy	771	54,238.8	568	54,611.8	480,453
Nordic Countries	2,179	88,045.7	1,575	68,296.2	1,199,844
Benelux Countries	1,453	146,420.5	1,176	127,633.4	1,021,401

focus of the present study rests on civil cases of market abuse dealt with by the FSA over the first decade of FSMA. The FSA served as the UK's single regulator of financial services and markets from the implementation of FSMA in December 2001 until April 2013. The Financial Services Act 2012, which took effect in April 2013, assigned the functions previously performed by the FSA with respect to market abuse to a new body, the FCA[18]. Accordingly, it should be noted that the functions of the FCA discussed in this section were assumed by the FSA over the timeframe of the present study which ceases in December 2010.

Under Section 119 of FSMA, the FCA must prepare and issue the Code of Market Conduct (hereinafter, MAR 1) which gives appropriate guidance on what behaviour constitutes as the civil offence of market abuse[19]. If the FCA is satisfied that a person has engaged in market abuse or has encouraged another to engage in market abuse, it has the power to impose on that person a financial penalty of such amount as it considers appropriate[20]

[18] The Financial Services Act 2012, Part 1A.
[19] The Financial Services and Markets Act 2000, s. 119.
[20] The Financial Services and Markets Act 2000, s. 123 (1).

or publish a statement to the effect that the person has engaged in market abuse[21]. Under Part VI of FSMA, the FCA is identified as the UKLA. The general functions of the UKLA include making the Listing Rules, the Prospectus Rules and the DTRs[22]. Applications for admission to the Official List must be made to the UKLA[23] and the UKLA may discontinue or suspend listings if it deems it appropriate[24].

In July 2005, FSMA was amended by the Financial Services and Markets Act (Regulations) 2005 (SI No. 381 of 2005) in order to implement MAD in the UK. MAD requires Member States to designate a competent authority to ensure that the provisions adopted pursuant to MAD are applied[25]; this role has been held by the FSA and subsequently by the FCA in the UK. MAD is an outcome of the European Financial Services Action Plan which involved a consideration by the 'Committee of Wise Men', chaired by Alexandre Lamfalussy of how to achieve an effective approach towards transposition and implementation of financial markets regulation in Europe[26]. MAD is a 'Lamfalussy Directive' which follows a four level regulatory approach, referred to as the 'Lamfalussy format'. Consistent with this format, MAD sets out framework principles at Level One. At Level Two, the European Commission has implemented a number of second level directives and regulations which stipulate more technical details, a summary of which is provided in Table 2.5. The European Securities Regulators Committee (hereinafter, the CESR) has released guidance on Level Three common operation of MAD. At Level Four, the Commission ensures compliance with MAD. In September 2013, a new European Market Abuse Regulation (Regulation No. 596/2014) was endorsed by the European Parliament and published in the Official Journal of the EU in June 2014. An overview of the Regulation is provided in Appendix D.

[21] The Financial Services and Markets Act 2000, s. 123 (3).
[22] The Financial Services and Markets Act 2000, s. 73.
[23] The Financial Services and Markets Act 2000, s. 75.
[24] The Financial Services and Markets Act 2000, s. 77.
[25] Directive 2003/6/EC, Article 11.
[26] The final report of the Committee of Wise Men on the regulation of European securities markets (2001), Annex 1.

Table 2.5: Second Level Directives Implementing the European Market Abuse Directive (Directive 2003/6/EC)	
European Commission Directive/Regulation	Implementing MAD regarding:
Directive 2003/124/EC	The definition of public disclosure of inside information and the definition of market manipulation.
Directive 2003/125/EC	The fair presentation of investment recommendations and the disclosure of conflicts of interest.
Directive 2004/72/EC	Accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of insider lists, the notification of managers' transactions and the notification of suspicious transactions.
Regulation 2273/2003	Exemptions for buy-back programs and stabilization of financial instruments.

Presently, under Section 118 of FSMA, market abuse is defined as behaviour, by one person, or two or more persons acting jointly or in concert, which occurs in relation to qualifying investments admitted to trading on a prescribed market[27] or those for which a request for admission to trading on such a market has been made, and falls within at least one of the four broad categories of (i) insider dealing, (ii) improper disclosure, (iii) misuse of information or (iv) market manipulation. Each of these types of behaviour, with the exception of misuse of information, is dealt with in MAD. Under Sections 118 (5) to (8) of FSMA, market manipulation can take four forms; these are (i) manipulating transactions, (ii) manipulating devices, (iii) dissemination and (iv) misleading behaviour and distortion; MAD acknowledges only the first three of these forms of market manipulation. Definitions and descriptions of these types of behaviour as set out under FSMA and in MAR 1 are provided in Appendix C.

[27] Under the Financial Services and Markets Act 2000 (Prescribed Markets and Qualifying Investments) (Amendment) Order 2001, the term 'prescribed market' refers to all markets established under the rules of a UK recognised investment exchange.

The Scale of Market Abuse

The number of criminal and civil market abuse cases which have dealt with by the FSA and FCA between 2001 and 2013 is depicted in Table 2.6, which has been adapted from Barnes (2011) and updated to reflect more recent cases. As is evident, the number of criminal cases investigated is lower than the number of civil cases, reflecting the higher probability of securing a civil prosecution. It is important to bear in mind when considering the scale of market abuse in the UK that the number of cases which have been dealt with by the regulatory authorities may only represent a proportion of instances of market abuse. One cannot comment with certainty on the extent to which market abuse occurs in a given environment since, due to its illegitimate nature, those who engage in it will endeavour to conceal their actions (Allen, Litov and Mei, 2006). A measure devised by Dubow and Monterio (2006), and developed by Monterio, Zaman and Leitterstorf (2007), has been employed to evaluate the performance of the FSA, and subsequently the FCA, in curbing market abuse. This measure of market cleanliness is based on the extent to which share price moves ahead of regulatory announcements, which may reflect insider dealing and misuse of information. According to the FCA (2013), market cleanliness has remained stable between 2005 and 2009 and has improved between 2009 and 2012.

Table 2.6: Criminal and Civil Cases of Market Abuse 2001-2013

Sources: Criminal and civil cases, 2001-2010: Barnes (2011); Criminal cases 2011-2013: FSA Enforcement Annual Performance Account for 2011/2012 and 2012/2013; Civil cases 2011-2013: FSA/FCA Final Enforcement Notices 2011-2013

Year	**Criminal Cases**	Insider Dealing	Market Manipulation	**Civil Cases**	Insider Dealing	Improper Disclosure	Misuse of Information	Manipulating Transactions	Manipulating Devices	Dissemination	Distortion and Misleading Behaviour
2001	**1**	1	0	**0**	0	0	0	0	0	0	0
2002	**0**	0	0	**0**	0	0	0	0	0	0	0
2003	**1**	1	0	**1**	0	0	0	1	0	0	0
2004	**2**	2	0	**7**	3	1	0	0	0	2	1
2005	**2**	0	2	**4**	3	0	0	1	0	0	0
2006	**0**	0	0	**3**	2	1	0	0	0	0	0
2007	**0**	0	0	**1**	0	1	0	0	0	0	0
2008	**0**	0	0	**4**	3	1	0	0	0	0	0
2009	**2**	2	0	**6**	5	1	0	0	0	0	0
2010	**2**	2	0	**6**	3	0	0	0	0	1	2
2011	**3**	3	0	**6**	2	0	0	4	0	0	0
2012	**4**	4	0	**6**	1	3	0	1	0	1	0
2013	**0**	0	0	**2**	0	0	0	2	0	0	0
Total	**17**	15	2	**46**	22	8	0	9	0	4	3

2.8. Conclusion

This chapter has considered how, as a consequence of agency problems manifest in dispersedly owned companies, corporate governance mechanisms are necessary to limit management opportunism and to afford shareholders a certain level of assurance that their interests are protected from expropriation. While the market for corporate control is an effective method of disciplining underperforming management, it is a costly means of doing so and is susceptible to failure when behaviour such as market abuse occurs. The corporate takeover tends to be viewed as an instrument best saved for cases of extreme management failure and the board of directors may serve as a less expensive and more discriminatory means of monitoring management's behaviour. This chapter has noted that boards of UK listed companies operate in a highly regulated environment; yet, in the absence of specific legislation on board structure and conduct, the standard of governance they provide is largely left to their own discretion. The next chapter considers academic commentary on the role of the board in corporate governance and evaluates its capacity to hold management to account and protect shareholders' interests, paying particular attention to the UK context.

CHAPTER THREE: THE BOARD OF DIRECTORS AS A CORPORATE GOVERNANCE DEVICE

3.1. Introduction

Building upon the introduction to corporate governance presented in Chapter Two, this chapter further considers the role of the board of directors which, as noted in Chapter One, is the focus of the evaluation of corporate governance quality conducted in this study. The previous chapter has considered the current guidance offered to boards on best practice in corporate governance in the UK Corporate Governance Code (2014). This chapter reviews the academic literature on the board and considers certain guidelines of the UK Corporate Governance Code in the context of this literature so that the board's capacity to serve as a corporate governance device may be assessed, with a specific focus on the ten characteristics of the board considered in the present study.

3.2. The Board of Directors

Fama and Jensen (1983a, p.311) maintain that:

"*The common apex of the decision control systems of organisations, large and small, in which decision agents do not bear a major share of the wealth effects of their decisions is some form of board of directors*".

As discussed in Chapter Two, the delegation of decision control from shareholders to the board of directors empowers the board to hire, fire and determine the compensation of management (Fama and Jensen, 1983a). In order to arrive at decisions regarding management replacement and compensation, the board must attend to a range of responsibilities and perform numerous monitoring tasks. Lipton and Lorsch (1992) identify three key roles for the board; (i) evaluating and reviewing the CEO, (ii) approving corporate strategy and (iii) assuring compliance with the law and standards of ethics. The effectiveness of the board as a corporate governance device relies largely on its composition and the diligence with which it performs its overall role as a monitor of management (Baysinger and Butler, 1985; Hermalin and Weisbach, 1998). The board must contain specific provisions for aligning information asymmetries between shareholders and management (Healy and Palepu, 2001). Moreover, while the stock market and the labour market provide incentives for the board to monitor, these incentives must be structured so as to be effective (Fama, 1980; Murphy, 1985; Jensen and Murphy, 1990).

It has been argued that boards are often composed of members who may appear to be suitable monitors but are essentially passive when management discipline becomes necessary (Holmstrom, 1999). That is to say that companies establish boards of directors as a matter of procedure but select members who are likely to be lenient on self-serving management and thus are of little benefit to shareholders. Indeed, the board has considerable discretion in making decisions regarding its own design. However, much of the decisions it makes concerning its composition and remuneration are subject to the approval of shareholders, who in turn are guided by relevant corporate legislation and guidelines on best practice in corporate governance.

There now follows a discussion of prior research which focuses on the key corporate governance mechanisms examined in this study and the role these serve in protecting shareholders' interests.

3.2.1. Board Leadership

Board Meetings

Boards which function as effective corporate governance devices actively monitor management and pursue shareholder wealth objectives (MacAvoy and Millstein, 1999; Kaplan and Minton, 2006). One primary indicator of board activity is the frequency with which the board meets (MacAvoy and Millstein, 1999). Board meetings provide the opportunity for executive directors to communicate information regarding the company's operations and performance to non-executive directors (Baysinger and Butler, 1985); enable non-executive directors to challenge the CEO on various issues (Lorsch and MacIver, 1989); and facilitate the development of the board as a monitoring device (Conger, Finegold and Lawler, 1998). Agrawal and Chanda (2005) note that there are fundamental issues on the agendas for board meetings, including the appointment, dismissal and compensation of the CEO, oversight of the company's overall business strategy and evaluation of the company's activity in the market for corporate control. Brown and Caylor (2006) find that directors' attendance at and participation in board meetings has a positive impact on the value of the firm.

In spite of the merits of regular board meetings in maintaining an effective system of corporate governance, the UK Corporate Governance Code (2014) is quite vague in recommending the frequency with which boards should meet. Recent studies suggest that the boards of companies listed on the FTSE 150 typically meet nine times per annum, while those on the FTSE 350 meet between six and ten times per annum (Grant Thornton, 2013; the Spencer Stuart UK Board Index, 2013).

A study of the frequency of board meetings in UK listed companies by Hahn and Lasfer (2007) shows firstly, that the numbers of meetings held by boards of UK companies declined between 1998 and 2004; secondly, that the frequency of board meetings in listed companies became more uniform over this period and thirdly, that as the numbers of meetings decline, the remuneration awarded to chairmen increases. They attribute the reduced frequency of meetings to an increase in the international diversity of board members and the increase in chairmen's remuneration to a reduced opportunity for the full board to review the work of the remuneration committee at board meetings. The greater uniformity of the number of meetings toward the end of the sample period is argued to be an outcome of standardisation of best practice in the UK. Hahn and Lasfer thus conclude that as a result of recruiting members with international experience and taking a box-ticking approach to governance, the flexibility of UK boards to act as monitors of management is reduced.

The Roles of the CEO and the Board Chairman

Fama and Jensen (1983b) contend that a CEO who is also the chairman is likely to wield excessive power over decision-making, possibly to the detriment of shareholders' welfare. Consistent with this argument, Dahya, Lonie and Power (1996) show that the stock market reacts favourably when the roles of CEO and chairman are separated in large UK companies. Empirical evidence indicates that duality has a negative impact on shareholders' wealth; Core, Holthausen and Larcker (1999) report that CEOs who are also board chairmen receive higher levels of compensation and Goyal and Park (2002) find that the sensitivity of CEO turnover to performance is lower in companies where the CEO chairs the board.

Morck, Shleifer and Vishny (1989) argue that CEO-chairman duality leads to entrenchment. Consistent with this view, O'Sullivan and Wong (1999) show that likelihood of takeover is reduced when the CEO is also the chairman. Although O'Sullivan and Wong note this takeover deterrent effect is only significant when the CEO has a substantial ownership stake in the company, it indicates that the duality may serve to entrench to CEO, thereby enabling him to avoid takeover market discipline. Where takeovers are successful, CEOs who are also the chairman tend to be replaced by two separate individuals (Kini, Krakaw and Mian, 2004).

Although there are commonly cited weaknesses associated with CEO-chairman duality, Brickley, Coles and Jarrell (1997) argue that benefits may be somewhat exaggerated since the majority of chairmen are not truly independent. Brickley, Coles and Jarrell contend that agency costs increase when the roles of CEO and chairman are separated as the behaviour of two individuals must be controlled. A study of UK companies by Dahya, Garcia and Bommel (2009) casts further doubt on the advantages to shareholders of having a separate CEO and chairman in that companies which conform to the best-practice recommendations to split the roles are found not to experience any performance enhancements. These results are supported by Dey, Engel and Liu (2011) who report that companies which concede to investor pressure to split the roles of CEO and chairman experience lower subsequent market performance. Moreover, in these companies, the CEO's compensation becomes less sensitive to his performance. These results lead Dey, Engel and Liu to question if splitting the roles produces the most efficient outcome.

Up to 2012, studies suggest a consistent decline in CEO-chairman duality in UK listed companies from 28% in 1992 to 3% in 2012 (Laing and Weir, 1999; McKnight and Weir, 2009; FRC/Grant Thornton/Manifest, 2012). More recent results on FTSE 350 companies show that the percentage of boards on which the roles of CEO and chairman are combined has increased slightly in 2013 to 6% (Grant Thornton, 2013).

3.2.2. Board Effectiveness

<u>The Balance between Executive and Non-executive Directors</u>

Fama (1980) considers that the close relationship executive directors have with management limits their ability to monitor. As a result, a non-executive presence is required on boards in order to provide enhanced protection to shareholders. Fama and Jensen (1983a) contend that, as non-executive directors wish to achieve and maintain reputations as specialists in decision-control, they have incentives to monitor managers. Thus the capacity of the board to serve as a corporate governance device is strengthened when there are non-executive members on the board.

Empirically, non-executive board membership has been found to be associated with higher shareholder returns (Baysinger and Butler, 1985); fewer financial reporting problems (Beasley, 1996); lower incidences of earnings management (Xie, Davidson and DaDalt, 2003); and superior company performance (Pearse and Zahra, 1992; Mura, 2007). Coles and Hoi (2003) show that non-executive directors who restrict executives' ability to implement takeover defences are rewarded with additional directorships in the future. This evidence indicates that the market for corporate control may operate more freely when there are non-executive members on boards. It also strongly supports Fama and Jensen's (1983a) argument that maintenance of a reputation as an expert monitor incentivises non-executives to limit self-serving actions by executives.

Companies have been found to appoint more non-executives to the board following periods of poor performance (Kaplan and Minton, 1994) and during times of change (Peng, 2004) so as to ensure management are sufficiently monitored. Similarly, the proportion of non-executive members on boards tends to increase in response to pressures imposed by institutional investors (Fich, 2005) and regulatory requirements (Dahya and McConnell, 2007; Linck, Netter and Yang, 2009). This would suggest that appointment of non-executives to the board represents an endeavour to improve the governance of a company.

It is, however, disputable as to whether non-executive board membership leads to performance enhancements. Vance (1978) finds that company performance is positively associated with the number of executive directors on the board, while Kesner (1987) reports a significantly positive link between executive board membership and shareholder returns. Nevertheless, executive appointments to the board tend to be associated with CEO dominance over the nomination process (Westphal and Zajac, 1995; Shivdasani and Yermack, 1999; Carcello *et al*., 2011). Executive appointments are thus often assumed to have a negative impact on governance as they may be made in in pursuit of the CEO's objectives instead of those of shareholders.

A number of studies find an insignificant or no relationship between board composition, in terms of executive and non-executive representation, and company performance (Dalton, Daily, Ellstrand and Johnson, 1998; Bhagat and Black, 2002; Hermalin and Weisbach, 2003). Hermalin and Weisbach (2003) account for this by claiming that board composition and company performance are endogenously linked, in that performance is both a cause and effect of board composition.

It is contended that non-executive directors alone are insufficiently experienced to effectively monitor management performance and thus need to gain insight from executives (Williamson, 1984; Patton and Baker, 1987). This would indicate that, in spite of the advantages of non-executives being less inclined to collude with management, it is possible to have too many non-executive directors on the board (Byrd and Hickman, 1992; Agrawal and Knoeber, 1996). There are problems inherent in monitoring by executive directors, not least the potential for the CEO to wield too much power (Weisbach, 1988; Raheja, 2005) and for executive directors to make private gains from management opportunism (Bebchuk, Fried and Walker, 2002). Nevertheless, due to their superior firm-specific knowledge and experience, the contribution executives make to the board is important in order for responsible ratification of decisions (Williamson, 1984) and evaluation of management performance (Baysinger and Hoskisson, 1990). This is particularly pertinent in companies which perform complex business processes (Markarian and Parbonetti, 2007; Coles, Daniel and Naveen, 2008; Linck, Netter and Yang, 2008; Lehn, Patro and Zhao, 2009) and in environments where information costs are high (Hermalin and Weisbach, 1998; Raheja, 2005; Duchin, Matsusaka and Ozbas, 2010). Consequently, boards should achieve an optimal balance of executive and non-executive directors in order to function as a suitable corporate governance device (Raheja, 2005).

Evidence indicates that UK listed boards tend to exhibit an equal balance between executive and non-executive directors; Zaman, Hudaib and Haniffa (2011) report that in 2004, the percentage representation of non-executive directors on FTSE 350 boards was 54%. More recent studies suggest that the average percentage of non-executive directors of companies listed on the FTSE 100 and AIM is 51% and 45% respectively (Gregg, Jewell and Tonks, 2012; Mallin and Ow-Yong, 2012).

Board Size

The board of directors should be of a suitable size such that it comprises a sufficient number of members who have links to the company's external environment (Pfeffer, 1972) and possess a range of skills and expertise (Baysinger and Butler, 1985; Zahra and Pearse, 1989, Dalton, Daily, Johnson and Ellstrand, 1999). Board size should not, however, become excessive. Lipton and Lorsch, (1992) maintain that boards which grow too large become risk averse, take longer to reach decisions and lack focus in performing their duties; they opine that board size should be limited to ten members. Jensen (1993) contends that large boards are dysfunctional and are thus more susceptible to manipulation by the CEO.

Yermack (1996) finds that companies with smaller boards have a higher market valuation. Yermack argues that smaller boards are better monitors and exert a greater threat of dismissal over the CEO. As a result, the CEO is more incentivised to operate the company in shareholders' interests. Eisenberg, Sundgren, Wells and Martin (1998) and Loderer and Peyer (2002) also report that large boards have a negative impact on firm value. Core, Holthausen and Larcker (1999) and Petra and Dorata (2008) find that CEO compensation increases with increasing board size. Faleye (2003) shows that, in companies with large boards, CEO turnover is lower and there is a lower likelihood of a departing CEO being replaced by an outsider.

It also appears that large boards may impede the efficiency of the market for corporate control; Boone, Field, Karpoff and Raheja (2007) find that board size is positively associated with the implementation of takeover defences aimed at insulating management from replacement. Korczak, Korckzak and Lasfer (2010) find insider trading is more prevalent in companies with larger boards, which they attribute to the reduced ability of the board to monitor as it increases in size.

Notwithstanding this body of research, a number of studies show that shareholders may benefit from the presence of a larger board which comprises suitably experienced members. Xie, Davidson and DaDahlt (2003) report a lower incidence of manipulation of financial accounts in companies with large boards, which they believe may indicate that on large boards, there are more experienced members to oversee the financial reporting process. Boone *et al*. (2007) suggest that companies which operate in competitive environments require larger boards which are better equipped to deal with external constraints. In a similar manner, Coles, Daniel and Naveen (2008) report that companies which perform complex business processes and have large boards, with a high proportion of members from outside the firm, experience enhanced performance. Cheng (2008) finds that companies with large boards perform more consistently. Cheng argues that on large boards, directors must make more compromises in order to reach a consensus and hence their decisions tend to be less extreme.

It would appear that it is important for board size to be maintained at such a level that it comprises an adequate number of directors to be fit for purpose while avoiding unnecessary membership. However, neither the UK Corporate Governance Code (2014) nor the Companies Act 2006 offer specific guidance on a suitable board size or maximum board membership. The Higgs Review (2003) did however praise smaller boards of approximately seven members (Section 4.9). A study by Gregory-Smith, Main and O'Reilly (2012) identifies the average number of directors on a FTSE 350 board between 1996 and 2010 as eight. Mallin and Ow-Yong (2012) find that between 2005 and 2006 the average board size for a company listed on the AIM was six members.

Director Independence

Even if boards strike an appropriate balance between executive and non-executive directors, non-executive directors may be affiliated to the company in some way and thus not strictly independent from management. A non-executive director may assume his position as a result of having ties to the CEO or other members of senior management (Mace, 1971). Many non-executive directors are connected to executives or have had significant business dealings with the company in their capacity as lawyers, bankers, consultants or former employees (Hermalin and Weisbach, 1988; Bhagat and Black, 1999; Mulgrew and Lynn, 2013; Mulgrew, Lynn and Rice, 2014). The interests of a non-executive director might also be closely aligned to those of the executives if he is a relative of one or a number of executives on the board (Bhagat and Black, 1999). The ability of such directors to provide effective oversight may be reduced due to their being influenced by the CEO or other executives in the company (Weisbach, 1988; Byrd and Hickman, 1992).

Non-executive directors may have pre-existing relationships with executives if they serve, or have served, on boards of other companies with which the company is affiliated. Such a relationship is referred to an interlocking directorate (Mizruchi, 1996). As noted above, the importance of reputation in the market for directors' services is argued to play an important role in incentivising non-executive directors to monitor management (Fama, 1980).

However, acceptance of this argument, leads to acknowledgement that as directors build reputations as monitors they also form relationships with members of boards of other companies which results in a web of interlocking boards (Zajac and Westphal, 1996). While the existence of interlocking relationships between boards is argued to facilitate a diffusion of expertise (Haunschild, 1993; Westphal and Zajac, 1997), such networks may compromise the independence of directors (Fich and White, 2003; Larcker, Seary, Richardson and Tuna, 2005) since a director who has a pre-existing link with a board to which he is appointed as a non-executive director cannot be considered truly independent (the Higgs Review, 2003).

Non-executive directors may be independent from the company when they initially assume their positions on the board but, over the course of their tenure, develop relationships with the company's executives. Although non-executives may become more proficient in performing their duties over time, their interests may eventually become more aligned with those of the CEO and other executive board colleagues than with those of the shareholder. Bhagat and Black (1999, p.922) remark that in such cases "*independent directors often turn out to be lapdogs rather than watchdogs*". For this reason it is suggested that term-limits be placed on directors' contracts (Lipton and Lorsch, 1992), particularly with respect to those of non-executives (Vafeas, 2003).

An over-reliance on affiliated directors to monitor management may have negative effects on shareholders' wealth. Byrd and Hickman (1992) find that in takeover situations, bidding companies with a majority of unaffiliated non-executive directors experience higher announcement-date abnormal returns. These results are however lost when the analysis is repeated on the basis of the proportion of all non-executives on the board. Although, Daily, Johnson, Ellstrand and Dalton (1998) find non-executive directors' affiliations to the company do not lead to higher levels of CEO compensation, Core, Holthausen and Larcker (1999) find that non-executive directors' lack of independence is associated with higher CEO pay.

The presence of independent directors on the board has been found to benefit shareholders in takeover situations. Takeover defences may be implemented in the interests of shareholders (Lipton, 1979); consistent with this view, Cotter, Shivdasani and Zenner (1997) find that when the board of a target company is independent, directors use takeover defences so as to generate a higher premium for shareholders. Harford (2003) reports that independent directors of acquired companies who complete takeover deals for the benefit of shareholders are more likely to secure further board positions than those who do not; this evidence is consistent with the argument that independent non-executive directors are incentivised by the need to maintain reputations as expert monitors due to their career concerns.

It may however be argued that the need for the intervention of the market for corporate control should be lower if independent directors are fulfilling their monitoring roles competently. Gillan, Hartzell and Starks (2003) provide evidence which suggests that the need for market based control declines with increasing board independence in that companies with greater board independence are less exposed to takeovers. Board independence may also serve to preserve the efficacy of the market for corporate control to the extent that that the presence of independent members on the board has been associated with a lower incidence of insider dealing (Korczak, Korczak and Lasfer, 2010).

Hermalin and Weisbach (1998) argue that independence declines toward the end of a CEO's tenure as insiders are recruited to the board to facilitate the CEO succession process. Hermalin and Weisbach also contend that as the CEO becomes more influential and entrenched he is better capacitated to negotiate with non-executive directors for the appointment of his executive colleagues to the board. Consistently, Boone *et al*. (2007) find that board independence decreases as the CEO's tenure and ownership stake in the company increase and that board independence increases as greater constraints are placed on the CEO's influence. They also find that board independence increases as the company grows in size. This finding substantiates the argument that as companies grow and diversify managers must make more complex decisions and thus a robust and expert monitoring system is required (Fama and Jensen, 1983a).

Affiliated non-executives are not unserviceable; there may be roles on the board to which affiliated non-executives are best suited (Bhagat and Black, 1999) and the value of independent board members may depend on their levels of relevant expertise (Agrawal and

Chanda, 2005, Brown and Caylor, 2006). Thus, it appears that the quality of the board as a corporate governance device relies, to at least some extent, on its independence from management; however, the balance between independence and experience is essential to the company's success and hence shareholders' wealth.

The FRC reports that in 2012, 81% of FTSE 350 companies and 94% of smaller companies met the minimum requirements of the UK Corporate Governance Code in relation to director independence (the FRC/Grant Thornton/Manifest, 2012). In 2013, 87% of FTSE 350 boards comprised at least 50% independent members (Grant Thornton, 2013). It is important to note, however, that the UK Corporate Governance Code's guidelines on independence are very much open to interpretation and it is largely left at the discretion of the board to determine if a director is independent in character and judgement (Mulgrew, Lynn and Rice, 2014).

3.2.3. Accountability: the Role of the Audit Committee

The audit committee is integral in ensuring management accountability (Carcello and Neal, 2000) and an essential element of a company's internal control structure (Krishnan, 2005). The capacity of the audit committee to perform its monitoring role thus contributes considerably to the quality of governance provided by the board of directors. As such, the establishment by the board of an audit committee may help alleviate agency problems by facilitating the timely release of unbiased accounting information to shareholders, thereby lowering information asymmetries (Klein, 1998). A number of attributes of the audit committee therefore require due consideration when discussing corporate governance from the perspective of the board of directors.

Audit Committee Size

Audit committees should comprise a range of members who possess various skills and perspectives to guarantee effective internal control (Beasley and Salterio, 2001, Abbott, Parker and Peters, 2004). However, its capacity to function successfully may diminish upon reaching a certain size (Vafeas, 2005; Cohen, Gaynor, Krishnamoorthy and Wright, 2008). The vast majority of researchers define a small audit committee as one comprising less than three members, while larger committees are considered to have between three and five members (Archambeault and DeZoort, 2001; Felo, Krishnamurthy and Solieri, 2003; Abbott, Parker and Peters, 2004; Anderson, Mansi and Reeb, 2004). Such definitions tend to evolve from regulatory guidelines that audit committees contain a minimum of three members (Report of the Blue Ribbon Committee, 1999; the Combined Code, 2003; 2006; 2008).

Archambeault and DeZoort (2001) contend that there is more scope for management misconduct with respect to the financial reporting process when there is a small number of members on the audit committee. Consistently, they find that companies with smaller audit committees have a greater propensity to switch external auditors under suspicious circumstances. In a similar manner, Felo, Krishnamurthy and Solieri (2003) find that overall financial reporting quality improves with increasing audit committee size. Anderson, Mansi and Reeb (2004) maintain that smaller audit committees have less time to oversee the hiring of auditors, to question management and to meet with internal control system personnel. They find that by recruiting additional members to its audit committee, the cost of a company's debt financing is lowered. In spite of this, audit committee size is found to have an insignificant relationship with the likelihood of a company engaging in earnings management (Xie, Davidson and DaDahlt, 2003) or issuing financial restatements (Abbott, Parker and Peters, 2004).

Cohen *et al.* (2008) posit that audit committees comprising between three and four members possess an optimal level of authority over the company's financial reporting process. Commentators note that beyond this size, audit committees may become dysfunctional as coordination problems arise (Archambeault and DeZoort, 2001; Vafeas, 2005; Cohen *et al.*, 2008). Given that few studies identify audit committees containing more than five members (Archambeault and DeZoort, 2001; Felo, Krishnamurthy and Solieri, 2003), there is little empirical evidence to substantiate this view.

Current guidance provided under the UK Corporate Governance Code (2014) implies that audit committees should comprise a minimum of three members in large companies and a minimum of two in smaller companies; yet, without any specific guidance on whether or not the committee ought to contain non-independent members, it is difficult to distinguish a point at which committee membership reaches saturation. Empirical results indicate that, on average, audit committees in UK listed companies contain between three and four members (Zaman, Hudaib and Haniffa, 2011; Avison and Cowton, 2012). Those of smaller companies tend to consist of three members (Avison and Cowton, 2012).

Audit Committee Independence

Agency theory suggests that the monitoring ability of the audit committee relies upon its independence from management. Abbott, Park and Parker (2000) posit that the desire to build a reputation for successful audit committee service motivates independent directors to monitor the integrity of financial reporting procedures. Klein (2002a) finds that audit committee independence increases with board size and independence as the supply of potential independent audit committee members increases. She also finds audit committee independence to be lower in companies with poor growth opportunities and in companies which have recently reported financial losses, indicating that there is less scrutiny of a company's accounts when audit committee independence is low.

Companies with independent audit committees are less likely to be sanctioned for fraudulent or misleading reporting (Abbott, Park and Parker, 2000) or to produce financial restatements (Abbott, Parker and Peters, 2004; Carcello *et al.*, 2011). Audit committee independence has also been argued to serve to deter executives from engaging in illegal insider trading (Enriques and Volpin, 2007). Independent audit committees are more likely to engage a high quality external auditor (Abbott and Parker, 2000; Archambeault and DeZoort, 2001; Chen and Zhaou, 2007) which does not have a pre-existing affiliation to the company (Lennox and Park, 2007). Moreover, when affiliated directors dominate the audit committee, management have greater freedom to manipulate the external auditor into producing a biased report (Carcello and Neal, 2000; 2003). Such findings are consistent with the contention that independent directors are less concerned with audit scrutiny and thus facilitate a more rigorous audit of the company (Chen and Zhaou, 2007).

Klein (2002b) finds that companies with audit committees which comprise a proportion of independent members are significantly less likely to engage in earnings manipulation; however, the significance of this relationship is lost when the audit committee consists solely of independent members. Similarly, Brown and Caylor (2006) report that an audit committee compose solely of independent members has no impact on firm value. Cohen *et al*. (2008) posit that while independent audit committees command authority as monitors of financial reporting, they may not necessarily provide the most vigilant oversight.

It appears that independence is a crucial element of the audit committee's ability to monitor the financial reporting process and the integrity of the company's accounts; however, relevant experience also contributes strongly to the successful functioning of the audit committee (Abbott, Parker and Peters, 2004; Chen and Zhaou, 2007; Carcello *et al.*, 2011). Thus it might be argued that, under optimal conditions, audit committees should maintain a certain level of independence while also ensuring that there is an appropriate amount of suitably experienced members on the committee.

The vast majority of the audit committees of UK listed companies studied by Avison and Cowton (2012) are found to consist solely of independent members; however, in 25% of companies, the board chairman serves on the committee. Zaman, Hudaib and Haniffa's study of FTSE 350 companies shows that the percentage of companies with fully independent audit committees increased from 94% in 2001 to 99% in 2004. Nevertheless, a report by Grant Thornton indicates that figure has returned to 94% in 2013 (Grant Thornton, 2013).

Audit Committee Meetings

In order to actively fulfil its corporate governance duties, an audit committee must meet as regularly as is necessary (Menon and Williams, 1994; Collier and Gregory, 1999; Xie, Davidson and DaDahlt, 2003). Studies suggest that a sufficiently active audit committee would meet at least twice per year (Menon and Williams, 1994; Abbott and Parker, 2000; Abbott, Park and Parker, 2000; Xie, Davidson and DaDahlt, 2003; Song and Windram, 2004). Agrawal and Chanda (2005, p.375) claim that two meetings per year are not enough; they argue that:

"*…audit committees of corporate boards are typically not very active. They usually meet just a few (two or three) times a year. Therefore, even if the committee is comprised of independent directors, it may be hard for a small group of outsiders to detect fraud or accounting irregularities in a large, complex corporation in such a short time.*"

Members may, however, be unwilling to commit to attending audit committee meetings unless they perceive such meetings to be necessary, such as in times of poor performance (Song and Windram, 2004).

Collier and Gregory (1999) find that audit committees of UK listed companies meet more frequently in companies where the roles of the CEO and chairman are separated and where there is a majority of outside members on the audit committee. Higher audit committee activity thus appears consistent with other aspects of best practice in corporate governance. Song and Windram (2004) find evidence to suggest that the frequency of audit committee meetings has a positive effect on a company's compliance with UK accounting regulations. More recent empirical evidence suggests that the average audit committee of a FTSE 350 company meets between three and four times per year while most smaller companies meet at least twice (Zaman, Hudaib and Haniffa, 2011; Avison and Cowton, 2012).

Sharma, Naiker and Lee (2009) produce a number of interesting findings regarding the determinants of audit committee meeting frequency. Firstly, audit committees meet more frequently when management have high ownership stakes in the company, as the perceived agency costs associated with greater managerial power are higher. Secondly, audit committee meetings are more frequent in companies with higher institutional ownership, as powerful shareholders require more active oversight of financial reporting and internal control. Thirdly, audit committees meet more frequently when management engage in aggressive accounting practices, but only if board independence is high and if there is an accounting expert on the audit committee. Finally and contrary to the findings of much prior research, majority independent audit committees are found to meet less often. While the third finding supports the argument that independence and expertise are elements of effective oversight of the financial reporting process, the fourth suggests a shirking of responsibilities by independent directors. On the other hand, it may be explained by a lower demand for regular meetings to be held by independent directors who are considered to be more competent monitors.

3.2.4. Directors' Remuneration and Incentives

Central to agency theory is the incentive problem created by the separation of ownership from control. Externally, managers' and directors' incentives come from the market for corporate control and the labour markets. Internally, performance-linked compensation serves to incentivise directors to ensure that the company is managed in a manner consistent with shareholder wealth maximisation (Fama, 1980; Demsetz, 1983).

Fama (1980) contends that internal policies must incentivise directors to bear risk and to adhere to their responsibilities, compensating them for their efforts in accordance with the wage revision process. Fama argues that the labour market imposes a method of wage revaluation through the process of ex-post settling up. This argument assumes that a director's past and current performance conveys information regarding his on-the-job consumption of perquisites to the labour market. The labour market uses this information to revise the director's future wages both in his current and future positions. Since directors are aware that this process is in operation, it provides a mechanism of neutralising directors' deviations from their contracts.

Fama (1980) cautions that full ex-post settling up may not occur and as shareholders cannot directly observe the amount of effort directors expend on maximising their wealth. Accordingly, directors' compensation must be tied to the performance of the company (Murphy, 1985; Benston, 1985). Fama (1980, p.293) maintains that if executives are aware that their positions are secure only as long as the healthy performance of the company is maintained they should be *"the most informed and responsive critics of the firm's performance"*.

Notwithstanding this, it is contended that directors' compensation cannot rely solely on the performance of the company, which may at times suffer for reasons beyond directors' control. Compensation contracts must be structured so as to attract and retain managerial talent (Jensen and Murphy, 1990; Rosen, 1990). The demand for talent is argued to increase with the size and of the company and the complexity of its business; thus, larger companies which operate in competitive and risky environments may compensate their directors more generously (Conyon, 1997; 1998).

The link between pay and performance is tenuous; measuring performance using shareholder returns is subject to the caveat that stock returns are extremely sensitive to external shocks (Murphy, 1985; Jensen and Murphy, 1990; Conyon and Leech, 1994; Conyon, 1997). Company performance may also be assessed in terms of sales (Cosh, 1975; Jensen and Murphy, 1990) and profitability (Meeks and Whittington, 1975; Cosh, 1975; Cosh and Hughes, 1997) or using industry benchmarks (Barber and Lyon, 1996; Core and Larcker, 2002). Empirically, the sensitivity of directors' pay to company performance is often examined by assessing annual changes in the pay awarded to directors, or to the CEO, relative to changes in the wealth of the company's shareholders (Jensen and Murphy, 1990; Yermack, 1996; Coles, Daniel and Naveen, 2014). Measures of changes in shareholder wealth tend to incorporate both stock returns and the value of the firm.

In practice, the determination of remuneration packages for directors as individuals is problematic since the contribution made by each board member is only observable as the total output of their work as a team (Easterbrook and Fischel, 1981; Murphy and Oyer, 2003).

Murphy and Oyer (2003) vindicate that since no suitably objective measure exists, subjective methods of evaluating managers' and directors' contributions must be used. The remuneration committee provides one means of achieving such an appraisal (Main and Johnston, 1992; 1993; Conyon, 1997; Gregory-Smith, 2012).

Effective oversight by the remuneration committee is argued to rely on its independence from management (Williamson, 1985) as independent directors are more likely to constrain the inflation of emoluments, particularly when their own compensation is fixed. However, it is not uncommon for a number of executives to serve on the remuneration committee (Main and Johnston, 1992; Gregory-Smith, 2012). The power which management may wield in negotiating compensation contracts may result in remuneration packages exacerbating agency problems rather than reducing them (Bebchuk and Fried, 2003). It is, however, argued that the potential for disproportionate remuneration packages is limited by lobbyist and market forces (Jensen and Murphy, 1990; Bebchuk, John and Guhan 2002; Holmstrom, 2005).

Directors' Pay

In the short-term, managers and directors are compensated with basic payments of fees and salaries. Annual cash bonuses may also be awarded to executive directors as a short-term incentive (Conyon, Gregg and Machin, 1995; Murphy 1999). Executives may also be entitled to other benefits such as pension contributions as part of their long-term contract with the company (Murphy, 1999). While there tends to be a going-rate for basic pay and benefit entitlements, bonuses are largely subject to the discretion of the remuneration committee (Murphy and Oyer, 2003). Thus, bonuses may serve as one method of compensating directors for their individual contributions, provided that individual contributions are fairly assessed. Empirical results show that the relationship between such direct compensation and the performance of the company is weak (Jensen and Murphy, 1990; Gregg, Machin and Szymanski, 1993; Conyon, Gregg and Machin, 1995). Consequently, shareholders' wealth relies largely on the efficiency of long-term incentive contracts.

Directors' Share Ownership

Incorporation of stock-based income into executive compensation packages is believed to serve as means of aligning the interests of executive directors with those of shareholders (Demsetz, 1983). By granting stock and stock options to directors, risk-bearing may be more uniformly allocated between directors and shareholders and decision-making by the board is apt to be controlled with greater prudence (Jensen, 1993). In effect, directors will be more likely to work toward the long-term maximisation of firm value if they own, or have the option to own, a stake in the firm.

Shivdasani (1993) shows that a company's likelihood of being targeted for takeover is lower when its non-executive directors have an ownership stake in the company. This suggests that monitoring by incentivised non-executive directors reduces the need for takeover market discipline. Nevertheless, since contracts with non-executive directors are only established on a short-term basis, equity based compensation, such as share options, tends not to be awarded to non-executive directors as it might impair their independence or affiliate them more closely to the firm.

O'Sullivan and Wong (1998) show the likelihood of a hostile response to a takeover decreases with increasing levels of executive ownership. Moreover, the likelihood of such bids being successful increases with increasing levels director ownership. These findings indicate that when directors have a substantial stake in the company, takeover bids are only made after the bidder secures the approval of directors and that bids made when this approval has been given are more likely to succeed. While this suggests that the costs of a takeover may be lower for companies with higher levels of executive ownership, it also implies that directors with high ownership interests have considerable power to determine whether or not bids are made for the company. If such directors refuse to approve bids, the effectiveness of the market for corporate control may be impaired. Cyert, Kang and Kumar (2002) show that as directors' equity stakes in the company increase, they exert greater control over managerial compensation. Cyert, Kang and Kumar also find that such enhanced monitoring reduces the need for disciplinary takeovers.

As discussed in Chapter Two, it may be argued that profits from insider dealing constitute as an element of executive compensation (Manne, 1966; Carlton and Fischel, 1983). Executives who engage in insider trading are argued to have greater incentives to bear risk (Bebchuk and Fershtman, 1994). Since insider dealing may be legally prohibited, equity-based compensation may offer a substitute. Denis and Xu (2013) find that executive compensation is significantly higher and contains a greater fraction of equity in countries with stronger insider trading restrictions. Sanders and Hambrick (2007) show that granting equity may be effective in encouraging CEOs to bear risk; however, it may also result in the company suffering large scale losses.

The Balance between Interest Alignment and Entrenchment

Stock ownership may have an incentivising effect on directors and effectively align their interests with those of shareholders. It is, however, argued that such effects are limited to low levels of ownership (Byrd and Hickman, 1992) since at high levels of director ownership, entrenchment effects may outweigh the benefits of interest alignment.

Morck, Shleifer and Vishny (1988b) study the relationship between directors' ownership stakes in US firms and the market valuation of those firms and find that as board ownership increases from 0% to 5% of the company's equity, the market valuation of companies improves. At board ownership levels between 5% and 25%, the relationship inverts. Market valuation continues to decrease at ownership levels beyond 25%; however, the decline is much slower. Morck, Shleifer and Vishny interpret these findings to indicate that as boards' ownership stakes grow toward 5%, they are incentivised to enhance the value of the firm. As their stake increases further, the value of the firm suffers as directors become entrenched and avoid risk-taking. When the board owns more than 25% of the company, entrenchment effects tend not to become any more pronounced.

A study on UK data by Short and Keasey (1999) reveals a relationship between the proportion of board ownership and (i) market valuation and (ii) shareholders' returns which is comparable to that reported by Morck, Shleifer and Vishny, with the exception that the turning points occur at much higher ownership levels. Shareholder returns and market valuation increase as board ownership increases to 15% and 13% respectively. Entrenchment effects are observed to increase as board ownership rises to 42% of the company's equity. The higher ownership levels at which the relationships invert are believed to be a characteristic of the UK regulatory and ownership infrastructure where takeover defences are more strictly prohibited and the monitoring activity of institutional shareholders is more strongly co-ordinated. These factors make it difficult for directors to insulate themselves from the intervention of the both market for corporate control and activist shareholders.

A further UK study by Mura (2007) also shows that the entrenchment effects of board ownership are stronger than the incentivising effects once the board owns more than 15% and entrenchment effects increase between ownership levels of 15% and 45%. Mura also studies the effect of share ownership on non-executive directors alone and finds no evidence of an incentivising effect. While this may indicate that there is a lesser need to incentivise non-executives, Mura notes that the results may be due to the low proportions of shares held by non-executives in the UK, reflecting the view held in UK corporate governance guidelines that the shareholdings of non-executive directors may compromise their independence and impartiality.

In light of this evidence, one might reasonably argue that directors' shareholdings ought to be at a sufficient level so as to align their interests with those of shareholders without reaching the extent at which they accumulate excessive control over the company and become entrenched, compromising the performance of the board in its capacity as a corporate governance device and potentially inhibiting the effective operation of the market for corporate control.

3.3. The Board of Directors and Corporate Governance Quality

A central tenet of this study is that each of the areas of corporate governance discussed in the previous section serves as primary means of protecting shareholders' interests. More specifically, through careful implementation and monitoring of each area, agency costs arising from the separation of ownership from control may be reduced. Thus, a key focus of this thesis is corporate governance quality (CGQ). CGQ is defined as the extent to which the corporate governance mechanisms examined in this thesis lower the agency costs borne by the company's shareholders. Much of the research discussed in this chapter has employed a variety of variables to measure board efficacy and corporate governance effectiveness. A summary of this research is provided in Table 3.1. This study will measure CGQ in each area through a series of variables defined in Chapter Five. This thesis posits that collective assessment of the facets of corporate governance discussed in the previous section should provide for an effective indicator of CGQ.

3.4. Conclusion

This chapter has identified that the board of directors is a mechanism of corporate governance which serves both as a substitute and a complement to the market for corporate control in limiting agency costs in companies. Independence is a crucial element of an effective board of directors (Weisbach, 1988; Hermalin and Weisbach, 1998); however, true independence from management may be difficult to achieve (Bhagat and Black, 1999; Fich and White, 2003; Larcker, Seary, Richardson and Tuna, 2005). This chapter has highlighted the opportunity for the board's independence to be impaired when its CEO holds the position of board chairman (Fama and Jensen, 1983b; Dahya, Lonie and Power, 1996). It has also discussed how, in the absence of unambiguous guidelines on board size, a board may lack sufficient members so as to fully discharge all of its duties (Baysigner and Butler, 1985) or grow to size at which it becomes dysfunctional (Jensen, 1993). In addition, where the holding of meetings is viewed by boards merely as a box-ticking exercise, meetings may not be held at short notice when problems and crises arise (Hahn and Lasfer, 2007).

Table 3.1: Variables Employed in Prior Research to Measure Board Characteristics		
Characteristic	Variable Definition	Researchers
Board Leadership		
Board meetings	No. meetings in the year	Vafeas (1999), Xie, Davidson and DaDahlt (2003), Hahn and Lasfer (2007), Joe, Louis and Robinson (2009), Zaman, Hudaib and Haniffa (2011).
CEO-chairman duality	1 if the CEO chairs the board, 0 if otherwise	Core, Holthausen and Larcker (1999), Laing and Weir (1999), O'Sullivan and Wong (1999), O'Sullivan (2000), Beasley and Salterio (2001), Goyal and Park (2002), Faleye (2003), Gillan, Hartzell and Starks (2003), Abbott, Parker and Peters (2004), Boone *et al*. (2007), Raheja (2007), McKnight and Weir (2009), Carcello *et al*. (2011), Zaman, Hudaib and Haniffa (2011), Masulis, Wang and Xie (2012)
Board Effectiveness		
Proportion of executive directors on the board	% executives on the board	Yermack (1996), McWilliams and Sen (1997), Core, Holthausen and Larcker (1999), Harford (2003), Xie, Davidson and DeDahlt (2003), Armstrong, Ittner and Larcker (2012).
Board size	No. directors on the board	Yermack (1996), Eisenberg, Sundgren, Wells and Martin (1998), Core, Holthausen and Larcker (1999), Vafeas (1999), Beasley and Salterio (2001), Loderer and Peyer (2002), Faleye (2003), Gillan, Hartzell and Starks (2003), Xie, Davidson and DaDahlt (2003), Anderson, Mansi and Reeb (2004), Song and Windram (2004), Boone *et al.*(2007), Chen and Zhaou (2007), Hahn and Lasfer (2007), Guest (2009), Mallin and Ow-Yong (2012), Masulis, Wang and Xie (2012).
Director independence	% independent directors on the board	Yermack (1996), McWilliams and Sen (1997), Gillan, Hartzell and Starks (2003), Harford (2003), Anderson, Mansi and Reeb (2004), Chen and Zhaou (2007), Hahn and Lasfer (2007), Joe Louis and Robinson (2009), Mallin and Ow-Yong (2012), Masulis, Wang and Xie (2012).
The Audit Committee		
Audit committee size	No. members on the audit committee	Archambeault and DeZoort (2001), Beasley and Salterio (2001), Felo, Krishnamurthy and Solieri (2003), Xie, Davidson and DaDahlt (2003), Anderson, Mansi and Reeb (2004), Chen and Zhaou (2007), Barua, Rama and Sharma (2010), Avison and Cowton (2012).
Audit committee independence	1 if the audit committee is composed of a majority of independent members, 0 if otherwise	Klein (2002b).
Audit committee meetings	No. audit committee meetings in the year	Menon and Williams (1994), Collier and Greggory (1999), Archambeault and DeZoort (2001), Xie, Davidson and DaDahlt (2003), Anderson, Mansi and Reeb (2004), Song and Windram (2004), Chen and Zhaou (2007), Lennox and Park (2007).
Directors' Remuneration and Incentives		
CEO pay to performance sensitivity	Annual change in CEO pay: Annual change in shareholder wealth	Jensen and Murphy (1990), Yermack (1996).
Board shareholding	% equity owned by all directors	Morck, Shleifer and Vishny (1988b), McWilliams and Sen (1997), Klein (1998), Short and Keasey (1999), Boone *et al.* (2007), Mura (2007), Mallin and Ow-Yong (2012), Masulis, Wang and Xie (2012).

A suitably experienced, independent and active audit committee should serve to monitor the financial integrity of the company (Carcello and Neal, 2000) and to align information asymmetries between shareholders and managers (Klein, 1998). However, there are apparent difficulties in achieving a balance of independence and financial expertise (Klein, 2002b; Brown and Caylor, 2006; Cohen *et al*., 2008). Thus, asymmetries may well exist between shareholders and management with respect to information on the company's financial soundness. These asymmetries coupled with the difficulties associated with incentivising directors appropriately (Jensen and Murphy, 1990; Conyon, Gregg and Machin, 1995) imply that, although the board performs an essential role as an internal control device, it is by no means a perfect solution to agency problems.

The board of directors often serves as a less costly alternative to the market for corporate control; yet, it is not always fully effective in safeguarding shareholders' interests. Shareholders in UK listed companies may make use of the rights afforded to them under the legal system to actively monitor and voice their concerns with management. However, both academic and policy-level research has found that shareholders in the UK tend to take a passive approach to governance (Franks and Mayer, 1997; Goergen and Renneboog, 2001; Myners, 2001; Goergen, Renneboog and Zhang, 2008; the Kay Review, 2012). As a consequence, external intermediaries appear to have an important role to perform in exposing the shortcomings of managers and directors, potentially reducing agency costs in dispersedly owned companies. Chapter Four considers how one specific intermediary, the news media may perform such a role.

CHAPTER FOUR: THE ROLE OF THE NEWSPAPER MEDIA IN CORPORATE GOVERNANCE

4.1. Introduction

Agency costs exist largely because of information asymmetries which exist between shareholders and management (Jensen and Meckling, 1976). Disclosure of company information is, therefore, a central element of an effective system of corporate governance. Disclosure is also essential for the effective functioning of the capital markets (Healy and Palepu, 2001). Healy and Palepu note three ways through which information is disclosed to shareholders: (i) the financial reporting process which companies in the UK must follow by law, (ii) voluntary company disclosures and (iii) disclosure by external information intermediaries such as analysts, industry experts and the financial news media.

Bushee *et al*. (2010) define an information intermediary as an actor which provides information which is new and useful to other parties. Many information intermediaries in the company environment are also referred to as gatekeepers of company information. Coffee (2001) expounds that corporate governance relies on gatekeepers to protect shareholders' interests by providing accurate and unbiased reports of the company's financial performance such that an objective assessment of the value of the firm can be made.

Certain intermediaries are not independent from management and those contracted by the company may well prioritise the interests of managers over those of shareholders and other stakeholders (Kothari, Li and Short, 2009; Dyck, Morse and Zingales 2010). Among these parties are PR and Investor Relations (hereinafter, IR) agents. While one might expect intermediaries such as auditors and analysts to act as agents of shareholders, there are considerable opportunities for their loyalties to become misplaced as they often provide further services to the company and receive fees from management in return (Black, 2001a; Coffee, 2001, 2002; 2004; Borden, 2007).

Kothari, Li and Short (2009) argue that the news media's incentives to be unduly optimistic are muted because of its independence from the companies on which it reports. Auditors, analysts, PR and IR agents are apt to possess more specialised knowledge of business, management and finance than journalists; however they lack the ability to communicate to a variety of audiences simultaneously. Bushee *et al*. (2010, p.2) assert that:

"The business press is perhaps the broadest and most widely disseminated of all potential information intermediaries, reaching both sophisticated and unsophisticated investors as well as managers, regulators and other market participants".

The news media is viewed as a more accessible information intermediary which consolidates information, often collected from other intermediaries, and repackages it in a format which its audiences can easily digest (Deephouse, 2000), thereby lowering the information costs faced by certain parties (Dyck, Volchkova and Zingales, 2008).

4.2. The Newspaper Media and Corporate Governance

The past two decades have witnessed a proliferation of corporate governance issues and matters of management accountability in the news media (Carroll and McCombs, 2003, Borden, 2007; Brickley, 2008) and the publicity surrounding many corporate governance 'scandals' has been associated with developments in corporate governance policy both in the UK (Jones and Pollitt, 2001; Dyck and Zingales, 2002a) and internationally (Dyck and Zingales, 2002a; Melis, 2005; Borden, 2007; Dyck, Volchkova and Zingales, 2008). In some instances, the news media also appears to have a direct effect on corporate governance behaviour within companies (Farrell and Whidbee, 2002; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009).

Dyck, Moss and Zingales (2008) point out that certain issues lend themselves better to certain media vehicles. For instance, natural disasters are best covered on television, given that the appeal of such stories to audiences may be visually and audibly augmented. News stories regarding companies and the stock markets, on the other hand, tend not to require a high degree of graphical or audio enhancement and can be presented in more detail through the written word. Dyck, Volchkova and Zingales (2008) show that broadsheet newspapers are particularly effective in this respect.

4.2.1. The UK Broadsheet Newspaper Media

In the UK, newspapers fall into the category of either broadsheets or tabloids. The former refers to newspapers which target an elite audience of generally upper to middle class readers. The editorial and presentational style of broadsheets is characterised by serious journalism with an emphasis on politics and economics. The latter category caters more for audiences of lower social classes and is characterised by populist and sensationalist journalism (Chandler and Munday, 2011). Specialist business, financial and economic broadsheet newspapers provide very specific information, commentary and analysis on companies, the stock markets and the economy (Davis, 2005; 2006; Doyle, 2006); however, as is illustrated in Chapter One, the number of widely circulated specialist publications in the UK is limited.

Online access to news is customary in the contemporary corporate and market environment (the Financial Times, 2010). Newswire services have, for many years, reported news on companies almost instantaneously; however, they do not offer the news coverage provided by newspapers. UK newspapers are developing a growing presence on the internet (the Reuters Institute, 2014). Nevertheless, alternative online media vehicles often provide coverage in a timelier and more accessible manner. Increasingly, online news aggregators and real-time news websites present a challenge to newspapers and the role of professional journalists is being assumed, to a growing extent, by citizen journalists reporting via social media websites and blogs (the Reuters Institute, 2014). In spite of this, legacy newspaper titles have earned the trust of their readers and a reputation for credibility which has not yet been achieved by internet news sources (Deloitte, 2014). Trust in UK newspapers has declined in recent years (Edelman, 2013; Deloitte, 2014), following the exposure of ethical failures by UK journalists in the Leveson Inquiry into the Culture, Practices and Ethics of the Press of 2012 (hereinafter, the Leveson Inquiry) (see Appendix E). It is important to bear in mind, however, that the Leveson Inquiry was predominantly a response to ethical lapses by journalists reporting for tabloid publications and the quality and reliability of broadsheet journalism is in fact commended at various points throughout the Report of the Inquiry (hereinafter, the Leveson Report).

Maintaining the trust and loyalty of readers in the shadow of the doubt cast over journalistic principles, in an increasingly competitive environment, is thus a current challenge facing the broadsheet newspaper media, which is considered in detail in Chapter Nine of this thesis. Notwithstanding this, newspapers are regarded a main source of news coverage in the UK. According to Ofcom[28] (2013), newspapers are the second most accessed news platform in the UK, with television being accessed most.

4.3. The Roles of the Newspaper Media in Corporate Governance

The newspaper media, the broadsheet newspaper media in particular, may serve a number of roles in the corporate environment; these include its role as an information intermediary, a corporate watchdog and an influence on managers' and directors' reputations.

4.3.1. The Newspaper Media as an Information Intermediary

Bushee *et al*. (2010) maintain that the newspaper media is an intermediary which can shape companies' information environments by creating new information through journalism activities, by packaging information from many sources, and by disseminating it, not only to shareholders, but also to managers, directors and corporate regulators.

Press scrutiny of corporate governance standards has a discernible impact on both the actions of investors and directors. Johnson *et al*. (2005) and Joe, Louis and Robinson (2009) investigate shareholders' responses to BusinessWeek's publication of its 'Best and Worst Performing Boards' list. The list is the result of a survey of institutional investors' assessments of board effectiveness based on best practice guidelines articulated by governance experts (Johnson *et al*., 2005). Both studies find that companies included on both the best board and worst board lists enjoy post-publication positive abnormal returns. Johnson *et al*. propose that

[28] Ofcom is the independent regulator and competition authority for the UK communications industry.

the positive returns experienced in companies with underperforming boards indicates that investors expect boards to improve their performance in response to media criticism. Joe, Louis and Robinson (2009) provide more insight by identifying differences in investors' responses. Individual investors exit companies on the worst board list while more sophisticated institutional investors buy their shares, anticipating board reform in response to negative media coverage. Consistently, Joe, Louis and Robinson show that BusinessWeek's scrutiny of boards' observance of corporate governance standards leads to replacements of CEOs and chairmen; increases in independence and a reduction in the number of staggered boards.

It is important to clarify that, in the context of business and finance, broadsheet newspapers often do not communicate news, rather they report, comment and analyse news which is usually released by other sources such as newswires and press releases. Accordingly, it must be acknowledged that the extent of information which mainstream broadsheet newspapers provide to professional investors, who tend to access real-time specialist news sources, is limited. Notwithstanding this, the mainstream news media have a unique ability to generate publicity around issues and events in companies such that they take greater priority on the public agenda (Carroll and McCombs, 20003). In effect, the actions of boards are subject to greater scrutiny by a variety of product and labour market participants as well as corporate regulators and the policymakers who appoint them.

Stories about corporate governance problems carried by general broadsheet newspapers may well create significant implications for the board in terms of the company's relationship with its broader stakeholders. For instance if the company loses customers due to negative newspaper reports, its profits may suffer which may impact directors' performance-linked remuneration (Wade, Porac, Pollock and Graffin, 2006; Liu and Taylor, 2008). Newspaper coverage of management opportunism and director underperformance is believed to increase the voting public's awareness of the need for the construction and enforcement of effective corporate governance rules, causing policymakers to surrender to populist sentiment (Dyck, Volchkova and Zingales, 2008; Bebchuk and Neeman, 2010). Traditionally viewed as the Fourth Estate of the Government (Carlyle, 1841; Baron, 2003; Davis, 2009; Brand, 2010), broadsheet newspapers were thought of as a vehicle for political oversight which informed the voting public on national issues that required regulation and intervention. News media coverage has been cited as a contributing factor to the development and adoption of codes of best practice in corporate governance in the UK during the 1990s and 2000s (Jones and Pollitt, 2001; 2004; Dyck and Zingales, 2002a). More recently, Ferri and Maber (2013) posit that the prevalence of disparaging newspaper headlines concerning the levels of remuneration awarded to executives in UK companies may have been a driving factor behind the construction of the Directors' Remuneration Regulations, 2002 (hereinafter, the DRRs), which are currently implemented under Section 439 of the Companies Act 2006. The DRRs require that, in quoted companies, the directors' remuneration report for every financial year must be approved by shareholders, granting shareholders an effective 'say on pay'.

In sum, by functioning as an information intermediary between the company, its shareholders and its broader stakeholders, the newspaper media can create significant ramifications for the company's share price, its relationship with corporate regulators and the remuneration and career prospects of its managers and directors such that newspaper reporting may have a meaningful impact on the board's efforts to protect shareholders' wealth.

4.3.2. The Newspaper Media as a Corporate Watchdog

A number of commentators on the role of the board of directors in corporate governance have posed the question 'who monitors the monitors?' (Scott, 1983; John and Senebet, 1998). Scott considers responsibility for executive oversight to lie with outside board members, while John and Senebet maintain that the market for corporate control ultimately monitors the board as a whole. The previous chapters have identified imperfections in each of these methods and an effective corporate governance system appears to depend on an appropriate interaction between these systems. This thesis proposes that this interaction may be enhanced in the presence of an additional external watchdog such as the newspaper media.

Journalists observe and investigate company environments and make stakeholders aware of deviations from norms (Shoemacker, 1996). Thus, where shareholder protection is accepted best practice, newspaper coverage should alert shareholders and other stakeholders of instances where boards fail to perform their duties as monitors of management. Miller (2006) finds that the news media may perform a corporate watchdog role either through investigative journalism or by rebroadcasting information. While investigative journalism aids early detection of corporate malpractice, the effects of rebroadcasting information, such as annual and interim results and merger and takeover announcements, should not be underestimated. Publishing information subsequent to it being released by another source is vital for raising awareness of problems or concerns regarding the performance of a company or its board.

There are a number of factors which may discourage investigative journalism in instances of corporate fraud and malpractice. Firstly, newspapers may face conflicts of interests if they have affiliations or advertising contracts with companies in which malfeasances have occurred (Miller, 2006). Secondly, journalists may be accused of inducing market panic (Lloyd and Watson, 1999; Miller, 2006); for example, a considerable amount of blame was placed with a prominent journalist at the British Broadcasting Company (hereinafter, the BBC) who reported on liquidity problems at the UK bank, Northern Rock, prior to its collapse in 2007. While the report was solidly grounded, it is argued that it triggered a run on the bank which led to its demise (Tambini, 2008). Thirdly, journalists who reveal corporate misconduct may face problems in accessing company information in future (Miller, 2006; Dyck, Morse and Zingales, 2010). Fourthly, since frauds and malfeasances, by nature, are concealed by the parties involved, they are difficult to detect. Because there is no certainty that investigate journalism will produce results, it tends only to be supported by news agencies on an occasional basis (Doyle, 2006; Lewis, Williams, Franklin, Thomas and Mosdell, 2010). Finally, the possibility of breaching libel and defamation laws may stifle the incentives of the newspaper media to report on possible instances of self-dealing by management, unless the malfeasance can be confirmed (Lloyd and Watson, 1999; Black, 2001a).

The news media's support of Enron prior to its collapse has brought its success as a monitor into question (Sherman, 2002; Doyle, 2006). Dyck and Zingales (2002b) note that the media were too consumed in the stock market euphoria of the time to cast doubt over Enron's strong performance indicators, which were the product of illegitimate financial engineering. It may be argued that if media watchdogs did bark earlier in the Enron case, few would have listened. The economist J.K. Galbraith (1990) noted that in times of market prosperity, only an exceptionally courageous journalist will challenge financial euphoria since neither the market nor the public mentality is willing to accept any misgivings about their wealth.

The news media may serve as a watchdog for minority shareholders. Lauterbach and Pajuste (2014) show that negative broadsheet newspaper sentiment creates hostile public opinion on dual class share structures in Continental European companies. Dual class share structures may render minority shareholders vulnerable to expropriation by controlling shareholders and serve to insulate management from the threat of takeover (Bebchuk, Kraakman and Triantis, 2000; Nenova, 2003). Such negative public opinion puts pressure on controlling shareholders in Western European companies to unify dual class shares into a single one share-one vote class. Lauterbach and Pajuste discern that, after the unifications, the newspapers continue to safeguard the interests of minority shareholders in such companies in that persistent newspaper scrutiny drives sustained governance improvements and reduced extraction of private benefits by dominant shareholders. Braggion and Giannetti (2013) observe that UK broadsheet newspapers in the 1950s also adopted a similar negative view of dual class share structures which influenced investors' preferences for voting shares, limiting London listed companies' ability to use dual class structures. Braggion and Giannetti, however, note that such coverage may not have created any benefits for shareholders in terms of enhanced profitability or performance.

Journalists' skills in monitoring certain basic governance issues such as board composition have received some criticism. Bednar (2012) argues that once boards adhere to formal independence standards, journalists may be insufficiently skilled to detect grey areas such as social ties between directors. He argues the media can even legitimate boards which are not suitably composed to provide adequate oversight of executives. Thus, there are considerable limitations to the newspaper media's ability to act as a corporate watchdog. Nevertheless, by rebroadcasting information, it may make key parties aware of problems in companies such that remedial action may ensue.

4.3.3. The Newspaper Media's Power to Shape Reputation

Much regard is given to newspapers for their influence over reputation, both that of the company and its directors. By reporting on managers and directors, the newspaper media increases the number of people who learn about their behaviour (Dyck, Volchkova and Zingales, 2008). Since directors are believed to be incentivised by the desire to uphold reputations as expert monitors in order to secure future board appointments (Fama, 1980; Zajac and Westphal, 1996) and to access finance from the capital markets (Diamond, 1989; Gomes, 2000), they seek to avoid bad press. Wiesenfeld, Wurthmann and Hambrick (2008) illustrate how corporate failure leads to stigmatization and devaluation of the actors responsible for the failure which causes downward settling up in the labour markets. Wiesenfeld, Wurthmann and Hambrick portray the news media as an arbiter which explains the causes and consequences of corporate failure to outside observers and attributes blame to those actors responsible. The board of directors stands to bear most of this blame as it is their responsibility to oversee the management of the company. As a result, the news media penalises directors for their negligence by devaluing their reputations with potential employers and impairing their ability to secure future board positions.

Westphal and Deephouse (2011) acknowledge the potential of the newspaper media to impose reputational costs on directors. However, they note that directors, particularly CEOs, are powerful individuals who are often established or even entrenched within the firm with an array of corporate resources at their disposal which they may use to protect their reputations. Hence, executives are often in a position to challenge journalists in response to newspaper criticism which they describe as 'negative reciprocity'. In fact, negative reports may even go unpublished because directors may ingratiate journalists with tangible and intangible favours.

As a consequence of this power, CEOs often appear as celebrities in the media (Hayward, Rindova and Pollock, 2004); however, 'superstar CEOs' are not necessarily better leaders or guardians of shareholder wealth (Malmendier and Tate, 2009). Malmendier and Tate show that CEOs who achieve celebrity status in the media are often excessively compensated and are more likely to manipulate earnings. Thus, like traditional methods of corporate oversight and control, the ability of the news media to constrain and discipline managers and directors relies on it remaining independent from the influence of dominant self-interested executives (Dyck and Zingales, 2002b; Westphal and Deephouse, 2011).

The newspaper media may also have an impact on directors' actions through its influence over the company's reputation in the product markets (Fombrun and Shanley, 1990). Reputation is a valuable firm asset and reputation management is critical to the success of a company in terms of profitability and its positioning within an industry (Itami and Roehl, 1987). Hall (1992, p.143) notes that:

"Reputation, which is usually the product of years of demonstrated superior competence, is a fragile resource; it takes time to create, it cannot be bought and it can be damaged easily".

Deephouse (2000) argues that newspaper coverage contributes more to a company's reputation than exposure by other forms of media. This is because the newspaper media is a more trusted source of information for corporate stakeholders who do not directly engage with the company. Moreover, audiences recall information they learn from newspapers more readily than they do from other sources of news such as television or radio.

4.4. <u>The Suitability of the Broadsheet Newspaper Media</u>

A number of characteristics of the broadsheet newspaper media must be assessed in order to evaluate its capacity to serve a meaningful role in corporate governance. These are its credibility, accuracy, timeliness, accessibility and independence.

4.4.1. Credibility

The media has been accused of sensationalising issues in order to sell papers (Jensen, 1979). This view assumes that audiences prefer entertainment over factual information and that, as a consequence, newspapers do not always tell the full truth. For the broadsheet newspaper media to effectively perform a role in corporate governance, reports must be credible. If newspaper reports are not credited by investors, regulators and the broader public, underperforming or self-serving managers and directors are unlikely to incur regulatory or reputational penalties (Dyck and Zingales, 2002a; Dyck, Volchkova and Zingales, 2008).

Dyck and Zingales (2002a) claim that the more newspapers that circulate throughout a country, the greater the level of competition to acquire a reputation for credibility. Young (2000) argues that the competition necessary to promote accurate and objective reporting may not be present in the UK media industry, where considerable barriers to entry are created by tight ownership links, existing levels of concentration and high price structures. Such conditions are not conducive to the provision of a plurality of views. The ownership of the UK media industry is discussed further in Section 4.4.5.

Journalists may need to directly engage with companies to effectively monitor the activities of their management and provide a full account of an event or issue. While inclusion of direct quotations of comments made by key executives may enhance the perceived credibility of a newspaper report, executives may only offer information if it paints them in a positive light (Westphal and Deephouse, 2011). Thus, information acquired directly from a company, or from its PR agents, can reduce the credibility of a newspaper story. Dyck and Zingales (2002b) note that the most credible newspapers refrain from engaging in quid-pro-quo relationships with companies as this ultimately damages their reputations.

In recent years, budgetary pressures at many UK broadsheet newspapers have left many journalists with no other option than to acquire information at little or no cost from PR agents (Lewis *et al*., 2010). Although not all PR efforts are intended to distort the truth, it is considered good journalistic practice to verify PR material with a third party (Tambini, 2008). As UK newspapers face increasing competition from online real-time news providers, journalists may be forced to forsake such veracity so as to cover the news in a timelier manner than they have done traditionally (Lewis *et al*., 2010). This creates the risk that broadsheet newspaper reports of the future will be based more on the pre-packaged news provided by PR agents. This risk is assessed further in Chapters Eight and Nine.

4.4.2. Accuracy

Lloyd and Watson (1999) contend that if newspapers report facts accurately, the question of credibility does not arise. It is expected that broadsheet journalists aim to produce accurate reports since to do otherwise would create a risk of being accused of getting a story wrong, thereby injuring the newspaper's reputation and costing it readers (Deephouse, 2000). Zingales (2000) argues that readers will only form opinions based on newspaper reports when they believe the information they contain to be accurate and reliable.

Lloyd and Watson (1999) note that the financial press in the UK traditionally took an entirely objective approach to journalism, reporting only precise facts without comment or opinion. Such strict objectivity has become uncommon and is in fact undesirable. Within the mainstream newspaper media, comment and opinion is required by those who are not fully educated in complex topics, such as developments in the world of business and finance (Deephouse, 2000). Even within the contemporary specialist financial press, analysis is expected by investors who wish to evaluate a range of opinions before making the decision to trade shares (Doyle, 2006).

It is possible for newspapers to adopt an optimistic or sceptical tone while remaining accurate; however, it is perhaps inevitable that the tenor of newspaper reports will influence audiences' perceptions of issues, whether or not this is the intention of the reporter (Tetlock, 2007). Brickley (2008) recounts how Kenneth Lay, the former CEO and chairman of Enron, accused the Wall Street Journal of inducing market panic in its coverage of his trial, causing Enron's stock price to plummet. Because of the accuracy with which the Journal reported the facts on Enron's performance, Lay could not pursue this claim any further in court (Brickley, 2008). This would indicate that journalists have incentives to remain accurate as it serves as a type of insurance policy against being held liable for damages to a company's reputation.

Since newspaper reporters are specialists in journalism rather than accounting or finance, they may fail to provide an accurate assessment of all decisions taken by management. Tambini (2008) testifies that journalists find it difficult to interpret novel financial engineering processes let alone explain these processes to their more mainstream audiences. Doyle (2006) observes that it is common for business journalists in the UK to rely on experts to explain and interpret developments in companies. This, she explains, may position the news media lower in the informational hierarchy than what might be necessary to reveal executive malpractice. This indicates that, in terms of accuracy, the newspaper media may perform a more reliable role in corporate governance by repackaging and republishing information from other sources than it would through uncovering information obtained from direct investigation of the activities of managers, directors and other insiders.

4.4.3. Timeliness

In order to make a valuable contribution to corporate governance, newspapers must report information in a timely manner. Information reported in newspapers may be as much as 24 hours old. Accordingly, Tetlock (2011) describes newspaper content as 'stale information'. Tetlock explains that in an efficient market, where companies' share prices rapidly incorporate all value-relevant signals, new information becomes stale almost instantly. The speed with which developments occur in companies has also increased and reporting these in a timely manner poses a considerable process challenge to business journalists (Tambini, 2008).

These facts notwithstanding, newspaper coverage possesses much potential to trigger actions by investors. Tetlock (2007) finds that the tone of financial newspaper reports has an impact on market sentiment in the days following publication. In effect, a newspaper report which is critical of the performance of a company or its board may exert downward pressure on its share price over the following trading days. This is because investment decisions are often based both on available news and investors' knowledge of the past performance of individual stocks. Negative newspaper commentary reinforces negative perceptions of firms about which there has been bad news in the past days. It is unlikely that this sentiment is due to the reports of other intermediaries such as analysts, which are argued to be less timely than those released by business and financial journalists (Kothari, Li and Short, 2009). Thus, while the information reported in newspapers may not be sufficiently timely to inform investors' immediate trading decisions, it may affect their perceptions of the company's board in the longer term.

4.4.4. Accessibility

One characteristic of newspapers which make them particularly suitable as an information intermediary in the context of corporate governance is that they make information readily accessible, thereby reducing the costs which interested parties face in learning about developments in companies. Unlike other information intermediaries, newspapers are a commercial product and a key objective of newspaper companies is to enhance their product offering. Accordingly, when journalists acquire vital information on a company, the newspaper outlet will not attempt to restrict their audiences' access to this information; rather it will sell it to them at an affordable price, possibly even advertising the story to increase sales. In contrast, other information intermediaries such as analysts, realising the value of the information they produce, may charge investors a high price for their reports (Borden, 2007). Furthermore, intermediaries whose interests may be more closely aligned with those of the company in question may create barriers to prevent investors from learning about developments and problems in the company. The potential for the interests of newspapers to be aligned with those of the companies on which they report is evaluated in the next subsection.

By rebroadcasting information released by specialist sources, newspapers make information more accessible to the public at large (Dyck and Zingales, 2002a; Miller, 2006). Business sections in mainstream newspapers are intended to be accessible to lay audiences. By avoiding the use of highly technical language, journalists at mainstream broadsheets can grant the general public access to the world of business and finance and provide them with insight into the broader implications of governance failures (Doyle, 2006). Although this may require journalists to put an entertaining spin on a story so as to capture and maintain the public's attention, it can increase society's awareness of the misconduct, dishonesty and failures of the managers and directors of companies they might otherwise consider reputable. Such coverage need not be restricted to the business sections of newspapers, reports which appear in the main sections of newspaper also have considerable potential to impact on the governance behaviour of the firm (Dyck and Zingales, 2002a).

The accessibility of broadsheet newspapers as information intermediaries means that not only do they make information accessible but they also serve as accessible platforms from which interested parties may communicate messages. This has both advantages and disadvantages in terms of corporate governance. In a positive sense, newspapers provide vehicles through which activist shareholders can conduct campaigns aimed at publically shaming management, directors and regulators so that they implement reform or even resign (Dyck, Volchkova and Zingales, 2008; Becht *et al*., 2010). At times of corporate wrongdoings, newspapers also provide an outlet through which insiders can blow the whistle (Borden, 2007; Dyck, Morse and Zingales, 2010). UK journalists have a moral obligation to protect confidential sources of information (the Press Complaints Commission Editors' Code, 2012, Provision 14); this provides whistleblowers with some assurance that they may remain anonymous.

There is, however, a darker side to the accessibility of the newspaper media. As noted in Subsection 4.3.3, newspapers may be exploited as channels through which PR campaigns can be conducted by or on behalf of powerful executives concerned with building and maintaining positive reputations (Westphal and Deephouse, 2011). While this is well and good when a positive reputation is merited, it is often not the case (Malmendier and Tate, 2009).

As discussed in Subsection 4.2.1, it is now customary for business and financial news to be accessed online. Search costs may be avoided almost entirely as news stories are shared among social networks on the internet. On the one hand, increased news access via online news aggregators and social media websites may come at a cost to a newspaper's readership. On the other, it can work to the advantage of newspapers. Journalists at UK broadsheets have exploited social media vehicles such as Twitter and Facebook to disseminate a certain amount of the newspaper's content and hence divert internet traffic to its website (Newman, 2011). Consequently, a company's stakeholders are more exposed to broadsheet newspaper coverage on issues in the company than ever before. Newspaper reports may be shared and discussed such that reading the newspaper becomes more of a social experience as readers help each other make sense of the news (Pew Research Centre, 2010; 2012; Reuters Institute, 2014). As a result, small private shareholders and broader stakeholders in the company who lack direct experience with its management may develop an understanding of the potential consequences of events and issues facing the company.

4.4.5. Independence

The capacity of a newspaper to effectively perform a corporate governance role depends largely on the degree to which it is independent from the companies on which it reports (Miller, 2006). If the newspaper's owner has ties to other companies, this may create bias in the newspaper's reports on affiliated companies. Doyle (2006) finds that financial journalists at UK broadsheets endeavour to maintain an arms-length relationship with the companies they report on and verify all information received from insiders with sources from outside the firm. As noted above, there is a risk that such veracity may suffer as the digital age places journalists under increasing time pressure, with the implication that newspaper reports may reflect a PR bias.

For a newspaper to objectively present the facts and serve as an unimpeded monitor of management and boards, it should also be free from government control. Djankov, McLiesh, Nenova and Shleifer (2001) believe that government censorship and libel laws reduce the credibility of information presented in newspaper reports, particularly where the government are permissive of collusion and corruption at the corporate level. Such governments may pressurise journalists to mislead readers as to the quality of governance in companies in that country or as to the integrity of its markets. They find that government control of the print media is less common than that of broadcasters. The UK has consistently ranked highly by international standards in terms of media freedom (Djankov *et al*., 2001; Freedom House, 2013). While the government does not strictly control any newspapers in the UK, broadsheets do harbour informal allegiances to various political parties (Chan and Goldthorpe, 2007; the Leveson Report, 2012). Djankov *et al*. opine that such affiliations may also weaken the objectivity of reporting on various topics. For instance, when a party is in government, a supporting newspaper may be less likely to criticise a weakness in its policies. Thus, when the need arises for a strengthening of corporate governance standards, not all newspapers might highlight this equally. Perotti and Volpin (2012) find that in countries characterised by high circulation of an independent and credible newspaper media, investor protection policies are more readily implemented. They believe that this is because the voting population becomes informed and educated and consider investor protection to be of importance. This constrains the potential for policymakers to be influenced by private interests.

The independence of newspaper companies may also be hampered by virtue of their ownership structures. Djankov *et al*. (2001) show that where media companies are not under government control, they are often owned by private families. Such owners can prevent journalists from reporting objectively and publishing critical commentary on companies with which the media company is affiliated through cross-shareholdings and pyramids (Besley and Pratt, 2006). Cross-shareholdings and pyramids are methods of concentrating voting control in the hands of certain shareholders who do not necessarily own a substantial amount of the company's equity (Becht, 1999; La Porta *et al*., 1999; Bebchuk, Kraakman and Triantis, 2000;

La Porta *et al*., 2000; Claessens, Djankov, Fan and Lang, 2002). The broader media industry in the UK is quite concentrated. While the UK Office of Fair Trading (hereinafter, the OFT) has a legal responsibility to examine large newspaper and cross-media mergers and takeovers[29], the Leveson Report airs caution regarding concentrated ownership of the UK media, especially with regard to the power held by the Murdoch family. This issue is considered in Appendix E.

It is also possible that the reporting journalist may have a personal ownership interest in a company on which he reports, which may leave him reluctant to report negative information on the company for fear of damaging its share price (Tambini, 2008). This may create incentives for rogue journalists to make trading profits on the basis of information they acquire on companies in the process of their work or to exploit their positions to manipulate a company's share price. Tambini notes one example of the latter which occurred in the UK in 2000, when two journalists at the tabloid newspaper, the Daily Mirror, employed their 'City Slickers' column in a share ramping scheme. A subsequent criminal investigation found them guilty of market abuse (Barnes, 2009). There are rules and guidelines on how journalists' should conduct their professional duties in a manner that remains independent from any interests they may have in shares. A summary of these regulations is provided in Appendix F.

While none of these features constitute the broadsheet newspaper media as a perfect information intermediary, it is proposed that the information it provides is sufficiently credible, accurate, timely, accessible and independently reported to compromise directors' reputations and increase shareholders' and other stakeholders' awareness and understanding of issues which may affect their interests. By virtue of their broad reach across society on a daily basis, broadsheet newspapers have unique incentives to maintain reputations for credibility, accuracy and independence such that they may serve a role in corporate governance in a manner unachievable by more traditional intermediaries, including auditors, analysts and PR agents, which in the past have failed to signal board underperformance (Black, 2001a; Coffee,

[29] The Enterprise Act 2002, s. 26.

2001; 2002; 2004; Agrawal and Chanda, 2005; Borden, 2007; Dyck, Morse and Zingales, 2010).

4.5. <u>The Determinants of News Media Reporting on Companies</u>

The news media's selection of a story, and the amount of resources journalists devote to reporting it, is largely governed by the expectation that the target audience will find it newsworthy. Wolf (2003 cited in De Mendonca-Jorge, 2008, p.54) defines newsworthiness as the "*characteristics which events should have in order to be turned into news*". Jamieson and Campbell (2001 cited in Miller, 2006, p.1007) claim that there are five characteristics of a newsworthy event; (i) it can be personalised, (ii) it is dramatic, violent or conflict-filled, (iii) it is actual and concrete, (iv) it involves novelty or deviance and (v) it involves an issue of on-going concern. According to De Mendonca-Jorge (2008), the newsworthiness of events depends on their timing, proximity to the news audience, the degree to which they deviate from the status quo and their implications for the audience. More recent evidence indicates that, as newspapers develop an online presence, the newsworthiness of stories is greatly determined by the rating it is likely to receive from readers and the extent to which it is likely to be recommended by one reader to others (Singer, 2014).

Irrespective of the medium or manner through which news stories reach audiences, it is important to ask what intrinsic characteristics of companies, and events and issues concerning them, endow related news stories with ex-ante elements of interest to audiences. The literature indicates that the newsworthiness of a story about a company may be attributed to numerous characteristics of the company, including its size (Fombrun and Shanley, 1990; Miller, 2006; Dyck, Volchkova and Zingales, 2008; Dyck, Morse and Zingales, 2010), age (Carroll, 2004), whether or not it is listed on a major stock exchange (Kadlec and McConnell, 1994), its location within a particular industry (Dyck, Volchkova and Zingales, 2008) and the extent of recognition of the brand of the product or service which it produces (Hatch and Schultz, 2003). It has also been observed that certain executives, CEOs in particular, increase the visibility of their firms in the media (Rindova, Pollock and Hayward, 2006; Malmendier and Tate, 2009).

Events, particularly crises, in companies are particularly newsworthy when they have legal, economic and environmental implications (Dyer, Miller and Boone, 1991). Miller (2006, p.1004) opines that cases of corporate fraud easily lend themselves to a *"controversial spin"*, leading the press to regard these cases as newsworthy. Dyck, Volchkova and Zingales (2008) argue that the newsworthiness of corporate governance violations increases with the degree of management negligence, the size of losses incurred by shareholders and the severity of the implications. Core, Guay and Larcker (2008) posit that the newspaper media may consider remuneration levels and related issues, such as stock option backdating, newsworthy, particularly since such issues may call for regulatory attention. Liu and McConnell (2013) observe that the actions of parties involved in the process of a takeover command much attention from the media and its audiences.

Mainstream UK broadsheet newspapers have audiences composed of investors and 'city people', who are educated, informed and literate on business and economic issues, along with a broader lay readership. Consequently, the main determinants of company related news in mainstream broadsheets depend largely on whether the lay audience will recognise the companies or the key actors involved in the news story and whether the scale of the financial events involved will capture their attention (Doyle, 2006). The following subsections discuss five possible determinants of newspaper reporting on corporate governance and governance related issues in UK listed plcs.

4.5.1. Company Size

Merton (1987) argues that there is a greater diffusion of information in the capital markets about larger, more widely held companies. As a company grows and its shareholder base expands, there is a greater demand for information, which the company must either disclose or bear a higher cost of capital. Miller (2006) presents this argument in a more general sense; he maintains that larger companies have more stakeholders who demand more information on the company's activities. As a consequence, larger firms have richer information environments. This reduces the effort journalists must make in reporting on large companies and increases the public's awareness of and interest in them. As such, larger companies are more visible both to the newspaper media and its audiences. Larger companies have more valuable assets (Dyck, Volchkova and Zingales, 2008) and higher market capitalisations (Green, Hand and Penn, 2011). Thus, transactions involving large companies often involve greater transfers or misappropriations of wealth, which also attracts more news attention (Dyck, Morse and Zingales, 2010).

4.5.2. Company Age

The amount of information available about a company increases with its age and with the length of time it has been listed on a stock exchange (Barry and Brown, 1985; Zhang, 2006). Barry and Brown note that while the accuracy of this information is likely to reduce over time, it increases the market's awareness of a company. Zhang finds that stock returns surrounding news about older companies are less volatile since investors are more informed and less uncertain about older companies. Younger, newly listed companies face considerable pressures to gain visibility and legitimacy so as to attract a sufficient following by analysts, the media and ultimately investors and hence lower their cost of capital and reduce volatility in their share price (Pollock and Rindova, 2003; Mehran and Peristiani, 2010).

Since older companies have had longer to build a reputation with the public (Deephouse, 2000) and their CEOs may have had more time to create a public profile (Malmendier and Tate, 2009), events and issues involving older companies may be considered more newsworthy. Thus, while the age of a company alone may not constitute its activities as newsworthy, it may contribute to the amount of news media coverage it receives, particularly when a news story concerns a failure by its board or a contest over its control.

4.5.3. The Industry in which a Company Operates

The activities of a company may receive more news media coverage if it is in a high-profile industry. Roberts (1992) defines high-profile industries as those with high consumer visibility, a high level of political risk and concentrated, intense competition. For example, consumer goods and services industries invest highly in marketing and, consequently, are visible both to the media and the general public (Brammer and Millington, 2006). Hou (2007) argues that information diffuses more rapidly in competitive industries; this increases the amount of information available to investors, the media and the public in general. As a consequence, the media faces fewer costs in reporting on companies in competitive industries and audiences are more likely to be aware of these firms.

Companies in industries which generate substantial employment and income for the national economy may receive more news coverage, particularly if they encounter problems or crises. In their study of newspaper coverage of corporate governance violations in Russian firms, Dyck, Volchkova and Zingales (2008) argue that companies in the oil and gas industry are more visible to the news media not only because of their significance in the national and international economy, but also because of corruption by oligarchs in Russian oil and gas companies. The banking sectors in many countries provide contemporary illustrations both of how economic dependence on an industry and an industry-wide culture or trend of management opportunism can attract considerable interest from the news media. Although the news media has been criticised for being complacent during the sub-prime lending bubble and economic boom years (Schecter, 2009; Starkman, 2009), the marked increase in coverage, particularly within the mainstream news media, of banking practices since the crisis emerged has been noted (Schecter, 2009; Fahy, O'Brien and Poti, 2010; Stromback, Jenssen and Aalberg, 2011).

4.5.4. The Economic Environment

A change in economic conditions may affect the landscape for investment in a country, which may lead to a demand for news on the performance of boards and the quality of governance in listed companies (Doyle, 2006). As mentioned above, the news media has been criticised due to its complacency in times of economic prosperity. Nonetheless, media scrutiny of board conduct, particularly of directors' remuneration, may increase when the economy is in recession (Hermalin and Weisbach, 2012). When the national or international economy is in decline, and society in general are experiencing financial pressures, news stories concerning disenfranchisement of shareholders by well-paid management and directors may provoke thought and discussion among audiences. Extreme management failures may have more far-reaching implications, beyond those for shareholder wealth. When a company becomes a takeover target, there are potential consequences for employees, creditors and customers (Slinger and Deakin, 1999). The extremity of these implications may rely on the overall flow of wealth within the economy.

4.5.5. The Type of Issue or Event Involving the Company

It is possible that a particular issue or event may be considered newsworthy, regardless of the company involved. Issues and events which involve inappropriate behaviour by managers, directors or certain shareholders, or those which give rise to conflicts between these parties, may be considered as compelling news stories (Miller, 2006). Certain issues may be deemed more serious than others or considered to have more significant implications for a company's board, its shareholders or its broader stakeholders (Dyck, Volchkova and Zingales, 2008). This thesis proposes that takeover offers and instances of market abuse are potentially newsworthy events from the perspective of investors, managers, directors and many broader stakeholders, as both events may have substantial effects on their wealth. Furthermore, both takeover offers and market abuse cases possess characteristics which may constitute them as interesting news stories irrespective of the extent to which such issues affect the newspaper's audience.

4.6. Newspaper Coverage of the Operation of the Market for Corporate Control and Market Abuse

Since the stock markets serve as an important safeguard to shareholders, newspaper reports on market developments may perform an important corporate governance role by providing commentary and analysis on the actions of and decisions made by the parties involved. In particular, the light in which such reports present management and the board may have an important impact on their future careers. By reducing information asymmetries (Buehlmaier, 2013) and by encouraging boards and managers to act within shareholders' interests (Liu and McConnell, 2013), the news media may well complement the operation of the market for corporate control and possibly lead to governance improvements.

4.6.1. Takeover Offers

Under the theory of the market for corporate control, takeovers and the threat thereof serve to discipline underperforming management and boards (Manne, 1965). Managers' and directors' responses to takeover bids do not always serve shareholders' best interests; they may demand higher pay or extract private benefits from the company (Agrawal and Knoeber, 1998; Gillan, Hartzell and Parrino, 2009), make poor, short-term oriented decisions (Stein, 1988; Bebchuk and Stole, 2003) or take actions to frustrate the bid at a cost to shareholders' wealth (Ruback, 1988; Lowry, 1992; Gompers, Ishii and Metrick, 2003; Bebchuk, Cohen and Ferrell, 2009). The information communicated to shareholders by the board over the course of a takeover offer may not be entirely objective; directors have been found to attempt to influence shareholders to reject offers through communications documents (Clarke, 2009; Brennan, Daily and Harrington, 2010). It follows that an intermediary which can serve as a watchdog for opportunistic behaviour by management and directors, impose reputational costs on these parties and provide shareholders and other stakeholders with access to information on takeover offers may serve to enhance the efficacy with which the market for corporate control operates.

Takeover offers may prove newsworthy as they often involve conflict. Schwert (1996) observes that both hostile takeovers and takeovers with multiple bidders receive more news coverage. Hostile takeover offers may involve conflict between the managers and directors of the target and the bidding companies. If the bidding process becomes competitive, conflict may also emerge between bidders. Issues which arise in relation to offers for listed companies, particularly those which require the intervention of the Panel, may well attract the attention of the media. For instance, where target shareholders are unfairly treated or dealings by certain shareholders create concern, the Panel's intervention might signal to the newspaper media that the takeover case is a newsworthy story. Given the strong emphasis placed by the Code on target minority shareholder protection (Armour and Skeel, 2006; Fitzgibbon, 2010), actions by management or large shareholders which conflict with the interests of minority shareholders may attract the interest of the broadsheet press and its audiences.

While takeovers may be newsworthy in the mainstream newspaper media because they involve conflict and power, they also have economic implications for many mainstream audience segments. Takeovers can affect the welfare of small shareholders (Buehlmaier, 2013), the target's employees (Coffee, 1988; Shleifer and Summers, 1988; Slinger and Deakin, 1999; Deakin, Hobbs, Nash and Slinger, 2003; Deakin, 2005; Goergen, O'Sullivan and Wood, 2014), small suppliers (Coffee, 1988; Daniels, 1993) and customers (Kim and Singal, 1993; Singal, 1996). While the interests of these parties may not necessarily be aligned with those of the target's shareholders, it may be within their interests for the board to improve the vigilance with which it monitors management such that the company may avoid an effective takeover.

a. <u>Newspaper Coverage Prior to a Takeover Bid</u>

Takeovers are significant events both at a company and market level. The mere speculation of a bid may suffice to raise concerns among managers, directors, shareholders and broader stakeholders. Accordingly, these parties demand information on potential takeovers. This creates incentives for journalists to speculate on the possible takeover bids by conducting investigations or by rebroadcasting information produced by other intermediaries. Newspaper speculation of takeovers may be based on legitimate information signals or on tips and leaks from insiders (Jarrell and Poulsen, 1989). The latter is of obvious concern since information which is not already publically known might be released in an attempt to manipulate the market. Nevertheless, where journalists are sufficiently perceptive, legitimately circulated information such as regulatory announcements of substantial share transactions can serve to indicate a potential takeover attempt (Betton, Eckbo and Thorburn, 2008). Journalists are apt to be more sensitive to these signals when a particular industry is experiencing a takeover wave or when there has already been public discussion of deteriorating company performance, of disputes on boards, or of a family releasing some of its control over the company (Jarrell and Poulsen, 1989).

Newspaper reports signalling takeover bids may be of limited benefit to shareholders in terms of informing them of management and board underperformance. If company performance is sufficiently poor to render it vulnerable to takeover, it is likely that investors are aware of this. Nevertheless, newspaper reports may enable an enhanced assessment of the situation. Borden (2007) argues that financial journalists may work in harmony with other mechanisms of corporate control to protect shareholders' interests. He proposes that since company disclosures may suffer from inaccuracies, there may be a role for journalists to make shareholders more aware of performance problems and in doing so catalyse the market's response to management and board failure.

Investors might also already be aware, from observing the trading of other market participants and from following regulatory announcements, that there may be a prospective challenge to the control of a company. However, newspaper reports may provide investors with an indication of the extent of the gains or losses they stand to make from trading shares in the prospective takeover target. Jarrell and Poulsen (1989) study how the market for information operates to anticipate takeover offers. Their findings show that news media speculation is the most important determinant of pre-bid trading of tender offer stocks. Similar results have been found by Pound and Zeckhuser (1990), Borges and Gairifo (2013) and Aspris, Foley and Frino (2014).

It is also possible that newspaper coverage speculating a bid for a company might induce management and board reform before a bid is made. Lowenstein (1999) posits that since newspaper reports which criticise the board's performance may contribute to an investor's decision to sell his shares, such commentary has the potential to encourage board reform. As discussed in Section 4.3.1, press exposure of the board underperformance can lead some shareholders to exit the company; however, institutional shareholders may remain loyal to the company if they believe there is potential for management to reform (Joe, Louis and Robinson, 2009). Thus, when a company is flagged as a potential target for takeover, the threat of further exit can induce its management and directors to take measures to enhance the value of shareholder wealth (Admati and Pfleiderer, 2009; Edmans, 2009). Indeed, where shareholders have the capacity to lobby for reform, they may choose to actively voice their dissatisfaction with management rather than resorting to the market for corporate control to exert discipline (Nesbitt, 1994; Smith, 1996; Gillan and Starks, 2003; Becht *et al*., 2010). Since management and directors are aware that their positions are in jeopardy, they are likely to conform to demands made by shareholder activists. Along with limiting the extent to which shareholders exit the company and bring down its share price, management who meet shareholders' requests may gain their approval to defend the takeover bid if it ensues (Bebchuk, 2007).

b. <u>Newspaper Coverage during the Offer Period</u>

One characteristic of takeovers which makes related stories newsworthy is that they involve an element of change for a wide audience, including the target's investors, managers, directors and border stakeholders including employees, creditors, customers and suppliers. If a takeover offer is announced, it is likely that there will be a considerable demand for newspaper coverage about the offer since at least some of the aforementioned parties stand to face potential economic implications. Thus, journalists may consider it necessary to provide coverage of the developments which occur over the course of a takeover offer. There appear to be few impediments to doing so in cases of offers for UK companies. The Takeover Code requires offers to be publically announced in a timely and unambiguous manner[30] and all information publicised during the course of the offer to be carefully, accurately and fairly presented[31]. While the Code forbids parties from disclosing new information on the development of a bid in media interviews[32], journalists are not prohibited from investigating such developments. In fact, parties to an offer are instructed not to mislead the media over the course of a bid[33].

As discussed in Section 4.4, to be of value in corporate governance, the newspaper media must remain independent and provide unbiased reports. Journalists should decide on how best to present a balanced account of a takeover situation; however, this may be a difficult task to achieve. Ohl, Pincus, Rimmer and Harrison (1995) argue that the company whose directors advocate their interests most strongly via press releases are likely to gain the support of the media. Tambini (2008) reports that UK listed companies are investing more and more in PR agents when involved in mergers and acquisitions; both the bidding and the target companies use PR agents to strategically leak information so as to impact the offer price.

Brennan, Daily and Harrington (2010) find evidence that the managers and directors of UK listed hostile takeover targets take deliberate measures to convince shareholders to reject bids by emphasising the potential negative consequences of acceptance. Specifically, managers pursue strategies of impression management when producing annual reports, press releases and regulatory circulars. Many of these documents are supposedly meant to align information asymmetries between target management and shareholders; however, Brennan, Daily and Harrington argue that management exploit such communications as opportunities to influence shareholders to behave within their interests. While such tactics may be damaging to shareholders' wealth in a direct sense, they may also serve to bias newspaper reports published during an offer period. Thus, it is important that journalists gather information on possible bids from a variety of sources.

[30] The Takeover Code (11th ed.), Rule 2.4.
[31] The Takeover Code (11th ed.), Rule 19.1.
[32] The Takeover Code (11th ed.), Rule 20.1.
[33] The Takeover Code (11th ed.), Rule 2.8.

Ahern and Sosyura (2014) illustrate how, in fixed exchange ratio stock mergers, acquiring companies engage in active media management. In fixed exchange mergers, a fixed number of the acquirer's shares are used as payment. The higher the acquirer can raise its share price prior to making an offer, the fewer shares it must pay for the target. To increase their share prices, acquiring companies release more positive information to the news media during the private negotiation period. Ahern and Sosyura find that the positive tone is retained in newswires but not in newspaper articles, indicating that newspaper journalists are more inclined to use their own discretion when reporting on the acquiring company. Nevertheless, the increased news media attention on the acquiring company is found to have a significantly positive effect on its stock returns. A reversal in share price is observed once the merger negotiations are made public, as investors become aware of the media management strategy being employed by the acquirer.

Evidence provided by Buehlmaier (2013) indicates that news media coverage can overcome takeover market failure by co-ordinating dispersed shareholders in the target company and convincing them of the merits of the bid. This reduces the likelihood that shareholders will reject the bid due to free rider problems. Free rider problems refer to target shareholders' tendency to hold out on selling their shares in the expectation that the bidder will increase its offer (Grossman and Hart, 1980). This can push the offer price to a level at which the bidder can no longer afford to pay. Free rider problems are prevalent in dispersedly owned takeover targets since shareholders cannot co-ordinate to achieve a realistic assessment of the price the bidder is willing to pay. By virtue of its broad reach, the news media may reduce free rider problems by informing shareholders' decisions as to whether or not to sell. Even when target shareholders suspect that the bidding company is pursuing a strategy of media management, they can have confidence that the bid is being made with value-enhancing intentions. This is because management who engage in acquisitions for private gains are unwilling to incur the sunk costs associated with embarking on a media campaign.

The news media also appears to have some influence on the decisions made by the acquiring management during the offer period; however, this does not necessarily translate into more efficient takeovers. Hayward and Hambrick (1997) show that CEOs who have recently achieved recognition and praise in national newspapers and magazines become susceptible to hubris. Hubris arises when management make mistakes in their valuations of companies, but proceed with acquisitions presuming their valuations are correct (Roll, 1986). The greater the number of flattering newspaper and magazine articles published about a CEO, the more he will overpay for a target in a takeover and the greater will be the damage caused to the wealth of shareholders in the acquiring firm. Hayward and Hambrick show that hubris is more extreme where there are poor pre-existing governance characteristics in the bidding company, namely a lack of outsiders on the board and CEO-chairman duality.

Liu and McConnell (2013) however show how the newspaper media, through its influence over the decisions made by the bidding company's managers, can prevent the execution of value reducing acquisitions. They explain that when making a capital allocation decision, a manager puts his reputation at risk. If a proposed acquisition generates a negative market reaction, the future wages and employment opportunities of the bidding firm's board may be damaged. This is more likely when the poor investment decision is publicised in newspapers. Managers and directors can reduce this damage if they abandon the acquisition. Doing so is also likely to limit the damage caused to the wealth of the bidding firm's shareholders. Liu and McConnell illustrate that abandonment is less likely when news media criticism is low and hence the reputational penalties are lower. They also show that abandonment is less likely as the CEO reaches retirement age and has less to lose in terms of future wages and employment opportunities such that his reputation is of less importance to him. Liu and McConnell conclude that by virtue of its influence over managers' and directors' reputations, the news media can align the bidding company's managers' interests with those of its shareholders.

Although Hambrick and Hayward show that newspaper coverage can adversely distort managers' decisions when the potential for acquisitions arises, Liu and McConnell's findings show that newspaper coverage at the time of the bid can lead managers to realise that they have made poor decisions. Thus, while the press may be criticised for inducing irrational management behaviour in takeover situations, it may also play a role in restoring rationality. Liu and McConnell's findings, together with those of Buehlmaier, demonstrate that by providing commentary on the decisions made by managers and directors in takeover situations, the news media keeps both shareholders and other stakeholders informed throughout the offer period in a manner that is arguably more constant and accessible than updates provided by other intermediaries.

c. Newspaper Coverage Following the Success or Failure of a Takeover Offer

The newsworthiness of takeovers may diminish once a bid is accepted or abandoned; however, there is likely to be practical matters for journalists to report on. Journalists may analyse the reasons for the success or failure of the bid and the implications for shareholders, managers, directors and broader shareholders (Tambini, 2008). Financial journalists, in particular, may provide an assessment of the final offer price and present an opinion as to whether the target shareholders received a fair premium or if the acquirer may have overpaid.

Journalistic analyses may be affected by the overall market sentiment; Auster and Sirower (2002) argue that tone of media reports concerning takeovers varies over the course of a takeover wave. They contend that at the peak of a wave, takeovers are presented in a positive light and failed bids are justified; however, toward the end of the wave, journalists are sceptical about bids and criticise bidders who fail. This is consistent with the view that journalists adopt a herd mentality (Galbraith, 1990; Dyck and Zingales, 2002b).

Newspaper coverage may also concern how companies' performances have changed as a result of the takeover or takeover attempt. In the case of successful offers, this may concern the efficacy of the integration period (Vaara and Tienari, 2002). In unsuccessful takeovers, the attempt may leave the performance of the target's managers and directors particularly susceptible to media scrutiny. As such, newspapers can provide coverage of the success of the market for corporate control by reporting on whether or not the threat of takeover has encouraged management and board reform. It may also evaluate the extent to which the board acted within shareholders' interests by accepting or opposing the takeover offer. In effect, the extent of praise or criticism will determine the reputational rewards or penalties accruing to directors.

In a broader sense, newspapers may analyse the implications of a takeover for the target's wider stakeholder base. Takeovers of UK companies are unlikely to have significant implications for customers generally since competition law serves to ensure that mergers and acquisitions do not give rise to dramatic price increases or reductions in the choice of products and services available to consumers. From an employee's perspective, the consequences of a takeover may be much greater. The job losses which follow takeovers of large companies, while within the interests of efficiency, may come at the detriment to local economies. The takeover of Cadbury plc in 2010 provides one example of such an occasion which gave rise to considerable criticism in the media (Barone, Ranamager and Solomon, 2013). As is outlined in Appendix B, the subsequent amended Takeover Code of 2011 is considered to accommodate more for the interests of a wider range of stakeholders as a result of public criticisms of the bid, albeit at the potential expense of shareholder wealth (Patrone, 2011).

4.6.2. Market Abuse

In addition to reporting on the disciplinary workings of the stock market, the newspaper media may also publicise its abuse. Market abuse is both a civil and a criminal offence in the UK. In countries where adherence to company and market law is an accepted social norm, corporate governance issues such as fraud and insider dealing may well occupy news headlines (Dyck and Zingales, 2004a; 2004b; Miller, 2006). Under such circumstances market abuse may be viewed as unjust (Lee, 2002) and even as the moral equivalent of theft (Fisch, 1991; Bainbridge, 1999; 2001) and the investigations and court proceedings which follow may well capture the attention of newspaper readers, both within corporate circles and throughout society in general. While the UK system of market abuse regulation has been found to be one of the most stringent in Europe (CESR/07-69; CESR/08-099), abuses have not been absent from UK regulated markets. Coffee (1999) observes that when market transparency is substandard and when investors prioritise trading profits over corporate reform, insider dealing scandals will continue to fuel media reports.

Newspaper coverage of instances of market abuse and associated investigations and prosecutions may lead to an increased awareness of the extent to which shareholders have been disadvantaged by the misuse of private company information by insiders, by the creation of false or misleading impressions about the value of their shares, or by the release of false information on the companies in which they invest. Furthermore, newspaper coverage of market abuse investigations and court proceedings may provide an indication of regulators' success in bringing the offending parties to account (Korczak, Korczak and Lasfer, 2010).

Market abuse cases also have an associated element of conflict, which may constitute them as newsworthy even if they do not have direct implications for the audience. The newspaper media may depict instances of market abuse as cases of conflict between privileged investors, with access to insider knowledge, and those other law-abiding market participants who have been placed at a disadvantage. Abuses such as insider dealing present an opportunity for the mainstream media to conform to audiences' distaste for corporate greed and excess among executives and corrupt investors, as Langevoort (1990, p.1048) notes:

"The attention given by the media to the insider trading issue suggests a level of fascination with the issue that is deeper than the question of investor protection. If a significant segment of the public finds insider trading by those with substantial economic status in society unseemly (a manifestation of greed by the already well off), a political reaction promising greater regulation should hardly be surprising."

Although journalistic interest in market abuse may possibly be driven in part by an anti-corporate bias and a desire to satisfy audience demands for sensational and entertaining news stories, UK regulators are aware that their efforts to bring offenders to account are taken in the spotlight of the media (Wheatley, 2013).

Market abuse cases may be considered to have macroeconomic implications for society in general. Borden (2007, p.327) notes a change in the public's interest in the corporate environment. Product and labour market issues no longer attract audiences' attention to the extent that they used to; instead, an "*equity culture*" has emerged, which has resulted in large shareholders and leading securities analysts receiving much more air time and page space within mainstream news media. At European level, stock market integrity is considered as a prerequisite for economic wealth[34]. Ongoing policy review in the UK emphasises the important role market abuse regulation has to play in promoting macroeconomic development and success (HM Treasury, 2014). Accordingly, the voting public may seek information on how effectively regulators reprimand those who engage in market abuse and deter its future occurrence.

a. <u>The Newspaper Media as a Watchdog for Market Abuse</u>

In spite of its potential newsworthiness, the ability of the newspaper media to serve as a watchdog for market abuse may be limited by a number of factors. Firstly, since market abuse is prohibited by law in the UK, those who engage in it will do so discreetly. Inside information, by definition, is not known to the public. Although insiders may strategically release information in order to make trading profits, they are unlikely to make it known that this is their objective. As such, unless a journalist is particularly perceptive, experienced and skilled, market abuse may well go undetected by the media. While evidence exists to suggest that journalists do endeavour to uncover cases of fraud and market abuse, training and resource constraints limit these efforts considerably (Doyle, 2006; Tambini, 2008).

A second impediment to investigation of market abuse by the UK newspaper media is the concern of possibly causing defamation of character if suspicions are incorrect (Lloyd and Watson, 1999; Black, 2001a). Market abuse is notoriously difficult to prove, even for those with relevant expertise (Alexander, 2001), and an unsubstantiated allegation might be seen to defame the character of a given insider or investor. UK journalists are protected to a

[34] Directive 2003/6/EC, Recital 2; Regulation No. 596/2014, Recital 1.

considerable extent by the Defamation Act 2013 (see Appendix F); however, they may also be held liable under the Act. The greatest impediment to investigative journalism in the context of market abuse may be found under Section One of the Act, which introduces a serious harm threshold. This imposes a requirement on a party taking action against the media to provide a statement that a publication caused serious harm to their reputation. Such a statement might be made quite easily by a party wrongly accused by a journalist of having engaged in market abuse. Nevertheless, if a journalist can prove that the information published was true[35], that commentary was made with honesty[36] and that the publication was intended to serve the public interest[37], there may be a strong case for defence. Even if a journalist is found to have defamed the character of an individual or company, the newspaper itself may remain immune from liability under the defence of innocent dissemination[38].

In addition, there are regulatory restrictions on the extent to which journalists can express an opinion on developments in the stock market. Appendix F also outlines how journalists must adhere to guidelines issued by the FCA when reporting on stock market developments. These guidelines, while in the interests of preserving an orderly flow of information in the markets, may discourage journalists from expressing opinions as to the reasons for unusual movements in share prices, particularly where they own shares in the companies in question.

Indeed, the danger exists that rather than exposing the abuse, newspapers may become implicated in its incidence. The media is a particularly attractive vehicle through which the market may be manipulated or inside information may be leaked prior to its official announcement (the FSA, 2010). When alerted to a takeover bid or an extraordinary event through tips or leaks by insiders, journalists ought to be cautious as it may be communicated for reasons of self-interest. Journalists have an ethical responsibility to protect their sources[39]. This responsibility may, however, create conflicts of interest when a source of information

[35] The Defamation Act 2013, s. 2.
[36] The Defamation Act 2013, s. 3.
[37] The Defamation Act 2013, s. 4.
[38] The Defamation Act 2013, s. 10.
[39] PCC Code (2012), Provision 14.

may be used as evidence in an official investigation or a court case. Under Section 10 of the Contempt of Court Act 1981, journalists have a right to refuse to disclose the source of information contained in a news report, unless it can be established to the satisfaction of the court that disclosure is necessary in the interests of justice or national security or for the prevention of disorder or crime[40].

These factors considered, it appears quite difficult for journalists to investigate the illegitimate communication of price-sensitive information and signal possible market abuse in a timely manner. Thus, the capacity of the media to effectively serve as a watchdog for market abuse by exposing the offenders is uncertain.

b. Newspaper Coverage of Regulatory Intervention in Market Abuse Cases

While the newspaper media may face barriers to uncovering market abuse, there are opportunities for journalists to report on developments which regulators make in establishing liability for market abuse and in bringing the offending parties to account. The FCA issues press releases, enforcement notices and decision notices over the course of its investigations. In its capacity as an information intermediary, the newspaper media can repackage regulatory reports into a more accessible format, such that investors and the public in general may remain updated on the progress of regulators.

There are also limitations on the extent to which the newspaper media can perform a function in this respect. Since official investigations into market abuse may potentially result in criminal convictions, a regulator's work may need to remain confidential. Moreover, establishing liability may take a considerable amount of time, particularly in criminal cases (Alexander, 2001). As a result, the newspaper media may not be able to provide regular information on the progress with which the course of justice is prevailing.

Post-event news media coverage of corporate wrongdoings is of considerably less tangible value to investors than investigative reports as it comes after the damage has been done (Sherman, 2002). Nevertheless, newspaper coverage of market abuse cases may well

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[40] Financial Times Ltd and Others v. The United Kingdom.

impose reputational costs on directors who fail to oversee that price-sensitive information is dealt with appropriately (Bainbridge, 1995; Korczak, Korczak and Lasfer, 2010). Newspaper reports on the incidence of market abuse, and the regulatory investigations and penalties which follow, may then create opportunities for a strengthening of internal controls. This may come about through voluntary actions taken by directors (Farrell and Whidbee, 2002; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009) or through increased scrutiny and lobbying by shareholders (Becht *et al*., 2010), regulators (Dyck, Volchkova and Zingales, 2008) or through the disciplinary forces of the market for corporate control (Manne, 1965).

4.7. Alternative Information Intermediaries and Gatekeepers of Company Information

As noted at the beginning of this chapter, various parties serve as intermediaries between the company and its current and potential investors. Having considered the capacity of the newspaper media to serve a corporate governance role in detail, Table 4.1 presents a comparison between the newspaper media and a number of alternative information intermediaries or gatekeepers of company information in terms of their potential value in corporate governance.

4.8. Conclusion

As an accessible and relatively timely information intermediary, the newspaper media possesses much potential value to a range of corporate stakeholders who have the capacity and motivation to take actions which impact upon corporate governance behaviour on multiple levels. This chapter has identified a number of factors which make issues concerning management accountability and shareholder protection newsworthy. Both anecdotal and empirical evidence indicates that the news media devotes considerable focus to matters of corporate governance (Borden, 2007; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009). While there is limited empirical evidence of the corporate governance role performed by the UK news media in contrast to that performed in the US, it would appear that

Table 4.1: Information Intermediaries and Gatekeepers of Company Information

	Newspaper Media	Auditors	Analysts	PR	IR	Whistleblowers
Role	Provide commentary, analysis and opinion on news in companies.	Statutory duty to perform an inspection so as to form an opinion as to whether adequate accounting records have been kept by the company[41].	Research company performance and industry conditions and communicate it to the market. Make 'buy', 'sell' or 'hold' recommendations.	Positively influence the public's perception of the company.	Manage the company's communications with investors, the media and analysts.	Disclose corporate misconduct.
Access to company information	May face barriers.	Statutory entitlements[42]. Further access through the provision of non-audit services. Management may withhold information.	Analyst presentations; however, information may be biased. Further access through the provision of investment banking and underwriting services.	Regular interaction with company.		
Willingness to provide access to information	Provides regular and inexpensive access to a broad range of stakeholders.	No responsibility to express their opinions outside of the company's financial reporting framework.	Can make greater profits from selling reports to selected investors (Borden, 2007).	Selective and positively biased (Doyle, 2006; Tambini, 2008; Lewis *et al.*, 2010).	Provide further details regarding disclosures made by company (Bushee and Miller, 2012); however, such details may be positively biased and selectively disclosed (Solomon, 2012).	The prospect of dismissal and other penalties, in terms of career progression, may discourage whistleblowers (Borden, 2007; Dyck, Morse and Zingales, 2010).

[41] The Companies Act 2006, s. 498.
[42] The Companies Act 2006, s. 499.

Table 4.1 Continued: Information Intermediaries and Gatekeepers of Company Information

	Newspaper Media	Auditors	Analysts	PR	IR	Whistleblowers
Incentives to serve shareholders' interests	Maintenance of reputation for credible and accurate reporting (Deephouse, 2000). Incentives greater where investor protection is an accepted social norm (Dyck and Zingales, 2004a; 2004b; Dyck, Volchkova and Zingales, 2008).	Career progression (Black, 2001a). Collapse of big five auditor, Arthur Andersen, has set an example of the consequences of acquiescence (Dyck, Morse and Zingales 2010).	Maintenance of reputation for accurate assessments (Ljungqvist, Marsten, Starks, Wei and Yan, 2007). May only benefit from uncovering major failures (Dyck, Morse and Zingales, 2010).	Few.	IR strategies found to be more within shareholders' interests than PR strategies (Bushee and Miller, 2012); however, may spin information in a manner which misleads investors (Solomon, 2012).	May have financial incentives or face liability for withholding information (Bowen, Call and Rajgopal, 2010; Dyck, Morse and Zingales, 2010).
Incentives to serve management's interests	Use of PR generated information which is positively biased toward management (Tambini, 2008; Lewis *et al*., 2010). Newspaper or journalist may be affiliated with management or have ownership interests in company (Tambini, 2008).	The provision of non-audit services to companies (Coffee, 2001; 2004). Auditors who blow the whistle on accounting frauds more likely to lose accounts (Dyck, Morse and Zingales, 2010).	May optimistically skew forecasts and recommendations on underwriting and investment banking clients. Incentives heightened due to a lack of competition between audit firms (Coffee, 2002). Need to maintain relationship with management to gain access to the company in the future (Borden, 2007).	Agents of management. Serve a distinct role in preserving the good reputation of the company, its managers and directors.	Similar to those of PR agents, although may not be as strong (Bushee and Miller, 2012).	Job retention and career progression.

Table 4.1 Continued: Information Intermediaries and Gatekeepers of Company Information

	Newspaper Media	Auditors	Analysts	PR	IR	Whistleblowers
Regulation or controls over relationship with management	The Press Complaints Commission Editors' Code (2012)/ forthcoming reformed regime of media regulation. The Defamation Act 2013. FCA Perimeter Guidance Manual.	The audit committee. Companies Act 2006, Part 16. EU Regulation No. 537/2014 limits the provision of non-audit services by auditors to public interest entities and discourages the dominance of a small number of auditing firms in the market for audit services.	Sophisticated investors may be aware of biases (Malmendier and Shanthikumar, 2007; Mikhail, Walther and Willis, 2007).	Few.	Few.	Public Interest Disclosure Act, 1998, s. 1 provides protection.
Limitations to performing a corporate governance role	Lack of formal financial and business skills (Sherman, 2002; Bednar, 2012). Resource constraints (Tambini, 2008). More inclined to report on newsworthy companies (Miller, 2006; De Mendonca-Jorge, 2008; Dyck, Volchkova and Zingales, 2008).	The auditor is an evaluator as distinct from a detective- it can only work with the information it is presented with (Dyck, Morse and Zingales, 2010).	Susceptible to acquiescence when there is positive market sentiment (Coffee, 2002; Dyck, Morse and Zingales, 2010). May make an incorrect assessment. Tendency to follow large companies listed on major stock exchanges (O'Brien and Bhushan, 1990; Bushee and Miller, 2012).	Misalignment of incentives with those of shareholders.	Since their objective is to attract investors to the company, the information they provide may well be positively biased and potentially mislead shareholders (Solomon, 2012).	Lack of incentives.

journalists in the UK endeavour to provide accurate, objective and comprehensible information on the successes and failures of corporate management (Doyle, 2006).

There are limitations to each potential solution to agency problems reviewed in Chapters Two and Three. Thus, an external intermediary may make a valuable contribution to corporate governance. There are evident shortcomings in the ability of UK broadsheets to provide an unimpeded timely flow of information to shareholders and other stakeholders in UK listed plcs, not least the 24 hour time lag characteristic of the newspaper media (Tetlock, 2011), the potential for its independence to be impaired (Tambini, 2008; the Leveson Report, 2012) and the resource constraints which limit investigative journalism (Doyle, 2006; Tambini, 2008). Nevertheless, many of these flaws are more acute in traditional information intermediaries in the corporate environment (Black, 2001a; Coffee, 2001; 2002; 2004).

It must be acknowledged that, due to barriers to investigative journalism, the potential for the newspaper media to serve as a corporate watchdog is limited (Doyle, 2006; Miller, 2006; Lewis *et al*., 2010). However, in a country where there is an active and suitably regulated market for corporate control, the newspaper media may serve an important role in collecting information on directors' actions from various sources and delivering it to interested parties in a digestible format. In doing so, the newspaper media may help shareholders and other stakeholders to appreciate how events such as takeover offers and instances of market abuse may affect their interests (Korczak, Korczak and Lasfer, 2010; Buehlmaier, 2013). The public scrutiny boards may receive over the course of a takeover attempt may incentivise them to monitor management to a greater extent. Moreover, when a company's shares are implicated in market abuse, the press coverage surrounding the event may well encourage directors to implement more robust policies on the control of inside information and on the actions which insiders take in the markets.

CHAPTER FIVE: RESEARCH METHODOLOGY

5.1. Introduction

The central aim of this study is to demonstrate the impact of news media coverage on the corporate governance quality of the companies on which it reports. Specifically, it is proposed that broadsheet newspaper reporting on market-based corporate governance issues is associated with changes which occur on the board of directors over the course of reporting. The market-based corporate governance issues in question are (i) takeover offers and (ii) market abuse. Based on the theory of the market for corporate control, it is envisaged that (i) newspaper coverage of instances where companies are targeted for takeover publicises boards' possible underperformance and (ii) newspaper coverage of market abuse informs interested parties that certain investors may have been unfairly disadvantaged due to misuse of inside information and the release of misleading signals to the market. As noted in Chapter Four, takeover offers and instances of market abuse are potentially newsworthy events. The literature reviewed in Chapter Four indicates that newspaper reporting on these issues may publically signal that the boards of companies concerned have failed to adequately protect shareholders' interests and thus impose reputational costs on directors. In order to minimise these costs, boards may take actions to improve the quality of corporate governance within their companies. This chapter discusses the methodology employed to examine how newspaper reporting on takeover offers for UK listed companies and market abuse cases involving the securities of UK listed companies is associated with changes in corporate governance quality.

5.2. Research Objectives

This study investigates the following hypothesis:

H_1: Changes in corporate governance quality are associated with volumes of newspaper reporting on takeover offers and instances of market abuse.

In order to investigate this hypothesis, the present methodology is concerned with the measurement of volumes of broadsheet newspaper reports on (i) takeover offers which are regulated by the Takeover Panel and (ii) instances of market abuse for which penalties are imposed by the FSA. Associations between newspaper reporting and changes in the quality of corporate governance provided by the boards of those companies targeted for takeover and those whose securities are implicated in market abuse are then investigated. By doing so, this study tests for evidence which may indicate that the newspaper media performs a role in corporate governance by propelling actions to be taken by the board of directors.

5.3. Research Sample

This study examines UK listed plcs, focusing specifically on companies listed on the London Stock Exchange's Official List or AIM at any time between 1 January 2001 and 31 December 2010. As noted in Chapter Four, companies listed on major stock exchanges are particularly visible to the media and its audiences. As a major international stock exchange, the London Stock Exchange attracts extensive media and analyst interest (London Stock Exchange, 2010) and thus presents an ideal environment in which to examine media forces at play in an active market for corporate control. As discussed in Chapter One, the Rules of the Code apply to all companies listed on the Exchange. The legislative requirements of FSMA also apply to companies listed on both markets and suspected market abuse involving the securities of listed companies are subject to investigation by the FCA[43]. Accordingly, statements issued by the Panel[44] and final enforcement notices issued by the FCA's predecessor, the FSA,[45] enable a sample of (i) regulated takeover offers for UK plcs and (ii) market abuse cases involving the securities of UK plcs to be identified for use in the present study.

The sample of Takeover and Market Abuse cases is hereinafter collectively referred to as 'TMA cases'. In the context of this research, a TMA case is defined as the series of events and transactions surrounding:

(i) takeover offers for UK listed plcs supervised by the Takeover Panel; or

(ii) instances of market abuse as defined under Section 118 of FSMA, involving the securities of UK plcs for which penalties were imposed by the FSA.

5.4. Newspaper Reporting

This study places its specific focus on general broadsheet newspapers firstly, because they are considered more accurate and credible than so-called 'tabloid' or 'red-top' publications and are thus preferred by individuals who hold non-manual professional and managerial occupations (Chan and Goldthorpe, 2007). This makes it more probable that the reports studied herein are accessed and credited by those stakeholders who play key governance roles, not only in terms of the board and shareholders but also policymakers, regulators and industry peers. Secondly, general broadsheet newspapers reach a broader base of stakeholders than business-specific publications (Doyle, 2006) and hence possess considerable potential to publicise issues surrounding takeover and market abuse cases and possibly have an impact on both on the company's reputation (Deephouse, 2000) and the professional reputations of those who sit on its board (Dyck, Volchkova and Zingales, 2008; Wiesenfeld, Wurthmann and

[43] The Financial Services and Markets Act 2000, s. 286.
[44] http://www.thetakeoverpanel.org.uk/statements/panel-statements [Accessed 10 December 2014].
[45] http://www.fsa.gov.uk/pages/about/what/financial_crime/market_abuse/library/notices/index.shtml [Accessed 10 December 2014].

Hambrick, 2008). Consequently, by reaching a suitably wide but targeted audience, broadsheet newspaper reporting on the issues and events associated with takeover and market abuse cases may affect the size of any reputational costs which may be imposed on directors and create awareness of the potential gains and losses which shareholders and other stakeholders may realise as a consequence of the case.

Measuring Newspaper Reporting

Newspaper reporting is measured using data obtained from the archives of the eight UK broadsheet newspapers listed in Table 5.1 over the period between 1 January 2001 and 31 December 2010. Table 5.1 lists the circulation and readership of each newspaper as measured by the NRS for the year 2010. As is evident, broadsheet newspapers are read predominantly by the ABC1 social class. As noted in Chapter One, members of this social class are more likely to perform corporate governance roles or be affected by how companies are governed than members of the C2DE class. The method used in isolating and collecting the newspaper data is described in the next chapter.

Timeframes Studied

Newspaper reporting is measured over timeframes assigned specifically to the individual takeover and market abuse cases. Timeframes consist of an ex-ante phase (measured using the variable $NPR_{ex\text{-}ante}$), an event phase (measured using the variable NPR_{event}) and an ex-post phase (measured using the variable $NPR_{ex\text{-}post}$).

The event phase is the time period during which the principle transactions and dealings occur. For takeover cases, the event phase begins on the date on which a possible offer is announced, according to the Panel's statements. The event phase ends on the date on which the company is acquired or the offer is withdrawn, as reported by the Panel. On a number of occasions, the acquisition date is not included in the Panel statements; in such

Table 5.1: UK National Broadsheet Newspaper Print Readership and Circulation (2010)

Source: The Audit Bureau of Circulations and The National Readership Survey (2010)

Newspaper Publication	Newspaper Group	Circulation (000's)	Total Readership (000's)	ABC1 Readership (000's)	ABC1 Readership as a Percentage of Overall Readership	Readership as a Percentage of Population in ABC1 Social Grade
The Daily Telegraph	Telegraph Media Group Ltd.	631	1,680	1,445	86.0%	5.3%
The Times	Times Newspapers Ltd.	448	1,565	1,364	87.2%	5.0%
The Guardian	Guardian News and Media Ltd.	265	1,103	980	88.8%	3.6%
The Independent	Independent Print Ltd.	175	532	449	84.4%	1.6%
The Sunday Telegraph	Telegraph Media Group Ltd.	528	1,442	1,243	86.2%	4.5%
The Sunday Times	Times Newspapers Ltd.	1,145	2,952	2,560	86.7%	9.3%
The Observer	Guardian News and Media Ltd.	355	1,030	920	89.3%	3.4%
The Independent on Sunday	Independent Print Ltd.	151	548	433	79.0%	1.6%

instances the required date is obtained from deal reports included in the Zephyr M&A database. For market abuse cases, the event phase begins on the date on which prohibited behaviour begins, as indicated in the FSA's final enforcement notices. This may be the date of the first illegal trade, the date on which the first false or misleading signal is released to the market or the date on which price sensitive inside information is disclosed or used illegitimately. The event phase ends on the date on which the final penalty is imposed on the offender(s) by the FSA, as officially reported in the final enforcement notice.

The ex-ante phase is defined as the six month period immediately prior to the first day of the event phase. Ex-ante or pre-event time periods of various lengths are employed in prior studies which detect early news coverage of major company events. With regard to takeovers, Ahern and Sosyura (2014) study reports over 120 trading days prior to the date on which merger negations begin, while Liu and McConnell (2013) study reports over a 12 month period prior to the announcement of an acquisition. With regard to the present study, pilot analysis of broadsheet newspaper reports on takeovers and instances of market abuse in the UK indicates that perceptible levels of speculative media commentary typically occur no earlier than six months prior to their official announcement.

The ex-post phase is defined as the six month period immediately following the last day of the event phase. Vaara and Tienari (2002) study media coverage published over the year following a takeover, however preliminary assessment of reporting by the UK newspaper media indicates that retrospective commentary on attempted and successful takeovers and market abuse cases diminishes to a negligible level or ceases within six months of their conclusion.

In addition, newspaper reporting over the three time periods combined is measured using the variable NPR_{full}. Each of the four variables is defined specifically in Table 5.2 at the end of the Section 5.6.

5.5. Corporate Governance Quality

CGQ is examined from the perspective of the board of directors over the three annual reporting years surrounding each case and changes in CGQ during this period are assessed. The three year period encompasses the annual reporting year in which the main events of takeover or market abuse cases occur (hereinafter, the event year) and the years before and after it (hereinafter, the pre-event year and the post-event year respectively). For takeover cases, the event year is the year in which the company is acquired or the offer is withdrawn and for market abuse cases, the event year is the year in which the behaviour which constitutes as market abuse occurs.

In order to effectually examine possible associations between newspaper reporting and changes in CGQ, it is necessary to measure newspaper reporting in a manner consistent with the annual reporting dates of sample companies. Accordingly, the numbers of reports published in the pre-event year, the event year and the post-event year are computed from the initial aggregate volume of reports measured for each case. The amount of newspaper reports published in the pre-event, event and post-event years are measured using the variables NPR_{t-1}, NPR_t and NPR_{t+1} respectively. Each of these three variables, together with those employed to measure newspaper reporting initially, is defined specifically in Table 5.2 at the end of the next section.

5.6. <u>Research Model</u>

In testing H_1, it is the intention of the researcher to examine if newspaper reporting on cases where companies are subject to market discipline or where their shares are implicated in market abuse leads directors to take actions to limit any damage caused to their reputations as guardians of shareholders' interests. The study will investigate whether such actions result in a change in corporate governance quality. Before examining this hypothesis, it is essential to (i) establish a benchmark of corporate governance quality so as to reduce any potential biased results being derived, (ii) establish causality in the sample and (iii) address possible issues of endogeneity in the sample which arise due to the potential for various factors to simultaneously influence both the amount of newspaper coverage companies receive and the extent of changes in their corporate governance quality.

A benchmark of corporate governance quality is established by constructing a control sample, matched to the main research sample by company size and industry. All companies in the control sample have also been listed on the Main Market or the AIM of the London Stock Exchange and were also targeted for takeover between 2001 and 2010; however, these offers have not required the intervention of the Panel or the FSA. The corporate governance quality of companies in the control sample is assessed and measured and this measure is used to adjust measures of corporate governance quality in the main research sample.

Causality is established by conducting statistical tests for difference in corporate governance quality change between the cases which receive the most newspaper coverage and those which receive the least.

Finally, the issue of endogeneity is addressed by accounting for a number of factors which may simultaneously determine both newspaper reporting and changes in corporate governance quality. The influence of these factors, company age, size and industrial location, the regulatory issues arising in cases and the economic environment on newspaper reporting has been discussed in Chapter Four and is considered in the context of the present research in

Section 5.10. The influence of these factors on corporate governance quality change is also discussed in Section 5.10. To ensure that any relationship detected between newspaper reporting and corporate governance quality change is exogenous, the measure of newspaper reporting employed in testing for associations between newspaper reporting and corporate governance quality change must not reflect the influence of these factors. Thus, the main research model is devised in two stages whereby the determinants of newspaper reporting are analysed before proceeding to examine the determinants of corporate governance quality change.

Stage One

The determinants of newspaper reporting are examined using the following OLS regression model:

$$NPR_t = \alpha_1 + \alpha_2 AGE_{t-1} + \alpha_3 CSIZE_{t-1} + \alpha_4 INDGEN_{t-1} + \alpha_5 ISS_t + \alpha_6 ECON_{t-1} + \varepsilon_t \qquad (5.1)$$

<u>Where:</u>

NPR_t	= Newspaper Reporting in a given year, t, of a TMA case.
t	= (i) the pre-event year or (ii) the event year of a TMA case.
AGE_{t-1}	= company age in the pre-event year.
$CSIZE_{t-1}$	= company size in the pre-event year.
$INDGEN_{t-1}$	= the general industry in which a company operates in the pre-event year.
ISS_t	= the primary reason for regulation of takeover or market abuse case as reported in the event year.
$ECON_{t-1}$	= the economic environment in the pre-event year.

To isolate a measure of newspaper reporting which does not reflect the influence of these five determinants, the residual values for NPR are determined from the regression model. These values, which represent the difference between the observed values of newspaper reporting and those predicted by the model, serve as a measure of newspaper reporting which is independent of the five determinants. The residual values are then employed in the second stage of the regression analysis.

Stage Two

Stage two examines changes in corporate governance quality between the pre-event and event years and between the event and post-event years and effectively tests H_1 using the following second stage OLS regression model:

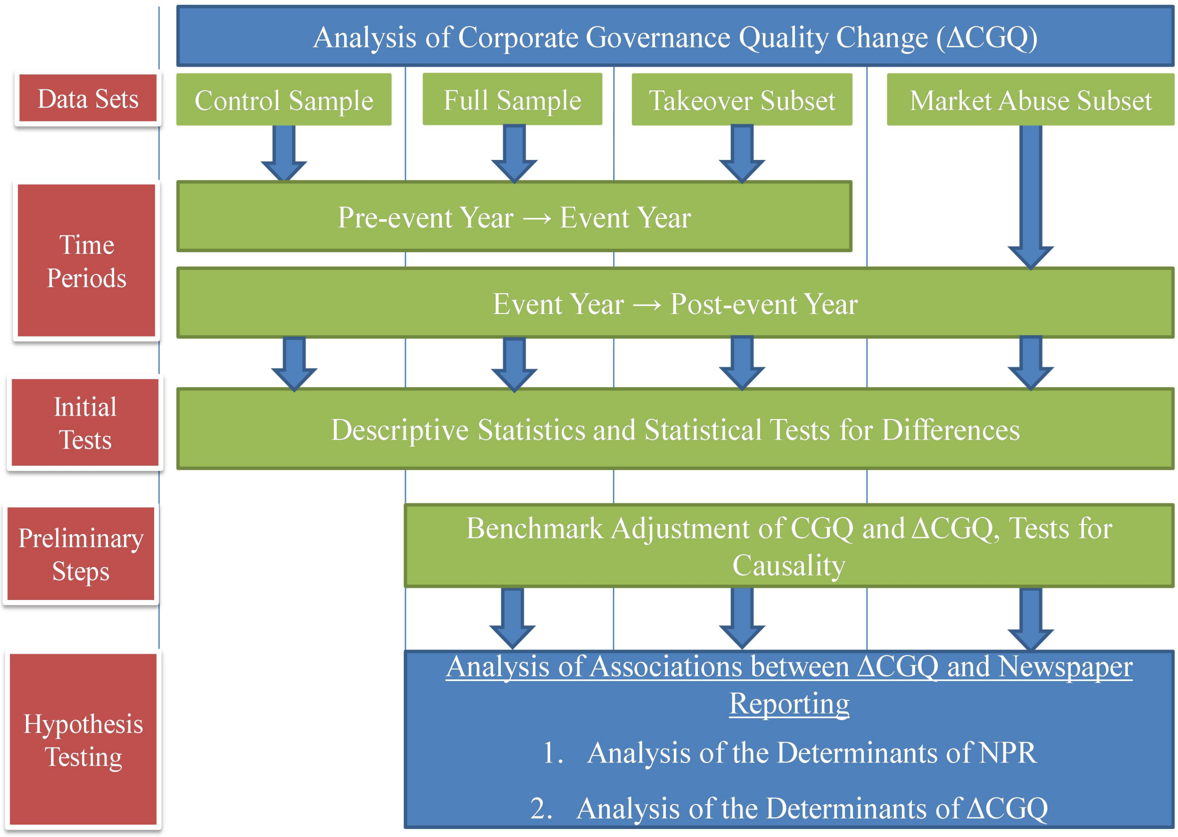
$$\Delta CGQ_{t\rightarrow t+1(ad)} = \alpha_1 + \alpha_2 RESNPR_t + \alpha_3 AGE_{t-1} + \alpha_4 CSIZE_{t-1} + \alpha_5 INDGEN_{t-1} + \alpha_6 ISS_t + \alpha_7 ECON_{t-1} + \alpha_8 CGQ_{t(ad)} + \alpha_9 BLAME_t + \alpha_{10} PERF_t + \alpha_{11} INST_{t-1} + \varepsilon_t \quad (5.2)$$

Where:

$\Delta CGQ_{t\rightarrow t+1(ad)}$	= the benchmark-adjusted change in the Corporate Governance Quality in a company between two consecutive years, t and t+1, of a TMA case.
t	= (i) the pre-event year or (ii) the event year.
t+1	= (i) the event year or (ii) the post-event year.
$RESNPR_t$	= Newspaper Reporting in the first of the two years, t, measured using the residual values obtained from the first stage OLS regression model presented in Equation 5.1.
AGE_{t-1}	= company age in the pre-event year.
$CSIZE_{t-1}$	= company size in the pre-event year.
$INDGEN_{t-1}$	= the general industry in which a company operates in the pre-event year.
ISS_t	= the primary reason for regulation of takeover or market abuse case as reported in the event year.
$ECON_{t-1}$	= the economic environment in the pre-event year.
$BLAME_t$	= a binary variable which assumes a value of 1 if the company is responsible for regulatory intervention in the TMA case and 0 if otherwise, as reported in the event year.
$CGQ_{t(ad)}$	= benchmark-adjusted Corporate Governance Quality in the first of the two years, t.
$PERF_t$	= industry-adjusted company performance in the first of the two years, t.
$INST_{t-1}$	= the proportion of company shares owned by investment institutions in the pre-event year.

An overview of the timeframes and research samples employed in analysing the determinants of ΔCGQ is presented in Figure 5.1. The rationale for inclusion of all explanatory variables included in both the first and second stage models is discussed in Sections 5.10 and 5.11.

Figure 5.1: Analysis of ΔCGQ



Associations between the pre-event to event year change in corporate governance quality and pre-event year newspaper reporting are examined for the full sample and for the individual takeover subset. Associations between the event to post-event year change in corporate governance quality and event year newspaper reporting are examined in the full sample and in both subsets. As will become apparent in Chapter Seven, the association between the pre-event to event year change in CGQ and pre-event year newspaper reporting cannot be examined in the market abuse subset in isolation due to low levels of pre-event year newspaper reporting on market abuse cases.

Table 5.2: Summary of Newspaper Reporting Variables

Variable	Definition
Initial measurement	
NPR_{full}	Newspaper reporting over the full case timeframe, measured as ln(1+total no. newspaper reports on case)
$NPR_{ex\text{-}ante}$	Ex-ante phase newspaper reporting, measured as ln(1+no. newspaper reports in the ex-ante phase)
NPR_{event}	Event phase newspaper reporting, measured as ln(1+no. newspaper reports in the event phase)
$NPR_{ex\text{-}post}$	Ex-post phase newspaper reporting, measured as ln(1+no. newspaper reports in the ex-post phase)
First stage model: the determinants of newspaper reporting	
NPR_{t-1}	Pre-event year newspaper reporting, measured as ln(1+no. newspaper reports in the pre-event year)
NPR_{t}	Event year newspaper reporting, measured as ln(1+no. newspaper reports in the event year)
NPR_{t+1}	Post-event year newspaper reporting, measured as ln(1+no. newspaper reports in the post-event year)
Second stage model: analysis of associations between corporate governance quality change and newspaper reporting	
$RESNPR_{t-1}$	Adjusted pre-event year newspaper reporting, measured using the residual values obtained from the first stage model
$RESNPR_{t}$	Adjusted event year newspaper reporting, measured using the residual values obtained from the first stage model
$RESNPR_{t+1}$	Adjusted post-event year newspaper reporting, measured using the residual values obtained from the first stage model

5.7. Measuring Corporate Governance Quality

Black (2001b) contends that minimum standards of corporate governance are set out in legislation, regulation and behavioural norms. As mentioned above, this study focuses on the board of directors in its examination of internal corporate governance quality and changes therein. Certain aspects of the board are considered pertinent in measuring CGQ; these are (i) board leadership, (ii) board effectiveness, (iii) accountability and the role of the audit committee and (iv) directors' remuneration and incentives. The focus on these aspects of governance is motivated by the key principles of the UK Corporate Governance Code (2010), relevant sections of the Companies Act 2006 and theoretical and empirical implications of selected academic literature on the behaviour and efficacy of boards.

In order to evaluate these aspects of corporate governance quality, ten characteristics of the board of directors are measured using selected variables and relevant data extracted from the annual reports of sample companies from the years over which newspaper reporting on takeover and market abuse cases occur. Collectively, the resulting measures may be computed to provide an overall measure of annual corporate governance quality. The ten characteristics, or corporate governance variables, can be deemed to be the 'components' or 'elements' of CGQ. Annual changes in CGQ and annual changes in each of its components are determined so that the research hypothesis may be investigated and for inferences to be made regarding the role of the newspaper media in motivating boards to take actions when their companies are targeted for takeover or when the companies' shares are implicated in market abuse. Each corporate governance variable used in the study is now defined. The motivation for each variable as a key indicator of CGQ is provided in Chapter Three.

a. Board Leadership

Board Meetings

The variable MEET measures board activity and is defined as the number of meetings held by the board in a given annual reporting year.

Prior research contends that boards which actively monitor management function as effective corporate governance devices and the frequency of board meetings is commonly employed to measure board activity. Bearing in mind that the current appraisal of CGQ focuses on a sample of companies publicised by the press due to their being targeted for takeover or due to their shares being implicated in market abuse, the necessity for board meetings at such times is apt to be even greater than in normal periods. Consequently, it is believed that the frequency of board meetings is indicative of CGQ.

The Roles of the CEO and the Board Chairman

CEOCH measures CEO-chairman duality and is defined as a binary variable which assumes a value of 1 if the positions of CEO and chairman are combined and 0 if otherwise.

Both policy guidelines and the literature reviewed in Chapter Three strongly maintain that in order for the board to serve as an effective corporate governance mechanism, the roles of its leaders must be clearly defined with an unambiguous distinction between the functions performed by the CEO and chairman.

b. Board Effectiveness

The Balance between Executive and Non-executive Directors

The variable ED measures board balance by determining the ratio of executive to non-executive directors on the board and is defined as:

$$\frac{\text{The number of executive directors on the board}}{\text{Board size}} \times 100\%$$

Based on prior literature, this study posits that an optimally composed board comprises equal proportions of executive and non-executive directors and that an equally balanced board represents high CGQ; departures from this balance indicate a deterioration in quality. Should newspaper reporting on takeover and market abuse cases instigate membership changes on the board, it is possible that the balance between executive and non-executive directors may be adjusted, thereby resulting in enhanced or reduced CGQ. The present appraisal of CGQ evaluates the degree to which board balance is accomplished so as to achieve a more accurate indication of CGQ in terms of board composition.

Board Size

The variable SIZE measures board size and is defined as the number of directors on the board in a given annual reporting year. Board size is often viewed as being indicative of board quality and therefore corporate governance quality. The board of directors should be of a sufficient size without becoming too large.

Director Independence

The variable INED measures the percentage of non-executive directors on the board who are identified as being independent from management in sample companies' annual reports and is defined as:

$$\frac{\text{The number of independent non-executive directors on the board}}{\text{The number of non-executive directors on the board}} \times 100\%$$

Prior studies argue that the greater the percentage of non-executive directors who are independent from management, the higher the standards of corporate governance in place within the company.

c. Accountability: the Role of the Audit Committee

The audit committee is integral in ensuring accountability (Carcello and Neal, 2000) and an essential element of a company's internal control structure (Krishnan, 2005). The capacity of the audit committee to perform its monitoring role is therefore deemed to be an essential factor to consider in evaluating CGQ. Three aspects of the audit committee are considered in evaluating CGQ.

Audit Committee Size

The variable ACS measures audit committee size and is defined as the number of members on the audit committee in a given annual reporting year. Hence, it may be evaluated if the committee is of an appropriate size to efficaciously monitor the integrity of the company's financial reporting procedures and assure shareholder protection.

Audit Committee Independence

ACI measures audit committee independence and is defined as a binary variable which assumes a value of 1 if the majority of members are independent and 0 if otherwise. Since, as discussed in Chapter Three, the monitoring ability of the audit committee is regarded to rely upon its independence from management, measurements made using the variable ACI shed additional insight into the quality of corporate governance provided by the audit committee.

Audit Committee Meetings

The variable ACM measures the frequency of audit committee meetings and is defined as the number of audit committee meetings held in a given annual reporting year. The resulting measure provides an indication of the propensity of the audit committee to meet with sufficient regularity so as to provide adequate CGQ.

d. Directors' Remuneration and Incentives

Prior literature has clarified that managers' and directors' incentives are provided through both external and internal means. Internally, the performance-linked pay and ownership interests in the company serve to incentivise directors to ensure that the company is managed in a manner consistent with shareholder wealth maximisation (Fama, 1980; Demsetz, 1983).

CEO Pay to Performance Sensitivity

The variable PPS measures the annual change in the remuneration received by the CEO relative to annual changes in shareholders' wealth. PPS, or CEO pay to performance sensitivity, is defined as:

$$\frac{\text{Annual change in CEO pay}}{\text{Annual change in shareholders' wealth}}$$

Following Jensen and Murphy (1990) and Yermack (1996), CEO pay is defined as the sum of CEO's salary and bonus for the fiscal year. The annual change in shareholder wealth is defined as rate of return on common stock realised in the fiscal year multiplied by the market capitalisation of the firm at the beginning of the fiscal year. As outlined in Table 2.2, it is recommended under Principle D.1. of the Corporate Governance Code (2010) that directors' remuneration be linked to company performance. The sensitivity of CEO pay to company performance is evaluated in isolation so as to achieve a measure which is consistent across the sample since the remuneration awarded to the board as a whole will inevitably vary with board size and with the proportion of executive directors on the board. In evaluating CEO pay to performance sensitivity, all monetary values are inflation-adjusted to 2010 values[46].

[46] Adjustments are made using the Consumer Price Inflation Index, July 2015, Available from: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323649 [Accessed 27 November 2015].

Directors' Share Ownership

The variable SHARE measures the percentage of common shares outstanding in the company owned by all directors on the board and is defined as:

$$\frac{\text{Total shareholding of all board members}}{\text{Common shares outstanding}} \times 100\%$$

As discussed in Chapter Three, the proportion of company shares owned by directors should be at such a level where they are incentivised to monitor the maximisation of shareholder wealth without becoming risk-averse or entrenched. Accordingly, it is examined if directors' ownership interests are at an appropriate level to serve as an incentive to monitor over the course of newspaper reporting of takeover and market abuse cases.

Scoring Methodology

A scoring methodology is devised herein with the purpose of evaluating CGQ. Scores are a commonly applied method of evaluating the efficacy of companies' systems of corporate governance since they provide a perceptible indicator of quality. However, prior research has tended to employ corporate governance scoring systems devised by commercial ratings agencies (Brown and Caylor, 2006; Carcello, Hollingsworth, Klein and Neal, 2006; Bhagat and Bolton, 2008). Because such systems simultaneously assess a large number of board attributes, they have an associated caveat that they are susceptible to measurement error (Daines, Gow and Larcker, 2010). The current methodology endeavours to reduce the opportunity for such error to arise by concentrating upon ten key specific areas of corporate governance deemed fundamental to shareholder protection in the present sample. This methodology evaluates the measurements made using the ten variables discussed above, in terms of the degree to which they are consistent with what is legally required and what is recommended under with best practice guidelines and by academic commentators. Each of the ten components previously discussed are considered to have an equal bearing on CGQ, however as the ten measurements are of dissimilar magnitudes, they must be computed to comparable scales such that they may be combined to yield an overall evaluation of CGQ for each sample company.

Consequently, ten individual scoring scales are constructed, each with a range of 0 to 10, where 0 represents low CGQ and 10 represents high CGQ. Relevant corporate governance regulatory policy and company legislation is used to guide construction of each scale, so that it is appropriately calibrated for evaluation of each element of CGQ. Where possible, the corporate governance standards set out in the Corporate Governance Code (2010) and the Companies Act 2006 are used to determine how each scale is graduated, such that the pillars of quality are defined by the primary regulatory and legislative framework within which sample companies operate. In instances where neither the Corporate Governance Code (2010) nor the Companies Act 2006 specifically prescribe standards of best practice or legislative guidelines pertaining to the characteristic under evaluation, guidance is taken from international sources and from extant reports from which the Combined Codes of 1998, 2003 and 2006 and the Corporate Governance Code (2010) evolved. Theoretical and empirical implications from relevant academic literature provide further grounding for development of each individual scale. The scoring scales are presented and rationalised in Table 5.3, with specific reference to the policy and literature upon which each is founded.

Each characteristic measured is scored using the appropriate scale to yield ten measures for the relevant years over which the newspaper media reports on each takeover or market abuse case involving sample companies. In effect, the scoring procedure yields annual measures of the ten individual board characteristics on similar scales, common to all companies in the research sample. Collectively, the ten scores enable annual aggregate measures of CGQ to be computed and annual changes in CGQ (ΔCGQ) to be acutely assessed over the course of newspaper reporting on TMA cases.

Table 5.3: Development of Scoring Methodology for CGQ: Board Leadership

Component of CGQ	Board Meetings	The Roles of the CEO and the Board Chairman
Measurement Variable	MEET	CEOCH
Description	Number of board meetings in the year	1 if the roles of CEO and chairman are combined; 0 if otherwise
Rationale for Score	It is argued that an active board is an element of an effective internal system of corporate governance (MacAvoy and Millstein, 1999). Activity may be assessed by measuring the frequency of board meetings (MacAvoy and Millstein, 1999). Provision A.1.1. of the Corporate Governance Code (2010) recommends that boards meet with sufficient regularity so as to discharge their duties. The Spencer Stuart UK Board Index (2013) reports that the boards of FTSE 150 companies meet 6-10 times per annum but it is noted that additional meetings may be necessary in crisis situations. In the present sample of companies, additional board meetings may be necessary in order to address issues arising from takeovers and takeover attempts and instances of market abuse so that shareholder losses may be avoided. Consequently, it is considered appropriate that sample companies meet monthly or more frequently if necessary.	Based upon Provision A.2.1 of the Corporate Governance Code (2010) which states that the roles of chairman and chief executive should not be performed by the same individual such that the CEO does not have unfettered decision-making power over the running of the board. A board on which the roles are split is thus regarded to be of high CGQ while one on which they are combined is considered to be of low CGQ.
Scoring Method	Measure: No. meetings in the year x 10 / 12 Score: 0→10	Measure: Roles of CEO and Chairman Combined (1) — Score: 0 Measure: Roles of CEO and Chairman Split (0) — Score: 10

Table 5.3 Continued: Development of Scoring Methodology for CGQ: Board Effectiveness

Component of CGQ	Board Balance			Board Size			Director Independence	
Measurement Variable	ED			SIZE			INED	
Description	Percentage of executive directors on the board			Number of directors on the board			Percentage non-executive directors on the board deemed independent	
Rationale for Score	Founded on the principle that the quality of the board as a corporate governance device relies on a balanced composition of executive and non-executive directors (UK Corporate Governance Code, 2010; Principle B1). An equal balance, whereby 50% of the board consists of executive directors, is deemed optimum. CGQ is indicated by the degree of deviation from this composition.			Based upon Principle B1 of the UK Corporate Governance Code (2010), a supporting principle of which advises that the board be of sufficient size to be fit for purpose. A minimum size of two directors is set out under Section 154 (2) of the Companies Act 2006, a maximum of 13 members is deduced from the guidance provided by the Higgs Review (2003) and a range of between six and eight members is inferred from the Higgs Review as an appropriate board size.			Academic commentary cautions that, unless non-executive directors are truly independent, the board may be dominated by the CEO (Hermalin and Weisbach, 1988; Bhagat and Black, 1999). Consistently, Principle B.1 of the UK Corporate Governance Code (2010) recommends that there should be appropriate independent representation on the board. The quality of board independence in this study is indicated by the percentage of non-executive directors who are independent where full independence denotes the highest potential quality, i.e. where 100% of non-executive directors and 50% of the board are independent.	
Scoring Method	Measure (% Executives)		Score	Measure (No. Directors)		Score	Measure (%Non-Executives Deemed Independent)	Score
	Low	High		Low	High			
	0-4	96-100	0	0-1	13+	0	0	0
	5-9	91-95	1				1-10	1
	10-14	86-90	2	2	12	2	11-20	2
	15-19	81-85	3				21-30	3
	20-24	76-80	4	3	11	4	31-40	4
	25-29	71-75	5				41-50	5
	30-34	66-70	6	4	10	6	51-60	6
	35-39	61-65	7				61-70	7
	40-44	56-60	8	5	9	8	71-80	8
	45-49	51-55	9				81-90	9
	50	50	10	6	8	10	91-100	10

Table 5.3 Continued: Development of Scoring Methodology for CGQ: Accountability and the Role of the Audit Committee

Component of CGQ	Audit Committee Size			Audit Committee Independence		Audit Committee Meetings	
Measurement Variable	ACS			ACI		ACM	
Description	Number of directors on the audit committee			1 if majority audit committee members are independent; 0 if otherwise		Number of audit committee meetings in the year	
Rationale for Score	Paragraph 2.3 of the FRC's Guidance on Audit Committees (2012a) recommends that companies establish an audit committee of two to three members. A committee of three members is likely to contain sufficient skills and knowledge to function effectively (Beasley and Salterio, 2001; Abbott, Parker and Peters, 2004). At double the recommended size, the audit committee is considered to be of lesser value to the company's system of corporate governance as it becomes too large to function effectively. Consequently, in the present evaluation, an audit committee size of between three and five is regarded to indicate optimal CGQ and quality is believed to decline with deviations from this size as is shown in the following scoring scheme.			Paragraph 2.3 of the FRC's Guidance on Audit Committees (2012a) recommends that at least two members of the audit committees in small companies and three in larger firms be independent. In light of the guidance that audit committees in small companies consist of at least two members and three in larger firms (Paragraph 2.1), a majority of independent members are expected to be observed on audit committees which serve as part of an effective system of corporate governance. Accordingly, ACI is used to evaluate CGQ where a majority of independent members indicates high CGQ and a minority indicates low CGQ.		An active audit committee which meets when necessary plays a central role in assuring accountability and internal control (Carcello and Neal, 2000; Krishnan, 2005). Audit committee meeting frequency thus contributes to CGQ. Paragraph 2.6 of the FRC's Guidance on Audit Committees (2012a) recommends that audit committees meet at least three times per year and encourages committees to meet at important dates in the financial reporting calendar. Accordingly, audit committee effectiveness, as an element of CGQ, is assessed on the basis of the degree to which committees adhere to this guideline.	
Scoring Method	Measure (No. Audit Committee Members)		Score	Measure	Score	Measure (No. Meetings)	Score
	Low	High		Minority of audit committee members independent (0)	0		
	0	-	0			0	0
	1	10+	3			1	3
	2	6-9	6	Majority of audit committee members independent (1)	10	2	6
	3	5	10			3+	10

Table 5.3 Continued: Development of Scoring Methodology for CGQ: Remuneration and Incentives

Component of CGQ	CEO Pay to Performance Sensitivity			Directors' Shareholdings		
Measurement Variable	PPS			SHARE		
Description	Change in (CEO Salary + Bonus) from the Previous Fiscal Year Rate of Return on Common Stock for Fiscal Year x Market Capitalisation at Beginning of Fiscal Year			Total Directors' Shareholdings x 100% Common Shares Outstanding		
Rationale for Score	Founded on Principle D.1 of the Corporate Governance Code (2010) which recommends that a significant proportion of directors' remuneration be linked to performance. To assess if changes in CEO pay are sensitive to changes in shareholder wealth, the variable PPS measures the ratio of the former to the later for each fiscal surrounding a TMA case. Prior studies report CEO PPS ratios of 0.00015 (Yermack, 1996) to 0.00325 (Jensen and Murphy, 1990), indicating that CEO pay tends to increase by £0.15 to £3.25 per £1,000 increase in shareholder wealth. Accordingly, a sensitivity ratio of between 0.0001 and 0.005 is presently considered to reflect good CGQ as CEO pay may increase by between £0.01 and £5 per £1,000 increase in shareholder wealth. At intermediate levels of CGQ, CEO pay may continue to increase as shareholder wealth increases. At lower levels, there is a negative or no relationship between changes in CEO pay and shareholder wealth, indicating that CEO pay is insensitive to performance. Scores of 3 and 2 are assigned for PPS ratios of between 0 and -0.01. A score of 3 is assigned where the negative relationship is due to a decrease in CEO pay as shareholders' wealth increases and a score of 2 is assigned where the negative relationship is due to an increase in CEO pay as shareholders' wealth decreases. Scores of 1 and 0 are assigned where CEO pay is further out of proportion with performance (PPS: -0.01 and lower). A score of 1 (0) is assigned where the negative relationship is due to a decrease (increase) in CEO pay as shareholder wealth increases (decreases).			The proportion of company shares owned by directors should be at such a level where directors are incentivised to monitor the maximisation of shareholder wealth without becoming risk-averse (Beatty and Zajac, 1994) or entrenched (Short and Keasey, 1999; Mura, 2007). Based on existing research (Short and Keasey, 1999; Mura, 2007), a 10% equity shareholding is considered sufficient to align the interests of directors with those of shareholders, 0% is deemed as inadequate, while 30% is regarded as excessive. The mandatory bid threshold is used to guide selection of a level at which total directors' ownership interests reach excess. Although this threshold is defined under Rule 9.1 (a) of the Takeover Code as 30% of voting rights in the company, a 30% equity shareholding is deemed as an appropriate proportion in the present context to infer that directors possess the potential to exert control over the company.		
Scoring Method	Measure		Score	Measure		Score
	PPS Ratio	Conditions		Low	High	
	-0.01 and lower	Increasing CEO pay, decreasing shareholder wealth	0	0%	30% +	0
	-0.01 and lower	Decreasing CEO pay, increasing shareholder wealth	1	0% - 0.5%	25% - 30%	1
	0 → -0.01	Increasing CEO pay, decreasing shareholder wealth	2	0.5% - 1%	20% - 25%	2
	0 → -0.01	Decreasing CEO pay, increasing shareholder wealth	3	1% - 2%	18% - 20%	3
	0.1 and higher		4	2% - 3%	16% - 18%	4
	0.05→0.1		5	3% - 4%	15% - 16%	5
	0.025→0.05		6	4% - 5%	14% - 15%	6
	0.015→ 0.025		7	5% - 6%	13% - 14%	7
	0.01→ 0.015		8	6% - 7%	12% - 13%	8
	0.005→ 0.01		9	7% - 8%	10% - 12%	9
	0.0001→0.005		10	8%	10%	10

Measurements of CGQ in each year are examined for the full sample and also for the individual takeover and market abuse subsets such that any potential differences in the quality of governance between companies involved in takeover cases and those involved in market abuse cases may be identified and investigated. In a similar manner, CGQ is also assessed for the control sample of companies which is introduced in Section 5.8. The average CGQ and ΔCGQ in the control sample is employed to adjust CGQ and ΔCGQ for the main sample of companies so as to achieve a standardised measure of CGQ which may be employed in testing the research hypothesis, H_1. This process is described in Section 5.8. Since no companies in the control sample encountered direct intervention by the FSA, it is not possible to identify any instances of market abuse in which the shares of control sample companies are implicated. Hence, the control sample is not divided into subsets. Due to the nature of both the main research sample and the control sample, 47% of companies in the main sample and 50% of companies in the control sample are acquired in the event year; in these companies, CGQ is measured and evaluated only for the year prior to the takeover. CGQ is not evaluated for a further 7% of the main sample and 10% of the control sample in the post-event year for reasons outlined in Table 5.4 at the end of this section.

Calculating Corporate Governance Quality and Corporate Governance Quality Change

Calculating Annual CGQ

Having assigned a score to each of the board characteristics which indicate CGQ for the relevant years over which the newspaper media reports on takeover and market abuse cases, annual aggregate measures of CGQ are obtained by calculating the sum of the ten component scores for each year. As each component score has a potential minimum value of 0 and a potential maximum value of 10, the annual aggregate scores are achieved on a scale of 0 to 100. The annual summative scores for the pre-event, event and post-event years are measured by the variables CGQ_{t-1}, CGQ_t and CGQ_{t+1} respectively. These variables provide measures of internal CGQ for each year on a scale common to the entire research sample, allowing annual

CGQ and annual changes in CGQ to be assessed relative to best practice in corporate governance for each sample company.

Calculating ΔCGQ

In order to assess ΔCGQ, the annual aggregate scores and component scores determined for each sample company are computed in the following equations:

$$\Delta CGQ_{t-1\rightarrow t} = CGQ_t - CGQ_{t-1} \qquad (5.3\text{ a})$$

$$\Delta CGQ_{t\rightarrow t+1} = CGQ_{t+1} - CGQ_t \qquad (5.3\text{ b})$$

Where:

ΔCGQ = the change in total CGQ score, or the change in a component of the total CGQ score, between two consecutive annual reporting years

CGQ = total CGQ score, or a component of the total CGQ score, for a given annual reporting year, t-1(the pre-event year), t (the event year) or t+1(the post event year).

In order to address any concerns that application of the scoring methodology may have reduced the accuracy of measures of CGQ, changes in the original measures of the ten board characteristics are also assessed. Accordingly, annual changes in the total CGQ score and in its components, both before and after application of the scoring methodology, are evaluated. Statistics pertaining to changes in the original measures of the ten board characteristics are not reported in Chapter Seven, but are available from the author upon request.

It should be clarified that ΔCGQ between the pre-event and event years is determined only for 53% of companies in the main research sample and 50% of companies in the control sample. ΔCGQ between the event year and post-event year is determined for 46% of the main sample and 40% of the control sample. This is due to the prevalence of acquisitions and a number of liquidations which occur among sample companies as outlined in Table 5.4.

Table 5.4: CGQ Scoring Methodology: Sample Breakdown

	Main Sample *n*	Control Sample *n*
Full sample size	136	136
Less companies not listed in the year prior to the main case events:	(1)	0
Sample size for the year prior to the main case events:	**135**	**136**
Less companies acquired in the year of the main case events:	(64)	(68)
Plus companies admitted to listing in the year of the main case events:	1	0
Sample size for the year of the main case events:	**72**	**68**
Less companies acquired in the year following the main case events:	(8)	(14)
Less receiverships/liquidations in the year following the main case events:	(2)	0
Sample size for the year following the main case events:	**62**	**54**
Companies for which $\Delta CGQ_{t \rightarrow t+1}$ may be measured: (where t= year prior to the main case events and t+1= year of the main case events)	**71**	**68**
Companies for which $\Delta CGQ_{t \rightarrow t+1}$ may be measured: (where t= year of the main case events and t+1= the year after the main case events)	**62**	**54**

5.8. Establishing a Benchmark of Corporate Governance Quality

The main sample of companies employed in this study have been involved in takeover offers requiring the intervention of the Takeover Panel or their shares have been implicated in market abuse, calling for the intervention of the FSA. It is possible that sample companies' involvement in matters entailing such close regulatory oversight and intervention is associated with their corporate governance quality. As such, companies in the research sample may have different governance characteristics to companies which are not involved in issues which require direct regulatory supervision or intervention. It may be the case that companies which encounter regulatory issues have poor pre-existing governance standards, particularly where the board, or one of its members, is responsible for the infringement of a Rule of the Takeover Code or a provision of Section 118 of FSMA. Alternatively, the intense regulatory scrutiny to which the board is exposed may positively influence the company's governance over the course of the case such that is higher than that of companies which are not so closely involved with regulatory authorities. This potential difference is a concern in the present research as it may lead to biased results of low generalisability.

This issue is addressed by constructing a control sample of companies which are targets in takeover offers and similar control transactions that do not require direct regulatory intervention. These companies are also listed on the Official List or on the AIM of the London Stock Exchange and hence, are also required or encouraged to adopt the UK Corporate Governance Code. While offers for these companies are also subject to the oversight of both the Takeover Panel and the FSA, they do not involve breaches of either the Rules of the Takeover Code or FSMA and hence, there is a minimum level of regulatory involvement in these offers. The sample is matched by industry and size and the CGQ of each company in the sample is assessed for the pre-event, event and post-event years of the transactions in which they are involved. Annual changes in CGQ are also assessed. The average annual CGQ and ΔCGQ of these companies serves as a benchmark which may be used to adjust CGQ and ΔCGQ in the main research sample.

The Nearest Neighbour Matching Procedure

The strategy used to identify the control sample is the nearest neighbour matching procedure (Abadie and Imbens, 2006; 2011; Malmendier and Tate, 2009). While the potential governance differences between companies in the research sample and those which are not as closely involved with regulators cannot be directly observed, the matching procedure enables this difference to be assessed and accounted for using the observable characteristics of company size and industry.

The control sample is constructed as follows. Firstly, a sample of 617 UK listed plcs which were targeted for takeover or other relevant corporate control transaction[47] between 2001 and 2010 is identified from the Zephyr M&A database. All companies included in the main research sample are removed and for the remaining 481companies, both the database and the regulatory reports issued by the Takeover Panel and the FSA are consulted in order to

[47] The Zephyr M&A database offers data on successful and failed mergers, acquisitions, buyouts, IPOs and venture capital and private equity deals. In generating the control sample, the search of the database is limited to transactions involving major transfers of control, specifically mergers, acquisitions, management buyouts and institutional buyouts. A full description of the procedure employed to generate the control sample is provided in Chapter Six.

determine if regulatory intervention was required in any of the offers for these companies. This analysis indicates that all of the companies involved in transactions which required regulatory intervention are included in the main research sample. Accordingly, companies in the main research sample are assigned a code of 1 to indicate their involvement with market regulators and the remaining companies are assigned a code of 0 to indicate that the takeover offers and control transactions in which they were targets proceeded without regulatory intervention.

Following this, the codes are used to operationalise the binary dependent variable $REGULATE_t$ in the following binary logistic regression model:

$$REGULATE_t = \alpha_1 + \alpha_2 CSIZE_{t-1} + \alpha_3 INDSP_{t-1} + \varepsilon_t \qquad (5.4)$$

<u>Where:</u>

$REGULATE_t$ = a binary variable which assumes a value of 1 if the takeover offer or other relevant corporate control transaction requires regulatory intervention and 0 if otherwise.

$CSIZE_{t-1}$ = company size in the pre-event year.

$INDSP_{t-1}$ = the specific industry in which a company operates in the pre-event year.

This regression model is employed to predict companies' involvement with market regulators based on company size and industrial location. Company size is measured by the variable $CSIZE_{t-1}$, defined as the natural logarithm of total fixed assets in the pre-event year. $CSIZE_{t-1}$ is introduced in more detail in Section 5.10. Industrial location is measured by the variable $INDSP_{t-1}$. $INDSP_{t-1}$ indicates the specific industrial location of each company using ten industry codes derived from the ten Industry Classification Benchmark (hereinafter, ICB) industry codes (ICB, 2011). The industrial locations of companies are identified from the London Stock Exchange's historical records which include monthly sectorial classification of companies listed since January 1999. These classifications employ the ICB System. The industry in which each company is situated is determined from the Exchange's industrial classifications as recorded in the first month of the pre-event year. The coding system employed to indicate companies' industrial locations is presented in Table 5.5. As can be seen, the values of the codes are rearranged slightly so that the consumer services industry is classified next to the consumer goods industry and that the technologies industry is classified next to the telecommunications industry. This step is taken to aid the creation of broader industry categories later in the study.

Table 5.5: Industry Classification

Industry Code Employed	ICB Industry Code	Industry
0	0	Oil and Gas
1	1	Basic Materials
2	2	Industrials
3	3	Consumer Goods
4	5	Consumer Services
5	4	Health Care
6	6	Telecommunications
7	9	Technology
8	7	Utilities
9	8	Financials

Accordingly, $REGULATE_t$ is regressed on company size and industrial location. The predicted probability values from this logit regression serve as propensity scores (Rosenbaum and Rubin. 1983). Based on the observable characteristics of company size and industrial location, the propensity scores provide an estimation of the probability that a company will become involved in an issue which requires regulatory intervention by the Takeover Panel or the FSA.

The results of the logit regression, presented in Table 5.6, indicate that smaller companies are significantly more likely to be involved in issues which call for the direct intervention of the market regulatory authorities. Larger companies, listed on the Main Market of the London Stock Exchange, are subject to more stringent regulatory requirements than are smaller, AIM listed companies. For instance, neither the DTRs nor the UK Corporate Governance Code are mandatory for AIM listed companies. Thus, it may be the case that regulatory infringements are more prevalent in transactions involving smaller companies because such companies are less visible to regulators in general and hence, offenders may

Table 5.6: Logit Regression of Regulatory Intervention on Company Size and Industry

Below are the estimation results of the logit regression of Regulatory Intervention (REGULATE$_t$) upon Company Size and Industry for the full sample of UK listed plcs targeted for takeover or other relevant corporate control transaction between 2001 and 2010. The codes employed to operationalise the categorical variable INDSP$_{t-1}$, which measures the specific industry in which companies operate, are presented in Table 5.5. For the purposes of this analysis, the oil and gas industry (industry code: 0) is used as the reference category.

Dependent Variable: REGULATE$_t$ *n=617*	B	Std. Error	t-prob
Constant	4.559	0.663	0.001
CSIZE$_{t-1}$	-0.407	0.042	0.001***
INDSP$_{t-1}$_1 (Basic Materials)	0.880	0.518	0.089*
INDSP$_{t-1}$_2 (Industrials)	0.599	0.489	0.220
INDSP$_{t-1}$_3 (Consumer Goods)	0.626	0.372	0.093*
INDSP$_{t-1}$_4 (Consumer Services)	0.357	0.598	0.550
INDSP$_{t-1}$_5 (Health Care)	1.002	0.355	0.005***
INDSP$_{t-1}$_6 (Telecommunications)	-2.237	1.086	0.039**
INDSP$_{t-1}$_7 (Technology)	-0.238	0.753	0.752
INDSP$_{t-1}$_8 (Utilities)	-3.651	1.023	0.001***
INDSP$_{t-1}$_9 (Financials)	1.814	0.989	0.067*

Log-likelihood: 442.801	**(p-value):** 0.001***	**Cox and Snell R^2:** 0.286	**% Correct:** 84.6
Likelihood Ratio (df = 10): 208.061		**Nagelkerke R^2:** 0.439	

Variable Definitions: **REGULATE$_t$:** 1 if the takeover offer or other relevant corporate control transaction requires regulatory intervention, 0 if otherwise; **CSIZE$_{t-1}$:** company size in the pre-event year; **INDSP$_{t-1}$:** the specific industry in which a company operates in the pre-event year.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

believe that they are less likely to be detected. Moreover, smaller companies may be more likely to be involved in market abuse as their securities are more susceptible to insider dealing and manipulation since pricing efficiency reduces with company size (Lakonishok and Lee, 2001). Relative to the oil and gas industry, companies in the basic materials, consumer goods, health care and financial industries are significantly more likely to be involved in such issues, while companies in the telecommunications and utilities industries are significantly less likely to be involved in such issues. While it is difficult to offer a concrete explanation for this trend, it may be the case that companies in certain industries attract additional regulatory scrutiny due to the nature of their business; it is certainly plausible to expect a high level of regulatory involvement when relevant issues arise in financial services companies which are subject to additional requirements set out, over the sample timeframe, by the FSA. Furthermore, since takeover waves tend to converge on certain industries (Mitchell and Mulherin, 1996; Andrade, Mitchell and Stafford, 2001; Martynova and Renneboog, 2005), it may be the case that breaches of the Takeover Code are more likely in certain industries at a particular point in time because takeovers are more common in those industries at that time.

The propensity scores derived from this regression are used in the nearest neighbour matching procedure. The procedure matches to each company in the main research sample (the treated sample) a nearest neighbour from the sample of companies which have not been closely involved with the regulatory authorities when targeted for takeover (the untreated sample). In effect, each company in the treated sample is matched to a company in the untreated sample with the closest propensity score (its nearest neighbour).

To perform this procedure, the combined treated and untreated sample is organised by the event year of the transactions in which they are involved. For each year, a nearest neighbour from the untreated sample is selected for each company in the treated sample. Where there are an insufficient number of companies in the untreated sample for a given year and certain companies in the treated sample remain unmatched, a nearest neighbour is selected from the previous or following year, depending on which potential neighbour has the closest propensity score. These companies are not matched until the end of the procedure when all possible matches within each given year have been made so as to maximise the number of matches made within a one year timeframe. This procedure yields a control sample of 136 companies which have been targets in takeover offers, or similar control transactions, which proceeded without any need for regulatory intervention. Table 5.7 provides an overview of the main research sample and control sample in terms of the event years of the transactions in which they are involved. As can be seen, there are fewer control sample companies which were targeted for takeover, or other similar transaction, in 2002, 2003, 2005, 2008 and 2010 and slightly more in 2001, 2004, 2006, 2007 and 2009.

Descriptive statistics for, and the results of statistical tests for differences in, company size in the main research sample and the control sample are provided in Chapter Seven. The results indicate that companies in both samples are, on average, of a similar size and there is no statistically significant difference in the size between the two samples. A breakdown of

Table 5.7: Analysis of Main Research Sample and Control Sample Per Annum

	Main Research Sample	Control Sample
Year (t)	n	n
2001	2	5
2002	8	5
2003	18	15
2004	16	19
2005	12	9
2006	16	19
2007	18	21
2008	20	17
2009	15	16
2010	11	10
Total	136	136

both samples on the basis of industry location is also provided in Chapter Seven. This illustrates that the industry distribution of the main research sample and the control sample is quite similar. Collectively, these statistics indicate that identification of a control sample of nearest neighbours has been successful.

Corporate Governance Quality in the Control Sample

CGQ in the control sample is measured in the same manner as in the main research sample. The same characteristics of the board are assessed over the pre-event, event and post-event years of each offer, or relevant transaction, and annual changes in CGQ over this period are assessed. The mean and standard deviation of both annual CGQ and annual changes in CGQ in the control sample are determined and these values are employed to adjust annual CGQ and annual changes in CGQ for each company in the main research sample using the following formula:

$$\text{Adjusted CGQ} = \frac{\text{CGQ of Main Research Sample Company} - \text{Mean CGQ for Control Sample}}{\text{Standard Deviation of CGQ for Control Sample}}$$

Descriptive statistics for CGQ in both the main research sample and the control sample are presented in Chapter Seven along with those for benchmark-adjusted CGQ in the main research sample.

5.9. <u>Initial Tests for Causality</u>

Before the research model is considered in more detail, it is necessary to establish that a causal relationship exists between ΔCGQ and newspaper reporting. This is achieved by ranking the ΔCGQ datasets in terms of the amount of newspaper reporting in the first of the two consecutive years over which ΔCGQ is measured. This is performed for both the pre-event to event year change and the event to post-event year change in CGQ. For each dataset, the ranked data is divided into quartiles. In each instance, the quartiles with the highest volume of newspaper reports, 'the high media quartile' and the quartile with lowest volumes of newspaper reports, 'the low media quartile', are identified. The ΔCGQ data from the high media quartile is compared with that from the low media quartile using statistical tests for differences. In instances where there are two quartiles for which no newspaper reporting is observed, the ΔCGQ data from the highest quartile is compared with a randomly selected quartile for which there is no media reporting. This procedure is performed for the full research sample and the takeover and market abuse subsets thereof.

5.10. <u>Addressing Endogeneity Concerns</u>

While the univariate tests described above serve to provide an initial indication of causality, they do not eliminate the possibility of endogeneity in the research sample. It is crucial to consider the issue of endogeneity in any study of boards or any aspect of corporate governance (Hermalin and Weisbach, 2003). Endogeneity occurs where some of the explanatory variables are correlated with the error term in a regression model (Larcker and Rusticus, 2010; Roberts and Whited, 2012). It can lead to biased and inconsistent parameter estimates that make reliable inference difficult (Roberts and Whited, 2012). Much corporate financial research is complicated by the endogenous relationship between the control forces operating on the firm and its decisions (Wintoki, Linck and Netter, 2012). Endogeneity presents a considerable challenge to scholars in areas of finance because it is not possible to directly observe many of the relationships which exist in a firm's environment in a natural laboratory setting. Thus, the dynamics of these relationships may not be fully investigated and causality may not be correctly established.

Sources of Endogeneity

Endogeneity can arise from a number of sources. Wintoki, Linck and Netter (2012) note three. One source is unobservable heterogeneity, which arises if there are unobservable factors that affect both the dependent and explanatory variables. For example, where a researcher endeavours to examine a relationship between a governance characteristic and a potential determinant of that characteristic, it may be the case that both are influenced by a factor which is not accounted for by the researcher. Another is simultaneity, which arises if the independent variables and the dependent variable may be simultaneously determined. If a researcher endeavours to examine a relationship between a governance characteristic and a potential determinant of that characteristic, it may be the case that both the characteristic and the determinant of that characteristic are determined simultaneously by the same or similar factors. This form of endogeneity is particularly prevalent in corporate governance research (McKnight and Weir, 2009). A third is joint endogeneity, which arises where the dependent variable is affected by an explanatory variable at a different point in time. For example, a company's past performance may affect its current governance structures which in turn may affect its future performance.

The Issue of Endogeneity in Corporate Governance Research

At a broad level, endogeneity is a significant concern when studying the relationship between corporate governance and firm value. Denis (2001) explains that many variables potentially influence firm performance and hence, firm value, and there may also be correlations within this set of variables. Consequently, evidence to suggest that a particular governance mechanism influences firm value may actually arise because the mechanism is more prevalent in firms of a certain type which tend, on average, to be more highly valued. Moreover, as Hermalin and Weisbach (2003) note, certain characteristics of the board such as its independence and size can influence its members' actions which can influence the value of the firm. However, the value of the firm may be a determinant of the board's characteristics. For instance, companies which have performed poorly and are of a lower value may take measures to improve their governance in an endeavour to raise the company's value. Accordingly, it is difficult to determine whether corporate governance is a cause or an effect of firm value.

One area of corporate governance research where the issue of endogeneity proves particularly problematic is the relationship between ownership structure and company performance as both are influenced by the environment in which the company is situated. Demsetz (1983) and Demsetz and Lehn (1985) argue that ownership structure may be considered an endogenous outcome of decisions aimed at maximising shareholders' wealth. The most appropriate ownership structure will vary from company to company, depending on factors such as its size, age and the industry and country in which it is located. Such factors also influence company performance. As such, ownership structure is endogenous to the environment which influences its performance and hence, its value. It follows that the optimal level of management ownership for one company may not necessarily be appropriate for another.

A number of studies discussed in Chapter Three, provide evidence to suggest that the value of a company is influenced by the level of management ownership (Morck, Shleifer and Vishny, 1988b; Short and Keasey, 1999; Mura, 2007). However, as Holderness (2003) points out, this relationship may run in the opposite direction. For instance, if the company has performed well, management may be rewarded with share-based payments, resulting in an increase in the level of management ownership. Alternatively, based on insider knowledge, management may expect the value of the company to increase and thus, increase their holding in the company (Demsetz and Villalonga, 2001). Coles, Lemmon and Meschke (2012) acknowledge that the inverted-U pattern in the data detected by Morck Shleifer and Vishny (1988b) and in subsequent studies represents a relationship between two endogenous variables. They provide evidence to indicate that the ownership-firm value relationship may be explained by three factors, value-maximising contract choice, firm size and firm performance, which are jointly determined in equilibrium.

Methods Employed to Address the Issue of Endogeneity in Prior Research

Various methods of overcoming the issue of endogeneity have been employed in corporate governance research. One method is to take a simultaneous equations approach to specifying the research model. This method has been employed in a number of studies of the relationship between ownership and firm value. Loderer and Martin (1997) use firm performance and a number of other explanatory variables to predict insider ownership and then use insider ownership along with other explanatory variables to predict firm performance. Their results indicate that insider ownership does not predict firm performance but firm performance does predict insider ownership. Cho (1998) considers that investment in the company (its capital expenditure and its R&D expenditure) may intermediate in the relationship between ownership and firm value. He employs simultaneous equations to examine this. Cho uses three equations to simultaneously determine ownership structure, firm value and investment. Using a two-stage least squares regression, he finds that investment is significantly associated with firm value and that firm value is, in turn, significantly associated with ownership structure. The association between ownership structure and firm value is, however, found to be insignificant. Demsetz and Villalonga (2001) use both an ordinary least squares regression and a two-stage least squares regression to examine the relationship between ownership and firm value. In addition, they treat ownership as a multi-dimensional, endogenous variable by considering the proportion of shares owned by management and that owned by outside shareholders. While the results of their ordinary least squares regression indicate that ownership predicts company performance, the results of the two-stage least squares regression provide no evidence that ownership is a significant predictor.

A further remedy involves the use of longitudinal or panel data while controlling for fixed effects. Controlling for fixed effects reduces both observed and unobserved variation in the sample (Palia, 2001; Coles, Lemmon and Meschke, 2012). An additional measure, a Generalised Methods of Moments (GMM) estimator, may be applied to the panel data (Wintoki, Linck and Netter, 2012). GMM is a statistical method that combines observed data with information in population moment conditions to create estimates of unknown parameters of the model. With these parameters, it is possible to make inferences about the relationship under investigation.

Another potential solution to the endogeneity problem is the use of an instrumental variable as an explanatory variable (McKnight and Weir, 2009). An instrumental variable is one which is only related to the dependent variable and not correlated with any of the other explanatory variables (Gompers, Ishii and Metrick, 2010; Wintoki, Linck and Netter, 2012). In their study of the influence of the newspaper media on corporate governance, Dyck, Volchkova and Zingales (2008) take such an approach. Specifically, they instrument the variable measuring newspaper coverage in their regression model with a measure of the size of the stake held by a particular investment fund in their sample of companies. This fund is known to attract media attention to their investments. They believe that the presence of this investment fund is an exogenous component of newspaper coverage. Accordingly, they interpret their results which show a significant positive association between the instrumental variable and reversal of corporate governance violations to indicate a causal link between newspaper coverage of governance violations and their resolution. It may, however, be difficult to derive a variable which is completely independent from all of the other explanatory variables in the research model (Larcker and Rusticus, 2010) and Dyck, Volchkova and Zingales acknowledge that while they have sought to ensure the validity of their instrument, more research is needed to ascertain that a causal relationship exists between news media coverage and corporate governance reform.

<u>Opportunities for Endogeneity to Arise in the Relationship between Changes in Corporate Governance Quality and Newspaper Reporting</u>

A significant endogeneity concern in the present research is the possibility that changes in corporate governance quality are influenced by forces which may also determine newspaper reporting. Chapter Four has discussed five factors which may influence the amount of newspaper coverage companies receive. These are company size, company age, the industrial location of the company, the economic environment and issues associated with the takeover or market abuse case. These factors may also, to some extent, explain the incidence and nature of changes in corporate governance quality in companies. The remainder of this section discusses why these factors may provide some explanation for changes in corporate governance quality. It also describes variables which are included in the research model to account for their influence. Following this, the approach taken to address endogeneity in the sample which may arise from the simultaneous influence of these factors on both corporate governance quality change and newspaper reporting is explained and described.

<u>Factors Influencing both Corporate Governance Quality Change and Newspaper Reporting</u>

Company Size

Company size may partially explain corporate governance quality change in the present research sample as it is argued that larger companies tend to be more compliant with regulatory guidelines (Laing and Weir, 1999). As main listed companies are required by the London Stock Exchange to comply with the Corporate Governance Code, while compliance by smaller AIM listed firms is not as strictly mandated, changes in corporate governance quality may occur more readily in sample companies of a certain size. As discussed in Chapter Four, the amount of newspaper coverage a company receives may also depend on its size as larger companies tend to be more visible both to the newspaper media and its audiences

(Miller, 2006; Dyck, Volchkova and Zingales, 2008). Thus, both changes in CGQ in companies and the amount of newspaper reporting they receive may both be influenced by their size.

In examining the relationship between corporate governance quality change and newspaper reporting, the influence of company size on the two variables must be accounted for. As will be described in more detail below, this is achieved by employing the explanatory variable $CSIZE_{t-1}$, which measures company size, in both the first and second stage regression models (Equations 5.1 and 5.2). $CSIZE_{t-1}$ is defined as the natural logarithm of total fixed assets[48] in the pre-event year. Company size is measured in the pre-event year in the interest of consistency as a number of companies are acquired or delisted in the subsequent years.

Company Age

It is argued that the level of protection shareholders require changes over the course of the company's life cycle (Filatochev, Toms and Wright, 2006). As a company's pool of resources expands over time, it must become more accountable to its shareholders (Aguilera, Filatochev, Gospel and Jackson, 2008). Consequently, a company's age may influence the extent to which changes in corporate governance quality are necessary. In addition, as discussed in Chapter Four, older companies are often more visible to the news media and its audiences as there tends to be a greater availability of information on them (Barry and Brown, 1985; Zhang, 2006) and because they have had longer to build a reputation with the public (Deephouse, 2000).

For these reasons, company age, which is measured by the variable AGE_{t-1}, is considered as a potential explanator of both corporate governance quality change and the amount of newspaper reporting on companies. AGE_{t-1} is also employed in both the first and second stage regression models and is defined as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins. Company age is measured up to this date, as

[48] Source: Datastream Code WC02999.

opposed to the date on which newspaper reporting ceases, for reasons of consistency since those companies which are acquired over the course of newspaper reporting are delisted before newspaper reporting ceases.

Industry

Changes in certain components of CGQ may arise because of developments within the industries in which companies are situated. Directors' pay may vary with the performance of industry in which the firm is situated (Core, Holthausen and Larcker, 1999). Gillan, Hartzell and Starks (2003) report that industry influences explain variations in board structure. Lehn, Patro and Zhao (2009) find that board size declines following industry shocks. Perhaps most pertinent in the present sample is the possibility that an industry may be experiencing a takeover wave. Aware of the threat of takeover, boards in such industries may make greater efforts to protect shareholders' interests; alternatively, they may be reluctant to risk making changes to make board changes (Morck, Shleifer and Vishny, 1989). Furthermore, Chapter Four has discussed how companies may receive more media attention if they are in high-profile, competitive or economically significant industries or industries with a history of corruption (Brammer and Millington, 2006; Hou, 2007; Dyck, Volchkova and Zingales, 2008). Hence, the industrial location of sample companies may go some way to explaining both corporate governance quality change in companies and the level of newspaper coverage these companies receive.

The variable $INDGEN_{t-1}$ indicates the general industry location of a company involved in a takeover or market abuse case in the year prior to the main events of the case. $INDGEN_{t-1}$ differs to the variable $INDSP_{t-1,}$ introduced in Section 5.8, to the extent that it classifies companies into one of six broad industry categories, rather than one of ten[49]. As explained in Section 5.8, the specific industry in which each company is situated is determined from the London Stock Exchange's industrial classifications for the pre-event year. Industries are

[49] While a specific industry location is preferable in identifying the control sample in order to ensure the closest possible industry matches, employing a categorical variable with ten categories in the main research model may reduce the model fit unnecessarily, particularly since there is a small number of companies in certain industries.

further grouped in accordance with the nature of business they concern, thereby creating six broad industrial categories. Accordingly, sample companies are assigned a code with a value between 1 and 6 in accordance with the general industry in which they are situated. Each industry is listed together with the relevant code in Table 5.8. As a large proportion of sample companies are acquired or delisted over the course of cases, the industry location of sample companies is measured at the beginning of the pre-event year as all sectorial locations are available for this date. As a potential explanator of both corporate governance quality change and newspaper reporting, $INDGEN_{t-1}$ is also employed as an explanatory variable in both stages of the research model.

Table 5.8: General Industry Locations of Sample Companies

Code	General Industry	Subsectors
1	Oil, Gas, Materials and Industrials	Mining and Drilling
		Engineering and Machinery
		Transportation
		Construction
		Other
2	Consumer Goods and Services	Retail
		Food and Beverage
		Logistics
		Media and Publishing
		Leisure and Tourism
3	Health Care	Biotechnology
4	Telecommunications and Technology	Telecommunications
		Software and Computer Services
5	Utilities	Water
		Electricity
6	Financials	Real Estate
		Insurance
		Banking and Investment
		Other

Takeover/Market Abuse Issue

Changes in corporate governance quality may arise as a response to specific issues associated with the takeover and market abuse cases. Certain issues may represent a greater risk to shareholders' wealth than others or have more significant implications for the board (Dyck, Volchkova and Zingales, 2008). The amount of newspaper reporting on companies may also rely upon specific issues in the TMA cases in which they are involved. Chapter Four has outlined how issues concerning inappropriate behaviour or conflicts of interests may be considered interesting news stories (Miller, 2006). More coverage may be devoted to issues which are deemed more serious than others or expected to have more significant implications for the directors, shareholders or broader stakeholders of companies involved (Dyck, Volchkova and Zingales, 2008).

The variable ISS_t measures the primary issue in each takeover or market abuse case which leads to the intervention of the Panel or the FSA in order to ensure shareholder protection. This is determined on the basis of:

(i) the rule of the Takeover Code principally applied in the case or

(ii) the type of market abuse principally involved, based on the definition of behaviour which constitutes as market abuse under Subsections 2 to 8 of Section 118 of FSMA.

The primary issue in takeover cases is identified from the Panel statements and the primary issue in market abuse cases is identified from the final enforcement notices issued by the FSA. The issues identified are categorised on the basis of the extent to which the takeover rule or aspect of the law applied is regarded by the present researcher to serve to protect shareholders. Each category of issue identified is assigned a code, the numerical value of which increases with the extent of neglect of shareholders' interests caused by a failure to observe the Rule of the Code or subsection of Section 118 of FSMA. The codes are used to operationalise the variable ISS_t. In effect, the value of ISS_t indicates the degree to which an issue arising in a case represents an injustice to shareholders or a threat to shareholders' interests.

Seven categories of takeover and market abuse issues are created. Four categories pertain to takeover cases and three to market abuse cases. ISS_t is measured in the year of the main events of each case as the primary takeover rule applied or type of market abuse may not be reported by the relevant regulatory authorities until this time. The seven categories of issues are listed in Table 5.9 along with their respective codes and the Rules of the Code and subsections of Section 118 of FSMA pertaining to each category. As can be seen from Table 5.9, market abuse issues are assigned codes of a higher numerical value than takeover issues since they represent a threat to shareholders' wealth which is prohibited by law. ISS_t is also employed as an explanatory variable in both stages of the research model.

Economic Environment

The quality of corporate governance provided by directors may be associated with the economic environment as the overall economic performance of the country in which the company is listed may influence the efforts which boards make to protect shareholders' interests (Leung and Horowitz, 2010). The economic environment may also have an influence on the amount of newspaper coverage that a company involved in a TMA case receives, as the public's interest in matters of corporate control and investor protection may vary with economic sentiment (Doyle, 2006).

Accordingly, the variable $ECON_{t-1,}$ which measures the economic environment in the year in which newspaper reporting begins, is employed as an explanatory variable in both stages of the research model. $ECON_{t-1}$ is defined as the natural logarithm of the Gross Domestic Product (hereinafter, GDP)[50] for the UK at the first quarter of that year.

[50] Source: OECD Q1 Main Economic Indicators (2000-2010).

Table 5.9: Takeover and Market Abuse Issues

Listed below are the takeover and market abuse issues encountered in this study. Panel A presents those issues pertaining to takeover cases and Panel B presents those issues pertaining to market abuse cases. In each panel, the first column lists the codes assigned to each category of issue, these values are employed to operationalise the variable ISS_t, The second column lists the descriptions of the categories of issues, The last two columns list the relevant Rules of the Code or subsection of Section 118 of FSMA applied or breached.

Panel A: Takeovers: *This list is based on the 10th edition of the UK Takeover Code (January 2011). As the cases concerned in this study occurred between January 2001 and December 2010, it should be noted that each case is based on a breach or application of a rule from the relevant edition of the Code at that time.*

Code	Description	Rule breached or applied	Description
1	Timing	31	Timing of the offer
		35	Restrictions following offers
2	Information, disclosure and transparency	8	Disclosure of dealings and positions
		19	Information
3	Treatment of shareholders	2	Secrecy before announcements; the timing and contents of announcements
		6	Acquisitions resulting in an obligation to offer a minimum level of consideration
		9	Mandatory offers
		13	Pre-conditions in firm offer announcements and offer conditions
		14	Provisions applicable to offers where there is more than one class of share capital
		32	Revision of offers
4	Restrictions on dealings	4	Restrictions on dealings- parties acting in concert
		5	Timing restrictions on acquisitions
		38	Dealings by connected exempt principal traders

Panel B: Market Abuse: *This list is based on the definition of behaviour which constitutes as market abuse under subsections 2-8 of Section 118 of the Financial Services and Markets Act 2000.*

Code	Description	Relevant Subsection of FSMA	Description
5	Improper disclosure/misuse of information	3	Improper Disclosure
		4	Misuse of information
6	Insider dealing	2	Insider dealing
7	Market manipulation	5	Manipulating transactions
		6	Manipulating devices
		7	Dissemination of information which gives a false or misleading impression to the market
		8	Distortion and misleading behaviour

Addressing the Issue of Endogeneity in the Relationship between Corporate Governance Quality Change and Newspaper Reporting

It is possible that an endogenous relationship exists between corporate governance quality change and newspaper reporting in the present research sample since corporate governance quality change in a company and newspaper reporting on that company may both be influenced by the five factors just discussed. The simultaneous influence of these factors on the two main variables of interest must be accounted for in order to avoid introducing biased estimates into the model which will be used to investigate the relationship between the two variables. Accordingly, a measure of either newspaper reporting or corporate governance quality change must be derived which does not reflect the influence of these five factors.

As noted above, endogeneity arises where some of the explanatory variables in a regression model are correlated with the error term in the model. Thus, in a one-stage OLS regression model where corporate governance quality is regressed upon newspaper reporting together with variables capturing the five factors mentioned above, newspaper reporting may be correlated with the other explanatory variables and with the error term in the regression model.

In order to avoid such issues, the research model is devised in two stages as outlined in Section 5.6. By employing the residual values derived from the first stage model as the newspaper reporting variable in the second stage, the results for the second stage model may be interpreted with certainty that they are not driven by correlations between newspaper reporting and the five explanatory variables, company size, age and general industrial location, the nature of regulatory issue in question and the economic environment. The next section defines the four additional explanatory variables employed in the second stage model and discusses the rationale for their inclusion.

5.11. Other Explanatory Variables

The present study recognises a number of factors other than those discussed in the previous section which may also, to some extent, explain the incidence and nature of changes in corporate governance quality in companies. These factors are the extent to which the company is responsible for regulatory intervention in the TMA case in which it is involved, its corporate governance quality in the past year, its performance in the past year and the proportion of its shares which are owned by institutional investors. This section discusses why these factors may provide some explanation for changes in corporate governance quality. It also describes variables which are included in the second stage model to account for their influence.

Responsibility for Regulatory Intervention

Corporate governance quality change in the present research sample may be partially influenced by whether or not the company is responsible for the intervention of the Takeover Panel or the FSA. Both the Takeover Code and Section 118 of FSMA are in place to protect the interests of investors. If the board has taken actions which are contrary to the Rules of the Takeover Code or if its members have engaged in market abuse, the efficacy of the board as a corporate governance device may be brought into question. Accordingly, changes may be made to the board so that it appears to serve as a better quality governance instrument. Alternatively, if the bidding company has created cause for regulatory intervention or if the offence of market abuse has been committed by a party who is not a member of the board, no blame should lie with the board. In such cases, the pressure it faces to make governance may not be as great.

The variable $BLAME_t$, which indicates responsibility for regulatory intervention in the TMA case, is defined as a binary variable which assumes a value of 1 if the company is responsible and 0 if otherwise. $BLAME_t$ is measured in the year of the main events of each case as the details of cases may not be reported by the relevant regulatory authorities until this time.

Corporate Governance Quality in the Previous Year

Not all companies have the same potential to experience governance changes of the same magnitude since the extent to which corporate governance quality may improve or deteriorate depends on the existing quality of governance in the company. As such, the board of a company with very good quality governance cannot make the same extent of improvements as one with very poor governance quality. However, its governance quality could deteriorate to a greater extent than could that of a company with poor existing governance quality.

Accordingly, when assessing the relationship between newspaper reporting and changes in corporate governance quality between two consecutive years, it is necessary to control for corporate governance quality in the first of those two years. This is achieved by including, as an explanatory variable, companies' benchmark-adjusted corporate governance quality scores for the first of the two years. This ensures that changes in corporate governance quality are assessed relative to existing governance quality in each company.

Performance

Given that shareholder wealth depends on company performance, the need to improve corporate governance quality may be greater in underperforming companies than in companies which are performing well. Consequently, the extent of changes in corporate governance quality in a company may be influenced by its performance over the past year relative to its industry peers.

Accordingly, when examining changes in corporate governance quality between two consecutive years, t and t+1, of a TMA case, industry-adjusted performance in the first of those two years, t, is included as an additional explanatory variable. Industry-adjusted sales[51] is used to approximate for industry-adjusted performance. This is measured by the variable $PERF_t$, which is defined as:

[51] Annual sales figures for each industry are sourced from Datastream (Code WC01001) and the average is determined for each industry for each year from 2000 to 2010. Company sales for a given year are adjusted by subtracting the industry average for that year from company sales and dividing this figure by the standard deviation of industry sales.

$$\frac{\text{Company Sales in t} - \text{Average Industry Sales in t}}{\text{Standard Deviation of Industry Sales in t}}$$

When examining the pre-event to event year change in CGQ, 't' is defined as the pre-event year and when examining the event to post-event year change, 't' is defined as the event year.

Institutional Ownership

Monitoring by institutional investors serves as a mechanism of corporate governance (Nesbitt, 1994; Smith, 1996; Gillan and Starks, 2003; Becht, Franks, Mayer and Rossi, 2010). Activist shareholders may lobby the board for changes in corporate governance quality through voting (Pound, 1993; Grundfest, 1993; Smith, 1996), engagement with the board (Edkins and Bush, 2002; Becht, Franks, Mayer and Rossi, 2010) and co-ordinated intervention (Edkins and Bush, 2002; Zetzsche, 2005). Thus, changes in a company's corporate governance quality may be influenced by the proportion of its shares which are owned by institutional investors.

The variable $INST_{t-1,}$ which measures the proportion of institutional shareholdings in a company, is defined as the percentage of a company's ordinary shares owned by institutional investors in the pre-event year. Institutional ownership is measured in the pre-event year in the interest of consistency as a number of companies are acquired or delisted in the subsequent years.

It might be argued that these four additional potential determinants of corporate governance quality change may also influence levels of newspaper reporting to some extent. This issue is addressed in Chapter Seven using correlation analysis to test for significant links between these variables and the newspaper reporting variables employed.

5.12. Conclusion

This chapter has described the methodology employed in this study to investigate possible associations between broadsheet newspaper reporting on the operation and potential failure of the market for corporate control and changes in corporate governance quality in companies concerned. The research hypothesis has been set out and the approaches taken to examine it have been explained. Having introduced the research sample and the variables used to measure the data, the next chapter will specify the sources of each dataset, describe the manner in which data is collected, discuss the problems and issues encountered in collecting the data and explain how these issues are mitigated.

CHAPTER SIX: DATA COLLECTION

6.1. Introduction

This chapter discusses the rationale for the selection of the sample of takeover and market abuse cases for use in the present study and describes the manner in which sample cases are identified. The process through which the sample is refined is presented. This chapter also describes the method of selection of the untreated sample from which the control sample is identified. The strategy employed to generate the newspaper data sample is discussed. The sources of, and methods used to collect, the corporate governance quality data are described along with the process of data collection for the explanatory variables. This chapter also addresses a number of issues encountered in collecting the data for the present study.

6.2. Sample Details

Each sample case in this study concerns an instance where an issue concerning a takeover offer is regulated by the Panel or an instance where a penalty is imposed by the FSA for market abuse. To compile a sample of cases, instances of potential and actual takeovers are identified from the statements issued by the Panel in the course of its supervision and regulation of takeover offers and instances of market abuse are identified from the final enforcement notices issued by the FSA following its investigation of market abuse cases. All statements and notices are published over the period extending from 1 January 2001 to 31 December 2010. The study's specific focus on this time period is discussed in Chapter One. These documents are obtained from the websites of the Panel[52] and the FSA[53].

From these reports, 114 takeover cases and 47 market abuse cases are identified. Excluding cases that fall outside the requisite time period and for which key data is missing yields a final sample of 136 cases (111 takeover cases and 25 market abuse cases). A breakdown of the research sample is provided in Table 6.1.

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[52] http://www.thetakeoverpanel.org.uk/statements/panel-statements [Accessed 10 December 2014].
[53] http://www.fsa.gov.uk/pages/about/what/financial_crime/market_abuse/library/notices/index.shtml [Accessed 10 December 2014].

Table 6.1: Takeover and Market Abuse Case Sample Refinement and Sample Breakdown	All Cases	Takeover Cases	Market Abuse Cases
Initial sample size	154	114	40
Less cases commenced prior to 1 January 2001:	(1)	(1)	(0)
Refined sample size:	**153**	**113**	**40**
Less companies not listed on the Main Market or the AIM of the London Stock Exchange:	(17)	(2)	(15)
Final sample size:	**136**	**111**	**25**

Only takeover and market abuse cases involving companies listed on the London Stock Exchange's Official List or AIM are included in the present research sample. An implication of the decision to focus exclusively on companies listed on these markets of the Exchange is that the sample of market abuse cases studied is undesirably small such that the validity of findings relating to market abuse cases in isolation may be impaired. While including companies not listed on the Main Market or the AIM of the Exchange may have mitigated this issue to some degree, the availability of data for such companies is limited to the extent that measurement of changes in corporate governance quality would not have been possible in all cases. Accordingly, caution is aired in inferences drawn from the findings of analysis of the market abuse sample in isolation.

6.3. Identification of Control Sample

As mentioned in the previous chapter, the control sample is isolated from a sample of 617 UK listed plcs which were targeted for takeover or similar control transaction between 2001 and 2010. This sample is identified from the Zephyr M&A database, which contains a comprehensive range of information on successful and failed mergers, acquisitions, management buyouts, institutional buyouts, initial public offerings, venture capital and private equity deals involving companies listed on all major international stock exchanges. It provides data on mergers, acquisitions and buyouts for the full ten years over which the study is set. The database offers an advanced search function which enables various search criteria to be set, including timeframe, transaction type and the exchange on which the target and bidder are listed.

In generating a sample of takeovers and other similar control transitions from which to identify the control sample, a number of parameters are established before searching the database. The search is limited to transactions involving major transfers of control, specifically mergers, acquisitions, management buyouts and institutional buyouts. The search timeframe is set so that only deals which commenced and were completed or ultimately failed between 1 January 2001 and 31 December 2010 are included in the search results. Finally, the search is limited to targets listed on the Main Market or the AIM of the London Stock Exchange.

The search returns a raw sample of 709 transactions. The sample is then organised by target company. Where the same company is the target in a number of transactions, the transaction of the greatest value is selected and the remaining transactions are removed from the sample. This step is taken in order to ensure that no company is included more than once in the final sample. This procedure yields a sample of 617 companies. All companies included in the main research sample are then removed to yield a refined sample of 481 companies. As noted in the previous chapter, both the Zephyr M&A database and the regulatory reports issued by the Takeover Panel and the FSA are consulted to ensure that all of the 481 companies were targets in transactions which were conducted without the need for regulatory intervention. This analysis confirms that the final untreated sample comprises 481 companies which were listed on the London Stock Exchange at some point between 2001 and 2010 and were targets in takeover offers and other relevant control transactions that did not necessitate regulatory intervention.

Both the main research sample (the treated sample) and the untreated sample are combined. Companies in the main research sample are assigned a code of 1 to indicate their involvement with market regulators and the remaining companies are assigned a code of 0 to indicate that the takeover offers in which they were targets proceeded without regulatory intervention. As outlined in the previous chapter, these codes are used to operationalise the binary dependent variable $REGULATE_t$ in the binary logistic regression model presented in Equation 5.4. The data sources for the explanatory variables $CSIZE_{t-1}$, which measures company size, and $INDSP_{t-1}$, which indicates the specific industrial location of companies, are described in Section 6.6.

As explained in the previous chapter, the logit regression predicts the probability of regulatory intervention on the basis of company size and industrial location and yields predicted probability or propensity scores for each company. These scores enable the nearest neighbour matching procedure to be executed whereby each company in the main research sample is matched to the company in the untreated sample which has the closest propensity score. This procedure yields a control sample of 136 companies which have been targets in takeover offers which proceeded without any need for regulatory intervention.

6.4. Newspaper Data Collection

Newspaper data collected for each case consists of reports published in the eight sample broadsheet newspapers between 1 January 2001 and 31 December 2010. A small amount of reports published in 2000, which contain speculation on 2001 takeover offers, are also collected. Reports are sourced from the Lexis-Nexis (News and Business) database. Lexis-Nexis provides all data published in sample newspapers over the full ten years over which the study is set.

Search Strategy for Newspaper Reports on Takeover and Market Abuse Cases

The Lexis-Nexis news search form is employed to search for newspaper reports for each sample case. The news search option enables searches to be easily executed by selecting appropriate combinations of search terms, newspaper sources and publication dates. The news search form allows five search terms to be employed at once. Various connectors may be chosen to link the search terms appropriately. The desired location of each search term may be selected, enabling searches for certain words to be restricted to specific parts of the newspaper report such as the headline or the lead paragraph. Searches can be limited to certain news topics. The range of publication dates searched may be customised by selecting a start and end date. Inclusion of newswires and non-business articles in the search results is optional. The search form also offers ‘duplicate options’; this similarity analysis facility may be employed to test either for ‘highly similar’ or ‘moderately similar’ reports such that only one copy is returned in the results. Lexis-Nexis describes highly similar reports as those which are almost identical in content, while moderately similar reports are described as being relatively similar. The results page generated by Lexis-Nexis provides a tagging facility, whereby reports may be selected for inclusion in a refined result sample which may then be saved. Using this facility it is possible to simultaneously create and refine a sample of newspaper reports for each case. This section outlines the procedure followed to yield the final sample of newspaper reports, a map illustrating this process is provided in Figure 6.1.

Stage 1: Selection of Potential Search Terms

In order to generate newspaper reports pertaining to sample cases, keywords are extracted from the academic literature on the market for corporate control and from the Panel statements and the FSA final enforcement notices. Broadsheet newspaper reports on takeover and market abuse cases are generated from two separate general searches of the archives of sample publications over the sample timeframe using the Lexis-Nexis database. For each general search, just one search term is employed; the search term ‘takeover’ is employed to generate reports on takeovers, while the search term ‘market abuse’ is employed to generate reports on market abuse. Search results are organised by decreasing relevance[54] and the 50 most relevant reports from each search are examined in order to assess the prevalence with which the key-words extracted from the literature appear. Words and phrases commonly used in newspaper reporting are isolated and assembled in a database of potential terms which may be used to search for newspaper reports on sample cases. Search terms employed in the study are listed in Table 6.2.

[54] Lexis-Nexis ranks search results in terms of their relevance to the search terms entered.

Stage 2: Allocation of Search Terms to Cases

For each case, the eight most appropriate search terms are selected and employed in conjunction with the official name of the relevant company, or a known abbreviation thereof, to acquire a raw sample of newspaper reports over the full course of the timeframe assigned to each case. The name of the company is identified from the regulatory reports. In instances where the company name changed over the course of the case, both names are included as search terms. When employing the name of the company as a search term the 'plc' suffix is excluded in order to avoid missing reports which refer to the company informally.

Stage 3: Execution of Searches for Each Case

Two separate rounds of searches are run for each case such that the company name and four case-specific terms are entered on each occasion. The eight newspaper publications are selected from the list of the available news sources. Chapter Four considers the view that reports which appear anywhere in a newspaper have the potential to impact on the governance behaviour of the firm; for this reason both business and non-business articles are studied herein, however newswires, which are not originally generated by the broadsheet newspaper media, are not considered. Consequently, in the source options, non-business articles are selected while newswires are not[55].

The company name is linked to the other four search terms using the AND connector, while the OR connector is selected to link the remaining search terms to each other such that all reports contain the company name and at least one of the case-specific terms. In cases where an abbreviation of the company name is commonly used, the abbreviated name is also included as a search term, this is connected to the official name using the OR connector and connected to the case-specific search terms with the AND connector. On occasions where two forms of the company name are required as search terms a third round of searches is run so that all eight case-specific search terms are employed. In selecting locations in which terms

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[55] It is acknowledged that many broadsheet newspaper reports are based on newswires; by choosing not to include newswires, reports which originate from newswire information are not excluded from the search results. Such reports are included in the present analysis as they contain commentary and information included by broadsheet newspaper journalists.

Table 6.2: Keywords Employed as Search Terms

Listed below are the keywords extracted from the academic literature, regulatory reports and selected broadsheet newspaper reports on takeovers and market abuse. For each search, four appropriate terms are employed together with the official company name or a common abbreviation thereof to generate the initial newspaper reporting sample using the Lexis-Nexis news search page. Search terms are combined using the connectors 'AND' or 'OR' which are provided within the search engine.

Takeover Cases	Hostile Takeovers and Defences	Incidental Terms
General Terms	Block	EGM
Acquire	Buyback	Restructure
Acquisition	Defence	Restructuring
Attempt	Defend	
Auction	Disposal	**Market Abuse Cases**
Battle	Freeze Out Frustrate	General Terms
Bid	Greenmail	Abuse
Break up	Hostile	Analyst
Buyout	Knight	Behaviour
Concert	Oppose	Bet
Condition	Poison Pill	CFD
Consortium	Predator	Contracts for Difference
Contest	Raid	Deal
Control	Rebel	Dealer
Deal	Repurchase	Dealing
Director	Tactic	Director
Disclose		Disclose
Friendly	Unsuccessful Takeovers	Disclosure
Golden Handshake	Fail	Distort
Golden Parachute	Lapse	Executive
Holding	Rebuff	False
Intention	Reject	Founder
LBO	Revoke	Holding
Leveraged	Walk Away	Information
Management	Withdraw	Inside
MBO		Manipulate
Merge	Successful Takeovers	Manipulation
Offer	Accept	Market
Price	Agree	Mislead
Private	Recommend	Non Public
Privatise	Success	Sensitive
Proposal		Share Ramping
Reverse	Regulation and Supervision	Shares
Rival	Appeal	Short Sell
Scheme of Arrangement	Deadline	Spread
Share	Jurisdiction	Stake
Shareholder	Mandatory	Tip
Statement	Panel	Trade
Suitor	Put Up or Shut Up	Trader
Takeover	Stock Exchange	Trading
Target	Threshold	
Tender	Ultimatum	Investigation and Regulation
Terms	Whitewash	Financial Services Authority
War		FSA
	Trading and Investment Terms	Investigate
The Approach	Contracts for Difference	Suspicion
Approach	Conversion	Suspicious
Bid interest	CFD	
Proposal	Derivative	
Propose		
Stake		
Stake build		

are required to appear, the 'anywhere' option is chosen, such that search terms may appear anywhere in the report. While prior researchers have required that the company name or certain keywords appear in the headline (Chan, 2003) or within the first 25 words (Liu and McConnell, 2013) of the article, this study sets no such requirements due to concerns that relevant reports may be missed. For the same reason, the option to restrict searches to specific news topics is also not selected.

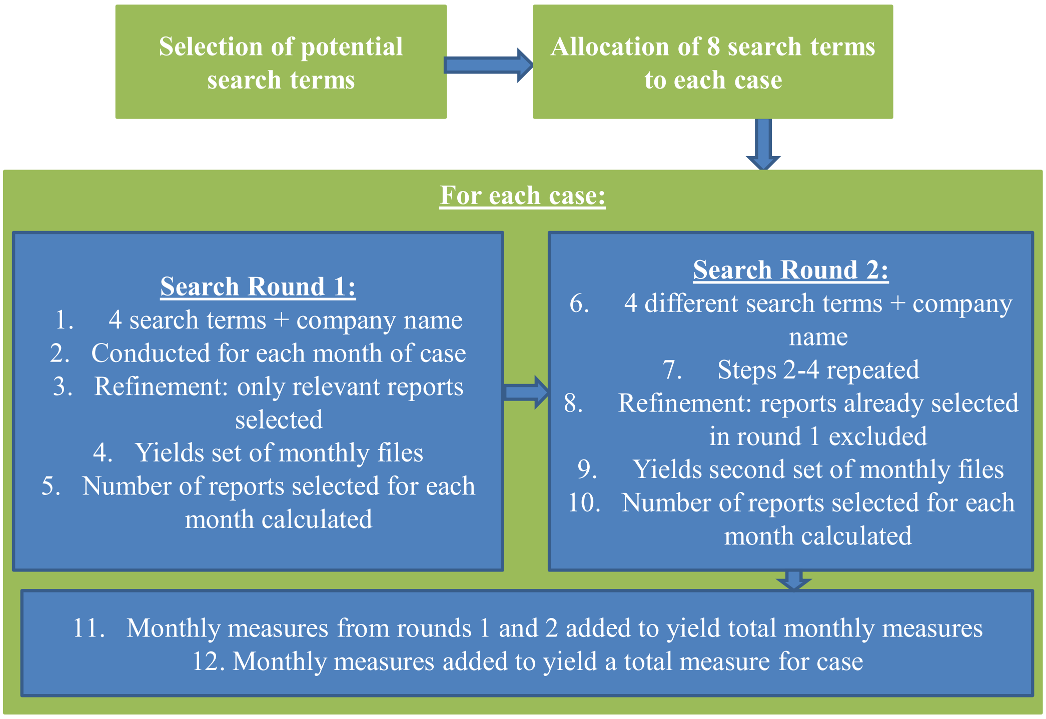
To avoid the occurrence of duplicate reports in the sample, the 'high similarity' option is selected. In order to avoid missing reports, those which are moderately similar are manually studied and the researcher's judgement is used in deciding whether or not to include both reports in the refined sample.

Searches are run for each month of the overall case timeframe beginning on the first month of the ex-ante phase and ending on the last month of the ex-post phase; the appropriate dates defining the start and end of each month are selected using the custom date option. Searches are run on a monthly basis in order to ease management of results and to accommodate for the fact that Lexis-Nexis can return no more than 2,000 reports for each search.

For each month of the case timeframe, a search is run to yield a raw sample of newspaper reports which is immediately refined before proceeding to the next month. In refining the initial raw monthly sample, each report is read; reports which explicitly refer to the company's implication in the takeover or market abuse case are tagged while those reports which match the search criteria for spurious reasons are excluded. The refined sample is saved in a file for that month of the case in question. This procedure is repeated for each month of the case such that a set of monthly files of reports are created for each case.

A second round of searches is then conducted in a similar manner using the remaining case-specific search terms in conjunction with the company name and any abbreviations thereof. In refining the second raw sample, the refined sample generated in the first round is consulted in order to ensure that no one report is saved twice.

Figure 6.1: Process of Newspaper Data Collection



For each month, the numbers of reports in the two refined sample sets are counted and the total number of relevant reports for each month recorded, these numbers are then added to achieve a measure of newspaper reporting for each case. For cases in which a third search is required to ensure all eight case-specific search terms are employed, the third result sample-set is treated in the same manner as the second. Systematic employment of specific and relevant search terms, selection of appropriate search parameters and extensive manual analysis and refinement of the sample yields a final sample of 14,574 newspaper reports. Table 6.3 presents a breakdown from the initial sample of newspaper reports to the final research sample.

While prior researchers have employed content analysis software packages to generate samples of relevant news reports (Tetlock, 2007; Caretta, Farina, Martelli, Fiordelisi and Schwizer, 2011), this study contends that manually reading each report offers greater certainty that the final sample of newspaper reports represents the majority of coverage on sample cases by the eight sample newspapers.

Table 6.3: Newspaper Report Sample Refinement	Full Timeframe	Ex-ante Phase	Event Phase	Ex-post Phase
Initial sample size- search 1	31,740	5,449	18,636	7,655
Less unrelated reports	(17,822)	(2,752)	(9,210)	(5,860)
Refined sample size- search 1:	**13,918**	**2,697**	**9,426**	**1,795**
Initial sample size- search 2:	30,243	6,068	18,092	6,083
Less reports previously recorded	(12,593)	(2,476)	(8,446)	(1,671)
Less unrelated reports	(17,090)	(3,497)	(9,279)	(4,314)
Refined sample size- search 2:	**560**	**95**	**367**	**98**
Initial sample size- search 3:	2,226	296	1,659	271
Less reports previously counted:	(1,995)	(281)	(1,508)	(206)
Less unrelated reports	(135)	(15)	(74)	(46)
Refined sample size- search 3	**96**	**0**	**77**	**19**
Total refined sample size:	**14,574**	**2,792**	**9,870**	**1,912**

6.5. CGQ Data Collection

Data required to calculate the CGQ variables defined in Chapter Five for both the main research sample and the control sample of companies is extracted from their annual reports from the pre-event, event and post-event years and via Datastream. In cases where companies are acquired, and no longer have a website, and in cases which occur at the beginning of the sample period, and annual reports are no longer available on the company's website, annual reports are procured from the Companies House.

Final CGQ Sample

As discussed in the previous chapter, due to the nature of both the main research sample and the control sample, 64 companies in the main research sample and 68 in the control sample are acquired in the event year and hence, do not produce annual reports for that year or the following year. One company in the main sample does not publish an annual report in the year prior to the main events as it is not admitted to listing on the London Stock Exchange until late in that year. Furthermore, 10 companies in the main sample and 14 in the control sample, which are acquired or liquidated in the year following the main events, do not produce annual reports for that year. Table 5.4 in the previous chapter provides a breakdown of both samples on the basis of the years in which CGQ data is available.

CGQ Data Collection Issues

A number of issues arise in collecting the CGQ data, the first of which relates to data availability. As AIM companies are not strictly mandated by the London Stock Exchange to comply with the UK Corporate Governance Code (2010) and therefore are not required to include a detailed corporate governance report in their annual reports, some of the CGQ data cannot be collected for AIM firms either due to the company's failure to implement some of the provisions of the Corporate Governance Code (or, where appropriate, the Combined Code) or due to its decision not to disclose whether the provision has been applied.

Although the problem of missing CGQ data for AIM companies cannot be mitigated or remedied, it does not create a significant obstruction in the present study; partly due to the fact that there are relatively fewer AIM companies in the sample than main listed companies[56] and partly due to the prevalence of voluntary adoption of the Corporate Governance Code (2010) or the version of the Combined Code in place at the time. On occasions where companies did not include a corporate governance section in their annual reports, all possible efforts are made to locate the required data elsewhere in the annual reports. In such cases that companies simply did not report implementation or practice of one of the components of CGQ, it is assumed that the relevant provision is not in place and a score of zero is assigned for that component when evaluating CGQ. This issue arises mainly in relation to the audit committee components of CGQ in that a number of AIM listed companies did not establish an audit committee or failed to hold audit committee meetings. In the main research sample, scores of zero for the variables ACS and ACI are assigned to six companies in each year due to a failure to establish an audit committee, while scores of zero for the variable ACM are assigned to nine companies in the pre-event year, seven companies in the event year and seven companies in the post-event year due to a failure to hold audit committee meetings. In the control sample, scores of zero for the variables ACS and ACI are assigned to 15 companies in the pre-event year, seven companies in the event year and four companies in the post-event year due to a failure to establish an audit committee and scores of zero for the variable ACM

[56] 24% of the full sample, 19% of the takeover subset and 44% of the market abuse subset is composed of AIM listed companies. 26% of the control sample is composed of AIM listed companies.

are assigned to 13 companies in the pre-event year, nine companies in the event year and four companies in the post-event year due to a failure to hold audit committee meetings.

A second issue, less commonly experienced in the present sample, arises on such occasions that companies changed their annual reporting dates over the course of the case, resulting in a given annual reporting year being shorter or longer than 12 months. In such instances, CGQ data for the event year is collected from the annual report for the time period during which the principle transaction occurs[57] and CGQ data for the pre-event and post-event years is collected from the most recent annual reports published before and after this report. As a consequence, certain measurements of CGQ are made over time periods slightly longer and shorter than a year. This issue arises on two occasions, both takeover cases in the main sample. In the first of these two cases, the report from which the CGQ data for the pre-event year is collected covers a 16 month period while in the other case, the report from which the pre-event year CGQ data is collected covers only a six month period. In both cases, the reports from which the data for the event and post-event years is collected cover 12 month periods. While this raises concerns regarding the consistency of measures throughout the sample, it was deemed to be the best possible remedy for the problem which would otherwise result in missing observations and thus a lower generalisability of results.

The final issue encountered in collecting the CGQ data arises in instances where the main events of the TMA case occur over two annual reporting years. In such cases, the event year is defined as the year in which the principle TMA case transaction[58] occurs.

[57] Defined as the year in which the takeover is completed or the offer is withdrawn or the year in which market abuse occurs.
[58] The principle transaction is defined as the transaction or action which determines the outcome of the takeover or market abuse case. In takeover cases, the principle transaction is the acquisition of a company or the ultimate withdrawal of a takeover offer. In market abuse cases, the principle transaction is the final trade, signal or action which constitutes as market abuse. For takeover cases, the date of the principle transaction is identified from the statements of the Panel or from the Zephyr M&A database. For market abuse cases, it is identified from the final enforcement notices published by the FSA.

6.6. Data Collection for Explanatory Variables

Data required for all additional explanatory variables included in the research model is obtained from the following sources:

- Data required to calculate 'Company Size' ($CSIZE_{t-1}$)[59] and 'Industry-adjusted Performance' ($PERF_t$)[60] is obtained from Datastream.
- Information needed to operationalise the 'Industry' variables ($INDSP_{t-1}$ and $INDGEN_{t-1}$) and to calculate 'Company Age' (AGE_{t-1}) is extracted from the London Stock Exchange historical records of listed companies via its website[61]. In the case of 'Industry', classifications are based on the ICB System; this system is employed to identify the specific industry in which each sample company operates and to identify their general industry locations, such that sample companies may be assigned both a specific and a broad industry code which are used to operationalise the variables $INDSP_{t-1}$ and $INDGEN_{t-1}$.
- The data required for the classification of the 'Takeover/Market Abuse Issue' (ISS_t) and to indicate 'Responsibility for Regulatory Intervention' ($BLAME_t$) is extracted from the same regulatory reports used to identify the sample of TMA cases.
- The variable 'Economic Environment' ($ECON_{t-1}$) is operationalised by extracting the UK GDP from the Organisation for Economic Cooperation and Development (hereinafter, the OECD) Main Economic Indicators for the first quarter of each year of the sample period.
- Data required to calculate 'Institutional Ownership' ($INST_{t-1}$) is acquired from companies' annual reports for the pre-event year.

[59] Datastream Code: WC02999.
[60] Datastream Code: WC01001.
[61] http://www.londonstockexchange.com/statistics/historic/company-files/company-files.htm [Accessed 10 December 2014].

6.7. Conclusion

Having described the research methodology in Chapter Five, this chapter has explained the rationale for selection of sample data and the approach taken to gather the data. It has also identified and addressed the issues which arise in data collection. The next chapter presents the results of analysis of this data and those achieved from investigating the research hypothesis.

CHAPTER SEVEN: ANALYSIS

7.1. Introduction

This chapter presents the findings when the research methodology defined in Chapters Five and Six is applied to the data. More specifically, results from descriptive statistical testing and multivariate analysis for the research model employed in the study, which includes hypothesis testing, are presented. Further tests of robustness and sensitivity are also presented as a means of triangulation of findings and yielding further insights from the data.

7.2. Descriptive Statistics

7.2.1. Sample Demographics

Table 7.1 presents an analysis of sample takeover and market abuse cases and the issues which they involve for each year of the sample period. The data reports that the vast majority of the sample comprises takeover cases (111 cases of a total of 136). This is to be expected since market abuse is legally prohibited. Findings report the highest amount of takeover cases occur from 2006 to 2008 and the fewest in 2001[62]. A plausible explanation for this increase is the assumption of statutory powers by the Panel in 2006.

In terms of market abuse cases, Table 7.1 identifies that the highest number occurs in 2002 and 2003, the initial years of FSMA, and become less prevalent thereafter. It may be reasonable to assume that this decline could be attributed to a growing recognition of the potential penalties associated with market abuse as the sanctions associated with FSMA began to serve as a deterrent from 2004 onwards, possibly even more so with the implementation of MAD in 2005. As outlined in Table 7.1, there are fewer than four market abuse cases per year from 2005 onward, consistent with the improvement in market cleanliness from 2005 reported by the FCA (2013) as noted in Chapter Two.

[62] It should be noted that the frequency of cases at beginning of the sample period is lower as cases which have already commenced prior to 1 January 2001 are excluded from the research sample.

Table 7.1: Analysis of Takeover and Market Abuse Issues Per Annum

The variable ISS_t identifies the primary issue which necessitates regulatory intervention in takeover and market abuse cases. The years listed below refer to the year of the takeover, the year in which the offer is withdrawn, or the year in which market abuse takes place.

	Takeover Issues					*Market Abuse Issues*				
ISS_t:	1	2	3	4		5	6	7		
Year (t)	Timing	Information, disclosure and transparency	Treatment of shareholders	Restrictions on dealings	Total Takeover Cases	Improper disclosure/misuse of information	Insider Dealing	Market Manipulation	Total Market Abuse Cases	**Total TMA Cases**
2001	0	0	2	0	2	0	0	0	0	**2**
2002	2	0	1	0	3	0	4	1	5	**8**
2003	1	2	8	1	12	2	3	1	6	**18**
2004	2	2	8	0	12	0	3	1	4	**16**
2005	1	0	9	0	10	0	2	0	2	**12**
2006	1	2	11	1	15	0	1	0	1	**16**
2007	0	0	16	0	16	1	1	0	2	**18**
2008	1	5	11	0	17	0	2	1	3	**20**
2009	2	2	9	0	13	0	2	0	2	**15**
2010	1	1	8	1	11	0	0	0	0	**11**
Total	11	14	83	3	**111**	3	18	4	**25**	**136**

Table 7.2 provides details of the takeover offers included in the main research sample. There are a number of notable observations. Firstly, the sample is almost equally split between successful and unsuccessful offers. Secondly, around 25% of the sample consists of hostile offers. Thirdly, of the companies that have survived the takeover attempt, the vast majority remained independent for two years. Fourthly, the average percentage premium offered is just over 27% which is in line with prior UK research (Barnes, 1998; Martynova and Renneboog, 2011) and roughly at the same level reported for the 1990s (Andrade, Mitchell and Stafford, 2001). Finally, the majority of cases in the sample involve all-cash offers while only 10 involve all-share offers, two of which are successful. This perhaps reflects the requirements of the mandatory bid rule and the squeeze and sell-out rules that offers be made in cash or accompanied by a cash alternative.

Table 7.2: Takeover Sample Overview

Presented below are characteristics of the sample of takeover offers studied (n = 111). Data is extracted from the Zephyr M&A database. For cases where the offer premium and method of payment is not available from the Zephyr M&A database, the relevant data is obtained from selected sample newspaper reports.

	(n)	(%)
Outcome of offers		
Successful offers	57	51.40
Unsuccessful offers	54	48.60
Nature of offers		
Hostile offers	27	24.32
Friendly offers	84	75.68
Fate of targets of unsuccessful offers		
Remain independent for 2 years following offer	45	83.33
Acquired/dissolved within two years of offer	9	16.67

Offer premium (%)	Successful offers	Unsuccessful offers	All offers
Mean	35.29	19.55	27.35
Std. dev.	44.41	48.49	46.97
Min.	-34.66	-97.54	-97.54
Max.	233.33	268.26	268.26

Method of payment	Effective method of payment (successful offers)		Proposed/anticipated method of payment (unsuccessful offers)		Effective/proposed/anticipated method of payment (all offers)	
	(n)	(%)	(n)	(%)	(n)	(%)
Cash	35	61.40	31	57.41	66	59.50
Equity	2	3.51	8	14.81	10	9.00
Mixed[63]	19	33.33	9	16.67	28	25.20
Not Disclosed	1	1.76	6	11.11	7	6.30

[63] Any combination of cash, equity or debt.

Table 7.3 presents an analysis of the Rules of the Code and subsections of FSMA applied in the present research sample. The vast majority of takeover cases (74.78%) concern the application by the Panel of rules which concern the treatment of target shareholders. A small proportion of takeover cases (2.70%) involve regulation of restricted dealings[64]. The findings in Table 7.3 also report that within the market abuse subset, 72% of cases concern insider dealing, 12% concern improper disclosures and misuse of information and the remaining 16% concern market manipulation. The relatively higher number of insider dealing cases may be an indication that insider dealing may be justified more readily by the offender. Alternatively, it may be because it is easier to regulate in comparison to market manipulation, which due to its complex nature (Siems, 2008), can be difficult to detect and prove.

An analysis is also performed in order to assess the extent to which responsibility for these issues lies with the boards of sample companies. The results, presented in the last six columns of Table 7.3, reveal that responsibility tends not to lie with the boards of companies in the present research sample. In the majority of cases, the bidding company or, in market abuse cases, a stock market participant who is not a member of management or the board has created the need for regulatory intervention. In terms of the takeover subset, relatively fewer issues concerning timing or treatment of shareholders have arisen due to the actions of the target company. Relatively more issues concerning information, disclosure and transparency and restricted dealings are attributable to the target board. More blame for market abuse cases lies with the boards of sample companies which are responsible for two thirds of improper disclosure cases, one half of market manipulation cases and almost 40% of insider dealing cases.

[64] It is possible that cases where Rule 4 of the Takeover Code is applied may also require investigation and regulation by the FSA; however, in the present sample, the takeover cases which involved the application of Rule 4 were not restricted under Section 118 of the Financial Services and Markets Act 2000.

Table 7.3: Analysis of the Sample by Takeover and Market Abuse Issue

Presented below is an analysis of (A) the Rules of the Code and subsections of FSMA applied in the present research sample and (B) the extent to which responsibility for application of these rules and provisions lies with the boards of sample companies. Part A lists (i) the number of cases where each rule or provision is applied, (ii) the proportion of the full sample of cases which these figures account for and (ii) the proportions of each sample subset which these figures account for. Part B lists, for each rule or provision, (i) the number and percentage of cases where responsibility for application of the rule or provision lies with the board of a company in the research sample, together with the percentage of the full sample of cases this figure accounts for and (ii) the number and percentage of cases where responsibility for application of the rule or provision lies with the bidding company or another party, together with the percentage of the full sample of cases this figure accounts for.

A: Regulatory Issues (ISS_t)					**B: Responsibility for Issue ($BLAME_t$)**					
					Target Board/Management			Bidder/Other Party		
ISS_t	Description	**n**	%	% Subset	**n**	% Issue	% Total	**n**	% Issue	% Total
Takeover Issues		***111***	*81.62*		***25***	*22.50*	*18.38*	***86***	*77.50*	*63.24*
1	Timing	**11**	8.09	9.91	**3**	27.27	2.21	**8**	72.73	5.88
2	Information, disclosure and transparency	**14**	10.29	12.61	**8**	57.14	5.88	**6**	42.86	4.41
3	Treatment of shareholders	**83**	61.03	74.78	**12**	14.46	8.82	**71**	85.54	52.21
4	Restrictions on dealings	**3**	2.21	2.70	**2**	66.67	1.47	**1**	33.33	0.74
Market Abuse Issues		***25***	*18.38*		***11***	*44.00*	*8.09*	***14***	*56.00*	*10.29*
5	Improper disclosure/misuse of information	**3**	2.20	12.00	**2**	66.67	1.47	**1**	33.33	0.74
6	Insider dealing	**18**	13.24	72.00	**7**	38.89	5.15	**11**	61.11	8.09
7	Market manipulation	**4**	2.94	16.00	**2**	50.00	1.47	**2**	50.00	1.47
Total:		**136**			**36**		**26.50**	**100**		**73.50**

Table 7.4 presents the descriptive statistics for the age, size and percentage institutional ownership of companies in the whole sample and the takeover and market abuse subsets. Results illustrate that companies involved in takeover cases are significantly larger and older than those involved in market abuse cases. The greater average age of companies in the takeover sample is consistent with the conjecture that older firms are more vulnerable to takeover, as their businesses decline (Davis and Stout, 1992; Loderer, Neusser and Waelchili, 2009). The smaller size of companies in the market abuse subset reflects the greater proportionate representation of AIM listed companies in the market abuse subset. As mentioned previously, the securities of smaller companies may be more susceptible to market abuse as pricing efficiency reduces with company size (Lakonishok and Lee, 2001). The results also show that the percentage of institutional ownership of companies involved in takeover cases is significantly larger. The smaller average institutional shareholdings in the market abuse subset is consistent with the argument that forms of market abuse such as opportunistic insider dealing are more likely to occur when there is a lack of strong internal monitoring by parties such as institutional investors (Dai, Fu, Kang and Lee, 2013).

Table 7.4: Sample Demographics: Age (AGE_{t-1}), Size ($CSIZE_{t-1}$) and Institutional Ownership ($INST_{t-1}$)

Descriptive Statistics

	Whole Sample (n=136)			Takeovers (n=111)			Market Abuse (n=25)		
	$CSIZE_{t-1}$	AGE_{t-1}	$INST_{t-1}$	$CSIZE_{t-1}$	AGE_{t-1}	$INST_{t-1}$	$CSIZE_{t-1}$	AGE_{t-1}	$INST_{t-1}$
Mean	12.65	15.50	33.64	13.02	16.54	35.45	11.02	10.90	25.63
Std.Dev.	2.20	17.33	17.24	2.07	17.70	16.85	2.08	15.04	16.96
Min	5.31	0.00	0.00	7.96	0.00	0.00	5.31	0.50	0.00
Max	18.00	66.75	73.67	18.00	66.75	73.67	14.27	51.67	69.20

Tests for differences between Takeover and Market Abuse Sample Subsets

	$CSIZE_{t-1}$	AGE_{t-1}	$INST_{t-1}$
Independent Samples t	4.37	-	-2.63
Significance	(0.000)***	-	(0.010)**
Mann-Whitney Z	-	2.28	-
Significance	-	(0.023)**	-

Variable Definitions

AGE_{t-1}: Company age, measured as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins
$CSIZE_{t-1}$: Company size, measured as ln (total fixed assets in the pre-event year)
$INST_{t-1}$: Proportion of institutional ownership of the company, measured as the percentage of a company's ordinary shares owned by institutional investors in the pre-event year

*** Significant at the 1% level, ** Significant at the 5% level

Table 7.5 presents the descriptive statistics for and the results of statistical tests for differences in company size in the main research sample and the control sample. These results illustrate the success of the nearest neighbour matching procedure. Companies in both samples are, on average, of a similar size and the results of a Mann-Whitney test indicate that there is no statistically significant difference in the sizes of companies in the two samples.

Table 7.5: Company Size ($CSIZE_{t-1}$) in the Main Research Sample and in the Control Sample

Descriptive Statistics	Main Research Sample (n=136)	Control Sample (n=136)
Mean	12.65	12.19
Std. dev.	2.20	2.50
Min	5.31	4.15
Max	18.00	18.43
Tests for differences in Company Size between Main Research and Control Samples		
Mann-Whitney Z	-0.77	
Significance	(0.441)	

Definition for $CSIZE_{t-1}$: Company size, measured as ln (total fixed assets in the pre-event year)

Table 7.6 presents the descriptive statistics for the industry-adjusted performance, as measured by industry-adjusted sales, for the main research sample and for the individual takeover and market abuse subsets thereof. Results illustrate that, by industry standards, the performance of companies involved in takeover cases is significantly better than that of companies involved in market abuse cases. The superior performance observed in the takeover subset may be attributable to the larger average size of companies in this subset. As noted, a greater proportion of companies in the market abuse subset are listed on the AIM and hence, it might be expected that the annual sales of these smaller, growing companies would be below the industry average. While the performance of the average company in the takeover subset improves each year, that of the average company in the market abuse subset deteriorates. It is possible that the deteriorating performance of companies in the market abuse subset may trigger changes in board composition (Hermalin and Weisbach, 1988) or an increase in board activity (Vafeas, 1999) and hence, lead to an improvement in corporate governance quality. This possibility is investigated in Section 7.4.

Table 7.6: Industry-adjusted Performance for the Pre-event, Event and Post-event Years ($PERF_{t-1}$, $PERF_t$ and $PERF_{t+1}$)

Descriptive Statistics	Full Sample			Takeovers			Market Abuse		
	$PERF_{t-1}$	$PERF_t$	$PERF_{t+1}$	$PERF_{t-1}$	$PERF_t$	$PERF_{t+1}$	$PERF_{t-1}$	$PERF_t$	$PERF_{t+1}$
	n = 135	n = 72	n = 62	n = 110	n = 54	n = 46	n = 25	n = 18	n = 16
Mean	0.44	0.38	0.57	0.60	0.61	0.89	-0.28	-0.30	-0.37
Std.Dev.	2.66	2.45	2.75	2.92	2.79	3.13	0.23	0.18	0.10
Min	-0.96	-1.01	-0.63	-0.96	-1.01	-0.63	-0.52	-0.47	-0.54
Max	22.58	13.94	15.06	22.58	13.94	15.06	0.37	0.28	0.22

Tests for Differences	Full Sample	Takeovers	Market Abuse
Pre-Event vs. Event Year			
Wilcoxon's Z	1.08	1.25	-0.50
Significance	(0.280)	(0.215)	(0.617)
Event vs. Post-Event Year			
Wilcoxon's Z	0.36	1.16	-0.36
Significance	(0.718)	(0.246)	(0.718)
Pre-Event vs. Post-Event Year			
Wilcoxon's Z	-1.24	-1.15	-1.27
Significance	(0.215)	(0.250)	(0.212)
Takeover vs. Market Abuse Subset	$PERF_{t-1}$	$PERF_t$	$PERF_{t+1}$
Mann-Whitney Z	2.83	4.21	4.48
Significance	(0.005)***	(0.001)***	(0.001)***

Variable Definitions: **$PERF_{t-1}$:** Industry-adjusted performance in the pre-event year, measured as: (Company Sales in Pre-Event Year – Average Industry Sales in Pre-Event Year)/Standard Deviation of Industry Sales in Pre-Event Year; **$PERF_t$:** Industry-adjusted performance in the event year, measured as: (Company Sales in Event Year – Average Industry Sales in Event Year)/Standard Deviation of Industry Sales in Event Year; **$PERF_{t+1}$:** Industry-adjusted performance in the post-event year, measured as: (Company Sales in Post-Event Year – Average Industry Sales in Post-Event Year)/Standard Deviation of Industry Sales in Post-Event Year

*** Significant at the 1% level

Table 7.7 presents an overview of sample companies categorised by general industry code. The oil, gas, materials and industrials industries and the consumer goods and services industries account for the vast majority of sample firms comprising 39% and 36.8% of the sample respectively. Consumer goods and services companies are most strongly represented in the takeover subset of the sample, with almost 38% of takeover cases involving companies located in this general industry. The apparent vulnerability of consumer goods and services companies to takeover over the sample period may reflect challenges within the industry in the UK due to a trend of high imports of consumer goods into the UK in the years prior to 2008 (UK Department of Business, Innovation and Skills, 2012). The high proportion of takeover cases which involve oil, gas, materials and industrials companies may be due to fluctuating values of companies in these industries caused by changes in the prices of oil, gas and other commodities being reflected in share price (Sadorsky, 2001). No companies from the health care industry occur in the takeover subset of the sample; this may be explained by the growth experienced and sustained in the UK life sciences industry in the past decade (UK Department of Business, Innovation and Skills, 2010).

Sixty per cent of market abuse cases involve companies from the oil, gas, materials and industrials industries. Since market abuse, such as insider dealing, can occur at times of high share price volatility (Meulbroek, 1992), it might be expected that a high proportion of market abuse cases occur in the oil and gas industries where share price fluctuations arise quite regularly as explained above. No instances of market abuse are observed in the technology, telecommunications or financial services industries. While reasons for this may be spurious, the low incidence of market abuse involving securities of financial services companies might be attributed to the specific regulatory focus on financial services companies in the UK as a consequence of FSMA.

Table 7.7: Analysis of Sample by General Industry ($INDGEN_{t-1}$) and Subsector							
		Whole Sample		Takeovers		Market Abuse	
		n=136		n=111		n=25	
		n	(%)	n	(%)	n	(%)
$INDGEN_{t-1}$:	**Oil, Gas, Materials and Industrials**	**53**	**(39.0)**	**38**	**(34.2)**	**15**	**(60.0)**
Subsectors:	Mining and Drilling	18	(13.2)	11	(9.9)	7	(28.0)
	Engineering and Machinery	12	(8.8)	10	(9.0)	2	(8.0)
	Transportation	5	(3.7)	4	(3.6)	1	(4.0)
	Construction	5	(3.7)	4	(3.6)	1	(1.0)
	Other	13	(9.6)	9	(8.1)	4	(16.0)
$INDGEN_{t-1}$:	**Consumer Goods and Services**	**50**	**(36.8)**	**42**	**(37.8)**	**8**	**(32.0)**
Subsectors:	Retail	14	(10.3)	12	(10.8)	2	(8.0)
	Food and Beverage	11	(8.1)	9	(8.1)	2	(8.0)
	Logistics	2	(1.5)	2	(1.8)	0	(0.0)
	Media and Publishing	16	(11.8)	14	(12.6)	2	(8.0)
	Leisure and Tourism	7	(5.1)	5	(4.5)	2	(8.0)
$INDGEN_{t-1}$:	**Health Care**	**1**	**(0.7)**	**0**	**(0.0)**	**1**	**(4.0)**
Subsectors:	Biotechnology	1	(0.7)	0	(0.0)	1	(4.0)
$INDGEN_{t-1}$:	**Telecommunications and Technology**	**8**	**(5.9)**	**8**	**(7.2)**	**0**	**(0.0)**
Subsectors:	Telecommunications	3	(2.2)	3	(2.7)	0	(0.0)
	Software and Computer Services	5	(3.7)	5	(4.5)	0	(0.0)
$INDGEN_{t-1}$:	**Utilities**	**4**	**(2.9)**	**3**	**(2.7)**	**1**	**(4.0)**
Subsectors:	Water	3	(2.2)	2	(1.8)	1	(4.0)
	Electricity	1	(0.7)	1	(0.9)	0	(0.0)
$INDGEN_{t-1}$:	**Financials**	**20**	**(14.7)**	**20**	**(18.8)**	**0**	**(0.0)**
Subsectors:	Real Estate	9	(6.6)	9	(8.1)	0	(0.0)
	Insurance	4	(2.9)	4	(3.6)	0	(0.0)
	Banking and Investment	5	(3.7)	5	(4.5)	0	(0.0)
	Other	2	(1.5)	2	(1.8)	0	(0.0)

Table 7.8 provides a breakdown of the main research sample and the control sample of companies on the basis of their broad and specific industry locations, as measured by the variables $INDGEN_{t-1}$ and $INDSP_{t-1}$ respectively. This breakdown also illustrates that the nearest neighbour matching technique has been successfully applied to the extent that the industry distribution of the main sample and the control sample is quite similar. There are fewer control sample companies in certain industries particularly in the consumer services industry and slightly more in others such as the financial industry; however, manual analysis of companies which are not matched with companies from the same industry reveals that their matches are located in neighbouring industries.

Table 7.8: Overview of the Main Research Sample and the Control Sample by Industry					
		Main Research Sample (n=136)		Control Sample (n=136)	
		n	(%)	n	(%)
$INDGEN_{t-1}$:	**Oil, Gas Materials and Industrials**	**53**	**(39.1)**	**55**	**(40.5)**
$INDSP_{t-1}$:	Oil and Gas	13	(9.7)	10	(7.4)
	Basic Materials	10	(7.4)	15	(11.0)
	Industrials	30	(22.1)	30	(22.1)
$INDGEN_{t-1}$:	**Consumer Goods and Services**	**50**	**(36.7)**	**45**	**(33.1)**
$INDSP_{t-1}$:	Consumer Goods	7	(5.1)	7	(5.1)
	Consumer Services	43	(31.6)	38	(28.0)
$INDGEN_{t-1}$:	**Health Care**	**1**	**(0.7)**	**1**	**(0.7)**
$INDSP_{t-1}$:	Health Care	1	(0.7)	1	(0.7)
$INDGEN_{t-1}$:	**Telecommunications and Technology**	**8**	**(5.8)**	**8**	**(5.8)**
$INDSP_{t-1}$:	Telecommunications	5	(3.7)	4	(2.9)
	Technology	3	(2.1)	4	(2.9)
$INDGEN_{t-1}$:	**Utilities**	**4**	**(2.9)**	**1**	**(0.7)**
$INDSP_{t-1}$:	Utilities	4	(2.9)	1	(0.7)
$INDGEN_{t-1}$:	**Financials**	**20**	**(14.7)**	**26**	**(19.2)**
$INDSP_{t-1}$:	Financials	20	(14.7)	26	(19.2)

The application of variables which gauge economic environment in the sample yields results which are presented in Table 7.9. As this table reports, the GDP for the UK increased steadily from 2001 to 2008. GDP declined in 2009, consistent with global trends (OECD, 2010). This is followed by an increase in 2010. Chapter Four considers the view that a change in economic conditions may affect the landscape for investment in a country and place corporate performance and the concerns of shareholders and broader stakeholders higher on the public agenda (Doyle, 2006). Thus, it is possible that the economic contraction toward the end of the sample period may have led to increased newspaper scrutiny on directors' behaviour and investor protection.

Table 7.9: Analysis of Sample by Economic Environment ($ECON_{t-1}$)								
Year	GDP (£billions)	$ECON_{t-1}$ [Ln(GDP)]	Total TMA Cases (n= 136)		Takeover Cases (n= 111)		Market Abuse Cases (n= 25)	
			n	%	n	%	n	%
2001	990.70	27.62	10	7.35	5	4.53	5	20.00
2002	1,037.30	27.67	18	13.24	12	10.81	6	24.00
2003	1,100.50	27.73	16	11.76	12	10.81	4	16.00
2004	1,158.00	27.78	12	8.82	10	9.00	2	8.00
2005	1,211.20	27.82	16	11.76	15	13.51	1	4.00
2006	1,288.20	27.88	18	13.24	16	14.41	2	8.00
2007	1,385.10	27.96	20	14.71	17	15.32	3	12.00
2008	1,445.10	28.00	15	11.03	13	11.70	2	8.00
2009	1,396.50	27.96	7	5.15	7	6.31	0	0.00
2010	1,456.30	28.01	4	2.94	4	3.60	0	0.00

7.2.2. Newspaper Reporting

Table 7.10 presents a breakdown of newspaper reporting on sample cases over the ten year period studied. As noted in Chapter Six, a small amount of reports published in 2000, which contain speculation on 2001 takeover offers, are also collected. Clearly, takeover cases receive remarkably more newspaper coverage than market abuse cases in each year. It is likely that this difference is most attributable to the greater public availability of information on takeovers than on instances of market abuse as discussed in Chapter Four.

There is a marked increase in newspaper reporting on both takeover cases and market abuse cases in 2003. The amount of coverage on takeover cases continues to increase over the following two years while reporting on market abuse cases declines, consistent with the decline in market abuse activity reported in Table 7.1. It is interesting to note the high level of coverage devoted to takeover cases in 2007. This may indicate that the granting of statutory powers to the Panel in 2006 resulted in takeover offers being considered an issue of greater public importance.

In contrast, newspaper reporting on market abuse cases increases consistently from 2008 despite the decline in the incidence of market abuse indicated in Table 7.1. This deviation arises due to the more dispersed nature of newspaper reporting on market abuse

Table 7.10: Newspaper Reporting on Takeover and Market Abuse Cases 2000-2010					
Year	No. Newspaper Reports on Sample Cases	No. Reports on Takeover Cases	Average No. Reports per Takeover Case	No. Reports on Market Abuse Cases	Average No. Reports per Market Abuse Case
2000	33	33	33.00	0	0
2001	414	414	138.00	0	0
2002	313	286	20.43	27	6.75
2003	1,305	1,193	62.63	112	11.20
2004	1,525	1,443	80.17	82	8.20
2005	2,189	2,128	92.52	61	5.55
2006	1,526	1,515	65.70	11	2.75
2007	2,462	2,457	111.68	5	1.67
2008	2,142	2,107	81.04	35	2.92
2009	1,335	1,282	61.05	53	4.42
2010	1,330	1,263	84.20	67	5.58
Full Sample Period	14,574	14,121	127.22	453	18.12

cases. Unlike takeover cases which tend to reach a conclusion within a number of months, the investigations which follow the incidence of market abuse may take some years to complete such that the offenders are often not penalised until a number of years later. Consequently, newspaper reporting on market abuse cases often extends for a number of years, with the effect that many of those reports published in later years of the sample period pertain to cases where the actual abuses take place in earlier years.

As alluded to above, it is possible that the contraction in the national economy in 2009 may have led to an increase in newspaper attention on issues of corporate performance and the interests of investors and broader company stakeholders. At the aggregate level, this does not appear to be the case as newspaper reporting on both types of cases begins to decline in 2007. Newspaper reporting on market abuse cases does increase in 2009 and again in 2010; however, this coverage focuses on cases from earlier years. With regard to takeover cases, the average number of reports per case is lower in 2009 than in 2008. It does however increase in 2010. In fact, Table 7.10 may not reflect the full level of newspaper reports regarding takeover offers published in 2010, as reports which may speculate 2011 offers are not considered herein. Thus, economic performance may have somewhat of a delayed impact on the extent of newspaper reporting on issues and events in the corporate environment, specifically, the operation and breakdown of the market for corporate control and the associated implications for shareholders and more peripheral stakeholders. On the other hand, given that economic performance does not suffer dramatically in 2009, it may be the case that there is little effect on levels of newspaper reporting. The degree to which macroeconomic performance explains newspaper reporting on takeover and market abuse cases is examined further in Section 7.4.

a. Newspaper Reporting over Individual Case Timeframes

Table 7.11 presents the descriptive statistics for the variables employed to measure newspaper reporting over the individual timeframes assigned to sample cases. Results show that in both takeover and market abuse cases, there is significantly more newspaper reporting over the event phase[65] than over the ex-ante[66] and ex-post phases[67]. For takeover cases, there is significantly more newspaper reporting over the ex-ante phase of cases than that over the ex-post phase. In contrast, there is significantly more newspaper reporting over the ex-post phase of market abuse cases than over the ex-ante phase. In fact, there is no newspaper reporting on market abuse cases over the ex-ante phase. These initial results are perhaps not surprising given that market abuse cannot be predicted or speculated upon while rumours often precede takeover offers (Jarrell and Poulsen, 1989).

Table 7.11 also reveals that newspaper reporting on takeover cases is significantly greater than that on market abuse cases over the full course of the case and over each phase thereof. As noted, the absence of coverage observed over the ex-ante phase of market abuse cases is attributed to the likelihood that there is no indication of the intention to commit market abuse. The smaller amount of coverage of market abuse cases over the event phase is likely to be due to the tendency for corporate crime to be concealed by the parties involved, making it difficult to detect (Miller, 2006). In contrast, in the event phase of takeovers, the

[65] Defined in takeover cases as the time period from the date on which a possible offer is announced to the date on which the takeover is completed or the offer is withdrawn and in market abuse cases as the period from the date on which prohibited behaviour begins to the date on which the final penalty is imposed on the offenders by the FSA.
[66] Defined as the six month period prior to the event phase.
[67] Defined as the six month period following the event phase.

Table 7.11: Newspaper Reporting over Individual Case Timeframes: Descriptive Statistics and Statistical Tests for Differences

Descriptive statistics for the variables employed to measure newspaper reporting over the full timeframes of sample cases (NPR_{full}) and over the ex-ante ($NPR_{ex\text{-}ante}$), event (NPR_{event}) and ex-post ($NPR_{ex\text{-}post}$) phases.

		NPR_{full}	$NPR_{ex\text{-}ante}$	NPR_{event}	$NPR_{ex\text{-}post}$
Full Sample (n= 136)	Mean	3.60	1.45	3.26	1.43
	Std. Dev.	1.60	1.72	1.54	1.46
Takeover Subset (n= 111)	Mean	3.84	1.78	3.45	1.59
	Std. Dev.	1.64	1.75	1.59	1.52
Market Abuse Subset	Mean	2.52	0.00	2.39	0.69
(n= 25)	Std. Dev.	0.84	0.00	0.87	0.81

Comparisons of the volumes of reports published in each phase of cases.

		Full Sample	Takeovers	Market Abuse
$NPR_{ex\text{-}ante}$ vs. NPR_{event}	Wilcoxon Z	-	7.97	4.37
	Significance	-	(0.001)***	(0.001)***
	Paired Samples t	-13.67	-	-
	Significance	(0.001)***	-	-
NPR_{event} vs. $NPR_{ex\text{-}post}$	Wilcoxon Z	-	8.59	4.30
	Significance	-	(0.001)***	(0.001)***
	Paired Samples t	17.26	-	-
	Significance	(0.001)***	-	-
$NPR_{ex\text{-}ante}$ vs. $NPR_{ex\text{-}post}$	Wilcoxon Z	-	1.38	-3.16
	Significance	-	(0.168)	(0.002)***
	Paired Samples t	0.29	-	-
	Significance	(0.770)	-	-

Comparisons of the newspaper reporting between the takeover and market abuse sample subsets.

	NPR_{full}	$NPR_{ex\text{-}ante}$	NPR_{event}	$NPR_{ex\text{-}post}$
Mann-Whitney Z	4.21	4.48	-	2.60
Significance	(0.001)***	(0.001)***	-	(0.009)***
Independent Samples t	-	-	3.22	-
Significance	-	-	(0.001)***	-

*** Significant at the 1% level

identity and intentions of offerors must be disclosed at the beginning of the offer period under Rule 2 of the Code.

The difference in the amount of newspaper reporting between takeover and market abuse cases is smallest in the ex-post phase. At this stage in market abuse cases, some information on the incidence of the abuse will be publically available, as regulatory investigations take place. Nonetheless, it may be the case that certain information will remain confidential until penalties are imposed on the perpetrators. In takeover cases, the actions of the management and directors of the offeror and offeree companies are publically observable over the ex-post phase. The greater amount of coverage of takeover cases in the ex-post phase might also be because the post-event developments in takeover cases may be considered more newsworthy by the mainstream newspaper media. Although market abuse represents an injustice to shareholders and may be considered to have real consequences for the investment community and possibly macro-economic development, takeovers, particularly successful takeovers, have direct implications for members of the general public such as the offeree's employees and customers (Coffee, 1988; Shleifer and Summers, 1988; Slinger and Deakin, 1999; Deakin, 2005). While takeover cases clearly receive more newspaper coverage than market abuse cases, un-tabulated results of a frequency analysis on the variable NPR_{full} shows that while all market abuse cases appear in the newspaper media on at least one occasion, four takeover cases (3.6%) receive no coverage at all. Thus, while some takeover offers may not be considered newsworthy, possibly due to the low visibility of the target company or because the offer went unopposed or did not involve a large premium, all market abuse cases are deemed to be of sufficient import to make it into the press.

b. Annual Newspaper Reporting

To facilitate statistical testing, newspaper data requires annualization. Results presented in Table 7.12, shed some further insight into the nature of newspaper reporting on takeover and market abuse cases by focusing on the specific three years over which corporate governance quality is measured. Results show that newspaper reporting on takeover cases is significantly greater than that on market abuse cases in the pre-event and event years. Consistent with observations made above, there is almost no newspaper coverage on market abuse cases in the pre-event year[68]. The relatively larger mean value reported for the takeover subset indicates that there is considerable media speculation on takeovers in the pre-event year. The greatest

[68] Defined as the year prior to the completion of a takeover or withdrawal of the offer or the year prior to the incidence of market abuse.

Table 7.12: Newspaper Reporting by Year: Descriptive Statistics and Statistical Tests for Differences

Descriptive statistics on newspaper reports published in the pre-event year (NPR_{t-1}), the event year (NPR_t) and the post-event year (NPR_{t+1}).

		NPR_{t-1}	NPR_t	NPR_{t+1}
Full Sample (n= 136)	Mean	0.97	2.99	0.90
	Std. Dev.	1.61	1.86	1.37
Takeover Subset (n= 111)	Mean	1.18	3.45	0.84
	Std. Dev.	1.72	1.72	1.42
Market Abuse Subset (n= 25)	Mean	0.07	0.95	1.17
	Std. Dev.	0.25	0.85	1.13

Comparisons of the volumes of reports published in each year of cases.

		Full Sample	Takeovers	Market Abuse
NPR_{t-1} vs. NPR_t	Wilcoxon Z	-8.14	-7.52	-3.47
	Significance	(0.001)***	(0.001)***	(0.001)***
NPR_t vs. NPR_{t+1}	Wilcoxon Z	8.51	8.65	-0.58
	Significance	(0.001)***	(0.001)***	(0.562)
NPR_{t-1} vs. NPR_{t+1}	Wilcoxon Z	0.52	-1.64	3.54
	Significance	(0.603)	(0.101)	(0.001)***

Comparisons of the newspaper reporting for each year between the takeover and market abuse sample subsets.

	NPR_{t-1}	NPR_t	NPR_{t+1}
Mann-Whitney Z	2.61	-5.92	-2.20
Significance	(0.009)***	(0.001)***	(0.028)**

*** Significant at the 1% level, ** Significant at the 5% level

amount of newspaper reporting on takeover cases is observed in the event year[69]. This again illustrates the ease with which the newspaper media can report on takeovers in a timely manner. The most coverage on market abuse cases is observed in the post-event year[70]. This may be explained by the difficulties experienced by business journalists in the UK in conducting investigations (Doyle, 2006; Tambini, 2008). The barriers to investigative journalism, discussed in Chapter Four, may mean that even if journalists harbour suspicions regarding market abuse, they may be reluctant to publish these suspicions until they are confirmed, for example, by the commencement of regulatory investigations. Indeed, it may take a number of years before the identity of those parties who engage in market abuse is

[69] Defined as the year in which the takeover is completed or the offer is withdrawn or the year in which market abuse occurs.

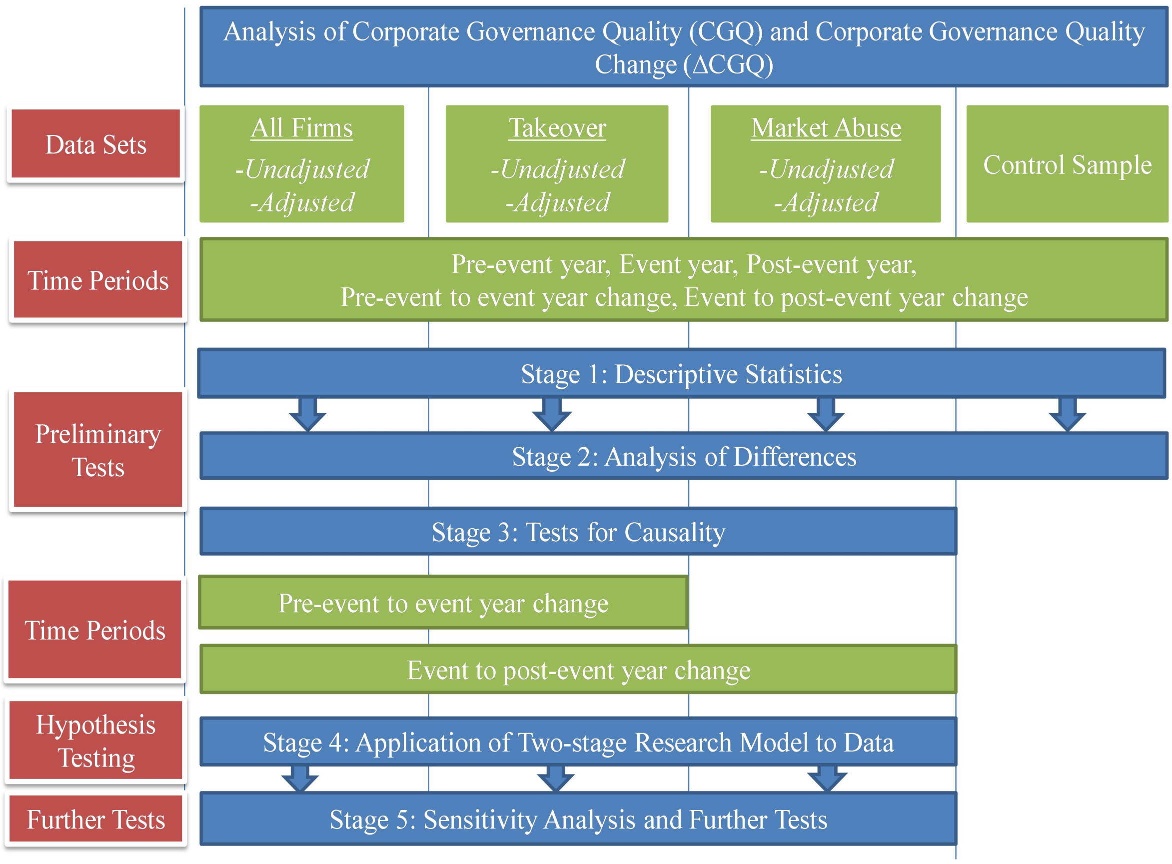
[70] Defined as the year following the completion of a takeover or withdrawal of the offer or the year following the incidence of market abuse.

reported in the newspaper media due to the confidential nature of investigations and the risk facing journalists that legal action may be taken against them for defamation.

7.2.3. Corporate Governance Quality

Analysis of corporate governance quality is performed in five stages. Figure 5.1 in Chapter Five presents a general outline of the process of analysis. Figure 7.1 depicts this process in greater detail.

Figure 7.1: Analysis of Corporate Governance Quality



Presented below are the findings of both descriptive statistics and tests for differences in the data when examining corporate governance quality. To allow for a more meaningful assessment of CGQ in the sample, both forms of analysis are conducted for both the total CGQ scores and each of the ten components thereof. By approaching the analysis in this manner, it is possible to shed insight into the specific aspects of the board deemed to be of high and low quality and to identify where the biggest changes in quality occur.

As discussed in Chapter Five, the control sample of companies which are targeted for takeover, but do not encounter direct regulatory intervention over the course of the offer, is employed to facilitate analysis of CGQ in the present study. The quality of corporate governance in the control sample, which is matched to the main research sample by company size and industry, is also measured in order to establish a benchmark of CGQ. The CGQ scores assigned to companies in the main research sample are benchmark-adjusted so that any influence their involvement with the regulatory authorities may have on their CGQ scores is accounted for. This procedure seeks to ensure that the scores assigned to sample companies provide an accurate indication of the quality of their governance which is reflective of their size and the industries in which they are situated. Accordingly, this section also evaluates CGQ in the control sample and examines differences in CGQ between the control sample and the main sample. Descriptive statistics for, and the results of statistical tests for differences in, both the unadjusted and adjusted CGQ scores of sample companies are considered.

Tables 7.13 to 7.19 present the descriptive statistics. Descriptive statistics for the unadjusted CGQ scores and changes therein are presented in Tables 7.13, 7.14 and 7.15 for the main research sample and the individual takeover and market abuse subsets respectively. Table 7.14 also presents separate pre-event year statistics for the individual segments of the takeover subset which (i) are acquired and (ii) survive the takeover attempt so as to facilitate an enhanced understanding of how CGQ scores differ between the two segments and how scores in companies which overcome the threat of takeover change over the following years. Table 7.16 presents the descriptive statistics for the total and component CGQ scores and changes therein in the control sample. Finally, descriptive statistics for the benchmark-adjusted CGQ scores and changes therein are presented in Tables 7.17, 7.18 and 7.19 for full research sample and the takeover and market abuse subsets respectively.

Tables 7.20 to 7.24 present the results of statistical tests for differences. Tables 7.20 and 7.21 present the results of statistical tests for differences in CGQ scores between each year studied for the main research sample and the control sample respectively. Table 7.22 presents the results of statistical tests for differences in the benchmark-adjusted scores between each year for the main sample. Following this, Table 7.23 presents the results of statistical tests for differences in scores between the takeover and market abuse subsets of the main research sample; these comparisons pertain to both the unadjusted and adjusted scores. A summary of the CGQ scores in the main sample and in the control sample, together with the results of statistical tests for differences in scores between the two samples is presented in Table 7.24.

The remainder of this section discusses these results. In order to facilitate a more insightful understanding of the level of corporate governance quality in the sample and changes therein, some reference is made to the initial raw measures of the components of CGQ. An overview of the average values of the ten components of CGQ, as measured prior to the application of the scoring methodology, is presented in Table 7.25.

Total CGQ Score

Results presented in Table 7.13 show that, on average, total CGQ scores assigned to companies in the main research sample range between 66.62 to 68.08 out of a possible maximum of 100 and the highest average scores are observed in the event year. While the average CGQ score of sample companies decreases from 68.08 in the event year to 67.76 in the post-event year, it remains above the pre-event level of 66.62. Although the average changes in CGQ may appear small, it is important to note that large changes do occur within sample companies. Minimum and maximum values reported for the changes in total CGQ score indicate that increases and decreases of over 40% occur over the years studied.

Table 7.13: Descriptive Statistics: Full Sample: Unadjusted Corporate Governance Quality Indicators

Below are the descriptive statistics for the total and component CGQ scores and changes therein in sample companies. The first part of the table presents those statistics for the pre-event, event and post-event years. The second part presents those statistics for changes between the pre-event and event years and between the event and post-event years. Definitions for each of the ten components as initially measured are provided at the bottom of this table. Scores are assigned for each component as described in Chapter Five.

		Continuous Variables										*Discrete Variables*	
		CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE		CEOCH	ACI
CGQ in Individual Years													
Pre-event year	Mean	66.62	6.06	6.87	7.84	4.36	8.38	7.51	5.97	2.66	Yes (1) %	7.40	77.80
(n= 135)	Std. dev.	15.51	3.57	2.48	2.65	2.39	2.92	3.79	3.78	2.76	No (0) %	92.60	22.20
	Min	20.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	90.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Event year	Mean	68.08	6.38	6.38	7.83	4.65	8.50	7.53	5.77	2.96	Yes (1) %	2.80	84.70
(n= 72)	Std. dev.	13.99	3.40	2.52	2.68	2.42	2.98	3.59	3.96	2.96	No (0) %	97.20	15.30
	Min	24.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	83.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Post-event year	Mean	67.76	6.44	6.63	7.65	4.42	8.24	7.74	6.55	2.68	Yes (1) %	1.60	77.40
(n= 62)	Std. dev.	14.84	3.21	2.68	2.91	2.52	3.35	3.45	3.68	2.53	No (0) %	98.40	22.60
	Min	27.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	86.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
CGQ Change													
Pre-event to	Mean	1.70	0.46	-0.35	0.20	0.06	0.15	0.17	0.08	0.29		0.14	0.42
event year change	Std. dev.	9.64	2.48	2.00	1.13	1.08	1.65	2.23	2.52	2.21		2.07	2.03
(n= 71)	Min	-14.00	-5.00	-6.00	-3.00	-3.00	-6.00	-6.00	-9.00	-9.00		-10.00	0.00
	Max	38.00	10.00	6.00	4.00	5.00	4.00	10.00	8.00	8.00		10.00	10.00
Event to post-	Mean	-0.48	0.23	0.08	-0.11	-0.19	-0.18	0.39	-0.27	-0.39		0.16	-0.65
event year change	Std. dev.	11.52	2.70	1.74	2.07	1.65	2.14	2.70	2.79	1.72		1.27	3.07
(n= 62)	Min	-42.00	-10.00	-4.00	-8.00	-7.00	-10.00	-10.00	-10.00	-7.00		0.00	-10.00
	Max	48.00	10.00	4.00	7.00	6.00	6.00	10.00	8.00	4.00		10.00	10.00

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.14: Descriptive Statistics: Takeover Subset: Unadjusted Corporate Governance Quality Indicators

		Continuous Variables										*Discrete Variables*	
		CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE		CEOCH	ACI
CGQ in Individual Years													
Pre-event year	Mean	68.54	6.31	6.81	7.80	4.72	8.54	7.83	6.31	2.76	Yes (1) %	8.20	82.70
(n= 110)	Std. dev.	14.01	3.46	2.32	2.69	2.18	2.79	3.61	3.71	2.74	No (0) %	91.80	17.30
	Min	21.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	90.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Event year	Mean	72.17	7.19	6.20	7.70	5.31	9.07	8.33	6.20	2.89	Yes (1) %	1.90	96.30
(n= 54)	Std. dev.	9.01	2.86	2.51	2.84	1.88	2.01	3.05	3.83	2.74	No (0) %	98.10	3.70
	Min	42.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	83.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Post-event year	Mean	70.76	6.91	6.41	7.48	4.93	8.67	8.48	7.04	2.57	Yes (1) %	2.20	84.80
(n= 46)	Std. dev.	10.47	2.61	2.70	3.11	2.18	2.84	2.80	3.45	2.32	No (0) %	97.80	15.20
	Min	39.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	86.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
CGQ Change													
Pre-event to	Mean	1.92	0.66	-0.60	0.25	0.06	0.28	0.32	0.08	0.17		0.19	0.57
event year change	Std. dev.	9.95	2.65	1.69	1.19	1.20	1.28	2.42	1.92	1.34		2.39	2.33
(n= 53)	Min	-13.00	-5.00	-6.00	-3.00	-3.00	-4.00	-6.00	-4.00	-4.00		-10.00	0.00
	Max	38.00	10.00	3.00	4.00	5.00	4.00	10.00	6.00	4.00		10.00	10.00
Event to post-	Mean	-1.48	-0.02	0.13	-0.26	-0.35	-0.24	0.35	-0.07	-0.33		0.22	-1.09
event year change	Std. dev.	10.10	2.43	1.48	1.87	1.61	1.97	2.57	2.43	1.80		1.47	3.15
(n= 46)	Min	-42.00	-10.00	-4.00	-8.00	-7.00	-10.00	-10.00	-8.00	-7.00		0.00	-10.00
	Max	25.00	6.00	4.00	4.00	2.00	4.00	10.00	8.00	4.00		10.00	0.00

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.14 Continued: Descriptive Statistics: Takeover Subset: Pre-event Year Unadjusted Corporate Governance Quality Indicators for Targets of Successful and Unsuccessful Offers

Below are the descriptive statistics for the total and component pre-event year CGQ scores in takeover targets for which offers are (i) successful and (ii) unsuccessful

	Continuous Variables										*Discrete Variables*	
	CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE		CEOCH	ACI
					Successful Offers (n= 57)							
Mean	66.51	6.00	6.81	7.89	4.22	8.25	7.51	6.58	2.77	Yes (1) %	10.50	75.40
Std. dev.	16.21	3.81	1.90	2.68	2.23	3.23	3.95	3.61	2.85	No (0) %	89.50	24.60
					Unsuccessful Offers (n= 53)							
Mean	70.72	6.64	6.83	7.70	5.26	8.85	8.17	6.02	2.75	Yes (1) %	5.70	90.60
Std. dev.	10.92	3.03	2.71	7.23	1.99	2.21	3.20	3.82	2.65	No (0) %	94.30	9.40

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.15: Descriptive Statistics: Market Abuse Subset: Unadjusted Corporate Governance Quality Indicators

		Continuous Variables										*Discrete Variables*	
		CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE		CEOCH	ACI
						CGQ in Individual Years							
Pre-event year	Mean	58.20	4.96	7.12	8.00	2.80	7.68	6.12	4.48	2.24	Yes (1) %	8.00	56.00
(n= 25)	Std. dev.	19.01	3.94	3.17	2.52	2.71	3.40	4.34	3.82	2.85	No (0) %	92.00	44.00
	Min	20.00	0.00	0.00	2.00	0.00	0.00	0.00	0.00	0.00			
	Max	82.00	10.00	10.00	10.00	7.00	10.00	10.00	10.00	9.00			
Event year	Mean	55.83	3.94	6.89	8.22	2.67	6.78	5.11	4.61	3.17	Yes (1) %	5.60	50.00
(n= 18)	Std. dev.	18.78	3.81	2.56	2.16	2.81	4.51	4.07	4.29	3.60	No (0) %	94.40	50.00
	Min	24.00	0.00	3.00	4.00	0.00	0.00	0.00	0.00	0.00			
	Max	81.00	10.00	10.00	10.00	7.00	10.00	10.00	10.00	10.00			
Post-event year	Mean	59.13	5.06	7.25	8.13	2.94	7.00	5.63	5.13	3.00	Yes (1) %	6.30	56.30
(n= 16)	Std. dev.	21.43	4.33	2.62	2.25	2.89	4.38	4.27	4.06	3.14	No (0) %	93.70	43.70
	Min	27.00	0.00	3.00	2.00	0.00	0.00	0.00	0.00	0.00			
	Max	82.00	10.00	10.00	10.00	8.00	10.00	10.00	10.00	9.00			
						CGQ Change							
Pre-event to	Mean	1.06	-0.11	0.39	0.06	0.06	-0.22	-0.28	0.56	0.61		0.00	0.00
event year change	Std. dev.	8.87	1.88	2.64	0.94	0.64	2.46	1.53	3.81	3.78		0.00	0.00
(n= 18)	Min	-14.00	-5.00	-5.00	-2.00	-1.00	-6.00	-4.00	-9.00	-9.00		0.00	0.00
	Max	13.00	4.00	6.00	1.00	2.00	4.00	3.00	8.00	8.00		0.00	0.00
Event to post-	Mean	2.38	0.94	-0.06	0.31	0.25	0.00	0.50	-0.88	-0.56		0.00	0.63
event year change	Std. dev.	14.91	3.36	2.38	2.57	1.73	2.63	3.14	3.67	1.50		0.00	2.50
(n= 16)	Min	-23.00	-5.00	-3.00	-4.00	-2.00	-6.00	-6.00	-10.00	-5.00		0.00	0.00
	Max	48.00	10.00	4.00	7.00	6.00	6.00	10.00	4.00	2.00		0.00	10.00

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.16: Descriptive Statistics: Control Sample: Corporate Governance Quality Indicators

Below are the descriptive statistics for the CGQ scores and changes therein in control sample companies. The first part of the table presents those statistics for the pre-event, event and post-event years. The second part presents those statistics for changes between the pre-event and event years and between the event and post-event years. Definitions for each of the ten components as initially measured are provided at the bottom of this table. Scores are assigned for each component as described in Chapter Five.

		Continuous Variables										*Discrete Variables*	
		CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE		CEOCH	ACI
CGQ in Individual Years													
Pre-event year	Mean	56.90	5.23	6.86	7.46	4.28	6.53	5.43	4.90	3.29	Yes (1) %	16.20	54.40
(n= 136)	Std. dev.	19.11	3.28	2.62	2.54	4.32	3.71	3.67	3.67	3.16	No (0) %	83.80	45.60
	Min	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	96.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Event year	Mean	57.33	5.00	6.91	7.13	5.04	6.51	5.40	4.25	3.45	Yes (1) %	16.40	52.70
(n= 68)	Std. dev.	20.28	3.05	2.44	2.82	4.68	3.80	3.64	3.52	2.96	No (0) %	83.60	47.30
	Min	6.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	85.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
Post-event year	Mean	57.90	4.59	7.30	7.23	5.36	6.38	5.31	4.10	3.26	Yes (1) %	12.80	56.40
(n= 54)	Std. dev.	18.41	2.70	2.24	3.03	4.72	3.54	3.40	3.05	3.18	No (0) %	87.20	43.60
	Min	19.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	Max	89.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00			
CGQ Change													
Pre-event to event year	Mean	0.91	0.09	-0.09	-0.33	0.27	0.00	0.09	0.29	0.22		0.18	0.18
change	Std. dev.	16.54	2.42	2.61	2.27	2.25	3.35	2.20	4.52	2.45		2.35	2.35
(n= 68)	Min	-88.00	-9.00	-10.00	-8.00	-10.00	-10.00	-10.00	-8.00	-5.00		-10.00	-10.00
	Max	49.00	8.00	6.00	6.00	10.00	10.00	6.00	10.00	8.00		10.00	10.00
Event to post-event year	Mean	-1.23	-0.41	0.15	0.15	-0.08	-0.23	-0.28	0.00	-0.28		-0.26	0.00
change (n= 54)	Std. dev.	7.75	1.89	1.66	1.25	2.32	1.80	1.85	4.49	1.93		1.60	2.29
	Min	-14.00	-7.00	-4.00	-2.00	-10.00	-4.00	-7.00	-8.00	-7.00		-10.00	-10.00
	Max	27.00	3.00	4.00	4.00	10.00	6.00	4.00	7.00	4.00		0.00	10.00

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.17: Descriptive Statistics: Full Sample: Benchmark-adjusted Corporate Governance Quality Indicators

Below are the descriptive statistics for the benchmark-adjusted total and component CGQ scores and changes therein in sample companies. The first part of the table presents those statistics for the pre-event, event and post-event years. The second part presents those statistics for changes between the pre-event and event years and between the event and post-event years. Definitions for each of the ten components as initially measured are provided at the bottom of this table. Scores are adjusted as described in Chapter Five.

		Continuous Variables										*Discrete Variables*	
		CGQ_{ad}	$MEET_{ad}$	ED_{ad}	$SIZE_{ad}$	$INED_{ad}$	ACS_{ad}	ACM_{ad}	PPS_{ad}	$SHARE_{ad}$		$CEOCH_{ad}$	ACI_{ad}
CGQ in Individual Years													
Pre-event year	Mean	0.50	0.25	0.01	0.15	0.02	0.50	0.57	0.29	-0.20	Yes (Score)	-2.26	0.91
(n= 135)	Std. dev.	0.81	1.09	0.95	1.05	0.55	0.79	1.03	0.81	0.87	*%*	*7.40*	*77.80*
	Min	-1.94	-1.59	-2.62	-2.94	-0.99	-1.76	-1.48	-1.34	-1.04	No (Score)	0.44	-1.09
	Max	1.73	1.45	1.20	1.00	1.32	0.94	1.25	1.39	2.12	*%*	*92.60*	*22.20*
Event year	Mean	0.54	0.45	-0.22	0.25	-0.08	0.52	0.58	0.44	-0.17	Yes (Score)	-2.24	0.94
(n= 72)	Std. dev.	0.69	1.11	1.03	0.95	0.52	0.78	0.99	1.13	1.00	*%*	*2.80*	*84.70*
	Min	-1.63	-1.64	-2.83	-2.53	-1.08	-1.71	-1.48	-1.21	-1.17	No (Score)	0.44	-1.05
	Max	1.28	1.64	1.27	1.02	1.06	0.92	1.26	1.63	2.21	*%*	*97.20*	*15.30*
Post-event year	Mean	0.54	0.68	-0.30	0.14	-0.20	0.53	0.72	0.80	-0.18	Yes (Score)	-2.57	0.87
(n= 62)	Std. dev.	0.81	1.19	1.20	0.96	0.53	0.95	1.01	1.21	0.80	%	1.60	77.40
	Min	-1.68	-1.70	-3.26	-2.39	-1.14	-1.80	-1.56	-1.34	-1.03	No (Score)	0.38	-1.12
	Max	1.53	2.00	1.21	0.91	0.98	1.02	1.38	1.93	2.12	*%*	*98.40*	*22.60*
CGQ Change													
Pre-event to	Mean	0.04	0.15	-0.10	0.23	-0.10	0.05	0.04	-0.05	0.03		-0.02	0.10
event year	Std. dev.	0.58	1.03	0.77	0.50	0.48	0.49	1.01	0.56	0.90		0.88	0.86
change (n= 71)	Min	-0.91	-2.10	-2.26	-1.18	-1.45	-1.79	-2.77	-2.06	-3.76		-4.33	-0.08
	Max	2.24	4.10	2.23	1.91	2.10	1.19	4.50	1.71	3.18		4.18	4.18
Event to post-	Mean	0.10	0.34	-0.04	-0.21	-0.05	0.03	0.36	-0.06	-0.06		0.26	-0.28
event year	Std. dev.	1.49	1.43	1.05	1.65	0.71	1.19	1.46	0.62	0.89		0.79	1.34
change (n= 62)	Min	-5.26	-5.07	-2.50	-6.52	-2.98	-5.43	-5.25	-2.67	-3.48		0.16	-4.37
	Max	6.35	5.51	2.32	5.48	2.62	3.46	5.56	1.78	2.22		6.41	4.37

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.18: Descriptive Statistics: Takeover Subset: Benchmark-adjusted Corporate Governance Quality Indicators

		Continuous Variables										*Discrete Variables*	
		CGQ_{ad}	$MEET_{ad}$	ED_{ad}	$SIZE_{ad}$	$INED_{ad}$	ACS_{ad}	ACM_{ad}	PPS_{ad}	$SHARE_{ad}$		$CEOCH_{ad}$	ACI_{ad}
CGQ in Individual Years													
Pre-event year (n= 110)	Mean	0.60	0.33	-0.02	0.13	0.10	0.54	0.65	0.38	-0.17	Yes (Score)	-2.26	0.91
	Std. dev.	0.73	1.05	0.88	1.06	0.50	0.75	0.98	1.01	0.87	*%*	*8.20*	*82.70*
	Min	-1.88	-1.59	-2.62	-2.94	-0.99	-1.76	-1.48	-1.34	-1.04	No (Score)	0.44	-1.09
	Max	1.73	1.45	1.20	1.00	1.32	0.94	1.25	1.39	2.12	*%*	*91.80*	*17.30*
Event year (n= 54)	Mean	0.74	0.72	-0.29	0.20	0.06	0.67	0.81	0.56	-0.19	Yes (Score)	-2.24	0.94
	Std. dev.	0.44	0.94	1.03	1.01	0.40	0.53	0.84	1.09	0.93	*%*	*1.90*	*96.30*
	Min	-0.74	-1.64	-2.83	-2.53	-1.08	-1.71	-1.48	-1.21	-1.17	No (Score)	0.44	-1.05
	Max	1.28	1.64	1.27	1.02	1.06	0.92	1.26	1.63	2.21	*%*	*98.10*	*3.70*
Post-event year (n= 46)	Mean	0.70	0.86	-0.40	0.08	-0.09	0.65	0.93	0.97	-0.22	Yes (Score)	-2.57	0.87
	Std. dev.	0.57	0.97	1.20	1.03	0.46	0.80	0.82	1.13	0.73	*%*	*2.20*	*84.80*
	Min	-1.03	-1.70	-3.26	-2.39	-1.14	-1.80	-1.56	-1.34	-1.03	No (Score)	0.38	-1.12
	Max	1.53	2.00	1.21	0.91	0.98	1.02	1.38	1.93	2.12	*%*	*97.80*	*15.20*
CGQ Change													
Pre-event to event year change (n= 53)	Mean	0.06	0.24	-0.20	0.25	-0.09	0.08	0.10	-0.05	-0.02		0.01	0.16
	Std. dev.	0.60	1.09	0.65	0.52	0.53	0.38	1.10	0.42	0.55		1.02	0.99
	Min	-0.85	-2.10	-2.26	-1.18	-1.45	-1.19	-2.77	-1.39	-1.72		-4.33	-0.08
	Max	2.24	4.10	1.18	1.91	2.10	1.19	4.50	0.82	1.54		4.18	4.18
Event to post-event year change (n= 46)	Mean	-0.03	0.21	-0.01	-0.33	-0.12	-0.01	0.34	-0.01	-0.02		0.30	-0.47
	Std. dev.	1.30	1.28	0.89	1.49	0.69	1.09	1.39	0.54	0.93		0.91	1.37
	Min	-5.26	-5.07	-2.50	-6.52	-2.98	-5.43	-5.25	-1.78	-3.48		0.16	-4.37
	Max	3.38	3.39	2.32	3.08	0.90	2.35	5.56	1.78	2.22		6.41	0.00

Variable Definitions: **CGQ:** Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI**: 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.19: Descriptive Statistics: Market Abuse Subset: Benchmark-adjusted Corporate Governance Quality Indicators

		Continuous Variables										*Discrete Variables*	
		CGQ_{ad}	$MEET_{ad}$	ED_{ad}	$SIZE_{ad}$	$INED_{ad}$	ACS_{ad}	ACM_{ad}	PPS_{ad}	$SHARE_{ad}$		$CEOCH_{ad}$	ACI_{ad}
CGQ in Individual Years													
Pre-event year (n= 25)	Mean	0.06	-0.08	0.10	0.21	-0.34	0.31	0.19	-0.11	-0.33	Yes (Score)	-2.26	0.91
	Std. dev.	0.99	1.20	1.21	0.99	0.63	0.92	1.18	1.04	0.90	%	*8.00*	*56.00*
	Min	-1.94	-1.59	-2.62	-2.15	-0.99	-1.76	-1.48	-1.34	-1.04	No (Score)	0.44	-1.09
	Max	1.31	1.45	1.20	1.00	0.63	0.94	1.25	1.39	1.81	%	*92.00*	*44.00*
Event year (n= 18)	Mean	-0.06	-0.35	-0.01	0.39	-0.51	0.07	-0.08	0.10	-0.10	Yes (Score)	-2.24	0.94
	Std. dev.	0.93	1.25	1.05	0.76	0.60	1.19	1.12	1.22	1.22	%	*5.60*	*50.00*
	Min	-1.63	-1.64	-1.60	-1.11	-1.08	-1.71	-1.48	-1.21	-1.17	No (Score)	0.44	-1.05
	Max	1.18	1.64	1.27	1.02	0.42	0.92	1.26	1.63	2.21	%	*94.40*	*50.00*
Post-event year (n= 16)	Mean	0.07	0.18	-0.02	0.30	-0.51	0.18	0.09	0.34	-0.08	Yes (Score)	-2.57	0.87
	Std. dev.	1.16	1.60	1.17	0.74	0.61	1.24	1.26	1.33	0.99	%	*6.30*	*56.30*
	Min	-1.68	-1.70	-1.92	-1.73	-1.14	-1.80	-1.56	-1.34	-1.03	No (Score)	0.38	-1.12
	Max	1.31	2.00	1.21	0.91	0.56	1.02	1.38	1.93	1.81	%	*93.70*	*43.70*
CGQ Change													
Pre-event to event year change (n= 18)	Mean	0.01	-0.08	0.18	0.17	-0.10	-0.07	-0.17	0.06	0.16		-0.08	-0.08
	Std. dev.	0.54	0.77	1.01	0.41	0.28	0.74	0.69	0.84	1.54		0.00	0.00
	Min	-0.91	-2.10	-1.88	-0.74	-0.56	-1.79	-1.86	-2.06	-3.76		-0.08	-0.08
	Max	0.73	1.62	2.23	0.59	0.77	1.19	1.32	1.71	3.18		-0.08	-0.08
Event to post-event year change (n= 16)	Mean	0.46	0.71	-0.13	0.13	0.14	0.13	0.42	-0.19	-0.15		0.16	0.27
	Std. dev.	1.92	1.78	1.43	2.06	0.75	1.46	1.70	0.82	0.80		0.00	1.09
	Min	-2.81	-2.43	-1.90	-3.32	-0.83	-3.21	-3.09	-2.67	-2.45		0.16	0.00
	Max	6.35	5.51	2.32	5.48	2.62	3.46	5.56	0.89	1.18		0.16	4.37

Variable Definitions: CGQ: Total CGQ score; **MEET:** No. board meetings in the year; **ED:** % Executive directors on the board; **SIZE:** No. directors on the board; **INED:** % Non-executive directors on the board who are independent; **ACS:** No. members on the audit committee; **ACM:** No. audit committee meetings in the year; **PPS:** CEO pay to performance sensitivity ratio; **SHARE:** Proportion of company shares owned by the board; **CEOCH:** 1 if the CEO is the chairman, 0 if otherwise; **ACI:** 1 if the majority of the audit committee is independent, 0 if otherwise.

Table 7.20: Unadjusted Corporate Governance Quality Indicator Variable Comparisons between Pre-event, Event and Post-event Years

Below are comparisons in CGQ and the components thereof between each year. Wilcoxon signed rank tests are conducted to test for differences in the continuous variables and McNemar's chi-squared tests are conducted to test for differences in the discrete variables. Values for Wilcoxon's Z and χ^2 are reported in bold and the statistical significance of the difference in each variable is reported below in brackets.

	Continuous Variables									*Discrete Variables*	
	CGQ	ED	SIZE	MEET	INED	ACS	ACM	PPS	SHARE	CEOCH	ACI
Pre-event vs. event year											
Full Sample	**-0.94**	**1.71**	**-0.72**	**-1.22**	**-0.22**	**-0.33**	**-0.16**	**-0.46**	**-1.26**	**0.00**	**1.30**
	(0.347)	(0.087)*	(0.472)	(0.223)	(0.826)	(0.741)	(0.873)	(0.646)	(0.208)	(1.000)	(0.248)
Takeover Subset	**-0.81**	**2.41**	**-0.24**	**-1.43**	**-0.08**	**0.00**	**0.00**	**-0.56**	**-1.08**	**0.00**	**1.33**
	(0.418)	(0.016)**	(0.810)	(0.153)	(0.936)	(1.000)	(1.000)	(0.576)	(0.280)	(1.000)	(0.248)
Market Abuse	**-0.56**	**-0.54**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**-0.06**	**-0.54**	**0.00**	**0.00**
Subset	(0.576)	(0.589)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(0.952)	(0.589)	(1.000)	(1.000)
Event vs. post-event year											
Full Sample	**0.39**	**-0.32**	**0.64**	**-0.43**	**0.79**	**0.00**	**-0.96**	**-0.93**	**1.65**	**0.00**	**1.50**
	(0.697)	(0.749)	(0.522)	(0.667)	(0.430)	(1.000)	(0.337)	(0.352)	(0.099)*	(1.000)	(0.221)
Takeover Subset	**0.73**	**-0.48**	**0.76**	**0.18**	**1.01**	**0.00**	**0.00**	**-0.82**	**1.05**	**0.00**	**3.20**
	(0.465)	(0.632)	(0.447)	(0.857)	(0.313)	(1.000)	(1.000)	(0.412)	(0.294)	(1.000)	(0.074)*
Market Abuse	**-0.37**	**0.11**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**-0.58**	**0.00**	**0.00**	**0.00**
Subset	(0.711)	(0.912)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(0.562)	(1.000)	(1.000)	(1.000)
Pre-event vs. post-event year											
Full Sample	**-1.19**	**0.79**	**-0.12**	**-1.40**	**0.79**	**0.60**	**-1.27**	**-0.92**	**-0.03**	**0.00**	**0.00**
	(0.234)	(0.430)	(0.905)	(0.162)	(0.430)	(0.549)	(0.204)	(0.358)	(0.976)	(1.000)	(1.000)
Takeover Subset	**-0.41**	**0.98**	**0.40**	**-0.92**	**1.06**	**0.00**	**0.00**	**-0.83**	**0.34**	**0.00**	**0.17**
	(0.682)	(0.327)	(0.689)	(0.358)	(0.289)	(1.000)	(1.000)	(0.407)	(0.734)	(1.000)	(0.683)
Market Abuse	**-1.82**	**0.02**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**-0.30**	**0.00**	**0.00**	**0.00**
Subset	(0.069)*	(0.984)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(0.764)	(1.000)	(1.000)	(1.000)

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

Table 7.21: Control Sample Corporate Governance Quality Indicator Variable Comparisons between Pre-event, Event and Post-event Years

Below are comparisons in CGQ and the components thereof between each year for the control sample of companies. Wilcoxon signed rank tests are conducted to test for differences in the continuous variables and McNemar's chi-squared tests are conducted to test for differences in the discrete variables. Values for Wilcoxon's Z and χ^2 are reported in bold and the statistical significance of the difference in each variable is reported below in brackets.

Continuous Variables									*Discrete Variables*	
CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE	CEOCH	ACI
Pre-event vs. event year										
-0.99	**-0.33**	**0.07**	**1.02**	**0.00**	**0.08**	**-0.43**	**-0.35**	**-0.40**	**0.00**	**0.552**
(0.322)	(0.741)	(0.944)	(0.308)	(1.000)	(0.936)	(0.667)	(0.726)	(0.689)	(1.000)	(0.458)
Event vs. post-event year										
1.47	**1.27**	**-0.51**	**-0.69**	**0.00**	**0.00**	**0.00**	**0.00**	**0.34**	**0.00**	**0.00**
(0.142)	(0.204)	(0.610)	(0.490)	(1.000)	(1.000)	(1.000)	(1.000)	(0.734)	(1.000)	(1.000)
Pre-event vs. post-event year										
0.09	**0.58**	**-1.21**	**0.42**	**0.00**	**0.18**	**-0.03**	**-1.15**	**0.44**	**2.571**	**0.00**
(0.928)	(0.562)	(0.226)	(0.675)	(1.000)	(0.857)	(0.976)	(0.250)	(0.660)	(0.141)	(1.000)

Table 7.22: Benchmark-adjusted Corporate Governance Quality Indicator Variable Comparisons between Pre-event, Event and Post-event Years

Below are comparisons in the benchmark-adjusted CGQ indicator variables between each year. Wilcoxon signed rank tests are conducted to test for differences in the continuous variables with a number of exceptions in the market abuse subset where paired samples t-tests are used. For the market abuse subset, paired samples t-tests are conducted to test for differences in the variables CGQ_{ad}, $MEET_{ad}$, $INED_{ad}$, ACM_{ad} and PPS_{ad} between each year and in the variables ED_{ad}, ACS_{ad} and $SHARE_{ad}$ between the event and post-event years. McNemar's chi-squared tests are conducted to test for differences in the discrete variables. Values for Wilcoxon's Z, Paired samples t and χ^2 are reported in bold and the statistical significance of the difference in each variable is reported below in brackets.

	Continuous Variables									*Discrete Variables*	
	CGQ_{ad}	ED_{ad}	$SIZE_{ad}$	$MEET_{ad}$	$INED_{ad}$	ACS_{ad}	ACM_{ad}	PPS_{ad}	$SHARE_{ad}$	$CEOCH_{ad}$	ACI_{ad}
Pre-event vs. event year											
Full Sample	**-0.93**	**2.17**	**-3.71**	**-2.73**	**5.44**	**3.09**	**-4.08**	**-1.64**	**1.37**	**0.00**	**1.30**
	(0.352)	(0.030)**	(0.002)***	(0.006)***	(0.001)***	(0.002)***	(0.001)***	(0.101)	(0.171)	(1.000)	(0.248)
Takeover Subset	**-1.19**	**2.93**	**-2.82**	**-2.65**	**4.58**	**3.45**	**-4.31**	**-1.43**	**1.62**	**0.00**	**1.33**
	(0.234)	(0.003)***	(0.005)***	(0.008)***	(0.001)***	(0.006)***	(0.001)***	(0.153)	(0.105)	(1.000)	(0.248)
Market Abuse	**0.29**	**-0.64**	**-2.62**	**-0.08**	**3.41**	**0.53**	**0.74**	**-0.62**	**0.11**	**0.00**	**0.00**
Subset	(0.602)	(0.522)	(0.009)***	(0.940)	(0.003)***	(0.596)	(0.469)	(0.543)	(0.912)	(1.000)	(1.000)
Event vs. post-event year											
Full Sample	**-0.63**	**2.33**	**2.70**	**-3.38**	**3.49**	**-4.56**	**--5.02**	**-1.92**	**-1.63**	**0.00**	**1.50**
	(0.529)	(0.020)**	(0.007)***	(0.007)***	(0.005)***	(0.001)***	(0.001)***	(0.055)*	(0.103)	(1.000)	(0.221)
Takeover Subset	**-0.95**	**2.41**	**2.55**	**-2.79**	**2.93**	**-4.37**	**-4.80**	**-2.18**	**-2.01**	**0.00**	**3.20**
	(0.342)	(0.016)**	(0.011)**	(0.005)***	(0.003)***	(0.001)***	(0.001)***	(0.029)**	(0.044)**	(1.000)	(0.074)*
Market Abuse	**-0.39**	**0.73**	**1.07**	**-1.53**	**0.12**	**-0.24**	**-0.75**	**-0.56**	**0.93**	**0.00**	**0.00**
Subset	(0.702)	(0.477)	(0.285)	(0.146)	(0.905)	(0.817)	(0.464)	(0.583)	(0.368)	(1.000)	(1.000)
Pre-event vs. post-event year											
Full Sample	**-0.66**	**2.58**	**0.14**	**-4.08**	**5.57**	**-4.17**	**-4.89**	**-2.25**	**-2.13**	**0.00**	**0.00**
	(0.509)	(0.010)**	(0.889)	(0.001)***	(0.001)***	(0.001)***	(0.001)***	(0.024)**	(0.033)**	(1.000)	(1.000)
Takeover Subset	**0.18**	**2.65**	**0.69**	**-3.64**	**5.06**	**-3.89**	**-5.08**	**-2.25**	**-1.66**	**0.00**	**0.17**
	(0.857)	(0.008)***	(0.490)	(0.003)***	(0.001)***	(0.001)***	(0.001)***	(0.024)**	(0.097)*	(1.000)	(0.683)
Market Abuse	**-0.75**	**0.61**	**-0.87**	**-1.37**	**1.46**	**-1.54**	**-0.38**	**-0.87**	**-1.35**	**0.00**	**0.00**
Subset	(0.466)	(0.542)	(0.384)	(0.192)	(0.165)	(0.124)	(0.712)	(0.400)	(0.177)	(1.000)	(1.000)

***Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

Table 7.23: Corporate Governance Quality Indicator Variable Comparisons between Takeover and Market Abuse Cases

Below are comparisons in CGQ and its components between the takeover and market abuse subsets of the sample. The first part of the table presents comparisons between CGQ in the takeover subset with that in the market abuse subset for the pre-event, event and post-event years. Mann-Whitney tests are conducted to test the statistical significance of the differences in the continuous variables and Chi-squared tests are conducted to test the statistical significance of the differences in the discrete variables. The second part presents comparisons of CGQ change (ΔCGQ) in the takeover with that in the market abuse subset. Mann-Whitney tests are conducted to test the statistical significance of the differences in all variables. Values for Mann Whitney's Z and χ^2 are reported in bold and the statistical significance of the difference in each variable is reported below in brackets. The comparisons presented below pertain to both the unadjusted and adjusted CGQ variables.

	Continuous Variables									*Discrete Variables*	
	CGQ	MEET	ED	SIZE	INED	ACS	ACM	PPS	SHARE	CEOCH	ACI
CGQ in Individual Years											
Pre-event year	**2.69**	**1.46**	**-1.27**	**-0.22**	**2.96**	**1.09**	**1.71**	**2.10**	**1.83**	**0.01**	**8.42**
	(0.007)***	(0.144)	(0.204)	(0.826)	(0.003)***	(0.276)	(0.087)*	(0.036)**	(0.067)*	(0.900)	(0.004)***
Event year	**3.52**	**3.08**	**-0.80**	**-0.40**	**2.95**	**1.48**	**2.96**	**1.51**	**0.69**	**0.69**	**22.4**
	(0.001)***	(0.002)***	(0.424)	(0.689)	(0.003)***	(0.139)	(0.003)***	(0.131)	(0.490)	(0.408)	(0.001)***
Post-event year	**1.23**	**1.07**	**-0.90**	**-0.26**	**2.25**	**1.09**	**2.30**	**1.65**	**0.21**	**2.92**	**5.53**
	(0.219)	(0.285)	(0.368)	(0.795)	(0.024)**	(0.276)	(0.021)**	(0.099)*	(0.834)	(0.087)*	(0.019)**
CGQ Change											
Pre-event to event year	**0.01**	**0.94**	**-1.53**	**0.30**	**-0.05**	**0.42**	**0.55**	**-0.13**	**-0.24**	**0.11**	**0.35**
	(0.992)	(0.347)	(0.126)	(0.764)	(0.960)	(0.675)	(0.582)	(0.897)	(0.810)	(0.912)	(0.726)
Event to post-event year	**-0.67**	**-0.91**	**0.44**	**-0.72**	**0.01**	**-0.13**	**0.08**	**0.22**	**0.91**	**0.12**	**-0.97**
	(0.503)	(0.363)	(0.660)	(0.764)	(0.992)	(0.897)	(0.936)	(0.826)	(0.363)	(0.905)	(0.332)

*** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

Table 7.24: Summary of CGQ in the Main Research Sample and in the Control Sample

Below are the mean values for the variables measuring total and component CGQ scores and changes therein in companies in (i) the main research sample and (ii) the control sample. For the variables (a) CEOCH and (b) ACI, the percentage of companies where (a) the roles of CEO and chairman are split and (b) there is a majority independent audit committee is reported for each of the three years studied. Presented alongside the statistics for each year and for each annual change are the results of statistical tests for differences in CGQ and its components between the two samples. Mann-Whitney tests are conducted to test the statistical significance of the differences in the continuous variables and Chi-squared tests are conducted to test the statistical significance of the differences in the discrete variables. Values for Mann Whitney's Z and χ^2 are reported in bold and the statistical significance of the difference in each variable is reported below in brackets.

	Pre-event year			Event year			Post-event year			Pre-event to event year			Event to post-event year		
Sample:	Main	Control	Statistical Difference	Main	Control	Statistical Difference	Main	Control	Statistical Difference	Main	Control	Statistical Difference	Main	Control	Statistical Difference
n=	*135*	*136*		*72*	*68*		*62*	*54*		*71*	*68*		*62*	*54*	
CGQ	66.62	56.90	**-4.44** (0.001)***	68.08	57.33	**-2.88** (0.004)***	67.76	57.90	**-2.89** (0.004)***	1.70	0.91	**0.20** (0.842)	-0.48	-1.23	**-0.82** (0.412)
MEET	6.06	5.23	**-2.26** (0.024)**	6.38	5.00	**-2.59** (0.010)**	6.44	4.59	**-3.37** (0.001)***	0.46	0.09	**-0.34** (0.734)	0.23	-0.41	**-0.58** (0.562)
ED	6.87	6.86	**0.21** (0.834)	6.38	6.91	**1.12** (0.263)	6.63	7.30	**1.23** (0.219)	-0.35	-0.09	**-1.39** (0.165)	0.08	0.15	**0.10** (0.920)
SIZE	7.84	7.46	**-1.59** (0.112)	7.83	7.13	**-1.44** (0.150)	7.65	7.23	**-0.78** (0.435)	0.20	-0.33	**0.78** (0.435)	-0.11	0.15	**0.61** (0.542)
INED	4.36	4.28	**-0.41** (0.682)	4.65	5.04	**0.85** (0.395)	4.42	5.36	**1.41** (0.159)	0.06	0.27	**-0.42** (0.675)	-0.19	-0.08	**-0.09** (0.928)
ACS	8.38	6.53	**-4.12** (0.001)***	8.50	6.51	**-2.96** (0.003)***	8.24	6.38	**-2.79** (0.005)***	0.15	0.00	**-0.21** (0.834)	-0.18	-0.23	**-0.43** (0.667)
ACM	7.51	5.43	**-4.72** (0.001)***	7.53	5.40	**-3.27** (0.001)***	7.74	5.31	**-3.45** (0.001)***	0.17	0.09	**0.19** (0.849)	0.39	-0.28	**-1.01** (0.313)
PPS	5.97	4.90	**-2.66** (0.008)***	5.77	4.25	**-2.03** (0.042)**	6.55	4.10	**-3.26** (0.001)***	0.08	0.29	**0.17** (0.865)	-0.27	0.00	**-0.54** (0.589)
SHARE	2.66	3.29	**0.89** (0.374)	2.96	3.45	**0.87** (0.384)	2.68	3.26	**0.32** (0.749)	0.29	0.22	**-0.21** (0.834)	-0.39	-0.28	**0.52** (0.603)
CEOCH	92.60	83.80	**5.00** (0.025)**	97.20	83.60	**7.27** (0.007)***	98.40	87.20	**5.38** (0.020)**	0.14	0.18	**0.04** (0.968)	0.16	-0.26	**-0.35** (0.726)
ACI	77.80	54.40	**29.7** (0.001)***	84.70	52.70	**15.5** (0.001)***	77.40	56.40	**-4.97** (0.026)**	0.42	0.18	**-0.22** (0.826)	-0.65	0.00	**0.53** (0.596)

*** Significant at the 1% level, ** Significant at the 5% level

Table 7.25: Overview of CGQ Components Prior to Application of Scoring Methodology

	Pre-event year				Event year				Post-event year			
	Full sample	Takeover subset	Market abuse subset	Control sample	Full sample	Takeover subset	Market abuse subset	Control sample	Full sample	Takeover subset	Market abuse subset	Control sample
n=	*135*	*110*	*25*	*136*	*72*	*54*	*18*	*68*	*62*	*46*	*16*	*54*
Average no. board meetings	7.87	8.27	6.12	6.21	8.78	10.11	4.78	5.89	8.47	8.93	7.13	5.67
Average percentage of executive directors on board	42.43	41.29	47.36	42.09	38.13	36.72	42.36	43.5	38.54	38.05	39.93	43.02
Average no. board members	7.70	7.91	6.76	7.35	7.79	8.30	6.28	7.39	7.47	8.00	5.94	7.23
Average percentage of non-executive directors deemed independent	41.40	44.64	27.13	40.04	44.11	50.29	25.56	46.9	41.62	46.27	28.24	47.97
Average no. audit committee members	3.09	3.12	2.96	2.25	3.07	3.30	2.39	2.43	2.98	3.17	2.44	2.17
Average no. audit committee meetings	2.91	3.07	2.20	2.18	3.17	3.57	1.94	2.14	3.19	3.61	2.00	2.03
Average CEO pay to performance sensitivity ratio	-0.003	-0.001	-0.009	-0.004	-0.002	0.004	-0.014	-0.005	0.009	0.006	-0.009	-0.005
Average percentage of common shares owned by board	9.12	6.26	21.72	9.79	7.64	4.96	15.68	9.92	7.21	4.84	14.00	8.85
Percentage of companies where roles of CEO and chairman split	92.60	91.80	92.00	83.80	97.20	98.10	94.40	83.60	98.40	97.80	93.70	87.20
Proportion of companies with a majority independent audit committee	77.80	82.70	56.00	54.40	84.70	96.30	50.00	52.70	77.40	84.80	56.30	56.40

Average values of total CGQ score reported for the takeover subset of the sample in Table 7.14 are notably higher than those for the market abuse subset in Table 7.15 and results presented in Table 7.23 show that the difference in CGQ score between the two subsets is statistically significant in the pre-event and event years. The average pre-event year CGQ score achieved by companies in the takeover subset which are eventually acquired is discernibly lower than that for those which survive the takeover attempt. On average, the CGQ scores assigned to companies which go on to survive takeover attempts is highest in the year of the offer but declines in the following year. This immediately suggests that improvements brought about in the year of a takeover offer may be short-lived. The lower CGQ of companies whose shares are implicated in market abuse is consistent with prior observations made by Korczak, Korczak and Lasfer (2010), who report that insider trading is more prevalent in companies with characteristics of poor governance such as large board size and low director independence.

Tables 7.14 and 7.15 also report that, on average, improvements in CGQ occur in both subsets between the pre-event and event years. The average improvement in the takeover subset is slightly greater than that in the market abuse subset. While an average deterioration is observed in the takeover subset between the event and post-event years, a further improvement occurs in the market abuse subset. As discussed previously, there is almost no publicity surrounding market abuse cases until the event year while takeover speculation is often published in the newspapers before the offer is announced. Whether or not the earlier improvements in CGQ observed in the takeover subset are associated with the more timely newspaper reporting on takeover offers is of particular interest in the present study and will be further examined in Section 7.4.

Results presented in Table 7.24 indicate that CGQ in the main research sample is significantly higher than that in the control sample in each year studied. While the average total annual CGQ scores in the control sample are in the range of 56.90 to 57.90, those in the main sample are in the range of 66.62 to 68.08. The difference between the two samples is interesting given that companies in both samples face the same requirements or are similarly encouraged to adhere to standards of best practice in corporate governance. In fact, the proportions of AIM listed companies, which are not as strictly required to adopt the UK Corporate Governance Code, in the two samples are similar[71]. When the annual changes in CGQ scores reported in the last two columns of Table 7.24 are considered, similar trends are observed. In both samples, there is an average increase in CGQ between the pre-event and event years which may possibly be attributable to the impending takeover threat. This is followed by an average decrease between the event- and post-event years which may be due to the passing of the threat. The average increase observed in the main sample is greater than that in the control sample and the average decrease is smaller. It is possible that the greater improvement and smaller deterioration observed in the main sample is attributable to the greater regulatory oversight of companies in this sample.

The control sample cannot be separated into different subsets in the same manner as the main sample since the companies are not involved in cases where there is either a breach of the Rules of the Takeover Code or of Section 118 of FSMA. However, individual comparisons of CGQ in two subsets of the main sample with that in the control sample indicates that CGQ in the takeover subset is again notably higher than that in the control sample. CGQ in the market abuse subset is at a similar level to that in the control sample. While the meaningfulness of this comparison is limited by the small size of the market abuse sample subset, it may possibly indicate that a company's involvement with the Takeover Panel, rather than with the FSA, has some influence on the quality of their governance.

Accordingly when CGQ in the main research sample is considered against the benchmark of CGQ established by the control sample, it would appear that, at an overall level, the quality of governance of the companies studied herein is relatively good. While the average CGQ scores in the sample are a good deal below the optimal score of 100 in each year studied, they are better than what might be expected for companies of their size and industrial locations. Thus, it is essential to adjust the scores of sample companies accordingly when examining how they may be associated with newspaper reporting. Results reported in Table

[71] 26% of companies in the control sample and 24% of companies in the main research sample are listed on the AIM.

7.17 and 7.18 demonstrate that the benchmark-adjusted total corporate governance quality scores in both the full research sample and the takeover subset are positive in each year studied. In the full sample, benchmark-adjusted CGQ increases between the pre-event and event years and continues to increase between the event and post-event years. In the takeover subset, benchmark-adjusted CGQ increases between the pre-event and event years but decreases between the event and post-event years. Despite a small average pre-event to event year improvement, the average benchmark-adjusted CGQ in the market abuse subset is lowest in the year of the abuse. This is consistent with the lower event year CGQ score observed in the market abuse sample subset relative to that in the control sample and further suggests that the implication of a company's shares in market abuse may be symptomatic of poor governance.

In general, it would not appear that involvement in TMA cases which require regulatory intervention is due to poor pre-existing governance quality, particularly since pre-event year CGQ in the main sample is notably higher than that in the control sample. This might be expected since, as discussed in Subsection 7.2.1, responsibility for regulatory intervention in the vast majority of cases does not lie with sample companies. The greater pre-event to event year improvement in CGQ in the main research sample may be attributable to companies' closer involvement with official market authorities and the potential associated additional regulatory scrutiny. To shed further insight into these total scores and changes therein, there now follows an examination of the various facets of corporate governance that collectively measure CGQ in the sample.

a. Board Leadership

Board Meetings

Table 7.25 reports that the boards of companies in both the research sample and the control sample do not, on average, meet on a monthly basis in any of the years studied. As discussed previously, the necessity for board meetings is apt to be higher in the years when companies face takeover attempts or when the incidence of market abuse is either suspected or revealed. It would appear that this may be the case when the offer is subject to the direct oversight of the Takeover Panel, but not when the offer proceeds without regulatory intervention, nor does it appear to be the case for companies whose shares are implicated in market abuse.

Although results in Table 7.13 indicate that the annual frequency of board meetings observed in the research sample is considered insufficient in terms of CGQ, the comparisons provided in Table 7.24 demonstrate that scores assigned for board meeting frequency are significantly higher than those in the control sample in each of the three years studied. Thus, the boards of companies in the main sample may consider the frequency with which they meet to be adequate for companies of their size or that more regular meetings are not necessary given the circumstances in the industries in which they are located. The fact that the UK Corporate Governance Code (2010) does not provide a specific recommendation on how often boards should meet in a given year may explain the lower than expected activity of boards in both samples.

When statistics on the scores assigned to companies in the individual takeover and market abuse subsets, presented in Tables 7.14 and 7.15, are considered, higher mean scores are observed in the takeover subset in each year. This is particularly apparent in the event year and results of a Mann Whitney test, presented in Table 7.23, confirm that the number of board meetings held by companies in the takeover subset is significantly higher than the number of meetings held by boards of companies in the market abuse subset. The benchmark-adjusted scores for board meeting frequency in the takeover subset, presented in Table 7.18, are positive in each year studied while those for the market abuse subset in Table 7.19 are negative for the pre-event and event years and although positive in the post-event year, remain low. Thus, relative to companies which are not subject to direct regulatory supervision, the frequency of board meetings in companies which are involved with the Takeover Panel is more indicative of good governance quality than is that in companies which are involved with the FSA.

The fact that an increase in the number of meetings occurs in the market abuse subset one year later than in the takeover subset may be explained by the length of time it takes for the possibility of market abuse to be investigated or confirmed. Nevertheless, even in the post-event year, the number of board meetings held by the average company in the market abuse subset, although higher than that in the control sample, is lower than that in the takeover subset. It may be the case that boards of companies whose shares are implicated in market abuse may not attribute the abuse to their own negligence or consider it the responsibility of regulators to deal with the matter. The fact that such a low average score is observed within the market abuse subset in the event year does however raise concerns regarding the vigilance of boards of companies whose shares are implicated in market abuse.

The Roles of the CEO and the Board Chairman

As can be seen in Table 7.13, the roles of CEO and chairman are performed by different individuals in the vast majority of sample companies. It appears that the roles are separated in proportionately more companies by the end of the three years studied. Indeed, of the ten components of CGQ, the highest scores are observed for separating the roles of CEO and chairman in each year. Table 7.24 shows that these scores are significantly higher than those in the control sample. These results indicate high adoption of the recommendations of Principle A.2 of the Corporate Governance Code (2010) which recommends that the positions of CEO and board chairman be held by separate individuals.

Tables 7.14 and 7.15 demonstrate that the positions of CEO and chairman are held by different individuals in a high proportion of companies in both subsets. It is interesting to note the relatively higher incidence of CEO-chairman duality in companies which are eventually acquired than in those which overcome the takeover attempt. This may indicate that boards which are dominated by the CEO are less able to make improvements when faced with a takeover threat, leading to forced improvements in a takeover. The roles are combined in proportionately more companies in the market abuse subset than in the takeover subset in the event and post-event years. In fact, as Table 7.23 shows, this difference is statistically significant in the post-event year. At this early stage in the analysis, the increased tendency of companies to have a separate CEO and chairman by the end of the three years studied may be attributed to various factors, not least the replacements of CEOs following takeover attempts or where company management or directors abused their positions as insiders. As noted in Chapter Four, such replacements have been associated with press exposure of the board's shortcomings (Farrell and Whidbee, 2002; Joe, Louis and Robinson, 2009). Subsection 7.6.1 examines if changes in the board leadership roles in the present research sample are associated with newspaper reporting on takeover and market abuse cases.

b. <u>Board Effectiveness</u>

The Balance between Executive and Non-executive Directors

As can be seen from Table 7.25, the proportion of executive directors on the boards of companies in the main research sample, on average, remains below 50% over the three years studied, as does that in the control sample. Table 7.13 shows that mean values for the variable ED in the main sample remain close to six in each year, further indicating that an equal balance between executive directors and non-executive directors is not achieved on the average board in any year studied. Comparisons in Table 7.24 indicate that while scores for the pre-event year are in line with the benchmark established by the control sample, they move below it in the event and post-event years as the imbalance between executive and non-executive directors increases while that in the control sample decreases. Table 7.13 shows that there is an average deterioration in scores between the pre-event and event years, followed by an average improvement between the event and post-event years. The results of a Wilcoxon test, presented in Table 7.20, illustrate that scores assigned for board balance are significantly higher in the pre-event year than in the event year. While improved balance is observed in the post-event year, it is not significantly different from that in the event year. When the benchmark-adjusted scores in Table 7.17 are considered, this improvement is no longer apparent. Instead, a decline in score is observed as scores in the main sample move further out of line with those in the control sample. As can be seen from Table 7.22, the difference in the benchmark-adjusted scores between the event and post-event years is statistically significant.

Both the unadjusted scores in Tables 7.14 and 7.15 and the adjusted scores in Tables 7.18 and 7.19 show that boards in the market abuse subset are more balanced than those in the takeover subset. They also demonstrate that the average deterioration in board balance between the pre-event and event years occurs in the takeover subset but not in the market abuse subset. Furthermore, while the average board becomes more balanced in the takeover subset between the event and post-event years, the average board in the market abuse subset becomes less balanced.

As is evident from Table 7.25, the board imbalance in the research sample arises from an under-representation of executive directors. Principle B.1.2 of the Corporate Governance Code (2010) advises that at least half of the boards of larger companies consist of independent non-executive directors. If this guidance is followed by boards with non-independent non-executives, it would result in the proportion of non-executives being greater than 50%. This may explain the observed imbalance on sample boards. Indeed, it is possible that defections from the board occur around the time of takeover or market abuse cases which may involve executives being replaced by non-executives, who are less affiliated with management and hence are more likely to prioritise the interests of shareholders.

Board Size

While average values for board size, presented in Table 7.25, suggest that the boards in the main research sample are of a suitable size in terms of CGQ, results reported in Table 7.13 indicate otherwise. Mean values indicate that the size of sample boards does not, on average, meet the criteria of CGQ established herein. Thus, there may be extremely large and small boards which the sample average reported in Table 7.25 does not reflect. Un-tabulated results of a frequency analysis performed on the board size data, prior to application of the scoring methodology, show that there are a number of very large boards in the takeover subset of the sample in each year and there are a number of small boards in the market abuse subset. Nevertheless, as can be seen from Table 7.24, scores assigned for board size are slightly higher than those in the control sample and the benchmark-adjusted scores reported in Table 7.17 remain positive in each year studied.

Results presented in Tables 7.14 and 7.15 show that boards of companies in the market abuse subset are deemed to be of a more appropriate size than those in the takeover subset in each year. Un-tabulated results of tests for differences conducted on the unscored data reveals significant differences between the takeover and market abuse subsets in each year at both the 1% and 5% levels. While Table 7.14 indicates an improvement in board size in the takeover subset between the pre-event and event years, it indicates a reversal between the event and post-event years, as the threat of takeover passes. Table 7.15 shows that in the market abuse subset, boards are considered to be of a slightly more appropriate size in the year in which the abuse occurs than in the previous year and that, following the abuse, the appropriateness of board size improves further. While tests for difference in unadjusted scores for board size do not detect any significant differences between the three years studied, those conducted on the adjusted scores indicate otherwise. Relative to scores in the control sample, the differences between the pre-event and event years are statistically significant in both subsets, as is that between the event and post-event years in the takeover subset

Taken together, these initial results suggest that there is a lack of uniformity in board size in the research sample; this may be explained by the absence of a specific recommendation regarding board size in the Corporate Governance Code (2010). The tendency for boards to comprise more or less members than may be required raises concerns that they may be dysfunctional in the absence of explicit policy guidelines on board size.

Director Independence

Results in Table 7.13 show that scores assigned on the basis of board independence are, on average, among the lowest of those for the ten components of CGQ. Table 7.24 illustrates that although scores are slightly above the benchmark in the pre-event year, they move below it in subsequent years. Table 7.25 indicates that less than 50% of non-executive directors on the average board are independent. Given that, on average, 60% of the directors on boards in the present sample are non-executives, it may be inferred that sample boards are comprised of approximately 30% independent members, considerably lower than the standard of 50% recommended under Principle B.1 of the Corporate Governance Code (2010). As noted earlier, the boards of sample companies are most balanced in favour of non-executive directors in the event year. Consistent with this observation, Tables 7.13 and 7.25 indicate an average increase in independence between the pre-event and event years and an average decline between the event and post-event years.

Table 7.14 indicates that independence is considerably lower in takeover targets which are acquired than in those for which offers fail, suggesting that the presence of independent directors may improve a company's ability to overcome the threat of takeover. Independence is much lower in the market abuse sample subset than in the takeover subset. Results of Mann Whitney tests, provided in Table 7.23, show that this difference is statistically significant in each year studied. The lower confidence level with which the significance of the difference is stated in the post-event year may be explained by the increase in independence which occurs in the market abuse subset between the event and post-event years, as indicated in Tables 7.15 and 7.25, while independence decreases in the takeover subset as indicated in Table 7.14 and 7.25.

While director independence in the main research sample is lower than what is desirable under best practice guidelines, it should be noted that scores achieved for board independence are, on average, higher in the post-event year than in the pre-event year. Thus there is some improvement over the three years studied, albeit smaller than that observed in the control sample. As discussed previously, increases in board independence have been attributed to press exposure of board underperformance (Joe, Louis and Robinson, 2009). The increases in independence observed in the present sample over the course of newspaper reporting on takeover and market abuse cases may lend some support to this finding. The results of analysis of possible associations between independence and newspaper reporting are discussed in Subsection 7.6.1.

c. Accountability: the Role of the Audit Committee

Audit Committee Size

Table 7.13 illustrates that the average score achieved for audit committee size in the main research sample is high relative to the other components of CGQ. As can be seen from Table 7.24, scores for audit committee size are significantly higher than the benchmark scores set by the control sample in each year. Results provided in Tables 7.14, 7.15, 7.18 and 7.19 reveal that the audit committees in the takeover subset are considered to be of a more suitable size than those in the market abuse subset despite a more appropriate board size being observed in the market abuse subset.

As regards changes in scores, opposing trends are again observed between the two sample subsets. An average score increase occurs in the takeover subset between the pre-event and event years, followed by a decrease between the event and post-event years. When scores are benchmark-adjusted, this decrease appears much smaller as scores in the control sample decrease by a similar magnitude. As can be seen from Table 7.22, benchmark-adjusted scores for audit committee size in the takeover subset are significantly higher in the event and post-event years than in the pre-event year. In the market abuse subset, an average score decrease occurs between the pre-event and event years and, while no change in the unadjusted scores in the market abuse subset is evident between the event and post-event years, an improvement in the adjusted scores is observed.

In the event year, audit committee size is considered most appropriate in the takeover subset and least appropriate in the market abuse subset. Un-tabulated results of a frequency analysis on the audit committee size data, prior to scoring, shows that in the event year, 77.7%

of companies in the takeover subset and 61.1% of companies in the market abuse subset have an appropriately sized audit committee in terms of CGQ. Five companies (27.8%) in the market abuse subset have not established an audit committee, while only one company (1.9%) in the takeover subset does have an audit committee. The merits of establishing an audit committee are strongly emphasised under Principle C.3 of the UK Corporate Governance Code (2010); however, as adoption of the Corporate Governance Code's recommendations is voluntary for AIM companies, the observed absence of audit committees in certain companies in the market abuse subset may be partially attributed to the inclusion of AIM companies in the sample. Nevertheless, the vast majority of AIM companies in the takeover subset have established an audit committee. This might suggest that AIM companies whose shares are implicated in market abuse may not follow the guidelines of the Corporate Governance Code as they are encouraged to.

Audit Committee Independence

As can be seen in Tables 7.13, 7.17 and 7.25, over three quarters of companies in the main research sample have majority independent audit committees, compared with just over one half of companies in the control sample. When the takeover and market abuse sample subsets are considered separately, it appears that audit committee independence is higher in the takeover subset. Results of statistical tests for differences, reported in Table 7.23, show that audit committees in the takeover subset are significantly more independent than those in the market abuse subset.

Table 7.14 shows that in the pre-event year, proportionately more companies which go on to survive takeover attempts have majority independent audit committees than those which succumb to the offer. Audit committee independence in takeover targets is highest in the event year. Following the same pattern as observed for board independence, board meetings and audit committee size, the audit committees of takeover targets become more suitably independent as the threat of takeover faces them, before reverting back to a level slightly above that observed in the year before the event. Improvements in the market abuse subset again appear to occur somewhat later than those in the takeover subset. As Table 7.15 shows, there is no change in the independence of audit committees of companies in the market abuse subset between the pre-event and event years and an improvement in independence between the event and post-event years.

Audit Committee Meetings

Table 7.25 indicates that an average of three audit committee meetings is held per annum in companies in the main research sample, compared with an average of two in the control sample. More audit committee meetings are held within takeover targets that are closely involved with the Takeover Panel, which most likely reflect the greater incidence of audit committees in the takeover subset of the research sample. As can be seen from Table 7.13, an average score of between seven and eight is achieved within the full sample for the appropriateness of the number of audit committee meetings held, with a slight improvement being observed over the three years studied. Table 7.24 demonstrates that these scores are significantly higher than the benchmarks set within the control sample.

As noted, more audit committee meetings are observed within the takeover subset. Indeed, average scores achieved within the takeover subset for audit committee activity are high relative to many other components of CGQ and Table 7.25 indicates that these takeover targets on average meet at least three times in the year. Nevertheless, Table 7.14 shows that average scores remain below ten. It is thus likely that certain audit committees in the sample subset meet more regularly than three times per annum while others meet less frequently. Table 7.14 and 7.18 also indicate that there is an average improvement in score over the three years surrounding cases. Average scores for both the event year and post-event year are notably higher than that reported for the pre-event year. Table 7.20 reports no significant differences in the unadjusted scores between years. However, results for the benchmark-adjusted scores in Table 7.22 indicate that, relative to the control sample, the frequency of audit committee meetings is significantly higher in both the event and post-event years than in the pre-event year.

Average scores achieved within the market abuse subset are markedly lower than those in the takeover subset. Table 7.23 shows that this difference is statistically significant in all three years. Scores are, however, in line with the benchmark scores set by the control sample. While the lower scores in the market abuse subset relative to the takeover subset may be explained by the considerable proportion of companies which fail to establish an audit committee, the lower mean scores for audit committee meeting frequency than for audit committee size would suggest that even in cases where audit committees are in place, meetings may not be held as frequently as in the takeover subset. The lower average score for audit committee meetings observed in the market abuse subset in the event year is consistent with the simultaneous lower average score for audit committee size.

Collectively, these three sets of results indicate that audit committee quality is considerably lower in the market abuse subset than in the takeover subset. The quality of audit committees in takeover targets is not considered optimal under the present CGQ scoring system, particularly in the year prior to the takeover or offer withdrawal, but it is above the benchmark set by the control sample. This suggests that the size, independence and activity of audit committees in the takeover subset of the research sample is more appropriate than what might be expected from companies of their sizes and industries. Moreover, the governance quality of audit committees tends to improve in companies which survive the takeover attempt.

The improvement in scores assigned for audit committee size in the takeover subset in the event year might indicate an enhanced effort by boards to oversee the financial integrity of the company as the threat of takeover becomes imminent. In the year in which market abuse occurs, a considerable proportion of the companies whose shares are implicated have not established an audit committee. Even when a committee is established, what is presently regarded as a sufficient number of meetings is not always held. These results are indicative of insufficient monitoring of the financial reporting process, with the possible implication that price-sensitive information may be leaked by insiders. In the year of the abuse, 50% of companies whose shares are involved fail to fully observe the independence guidelines set out under Principle C.3.1 of the Corporate Governance Code (2010), further suggesting that an audit committee of appropriate size and independence which is suitably active may well serve to provide some control over the flow of price-sensitive financial information.

d. Directors' Remuneration and Incentives

CEO Pay to Performance Sensitivity

Results reported in Table 7.13 indicate that CEO pay to performance sensitivity is one of the weaker elements of CGQ. Average scores in the pre-event and event years are below six. Although it would appear that the sensitivity of CEO pay to performance in the main research sample is not optimal in terms of the CGQ criteria set herein, Table 7.24 shows that the scores achieved are significantly higher than the benchmark scores. Consistently, the benchmark-adjusted scores reported in Table 7.17 are positive in each year studied. Accordingly, CEO pay in sample companies may be more reflective of performance than that in their industry peers. It may be the case that the low average scores observed in both the main sample and the control sample are driven by companies in certain industries whose performance has changed to due circumstances within those industries which are beyond the CEO's control.

On further inspection, it would seem that the lack of sensitivity of CEO pay to performance, suggested by the sample averages, is largely due to increases in the wealth of shareholders of certain companies while the pay of their CEOs decreases. The average CEO pay to performance sensitivity ratios reported in Table 7.25 indicate that a negative relationship exists between CEO pay and performance in the main sample in both the pre-event and event years. Un-tabulated results of a frequency analysis of the pre-event year data reveals that in 41 companies (30.4% of the sample), there are negative CEO pay to performance ratios which are explained by increasing shareholder wealth and decreasing CEO pay, while in 21 companies (15.5%), there are negative ratios which are due to decreasing shareholder wealth and increasing CEO pay. A similar analysis of the event year data reveals that in 17 companies (23.7%), there are negative ratios which are due to increasing shareholder wealth and decreasing CEO pay, while in 14 companies (19.5%), there are negative ratios which are due to decreasing shareholder wealth and increasing CEO pay. Thus, while the CEO's pay is not sensitive to performance in a considerable proportion of the sample in the pre-event and event years, it is the CEO, rather than the shareholders, who experiences a loss in the majority of cases. Similar findings are derived for the control sample, where the CEO incurs a loss in spite of shareholder gains in 18% of companies in the pre-event year, 26.3% of companies in the event year and 24.9% of companies in the post-event year. There appears to be an improvement in the main sample in the post-event year when the average score assigned for CEO pay to performance sensitivity increases to 6.55. As can be seen from Table 7.25, the average ratio of CEO pay to performance in the post-event year is 0.009, indicating that on average, CEO pay increases by £9 per £1,000 increase in shareholder wealth. In fact, CEO pay in the main sample seems quite well structured relative to that in the control sample where CEO pay remains insensitive to performance throughout the three years studied.

When the takeover and market abuse sample subsets are considered individually, it would seem that changes in CEO pay in the takeover subset are more sensitive to changes in shareholder wealth than in the market abuse subset. Table 7.23 shows that scores assigned for CEO pay to performance sensitivity in the takeover subset are significantly higher than those in the market abuse subset in the pre-event and post-event years. While Table 7.25 shows that there is a negative average CEO pay to performance sensitivity ratio of -0.001 in the takeover subset in the pre-event year, positive average ratios of 0.004 and 0.006 are observed for the event- and post-event years respectively. Average scores in the takeover subset are also higher than those reported for the control sample in each of the three years studied.

While scores in the market abuse subset are in line with the benchmark scores set by the control sample companies, Table 7.25 reports negative average ratios for the market abuse subset for each of the three years studied. A frequency analysis of the data for the market abuse subset shows that in the majority of these companies, the negative ratios are due to an increase in CEO pay while shareholder wealth decreases. Thus, it would appear that in the market abuse subset in particular, the levels of remuneration awarded to CEOs are not reflective of performance. This is indicative of a lack of adherence to Principle D.1 of the Corporate Governance Code (2010) and would suggest that the incentives and rewards for safeguarding and maximising shareholder wealth are not appropriately structured.

Directors' Shareholdings

The average proportion of shares owned by boards, reported in Table 7.25, initially suggests that in the full main sample, directors' shareholdings are close to what is presently considered necessary to be an effective incentive to work within shareholders' interests. Nevertheless, scores assigned for the appropriateness of directors' shareholdings are lower than the benchmark scores in all years studied indicating that the shareholdings of boards in the control sample may serve as a more effective incentive to maximise returns.

As can be seen from Tables 7.14, 7.15, 7.18 and 7.19, scores assigned for the suitability of the levels of director share ownership are low in both the takeover and market abuse subset. The average values in Table 7.25 suggest that the low scores observed in the takeover subset arise because, in a large percentage of companies, boards hold a low proportion of shares. In contrast, the low scores in the market abuse subset are due to a large percentage of companies where boards hold a large proportion of shares. As Table 7.23 shows, the difference in the score between the takeover and market abuse subsets in the pre-event year is statistically significant. In addition, un-tabulated results of Mann-Whitney tests on the shareholding data, prior to application of the scoring methodology, show that the proportion of shares owned by boards differs significantly between the two subsets in all three years at both the 1% and 5% levels. While the percentage of shares owned by boards in the takeover subset is, on average, lower than that in the control sample, it is closer to the control sample average than that in the market abuse subset, which is discernibly higher.

Table 7.25 shows that the average percentage of common shares owned by boards in the takeover subset is lower in the event year than in the pre-event year. While this might lead one to expect a decline in the average score, as the proportion of shares owned by boards moves further away from 10%, Table 7.14 shows that in the takeover subset, there is a slight average increase in score between the pre-event and event years. Un-tabulated results of a frequency analysis of the pre-event to event year changes in shareholdings reveals that there are proportionately more increases in shareholdings, leading to a score improvement; however, the increases which occur are small in magnitude. While there are fewer decreases in shareholdings, the magnitude of many of these is large, with the effect that the average shareholding in the takeover subset in the event year is lower than that in the pre-event year. As can be seen from Table 7.14, there is an average decrease in score in the takeover subset between the event and post-event years, as the proportions of shares owned by boards decrease.

Table 7.15 shows that there is also an average score improvement between the pre-event and event years in the market abuse subset, as directors' shareholdings move toward the 10% level, which is deemed optimal in terms of the CGQ criteria set herein. There is an average decline in score between the event and post-event years, despite the lower average shareholding in the post-event year reported in Table 7.25. Un-tabulated results of a frequency analysis of the changes in shareholdings show that while there are proportionately more decreases in shareholdings, many are of a small magnitude such that they have little effect on score, while the increases which occur in certain sample companies have the effect of lowering scores.

Although, the proportions of shares owned by boards in the takeover subset are deemed inappropriately low, while those in the market abuse subset are deemed inappropriately high , similar patterns are observed in both sample subsets and in the control sample in that there is an average score improvement between the pre-event and event years, followed by a decrease between the event and post-event years. Table 7.20 indicates that the decline in score which occurs between the event and post-event years results in a significantly lower score being achieved in the full sample in the post-event year than in the event year.

These results indicate that the proportions of shares owned by boards, in terms of CGQ, is considered poor on average within the full research sample. The low average scores reported in Table 7.14, accompanied by low average values reported for the takeover subset in

Table 7.25 for each year, suggest that the boards of companies involved in takeover cases may not bear the same levels of risk as their shareholders. In contrast, the low average scores reported in Table 7.15 and the associated high average values reported in Table 7.25 for each year indicate that directors may be somewhat entrenched in companies involved in market abuse cases. It is unlikely that the greater ownership stakes held by directors in the market abuse subset reflects shares acquired through prohibited dealings since the average shareholdings of boards in the market abuse subset decline over the three year period. A considerable amount of directors' shareholdings may have been accumulated through the awarding of stock-based compensation, particularly since boards in the market abuse subset tend to have fewer independent non-executive directors than those in the takeover subset.

7.3. Initial Tests for Causality

As stated in Chapter Five, this study poses the following hypothesis:

H_1: Changes in corporate governance quality are associated with volumes of newspaper reporting on takeover offers and instances of market abuse.

As outlined in Figure 7.1, there is a further, third stage in the analysis before the research model is applied to the data. This involves a performing a preliminary test to investigate if a causal relationship exists between corporate governance quality change and newspaper reporting. As described in Chapter Five, the relationship between ΔCGQ and newspaper reporting is initially examined by testing for differences in ΔCGQ between the cases which receive the greatest amount of newspaper coverage (the high media quartile) and the cases which receive the least amount of coverage (the low media quartile). In order to do so, the changes in corporate governance quality between two consecutive years of cases are ranked in terms of the volumes of newspaper reporting on cases in the first of those two years. The highest and lowest media quartiles are then identified. Mann Whitney tests are conducted to compare ΔCGQ in the high media quartile with that in the low media quartile. The results of this analysis are presented in Table 7.26.

Table 7.26: Comparisons of ΔCGQ between High and Low Media Samples

Below are comparisons of both the unadjusted and adjusted changes in the total CGQ scores between the quartile of the sample which receives the highest newspaper coverage and the quartile which receives the lowest coverage. Comparisons are also made in the takeover and market abuse sample subsets individually.

	Full Sample	Takeover	Market Abuse
ΔCGQ between pre-event year and event year			
Mann Whitney Z	2.23	1.83	-
Significance	(0.026)***	(0.067)*	-
ΔCGQ between event year and post-event year			
Mann Whitney Z	0.05	0.72	1.38
Significance	(0.960)	(0.472)	(0.168)

*** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

Results show that there is a statistically significant difference in the pre-event to event year change in CGQ between cases which receive the most newspaper coverage in the pre-event year and those which receive the least. This significant difference pertains to both the unadjusted and adjusted measures of ΔCGQ in the full sample and in the takeover subset. Because the level of newspaper reporting on market abuse cases in the pre-event year is so low, the analysis is not performed for the market abuse subset separately. In the full sample, the average value for unadjusted ΔCGQ in the high media quartile is 5.59 and that for adjusted ΔCGQ is 0.07. In the low media quartile, the average unadjusted ΔCGQ is -1.58 and the average adjusted ΔCGQ is -0.10. In the takeover subset, the average value for unadjusted ΔCGQ is 5.77 in the high media quartile and that for adjusted ΔCGQ is 0.09. In the low media quartile, the average unadjusted ΔCGQ is -1.91 and the average adjusted ΔCGQ is -0.12.

Accordingly, when the unadjusted values are considered, the differences in ΔCGQ between the high and low media quartiles arise because there is a small deterioration in CGQ in cases which receive no newspaper coverage while there is an improvement in CGQ, of a greater magnitude, in those cases which receive the most newspaper coverage. When the benchmark-adjusted values are considered, the differences in ΔCGQ between the two quartiles may be attributed to a small improvement in CGQ in cases which receive the most newspaper coverage and a greater deterioration in those cases which receive no newspaper coverage.

These results initially suggest that a causal relationship exists between newspaper reporting in the pre-event year and the pre-event to event year change in CGQ. Although this inference cannot be made for market abuse cases in isolation, the apparent relationship between ΔCGQ and newspaper reporting in the takeover subset is also detected in the full research sample where market abuse cases are included.

The difference in the event to post-event year change in CGQ between the high and low media quartiles is not significant in the full sample or in either subset thereof. In the full sample, the average values for unadjusted ΔCGQ in the high and low media quartiles are 0.16 and 1.71 respectively and those for adjusted ΔCGQ are 0.18 and 0.26; in the takeover subset, the average values for unadjusted ΔCGQ in the high and low media quartiles are 0.09 and 0.56 respectively and those for adjusted ΔCGQ are 0.12 and 0.20; and in the market abuse subset, the average values for ΔCGQ in the high and low media quartiles are 1.19 and 5.43 respectively and those for adjusted ΔCGQ are 0.01 and 0.31. These results suggest that changes in corporate governance quality between the event and post-event years of takeover and market abuse cases are positive in direction irrespective of the level of newspaper coverage they receive in the event year. Interestingly, for cases which receive low levels of newspaper coverage in the event year, the magnitude of the improvement in CGQ between the event and post-event years is greater than for cases which receive high levels of coverage in the event year.

Thus, on first inspection, it appears that there is a significant difference in the pre-event to event change in corporate governance quality between cases which receive high levels of newspaper coverage and those which receive low levels of newspaper coverage in the pre-event year. The difference in the event to post-event year change in corporate governance quality between cases which receive high event year coverage and cases which receive low event year coverage is not significant. This may indicate that newspaper reports published in the early stages of cases have a stronger influence on boards' propensity to implement governance changes than those reports published in later stages. Inferences cannot be made with certainty until the research model is applied. The next section presents and discusses the results of the multivariate analysis employed to fully investigate possible associations between changes in corporate governance quality and newspaper reporting.

7.4. Multivariate Analysis

This section presents the multivariate analysis performed to test the research posed herein. As outlined in Chapter Five, the possibility that changes in corporate governance quality are influenced by the same forces which determine the amount of newspaper reporting on TMA cases gives rise to endogeneity concerns in the present research. To alleviate these concerns, the analysis is performed in two stages. The first stage OLS regression model (Equation 5.1) is employed to examine associations between newspaper reporting on takeover and market abuse cases and its potential determinants and to isolate a measure of newspaper reporting which does not reflect the influence of these determinants- company size, age and industrial location, the nature of regulatory issues in cases and the economic environment. For each case, the residual value is determined from the regression. Since these values represent the difference between the observed values of newspaper reporting and those predicted by the model, they provide a measure of the volume of newspaper reporting on each case which is not correlated to any of the determinants. This measure is then used in the second stage OLS regression model (Equation 5.2) which effectively tests the research hypothesis $H_{1,}$ by examining associations between changes in corporate governance quality between two consecutive years of a TMA case and the volume of newspaper reporting in the first.

Prior to conducting each stage of the multivariate analysis, correlation analysis must be performed for the first and second stage models. Using Pearson correlation coefficients, this analysis is performed for each model in order to examine if any of the explanatory variables are highly correlated such that their inclusion in the model might create problems of multicollinearity. All correlation analysis is conducted using SPSS version 21 and all multivariate analysis is conducted using PcGive version 13.3.

a. <u>The Determinants of Newspaper Reporting</u>

As discussed, the present study recognises five factors which may influence the amount of newspaper coverage companies receive when involved in a takeover or market abuse case. These are company size, company age, the industrial location of the company, the economic environment and issues associated with the takeover or market abuse case. Before the first stage of the multivariate analysis is performed to test for associations between newspaper reporting and its potential determinants, correlation analysis is conducted to examine if any of the variables measuring the determinants are highly correlated.

<u>Correlation Analysis</u>

The results of correlation analysis for the first stage model are presented in Table 7.27. The model is not applied to pre-event year newspaper reporting on companies in the market abuse subset in isolation due to low levels of newspaper reporting in the pre-event year. Consequently, correlation analysis for the determinants of newspaper reporting in the pre-event year is not performed for the market abuse subset separately.

The results indicate that a high positive correlation exists between company size (CSIZE) and company age (AGE) in the full sample. A weaker positive correlation exists between the two variables in the takeover subset when the model is applied to event year newspaper reporting. The most likely explanation for this is simply that companies grow over time and hence, size increases with age. While this association might raise concerns regarding multicollinearity, the variables CSIZE and AGE are retained in the model since, as discussed in Chapter Four, a company's size and age may have individual influences on the extent to which it is recognised by the newspaper media and its audiences and hence, the amount of newspaper coverage it receives when involved in a TMA case. Moreover, because entirely different data is employed for the measurements made by these two variables, the correlations are unlikely to create multicollinearity problems.

Table 7.27: Correlation Analysis: Determinants of Newspaper Reporting

Below are the Pearson correlation coefficients used to examine correlations between the independent variables in the first stage OLS regression model (Equation 5.1). The first part of the table presents the correlation coefficients for the independent variables when the model is applied to pre-event year newspaper reporting. The second part presents the correlation coefficients for the independent variables when the model is applied to event year newspaper reporting.

	$CSIZE_{t-1}$	AGE_{t-1}	$INDGEN_{t-1}$	ISS_t	$ECON_{t-1}$
Pre-event year newspaper reporting					
Full Sample (n= 71)					
$CSIZE_{t-1}$	1				
AGE_{t-1}	0.305**	1			
$INDGEN_{t-1}$	0.177	-0.023	1		
ISS_t	-0.424***	-0.255**	-0.320***	1	
$ECON_{t-1}$	0.177	-0.105	-0.087	-0.211*	1
Takeover Subset (n= 54)					
$CSIZE_{t-1}$	1				
AGE_{t-1}	0.199	1			
$INDGEN_{t-1}$	0.046	-0.107	1		
ISS_t	0.002	-0.085	-0.063	1	
$ECON_{t-1}$	0.154	-0.154	-0.193	0.068	1
Event year newspaper reporting					
Full Sample (n= 62)					
$CSIZE_{t-1}$	1				
AGE_{t-1}	0.353***	1			
$INDGEN_{t-1}$	0.062	-0.002	1		
ISS_t	-0.502***	-0.222*	-0.253**	1	
$ECON_{t-1}$	0.091	-0.052	-0.070	-0.147	1
Takeover Subset (n= 46)					
$CSIZE_{t-1}$	1				
AGE_{t-1}	0.247*	1			
$INDGEN_{t-1}$	-0.130	-0.085	1		
ISS_t	-0.157	0.087	0.066	1	
$ECON_{t-1}$	0.078	-0.070	-0.158	0.202	1
Market Abuse Subset (n= 16)					
$CSIZE_{t-1}$	1				
AGE_{t-1}	0.349	1			
$INDGEN_{t-1}$	0.073	-0.183	1		
ISS_t	-0.420	0.131	-0.050	1	
$ECON_{t-1}$	-0.211	-0.288	-0.115	-0.332	1

Variable Definitions: $\mathbf{CSIZE_{t-1}}$: Company size, measured as ln (total fixed assets in the pre-event year); $\mathbf{AGE_{t-1}}$: Company age, measured as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins; $\mathbf{INDGEN_{t-1}}$: General industry location of company; $\mathbf{ISS_t}$: Primary reason for regulation of takeover or market abuse case; $\mathbf{ECON_{t-1}}$: Economic environment, measured as ln (GDP for the UK at the first quarter of the pre-event year).

*** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

CSIZE is highly negatively correlated with the primary issue in TMA cases (ISS) in the full sample. This would effectively imply that smaller companies are involved in TMA cases which put shareholders' interests at a greater risk. Given that larger companies face more stringent requirements to follow best practice corporate governance guidelines, it is plausible that such an association exists. In the present sample, it is explained by the fact that market abuse cases, which the author considers to represent a greater expropriation of shareholder wealth, involve smaller companies, as noted at the beginning of this chapter. Indeed, when the takeover and market abuse subsets are considered separately, no such correlation appears to exist. Given that the model is applied to the two subsets individually, the variable ISS is also retained.

The variable AGE is negatively correlated with the variable ISS in the full sample but not in either sample subsets. This correlation implies that the interests of shareholders in older companies are placed at a lesser risk when the companies are involved in TMA cases. The correlation in the present sample, however, has an explanation similar to that for the correlation between the variables CSIZE and ISS. Since this thesis considers market abuse to represent a greater injustice to shareholders, the correlation most likely arises due to the tendency, noted in Section 7.2, for companies whose shares are implicated in market abuse cases to be younger than those companies involved in takeover cases. Again, when the takeover and market abuse subsets are considered separately, no such correlation is detected. Consequently, both the variables AGE and ISS remain included in the model.

A high negative correlation is also observed between general industry location (INDGEN) and ISS in the full sample but not in either subset. This suggests that more companies from certain industries are involved in takeover cases while more companies from other different industries are involved in market abuse cases. As mentioned previously, takeover waves tend to be experienced at an industry level (Mitchell and Mulherin, 1996; Andrade, Mitchell and Stafford, 2001; Martynova and Renneboog, 2005); however, since the industry classification is not based on the extent of takeover activity within the industries, the correlation most likely exists for spurious reasons. Accordingly, the variable INDGEN is also retained in the model.

The variables ISS and the economic environment (ECON) are also negatively correlated in the full sample. This may indicate that shareholders' interests are at a lesser risk when the national economic environment is healthier. Since it is reasoned herein that shareholders' interests are at the greatest risk in market abuse cases, it would seem that market abuse cases occur more at times when the economy is weaker. As discussed at the beginning of this chapter, the greatest number of market abuse cases occurs at the beginning of the sample period. Although economic conditions were less buoyant at this time than in later years studied, the higher incidence of market abuse cases is attributed to the fact that FSMA was only recently implemented and had not yet created a sufficient deterrent. Consequently, it is likely that this explains the correlation which exists between ISS and ECON and the variable ECON remains included in the model.

Multivariate Analysis

The results for the OLS regression model employed to examine the determinants of newspaper reporting (Equation 5.1) are provided in Table 7.28. The results indicate that newspaper reporting on TMA cases is strongly determined by the size of companies involved. Significant positive associations are detected between company size and the volumes of reports published in both the pre-event and event years in the full sample and in the individual takeover subset. Partial R^2 values indicate that the marginal contribution of company size in explaining newspaper reporting on TMA cases is higher than that of the other potential determinants. This supports the conjecture that journalists are more likely to report on large companies because of their richer information environments (Miller, 2006). Since it would appear that

Table 7.28: The Determinants of Newspaper Reporting

Below are the results of the OLS regressions of (i) the pre-event year reporting variable (NPR_{t-1}) and (ii) the event year reporting variable (NPR_t) upon the five potential determinants of newspaper reporting.

	Full Sample			*Takeover Subset*			*Market Abuse Subset*		
	t-value	t-prob	Part. R^2	t-value	t-prob	Part. R^2	t-value	t-prob	Part. R^2
Dependent Variable: NPR_{t-1}	n=71			n=53					
Constant	0.129	0.900	0.001	0.335	0.739	0.002	-	-	-
$CSIZE_{t-1}$	1.800	0.077*	0.047	1.910	0.063*	0.072	-	-	-
AGE_{t-1}	1.780	0.080*	0.046	1.620	0.112	0.053	-	-	-
$INDGEN_{t-1}$	0.389	0.699	0.002	0.265	0.792	0.002	-	-	-
ISS_t	-1.220	0.226	0.023	-0.350	0.728	0.003	-	-	-
$ECON_{t-1}$	-0.147	0.884	0.001	-0.357	0.723	0.003	-	-	-
Model Diagnostics	**R^2**	**Adj. R^2**	**F** (5, 65)	**R^2**	**Adj. R^2**	**F** (5, 47)	-	-	-
	0.212	0.152	3.503 (0.007)***	0.156	0.066	1.740 (0.144)			
Dependent Variable: NPR_t	n=62			n=46			n=16		
Constant	0.097	0.923	0.001	3.080	0.004	0.192	-0.512	0.620	0.026
$CSIZE_{t-1}$	4.560	0.001***	0.271	8.090	0.001***	0.620	-0.460	0.677	0.018
AGE_{t-1}	-0.038	0.970	0.001	-2.300	0.027**	0.117	1.390	0.194	0.162
$INDGEN_{t-1}$	-1.280	0.205	0.029	-3.460	0.001***	0.231	-0.746	0.473	0.053
ISS_t	-1.300	0.198	0.030	5.730	0.001***	0.451	0.836	0.423	0.065
$ECON_{t-1}$	-0.124	0.901	0.001	-3.310	0.002***	0.215	0.499	0.629	0.024
Model Diagnostics	**R^2**	**Adj. R^2**	**F** (5, 56)	**R^2**	**Adj. R^2**	**F** (5, 40)	**R^2**	**Adj. R^2**	**F** (6, 10)
	0.423	0.372	8.220 (0.001)***	0.709	0.672	19.480(0.001)***	0.297	-0.054	0.845 (0.548)

Variable Definitions: **NPR_{t-1}:** Pre-event year newspaper reporting, measured as ln (1+No. newspaper reports in the pre-event year); **NPR_t:** Event year newspaper reporting, measured as ln (1+No. newspaper reports in the event year); **$CSIZE_{t-1}$:** Company size, measured as ln (total fixed assets in the pre-event year); **AGE_{t-1}:** Company age, measured as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins; **$INDGEN_{t-1}$:** General industry location of company; **ISS_t:** Primary reason for regulation of TMA case; **$ECON_{t-1}$:** Economic environment, measured as ln (GDP for the UK at the first quarter of the pre-event year).

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table 7.28 Continued: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Newspaper Reporting on its Potential Determinants for Pre-event and Event Years

			Pre-Event Year		*Event Year*	
			Predicted	Residual	Predicted	Residual
Full Sample	*n=*		*71*		*62*	
		Mean	0.907	0.000	2.809	0.000
		Std. Dev.	0.757	1.458	1.279	1.492
		Min	-1.096	-2.175	-0.828	-4.496
		Max	2.356	4.675	5.796	3.538
Takeover Subset	*n=*		*53*		*46*	
		Mean	1.215	0.000	3.468	0.000
		Std. Dev.	0.713	1.657	1.520	0.974
		Min	-0.456	-2.504	0.035	-1.598
		Max	2.700	4.458	6.223	3.153
Market Abuse Subset	*n=*				*16*	
		Mean	-	-	0.914	0.000
		Std. Dev.	-	-	0.478	0.738
		Min	-	-	-0.150	-1.052
		Max	-	-	1.927	1.508

larger companies take a more prominent place in the media spotlight, it may be the case that the newspaper media may play a greater role in aligning managers' and directors' interests with those of shareholders in larger companies. It seems that the amount of newspaper coverage which companies involved in market abuse cases receive relies less on their size. As discussed in Section 7.2, the low levels of newspaper reporting on market abuse cases is most likely to be attributable to journalists' inability to access information on such cases. Hence, even when the shares of large companies, which would normally be quite visible in the news media, are implicated in market abuse, the story may not receive a considerable amount of newspaper coverage.

A significant positive association is detected between pre-event year newspaper reporting and company age in the full sample and a significant negative association is between event year newspaper reporting and company age in the takeover subset of the sample. The literature reviewed in Chapter Four generally indicates that older companies tend to have richer information environments and are generally more visible in the media. The higher levels of coverage of TMA cases involving older companies in the pre-event year is consistent with this conjecture. However, it would appear that in the year of the main events of a takeover case, younger firms tend to receive more coverage. This may be because journalists do not report on younger companies with the same immediacy as they would with older companies which are recognised more readily by readers. Hence, they may be less inclined to speculate on potential takeover offers for younger companies. However as the offer becomes imminent, it may be considered more newsworthy as the likelihood of an effective takeover with real implications for various stakeholders increases. Moreover, in the event year, there is apt to be a greater availability of information on the actions of the parties involved such the search costs associated with reporting on younger companies are reduced.

For the takeover subset of the sample, a significant negative association is detected between event year newspaper reporting and the general industrial location of the target company. Bearing in mind the coding system employed to indicate general industrial location outlined in Table 5.8, it would appear that takeover offers for companies in the oil, gas and consumer goods and services industries receive more coverage than do those for companies in the financial services and utilities industries. As discussed in Chapter Four, the oil, gas and consumer goods and services industries are considered to be high profile industries and hence, companies in these industries are apt to be of greater interest to the mainstream newspaper media and to its readers throughout society. Companies in the oil and gas industries generate considerable employment and, because of their wealth, are of significance in the national and global economy (Dyck, Volchkova and Zingales, 2008). Consumer goods and services industries invest highly in marketing and, consequently, are visible both to the media and the general public (Brammer and Millington, 2006). While newspaper coverage of banks and other financial services companies increased following the global financial crisis of 2008 (Schecter, 2009; Fahy, O'Brien and Poti, 2010; Stromback, Jenssen and Aalberg, 2011), the news media has been criticised for being complacent during the sub-prime lending bubble and economic boom years (Schecter, 2009; Starkman, 2009). Thus, it is likely that over the majority of the sample period, takeover offers for companies in the financial industry may not have been considered as newsworthy as would those for large oil or gas produces or for major retailers. As can be seen from Table 7.28, no significant association is detected between pre-event year newspaper reporting and companies' general industrial locations. Since pre-event year newspaper reporting is largely based on rumour and speculation, it would seem that industry is only a significant determinant of newspaper reporting when there is more certainty about the offer. There is no evidence to indicate that industry is a significant determinant of reporting on market abuse cases. Again, this is most likely to be due to a scarcity of information such that even abuses involving the shares of companies in high profile industries go largely unreported.

A significant negative association is detected between event year newspaper reporting and national economic performance in the takeover subset of the sample. As noted in Chapter Four, the mainstream newspaper media may consider the potential consequences of takeover offers for employees, creditors and customers to be more significant when the economy is weaker as they may have a negative effect on overall flow of wealth within the economy. The fact that this association is detected in the event year only also suggests that economic performance is not a significant determinant of speculative newspaper commentary on takeover offers. Again, no significant association is detected in the individual market abuse sample subset which is also likely to be attributable to the barriers journalists face when reporting on corporate crimes such as market abuse.

Finally, a significant positive association is detected between event year newspaper reporting and the primary reason for the intervention of the Takeover Panel. The partial R^2 value of 0.451 indicates that after company size, the nature of the regulatory issue makes the greatest contribution to the model's capacity to explain event year newspaper reporting. As discussed in Chapter Five, the issues which give rise to regulatory intervention are categorised in terms of the severity of their implications for shareholders' interests. Accordingly, these results indicate that takeover cases where shareholders' interests are jeopardised to the greatest extent receive the most coverage. While this is encouraging to the extent that it indicates that the newspaper media may serve a watchdog role for shareholders by publicising issues that put their interests at risk, the low levels of newspaper coverage of market abuse issues, which are presently considered to pose a greater threat to shareholders' interests, suggests that the capacity of the newspaper media to perform this function is limited.

Having considered all of the significant associations detected between newspaper reporting and its potential determinants, a number of model testing diagnostics must be consulted to assess the model specification.

Model Significance

The results of F-tests show that the model is statistically significant from zero when applied to pre-event year newspaper reporting in the full sample, but not when applied to the takeover subset separately. Results also indicate that the model is statistically significant from zero when applied to event year newspaper reporting in the full sample and in the takeover subset but not in the market abuse subset.

Goodness of Fit

R^2 values suggest that for the full sample, 21.2% of the variation in pre-event year newspaper reporting from case to case may be explained by company size, age and general industrial location, the economic climate at the time of the case and the reason for regulatory intervention in the case. The adjusted R^2 value, however, indicates that when the number of independent variables in the model is accounted for, the model has the capacity to explain 15.2% of the variation in pre-event year newspaper reporting between cases, while 84.8% may be attributable to other factors. The R^2 value of 0.156 and the adjusted R^2 value of 0.066 reported for pre-event year newspaper reporting in the individual takeover subset indicate that the explanatory power of the model is lower when applied to takeover cases in isolation.

When event year newspaper reporting is considered, the explanatory power of the model appears greater. The R^2 value for the model when applied to the full sample is 0.423. These values for the model when applied to the individual takeover and market abuse subsets are 0.709 and 0.297 respectively. The adjusted R^2 values for the full sample and the takeover subset are also high relative to those for the pre-event year (0.372 and 0.672 respectively). The adjusted R^2 value of -0.054 for the market abuse subset denotes that the explanatory power is considerably lower for market abuse cases.

Taken together, these results indicate that the model best fits the event year newspaper reporting data in the takeover subset. As noted above, this is where the strongest associations are observed between newspaper reporting and its suggested determinants. In fact, it would appear that event year newspaper reporting on takeover cases is strongly associated with each of the five factors of interest. While it would not appear that companies' industrial locations, the regulatory issues facing them or the economic environment significantly influence pre-event year newspaper reporting, the sizes and ages of companies do appear to determine the amount of coverage they receive. These influences considered, it would appear essential that the residual values derived from this model are employed in the second stage model so that it is possible to examine the relationship between corporate governance quality change and a measure of newspaper reporting which is independent of these factors. Thus, any significant associations detected between changes in corporate governance quality and this measure of newspaper reporting may provide a more valid indication that newspaper reporting on takeover and market abuse cases influences changes in corporate governance quality in the companies involved.

b. The Determinants of Corporate Governance Quality Change

As outlined at the beginning of this section, the second stage OLS regression model employed herein effectively tests the research hypothesis, H_1, by examining associations between changes in corporate governance quality and newspaper reporting. Before this model is applied to the data, further correlation analysis must be conducted for the explanatory variables included in the model.

Correlation Analysis

Correlation analysis for the second stage model again seeks to determine if any of the explanatory variables included in the model are strongly correlated so as to mitigate potential issues of multicollinearity. The results of this analysis should also confirm that the newspaper reporting variables employed are not correlated with any of the variables measuring company size, age and general industry location, regulatory issues and the economic environment.

Results of the analysis are presented in Table 7.29. As noted, due to low levels of newspaper reporting in the pre-event year, the model is not applied to the pre-event to event year change in corporate governance quality in the market abuse subset in isolation. Consequently, correlation analysis for the determinants of pre-event to event year changes in CGQ is not performed for the market abuse subset separately.

Immediately, it ought to be noted that no correlations exist between the newspaper reporting variable, RESNPR, and company size (CSIZE), company age (AGE), general industry (INDGEN), regulatory issue (ISS) or economic environment (ECON). The Pearson correlation coefficients thus confirm that the newspaper reporting variable which will be employed in the second stage regression model does not reflect any influence of these five factors, thereby alleviating endogeneity concerns to a considerable degree.

A strong negative correlation is detected in both the full sample and the takeover subset between pre-event year newspaper reporting ($RESNPR_{t-1}$) and pre-event year benchmark-adjusted corporate governance quality ($CGQ_{t-1(ad)}$). Furthermore, a weaker positive correlation is detected in the full sample and in the takeover subset between event year

Table 7.29: Correlation Analysis: Determinants of Benchmark-adjusted Pre-event to Event Year Corporate Governance Quality Change

Below are the Pearson correlation coefficients used to examine correlations between the independent variables in the second stage OLS regression model (Equation 5.2) when applied to the benchmark-adjusted pre-event to event year change in CGQ.

		$RESNPR_{t-1}$	$CSIZE_{t-1}$	AGE_{t-1}	$INDGEN_{t-1}$	ISS_t	$ECON_{t-1}$	$CGQ_{t-1(ad)}$	$PERF_{t-1}$	$INST_{t-1}$
Full Sample	$RESNPR_{t-1}$	1								
(n= 71)	$CSIZE_{t-1}$	0.000	1							
	AGE_{t-1}	0.000	0.305**	1						
	$INDGEN_{t-1}$	0.000	0.177	-0.023	1					
	ISS_t	0.000	-0.424***	-0.255**	-0.320***	1				
	$ECON_{t-1}$	0.000	0.177	-0.105	-0.087	-0.211*	1			
	$CGQ_{t-1(ad)}$	-0.308***	0.493***	0.181	0.127	-0.443***	-0.059	1		
	$PERF_{t-1}$	0.427	0.335***	0.109	-0.069	-0.147	0.047	0.120	1	
	$INST_{t-1}$	-0.037	0.046	-0.072	0.136	-0.292**	0.242**	0.008	-0.024	1
Takeover Subset	$RESNPR_{t-1}$	1								
(n= 53)	$CSIZE_{t-1}$	0.000	1							
	AGE_{t-1}	0.000	0.199	1						
	$INDGEN_{t-1}$	0.000	0.046	-0.107	1					
	ISS_t	0.000	0.002	-0.085	-0.063	1				
	$ECON_{t-1}$	0.000	0.154	-0.154	-0.193	0.068	1			
	$CGQ_{t-1(ad)}$	-0.381***	0.199	0.026	-0.882	0.210	0.040	1		
	$PERF_{t-1}$	0.121	0.337**	0.075	-0.136	0.067	0.003	0.080	1	
	$INST_{t-1}$	0.059	0.184	-0.200	-0.019	0.059	0.282**	-0.067	-0.096	1

Variable Definitions: **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting; **$CSIZE_{t-1}$:** Company size, measured as ln (total fixed assets in the pre-event year); **AGE_{t-1}:**Company age, measured as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins; **$INDGEN_{t-1}$:**General industry location of company; **ISS_t:** Primary reason for regulation of takeover or market abuse case; **$ECON_{t-1}$:** Economic environment, measured as ln (GDP for the UK at the first quarter of the pre-event year); **$CGQ_{t-1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the pre-event year; **$PERF_{t-1}$:** Industry-adjusted company performance in the pre-event year, measured as: (company sales in pre-event year – average industry sales in pre-event year)/standard deviation of industry sales in pre-event year; **$INST_{t-1}$:** Proportion of institutional ownership of the company in the pre-event year.

*** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

Table 7.29 Continued: Correlation Analysis: Determinants of Benchmark-adjusted Event to Post-event Year Corporate Governance Quality Change

Below are the Pearson correlation coefficients used to examine correlations between the independent variables in the second stage OLS regression model (Equation 5.2) when applied to the benchmark-adjusted event to post-event year change in CGQ in the full research sample and the takeover subset. Results for the market abuse subset are presented on the next page.

		$RESNPR_t$	$CSIZE_{t-1}$	AGE_{t-1}	$INDGEN_{t-1}$	ISS_t	$ECON_{t-1}$	$CGQ_{t(ad)}$	$PERF_t$	$INST_{t-1}$
Full Sample	$RESNPR_t$	1								
(n= 62)	$CSIZE_{t-1}$	0.000	1							
	AGE_{t-1}	0.000	0.353**	1						
	$INDGEN_{t-1}$	0.000	0.062	-0.002	1					
	ISS_t	0.000	-0.488***	-0.277**	-0.309**	1				
	$ECON_{t-1}$	0.000	0.091	-0.052	-0.068	-0.223*	1			
	$CGQ_{t(ad)}$	0.247*	0.538***	0.193	0.232*	-0.418***	-0.042	1		
	$PERF_t$	0.205	0.348***	-0.004	-0.080	-0.163	0.019	0.105	1	
	$INST_{t-1}$	0.184	0.099	0.065	0.187	-0.231*	0.227*	0.072	-0.106	1
Takeover Subset	$RESNPR_t$	1								
(n= 46)	$CSIZE_{t-1}$	0.000	1							
	AGE_{t-1}	0.000	0.247*	1						
	$INDGEN_{t-1}$	0.000	-0.130	-0.085	1					
	ISS_t	0.000	-0.079	-0.046	-0.061	1				
	$ECON_{t-1}$	0.000	0.080	-0.070	-0.157	-0.017	1			
	$CGQ_{t(ad)}$	0.232*	0.177	0.031	0.115	0.494***	0.129	1		
	$PERF_t$	0.028	0.348**	-0.059	-0.150	0.046	-0.032	0.039	1	
	$INST_{t-1}$	0.113	0.251*	-0.007	0.069	-0.066	0.262*	0.047	-0.191	1

Variable Definitions: **$RESNPR_t$:** Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting; **$CGQ_{t(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; **$PERF_t$:** Industry-adjusted company performance in the event year, measured as: (company sales in event year – average industry sales in event year)/standard deviation of industry sales in event year; Other explanatory variables are as before.

*** Significant at the 1% level, ** Significant at the 5% level, * Significant at the 10% level

Table 7.29 Continued: Correlation Analysis: Determinants of Benchmark-adjusted Event to Post-event Year Corporate Governance Quality Change

Below are the Pearson correlation coefficients used to examine correlations between the independent variables in the second stage OLS regression model (Equation 5.2) when applied to the benchmark-adjusted event to post-event year change in CGQ in market abuse subset.

		$RESNPR_t$	$CSIZE_{t-1}$	AGE_{t-1}	$INDGEN_{t-1}$	ISS_t	$ECON_{t-1}$	$CGQ_{t(ad)}$	$PERF_t$	$INST_{t-1}$
Market Abuse	$RESNPR_t$	1								
Subset	$CSIZE_{t-1}$	0.000	1							
(n= 16)	AGE_{t-1}	0.000	0.349	1						
	$INDGEN_{t-1}$	0.000	0.073	-0.183	1					
	ISS_t	0.000	-0.286	-0.070	-0.049	1				
	$ECON_{t-1}$	0.000	-0.216	-0.290	-0.111	-0.234	1			
	$CGQ_{t(ad)}$	0.249	0.831***	0.196	0.124	-0.156	-0.540**	1		
	$PERF_t$	-0.150	-0.085	-0.234	-0.179	-0.211	0.761***	-0.382	1	
	$INST_{t-1}$	0.085	0.242	0.020	0.427	0.107	0.033	-0.192	0.256	1

Variable Definitions: $\mathbf{RESNPR_t}$: Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting; $\mathbf{CGQ_{t(ad)}}$: Benchmark-adjusted Corporate Governance Quality in the event year; $\mathbf{PERF_t}$: Industry-adjusted company performance in the event year, measured as: (company sales in event year – average industry sales in event year)/standard deviation of industry sales in event year; Other explanatory variables are as before.

*** Significant at the 1% level, ** Significant at the 5% level

newspaper reporting ($RESNPR_t$) and event year benchmark-adjusted corporate governance quality ($CGQ_{t(ad)}$). If the news media serves its corporate governance role as this thesis proposes, such correlations may be expected. As an effective monitor of managers and directors, the attention of the news media may be initially attracted to companies with a lower quality of internal governance (Farrell and Whidbee, 2002; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009). Even if the governance quality of these companies improves in the event year, they may remain under media scrutiny for some time (Lauterbach and Pajuste, 2014). If pre-existing CGQ is a determinant of both newspaper reporting and CGQ change, there may still be a possibility that an endogenous relationship exists between changes in CGQ and newspaper reporting. Thus, it is essential that this possibility is addressed when testing the robustness of the research model in the next section.

The results show that CSIZE is positively correlated with AGE in the full sample and also in the takeover subset when the model is applied to the event to post-event change in corporate governance quality. As discussed at the beginning of this section, these correlations are most likely to be explained by companies' growth over time. Notwithstanding this association, a company's age may influence changes in corporate governance quality in a different manner to its size and therefore, it is deemed necessary to include both variables in the model.

A strong negative correlation is observed between CSIZE and ISS in the full sample. As was also considered at the beginning of this section, this correlation is likely to be attributable to the fact that market abuse cases, which are deemed to represent a greater expropriation of shareholder wealth, involve smaller companies. Consistent with the decision made for the first stage model, the variable ISS is retained since no correlations are observed when the takeover and market abuse subsets are considered separately.

CSIZE is positively correlated with pre-existing governance quality in the full sample and also in the market abuse subset. This correlation is most likely due to the fact that adoption of the principles of the Corporate Governance Code is voluntary for the smaller, growing companies listed on the AIM. Hence, the quality of governance in these companies over the past year is apt to be lower than that of larger companies, listed on the Main Market where the listing rules require that the principles of the Code be adopted on a comply or explain basis. Since both a company's size and the quality of its governance over the past year may have individual influences on changes in CGQ, both variables are retained in the model.

CSIZE is also positively correlated with Industry-adjusted Performance (PERF) in the full sample and in the takeover subset thereof. This correlation is to be expected as industry-adjusted sales is presently employed as the performance measure, while total fixed assets is employed as the measure of company size. In effect, companies with more assets have a greater ability to generate sales while smaller companies which are still growing, such as those on the AIM may not yet have fully entered the product market. Again, both measures may have distinct influences on changes in corporate governance quality and hence, they are both included in the model.

The variable AGE is negatively correlated with the variable ISS in the full sample. This correlation was also observed in the correlation analysis for the first stage model. As discussed, this is most likely to be due to the tendency for companies in the market abuse subset to be younger than those in the takeover subset. Since no such correlation is detected when the two subsets are considered separately, both variables are also included in the second stage model.

As was the case in the first stage analysis, a strong negative correlation exists between INDGEN and ISS in the full sample. Consistent with the decision made previously, the two variables are included in the second stage model as the correlation is more likely to arise for spurious reasons rather than due to a systematic correlation between the regulatory issues facing companies and their industrial locations.

When the model is applied to the event to post-event year change in CGQ, a positive correlation exists between companies' governance quality over the past year and their general industrial locations. This correlation, which is observed in the full sample only, indicates that companies in the oil, gas and consumer goods and services industries had the poorest governance quality in the event year while those in the financial industry had the highest. This may be because many banks and financial services companies face additional regulatory requirements imposed by the FSA, such that their boards may meet more frequently or their audit committees may function more effectively. However, this correlation is not observed elsewhere and hence, it may be merely coincidental. Since the two variables measure entirely different characteristics of the sample, they are both included in the model.

As was observed in the correlation analysis performed for the first stage model, the variables ISS and ECON are negatively correlated in the full sample. As noted, it is likely that this correlation arises due to the greater number of market abuse cases at the beginning of the sample period, when national economic performance was weaker, than in later years studied. Consistent with the decision made previously, both variables remain included in the second stage model.

The variable ISS is negatively correlated with the past year's corporate governance quality as measured in both the pre-event and event years in the full sample, while, in the individual takeover subset, ISS is positively associated with the past year's corporate governance as measured in the event year. This implies that when takeover and market abuse cases are considered collectively, companies involved in more serious regulatory issues exhibit a lower governance quality as measured using the present CGQ scoring method. Since market abuse cases are presently deemed to be the most serious issues, this effectively indicates what has already been observed in Section 7.2; that companies in the market abuse subset tend to have a lower quality of governance than do those in the takeover subset. However, when the takeover subset is considered in isolation, the targets of offers involving more serious breaches of the Takeover Code exhibit higher CGQ in the event year. A significant correlation is not observed for pre-event year scores. This suggests that in the year of an offer, during which a particularly serious violation of the Takeover Code occurs, the CGQ of target companies is higher than that of targets of offers involving lesser violations. Although, as reported in Section 7.2, the target is not to blame for the violation in the majority of cases, the company may be subject to additional regulatory scrutiny because of it being the target of the offer. This may explain the observed correlation; however, it may also be spurious. As the two variables measure discrete characteristics of the sample, they are both retained in the model.

A negative correlation also exists between the severity of the regulatory issue and the proportion of institutional ownership (INST) in the full sample. Section 7.2 has already noted that the proportions of companies in the takeover subset owned by investment institutions is higher than that of companies in the market abuse subset, where the regulatory issues are presently considered more severe. As considered in Section 7.2, this finding may indicate that abuses such as insider dealing are more likely in companies which lack strong shareholder monitoring. Notwithstanding this correlation, the changes in corporate governance quality being examined in the model may be determined by the two factors in different manners and hence, they are both included.

A positive correlation is detected between ECON and INST in the full sample and in the takeover subset, effectively indicating that institutional ownership of companies increases with improving economic conditions. This correlation might be expected as more prosperous economic conditions implies that there is more wealth to invest and also that the country's stock exchange offers an attractive setting for investment. However, as economic conditions improved over the sample period, the percentage of UK listed shares owned by institutions declined (ONS, 2013). Thus, this correlation may be spurious. For this reason, both variables are retained in the model.

When the model is applied to the event to post-event year change in CGQ, a positive correlation is detected between CSIZE and INST in the takeover subset only. One possibility is that larger companies, listed on the Main Market of the Exchange, attract investment from more institutional investors, particularly from those overseas. However, since this weak correlation is only detected in one instance in the research sample, it may be spurious and the decision to include both variables in the model is retained.

In the market abuse subset, a negative correlation is observed between CGQ in the past year and the economic climate, suggesting that as economic conditions improve, the governance quality of companies in the sample subset deteriorates. Leung and Horowitz

(2010) find that during an economic downturn, there is a greater alignment of the interests of directors with those of shareholders. Thus, it is possible that as the economy improves, directors are more inclined to pursue self-serving objectives and become less vigilant monitors of shareholders' interests such that the quality of governance in the company is lower. Since this correlation is only detected in the small market abuse subset, generalisations ought not to be made. As the variables ECON and CGQ measure quite distinct features of the sample, they are both retained in the model.

A strong positive correlation exists between PERF and ECON in the market abuse subset. This correlation might also be anticipated as company sales are apt to increase with an increasing flow of wealth in the economy. In fact, it is surprising that such a correlation is not observed elsewhere in the sample. As noted in Section 7.2, companies in the market abuse subset tend to underperform by industry standards. Thus, their sales may be more sensitive to economic performance than those of companies which meet the industry standard. Since this correlation is only observed on this occasion, both variables, which measure different facets of the sample, are retained in the model.

Multivariate Analysis

The results of the second stage OLS regression model which examines the determinants of benchmark-adjusted corporate governance quality change (Equation 5.2) are provided in Table 7.30. Results reveal that the association between the benchmark-adjusted pre-event to event year change in CGQ and pre-event year newspaper reporting is positive and statistically significant in the full sample ($p= 0.041$) and also in the takeover subset ($p= 0.072$). Having refined the measure of newspaper reporting such that it does not reflect any influence of factors which may also influence ΔCGQ, these results are consistent with those reported in Section 7.3, which indicate a causal relationship between pre-event newspaper reporting on TMA cases, as measured in its unrefined form, and changes in CGQ in the companies involved between the pre-event and event years. Results also show that the association

Table 7.30: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Corporate Governance Quality Change on Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event change in Corporate Governance Quality ($\Delta CGQ_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t-1 \rightarrow t(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.680	0.100	0.045
$RESNPR_{t-1}$	2.090	0.041**	0.068
$CSIZE_{t-1}$	1.840	0.071*	0.053
AGE_{t-1}	-0.490	0.626	0.004
$INDGEN_{t-1}$	-0.014	0.989	0.001
ISS_t	-1.070	0.287	0.019
$ECON_{t-1}$	-1.700	0.095*	0.046
$CGQ_{t-1(ad)}$	-4.400	0.001***	0.244
$PERF_{t-1}$	-1.920	0.060*	0.058
$INST_{t-1}$	1.590	0.116	0.041
$BLAME_t$	1.680	0.099*	0.045
R^2: 0.406	**Adj. R^2:** 0.307	**F** (10, 60):	4.101 (0.001)***
Takeover Subset (n=53)			
Constant	0.410	0.684	0.004
$RESNPR_{t-1}$	1.850	0.072*	0.075
$CSIZE_{t-1}$	1.900	0.065*	0.079
AGE_{t-1}	-0.921	0.362	0.020
$INDGEN_{t-1}$	0.365	0.717	0.003
ISS_t	2.580	0.014**	0.137
$ECON_{t-1}$	-0.497	0.622	0.006
$CGQ_{t-1(ad)}$	-6.630	0.001***	0.511
$PERF_{t-1}$	-1.380	0.174	0.044
$INST_{t-1}$	0.188	0.852	0.001
$BLAME_t$	-1.610	0.115	0.058
R^2: 0.651	**Adj. R^2:** 0.568	**F** (10, 42):	7.825 (0.001)***

Variable Definitions: **$\Delta CGQ_{t-1 \rightarrow t(ad)}$:** Benchmark-adjusted pre-event to event year change in Corporate Governance Quality; **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting; **$CSIZE_{t-1}$:** Company size, measured as ln (total fixed assets in the pre-event year); **AGE_{t-1}:** Company age, measured as the number of years from the date on which the company's ordinary shares were first admitted to the listing on the relevant stock markets to the date on which newspaper reporting begins; **$INDGEN_{t-1}$:** General industry location of company; **ISS_t:** Primary reason for regulation of takeover or market abuse case; **$ECON_{t-1}$:** Economic environment, measured as ln (GDP for the UK at the first quarter of the pre-event year); **$CGQ_{t-1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the pre-event year; **$PERF_{t-1}$:** Industry-adjusted company performance in the pre-event year, measured as: (company sales in pre-event year – average industry sales in pre-event year)/standard deviation of industry sales in pre-event year; **$INST_{t-1}$:** Proportion of institutional ownership of the company in the pre-event year; **$BLAME_t$:** 1 if the company is responsible for regulatory intervention in the TMA case and 0 if otherwise.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table 7.30 Continued: OLS Regression of Benchmark-adjusted Event to Post-event Year Corporate Governance Quality Change on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.004	0.997	0.001
$RESNPR_t$	-0.247	0.806	0.001
$CSIZE_{t-1}$	2.190	0.033**	0.086
AGE_{t-1}	1.150	0.257	0.025
$INDGEN_{t-1}$	0.730	0.469	0.010
ISS_t	0.932	0.356	0.017
$ECON_{t-1}$	-0.082	0.935	0.001
$CGQ_{t(ad)}$	-2.310	0.025**	0.095
$PERF_t$	0.114	0.910	0.001
$INST_{t-1}$	-0.382	0.704	0.003
$BLAME_t$	0.098	0.922	0.001
R^2: 0.200	**Adj. R^2:** 0.043	**F** (10, 51):	1.276 (0.269)
Takeover Subset (n=46)			
Constant	-0.596	0.555	0.010
$RESNPR_t$	-0.531	0.582	0.008
$CSIZE_{t-1}$	2.870	0.007***	0.191
AGE_{t-1}	1.400	0.172	0.053
$INDGEN_{t-1}$	0.308	0.760	0.003
ISS_t	0.792	0.434	0.018
$ECON_{t-1}$	0.480	0.634	0.007
$CGQ_{t(ad)}$	-1.470	0.151	0.058
$PERF_t$	-1.210	0.233	0.040
$INST_{t-1}$	0.037	0.971	0.001
$BLAME_t$	2.580	0.014**	0.159
R^2: 0.393	**Adj. R^2:** 0.220	**F** (10, 35):	2.270 (0.036)**
Market Abuse Subset (n=16)			
Constant	2.020	0.100	0.449
$RESNPR_t$	0.738	0.494	0.098
$CSIZE_{t-1}$	1.210	0.280	0.227
AGE_{t-1}	-0.320	0.762	0.020
$INDGEN_{t-1}$	0.526	0.621	0.052
ISS_t	-1.840	0.126	0.403
$ECON_{t-1}$	-1.980	0.104	0.441
$CGQ_{t(ad)}$	-1.360	0.231	0.271
$PERF_t$	1.120	0.315	0.200
$INST_{t-1}$	-0.504	0.635	0.048
$BLAME_t$	-0.641	0.550	0.076
R^2: 0.719	**Adj. R^2:** 0.156	**F** (10, 5):	1.278 (0.415)

Variable Definitions: $\Delta \mathbf{CGQ}_{t\rightarrow t+1(ad)}$: Benchmark-adjusted event to post-event year change in Corporate Governance Quality; $\mathbf{RESNPR}_t$: Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting; $\mathbf{CGQ}_{t(ad)}$: Benchmark-adjusted Corporate Governance Quality in the event year; $\mathbf{PERF}_t$: Industry-adjusted company performance in the event year, measured as: (company sales in event year – average industry sales in event year)/standard deviation of industry sales in event year; Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level

between the benchmark-adjusted event to post-event change in CGQ and event year newspaper reporting is negative in both the full sample and the takeover subset and positive in the market abuse subset; however, this association is not statistically significant in the full sample or in either subset thereof. In order to fully examine the extent to which changes in CGQ may be explained by newspaper reporting, it is necessary to consult a number of model testing diagnostics to assess if the model is correctly specified.

Model Significance

The results of F-tests show that when the model is applied to the benchmark-adjusted pre-event to event change in CGQ, it is statistically significant from zero. Results do not indicate that the model is statistically significant from zero when applied to the benchmark-adjusted event to post-event change in the full sample or in the market abuse subset. The model is, however, statistically significant from zero in the takeover subset of the sample.

Goodness of Fit

Results indicate that when the sample is taken as a whole, 40.6% of the variation in the benchmark-adjusted pre-event to event year CGQ change from case to case may be explained by pre-event year newspaper reporting together with the other determinants considered. Thus, the model may account for as much as 40.6% of the pre-event to event year change in CGQ in sample companies, while 59.4% of the change is driven by other factors. The adjusted R^2 value of 0.307 implies that when the number of independent variables in the model is accounted for, the explanatory power of the model is somewhat lower such that it may only explain 30.7% of the variation in the pre-event to event year change in CGQ in the full sample. The R^2 value of 0.651 and the adjusted R^2 value of 0.568 reported for the benchmark-adjusted pre-event to event year change in CGQ in the individual takeover subset indicate that the explanatory power of the model is higher when applied to takeover cases in isolation. Partial R^2 values of 0.068 and 0.075 for the variable $RESNPR_{t-1}$ in the full sample and takeover subset respectively indicate that the marginal contribution of pre-event newspaper reporting in explaining the pre-event to event year change in CGQ is quite high.

Changes in CGQ in both the full sample and the takeover subset appear to be explained better by the ex-ante quality of governance in sample companies (partial $R^2 = 0.244$ and 0.511 respectively). A strong negative association exists between the change in CGQ between the pre-event and event years and the existing level of governance, as measured in the first of those two years ($p = 0.001$). As such, companies with a lower quality of governance in the pre-event year are significantly more likely to experience improvements in CGQ by the event year than those companies with a higher quality of governance. In the takeover subset of the sample, the marginal contributions to the explanatory power of the model made by company size and the nature of the regulatory issue are also relatively high (0.079 and 0.137 respectively). Both are significantly positively associated with CGQ change, indicating that larger takeover targets and targets of offers involving serious breaches of the Takeover Code are significantly more likely to experience improvements in CGQ between the pre-event and event years. As discussed previously, the smaller companies in the sample, which are listed on the AIM, may not implement governance changes as readily as they are not stringently required to adopt the principles of the Corporate Governance Code. As has also been considered, the target of an offer which involves a serious breach of the Takeover Code may experience more intense regulatory scrutiny than it otherwise would, even if it is not to blame for the violation. Thus, it would seem that, in the takeover subset, regulatory oversight is a stronger determinant of changes in CGQ than media oversight. Nevertheless, newspaper coverage does appear to perform a significant role.

With regard to the model when applied to the benchmark-adjusted event to post-event year change in CGQ, the R^2 values for the full sample and the takeover subset are lower than those observed for the pre-event to event change (0.200 and 0.393 respectively). The R^2 value for the market abuse subset is quite high (0.719), but ought to be interpreted with caution given the small sample size. The adjusted R^2 values of 0.043, 0.220 and 0.156 reported for the full sample and the takeover and market abuse subsets respectively further denote that the explanatory power of the model is considerably lower when applied to the event to post-event year change. The partial R^2 values for $RESNPR_t$ indicate that, relative to the other determinants, event year newspaper reporting makes a low contribution to explaining the event to post-event year change in CGQ in the full sample and in the takeover and market abuse subsets (0.001, 0.008 and 0.098). Partial R^2 values again indicate that the marginal contribution of company size to the explanatory power of the model is relatively high in the full sample and in both the takeover and market abuse subsets (0.086, 0.191 and 0.227 respectively). Company size is again significantly positively associated with the benchmark-adjusted event to post-event year change in CGQ in the full sample and in the takeover subset, but not in the market abuse subset. In the full sample, the quality of governance in the event year also appears to be a significant predictor of the event to post-event year change in CGQ ($p = 0.025$, partial $R^2 = 0.095$). Again, the association between the two variables is negative. In the takeover subset, the question of whether or not the target is to blame for the violation of the Takeover Rule in the event year appears to significantly influence changes in CGQ over the following year. The significant positive association between the variables $BLAME_t$ and $\Delta CGQ_{t \rightarrow t+1(ad)}$ ($p = 0.014$, partial $R^2 = 0.159$) implies that the likelihood of CGQ improvements is greater when the target is responsible for Takeover Panel intervention. This is consistent with results derived for the pre-event to event year change in the takeover subset and further indicates that direct regulatory oversight encourages positive governance change. While neither the question of who is to blame nor the nature of the market abuse issue appears to be a significant driver in market abuse cases, the nature of the abuse does make a large contribution to explaining CGQ change in the market abuse subset (partial $R^2 = 0.403$). However, the negative association, while not statistically significant, suggests that for companies whose shares are involved in more severe abuses, governance quality tends to deteriorate between the year of the abuse and the following year.

In sum, it would seem that the model is a better fit for the benchmark-adjusted pre-event to event year change in CGQ than for the event to post-event year change. The model is statistically significant from zero and exhibits greater explanatory capacity when applied to the pre-event to event year change in both the full sample and in the individual takeover subset. The association between CGQ change and newspaper reporting depicted in the model is positive and statistically significant when applied to the pre-event to event year change. These results suggest the hypothesis, H_1, to be true with respect to the pre-event to event year change in CGQ. When the model is applied to the event to post-event year change, the association is positive in the market abuse subset only and not significant in the full sample or in either sample subsets.

Therefore, H_1 cannot be rejected with respect to the pre-event to event year change in CGQ; however, it must be rejected with respect to the event to post-event year change in CGQ.

This implies that newspaper reports published in the early stages of takeover cases can significantly influence boards' propensity to improve corporate governance quality. The larger the volume of reports on the anticipated takeover, the greater is the improvement in internal corporate governance quality. Reports published in later stages do not appear to have a direct impact on changes in corporate governance quality. Given that the applicability of the model to the benchmark-adjusted pre-event to event year change in CGQ is limited by a lack of pre-event newspaper reporting on market abuse cases, inferences are not made regarding the influence of newspaper reports on the pre-event to event change in CGQ in market abuse cases.

7.5. Sensitivity Analysis

This section provides further insight into the robustness of the research model and the validity of results by examining if the results are sensitive to measurement of the dependent and independent variables. To make such an assessment, the second stage research model (Equation 5.2) is modified such that alternative combinations of the benchmark-adjusted corporate governance quality variables and newspaper reporting variables, as measured by the residual values from the first stage model (Equation 5.1), are employed. Results for the modified models are compared with those reported above. As noted in the previous section, it may be the case that a company's corporate governance quality in a given year is a determinant of both the amount of newspaper coverage it receives in that year and the extent to which its corporate governance quality changes between that year and the next. Accordingly, the sensitivity of results is further tested by modifying the first stage model to include existing corporate governance quality as a determinant of newspaper reporting. The residual values derived are then employed to operationalise the newspaper reporting variable in the second stage model so as to further address the possibility of an endogenous relationship between changes in CGQ and newspaper reporting. The final robustness test of the model explores the possibility, discussed in Chapter Four, that there may be occasions where certain newspaper publications do not devote the same level of coverage to issues facing companies as other publications do if, for example, they have affiliations or advertising contracts with the companies. Accordingly, in the last robustness test, the intensity of newspaper coverage of TMA cases is considered and a coefficient of variation is employed in the second stage model to account for cases where there is a good deal of coverage by some newspapers but not by others. All results of sensitivity analysis are presented in Appendix G.

Correlations between the explanatory variables in each of the modified models are also examined to assess the potential for problems of multicollinearity to arise. The results of this analysis are not reported but are available from the author on request. Any associations between variables detected have explanations similar to those discussed in the previous section and the analysis has not indicated any cause to eliminate any of the explanatory variables from any variation of the model.

a. <u>Alternative Associations between Corporate Governance Quality Change and Newspaper Reporting</u>

The first phase of the sensitivity analysis examines if the benchmark-adjusted changes in corporate governance quality are more strongly associated with newspaper reporting in different years of cases. To perform this analysis, the second stage model is modified such that alternative newspaper reporting variables are employed. The explanatory power and goodness of fit of the modified models are examined in order to determine if corporate governance quality change might be better explained by the amount of newspaper reporting at different stages of cases.

Pre-event to Event Year Corporate Governance Quality Change

Since the pre-event to event year change in CGQ is not apparent until the end of the event year, the change may coincide with event year newspaper reporting. Sensitivity analysis is performed in order to assess if the benchmark-adjusted pre-event to event year change in CGQ is also associated with event year newspaper reporting. According, the first stage model is applied to the event year newspaper reporting and the residual values derived are employed to operationalise the variable $RESNPR_t$ in the second stage model which is applied to the benchmark-adjusted pre-event to event year change in CGQ. The results of this analysis, presented in Table G.1 in Appendix G, provide no evidence that the benchmark-adjusted pre-event to event year change in corporate governance quality is associated with event year newspaper reporting. R^2 and adjusted R^2 values for the full sample and the takeover subset indicate that the modified model has less explanatory power than when pre-event newspaper reporting is employed. While comparisons cannot be made for the market abuse subset, the adjusted R^2 value reported in Appendix G is low relative to the values reported for the model as originally specified when applied to the full sample and the takeover subset in Table 7.30.

Event to Post-event Year Corporate Governance Quality Change

The evidence presented thus far suggests that newspaper reports published over the pre-event year have a stronger impact on corporate governance quality change than those published over the event year. To investigate if pre-event year newspaper reporting may also have an impact on the event to post-event year change in CGQ, the first stage model is applied to pre-event year newspaper reporting and the derived residual is employed to operationalise the variable $RESNPR_{t-1}$ in the second stage model which is applied to the benchmark-adjusted event to post-event year change in CGQ. Results, presented in Table G.2 of Appendix G, show no evidence of a significant association in either the full sample or in the takeover subset. The analysis is not performed for the market abuse subset due to the low level of pre-event year newspaper reporting on market abuse cases. The R^2 and adjusted R^2 for the modified model when applied to the full sample are in line with those reported in the second part of Table 7.30 and those for the takeover subset are slightly higher. However, it would seem that neither pre-event year newspaper reporting nor event year newspaper reporting has a significant impact on the event to post-event year change in CGQ.

As the event to post-event year change in CGQ is not apparent until the end of the post-event year, the change may coincide with post-event year newspaper reporting. To examine this possibility, the model is modified so that it is specified to test for associations between the event to post-event year change in CGQ and post-event year newspaper reporting. Accordingly, the first stage model is applied to post-event year newspaper reporting and the residuals obtained are used in the second stage model to operationalise the variable $RESNPR_{t+1}$ when applied to the benchmark-adjusted event to post-event year change in CGQ. The results of these tests, presented in Table G.3, indicate that no significant association exists between the event to post-event change in CGQ and the newspaper reports which follow the initiation of this change. The R^2 and adjusted R^2 for the modified model are in line with those reported in the second part of Table 7.30. These results considred, it would not appear that the level of newspaper reporting over any stage of a TMA case has a significant impact on event to post-event year changes in the governance quality of companies involved.

b. Annual Corporate Governance Quality Variables

Having found evidence to indicate that newspaper reporting is associated with changes in corporate governance quality, it is of interest to identify if newspaper reporting is also associated with the benchmark-adjusted CGQ scores for the individual years of takeover or market abuse cases. To examine if such an association exists, the first stage model is applied to newspaper reporting in the pre-event, event and post-event years and the residual values derived are used to operationalise the variable RESNPR in the second stage model which is applied to the benchmark-adjusted annual corporate governance quality scores for the same years.

Pre-event Year Corporate Governance Quality

Results for the second stage model when applied to pre-event year benchmark-adjusted CGQ and pre-event year newspaper reporting for the full sample and the takeover subset, presented in Table G.4 in Appendix G, show that a significant negative association exists between CGQ and newspaper reporting in the pre-event year, both in the full sample and in the takeover subset. Thus, pre-event year newspaper reporting is significantly associated with both the benchmark-adjusted pre-event to event year change in CGQ and with the benchmark-adjusted CGQ scores in sample companies in the pre-event year. However, while the extent of the change between the two years increases with increasing newspaper coverage, the score in the first of those two years is lower for companies which feature in a higher number of newspaper reports. Results of the F-tests show the model is significant at the 1% level. It should also be noted that, for this analysis of the determinants of pre-event year CGQ, the previous year's CGQ score is not included as an explanatory variable in the second stage model due to the unavailability of CGQ data in certain cases leading to a high number of missing observations. Furthermore, the model is not applied to pre-event year CGQ and pre-event year newspaper reporting for market abuse cases due to low levels of pre-event year newspaper reporting.

Event Year Corporate Governance Quality

Results for the second stage model when applied to the event year benchmark-adjusted CGQ scores for the full sample and both subsets, presented in Table G.5, do not offer any evidence of a significant association between event year CGQ and event year newspaper reporting. Overall, the second stage model is significant when applied to the full sample and both subsets and its explanatory power is higher than that for pre-event year CGQ.

Post-event Year Corporate Governance Quality

The results for the second stage model when applied to the post-event year benchmark-adjusted CGQ score and post-event year newspaper reporting, presented in Table G.6, show no indication of a significant association between post-event year CGQ and post-event year newspaper reporting. The model is statistically significant from zero in the full sample and in both subsets. Its explanatory power is higher than that for pre-event year CGQ. For the full sample and the takeover subset, it is lower than that when applied to event year CGQ and for the market abuse subset, it is higher. Results for the market abuse subset should, however, be interpreted with caution given the small sample size.

Because the CGQ and newspaper reporting variables employed in this phase of the analysis are measured over the same periods in time, it is difficult to make inferences regarding causality. The existence of a significant negative association between pre-event year benchmark-adjusted CGQ and pre-event year newspaper reporting suggests that newspaper speculation regarding takeover offers focuses more on companies with a lower quality of internal governance. Thus, it could be the case that the quality of a company's governance determines the amount of newspaper coverage it receives. The possibility that the amount of newspaper coverage companies receive is determined by the quality of their governance is further considered later in this section. Before doing so, a number of tests are performed to examine if there are any time lags involved in the relationship between CGQ and newspaper reporting.

c. Potential Time Lags

The following analysis is performed to examine if companies' CGQ scores in a given year year are associated with newspaper reporting in previous years.

One Year Time Lags

To investigate if the impact of newspaper reporting on companies' involvement in takeover and market abuse cases is apparent in their CGQ scores one year later, two variations of the second stage model are considered. Firstly, the model is applied to the event year benchmark-adjusted CGQ scores and pre-event year newspaper reporting and secondly, it is applied to the post-event year benchmark-adjusted CGQ scores and event year newspaper reporting. In both cases, the first stage model is applied to the relevant newspaper reporting dataset. The results of these analyses, which can be seen in Tables G.7 and G.8 respectively, show that the second stage models are both significant when applied to the full sample and the relevant subsets. A significant positive association is detected between pre-event year newspaper reporting and event year benchmark-adjusted CGQ in the takeover subset of the sample. However, there is no evidence of a significant association between pre-event newspaper reporting and event year CGQ in the full sample nor is there any evidence to indicate that event year newspaper reporting is significantly associated with post-event year CGQ in the full sample or in either subset thereof. The significant positive association between pre-event year newspaper reporting and event year governance quality in the takeover subset, together with the significant negative association between pre-event year newspaper reporting and pre-event year CGQ, reported in Table G.4, support the main finding that pre-event year newspaper reporting is significantly positively associated with the pre-event to event year change in CGQ. Collectively, these findings might be interpreted to indicate that, for the takeover subset at least, companies with low governance quality attract more newspaper coverage in the pre-event year and experience the greatest improvements such that they have high governance quality in the event year.

Two Year Time Lag

To examine if the impact of pre-event year newspaper reporting is apparent in corporate governance quality two years later, the second stage model is applied to the post-event year benchmark-adjusted CGQ scores and pre-event year newspaper reporting. The results of this analysis, presented in Table G.9, provide no indication of a significant association between newspaper reporting on cases and the benchmark-adjusted CGQ scores of companies concerned two years later.

d. CGQ as a Determinant of Newspaper Reporting

Thus far, this section has considered some evidence to suggest that companies' corporate governance quality may influence the amount of newspaper coverage they receive. The primary research model employed in this study accounts for the possibility that both the level of newspaper coverage which companies receive and changes in their governance quality are determined by their size, age, industrial location, the regulatory issues they face and the economic climate. While the second stage model considers pre-existing CGQ as a predictor of CGQ change, the first stage model does not account for the possibility that newspaper reporting on companies is also determined by the quality of their governance. If a company's existing corporate governance quality simultaneously influences both corporate governance quality change and newspaper reporting, the results of the main analysis reported in Section 7.4 may suffer from an endogeneity bias.

To address this concern, the first stage model is modified to include companies' existing CGQ as a determinant of newspaper reporting and the residual values derived are used to operationalise the variable RESNPR in the second stage model. As in the main analysis, the first stage model is applied to newspaper reporting in the pre-event and event years and the second stage model is applied to the benchmark-adjusted pre-event to event year change in CGQ and the benchmark-adjusted event to post-event year change in CGQ. Consistent with the main analysis, companies' existing corporate governance quality is measured in the pre-event year in the first instance and in the event year in the second. The results of this analysis are presented in Table G.10 and G.11.

As expected, the results for the first stage model show that pre-event year newspaper reporting is significantly negatively associated with pre-event year benchmark-adjusted corporate governance quality. While event year newspaper reporting is significantly positively associated with event year benchmark-adjusted corporate governance quality in the individual takeover and market abuse subsets, such an association is not apparent in the combined sample. Since the results of the main analysis, reported in Table 7.30, indicate that the pre-event to event year change in CGQ is significantly positively associated with pre-event year newspaper reporting and significantly negatively associated with pre-event year CGQ, it is important to examine how the results for the second stage model are affected when the measure of pre-event year newspaper reporting employed does not reflect how it is influenced by pre-event year CGQ. The results, reported in Table G.10, again indicate that the association between the benchmark-adjusted pre-event to event year change in CGQ and pre-event year newspaper reporting is positive and statistically significant; however, the significance of the association in the full sample is stated at a lower confidence level than in the main analysis. Thus, the results of this robustness test support those from the main analysis to the extent that they indicate that pre-event year newspaper reporting has a significant positive influence on the pre-event to event year change in CGQ. However, the strength of this influence, as inferred from the results of the main analysis, may be overestimated to some degree. Consistent with the results of the main analysis, the results reported in Table G.11 show that, when the alternative event year newspaper reporting variable is employed in the second stage model and the model is applied the benchmark-adjusted event to post-event year change in CGQ, event year newspaper reporting is not a significant predictor of the event to post-event year change in CGQ.

For pre-event year newspaper reporting, a comparison of the R^2 and adjusted R^2 values reported in the first part of Table G.10 with those reported in the first panel of Table 7.28 indicate that the modified first stage model is a better fit for the data than the first stage model as specified in the main analysis. While the first stage model, as originally specified, is not statistically significant from zero when applied to the individual takeover subset, the modified version is. For the modified second stage model when applied to the benchmark-adjusted pre-event to event year change in CGQ, R^2 and adjusted R^2 values are slightly lower than those for the original second stage model specification, reported in Table 7.30. The model is statistically significant from zero in both instances.

With regard to the modified first stage model when applied to event year newspaper reporting, results reported in Table G.11 show that, in the full sample and the market abuse subset, the R^2 values are higher than those for the original specification reported in Table 7.28 but lower in the takeover subset. The model is significant from zero in the full sample and in the takeover subset, but not in the market abuse subset. When similar comparisons are drawn for the second stage model, it seems that employing the alternative newspaper reporting variable does not affect the R^2 values in either the full sample or the takeover subset; however, R^2 values for the modified model in the market abuse subset are slightly lower. The modified second stage model is significant in the takeover subset only.

While these results imply that the strength of the association between newspaper reporting and subsequent changes in corporate governance quality may not be as great as first thought, they ought not to cast doubt upon the main findings. Results for the modified first stage model suggest that the amount of newspaper coverage which a company receives in a given year of a TMA case is partly determined by its corporate governance quality in that year. If mainstream newspaper media devotes more coverage to takeover and market abuse cases involving companies with a lower quality of corporate governance, its governance role may be more meaningful than the main findings of this study would suggest. As such, the newspaper media may act as both a monitor of boards of directors and as a stimulus for governance improvements. This effectively implies that the newspaper media is more likely to report on external control events involving companies with poor internal governance and that such reporting may encourage improvements in the internal governance systems of companies concerned. Thus, newspaper reporting may compliment the disciplinary effects of the threat of takeover on the board of directors.

Such an inference should, however, be made cautiously since the measures of newspaper reporting and CGQ employed in the first stage model are taken over the same periods in time. The primary purpose of this test has been to examine if the results for the second stage model derived in the main analysis are driven by an association between two of the explanatory variables in the model, newspaper reporting and pre-existing CGQ, so as to provide verification for the main finding. An effective examination of CGQ as a determinant of newspaper reporting would require the incorporation of time lags. Accordingly, a number of further tests are conducted to examine if the amount of newspaper coverage which companies receive in a given year of a TMA case is determined by their corporate governance quality in the previous year. To perform such tests, the first stage model is modified on two occasions so that it is specified to test for associations between (i) pre-event year benchmark-adjusted CGQ and event year newspaper reporting and (ii) event year benchmark-adjusted CGQ and post-event year newspaper reporting. The results of this analysis, which are presented in Table G.12, provide no indication that newspaper reporting in either the event year or the post-event year of TMA cases is determined by the corporate governance quality of the companies involved in the previous year. While it is of interest to examine if newspaper reporting in the pre-event year is determined by companies' corporate governance quality in the previous year, such an investigation cannot be performed due to the aforementioned unavailability of CGQ data for sample companies for the year prior to the pre-event year. Although these results do not indicate that companies' corporate governance quality influences the amount of newspaper coverage they receive, the possibility that CGQ is a determinant of newspaper reporting cannot be dismissed given the significant associations detected between newspaper reporting and CGQ in both the pre-event and event years.

e. The Intensity of Newspaper Reporting

As a final means of examining the sensitivity of the main results to measurement of newspaper reporting, the intensity, as well as the total amount, of newspaper coverage on TMA cases is considered. Chapter Four has discussed the possibility that not all newspaper publications give the same attention to issues involving companies, perhaps because of a reliance upon certain companies for advertising revenues or because a newspaper's owners or editors are in some way affiliated with a company's directors or shareholders. Thus, a company which is affiliated with one newspaper may not receive very much coverage in that newspaper when there are problems facing its board, but feature prominently in all others. Yet, because of a lack of coverage in that one newspaper, the overall level of newspaper coverage may not reflect the intensity of reporting by the other newspapers. Thus, a potential shortcoming of the second stage model employed in the main analysis is that it does not account for the intensity of newspaper coverage, which may have an influence on changes in corporate governance quality.

The Intensity of Newspaper Reporting by Newspaper Publications

To explore the intensity of newspaper reporting in the present sample, the newspaper reporting data for the pre-event and event years of each TMA case is organised by newspaper publication. For each case, the number of reports in each publication in the pre-event and event years is recorded. From these figures, a coefficient of variation among publications (cvp) for a given year, t, of a TMA case is determined for each case using the following formula:

$$cvp_t = \frac{\text{Standard Deviation of Reports per Newspaper Publication in t}}{\text{Mean of Reports per Newspaper Publication in t}}$$

Where:

t = (i) the pre-event year or (ii) the event year of a TMA case.

The coefficient of variation offers a useful means of comparing the dispersion of newspaper reporting among publications from case to case. While the standard deviation of the number of reports per newspaper publication provides a measure of dispersion for a given case, it is difficult to make meaningful comparisons on a case by case basis as the total number of reports published on each case varies, as do the means about which they occur. The coefficient of variation, or the ratio of the standard deviation to the mean, provides a standardised measure of variation which is independent of the total level of reporting on cases.

Table G.13 provides descriptive statistics for the coefficients derived for sample cases. As can be seen, the coefficient of variation by newspaper publications in the pre-event year (cvp_{t-1}) for both the full sample and the takeover subset ranges from zero to 2.85. In the market abuse subset, values for cvp_{t-1} range from zero to 2.84. Coefficients of zero arise for cases which receive no coverage in any newspaper. When only those cases which receive coverage are considered, the minimum value for cvp_{t-1} in both the full sample and the takeover subset is 0.28. In the market abuse subset, the minimum values for cvp_{t-1} of 2.69 is much greater. Thus, in the pre-event year, reporting among newspapers on the most widely covered takeover case is over ten times more dispersed than that on the case which receives the most restricted coverage. In contrast, reporting among newspapers on the most widely covered market abuse case is only six per cent more dispersed than that on the case which receives the most restricted coverage. It is, however, important to bear in mind that the vast majority of market abuse cases are not reported on by any newspaper in the pre-event year.

In the event year, the coefficient of variation in reporting by newspaper publications (cvp_t) ranges from zero to 2.90 in both the full sample and the market abuse subset and from zero to 2.84 in the takeover subset. When only those cases which receive coverage are considered, the minimum value for cvp_t in both the full sample and the takeover subset is 0.09. In the market abuse subset, the minimum value for cvp_t of 1.19 is again much greater. Thus, reporting among newspapers on the most widely covered takeover case is over thirty times more dispersed than that on the case which receives the most restricted coverage, while reporting on the most widely covered market abuse case is just over twice as dispersed as that on the case which receives the most restricted coverage.

The Intensity of Newspaper Reporting by Newspaper Groups

Since the amount of coverage which a newspaper publication devotes to a given case may depend on the newspaper's owner, it is important to also consider the newspaper group to which the publication belongs. As outlined in Chapter Five, the eight publications employed herein consist of four daily newspapers and their four Sunday equivalent editions. The four daily newspapers and their Sunday equivalents belong to four different newspaper groups. Accordingly, a second version of the coefficient (cvg) is employed to measure the variation in coverage among the four groups. In this instance, the number of reports published on cases in the pre-event and event years in each daily publication is added to the number of reports published in their Sunday equivalents and the coefficient of variation in reporting by newspaper groups for the pre-event and event years of each case is determined for each case using the following formula:

$$cvg_t = \frac{\text{Standard Deviation of Reports per Newspaper Group in t}}{\text{Mean of Reports per Newspaper Group in t}}$$

<u>Where:</u>

t = (i) the pre-event year or (ii) the event year of a TMA case.

Descriptive statistics for the coefficients of variation among the four newspaper groups are also presented in Table G.13. Results show that the coefficient of variation among groups in the pre-event year (cvg_{t-1}) for the full sample of cases ranges from zero to 2.05 and the coefficient of variation among groups in the event year (cvg_t) ranges from zero to 2.11. In the takeover subset, cvg_{t-1} ranges from zero to 2.00 and cvg_t ranges from zero to 2.11 and in the market abuse subset, cvg_{t-1} ranges from zero to 2.05 and cvg_t ranges from zero to 2.00. When cases which do not receive any coverage are disregarded, the minimum values for cvg_{t-1} and

cvg_t in both the full sample and the takeover subset are 0.05 and 0.09 respectively. In the market abuse subset, these values are 2.00 and 0.39 respectively. Hence, in the pre-event year, reporting among newspaper groups on the most widely covered takeover case is over forty times more dispersed than that on the case which receives the most restricted coverage. For market abuse cases, reporting among newspaper groups on the most widely covered case is only three per cent more dispersed than that on the case which receives the most restricted coverage. The difference in the event year is lower; reporting among newspaper groups on the most widely covered takeover case is twenty three times more dispersed than that on the case which receives the most restricted coverage and reporting on the most widely covered market abuse case is five times more dispersed than that on the case where coverage is most restricted.

On the whole, these comparisons indicate that there is considerable variation in the intensity of newspaper coverage from case to case. The variation for takeover cases is much greater than for market abuse cases. Although comparisons suffer from caveat of the differences in the sizes of the two sample subsets, the smaller variation in the intensity of coverage of market abuse cases may be attributable to the difficulties associated with reporting on such offences. As such, because information on market abuse cases is difficult to acquire, the benefits of publishing the news story may outweigh the benefits of being discreet so as to remain loyal to the company involved.

Corporate Governance Quality Change and the Intensity of Newspaper Reporting

To examine how the main results for the second stage model are affected when the intensity of newspaper coverage is accounted for, two alternative specifications of the model are considered. In the first, the variable $RESNPR_t$ is adjusted to reflect the variation in reporting by newspaper publications. This is achieved by multiplying the values for $RESNPR_t$ by the values for cvp_t. The resulting measures are used to operationalise the variable, $RESNPRvp_t$, which captures both the overall level of reporting on cases and the intensity of coverage by newspaper publications for a given year, t, of a TMA case. In the second adaptation of the model, the variable $RESNPR_t$ is adjusted to reflect the variation in reporting by newspaper groups. In this instance, the values for $RESNPR_t$ are multiplied by the values for cvg_t and the resulting measures are used to operationalise the variable, $RESNPRvg_t$, which is employed as the newspaper reporting variable in the second stage model. Both variations of the model are applied to (i) the benchmark-adjusted pre-event to event year change in CGQ and (ii) the benchmark-adjusted event to post-event year change in CGQ.

The results of this analysis, which are presented in Table G.13, indicate that, in the full sample, the benchmark-adjusted pre-event to event year change in corporate governance quality remains significantly positively associated with newspaper reporting when the intensity of coverage by both newspaper publications and newspaper groups is accounted for. The association between the benchmark-adjusted pre-event to event year change in corporate governance quality and newspaper reporting is also significant in the individual takeover subset when the variation in coverage by publications is accounted for but not when the variation in reporting by newspaper groups is considered. When the results in Table G.13 are compared with the results for the original second stage model, reported in Table 7.30, R^2 and adjusted R^2 values indicate that the modified models are a slightly poorer fit for the data. Like the original second stage model, the modified models are statistically significant from zero when applied to the benchmark-adjusted pre-event to event year change in CGQ in both the full sample and the takeover subset thereof.

When the modified models are applied to the benchmark-adjusted event to post-event year change in corporate governance quality, there is, again, no evidence of a significant association between event year newspaper reporting and changes in CGQ. R^2 and adjusted R^2 values are slightly lower for the full sample and the market abuse subset and slightly higher for the takeover subset. As was the case with the original second stage model, the modified models are only statistically significant when applied to the takeover subset of the sample.

In sum, these results indicate that the association between the pre-event to event year change in CGQ and pre-event year newspaper reporting is statistically significant when the intensity of reporting is taken into account. However, the association appears somewhat weaker, particularly when the variation in coverage by newspaper groups considered. These results, taken together with those from the main analysis in Table 7.30, suggest that the overall amount of media publicity surrounding TMA cases may influence changes in governance quality in companies concerned quite strongly; however, in cases which receive a good deal of coverage from some newspapers but little coverage from others, this influence may be weaker. Thus, the practical value of the newspaper media in corporate governance appears to rely upon the extent to which journalists expose issues in companies. This implies that the independence of the newspaper media from the companies on which it reports is integral to its role in corporate governance. This implication is discussed in detail in Chapters Eight and Nine.

Sensitivity Analysis: Summary

Table 7.31 summarises the results of all tests of the sensitivity of the research model. After considering all possible associations, results indicate that newspaper coverage of companies' involvement in external governance events influences internal corporate governance quality in one primary manner; early reporting on the threat of takeover appears to lead boards of directors to take measures such that shareholders are provided enhanced protection over the following year. The results of sensitivity analysis provide further indication that any influence the newspaper media may have on improvements in corporate governance quality is short lived, since pre-event year newspaper reporting has not been found to be significantly associated with the event to post-event year change in CGQ. Furthermore, since neither event year nor post-event year newspaper reporting have been found to be significantly associated with the event to post-event year change in CGQ, it would appear that coverage of the main case events and ex-post analysis does not have a meaningful impact on the actions of boards concerned. It is only newspaper reports which initially publicise cases that may encourage changes in CGQ.

Table 7.31: CGQ Sensitivity Analysis: Summary

Test	*Rationale*	*Main Findings*	*Implications*	*Refer to Appendix G*
Alternative Associations between Corporate Governance Quality Change and Newspaper Reporting	To examine if changes in CGQ are associated with levels of newspaper reporting at different stages of cases.	No significant associations detected	Indicates that improvements in CGQ do not coincide with newspaper publicity of the possibility of takeover, rather they follow it. Neither event year nor post-event year newspaper reporting have a significant impact on changes in CGQ, it is only newspaper reports published early in cases that may encourage changes in CGQ. Pre-event year newspaper reporting does not have a significant impact on the event to post-event change in CGQ indicating that newspaper reports published early in cases do not have a lasting influence on changes in CGQ.	Tables G.1 to G.3
Annual Corporate Governance Quality Variables	To test for associations between annual benchmark-adjusted CGQ scores and simultaneous newspaper reporting.	Significant negative association detected between pre-event year benchmark-adjusted CGQ and pre-event year newspaper reporting in full sample and takeover subset.	Indicates that companies with lower CGQ receive more newspaper coverage in the pre-event year of TMA cases. Suggests that CGQ may be a determinant of newspaper reporting.	Tables G.4 to G.6
Potential Time Lags	To test for potential time delays in associations between annual benchmark-adjusted CGQ scores and newspaper reporting.	Significant positive association detected between pre-event year newspaper reporting and event year benchmark-adjusted CGQ in the takeover subset only.	Implies that companies which receive more newspaper coverage in the pre-event year of takeover cases have higher CGQ in the event year.	Tables G.7 to G.9

Table 7.31 Continued: CGQ Sensitivity Analysis: Summary

Test	*Rationale*	*Main Findings*	*Implications*	*Refer to Appendix G*
CGQ as a Determinant of Newspaper Reporting	To examine if the association between CGQ change and newspaper reporting is affected by potential associations between newspaper reporting and pre-existing CGQ and to effectively examine if CGQ determines newspaper reporting.	Significant negative association detected between pre-event year newspaper reporting and pre-event year benchmark-adjusted CGQ. Significant positive association detected between event year newspaper reporting and event year benchmark-adjusted CGQ in the individual takeover and market abuse subsets. Significant positive association detected between the benchmark-adjusted pre-event to event year change in CGQ and the pre-event year newspaper reporting variable as adjusted such that it does not reflect the influence of pre-existing CGQ. No significant association detected between newspaper reporting in a given year and CGQ in the previous year.	Supports results from the main analysis but the lower confidence level at which the significance of the association between the benchmark-adjusted pre-event to event year change in CGQ and the adjusted pre-event year newspaper reporting variable is stated in the full sample suggests that the influence of newspaper reporting on CGQ change may be weaker than first thought. No strong conclusion can be drawn as to whether or not newspaper reporting is determined by CGQ.	Tables G.10 to G.12
The Intensity of Newspaper Reporting	To explore the intensity of newspaper coverage of cases and to examine how the association between CGQ change and newspaper reporting is affected when the intensity of newspaper reporting is accounted for.	Considerable variation in the intensity of coverage of takeover cases detected. Significant positive association detected between the benchmark-adjusted pre-event to event year change in CGQ and the pre-event year newspaper reporting variable, as adjusted to reflect variations in coverage by newspaper publications, in the full sample and in the takeover subset. Significant positive association detected between the benchmark-adjusted pre-event to event year change in CGQ and the pre-event year newspaper reporting variable, as adjusted to reflect variations in coverage by newspaper groups, in the full sample only.	Indicates that pre-event to event year CGQ change is influenced by both the overall amount and intensity of pre-event year newspaper reporting. However, the influence of the newspaper media appears weaker when the intensity of coverage is accounted for.	Table G.13

The results of this sensitivity analysis both support the main findings and shed some valuable insight into the nature of the relationship between corporate governance quality and newspaper reporting. The results indicate that (i) pre-event year newspaper reporting is significantly negatively associated with pre-event year CGQ; (ii) event year newspaper reporting is significantly positively associated with event year CGQ; and (iii) pre-event year newspaper reporting is significantly positively associated with event year CGQ. These findings imply that companies with low CGQ attract more media attention in the pre-event year and that these companies, which experience greater improvements in CGQ between the pre-event and event years, continue to be monitored by the media in the event year. However, since newspaper reporting is not found to be significantly associated with companies' CGQ in the previous year, it cannot be fully ascertained if the attention of the newspaper media is attracted to companies with a certain quality of governance.

Finally, results of this analysis have shown that changes in corporate governance quality are associated with the intensity of newspaper reporting as well as with the overall amount of coverage devoted to TMA cases. However, the association between CGQ change and newspaper reporting appears weaker when the intensity of coverage is accounted for. As such, the overall amount of newspaper publicity surrounding cases appears to have a relatively strong influence on changes in CGQ; however, the effective influence of this publicity may be weaker when the specific manner in which it comes about is considered. This finding implies that the positive influence of the newspaper media on corporate governance is contingent upon the extent to which issues in companies are exposed across the newspaper media which in turn relies upon the independence of newspapers from the companies on which they report.

7.6. <u>Further Analysis</u>

The main analysis of the influence of newspaper reporting on takeover and market abuse cases on corporate governance quality in companies involved has uncovered some support for the hypothesis posed in this study. Results indicate that newspaper reports published in the early stages of takeover offers have an impact on corporate governance quality. Specifically, larger volumes of reports on potential takeovers, published in the year prior to the offer's success or failure, are associated with larger improvements in the extent to which the boards of target companies serve to protect shareholders' interests over the following year.

This section addresses a number of remaining questions regarding the influence of newspaper reporting on external control events on the primary internal control mechanism in companies involved. Primarily, this section examines the link between newspaper reporting and corporate governance quality in a more meticulous manner by testing for associations between newspaper reporting and the individual components of CGQ. In addition, consideration is given to whether the nature of the association between newspaper reporting on takeover offers and changes in corporate governance quality in companies targeted differs between hostile and friendly offers.

7.6.1. Corporate Governance Quality Component Analysis

Analysis of changes in corporate governance quality conducted thus far has concentrated on companies' total benchmark-adjusted CGQ scores. To shed insight into the specific aspects of board structure and behaviour which are most sensitive to the influence of the newspaper media, an analysis of associations between changes in the ten individual components of CGQ and newspaper reporting is conducted. Accordingly, the second stage model is modified such that the benchmark-adjusted change in the score assigned for a given component of CGQ is employed as the dependent variable rather than the change in the overall score. The pre-existing benchmark-adjusted score for the component in question is employed as an explanatory variable instead of pre-existing benchmark-adjusted total CGQ. As in the main analysis, the newspaper reporting variables employed measure the residual values derived from the first stage regression model (Equation 5.1), the results of which are presented in Table 7.28 in Section 7.4. This analysis is performed for the full sample, the takeover subset and the market abuse subset where feasible. Results are presented in Appendix H. The main findings are reported below.

a. <u>Pre-event to Event Changes in CGQ Components</u>

Analysis of associations between the benchmark-adjusted pre-event to event year changes in the components of CGQ and pre-event newspaper reporting are performed for the full sample and the takeover subset. Analysis is not performed for the market abuse subset in isolation due to the low levels of pre-event year newspaper reporting noted previously. The main findings are as follows:

A significant positive association is detected in the takeover subset between the benchmark-adjusted changes in scores assigned for having a separate CEO and chairman and pre-event year newspaper reporting.

This implies that companies which receive more newspaper coverage due to their being targeted for takeover are more inclined to split the roles of CEO and chairman than those which receive little coverage. As noted in Subsection 7.2.3, the proportion of companies where the CEO serves as chairman is smaller in the event year than in the pre-event year. This decrease may be partly attributed to the acquisition of companies where the roles are combined. Descriptive statistics presented earlier in Table 7.14 reveal maximum values of 10 for the change in score assigned for board leadership roles between the pre-event and event years, indicating that the roles are split in a certain amount of sample companies which survive the takeover attempt. Un-tabulated results of a frequency analysis performed for just those companies where the roles are combined in the pre-event year shows that 75% of the companies in which the CEO serves as chairman are acquired in the event year, 12.5% remain independent and do not split the roles and 12.5% remain independent and split the roles. These results indicate that the majority of boards which permit CEO-chairman duality are disciplined by the market for corporate control through a takeover, while one half of those which avoid such discipline split the roles in the following year. Given the unambiguous disapproval of CEO-chairman duality in best practice guidelines, it may be that a company's being publicised as a takeover target in the press may encourage its board to split the roles in order to improve the perceived quality of governance in place within the company.

A significant positive association is detected between the benchmark-adjusted changes in scores assigned for audit committee meeting frequency and pre-event year newspaper reporting in the full sample and in the takeover subset.

This indicates that takeover targets which receive more newspaper coverage in the pre-event year make greater efforts to improve their internal systems of monitoring the integrity of their financial reports over the following year in that their audit committees become more active. However, it appears again that boards with audit committees which are not deemed to meet sufficiently regularly in terms of the criteria of corporate governance quality set herein are more likely to be disciplined by the market for corporate control than make changes in response to media coverage. Un-tabulated results of a frequency analysis performed on the unscored audit committee meeting data reveals that of the companies whose audit committees meet infrequently, 45% are acquired, 10% remain independent and meet more frequently in the event year and 45% remain independent and meet as regularly or less frequently. In the takeover subset, these figures are 54%, 15% and 31% respectively.

A significant positive association is detected in the takeover subset between the benchmark-adjusted changes in scores assigned for CEO pay to performance sensitivity and pre-event year newspaper reporting.

This implies that newspaper exposure of the companies' vulnerability to acquisition may encourage boards to ensure that changes in the CEO's remuneration are more reflective of changes in shareholders' wealth. Un-tabulated results of a frequency analysis performed on the unscored pre-event and event year CEO pay to performance sensitivity data reveals that of the companies where the CEO's pay is not sensitive to performance, i.e. companies with a negative CEO pay to performance sensitivity ratio, 42% are acquired, 39% remain independent and the CEO's pay becomes more sensitive to performance and 19% remain independent and the CEO's pay becomes less sensitive to performance or there is no change in sensitivity. Of the companies with a positive but high CEO pay to performance sensitivity ratio (0.05 or higher, i.e. where the CEO's pay increases by £50 or more per £1,000 increase in shareholder wealth), 50% are acquired and 50% remain independent and the CEO's pay becomes more sensitive to performance. These results indicate that for companies where the sensitivity of the CEO's pay to performance is not adequately monitored, the likelihood that the board will be disciplined by the market for corporate control through a takeover is almost equal to the likelihood that actions will be taken such that the CEO's pay becomes more reflective of his performance in maximising shareholders' wealth. For companies which take such actions, the extent to which CEO pay becomes more sensitive to performance increases with the amount of coverage which the offer receives.

A significant positive association is detected in the takeover subset between the benchmark-adjusted changes in scores assigned for directors' shareholdings and pre-event year newspaper reporting.

This suggests that newspaper media publicity surrounding a takeover offer may promote a better alignment of the interests of the target's directors with those of its shareholders. As such, directors of targets which receive high levels of newspaper coverage are more inclined to change their shareholdings such that their interests in the company act as a sufficient incentive to maximise returns without rendering them entrenched. It would appear, however, that directors whose interests are not appropriately aligned with those of shareholders are more likely to be replaced in a takeover than to make changes in response to newspaper commentary. As noted in Subsection 7.2.3, directors in sample companies tend own very large or very small proportions of the companies' shares. While it tends to be the latter case in the takeover subset, instances of very large shareholdings are also observed. Un-tabulated results of a frequency analysis performed on the unscored pre-event and event year directors' shareholding data reveals that of the companies where collectively, the board owns less than 1% of the company's shares or more than 20%, 49% are acquired, 9% remain independent and make changes such that directors' interests move closer to the 8 to 10% shareholding level, deemed herein as appropriate in terms of CGQ, and 42% remain independent but make no changes or directors' shareholdings move further away from the 8 to 10% level.

b. Event to Post-event Changes in CGQ Components

The main findings are as follows:

A significant negative association is detected in the full sample between the benchmark-adjusted changes in scores assigned for audit committee meeting frequency and event year newspaper reporting.

This suggests that the audit committees of companies which receive the most newspaper coverage in the event year meet less regularly in the post-event year than they did in the event year. These results, taken together with the results detected for the pre-event to event year change in audit committee meeting frequency, indicate that pre-event year newspaper reporting encourages audit committees to meet more frequently in the event year than they do in the pre-event year while event year newspaper reporting has an opposite influence. It is important to bear in mind that these results pertain mainly to takeover cases. As noted above, a decline in meeting frequency is consistent with the passing of a takeover offer. Hence, it is unlikely that newspaper coverage has a strong negative influence on CGQ in terms of audit committee activity, particularly given that the association between newspaper reporting and the overall benchmark-adjusted event to post-event change in CGQ has been found to be insignificant.

7.6.2. Hostile vs. Friendly Takeovers

The variable ISS_t is employed throughout the main analysis to control for the likelihood that changes in corporate governance quality may be partly explained by the extent to which issues that arise in cases pose a risk to shareholders' interests. In takeover cases, the board's response to the offer might also explain changes in board structure and behaviour. For the takeover subset of the sample only, further analysis is conducted whereby the second stage model is modified such that the variable ISS_t is replaced with the variable HOST. HOST is defined as a binary variable that assumes a value of 1 if the offer is hostile and 0 if the offer is friendly.

The modified model is applied to (i) the benchmark-adjusted pre-event to event change in CGQ and (ii) the benchmark-adjusted event to post-event change in CGQ. The newspaper reporting variables employed measure the values derived from the first stage regression model (Equation 5.1), the results of which are presented in Table 7.28 in Section 7.4. The results of this analysis are presented in Table 7.32.

Table 7.32: Hostile vs Friendly Takeovers

Below are the results, for the takeover sample subset, for the second stage model when modified to include the binary variable HOST which indicates whether the offer is hostile or friendly.

	t-value	t-prob	Part. R^2
Dependent Variable: $\Delta CGQ_{t-1\rightarrow t(ad)}$; (n= 53)			
Constant	0.431	0.669	0.004
$RESNPR_{t-1}$	2.560	0.014**	0.135
$CSIZE_{t-1}$	1.680	0.101	0.063
AGE_{t-1}	-1.110	0.272	0.029
$INDGEN_{t-1}$	0.133	0.895	0.001
HOST	-0.930	0.358	0.020
$ECON_{t-1}$	-0.431	0.669	0.004
$CGQ_{t-1(ad)}$	-5.840	0.001***	0.449
$PERF_{t-1}$	-1.360	0.180	0.042
$INST_{t-1}$	0.233	0.817	0.001
$BLAME_t$	-1.580	0.121	0.056
R^2: 0.604	**Adj. R^2:** 0.509	**F** (10, 42):	6.394 (0.001)***
Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$; (n= 46)			
Constant	0.565	0.576	0.009
$RESNPR_t$	-0.520	0.607	0.008
$CSIZE_{t-1}$	2.610	0.013**	0.162
AGE_{t-1}	1.390	0.174	0.052
$INDGEN_{t-1}$	0.132	0.895	0.001
HOST	-0.292	0.772	0.002
$ECON_{t-1}$	0.439	0.663	0.006
$CGQ_{t(ad)}$	-1.260	0.215	0.044
$PERF_t$	-1.220	0.232	0.041
$INST_{t-1}$	-0.005	0.996	0.001
$BLAME_t$	2.410	0.022**	0.142
R^2: 0.384	**Adj. R^2:** 0.208	**F** (10, 35):	2.182 (0.043)**

***Significant at the 1% level, **Significant at the 5% level

As can be seen, a significant positive association is again apparent between the benchmark-adjusted pre-event to event change in CGQ and pre-event year newspaper reporting and this is stated at a higher confidence level that that detected in the main analysis; however, no significant association is detected between changes in CGQ and the nature of the offer. R^2 and adjusted R^2 values indicate that the power of the model to explain both the pre-event to event change and the event to post-event change in CGQ is lower when the issue of whether the offer is friendly or hostile is employed as an explanatory variable instead of the issue which requires Takeover Panel supervision.

7.7. <u>Conclusion</u>

Results presented in this chapter reveal a number of attributes of the nature of newspaper reporting on the operation and breakdown of the market for corporate control and provide some insight into how reporting is associated with the quality of the primary corporate governance mechanism operating within the company- the board of directors.

Univariate analysis has shown that takeover cases receive considerably more newspaper coverage than market abuse cases. When these results are considered in the context of the literature reviewed in Chapter Four, it appears likely that the lesser amount of newspaper reports published on market abuse cases is a symptom of the difficulties the newspaper media face in investigating instances of corporate crime and reporting on the actions of parties involved until they have been confirmed by official regulatory authorities. In contrast, information on takeover cases is publically disclosed in a timely manner, which allows the media to report on potential and actual takeovers with greater ease. Given that the newspaper sample presently employed is extracted from the archives of mainstream broadsheet publications, it may also be the case that takeover cases are considered more newsworthy to the general public as they have more far reaching implications for society in terms of employment and the availability of products and services.

Results of analysis performed to investigate the research hypothesis posed herein, indicate that newspaper reporting on takeover cases in the year prior to the withdrawal of the offer is significantly associated with changes in corporate governance quality in companies targeted. Specifically, the greater the amount of reports published in the pre-event year, the greater the improvement in the corporate governance quality of companies targeted between the pre-event and event years. The same observation is not made when the association between the amount of reports published in the year of the offer and the change which occurs over the following year is examined. No associations are detected in isolation between newspaper reporting on market abuse cases and changes in the corporate governance quality of the companies whose shares are implicated. Analysis of associations between newspaper reporting and corporate governance quality change in market abuse cases is severely limited by the low levels of newspaper reporting on market abuse cases. Within the context of the theory of the market for corporate control, the results derived for takeover cases suggest that newspaper coverage of attempted takeovers publicises directors' underperformance. The media literature discussed in Chapter Four would suggest that this publicity may impose reputational penalties on directors, thereby encouraging them to institute reform.

The next chapter discusses these results in detail. The implications of these findings are assessed such that the extent of the study's contribution may be evaluated in Chapter Nine.

CHAPTER EIGHT: DISCUSSION AND IMPLICATIONS OF FINDINGS

8.1. Introduction

This chapter considers the wider implications of the main findings of the study from both a research and practical perspective. The chapter begins by considering the main findings regarding newspaper reporting on the sample companies. The findings concerning corporate governance quality are then discussed. Finally, findings derived from testing for the hypothesised association between corporate governance quality change and newspaper reporting are considered.

8.2. Newspaper Reporting on Takeover and Market Abuse Cases

8.2.1. Discussion of Key Findings

The analysis presented in the previous chapter has revealed that takeover cases receive significantly more mainstream broadsheet newspaper coverage than market abuse cases. Newspaper reporting on takeover cases is also observed to be timelier than that on market abuse cases. For takeover cases, the majority of newspaper reporting concerns speculation on potential offers and coverage of events and issues which arise during the offer period, while for market abuse cases, the majority of newspaper reports are published in the years following the incidence of the abuse and pertain mainly to legal and regulatory intervention.

The higher level and superior timeliness of mainstream broadsheet newspaper coverage on takeover cases is likely to be largely attributable to the greater public availability of information on takeovers than on instances of market abuse. In the prelude to a takeover offer, a company's share price and the financial information it releases may indicate that it is a potential takeover target. When the offer is announced, the offeror and offeree will make both mandatory and voluntary disclosures which indicate the likely success and potential implications of the bid. In contrast, there is unlikely to be any signals regarding the incidence of market abuse as offenders conceal their actions to avoid being penalised. When the abuse is detected, regulators may wait until they have established liability before disclosing details of the abuse, the identity of the offender and the penalties facing him.

The findings of this study are thus consistent with the view of the newspaper media as an intermediary in the company environment which selects, collects and repackages information on issues and events which impact shareholders' wealth from other sources and makes it accessible to a wide audience (Deephouse, 2000; Miller, 2006; Dyck, Volchkova and Zingales, 2008; Kothari, Li and Short, 2009; Bushee *et al*., 2010). In doing so, the newspaper media publicises the quality of the board as a corporate governance device such that the level of reporting may have an impact on their reputations as monitors. The evidence produced by this study suggests that the newspaper media is a potentially valuable information intermediary in the context of takeover offers to the extent that it may notify the company's shareholders and its broader stakeholders of the identities and intentions of potential offerors and continues to provide considerable coverage over the offer period, thereby informing a range of interested parties of the implications of the offer and publicising the actions of the target boards.

Findings indicate that the value of the broadsheet newspaper media as an information intermediary is the context of market abuse is much lower. Mainstream journalists may not be sufficiently financially literate to suspect the incidence of market abuse. Moreover, given the short timeframe in which market abuse occurs, journalists may not be quick enough to detect and investigate suspicious share price movements before the abuse ceases. Nevertheless, findings produced by Miller (2006) suggest that the newspaper media may still perform a watchdog function by publishing the suspicions of and allegations made by third parties. This study has found little evidence that such a role is performed by UK mainstream broadsheets with regard to market abuse. Journalists who are alerted to possible abuses by others may well lack the resources to conduct the further investigations necessary to verify allegations. Moreover, they are unlikely to run the risk of incurring the legal and reputational costs associated with publishing reports which may be inaccurate, untrue and possibly cause defamation of character. Ex-post newspaper coverage of market abuse cases cannot compensate investors for lost opportunities to make a trading profit or for being deliberately misled by other market participants. Nonetheless, it may draw attention to the board's response to the abuse and communicate the success of regulators in bringing offenders to account, thereby pressurising both parties to bring about enhanced protection for shareholders. The amount of broadsheet newspaper coverage on market abuse cases observed herein is however much more infrequent than that on takeover cases.

The level of broadsheet newspaper coverage of takeover offers may also be higher than that on instances of market abuse because takeover offers provide more value as news stories. Takeovers have more direct implications for general newspaper audiences in terms of employment, both within the target company and its suppliers; the supply and price of products and services; and possibly even national prestige in cases of cross-border offers. Although market abuse conjures negative connotations about market integrity and thus may create concern at national level, it may not be considered to be of great interest to audiences outside of the immediate investment community.

Having assessed the extent to which a number of specific features of takeover and market abuse cases, and the companies they involve, determine the amount of newspaper coverage they receive, it would appear that takeover cases involving large companies, which tend generally to be more visible to the newspaper media, receive the most coverage. The age of the company also appears to a significant factor determining the amount of coverage which cases receive. Results for the first stage model indicate that in the pre-event year, takeover offers for older companies tend to receive more newspaper coverage while in the event year, offers for younger companies tend to receive more coverage. This implies that speculative newspaper reporting on potential takeovers focuses more on older, well established companies; however, when an offer becomes imminent, it is the younger targets which receive the most attention from the newspaper media. Results also show that event year newspaper reporting on takeover offers is determined by the general industry in which the target is located, the primary reason for Takeover Panel intervention and the economic environment. It appears that, in the event year, offers for companies in the oil and gas and in the consumer goods and services industries attract more coverage, as do offers involving more severe regulatory breaches. Furthermore, the amount of newspaper coverage which takeover cases receive decreases as national economic performance improves.

While the main analysis has not detected any significant determinants of newspaper reporting on market abuse cases, sensitivity analysis has revealed that company size and age and the nature of the abuse may be significant factors determining the amount of newspaper coverage they receive. Again, it appears that in the event year, larger and younger companies receive more newspaper coverage and that coverage increases with the severity of the abuse.

Sensitivity analysis has also detected significant associations between companies' existing CGQ and the amount of newspaper coverage the TMA cases in which they are involved receive. Results indicate that, in the pre-event year, the broadsheet newspaper media tends to devote more focus to companies with low corporate governance quality. In the event year, however, it is the companies with high corporate governance quality which receive the most newspaper coverage. While these results would suggest that CGQ is a determinant of newspaper reporting, no strong inferences may be made in this regard since no associations are detected between newspaper reporting and CGQ in the previous year.

These factors considered, it would appear that company size is the primary determinant of newspaper reporting on TMA cases. Thus, it is reasonable to expect boards of large, high-profile companies to be continually exposed to scrutiny in the broadsheet newspaper media. Consequently, the boards of such companies may be more strongly encouraged to improve their efforts to serve shareholders' interests when the TMA cases in which they are involved feature in the broadsheet press. As such, the mere presence of an active broadsheet media may serve to deter boards of large companies from taking actions out of self-interest when the company is faced with the threat of takeover or when price sensitive information regarding the company is released and misused in the stock markets. However, the governance value of the media to shareholders of smaller companies may not be as great.

Sensitivity analysis has also explored the intensity of newspaper coverage of cases. Results indicate considerable variation in the intensity of reporting on takeover cases. Thus, while certain takeover cases receive similar levels of attention from all newspapers, others receive a great deal more attention from some newspapers, and newspaper groups, than others. One possible reason for such variations in coverage is a reluctance to report on certain companies' vulnerability to takeover, and possibly the fact that board members have violated a Rule of the Takeover Code, due to affiliations between certain newspaper groups and the takeover targets in question. Another is a high level of reporting on the possibility of the board being replaced in a takeover, and perhaps also on the regulatory breach, by newspapers which harbour biases towards the companies in question.

8.2.2. Implications

This study has demonstrated that the UK mainstream broadsheet newspaper media devotes extensive coverage to the operation of the market for corporate control. This is a source of information overlooked in much prior UK research on takeovers. Those which recognise the role of the media in forecasting and reporting on takeover offers focus largely on the specialist financial press and newswire services (Holland and Hodgkinson, 1994; Weir, Laing and Wright, 2005; Griffin, Hirschey and Kelly, 2011). There is a limited presence of widely disseminated specialist financial newspapers in the UK, which are published on a frequent basis. Hence, mainstream broadsheet newspaper coverage may have a greater influence on the behaviour of the offeror and offeree boards and shareholders than one might expect. This study has endeavoured to provide some indication of this influence.

Since UK broadsheet newspapers have a vast and diverse readership, mainstream newspaper reports on takeovers may serve as a primary information source for broader stakeholders in the company. Given that takeovers have implications for employees (Coffee, 1988; Shleifer and Summers, 1988; Slinger and Deakin, 1999; Deakin, 2005; Goergen, O'Sullivan and Wood, 2014), creditors (Lehn and Poulson, 1989; Amihud, Lev and Travlos, 1990; Asquith and Wizman, 1990; Cremers, Nair and Wei, 2007), customers (Kim and Singal, 1993; Singal, 1996) and various other parties in the company environment, it is likely that the mainstream media may serve as a useful resource for scholarly research concerned with the broader costs and effects of takeovers for non-shareholder stakeholders. Of the five takeover offers which were found to have received the most broadsheet newspaper coverage in the present study, one concerned a long established producer of consumer goods, two concerned well known retailers, one concerned a premiership football team and one concerned a multinational metals and mining company. Thus, broadsheet newspaper reports are apt to be a valuable source of information for employees and customers in particular and, as a result, may have an important influence on their perceptions of and responses to takeover offers. Because all of these stakeholders are members of the voting public, the amount of newspaper coverage a takeover receives may determine policy responses not only in the immediate area of takeover regulation but in fields such as competition, employment and taxation to name but a few.

The practical value of the broadsheet newspaper in terms of corporate governance appears to be limited to matters on which there is an availability of relatively clear signals and pre-existing information but nonetheless affect shareholder wealth and directors' reputations. The large volume of newspaper reporting in the ex-ante phases of takeover cases provides evidence of a high level of speculation in the UK broadsheet newspaper media on possible takeover offers. The tendency for journalists to report on offers before they are officially announced indicates that the broadsheet newspaper media is often a timelier source of information than the Takeover Panel and Regulatory Information Services. Yet, with this timeliness comes concerns regarding the reliability of information. Journalists may be suitably skilled to interpret indicators of company performance and sufficiently perceptive to anticipate a takeover offer before it is officially announced; however, newspapers cannot confirm that an offer appears imminent until the offeror has expressed a firm intention through the official channels. Investors and other interested parties must ultimately use their own discretion in judging the likelihood of the offer. The perceived accuracy and independence of the newspaper speculating the offer may well influence decisions whether or not to take any action such as selling or purchasing shares in the company.

Chapter Four of this thesis has established that broadsheet newspapers traditionally have tended to be perceived as credible and accurate sources of news relative to many other media vehicles. Nevertheless, as technology evolves, journalists at broadsheet newspapers are under increasing pressure to cover the news almost as soon as it emerges so as to compete with online media vehicles (Tambini, 2008; Lewis *et al*., 2010). While newswires will inevitably have the story first, the analysis, commentary and opinion conventionally provided almost exclusively by newspaper journalists is now also being provided on the websites of broadcasters, news magazines, bloggers and through social media. With only limited time to conduct research, accuracy might suffer and sources may go unverified (Tambini, 2008). Accordingly, in forecasting potential takeovers, newspapers may make mistakes and as a result, reports may influence naïve investors to make imprudent investment decisions. As this study has focused only on instances where offers actually proceed, it has not been possible to further assess this possibility empirically. The fact that reports on market abuse cases are not published until the information is certified is encouraging in terms of veracity and accuracy. Nevertheless, the low level of newspaper reporting on market abuse cases detected in this study reflects poorly on the mainstream broadsheet newspaper media as a corporate watchdog. It also raises concerns about its viability as a medium for whistleblowers. It may be the case, however, that market abuse is a challenge welcomed more at specialised financial media outlets.

Having found that the broadsheet newspaper media provides a high level of coverage of takeover offers over the offer period, it is relevant to evaluate the opportunities for reports to become biased in favour of the offeror or offeree managers and directors. This largely relies upon the sources from which journalists select and collect information. Statements made by, or on behalf of, the offeror and offeree boards over the offer period boards must meet the standards of accuracy required by Rule 19 of the Code. However, this does not guarantee that the media will remain independent when reporting on the conduct of both parties over the course of the offer. This study finds that newspaper coverage of some takeover cases is relatively evenly dispersed among newspaper publications and newspaper groups, while other cases are reported on by some newspaper publications and groups much more so than others. There is, thus, reason to suspect some bias among the newspaper titles considered in this study and the groups to which they belong. As such, the low intensity of coverage on certain cases detected herein may be attributable to certain newspaper groups' affiliations with or financial reliances upon certain companies in the research sample.

Research into the UK newspaper media indicates that journalists at UK broadsheets endeavour to take an independent stance on all topics on which they report (Doyle, 2006; Tambini, 2008). In fact, it would appear that independent reporting by the UK broadsheet media is impeded more by time and resource constraints than by the existence of corrupt relationships between the press and the corporate sector. Nevertheless, where newspaper groups depend largely on the corporate sector for financing, it may be inevitable that their journalists will be restrained from reporting negative information on certain companies, particularly when financing from alternative sources is scarce.

As readers move online, the traditional business model of newspapers, which relies largely a combination of revenues from newspaper sales and advertising services, is no longer sustainable. Newspaper management globally have been forced to implement wage-reductions, lay-offs and spending cuts on resources (Pew Research Centre, 2012). Research conducted by Lewis *et al.* (2010) shows that journalists at the top end of the UK press bear a workload approximately three times greater than they did twenty years ago. This has left broadsheet journalists with no other option than to avail of the pre-packaged news offered by PR agents. While this study acknowledges that the newspaper media is not an original information source, an increased reliance on PR generated material creates cause for concern. Although not all PR is intended to be misleading, it may introduce bias into newspaper reports. Given that both the bidding and target entities may employ PR agents in an endeavour to convince shareholders and other stakeholders of the merits and demerits of the bid (Tambini, 2008; Brennan, Daily and Harrington, 2010), the credibility of PR-based reports may be impaired. Thus, the potential value of the newspaper media's role in publicising boards' underperformance and issues which jeopardise shareholder wealth may be diminishing rapidly. Moreover, as newspaper sales decline and newspapers become less attractive outlets for advertisers, newspaper groups must maintain good relations with their remaining advertisers and with other companies, such as banks, on whom they rely for funding. As noted, such a reliance can lead to biased reporting. Indeed, it is not unknown for UK broadsheet titles to refrain from reporting on problems in companies due to the power of these companies to cut their expenditure on advertising in the newspaper or even to break off lines of credit which may be funding the group to which the newspaper belongs (Oborne, 2015).

Unless newspaper companies develop suitable pricing models for online and digital editions of newspapers, they will continue to experience such financial difficulties. As a result, they will be unable to pay skilled staff members and have less money to spend on information acquisition which will inevitably result in a decline in the credibility and accuracy of newspaper reports. Thus, it would appear essential that the broadsheet newspaper media overcomes the challenges it currently faces and learns to use the internet and digital technology to its advantage rather than allowing it to lead to its demise as a quality source of news commentary and analysis, not only in the company and market environment but in society in general.

The opportunities for information on takeover offers to become distorted are thus significant. As noted in Chapter Four, newspaper speculation of takeovers may be based on tips and leaks from insiders as well as on legitimate information signals (Jarrell and Poulsen, 1989, Betton, Eckbo and Thorburn, 2008). It is important for journalists to exercise caution when alerted to a takeover bid or an extraordinary event as information may be leaked by insiders in an attempt to manipulate the market or to facilitate insider dealing. Moreover, the incentives of journalists with interests in shares may be skewed; the opportunity to make a trading profit may entice even the most conscientious journalist to produce a biased report. As mentioned in Chapter Four, this has already occurred in the tabloid newspaper media in the UK. The regulations set out in the Perimeter Guidance Manual (hereinafter, PERG) of the FCA Handbook, outlined in Appendix F, might be criticised as being somewhat loose. While the PERG requires that media reports must not aim to lead or enable persons to buy or sell securities or relevant investments, the interests of journalists are largely assumed to be aligned with those of their readers. The responsibility to ensure that journalists make known any personal interest in the securities on which they comment is left to the newspaper body for which they report once they fall within the remit of the Press Complaints Commission (hereinafter, the PCC) Editors' Code (2012), which as Appendix E outlines, is basically flawed. From this respect, this study highlights the importance of policies and standards for the news media when reporting on issues, events and developments at the firm and market level. As the FCA prepares to implement the European Market Abuse Regulation (Regulation No. 596/2014) in 2016 and as regulation of the UK news media moves up political agendas (House of Commons Culture, Media and Sport Committee, 2014), it would appear opportune for discussions to consider the interrelationship between the news media, the company and the markets such that timely, independent and accurate reporting is encouraged and appropriate relationships and clear boundaries are established between journalists, management, directors, investors and other market participants.

8.3. Corporate Governance Quality

8.3.1. Discussion of Key Findings

As the previous chapter has shown, corporate governance quality in the main research sample appears quite high relative to that in the control sample of companies which are of a similar size and come from the same or neighbouring industries. The benchmark-adjusted scores for each CGQ component, except for directors' shareholdings, are positive in the pre-event year, suggesting that companies' involvement in regulated TMA cases is not due to poor pre-existing standards of governance. In the event and post-event years, overall benchmark-adjusted CGQ remains positive. Thus, it may be the case that close involvement with the regulatory authorities encourages companies' to maintain high standards of governance.

CGQ is significantly higher in the takeover subset of the sample than in the market abuse subset. The high quality of governance in the takeover subset is particularly apparent when considered relative to the control sample. As in the control sample, an average increase in CGQ score is observed in the takeover subset of the main sample between the pre-event and event years, followed by an average decline between the event and post-event years. The pre-event to event year increase in both samples suggests that the takeover attempt may discipline directors and encourage governance improvements. The slightly larger increase observed in the takeover subset of the main sample may indicate that the additional regulatory oversight of the offer leads to enhanced governance improvements in the year of the offer. Nevertheless, the average event to post-event decline, which is also slightly greater in the takeover subset of the main sample, indicates that improvements may only be made in the short-term.

While governance quality in the market abuse subset is in line with that in the control sample, particularly low scores are observed for director independence and the suitability of the level of directors' share ownership. This suggests that the boards of companies whose shares are implicated in market abuse may not be sufficiently independent or appropriately incentivised to adequately safeguard shareholders' interests. This may have adversely affected the level of transparency surrounding transactions by insiders and have led to inappropriate disclosures of inside information. An average increase in CGQ is observed in the market abuse subset between the pre-event and event years. In some cases, governance improvements may not have occurred until after the incidence of the abuse in the event year, consistent with boards making an enhanced effort to protect shareholders' wealth. In others, however, the improvements may have coincided with the incidence of the abuse, suggesting that they were insufficient to prevent its occurrence. The continued increase in CGQ between the event and post-event years provides a clearer indication of improved shareholder protection in the aftermath of market abuse. Nevertheless, the average post-event year CGQ score in the market abuse subset of the sample remains low relative to that in the takeover subset and scores assigned for elements of CGQ including board balance, director independence and directors' shareholdings remain low relative to the control sample. To shed further insight into the changes in CGQ observed in the research sample, findings are now discussed in terms of the four specific aspects of the board focused on.

a. Board Leadership

CEO-chairman duality is uncommon in the main sample and in both subsets thereof and decreases further over the three years studied, particularly in the takeover subset. While relatively fewer companies in the control sample have a separate CEO and chairman, the majority of companies have split the roles. The low incidence of duality is not surprising; indeed, it was customary to have a separate CEO and board chairman, even before the publication of the Cadbury Report in 1992 (Laing and Weir, 1999). As shown in the previous chapter, three quarters of the takeover targets with a CEO who also serves as chairman are acquired in the event year, and of the companies which survive the takeover attempt, one half splits the roles. Thus, the market for corporate control appears to be effective in disciplining boards where the CEO harbours unfettered decision making power. This corroborates the findings of O'Sullivan and Wong (1999) that duality only serves as an effective takeover deterrent when the CEO has a substantial ownership stake in the company; although this study does not investigate CEO ownership in isolation, the low shareholdings reported for boards of takeover targets indicate that this may be the case.

Having also found that there is only a minority of the boards of companies in the market abuse subset where the CEO serves as chairman, it would not appear that the likelihood of the company's shares being implicated in market abuse is reduced by separating the roles. In terms of the ability of the board's leaders to oversee the disclosure and use of price sensitive information, having a separate CEO and board chairman may only be beneficial if the chairman is truly independent, which, as Brickley, Coles and Jarrell (1997) note, is often not the case.

Boards in the takeover subset of the sample appear more active than those in both the market abuse subset and the control sample, with the average board in the takeover subset meeting more regularly in each year studied. As expected, boards in the takeover subset hold more meetings in the year of the offer. Relative to the control sample, a greater improvement in scores assigned for board meeting frequency is observed in the takeover subset between the pre-event and event years, possibly suggesting that target boards tend to meet more regularly when the offer is directly regulated by the Takeover Panel. Although fewer meetings are held in the following year, boards appear to be more active in the year following the threat of takeover than they were in the year prior to it. Board meeting frequency in the market abuse subset is more in line with that in the control sample; however, boards in the control sample meet more regularly in the pre-event and event years. Boards in the market abuse subset seem to meet more regularly in the year after the incidence of the abuse, possibly indicating that efforts are being made to strengthen controls concerning price sensitive information and the trading behaviour of insiders so as to ultimately ensure more robust protection for all of the company's shareholders.

b. Board Effectiveness

As noted in Chapter Five, the present CGQ scoring system posits that it is optimal for boards to achieve an equal balance between executives and non-executive directors such that the board possesses sufficient firm specific knowledge while remaining free from management dominance. There is less than a 50% executive presence on boards in both sample subsets in each year studied. While this is also the case in the control sample, a greater balance is achieved in the event and post-event years. The proportion of non-executives serving on the average board tends to be in the region of 60% and is lower than results reported by Zaman, Hudaib and Haniffa (2011), Gregg, Jewell and Tonks (2012) and Mallin and Ow-Yong (2012). It would not appear that the minority executive presence has an impact on whether or not a company is acquired since scores assigned to the targets of both successful and unsuccessful takeover are almost equal. Executive representation is lowest in the year of a takeover offer and in the year following the incidence of market abuse. It may be the case that boards recruit non-executives at these times in an endeavour to enhance the perceived quality of governance in the company since, as noted in Chapter Three, executive appointments are often associated with CEO dominance (Westphal and Zajac, 1995; Shivdasani and Yermack, 1999; Carcello *et al*., 2011).

Board independence is much lower in the market abuse subset than in both the takeover subset and the control sample. While 50% of non-executive directors on the average board in the takeover subset are independent in the year of the offer, this is not the case in the preceding or subsequent year. Nevertheless, boards in the takeover subset are more independent than those in the control sample in the pre-event and event years. The greater average proportions of independent non-executive directors in both the takeover subset and the control sample suggests that when faced with the threat of takeover, independence improves. This is encouraging to the extent that the presence of independent directors on the boards of companies targeted for takeover has been found to benefit their shareholders in a manner not achieved by affiliated non-executives (Byrd and Hickman, 1992; Cotter, Shivdasani and Zenner, 1997).

As noted in the previous chapter, a number of takeover targets studied herein have oversized boards while certain boards of companies whose shares are implicated in market abuse do not contain the requisite number of members which is presently considered necessary to achieve a sufficient level of shareholder protection. Boards in the control sample are generally larger than those in the market abuse sample and smaller than those in the takeover subset. Thus, it is unlikely that the large board sizes observed in the takeover subset and the small board sizes observed in the market abuse subset may be explained by company size or industry location. Although the boards of the control sample of takeover targets tend not to be oversized, the large size of boards in the takeover subset of the main sample is worth noting. The fact that these large boards face the discipline of the market for corporate control is consistent with the argument reviewed in Chapter Three that large boards do not function as an appropriate governance device (Jensen, 1993).

The relatively small board size observed in the market abuse subset, to an extent, conflicts with the findings of Korczak, Korczak and Lasfer (2010) that insider dealing is more prevalent in companies with large boards. It is important to note however, that the present sample differs to that employed by Korczak, Korczak and Lasfer. Firstly, it consists of companies whose shares are implicated in various other forms of market abuse along with insider dealing and secondly, the insiders in question are not always members of the board.

c. <u>Accountability and the Role of the Audit Committee</u>

Relative to most other components of CGQ, audit committee size is considered to be of quite good quality in the main research sample and scores observed in both sample subsets are, on average higher than those in the control sample, where audit committees tend to comprise fewer than three members. Again, companies in the takeover subset achieve higher scores than those in the market abuse subset. On average, audit committees in the takeover subset comprise three members in all years, consistent with prior research on UK listed companies (Zaman, Hudaib and Haniffa, 2011; Avison and Cowton, 2012). This is also the case in companies in the market abuse subset, in the year prior to the abuse. However, the average number of audit committee members in the year of the abuse and in the following year decreases to two. Since the audit committees of companies in the control sample also tend only to consist of two members, it may be the case that this is considered sufficient to meet companies' requirements given their sizes and the industries in which they are located.

In the year prior to the offer, over 75% of companies in the takeover subset which go on to be acquired and over 90% of the companies which avoid takeover have majority independent audit committees. The fact that more companies which survive the takeover attempt have majority independent audit committees may suggest that audit committee independence contributes to performance improvements generated by boards when faced with the prospect of replacement in a takeover. Audit committees of targets in the takeover subset are considerably more independent than those of the targets in the control sample. In the year of the offer, audit committee independence increases in the takeover subset while it decreases in the control sample with the result that almost all companies in the takeover subset have a majority independent audit committee while the audit committees of just over half of the control sample of companies have a majority of independent members. Thus, it may be the case that while subject to the direct oversight of the Takeover Panel, boards endeavour to maintain and improve the independence their key internal financial control. Almost one half of companies whose shares are implicated in market abuse have audit committees which are dominated by executives or affiliated non-executives or have no audit committee at all. However, given that a similar proportion of audit committees in the control sample do not have an independent majority, it may be the case that an executive presence is necessary in order to meet industry demands or that companies are not large enough to require such a strong independent presence. Nevertheless, as mentioned in Chapter Three, audit committee independence is argued to deter management from engaging in illegal insider dealing (Enriques and Volpin, 2007). The findings of the present study thus lend some support to this view.

Audit committee meetings also appear to be held more regularly in companies in the takeover subset than in those in the market abuse subset. On average, three or more meetings per annum are held in the takeover subset while audit committees in companies in the market abuse subset tend to hold only one or two meetings. The empirical evidence indicates that it is customary for the audit committees of large UK companies to meet between three and four times in the year and for those in smaller companies to meet at least twice (Zaman, Hudaib and Haniffa, 2011; Avison and Cowton, 2012). Hence, the difference in audit committee meeting frequency between the takeover and market abuse subsets may be partly attributed to the fact that companies in the market abuse subset tend to be smaller. However, the frequency with which the average audit committee in the takeover subset meets is also greater than that in the control sample. While the distribution of company size in the full main sample is similar to that in the control sample, the largest companies are contained within the takeover subset. This may explain some of the difference, however it is also likely that the some audit committees in the takeover subset hold more meetings than what is the norm for companies of their size. Although audit committee meeting frequency in the market abuse subset tends to be in line with that in the control sample, a particularly low average benchmark-adjusted score is observed for audit committee meeting frequency in the market abuse subset for the event year. This indicates that audit committees in the market abuse subset are not very active in the year in which the abuse occurs. Since independent and active audit committees are found to limit the publication of misleading financial reports (Xie, Davidson and DaDalt, 2003), the low independence and inactivity of audit committees in companies whose shares are implicated in market abuse in the year of the abuse most likely denotes inactive monitoring of financial reporting and a failure to ensure that robust internal controls are in place.

d. Directors' Remuneration and Incentives

Chapter Seven reports that CEO pay is more sensitive to performance in the takeover subset of the sample than in the market abuse subset. Although changes in CEO pay in the takeover subset in the pre-event year are, on average, insensitive to changes in shareholders' wealth, the insensitivity tends to be attributable to reductions in the remuneration of CEOs of certain companies which do not reflect the growth in the wealth of their shareholders. While it is preferable that the CEO be appropriately awarded for his performance in maximising shareholders' returns and be incentivised to continue to do so, it is encouraging to find that CEOs in the takeover subset are not overcompensated, particularly since pay raises may be used as a form of takeover defence. CEO pay becomes more sensitive to performance in the takeover subset in the event and post-event years as the average CEO pay to performance ratio becomes positive. This contrasts the control sample where negative CEO pay to performance sensitivity ratios are observed in all three years studied. Thus, it is unlikely that the improvement observed in the takeover subset is triggered by the takeover attempt. Instead, it may be the case that close involvement with the regulatory authorities may prompt a review of performance and rewards, possibly leading to necessary adjustments in CEO pay.

As Chapter Seven has shown, scores assigned for CEO pay to performance sensitivity in the market abuse subset are closer to those in the control sample. However, as noted, the negative ratios in the market abuse subset tend to arise due to an increase in CEO pay as shareholder wealth decreases while in the control sample they tend to be attributable to declining CEO pay and increasing shareholder wealth. Thus, CEOs of companies whose shares are implicated in market abuse are often excessively remunerated. This raises the concern that other members of boards in the market abuse subset may be paid more than what they possibly deserve given the observed losses in shareholders' wealth coupled with the disadvantage at which they are placed due to the incidence of the abuse. There is a small increase in the average CEO pay to performance sensitivity ratio in the market abuse subset between the event and post-event years which may indicate an attempt to reform the manner in which the CEO's pay is determined, possibly encouraged by the intervention of regulatory authorities over the course of the abuse.

Chapter Seven has shown that the scores achieved for the appropriateness of directors' shareholdings in both the takeover and market abuse subsets fall below the benchmark in all three years studied. Directors of companies in the takeover subset tend to hold a lower proportion of shares than the boards of companies in the control sample while boards in the market abuse subset are tend to hold a much higher proportion of shares. Chapter Seven largely dismissed the possibility that the larger holdings of boards in the market abuse subset reflects shares purchased through prohibited dealings since the average shareholdings of boards in the market abuse subset decline over the three year period; however, the decline in shareholdings observed between the pre-event and event years may be partly due to illegitimate sales of shares.

Although the larger shareholdings observed in the market abuse subset does not directly denote that boards award themselves more stock-based compensation than those in the takeover subset, this may be the case since boards in the market abuse subset are found to be less independent than those in both the control sample and the takeover subset. The UK Corporate Governance Code (2010) expresses that the holding of share options by non-executive directors may compromise their independence (Provisions B.1.1 and D.1.3). While independent directors may still purchase and hold shares in the company, they might only do so on a small scale so as to preserve their independence. However, as a consequence, their interests may not be sufficiently aligned with those of shareholders. This may be the case in the takeover subset of the sample.

8.3.2. Implications

At a theoretical level, the findings of this study support the theory of the market for corporate control to the extent that it appears that the threat of takeover leads to improvements on the board of directors such that it serves as a higher quality governance device. Such improvements are observed in both the main sample and in the control sample. The lower pre-event year scores observed for the targets of successful offers than for those which survive is consistent with the more severe form of discipline which the market for corporate control exerts on these companies.

Nevertheless, since CGQ scores decline as the threat of takeover passes, the board may only be disciplined in the short-term. Relative to the control sample, improvements are observed in board meeting frequency, board size and all three audit committee components as boards are threatened by the possibility of takeover. Relatively more companies also split the roles of CEO and chairman. However, the benchmark-adjusted scores for board size and audit committee size and independence decline in the year following the attempt. Thus, there is an apparent failure to maintain and enhance the governance improvements generated by the threat of takeover in the long-term. It may be the case that greater practical efforts are required by shareholders to lobby boards to make further governance improvements, or at least to avoid deteriorations, when the threat of takeover passes. There are various reasons why institutional investors in the UK may be reluctant to actively voice concerns regarding management performance; these include the possibility of being deemed an insider or to be acting in concert and thus being subject to the requirements of the mandatory bid rule (the Kay Review, 2012). The incentives to engage with management also appear to weaken as the relationships between companies and their ultimate owners become increasingly intermediated by investment managers (Celik and Isaksson, 2013). Thus, in order for shareholder activism to complement the operation of market for corporate control such that boards remain disciplined in the aftermath of a takeover threat, it would appear necessary for progress to be made at policy level in implementing measures to encourage shareholder engagement, such as those proposed in the Kay Review (2012).

Although the corporate governance quality of companies in the market abuse subset is in line with that in the control sample, boards of companies whose shares are implicated in market abuse are found to be less independent than boards of companies in the control sample which are of a similar size and operate in the same or neighbouring industries. The shareholdings of boards in the market abuse subset are also dramatically higher than their peers, which may be indicative of entrenchment. Despite the observed lack of director independence, board balance in the market abuse subset tends to become skewed in favour of non-executive directors in the event and post-event years, suggesting a possible absence of skills and expertise as well as independence on boards. These symptoms of poor governance may mean that the release and use of price sensitive information and the trading behaviour of insiders is not suitably controlled, leading to the possible breakdown of the market for corporate control. Since there is a large proportion of AIM companies in the market abuse subset, these features may possibly be explained by the fact that AIM companies are not obliged to adopt the UK Corporate Governance Code nor are they required adhere to the DTRs. The lack of director independence in companies whose shares are implicated in market abuse is consistent with findings by Korczak, Korczak and Lasfer (2010) that director independence is associated with a lower incidence of insider dealing. This lack of independence, coupled with the ownership stakes of boards which are indicative of entrenchment, suggests that improper disclosures and illegitimate trading behaviour of insiders may be overlooked by directors. Findings also indicate that the boards of companies involved in market abuse cases are smaller than those in both the control sample and the takeover subset. Hence, recruitment of additional independent members may be necessary to avoid shareholders' interests being similarly jeopardised in future.

While the quality of audit committees in the market abuse subset is similar to that of audit committees in the control sample, they do not satisfy the criteria of CGQ set herein and the average scores observed for audit committee meetings, size and independence are lower than those observed in the takeover subset. Thus, the audit committee may perform a role in limiting the potential for market abuse to occur. The FRC's 2012 Guidance on Audit

Committees states that the audit committee has a responsibility to review price sensitive information before it is released (Para. 4.4). As noted in Chapter Seven, almost 28% of companies in the market abuse subset do not have an audit committee in place in the year of the abuse. Thus, it may be the case that price sensitive information may be reviewed arbitrarily with the implication that those with access to it may disclose it in a selective and untimely manner. Market abuse regulations tend not to delegate responsibility to the audit committee for controlling the release and use of inside information. Neither MAD nor the more recent European Market Abuse Regulation (Regulation No. 596/2014) make any reference to a role for the audit committee. In the context of the London Stock Exchange, companies admitted to trading on the Main Market are required to follow the UK Corporate Governance Code's guidelines regarding the establishment of an audit committee. DTR 7.1.3, which applies only to companies admitted to trading on the Main Market, also outlines the audit committee's responsibility to monitor the effectiveness of the issuer's internal control systems. These provisions aside, there is an absence of recognition of the potential role that an appropriately structured and active audit committee may play in ensuring the orderly and timely release of price-sensitive information such that the opportunities for insider dealing, improper disclosure, misuse of information and market manipulation may be reduced.

This study has found that companies involved in TMA cases experience a greater improvement in CGQ between the pre-event and event years than companies in the control sample which do not encounter such close regulatory supervision. While this improvement is not apparent when the market abuse subset is considered in isolation, the event to post-event year improvement observed in the market abuse subset coincides with or follows the commencement of regulatory investigations in the majority of cases. Given that the assurance of protection to investors is the primary objective of both the Takeover Code and the Code of Market Conduct, it would appear that involvement with market regulators may encourage improvements in internal governance mechanisms. Findings, thus, indicate considerable potential for market regulators to increase the role they perform in promoting high standards of corporate governance in the companies which fall within their remit. This may facilitate audit committees in achieving the necessary structure and level of activity to adequately oversee the orderly and timely flow of price-sensitive information from the company to the markets and hence lessen the opportunities for market abuse to occur.

As suggested above, the low scores observed for certain elements of CGQ in the market abuse subset may be partly attributed to the fact that almost one half of sample market abuse cases involve the shares of AIM listed companies. Thus, there may be an argument in favour of extending the requirement to adopt the UK Corporate Governance Code to AIM listed companies. If the principles of the Corporate Governance Code were fostered in companies as they grow, best practice in corporate governance may come to be regarded as standard practice by the time at which companies graduate to the Official List of the Exchange. Improved corporate governance alone is unlikely to prevent a company's shares from being implicated in market abuse. As noted in the previous chapter, the board may not be able to fully prevent all insiders and market participants from behaving in such an illegitimate manner; much of the responsibility for market surveillance and creating appropriate deterrents lies with the FCA. Nevertheless, market abuse may only be effectively regulated and market transparency may only be maintained if issuers make the requisite disclosures, which is likely to be encouraged by an effective board of directors.

Findings also raise a number of points for discussion regarding the clarity of advice provided in the UK Corporate Governance Code. The distinct tendency for sample companies to have a separate CEO and chairman highlights the effectiveness of the unambiguous language used under Principle A.2 of the UK Corporate Governance Code (2010) to discourage CEO-chairman duality. Such clarity may be useful elsewhere in the Corporate Governance Code. As noted in Chapter Three, there are no specific best practice guidelines on how frequently board meetings ought to be held; Provision A.1.1 simply states that "*the board should meet sufficiently regularly to discharge its duties effectively*". This is certainly open to interpretation. Having found that in the event year, boards in the takeover subset tend to meet almost twice as regularly as those in the control sample and more than twice as regularly as those in the market abuse subset, there seems to be considerable differences in the level of board activity both within the main sample and between companies in the main sample and their neighbours in the control sample. There may be an argument in favour of more precise guidelines in this regard. However, setting specific benchmarks for board meeting frequency may encourage a box-ticking approach being taken to governance, as Hahn and Lasfer (2007) point out. Indeed, given that boards in the control sample tend not to meet any more than seven times per annum, the monthly board meeting benchmark set in the present study may be a somewhat ambitious expectation, particularly as boards become more internationally diverse. Nevertheless, board meetings provide an opportunity for independent directors to challenge the CEO on various issues and to address various issues which affect shareholder wealth. Hence, greater encouragement may be required in best practice recommendations. For instance, guidelines as to how geographically dispersed board members might communicate using modern communications technologies might go some way to increasing the activity of boards of UK companies.

The structure and composition of the board is another area where the recommendations of the UK Corporate Governance Code are somewhat opaque. Principle B.1 recommends that boards comprise *"an appropriate balance of skills, experience, independence and knowledge of the company"*. This study has assumed that since executive directors are involved in the day to day business of the company, they make an important contribution to the board in terms of skills, experience and knowledge. While affiliated non-executives may make a similar contribution, their knowledge of and skills in the company's business may be outdated. Hence, it has been deemed appropriate that boards be equally balanced between executives and non-executive directors.

Average scores indicate that boards in the control sample tend to achieve a slightly better balance than those in the main sample. Findings suggest that board balance tends to be skewed in favour of non-executives, particularly in the takeover subset. This may be partly attributable to Provision B.1.2 of the Corporate Governance Code which recommends that at least one half of the boards of larger companies be composed of independent non-executives. Thus, where there are both affiliated and independent non-executives on the board, non-executives may be in the majority. Board independence is however observed to be much lower than 50% in both the main sample and the control sample. As independence is determined herein solely on what boards chose to disclose in their annual reports, it may even be overestimated since such disclosures may not reflect the true independence of directors (Mulgrew, Lynn and Rice, 2014).

Given that affiliated non-executives are so strongly represented on sample boards, one might question their value in terms of corporate governance. While the UK Corporate Governance Code offers clear examples of how a non-executive's independence might be impaired, it provides little guidance as to the extent to which a non-independent non-executive representation is necessary. While affiliates such as ex-employees or long-serving board members may bring considerable experience to boardroom, there is little empirical evidence to indicate that they perform a vital role in protecting shareholders' interests. In fact, studies which link affiliated non-executives with bankruptcy (Daily and Dalton, 1994) and excessive CEO compensation (Core, Holthausen and Larcker, 1999) suggest otherwise. It is arguable that affiliated non-executives may be just as susceptible to the influence of the CEO as executives. Thus, some benchmark for affiliated non-executive representation may also deserve a mention in the UK Corporate Governance Code.

Such a benchmark may also be useful with regard to board size. Provision B.1.2 recommends that the boards of smaller companies contain at least two independent members; however, in the absence of a clear recommendation on how many members ought to sit on the board, two independent members may be of little value as monitors if they are considerably outnumbered by executives and affiliated non-executives. Since a one-size-fits-all approach is unlikely to be suitable in the presence of variables such as the size of the company and the nature of its business, benchmarks may need to be suitably tailored and fine-tuned. This study has detected parallels between board size in the main sample and the control sample which has been matched by company size and industry. Hence, such benchmarks may possibly need to account for the industry in which companies operate and various metrics of size in addition to the markets on which their shares are listed.

8.4. <u>Corporate Governance Quality and Newspaper Reporting</u>

8.4.1. Discussion of Key Findings

The results of tests of the research hypothesis posed in this study show that newspaper reporting on takeover cases in the year prior to the withdrawal of a takeover offer is significantly positively associated with changes in corporate governance quality in companies targeted over the following year. This study does not find any evidence to indicate that newspaper reporting on takeover cases in the year in which the offer fails is associated with changes in corporate governance quality in targets over the following year, nor does it detect an isolated association between newspaper reporting at any stage in a market abuse case and changes in corporate governance quality in the companies whose shares are implicated in the years surrounding the abuse. The association between pre-event year newspaper reporting and pre-event to event year changes in corporate governance quality is also found to be positive and significant when tested for in the combined sample of takeover and market abuse cases; however the association between event year newspaper reporting and event to post-event year changes in corporate governance quality is again found to be insignificant.

Appropriate measures have been taken to assure the reliability of these results and it may be affirmed that they are not driven by endogeneity in the sample which may arise because newspaper reporting and changes in CGQ are influenced by similar factors. Having adjusted CGQ and changes in CGQ to account for the sample-specific effect which companies' close exposure to regulatory oversight may have on boards' characteristics and behaviour, these results are generalizable to UK listed companies when involved in takeovers and similar control transactions, irrespective of whether or not the actions of parties involved contravene the Takeover Code or Section 118 of FSMA.

Given that the CGQ of the takeover targets in the control sample also increases between the pre-event and event years, it might be argued that the governance improvements observed in the research sample over the year of the offer are a response to the threat of takeover, independent of the level of newspaper coverage the offer receives. Since the level of newspaper media exposure to which the offers for companies the control sample has not been measured, it is not possible to determine if the CGQ increases observed in the control sample are associated with newspaper coverage. However, the results of preliminary causality tests performed on the main sample have shown that the targets of offers which receive the most pre-event year newspaper coverage experience significantly greater positive changes in corporate governance quality than the targets which receive the least amount of coverage or no coverage at all. In fact, having found that targets of offers which receive little or no pre-event year newspaper, on average, experience deteriorations in corporate governance quality it would not appear appropriate to assume that the threat of takeover in isolation generates governance improvements.

Hence, the main finding of this study is that the amount of broadsheet newspaper reporting on anticipated takeover offers which eventually fail is associated with improvements in the corporate governance quality of companies targeted over the year following the publication of the reports. The more publicity a takeover threat receives in the mainstream broadsheet media, the greater the changes made on the board of directors such that the board adheres more closely to certain best practice guidelines, legislative guidelines and scholarly recommendations.

8.4.2. Implications

The main findings are consistent with the theory of the market for corporate control (Manne, 1965). Under the theory, companies are targeted for takeover due to managers' and directors' underperformance. By providing early warning signals that a company is a potential takeover target, the newspaper media may accentuate the threat imposed by the market for corporate control and perform a corporate governance role by encouraging board reform before an actual takeover, described by Fama (1980) and Coffee (1984) as the remedy of last resort, becomes necessary. The present results may thus be interpreted to indicate that newspaper reports which publicise a company's vulnerability to the threat of takeover may motivate boards to make appropriate changes such that they provide enhanced management oversight and improved shareholder protection.

This study finds that the boards of 51% of a sample of companies which are targeted for takeover are effectively replaced in a takeover. In the context of the theory of the market for corporate control, the threat of takeover appears to discipline boards in 49% of sample companies before an actual takeover becomes necessary. Findings indicate that the volume of newspaper coverage these companies receive prior to the abandonment of the bid is significantly positively associated with improvements in corporate governance quality in the year in which the bid is dropped. Since directors wish to maintain reputations as expert monitors in order to secure future board positions (Fama, 1980), they ought to avoid negative publicity regarding their ability to safeguard shareholders' interests (Dyck, Volchkova and Zingales, 2008), particularly in takeover situations (Liu and McConnell, 2013). The significant positive association between the amount of newspaper reports in the year prior to the abandonment of the offer and changes in corporate governance quality over the following year indicates that pre-event year newspaper reporting poses the greatest threat to directors' reputations. Since Rule 21 of the Code restricts boards from taking frustrating actions once the offer commences but does not extend to pre-bid defences, directors' greatest opportunity to defend the bid may come during the pre-event year. Hence, the actions directors' take in response to the takeover threat at this time may be subject to the greatest scrutiny from the newspaper media and its readers, including shareholders and other stakeholders. In effect, the more newspaper reports which are initially published about a company's vulnerability to takeover, the greater the potential reputational penalties imposed on directors. This may pressurise directors to make changes to the board over the year in which the offer fails so as to limit any reputational damage caused both from falling vulnerable to the threat of takeover and from defending the offer. Results may thus be interpreted to indicate that through its influence on directors' reputations, early newspaper reporting on takeover offers promotes governance improvements. Accordingly, it appears that the newspaper media may serve as something of a catalyst in the market's disciplinary process. By encouraging boards to act within shareholders' interests, the broadsheet newspaper media may well complement the operation of the market for corporate control and possibly assist in bringing about governance improvements.

By detecting a significant positive association between improvements in corporate governance quality and newspaper reporting on a company's vulnerability to takeover, this study supports and adds a new dimension to research on the corporate governance role of the media. Prior research has shown that media publicity surrounding infringements of shareholders' rights pressurises managers into taking remedial action (Dyck, Volchkova and Zingales, 2008) and that press criticism of board performance leads to improvements in corporate governance quality through replacements of board members and increases in independence as the remaining board members seek to avoid reputational damage and replacement (Farrell and Whidbee, 2002; Joe, Louis and Robinson, 2009). This study adds to this work by showing that newspaper coverage of the mere possibility of boards being replaced through the market's disciplinary mechanism is associated with improvements in the quality of the board as a corporate governance device. Improvements observed include more frequent board meetings, boards reaching a more appropriate size, separation of the roles of CEO and chairman, improved audit committee size and independence, more frequent audit committee meetings, improved CEO pay to performance sensitivity and directors' shareholdings reaching a level at which alignment of their interests with shareholders' is more likely. Further analysis conducted herein reveals that pre-event year newspaper coverage of takeover offers which eventually fail is most strongly associated with improvements in certain areas. The targets of failed takeover offers which receive high levels of pre-event year newspaper coverage are more inclined to split the roles of CEO and chairman in the following year. They are more likely to make greater efforts to improve their internal financial control systems in that audit committee meeting frequency increases. The manner in which remuneration and incentives are structured is also more likely to improve as changes in CEO's pay become more sensitive to changes in shareholders' wealth and directors' shareholdings move to a level at which they act as a more effective incentive without creating the risk of entrenchment. Results of analysis presented in the previous chapter indicate that boards which fail to ensure that CEO pay is tied to performance are equally as likely to be replaced in a takeover as they are to overcome the threat and go on to oversee improvements in the structure of CEO pay over the following year. They also show that boards which exhibit CEO-chairman duality, boards with inactive audit committees and boards whose collective ownership stakes in companies are too small or too large to effectively align their interests with those of shareholders' are more likely to be replaced in a takeover than to survive the attempt and make improvements over the following year. Thus, it would seem that the market for corporate control is the most powerful disciplinary force that boards are subject to; however, for those boards which are able to overcome the threat, the amount of publicity the offer initially receives in the broadsheet newspaper media may influence the extent of improvements on target boards.

A negative association is detected herein between the volume of newspaper reporting in the year in which the offer fails and changes in corporate governance quality over the following year. Since this association is not found to be statistically significant, it is unlikely that newspaper coverage of the events surrounding the withdrawal of a takeover offer has a strong influence on the actions taken by target boards over the following year. Thus, it would appear that any role performed by the broadsheet newspaper media in enhancing the disciplinary effects of a takeover threat is only a temporary one. Despite the observed reversal in the corporate governance quality, 84% of the targets which survive the takeover attempt remain independent over the two years following the offer. Thus, it would seem that in the vast majority of cases, the need for market discipline does not arise again in the medium-term. Whether or not the apparent investor satisfaction with the boards of sample companies arises from directors' efforts to avoid further reputational damage cannot be ascertained using the current research methodology.

These findings provide testament to the practical value of the newspaper media as an information intermediary both in the company and market environment. In comparison to various other intermediaries and gatekeepers of information considered in Chapter Four, the broadsheet newspaper media has a unique capacity to inform a broad range of parties within and beyond the boundaries of the firm in a relatively timely manner. By reporting on the activity of the market for corporate control in threatening directors' positions, and in doing so, influencing their reputations in the labour market, the newspaper media may assist the markets in protecting shareholders' interests by encouraging reform at the company level.

Sensitivity analysis has revealed that companies with low CGQ receive the most newspaper coverage in the pre-event year and those with high CGQ receive the most coverage in the event year. Having taken measures to ensure that the association detected between pre-event year newspaper reporting and pre-event year CGQ does not drive the main findings of this study, the positive influence of pre-event year newspaper reporting on pre-event to event year changes in CGQ remains evident. Thus, there is reason to suggest that the newspaper media focuses mainly on companies with low quality governance at the beginning of TMA cases and even though pre-event year newspaper reporting encourages an improvement in the governance of these companies, they continue to be monitored by the newspaper media in the event year. This would suggest that companies' corporate governance quality determines the amount of newspaper coverage they receive. Given that the literature strongly portrays the press as a monitor of directors' actions and performance (Farrell and Whidbee, 2002; Johnson et al., 2005; Miller, 2006; Joe, Louis and Robinson, 2009; Lauterbach and Pajuste, 2014), this may well be the case. However, these results cannot confirm this since measurements of CGQ and newspaper reporting are taken over the same periods in time and analysis which incorporates time lags does not produce any evidence of a significant link between newspaper reporting and corporate governance quality in the previous year.

Given that the evidence indicates that the broadsheet newspaper media plays a meaningful role in promoting, and possibly monitoring, corporate governance quality change, it is crucial that concerns about the broadsheet's sustainability and its future independence, accuracy and credibility be addressed by industry professionals and policymakers so that its incentives do not become aligned with managers and directors. Results of sensitivity analysis indicate that when the varying intensity of coverage of takeover cases is accounted for, the influence of the newspaper media on changes in corporate governance quality may not be as strong as first anticipated. This implies that even when a takeover offer receives a high level of coverage in the broadsheet media generally, the board of the company involved may not face the same reputational costs if certain newspapers do not report on the case to the same extent as do others. Thus, while the broadsheet newspaper media does appear to possess the potential to have a significant positive impact on the actions of the boards of companies on which it reports, its practical value in corporate governance may be reduced considerably where newspapers bear allegiances to the boards of certain companies such that they do not fully expose boards to public scrutiny. While the same might be said for newspapers which devote an unwarranted amount of coverage to issues facing the boards of certain companies due to negative relations with the company, such biased reporting is unlikely to be observed to any great extent within the UK broadsheet media as it may constitute as defamatory. As such, it would appear that while regulation of the newspaper media discourages observable bias, it may not account for the bias manifest in a lack of reporting on issues. The next chapter devotes further consideration to the necessity for impartial, independent reporting within the broadsheet media if it is to be of tangible value in corporate governance.

This study's failure to detect a significant link between newspaper reporting in the year of the offer and changes in corporate governance quality may suggest that the newspaper media's role in corporate governance in the context of takeover offers may only be of short-term value. It may be the case that as more information is made available by other parties as an offer becomes imminent, the influence of the newspaper media diminishes. Indeed, given the opportunities for newspaper reports themselves to become biased over the offer period, they may have a lesser impact as they are not credited as readily.

While this study has found that early newspaper coverage on the disciplinary operation of the market for corporate control is significantly positively associated with governance changes in companies involved, it fails to detect an association between early newspaper reporting on events which may cause the market for corporate control to fail and governance changes in the companies whose shares are implicated. Investigation of an association between pre-event year newspaper reporting and changes in corporate governance quality in market abuse cases has been largely constrained by low levels of pre-event year newspaper reporting. In this respect, the findings of the main analysis of this study highlight the practical barriers to reporting on white collar crime and illegitimate behaviour in the corporate and market context. Principally, the fact that market abuse is prohibited by law means that offenders endeavour to conceal their actions such that there may be no signals or clues to prompt journalistic investigations (Miller, 2006). Even if suspicions are harboured among the news media, resource constraints present a significant impediment to investigative journalism (Doyle, 2006; Tambini, 2008; Lewis *et al*., 2010). Those more critical of the news media might, however, argue that, resource shortages aside, journalists, particularly those in the mainstream media, are not sufficiently financially literate to detect market abuse and to follow up with a rigorous investigation (Sherman, 2002).

It has been possible to examine the hypothesised association between event year newspaper reporting and changes in corporate governance quality in market abuse cases. However, there is no evidence to suggest that by reporting on instances of market abuse, the newspaper media highlights directors' failure to implement sufficient controls over the release and use of inside information and to prevent insiders from taking actions aimed at manipulating the company's share price. Although corporate governance quality improves in companies whose shares are implicated in market abuse, it remains low. While the validity of findings suffers from the small number of instances studied, one inference may be that the level of newspaper reporting on market abuse cases is insufficient to impose significant reputational costs on directors. The volume of newspaper reporting on market abuse cases in the year of the abuse is small. In fact, some cases receive no coverage until regulatory intervention is complete. As noted in Chapter Seven, this may be a number of years later, with the effect that certain members of the board in place at the time of the abuse have retired. Nevertheless, Joe, Louis and Robinson's (2009) study shows that just one instance of media exposure of governance problems suffices to encourage board reform. Thus, it may also be the case that in practice, mainstream newspaper reports on abuses are not perceived by boards to possess the potential to harm their reputations vis-à-vis the investment community. Unlike takeover offers, which may have implications for a variety of segments of society, market abuse may be thought of as an issue which is deemed important mainly by stock market participants and thus, reporting by specialist financial media vehicles may have a greater impact on their reputations in this regard.

Alternatively, directors may not immediately acknowledge that the incidence of the abuse indicates a need for changes to the board and governance improvements, irrespective of the level of press exposure it receives. The analysis presented in the previous chapter finds no evidence of a significant association between changes in CGQ and the question of blame in market abuse cases. As such, it would not appear that responsibility for the abuse determines changes in corporate governance quality. Although managers and directors are directly involved in 44% of the market abuse cases studied presently, they may not assume responsibility until the FSA, the UK's competent authority for stock market regulation over the sample period, identifies the offender. While it may be immediately apparent that a party has contravened a Rule of the Takeover Code, a manager or director who engages in market abuse may attempt to conceal that they have committed market abuse for a number of years, particularly since they face the possibility of being penalised through the courts. In contrast, directors who are in breach of the Takeover Code have not engaged in an illegal act and hence do not face such severe consequences.

The findings of this study indicate that corporate governance quality tends to be low in companies whose shares are involved in market abuse. While at the aggregate level, the governance quality of companies in the market abuse subset is in line with the benchmark set within the control sample, there are specific areas where the quality of governance within the market abuse subset falls below that in the control sample. Specifically, the boards of companies in the market abuse subset of the sample tend to comprise a low proportion of independent members and members tend to own a large proportion of the company's shares, possibly indicating entrenchment. In addition, their CEOs tend to be paid a sum which does not reflect their performance in maximising shareholders' returns. The tendency for the boards of companies involved in market abuse cases to fail to establish an audit committee or to have an inactive audit committee consisting of a low proportion of independent members is also worth noting. Given that market abuse represents an injustice to shareholders, it might be argued that, in practice, boards of directors ought to play a greater role in protecting their shareholders against such abuses. As noted in Section 8.3 there is a lack of recognition of the need for appropriate governance within issuers in market abuse regulations; hence, greater interaction between policymakers at market and company level may be beneficial in terms of investor protection from this perspective.

8.5. Conclusion

The discussion presented in this chapter concludes that the essence of the mainstream UK broadsheet newspaper media's role in corporate governance is as an information intermediary which republishes information from a variety of sources and makes it accessible to a range of parties throughout the company and market environment, and in so doing, promotes a realignment of directors' interests with those of shareholders. The mainstream newspaper media appears more capacitated to serve this role in contexts where information may be acquired quite readily and where the issues in question are of interest to a wide and varied audience. Such conditions exist when the market for corporate control operates successfully. However, when illegitimate behaviour which may lead to the breakdown of the market for corporate control takes place, barriers are erected which impede the ability of the mainstream broadsheet press to function as an effective information intermediary.

Almost one half of the sample of takeover offers employed in this study fail; in these cases, directors appear to respond to the threat of takeover by making changes to different areas of the board. This study has shown that the extent of these changes is positively associated with the volume of mainstream broadsheet newspaper coverage the offer receives. Thus, findings imply that by interpreting signals and collecting information regarding the possibility of takeover, the newspaper media may publicise the prospect of the board's replacement. Such publicity exposes the board's ability to serve as a corporate governance device to the company's shareholders, potential investors, peer companies wherein directors may seek board positions in the future and other stakeholders who have contractual relationships with the company, both explicit and implicit, regarding the supply of labour, materials, credit, infrastructure and a market for its products.

In contrast, the instances of market abuse involving UK listed shares studied presently receive little coverage until regulatory intervention has ensued, by which time the board of directors of companies have undergone routine refreshment. Accordingly, this study's failure to detect any link between newspaper reporting and changes in corporate governance quality may not have come as a surprise. This chapter has acknowledged various factors which may explain the low levels of newspaper coverage observed in this study. The concealed and rapid nature of market abuse and a lack of time, training and financial resources may constrain mainstream broadsheet journalists' ability to follow up on and verify their own and the suspicions of informants. This coupled with the risk of being held liable for defamation of character and the confidential nature of regulatory investigations may explain why market abuse cases receive low levels of newspaper coverage which is belated in nature. It has also considered a number of explanations as to why corporate governance quality does not appear to change in response to the newspaper reports which are published in the year of the abuse and it may be the case that boards do not perceive mainstream newspaper reports on market abuse to threaten their reputations, either due to their predominantly non-financial specialist audience, because they do not believe the abuse to be a failure on their part, or if they do, they do not explicitly acknowledge this. That said; the possibility that the mainstream broadsheet newspaper media may serve a role in corporate governance by reporting on market abuse cannot be fully rejected presently given the small size of the sample of market abuse cases employed in this study. Having discussed, and considered the implications of, findings regarding the corporate governance role of newspaper reporting on takeover offers and market abuse, the conclusions of this study are drawn in the next chapter.

CHAPTER NINE: CONCLUSION

9.1. Introduction

Access to information on the activities of managers and directors is fundamental to appropriate governance of dispersedly owned companies. Possible methods of enhancing company disclosures have led a distinct line of inquiry in the corporate governance literature for many years (Diamond and Verrechia, 1991; Forker, 1992; Healy, Hutton and Palepu, 1999; Bushman, Chen, Engel and Smith, 2004); yet, the problem of information asymmetry persists. Recognition of the capacity of external intermediaries such as the news media to alleviate this problem (Dyck, Volchkova and Zingales, 2008; Kothari, Li and Short, 2009; Bushee *et al*., 2010; Buehlmaier, 2013; Liu and McConnell, 2013) deserves commendation for bringing fresh perspective to research in this area.

Building upon this work, the present study has endeavoured to evaluate the corporate governance role of the newspaper media in a setting where responsibility for shareholder protection lies immediately with the board of directors, but ultimately rests with the market for corporate control. The findings discussed in the previous chapter suggest that the newspaper media possesses considerable power to encourage boards to serve the interests of shareholders. It would appear that by publicising directors' exposure and responses to market enforced discipline, the broadsheet newspaper media performs a meaningful function in promoting board accountability in publically owned companies in the UK.

This chapter reaches a number of conclusions about the role served by mainstream broadsheet newspaper reporting on market level issues concerning shareholder protection in corporate governance processes at the company level. This enables the contribution of the study to be assessed in terms of theory, empirical evidence, method, context and practice so that recommendations in a number of these areas may be made. Following this, the limitations of the study are addressed and potential avenues for future research are considered.

9.2. <u>Conclusions</u>

9.2.1. The Newspaper Media as a Catalyst in the Market for Corporate Control

Since boards of UK listed companies face few mandatory requirements to serve the interests of shareholders, the presence of an active market for corporate control has a critical influence on the UK system of corporate governance. This thesis has considered how a lack of reliable information regarding a company's performance may enable ineffective managers and directors to avoid discipline. It has suggested that, although subject to many of the limitations of more traditional intermediaries in the company and market environment, the broadsheet newspaper media may make a valuable contribution to corporate governance in the UK. Specifically, it is proposed that by keeping shareholders and other key stakeholders informed on the operation of the market for corporate control, while creating potential reputational costs for directors who are subject to its discipline, the newspaper media may have an important impact on governance at company level. This study is not the first to acknowledge the news media as an active participant in the market for corporate control. As an intermediary which offers ready access to a large amount of information on the developments which occur over the course of a takeover offer in a relatively timely manner, the news media may simultaneously benefit shareholders in both the bidding (Liu and McConnell, 2013) and target companies (Buehlmaier, 2013).

Having considered the findings of this study, the value of the news media in takeover situations may be appreciated from a further perspective, i.e. through its influence over the reputations and hence, the actions of target directors. The significant positive association detected herein between newspaper reporting on the possibility of a takeover and subsequent changes in the target's corporate governance quality suggests that newspaper publicity surrounding a company's vulnerability to takeover triggers action amongst the members of its board. Through its influence over directors' reputations, mainstream broadsheet newspaper reporting on potential takeovers encourages changes to be made on the target board so that it serves as a means of promoting better quality corporate governance. Newspaper reporting prior to the announcement of the offer is apt to have a particularly strong influence on directors' reputations since it publicises the fact that the performance of the board has reached such a low level that a takeover, a tool often saved for correcting egregious management failure, may be necessary. Moreover, it subjects directors who erect pre-bid defences to public scrutiny.

The governance improvements with which newspaper reporting is associated is apparent in board size, board meeting frequency, the roles of CEO and chairman, audit committee size, independence and activity, CEO pay to performance sensitivity and directors' ownership interests. Newspaper reporting is significantly associated with changes in board leadership roles, audit committee meeting frequency, CEO pay to performance sensitivity and directors' shareholdings in isolation; yet, boards which exhibit low governance quality in many of these areas are more likely to be replaced in a takeover than to overcome the attempt and make the changes thereafter. Thus, effective takeovers have the greatest disciplinary power; however, where the threat of takeover suffices to correct boards' shortcomings in these areas, the newspaper media may serve a role in encouraging reform. Accordingly, this study concludes that the broadsheet newspaper media catalyses the disciplinary operation of the market for corporate control and in doing so, serves a role in corporate governance.

The value of broadsheet newspapers in this respect ought not to be overestimated. The influence of the broadsheet newspaper media on corporate governance quality and changes therein may be considerably weaker where there are variations in coverage among publications and among newspaper groups. In effect, unless all newspaper titles fully expose issues in companies, their boards may not face the same reputational risks and hence, may not be as strongly encouraged to implement positive governance changes. Moreover, corporate governance quality has been found to deteriorate in targets once the threat of takeover passes, irrespective of the amount of newspaper reports published in the year of the offer or in the year before or after it. At best, the positive influence of the newspaper media on corporate governance is short-term in nature and the responsibility for pressurising boards to maintain and enhance the improvements made over the year of the offer may be left to shareholders and policymakers. As such, the newspaper media may facilitate a temporary realignment of directors' interests with those of shareholders, creating an opportunity for more central stakeholders to enhance the quality of the board as a corporate governance device via enhanced policy guidelines and shareholder activism. Thus, while broadsheet newspaper reporting may catalyse reform, it is by no means a solution to the agency problem which has driven corporate governance research for decades.

9.2.2. The Limited Vigilance of the Newspaper Media

Stock market abuse is undesirable for various reasons outlined in Chapter Two. The present study views market abuse as a form of behaviour which is contrary to the effective operation of the market for corporate control. Accordingly, this thesis has proposed that the newspaper media's corporate governance role in the context of the market for corporate control may entail a watchdog function, whereby it alerts shareholders and other interested parties of market abuse and informs them of its implications. Chapter Four has, however, acknowledged that as a corporate watchdog, the news media can fail to bark sufficiently early to prevent loses of shareholders' wealth (Dyck and Zingales, 2002b; Sherman, 2002; Doyle, 2006). Findings discussed in Chapter Eight indicate that stock market abuse is one area in which this weakness is particularly apparent.

While the newspaper media may serve a purpose in aiding the market for corporate control in disciplining boards, it shows little potential to signal or limit abuses which may lead to its breakdown. Having found no evidence of a significant association between newspaper reporting on instances of market abuse and changes in corporate governance quality in the companies whose shares are implicated, the hypothesis posed herein has been rejected with respect to market abuse. Because the sample of market abuse cases employed in this study is small, it cannot be conclusively stated that newspaper reporting on market abuse has no impact on corporate governance quality in the companies whose shares are involved. However, the low level of broadsheet newspaper reporting on market abuse cases observed in this study would indicate that they may not receive adequate publicity to have a sufficient influence on directors' reputations and hence, their incentives to make changes to the board such that it serves as a higher quality governance device.

Although a meaningful amount of reports on abuses would not be expected in the pre-event year, given that it is impossible to predict its occurrence, the small amount of reports published in the year of the abuse indicates that barriers to reporting on market abuse exist even as it occurs and in the months following its incidence. In light of academic commentary on the time and resource shortages which UK broadsheet journalists have faced over the past decade (Doyle, 2006; Tambini, 2008; Lewis *et al*., 2010), it would seem that the costs associated with investigating and verifying suspected abuses outweigh the potential benefits of publishing the story, particularly since online media vehicles may still release the story first.

The previous chapter has also considered the possibility that broadsheet newspaper reporting on instances of market abuse may not have an influence on board changes in companies involved because it does not impose reputational costs on their directors, who do not assume responsibility for its occurrence. While the threat of takeover may be directly attributed to the performance of managers and directors, a company's shares may become implicated in market abuse irrespective of the quality of the board as a corporate governance device. The board may ensure that the Code of Market Conduct, the DTRs and the Listing Rules are adhered to; however, they cannot prevent all market participants from trading in the company's shares in an illegitimate manner. Moreover, while directors' responses to a takeover offer can significantly impact shareholders' wealth, directors of companies whose shares are implicated in market abuse ultimately entrust the FCA to investigate and remedy the abuse. As a result, the actions of directors of takeover targets are likely to be subject to more scrutiny by the media, shareholders and stakeholders than are those of directors in companies whose shares are implicated in market abuse. Thus, newspaper reporting on market abuse cases may not threaten directors' reputations and hence, their future board positions in the same manner as does that on takeover cases.

9.3. <u>Contributions of the Study</u>

This study has contributed to the literature on multiple levels. This section discusses these contributions in terms of theory, empirical evidence, method, context and practice. A summary of these contributions is provided in Table 9.1.

This study has provided considerable support for the theory of the market for corporate control (Manne, 1965) by providing evidence which indicates that companies which are threatened by takeover experience improvements in corporate governance quality, consistent with Coffee's (1984, p.1202) analogy of the board of directors as a "*tripwire*" which is triggered before an actual takeover, the remedy of last resort, becomes necessary. Consistently, this study finds that boards which are replaced in an effective takeover, on average, exhibit lower corporate governance quality prior to the offer than those which avoid the extreme form of discipline exerted by a takeover. The findings presented herein contribute to this theory by indicating that the volume of mainstream broadsheet newspaper coverage the offer receives is positively associated with governance improvements. This suggests that broadsheet newspaper publicity encourages boards which face the threat of takeover to enhance the quality of governance they provide. As such, the mainstream broadsheet newspaper media may catalyse the disciplinary operation of the market for corporate control by disseminating information throughout the company and market environment in the early stages of a takeover offer and in doing so, increasing directors' reputational stakes in surviving the takeover attempt. These findings support Borden's (2007) conjecture that the news media may catalyse the market's response to managerial and board failure. However, while Borden envisages this process to come about via shareholders' actions, the present findings indicate that shareholders need not necessarily respond to coverage in order for the news media to promote discipline of boards. Findings however imply that a weakness of the newspaper media's role in this respect is its limited ability to detect and warn parties of market abuse which may impede the disciplinary capacity of the market for corporate control and place shareholders at a disadvantage.

Table 9.1: Contribution of the Present Study

	Supports	**Develops**	**Adds**
Theory	Supports the theory of the market for corporate control (Manne, 1965).	Develops this theory by considering how news media reporting on takeover offers and stock market abuse impacts the operation of the market for corporate control from the perspective of the board of directors.	Adds a new dimension to Borden's (2007) argument that the news media may catalyse the market's response to management and board failure by encouraging shareholders to take action by providing evidence which suggests that the news media catalyses the disciplinary role of the market for corporate control by encouraging directory to take action.
Empirical Evidence	Supports research on (i) the news media's influence on corporate governance (Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009); (ii) the news media's impact on decision-making in the context of takeovers (Liu and McConnell, 2013; Buehlmaier, 2013); (iii) the news media's role as an information intermediary (Kothari, Li and Short, 2009; Bushee *et al*., 2010) and (iv) the media's impact on managers' and directors' reputations (Dyck, Volchkova and Zingales, 2008; Liu and McConnell, 2013).	Builds on prior research on the corporate governance role of the news media at market level (Buehlmaier, 2013; Liu and McConnell, 2013; Ahern and Sosyura, 2014) by employing a sample which includes both takeover offers and instances of market abuse so as to consider the impact of newspaper reporting on both the operation and the possible failure of the market for corporate control.	Findings indicate that the mainstream broadsheet newspaper media facilitates the effective interaction of the primary external and internal methods of shareholder protection- the market for corporate control and the board of directors. This study's focus on the target board contrasts prior studies which have considered how news media coverage of takeovers serves a corporate governance role by informing target shareholders directly (Buehlmaier, 2013) and vis-à-vis its influence on the reputations of acquiring management (Liu and McConnell, 2013).
Method	Supports prior studies which discretely evaluate multiple facets of the board of directors (see Table 3.1).	Develops a scoring system to achieve scaled measures so that the quality of ten key aspects of the board may be evaluated relative to extant best practice guidelines.	Introduces a novel benchmark-adjusted aggregate measure of corporate governance quality, tailored specifically to the context of UK listed plcs, which focuses exclusively on key facets of the board so as to reduce the potential for measurement error. In this respect, this study contrasts and adds to previous studies which evaluate board characteristics discretely (see Table 3.1) and those which employ aggregate measures of corporate governance quality developed by commercial agencies (Durnev and Kim, 2005; Brown and Caylor, 2006; Bhagat and Bolton, 2008).
	Follows the methodology of Dyck, Volchkova and Zingales (2008) to the extent that media data is manually collected and appraised, the volumes of news articles are employed as the primary media measures and steps are taken to address the possibility of an endogenous relationship between the newspaper media and corporate governance change.	Develops this methodology by employing a broader range of newspaper sources, a larger sample of cases and a longer timeframe. The newspaper reporting variable employed is adjusted such it is independent of the influence of multiple factors which may also influence corporate governance change.	Provides new evidence to indicate that causality flows from the newspaper media to improvements in corporate governance. Notwithstanding this evidence, this study recommends that further research is necessary to investigate if corporate governance quality may also be a determinant of newspaper reporting.

Table 9.1 Continued: Contribution of the Present Study

	Supports	**Develops**	**Adds**
Context	Supports research on the impact of the print media on corporate governance (Farrell and Whidbee, 2002; Johnson *et al*., 2005; Miller, 2006; Core, Guay and Larcker, 2008; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009; Bushee *et al*., 2010; Buehlmaier, 2013; Liu and McConnell, 2013).	Prior studies employ a sample solely composed of specialist business and financial publications (Farrell and Whidbee, 2002; Johnson *et al*., 2005; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009; Bushee *et al*., 2010; Buehlmaier, 2013) or a sample composed of a combination of specialist and mainstream publications (Miller, 2006; Core, Guay and Larcker, 2008; Liu and McConnell, 2013).	Highlights that the mainstream newspaper media in isolation may influence the actions of boards.
	Advocates commentary on the role of the media in promoting the value of corporate governance at policy level in the UK (Jones and Pollitt, 2001; 2004).	Builds upon a vast body of research on corporate governance in UK listed plcs.	Detects a news media influence on corporate governance behaviour in UK listed plcs, a setting which has heretofore been largely unexplored in research on the corporate governance role of the media.
Practice	Verifies that takeover offers for large public listed companies attract considerable publicity in the news media. Confirms the difficulties associated with reporting on white collar crimes such as market abuse.	Highlights the potential value of the newspaper media as an information intermediary between boards, shareholders and numerous other market participants and company stakeholders. Stresses the incentives of managers and directors to attempt to bias newspaper reports. Highlights the barriers to investigative journalism which impede the news media's potential role as a watchdog for illegitimate behaviour at the company and market level.	This study shows that broadsheet newspaper reports may potentially influence the effectiveness of boards of directors as instruments of shareholder protection and thus, makes a number of recommendations regarding the sustainability of the quality UK broadsheet newspaper media from the unique viewpoint that accurate, credible, timely and independent newspaper reporting is of value in corporate governance and in the context of business and finance in general.
	Reaffirms the importance of promoting high standards of corporate governance at the company level.	Emphasises the importance of effective interaction between different corporate governance mechanisms, primarily the market for corporate control, the board of directors, shareholder activism and the legal and regulatory system. Indicates that the newspaper media can facilitate this interaction.	This study highlights that although takeover offers serve a key role in disciplining boards which may not serve as fully effective corporate governance devices, the governance improvements which come about following a takeover threat may not be sustained in the long term. Thus, it invites policymakers to further consider the clarity of existing best practice guidelines and the scope of listed companies to which they apply. It also urges the development of measures to facilitate shareholder activism in UK companies which have already been initiated at policy level.

At an empirical level, this study builds upon a growing stream of research on the influence of the news media on corporate governance (Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009) and more specifically, to a line of inquiry concerning the corporate governance role of news media coverage of takeovers (Buehlmaier, 2013; Liu and McConnell, 2013). Findings shed further insight into the impact of news media coverage of takeovers by indicating that the amount of publicity an offer receives in the newspaper media may influence the efforts the target board makes to provide enhanced shareholder protection. In this respect, this study adds a new dimension to previous work which shows that the news media aligns the interests of the managers of the acquiring company with those of its shareholders (Liu and McConnell, 2013). The present research takes a novel approach by endeavouring to examine the impact of newspaper coverage of both the operation of the market for corporate control and behaviour which may cause it to breakdown. While findings regarding the impact of newspaper coverage of market abuse cases are inconclusive, the low level of attention paid by the mainstream broadsheet media to instances of market abuse highlights that there are limits to its value in facilitating the operation of the market for corporate control. The mainstream broadsheet press appears to serve as a poor watchdog for and source of information on illegitimate behaviour which can interrupt the effective functioning of the market for corporate control. Findings also support the view of the press as an information intermediary in the company environment (Kothari, Li and Short, 2009; Bushee *et al*., 2010) by illustrating that the UK mainstream broadsheet newspaper media, with a wide and varied audience of both immediate and broader company stakeholders, provides extensive coverage of takeovers such that it impacts corporate governance behaviour in target companies.

In terms of method, this study follows the methodology adopted by Dyck, Volchkova and Zingales (2008) to the extent that media data is manually appraised and the volumes of news articles are employed as the primary measure of media coverage, but differs in that a broader range of newspaper sources are employed and data is collected over a longer timeframe for a larger sample of cases. To the best of the author’s knowledge, this is the first study to manually appraise a sample of newspaper reports of such volume. Moreover, this study, like that of Dyck, Volchkova and Zingales, takes appropriate steps to address possible endogeneity in the sample. Dyck, Volchkova and Zingales identify an exogenous component of newspaper coverage and use this as the basis for isolating a causal link between newspaper reporting and corporate governance reform. Despite having tested and verified the reliability of their instrument, they acknowledge that their study alone cannot fully confirm that causality flows from the news media to corporate governance reform and identify this issue as an area for future research. In response to this call, the present study devises a measure of newspaper reporting which is independent of the influence of a comprehensive range of factors which may drive corporate governance change and hence, is considered not to be endogenously linked to corporate governance quality change. Having identified a positive relationship between this measure and corporate governance quality change, this study adds to the work of Dyck, Volchkova and Zingales by providing further evidence to indicate a causal link between newspaper media reporting and subsequent improvements in corporate governance. Nevertheless, in presenting this evidence, this study acknowledges that companies' pre-existing governance quality may also determine the amount of coverage which they receive. This possibility has been briefly examined herein; however, tests are inconclusive. Thus, while the present study has gone some way in pursuing the research avenue identified by Dyck, Volchkova and Zingales, more work is needed to investigate the direction of causality in the relationship between the media and corporate governance. Section 9.6 makes further suggestions in this regard. Also in terms of method, the study builds upon prior studies which discretely evaluate multiple facets of the board of directors, a summary of which is provided in Table 3.1 in Chapter Three, by developing a novel aggregate measure of corporate governance quality which is based primarily upon best practice guidelines in place in the UK during the sample timeframe. This measure accounts for key aspects of the board which are central to its capacity to protect shareholders. Using a control sample of companies, which is identified using the nearest neighbour matching technique (Abadie and Imbens, 2006; 2011; Malmendier and Tate, 2009), a benchmark of corporate governance quality is established and the corporate governance quality of companies in the main research sample is adjusted accordingly so as to account for the possibility that the quality of their governance may be influenced by the close regulatory scrutiny to which they are exposed. In this respect, the methodology is distinct from studies which employ aggregate measures of corporate governance quality developed by commercial agencies (Brown and Caylor, 2006; Carcello *et al*., 2006; Bhagat and Bolton, 2008). Such measures, which consider a large number of board attributes, although comprehensive, may be susceptible to measurement error (Daines, Gow and Larcker, 2010) and may not account for firm-specific circumstances, such as exposure to additional regulatory oversight as is the case in the present research sample.

This study also makes a valuable contribution in terms of context. Notwithstanding the vast body of research on corporate governance in UK listed plcs, little attention has been paid to the role of the news media. Although research on the corporate governance role of the news media remains very much in its infancy, it is not a new concept. The collapse of Enron in 2001 seems to have sparked an intrigue with the role of the media among scholars of corporate governance in the US context (Farrell and Whidbee, 2002; Agrawal and Chanda, 2005; Johnson *et al*., 2005; Borden, 2007; Brickley, 2008; Joe, Louis and Robinson, 2009). However, the same interest has not yet arisen in the UK, despite the much earlier incidence of corporate scandals including those at Polly Peck International, Maxwell Corporate Communications and the Bank of Credit and Commerce, which are argued to have driven the development of best practice guidelines in the UK (Jones and Pollitt, 2001; 2004). This is surprising, not least because of the presence of a long established quality broadsheet newspaper media (Doyle, 2006; Tambini, 2008) which has avoided much of the recent criticism made of tabloid newspapers (the Leveson Report, 2012), but also because of the strong emphasis placed on shareholder protection in the UK (Denis and McConnell, 2003; Bebchuk, 2005; 2007; Armour and Skeel, 2006). Accordingly, one of the most significant contributions of the present study is that it introduces a fresh strand of corporate governance research, that on the role of the media, into a context, the London Stock Exchange, which has hosted considerable academic inquiry into corporate governance for decades. Also, on a contextual level, this study follows much prior work in its focus on the print media. Prior work in this area tends to converge upon the specialist business and financial press (Farrell and Whidbee, 2002; Johnson *et al*., 2005; Miller, 2006; Core, Guay and Larcker, 2008; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009; Bushee *et al*., 2010; Buehlmaier, 2013; Liu and McConnell, 2013). While a number of these studies employ mainstream newspapers (Miller, 2006; Core, Guay and Larcker, 2008; Liu and McConnell, 2013), they do not consider the impact of news coverage which is intended for a general audience in isolation. As noted in the previous chapter, there is a limited presence of widely disseminated business and financial newspapers which are published sufficiently regularly to provide information on the day to day activities of companies in the UK. Chapter One of this thesis illustrates that mainstream broadsheet newspapers tend to be read more by individuals with professional occupations. As an implication, mainstream broadsheet newspaper reports may attract the attention of a variety of stakeholders in the company, thereby not only affecting the board's reputation with investors but also with regulators, creditors, employees, customers, suppliers and other parties in the company's environment. Accordingly, when an event such as a takeover offer reaches the mainstream news media, the response taken by the target board is subject to the scrutiny of a broader range of parties than if it were only to appear in the financial and business press. Moreover, because there are a number of daily mainstream broadsheets in circulation, a greater plurality of views is offered. This thesis has provided evidence to suggest that mainstream newspapers may pose a significant threat to directors' reputations and hence, have an impact on the actions they take to preserve shareholders' wealth. As noted above, this study has provided evidence to support Borden's (2007) conjecture that the financial news media may catalyse the disciplinary operation of the market for corporate control; however, it has shown that coverage need not be provided in the specialist financial media to have such an influence. The evidence suggests, however, that the value of mainstream broadsheets may be limited to shareholders in larger companies which tend generally to be visible to the media. Moreover, the broadsheet newspaper media's attention to issues which affect shareholders wealth also appears to rely on the ease with which they may be reported on, such that they provide little information on injustices such as market abuse.

Finally in terms of practice, this study provides verification of the amount of publicity which takeover offers receive in the newspaper media and provides evidence to support the view of the newspaper media as an information intermediary in the company and market environment. The practical value of the newspaper media to investors and other stakeholders has already been acknowledged by prior researchers in this respect (Deephouse, 2000; Dyck, Volchkova and Zingales, 2008; Kothari, Li and Short, 2009; Bushee *et al*., 2010). This study highlights the potential value of the mainstream broadsheet newspaper media to shareholders and other stakeholders in UK listed companies which are targeted for takeover. UK broadsheet newspapers are widely disseminated sources of information on directors' actions such that they may serve a purpose in curtailing self-serving behaviour among directors in takeover situations. As discussed in the previous chapter, the essence of the newspaper media's role is in its capacity to gather information from a variety of sources and make it accessible to various parties; however, when the costs of gathering and dispersing information are high, the newspaper media's ability to serve its role is impeded. Hence, the practical value of the newspaper media in instances of white collar crime such as market abuse is low. The previous chapter also noted that the extent to which the newspaper media may be exploited as an information intermediary in practice relies upon the reliability of newspaper reports. Since directors are aware of the power of the media to shape their reputations, they and their PR agents may take advantage of the pressures journalists face to obtain information on company events at low cost, in a timely manner. The differing intensity of newspaper reporting from case to case which has been observed herein indicates a reluctance on the part of certain newspaper titles and newspaper groups to fully expose problems in some companies, possibly due to a lack of independence from the companies in question. Where this is the case, the capacity of the broadsheet newspaper media to promote governance improvements may be reduced. The next section makes a number of recommendations as to how the value of the broadsheet newspaper in corporate governance, and in business and finance more generally, may be sustained in the future. This study also reaffirms the importance of promoting high standards of corporate governance in companies listed in the UK. The evidence presented herein suggests that alternative oversight mechanisms may work in harmony to protect shareholders' wealth. By reporting on an established method of disciplining managers and directors- the takeover offer, the newspaper media, a non-traditional participant in corporate governance, may facilitate the efficacy of the threat of takeover in encouraging board reform. The value of this interaction is likely be enhanced through the involvement of policymakers and shareholders. The previous chapter has suggested that continued maintenance of policies which encourage boards to adhere to standards of best practice in corporate governance and policy-level initiatives aimed at promoting active shareholder participation are necessary in order to preserve and develop the governance improvements brought about through media publicised takeover offers. Given that the public opinion expressed via the news media has been recognised as a driver of policy developments in the UK in the past (Jones and Pollitt, 2001; 2004) and that shareholder activists have been observed to exploit the newspaper media to confront underperforming management (Becht *et al*., 2010), it would seem that there are numerous potential practical complementarities between traditional corporate governance mechanisms and the news media.

9.4. Main Recommendations

9.4.1. The Need for Strategy and Standards in the Future of the Newspaper Media

As noted above, the practical value of the newspaper media in corporate governance is diminishing as accuracy and independence are sacrificed for low-cost information acquisition and rapid news coverage. Competition from online real-time news providers and resource shortages appears to have created an incentive to acquire information on a quid-pro-quo basis and to neglect verifying and certifying this information. In the absence of clear guidelines on appropriate relationships with sources and standards of accuracy, information communicated through the newspaper media cannot be fully relied upon by its readers. This thesis thus makes a two-fold recommendation that the future of the broadsheet media ought to be guided by well-defined business strategy and independent regulation. The ideas put forward in respect are founded upon findings from two fields of inquiry into the future role of the newspaper media in society. The position of the newspaper media in the digital age has received considerable attention in media research and in Parliament (The House of Lords Select Committee on Communications, 2008; Pew Research Centre, 2012; the Reuters Institute, 2013). The issue of independent press regulation has come to prominence since the publication of the Leveson Report in 2012. An outline of the background to the Leveson Inquiry and a summary of its findings are provided in Appendix E.

The Need for Appropriate Strategy

The broadsheet newspaper industry needs to adopt a new strategy to survive in the digital age (PwC, 2009; Pew Research Centre, 2012; Simon Kucher and Partners, 2012). After a decade of debate in this area, newspapers are adapting to selling their content online with differing levels of success (The Reuters Institute, 2014). In devising this strategy, newspapers face a multitude of choices as to how best to sell and augment their product offering using digital technology. Amid all of these options, the nature of the offering itself may go overlooked. It appears necessary for the broadsheet newspaper media to make a decision whether to offer credible news coverage somewhere within its traditional reporting timeframe or to report less reliable information in a shorter timeframe than it has done in the past. The decision is apt to rest heavily on the preferences of broadsheet readers, such that it may maximise much needed revenues. The literature on the newspaper media reviewed in this thesis indicates that the broadsheet's unique selling point is the provision of well-founded and trusted opinion and analysis on topics which lend themselves to being discussed in the written word. Research indicates that, as one of the most established media vehicles in society, broadsheet newspapers have earned an unparalleled reputation for the provision of quality news coverage, with which comes considerable consumer loyalty (Simon Kucher and Partners, 2012; the Reuters Institute, 2013). Accordingly, this thesis recommends that in order to continue to serve as a valuable information intermediary and hence perform important roles in various aspects of society, not least in corporate governance, the broadsheet newspaper media must adhere to its core competency of reporting reliable information.

Competition from timelier news providers is not new to the newspaper media. The House of Lords' report on the state of the UK news media (2008) reflects that in the 1950s, the emergence of television news gave rise to predictions on the death of the newspaper. However, as is evident from the readership and circulation statistics presented in Chapter Five, the broadsheet newspaper media continues to boast a vast readership fifty years later, in spite of the fact that it only reports the news on a daily basis. It now faces a new challenge in the digital age; however, this ought to be considered an opportunity rather than a threat. By exploiting digital technologies and the internet to augment their offerings, broadsheet newspapers may perform an even more meaningful role in publicising the issues of the day both in print and on the World Wide Web. Social media vehicles do appear to be treated as friend rather than foe as newspapers use services such as Twitter and Facebook to disseminate headlines and to attract readers, which in turn provokes discussion of the news among social media users (Pew Research Centre, 2012; Reuters Institute, 2014). This is unarguably a positive development; not only can audiences help each other to understand the news, but it may facilitate discussion and collective action amongst interested parties. In the context of corporate governance, the implications may well be significant in terms of strengthening the voice of shareholders and other stakeholders in the company.

Attracting readers through social media is by no means a full solution to newspapers' difficulties in generating revenues; in fact, it may exacerbate its problems since many will just read the headlines as a substitute for buying the full paper. The broadsheet newspaper industry must adapt to a business model which will allow it to generate the necessary funding for accurate and independent news reporting. This requires development of new methods of providing advertising and establishment of a conventional method of charging readers. Opportunities exist for newspapers to use the internet to offer targeted marketing facilities, rather than traditional advertising services to clients (PwC, 2009; Pew Research Centre, 2012). By offering novel advertising facilities, newspapers may attract new advertisers such that they are not reliant upon specific companies for income. As noted throughout this thesis, such a dependence can greatly impair the newspaper media's capacity to act as a corporate watchdog. Broadsheet readers are willing to pay a suitable price for their papers online, even more so when editions are available as apps for mobile devices (the Reuters Institute, 2013; 2014). Simon Kucher and Partners (2012) report that 86% of UK broadsheet readers believe it is fair to pay an appropriate amount for online content. Distribution of news via mobile apps presents new opportunities for newspapers to charge their readers appropriately because digital payments are scalable. While buying just one article of a physical newspaper is not viable, it is possible to do so when the newspaper is digitalised. Strategies such as moveable paywalls may encourage readers to pay increasing amounts for content and increase reader demand and loyalty. UK newspapers also possess the advantage that they report in the English language and can use the internet to expand their reach across international boundaries.

The Need for a Standards-based Approach

An audience's trust in the media goes beyond the question of whether or not they believe what journalists report, it relates more to a confidence in their ability to help their audiences make sense of the news (Coleman, Anthony and Morrison, 2009). It appears however that the public's trust is hard earned, not only for the media but for public figures of authority and information intermediaries generally. The results of an annual trust and credibility survey conducted by Edelman (2013) reveals that there has been a 5% increase in trust in the media globally since 2012. Fifty seven per cent of international respondents indicated trusting the media while only 48% had the same trust in their governments. Even less trust is placed in CEOs (43%) and official regulatory bodies (36%). Of the 42% of respondents who signalled a lack of trust in businesses generally, involvement in corruption and misplaced incentives were cited as the main reasons. Despite a global increase in trust in the media, UK audiences have less confidence in the media than they did in 2012. With 37% of UK respondents indicating their trust in the media, this represents a 10% decline from 2012. This finding is attributed mainly to the publication of the Leveson Report on press standards in the UK in 2012. As noted in Chapter Four, the Leveson Inquiry was triggered by ethical failings at tabloid newspapers and the Report of the Inquiry praises the credibility and reliability of the broadsheet press on numerous occasions. Although the criticisms made in the Report of the Leveson Inquiry pertain less to broadsheet journalists, more recent concerns aired about the independence of certain UK broadsheets from companies which supply them with finance (Oborne, 2015) raise serious questions about the integrity and impartiality of broadsheet business journalism and create doubt about how accurately key executives are represented in contemporary broadsheet newspapers. As a result, readers may not fully credit newspaper reports on events and issues in companies such that the capacity of the broadsheet media to threaten directors' reputations and hence, its influence on corporate governance may be declining. In light of findings presented herein that the influence of the newspaper media on CGQ change is weaker when the varying intensity of reporting is accounted for, it would appear critical that an appropriate framework of ethical standards be fully established to strengthen the independence of the broadsheet newspaper media and the extent to which readers may trust in it.

UK newspapers operate under a system of self-regulation which, pursuant to the recommendations of the Leveson Report, is currently being amended such that it will have statutory underpinnings and be overseen by a truly independent body (see Appendix E). This thesis advocates this development from the perspective of the role of the broadsheet newspaper media in corporate governance. The media's role in holding corporate powers to account is acknowledged in the Leveson Report[72]; however, it is emphasised that to fulfil this role, the media must remain independent from those in power[73]. A certain degree of interaction between the newspaper media and those in positions of power in the company is necessary for informed reporting. Notwithstanding this, appropriate independent oversight of the broadsheet newspaper media and a clear set of guidelines on appropriate conduct for journalists are necessary to prevent the development of undesirably close relationships between broadsheet journalists and directors, their PR agents and other corporate insiders in positions of power.

As it emerges, it appears that the new regulatory system involves greater measures to prevent misrepresentation in newspaper reports[74] and may involve enhanced transparency surrounding information sources[75]. In light of the findings of this study, that the broadsheet newspaper media serves a potentially valuable role as an information intermediary in the context of takeover offers and in holding target boards accountable to shareholders, a system of regulation which serves to reduce the potential for bias and inaccuracies is welcomed. Since monitoring the content of newspaper reports could arguably be perceived as censorship, systems of monitoring journalistic conduct are crucial. Such a system may facilitate the dissemination of more reliable information to minority shareholders and stakeholders and enable the broadsheet newspaper media to pose a more meaningful threat to directors' reputations.

[72] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume 1, Part B, Chapter 2, Para. 4.1.
[73] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume 1, Part B, Chapter 2, Para. 4.5.
[74] Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 8.
[75] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume 2, Part F, Chapter 2, Para. 9.75.

The Leveson Report acknowledges that newspapers may never be able to fully avoid the publication of factual errors since journalists will always work to meet deadlines; as such, the balance between accuracy and timeliness will most likely remain at the discretion of journalists and editors. Thus, the need for active monitoring of decisions made at broadsheet newspapers is significant, particularly given the aforementioned pressures currently placed on journalists to produce reports quickly. This is especially pertinent in the present context; journalists may receive tips and leaks from insiders, the publication of which may result in a misrepresentation of the current and future position of the company.

This study emphasises the importance of monitoring the level of transparency surrounding sources of information. This is desirable to the extent that readers may become more aware of possible biases and be better able to evaluate the accuracy of information. Nonetheless, to be truly informative, newspaper reports must make an ex-ante effort to minimise the potential for bias either by using independent information sources or by presenting a balanced and accurate view of an issue or event. Effective outside oversight and assessment of such efforts together with greater resources may well prove valuable in this regard. Moreover, given the lax attitude taken by the PCC toward disclosure of journalists' own financial interests in companies noted in the previous chapter, an independently monitored regulatory system may provide for greater transparency surrounding journalists own incentives to present a particular view of a company and its board.

In sum, this thesis recommends that in order for the broadsheet newspaper media as an information intermediary to play a positive role in corporate governance in the future, the industry must identify and embark upon a strategic route which will provide funding for the resources necessary for quality news coverage. To assure such quality, the industry requires a robust regulatory system. The success of these proposed initiatives are interdependent; oversight is necessary to ensure that resources are put to their most appropriate use, while resources are likely to enhance the ease with which regulations are adhered to. Progress is already being made in both areas; however, care must be taken to ensure that accurate, credible and independent news coverage may be easily accessed in a suitably timely manner both by corporate stakeholders and society in the long-term.

9.4.2. The Need to Maintain and Enhance Corporate Governance Improvements following Takeover Offers

Having found that the improvements in corporate governance quality which come about in the year of a media publicised takeover offer are not sustained in the following year, this thesis recommends that more effective long-term oriented monitoring of directors and managers by institutional investors is necessary after the company falls vulnerable to takeover. It is recommended that policy developments are necessary to promote such monitoring and to enable governance improvements to be sustained in the long-term. It is envisaged that this may result in greater requirements for information from the news media and other intermediaries.

<u>More Effective Shareholder Voice</u>

The decline in corporate governance quality observed over the year following a takeover offer in both the main research sample and in the control sample indicates that a somewhat short-term view is taken toward shareholder protection. One primary reason for this may be that the long-term concerns of shareholders are not effectively communicated to managers and directors. While statistics presented in Chapter Seven indicate a strong institutional investor presence in sample companies, the results for the second stage model provide no evidence to indicate that the presence of institutional investors has any influence on changes in CGQ. This is consistent with the findings of the Kay Review (2012) which indicate that the character and quality of shareholder engagement in UK listed plcs in poor[76]. Reasons for this include the persistence of free-rider problems, increasingly intermediated investment chains and concerns regarding the mandatory bid rule and insider dealing regulations. As a result, exit has typically been preferred over voice on the markets of the London Stock Exchange. Accordingly, the Kay Review calls for regulatory practice to favour investing over trading[77]. A number of measures which may be taken to achieve more effective communication of shareholders' long-term objectives have been

[76] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para 1.30.
[77] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para 6.1.

proposed in the Kay Review. Development of the Stewardship Code[78] is deemed necessary to promote trust along the investment chain such that the skills and knowledge of asset managers are integrated with the supervisory role of those employed in corporate governance, leading to positive and supportive engagements[79]. Regulatory policies which encourage asset managers to hold more concentrated investment portfolios which are differentiated from benchmark indices[80] and a disintermediation of the investment chain[81] are advocated as a means of increasing asset managers' incentives to engage. Regulators including the Takeover Panel[82] and the FCA[83] are urged to provide greater clarity on possible applications of the mandatory bid rule and breaches of insider dealing rules respectively. The establishment of an 'investors' forum' is also proposed as a means of alleviating collective action problems; this would involve investment institutions co-ordinating to discuss concerns and to take appropriate action[84]. The present study shows that targets of offers which require direct Takeover Panel intervention tend to experience greater governance improvements than do targets of offers which are subject only to routine Panel supervision. This finding considered, the closer involvement of market regulators in governance at the firm level would appear to be a positive development.

In October 2014, the Government published a progress report on implementation of the recommendations (UK Department of Business, Innovation and Skills, 2014). Among the developments reported is the publication of the 2012 edition of the UK Stewardship Code, which has clarified the aim and definition of stewardship with emphasis on the need for investors to engage with management on companies' long-term strategies and sustainable

[78] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Recommendation 1.
[79] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para 6.3.
[80] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Chapter Seven, Main Principle.
[81] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para 6.13.
[82] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para. 7.6 and 7.7.
[83] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para.10.17.
[84] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Recommendation 3.

returns[85]. In addition, the Investors' Forum was established in July 2014 with the objectives of promoting the value of long-term approaches to investment and a cultural change throughout the investment chain and supporting engagement with management of failing companies[86]. The report also notes progress made by the FCA to establish rules and guidelines aimed at reducing conflicts of interest between asset managers and their clients[87]. The report acknowledges that more progress is necessary in order to change the culture of UK equity markets and outlines a number of further steps which can be taken to achieve this change. These include monitoring the commitment of signatories to the Stewardship Code; development of the Investors' Forum; and organised consultations between government and senior stakeholders from the business and investment industries on how best to foster engagement and stewardship[88]. Having provided further evidence to suggest that measures taken to enhance shareholder protection are short-term in nature, this thesis commends this progress and urges policy makers to promptly pursue the proposed next steps so as to remove impediments to active shareholder participation in governance.

Clearer Guidelines on Best Practice

Another factor which may explain the deterioration in corporate governance quality following the passing of a takeover offer is the ambiguity in certain areas of the UK Corporate Governance Code discussed in Chapter Eight. A number of provisions of the Corporate Governance Code are open to subjective interpretations; this coupled with boards' relative freedom to provide boiler-plate explanations for non-compliance may result in a laissez-faire attitude being taken toward their structure and activities. As such, it may take an extreme threat such as a takeover offer to exert the necessary pressure on boards to act within shareholders' interests. However, when this threat passes, board leadership, effectiveness, accountability and incentives again become somewhat misguided.

[85] Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment- implementation of the Kay Review: progress report, Para. 2.3.
[86] Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment- implementation of the Kay Review: progress report, Para. 2.23.
[87] Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment- implementation of the Kay Review: progress report, Para. 2.69.
[88] Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment- implementation of the Kay Review: progress report, Para. 1.9.

The need for flexibility in the UK Corporate Governance Code has been acknowledged in Chapter Two of this thesis since a one-size-fits-all approach to corporate governance may create considerable regulatory costs for companies (Bainbridge, 2003; Gillan, Hartzell and Starks, 2003; Hertig, 2005; Coles, Daniel and Naveen, 2008). Nevertheless, if structured appropriately, best practice recommendations could establish clearer guidelines on the size, composition and level of activity of boards and their committees such that they are adequately equipped to deal with the company's contingencies. This may only require some subtle adjustments to existing recommendations so that they provide more tailored guidance while retaining flexibility. Given that there are significant differences in seven of the ten board characteristics studied presently between the main sample and control sample which are matched by company size and industry, more consideration might be given to these factors in best practice guidelines. In only six provisions of the UK Corporate Governance Code (2014) is a distinction made between companies above and below the FTSE 350 (Provision B.1.2- director independence, Provision B.6.2- board evaluation, Provision B.7.1- re-election of directors, Provision C.3.1- audit committee composition, Provision C.3.7- appointment of the external auditor and D.2.1- remuneration committee composition).

Despite over a decade of academic and policy debate over the effectiveness of the comply-or-explain approach, little regard has been paid to the clarity of the guidelines of the Combined Code and its successor the Corporate Governance Code. Instead, the focus has been on the clarity of explanations for non-compliance (MacNeil and Li, 2006; Arcot, Bruno and Faure-Grimaud, 2010; the European Company Law Experts, 2013a; Shrives and Brennan, 2015). This is particularly apparent at policy level; the recently introduced EU Recommendation on the Quality of Corporate Governance Reporting (Commission Recommendation 2014/208/EU) pertain solely to the manner in which companies disclose their compliance with best practice codes and explain their reasons for non-compliance. While the FRC has published specific guidance on board effectiveness (FRC, 2011) and the role of audit committees (FRC, 2012a), the approach taken is similarly general to that employed in the Corporate Governance Code. It may be worth considering if boards might provide more meaningful explanations for non-compliance if the standards to which they are expected to adhere to were explained more clearly.

Chapter Eight has already contemplated that shareholders in AIM listed companies may benefit if the Exchange required these companies to follow best practice guidelines. This would most certainly require a fine-tuning of the UK Corporate Governance Code to accommodate for the differences in the corporate governance standards expected of small and large companies. Policymakers have already recognised that the banking and financial services industry has specific governance needs (the Walker Review, 2009). Given that the literature indicates that companies in knowledge-intensive and competitive industries may require larger, more insider-oriented boards than what is recommended in best practice guidelines (Boone *et al.*, 2007; Coles, Daniel and Naveen, 2008; Markarian and Parbonetti, 2007; Linck, Netter and Yang, 2008; Lehn, Patro and Zhao, 2009), there is certainly a case for greater tailoring of the UK Corporate Governance Code.

The Role of Information Intermediaries and Gatekeepers

With appropriate policy and regulatory guidance, there are opportunities for both shareholders and the board itself to work to sustain the governance improvements generated by a takeover threat, such that the four primary mechanisms of corporate governance, identified by Denis and McConnell (2003), work in harmony. Effective interaction of these mechanisms requires communication of relevant information between the key stakeholders in question- shareholders, directors, regulators and policymakers on each other's success in promoting long-term value for shareholders. As noted above, much of the information disclosed by boards under the UK Corporate Governance Code lacks meaning; similarly, the Kay Review advocates more meaningful disclosures by companies on an annual and interim basis[89]. Professor Kay notes that much of the mandatory disclosures made by companies only create noise in the markets[90]; he points out that external information intermediaries such as the newspaper media are often

[89] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Recommendation 12.
[90] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para. 10.4.

trusted more than companies themselves[91]. Thus, it would seem that information provided by the company and by other stakeholders ought to be of greater quality but limited in quantity. Since the publication of the Kay Review, mandatory quarterly disclosure requirements are being removed in the UK[92]. The newspaper media and other gatekeepers of company information may then sever a greater role in communicating information to stakeholders in the time period between periodic disclosures. The findings of this study indicate that information published in newspapers prior to a takeover offer has an impact on the quality of boards as corporate governance devices. Given that this study finds that the newspaper media also pays considerable attention to takeover targets in the year of and in the year following a takeover offer, it may benefit shareholders and other stakeholders in monitoring the post-bid actions of and decisions made by boards, as could other gatekeepers of company information. However, as noted in the introduction to this thesis, not all gatekeepers can be trusted equally.

Coffee (2001; 2002; 2004) presents a model of a gatekeeper which may be applied to intermediaries including auditors, lawyers analysts and ratings agencies. The gatekeeper model is a third party enforcement strategy that relies on the fact that it may be easier to deter a third party from engaging in an illegitimate transaction since they have less to gain from that transaction than corporate insiders. Deterrence may be caused by the threat of regulatory action, the threat of reputational costs or a combination of the two. The gatekeeper model is most successful under three conditions. Firstly, the gatekeeper has a legal obligation to provide shareholders with accurate information. Secondly, reputational concerns align the interests of the gatekeeper with those of shareholders. Finally, the gatekeeper is paid only a nominal fee by a client company such that there are no incentives for the gatekeeper's interests to become aligned with those of the company's management.

Coffee (2001) notes a number of issues which may render the gatekeeper model vulnerable to failure. One reason it might fail is if there are imprecise standards with which to evaluate the gatekeeper's performance. A second reason is if the gatekeeper's independence

[91] The Kay Review of UK Equity Markets and Long-term Decision Making, Final Report (2012), Para. 10.11.
[92] Department of Business, Innovation and Skills 2014. Building a culture of long-term equity investment- implementation of the Kay Review: progress report, Para. 2.35-2.36.

from management is compromised with the effect that the gatekeeper may collude with or be coerced by management. A third reason for failure is if there are agency problems within the gatekeeper firm such that the interests of one or a number of individuals working for it are aligned with a client's management. Coffee (2002) provides two further explanations for failure. The first is that there may be an absence of sufficient reputational, regulatory and legal penalties to deter gatekeepers from acquiescence. The second explanation, more pertinent during times of market prosperity, is based on the previously explained phenomenon of stock market euphoria. Coffee argues that investors seek the services of gatekeepers only when they are cautious and sceptical. During times of stock market bubbles, investors have a tendency to throw caution to the wind. In order to retain a demand for their services, gatekeepers adopt the optimistic attitude embraced by most other market participants. As noted in Chapter Four, similar comments have been made regarding the sentiment of newspaper reports (Galbraith, 1990; Dyck and Zingales, 2002b; Tambini, 2008).

Nevertheless, the broadsheet newspaper media may satisfy Coffee's success criteria to a greater degree than many more traditional gatekeepers. As noted in the previous subsection, its reputation for credible reporting has earned it a faithful readership and hence, a loyal consumer base. As noted, it is believed that this reputation may be what allows it to survive in the digital age if it successfully maintains an arm's length relationship with the companies on which it reports. In contrast, auditors may be more successful by developing reputations for discretion (Dyck, Morse and Zingales, 2010), analysts' reputations may only come into question in cases of large management failures (Dyck, Morse and Zingales, 2010) and the primary concern of PR agents is the company's reputation (Tambini, 2008). In terms of fees, newspapers may rely upon companies for advertising revenues; however, this is contingent upon newspapers serving the interests of their readers such that they continue to pay for reports. While analysts are also paid by the information user, analysts, particularly those on the sell-side, receive large fees for investment banking and underwriting services. Aside from public interest entities, auditors of UK companies may still be paid by companies for both audit and non-audit services such that they may receive considerably more than a nominal fee. PR agents again are paid by companies solely to project a positive image of their performance. Although newspapers are not legally obliged to provide readers with accurate information, it appears that the developing newspaper regulatory system will impose more stringent requirements on journalists in a manner that is underpinned by the law. Auditors are subject to more stringent statutory requirements in this respect. Analysts and PR agents may constitute as insiders for the purposes of FSMA; however, they face little legal consequences for disseminating inaccurate information, once it is not considered to be price sensitive.

Accordingly, effective post-bid monitoring of management may be enhanced through appropriate use of information intermediaries or gatekeepers of information on companies. The news media may perform a particularly important role. Indeed, if fully exploited, the influence of the news media on corporate governance may be much greater than the findings of this study indicate. It is, however, crucial that the independence of broadsheet newspapers from the corporate sector be preserved and, where necessary, enhanced. This discussion has converged upon the broadsheet newspaper media; however, as technology evolves, the role of the broadsheet may be complemented and enhanced through co-operation with alternative media vehicles such that key stakeholders in corporate governance may communicate and access information with maximum ease in a timely manner and hence, better safeguard shareholders' wealth on a continued long-term basis.

9.5. Limitations of the Study

This study, like most others has its limitations. Firstly, as has already been acknowledged, the size of the sample of market abuse cases is unsuitably small for the purposes of the present research. This has made it difficult to shed insight into the corporate governance role of the newspaper media in the context of market abuse and has adversely impacted the validity of findings derived in this respect. Since market abuse is prohibited by law, the incidence of market abuse cases will inevitably be much lower than the incidence of conventional and necessary events such as the emergence of takeover offers. The sample size could have been enlarged to a small degree by including criminal cases of market abuse. However, as Table 2.6 in Chapter Two shows, only ten such cases were dealt with by the FSA over the sample timeframe. As it was the objective of this study to investigate the role of newspaper media reporting on market abuse as a civil offence in the formative years of FSMA, criminal cases were not included in the sample. As noted in Chapter Six, a larger sample could have been generated by including companies not listed on the Main Market or the AIM of the London Stock Exchange; however, this was constrained by data availability. The decreased size of the takeover sample subset is in the event and post-event years is also regrettable but unavoidable given the nature of the issue in question. As can be seen in Table 2.3 of Chapter Two, a considerably larger number of takeover offers required the intervention of the Takeover Panel over the sample timeframe; however, data availability also determined the decision to include only Main Market and AIM companies. While extending the sample time-frame may have allowed for a larger sample of takeover offers, this would have resulted in the size of the sample subset being further out of proportion with the market abuse sample subset.

The fact that this study has considered corporate governance quality from the sole perspective of the board of directors is a further limitation of this study. Another primary stakeholder group which may take actions to influence governance at the company level is the shareholders. This chapter has advocated the importance of greater shareholder participation in governance in order to sustain the board improvements observed in the year of a takeover offer. The research model employed herein has accounted for the proportion of institutional ownership of sample companies. However, this study has been unable to explicitly discern if newspaper coverage has any effect on their motivations to take action. Prior to conducting this study, the researcher considered a number of manners through which the relationship between newspaper reporting and shareholders' attitudes and actions might be assessed. Share price movements provide one indicator of changes in shareholders' satisfaction with managers and directors over the course of newspaper reporting. However, the sensitivity of share price to a multitude of issues and events in the company environment renders it a noisy indicator and would leave it difficult to isolate a causal link between shareholders' actions and newspaper media reporting on the events considered herein. While qualitative methods of directly investigating the opinions of institutional investors toward newspaper reports were considered, timing and accessibility constraints rendered such approaches unviable for the present study. The possibility of employing such methods in future research is discussed in the next section. Extant empirical evidence strongly indicates that institutional shareholders have faith in the ability of media exposure to drive management and board reform (Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009). Thus, it is reasonable to expect that newspaper reports on takeover offers may have an impact on the attitudes and actions of target shareholders. It may be the case, however, that the specialist financial press has a stronger influence in this regard.

Indeed, this study's use of a media sample consisting solely of mainstream newspaper reports has limited the generalisability of findings to other media vehicles. The rationale for the focus on the mainstream broadsheet newspaper media was explained in Chapter One; relative to other media sources in circulation over the sample timeframe, broadsheet newspaper reports are regarded a more accurate, credible and independent source of information than many broadcast and online media vehicles. They are also considered more accessible than, and equally as timely as, specialist publications. Nevertheless, it has been acknowledged that while the mainstream newspaper media has a unique capacity to reach a range of company stakeholders, the specialist financial press is apt to have a more direct influence on the investment community. Since the present study has primarily considered corporate governance as a method of protecting shareholders' interests rather than those of the company's stakeholders in general, specialist financial newspaper reports might be considered more suitable for use in this study. Since the number of specialist financial newspapers which are widely disseminated in the UK is small, their capacity to subject boards to public scrutiny is limited. Accordingly, this study has shown that the mainstream newspaper media may promote enhanced shareholder protection via its access to a range of corporate stakeholders, despite the fact that their interests may not be fully aligned with those of shareholders. It ought to be noted, however, that due to the growth in the use of online and digital news media toward the end of the sample period, which at the time of writing has increased much more, it would appear necessary for future research to incorporate news published online and in digital format; this is discussed further in the next section.

The unit weighting method applied herein (i.e. where all of the ten board characteristics were weighted as making an equal contribution to CGQ) might also be thought of as a limitation of the study. It could also be argued that in evaluating corporate governance quality, certain aspects of the board of directors may have deserved to have been weighted as being more important than others. A number of differential weighting approaches were trialled by the researcher. This involved testing alternative combinations, whereby certain components were weighted more importantly, and comparing the resulting measures with those employed herein. The difference was negligible. One potential explanation for this is that a number of the components are strongly positively correlated (Wainer, 1976; Ree, Caretta and Earles, 1998; Bobko, Roth and Buster, 2007[93]). Furthermore, attributing unsubstantiated importance to certain components may have introduced subjectivity into the overall measures of CGQ for sample companies. Hence, the decision to weight each of the ten components equally was sustained. Given that certain provisions of the UK Corporate Governance Code are open to interpretation, the standards of CGQ set herein are, to a degree, based on the researchers' own interpretation. For this reason, UK and international reports and policy documents on best practice in corporate governance and theoretical and empirical literature were also consulted when establishing the scoring scales. Moreover, having applied the CGQ scoring methodology to companies at different stages over a ten year time period, it has not been possible to assess each company's governance quality based on the precise legislative and regulatory guidelines in place in the year in question. To achieve such an assessment would have required a number of different scoring systems to be devised and employed and would have resulted in inconsistencies between the measures of CGQ attained for companies.

This study's exclusive focus on newspaper reporting on issues relating to the market for corporate control has also lowered the generalizability of results. As such, it cannot be claimed that newspaper reporting on all issues concerning management control has a similarly positive influence on corporate governance. It may be the case that news media coverage of alternative issues may influence governance differently. As discussed in the introduction to this thesis, theory suggests that managers and directors are also subject to other forms of market-based control- that which comes from the labour markets and that which comes from the product

[93] This research is based on Wilks' (1938) theorem which suggests that as inter-component correlations increase and as the number of components increases, the variability of weights decreases. Correlation analysis between the raw measures of the CGQ components employed herein reveals strong positive correlations between board characteristics such as board meeting frequency, director independence and audit committee meeting frequency. While strong negative correlations are detected between the proportion of executives on the board and director independence, these may be explained by the literature reviewed in Chapter Three. The results of this analysis are available from the author on request.

markets. This thesis has surmised that the governance changes which come about from newspaper reporting on companies' being subject to the discipline of the market for corporate control may be influenced by directors' aspirations to preserve their reputations with future employers and the company's reputation with its customers. However, this has not been investigated directly. Furthermore, this study has not considered how newspaper reporting on governance issues within the company, such as board structure and behaviour or infringements of shareholders' rights might impact corporate governance quality. Prior research has found that press coverage of such issues has a positive influence on board and management accountability in companies in the US (Johnson *et al*., 2005; Joe, Louis and Robinson, 2009) and Russia (Dyck, Volchkova and Zingales, 2008). Thus, it may be the case that such coverage may also promote improvements in corporate governance quality in UK listed companies, perhaps to a greater extent than that on the company's exposure to the discipline of the market for corporate control. Alternatively, given the criticism that the news media lack an appreciation for basic governance issues (Bednar, 2012), it may be the case that certain internal governance issues may not receive sufficient analysis and critique in newspapers so as to impose reputational costs on directors and hence encourage necessary governance changes. These issues, which this study has not considered, present opportunities for future research which are discussed in the next section.

The analysis conducted herein has involved a number of steps to establish that causality runs from newspaper reporting to corporate governance quality change and to address the possibility of an endogenous relationship between the two variables so as to assure the validity of results. However, the possibility that the level of attention which companies receive from the newspaper media is determined by their corporate governance quality cannot be dismissed. In addition to finding a significant positive association between pre-event year newspaper reporting and subsequent changes in CGQ, a significant negative association is detected between the pre-event year benchmark-adjusted CGQ scores and pre-event year newspaper reporting and a significant positive association is detected between the event year benchmark-adjusted CGQ scores and event year newspaper reporting. Thus, it may be the case that broadsheet journalists are more inclined to speculate about TMA cases involving companies with low governance quality and that this coverage promotes governance improvements in the companies concerned; in the following year, the companies which experience improvements may continue to be monitored by the broadsheet press. Sensitivity analysis has confirmed that the association between pre-event year newspaper reporting and pre-event to event year changes in CGQ remains positive and statistically significant when the association between pre-event year newspaper reporting and pre-event year CGQ is accounted for. Yet, it cannot be ascertained if the amount of coverage companies receive in the pre-event and event years depends on their corporate governance quality since the annual corporate governance quality scores and newspaper reporting are contemporaneously measured. The relationship between companies' benchmark-adjusted corporate governance quality scores in one year and the amount of newspaper reporting they receive in the following year has been examined to achieve a clearer indication. However, there is no evidence of a significant association. Hence, while this study provides robust and conclusive evidence to show that speculative, pre-event year newspaper coverage of takeover offers encourages governance improvements between the pre-event and event years, one of its limitations is its inability to conclusively state whether or not the amount of coverage which companies receive is in some way determined by the ex-ante quality of their governance.

The present study has been framed within the theory of the market for corporate control. As explained in Chapter Two, there are various alternative explanations for takeovers and it is possible that some of the offers considered herein may have had motives other than to discipline management. Unfortunately, it has not been possible to ascertain that all of the offers included in the sample were made in an endeavour to replace underperforming managers and directors. While a line of argument contends that only hostile offers have disciplinary motives, Chapter Two has outlined that there is empirical evidence to contest this view. Even if disciplinary offers could be clearly characterised as being hostile in nature, it can be difficult to conclusively distinguish between a hostile and a friendly offer. As noted in Chapter Two, an offer may appear friendly but in fact be hostile (Hart, 1988). Given that Rule 21 of the Takeover Code greatly restricts directors from taking frustrating actions once a bona fide offer appears imminent, it may be the case that the proportion of genuinely hostile offers in the present sample is larger than 24%, as reported in Chapter Seven. Nevertheless, it must be acknowledged that not all of the takeovers studied herein may have been made with the intention of replacing the target board, with the implication that the extent of reputational costs imposed on directors may be overestimated to some extent.

Finally, this study has been limited to companies listed on two markets of the London Stock Exchange and thus its findings may not apply to companies on different markets or to overseas companies, particularly those outside of the Anglo-American jurisdiction. The market for corporate control has traditionally been less active in countries in Continental Europe and Asia, where control tends to be concentrated in the hands of one or a small number of shareholders and the role and structure of the board often differs to that typical of UK companies (Claessens and Fan, 2002; Rossi and Volpin, 2004; Burkhart and Lee, 2008). In emerging economies, the stock markets are not yet fully developed and governance patterns differ to those in developed economies (Fan, Wei and Xu, 2011). Consequently, the level of newspaper reporting on issues concerning the market for corporate control may be lower and may not have a similar impact on corporate governance as that observed herein.

9.6. Avenues for Future Research

As the previous section has discussed, there are a number of limitations to this study. While the researcher has endeavoured to address each issue encountered, these limitations may be overcome to a greater degree in future research. Indeed, the limitations of this study present avenues for future research in the areas of corporate governance and the market for corporate control and, in particular, on the influence of the news media in this respect. A number of these avenues are now considered.

As noted above, online and digital media vehicles are rapidly playing a significant role in society. This is particularly apparent within the business community. Business professionals are particularly inclined toward accessing news via mobile apps and websites, since computers, smartphones and tablets are the tools of their trade (Thurman, 2014). This study has acknowledged that online newswire services are the primary means through which investors receive genuine news; however, there has been a noteworthy increase in extent to which online media vehicles, particularly social media vehicles, are intermediating between the company and its shareholders and among shareholders in recent years. In April 2013, the US Securities and Exchange Commission (hereinafter, the SEC) granted companies permission to announce key company information through social media websites if its shareholders are alerted that they intend to do so (SEC, 2013). While such a move has not yet been taken in the UK, it may only be a matter of time. This would certainly confer social media with considerable influence on boards' activities and investors' attitudes toward them. Social media also appears to be having an impact on trading strategies; Pan, Altshuler and Pentland (2012) have detected a movement of social trading, whereby traders share tips and trades and follow each other online and earn higher returns from doing so. Hence, there is a potentially lucrative avenue emerging for research into the role of online media, social media in particular, in corporate governance. The market for corporate control may again provide an interesting backdrop for such research. Indeed, given that social media reporting may be timelier and less constrained by resource shortages than newspaper reporting, it may play a greater role in communicating potential and actual instances of market abuse and hence, have a more discernible impact on boards and shareholders. A comparative analysis between the newspaper media and social media may be insightful in this regard.

The previous section has also noted that the insight derived from the present findings may be enhanced by considering corporate governance from a shareholder's perspective. An examination of the actions of shareholders in companies targeted for takeover and of those in companies whose shares are implicated in market abuse over the course of newspaper reporting on these events would help to achieve a more comprehensive assessment of the corporate governance role of the newspaper media in the context of the market for corporate control. Since news media reports can inform shareholders of the wealth-effects of managerial decision-making in takeover situations (Liu and McConnell, 2013) and influence shareholders' decisions regarding acceptance of the offer (Buehlmaier, 2013), it is likely that much of the newspaper media's influence on corporate governance in takeover targets comes about via the company's shareholders. This study has failed to isolate a link between newspaper reporting and corporate governance in the context of market abuse; however, such a relationship may be more apparent were corporate governance to be examined from the viewpoint of shareholders. Shareholders may perceive behaviour which constitutes as market abuse to have caused them an injustice (Bainbridge, 1993; Lee, 2002). Accordingly, newspaper reports on its incidence may lead shareholders to question the robustness of internal controls over the release and use of price-sensitive information and the trading behaviour of insiders. As noted in the previous section, specialist financial news media vehicles may be more influential in this respect. As suggested in Subsection 9.4.2, shareholders may have a valuable role to play in sustaining the governance improvements which come about following a media publicised takeover threat. Empirical evidence provided by Joe, Louis and Robinson (2009) indicates that investors anticipate governance reforms to follow media scrutiny of the board. However, it would not appear from the findings of this study that effective action is taken by investors or any other stakeholder to encourage or maintain such reform. With adequate access to shareholders, qualitative research methods, such as surveys and interviews, offer potential approaches through which to gain an understanding of their attitudes toward, and responses to, newspaper coverage of the operation and potential breakdown of the market for corporate control. Such research may yield valuable insight into the extent to which newspaper reporting influences shareholders' decisions to take action when there is a change in the degree to which they may have faith in the board.

Moreover, as noted in the previous chapter, the mainstream broadsheet newspaper media may have a discernible influence on the attitudes and actions of broader stakeholders in the company, especially in the context of takeover offers. This study has provided evidence to suggest that mainstream newspaper coverage of takeover offers can promote a realignment of directors' interests with those of shareholders. However, it has not considered if such coverage leads to a greater attendance to the interests of other stakeholders in companies by their boards. One group of stakeholders of particular interest in this respect are employees (Slinger and Deakin, 1999; Deakin, 2005; Goergen, O'Sullivan and Wood, 2014). The Takeover Bids Directive Assessment Report (2011) notes that target employees may be greatly affected by takeovers. Employees may lose permanent positions in the company, be required to work under inferior conditions or be assigned tasks in which they are inexperienced and ill-trained. The mainstream newspaper media, as an information source for perhaps less financially literate employees, may influence their perception of the offer, possibly impacting on their performance and decisions to invest their human capital elsewhere. Accordingly, when offers fail, managers and directors may need to take measures to strengthen relations with employees and to improve productivity and morale. It may also have an impact on how policies protect employees' interests. The 2010 Kraft takeover of Cadbury plc which resulted in considerable job losses in the UK was subject to considerable attention in the mainstream newspaper media. In the year 2010, the takeover of Cadbury was the focus of 538 broadsheet newspaper articles studied herein. An outcome of this takeover was the amendment of Rule 19.1 of the Code which now requires an offeror who makes a statement indicating a course of action it intends, or does not intend, to take after the end of the offer period to hold true to that statement for the following 12 months unless there is a material change of circumstances. As such, offerors who make promises to preserve jobs must fulfil that promise in the medium term at least. This study can only surmise that the level of media attention which this takeover received may have contributed to the policy developments which followed it. Future research may investigate if a link exists between newspaper reporting on issues which may concern broader stakeholders, such as employees, and measures taken to protect their interests.

This study has followed a strand of research, the focus of which has progressed from considering how media coverage of governance issues which arise at the company level influences corporate governance practices within the company (Farrell and Whidbee, 2002; Dyck, Volchkova and Zingales, 2008; Joe, Louis and Robinson, 2009) to how coverage of the operation of the market for corporate control impacts governance within the company (Liu and McConnell, 2013). The direction in which this line of inquiry has progressed is indicative of the news media's potential to facilitate an interaction between internal and external control mechanisms. This research may be developed further. As noted in the previous section, there are alternative theories of market control which deserve consideration in this regard. The labour and product markets offer two attractive settings in which to base a study of the news media as an intermediary between the markets and the company. The present findings are consistent with the view that press scrutiny of board performance leads to governance improvements as directors endeavour to limit damage to their professional reputations in the labour markets (Dyck, Volchkova and Zingales, 2008). While this view is solidly grounded in the literature (Fama and Jensen, 1983a; Morck, Shleifer and Vishny, 1989; Harford 2003), an empirical investigation of the impact of the news media coverage on corporate governance conducted from the perspective of the labour markets may provide direct verification. Since it is also possible that media reports regarding board performance impact the company's relationship with key product market participants including suppliers, competitors and customers, such reports may encourage governance improvements as boards endeavour to avoid product market discipline. Given the reach of the news media, the mainstream news media in particular, across the product markets, a direct examination of how the media's influence over the reputation of the company and its board in the product markets impacts the quality of its governance may also make a valuable contribution to the literature in this area.

This study has noted that empirical research assessing corporate governance quality at the aggregate level, from the perspective of the board tends to employ measures developed by commercial ratings agencies. While measures such as the ISS QuickScore and Standard and Poor's GAMMA Scores are comprehensive and account for the standards of governance set by a country's legal and regulatory systems, they have been described as lacking predictive validity (Daines, Gow and Larcker, 2010). One reason for this is that the large number of board attributes assessed creates considerable scope for measurement error. This study has avoided such an approach and an original method of evaluating corporate governance quality has been devised for the purposes of the study so that only aspects of the board considered to fundamentally determine its capacity to protect shareholders' interests are considered. This method too has its limitations, a number of which are acknowledged in the previous section. Nevertheless, the method may be developed and adapted to different samples and settings. Researchers might consider adjusting this or devising a similar method to appraise board quality in future research. As mentioned in the previous section, the unit weighting system employed herein may be considered a limitation of the study. Having trialled alternative weighting systems, the researcher deemed the system employed presently to be most appropriate.

Nonetheless, future research may consider surveying analysts or employing the DELPHI method[94] to identify a more appropriate relative weighting system.

While the evidence presented herein strongly indicates that causality runs from newspaper reporting to corporate governance quality change, it is acknowledged that the focus of the newspaper media may be more inclined toward companies with a certain quality of corporate governance. As noted in the previous section, one of this study's limitations is its inability to conclusively determine if the amount of coverage which companies receive when involved in a TMA case in some way depends on their governance quality. Future research may provide more clarity in this regard. As discussed in Chapter Seven, in order to effectively examine if the amount of newspaper coverage companies receive is influenced by the quality of their governance, corporate governance quality should be measured over a time period which precedes the publication of the newspaper reports considered. Such an analysis has been performed herein incorporating a one year time lag and the results do not provide any indication of a significant link. Given that the literature strongly indicates that the extent of media exposure companies receive is contingent upon the quality of their governance (Farrell and Whidbee, 2002; Johnson et al., 2005; Miller, 2006; Joe, Louis and Robinson, 2009; Lauterbach and Pajuste, 2014), future research ought to reassess this relationship, possibly incorporating longer or shorter time lags. It might also identify additional factors which should be controlled for when examining the determinants of newspaper reporting. Conclusive evidence in this regard would allow for a greatly enhanced understanding of the nature of the relationship between the newspaper media and corporate governance quality.

On a final note, this thesis has endeavoured to add a new contextual dimension to knowledge on the corporate governance role of the news media by examining the influence of the UK news media on corporate governance in the UK. There are many jurisdictions in which the media's role in corporate governance remains unexplored. As noted in the previous section, the results derived herein may be of limited relevance to overseas companies. Since legal, regulatory and market frameworks vary internationally as does the independence, credibility and

[94] The DELPHI method was devised at the RAND Corporation as a means of obtaining the most reliable opinion consensus of a group of experts by subjecting them to a series of questionnaires in depth interspersed with controlled opinion feedback (Dalkey and Helmer, 1963).

accessibility of the news media, it is likely that the media's influence on corporate governance may manifest itself differently from country to country. Accordingly, it is recommended that future research in this area continue to expand to unexplored research settings. It is envisaged that a comparative study of the news media's influence on corporate governance in a number of different jurisdictions may make a particularly valuable contribution to knowledge in this respect. Moreover, a study on the influence of newspaper reporting on the operation and potential failure of the market for corporate control, conducted at European level, may yield some interesting insight into the extent to which a company's exposure to the threat of takeover or the implication of its shares in market abuse impacts corporate governance at the firm level. In particular, a European level study is apt to involve a larger sample of market abuse cases. This may provide for more insightful results than those derived herein with respect to market abuse.

9.7. Final Remarks

The news media has, in the past, been discounted as a peripheral actor in the company environment which entertains rather than informs its audiences and distorts rather than encourages rational economic behaviour. This opinion is changing and the news media is increasingly recognised as a platform from which issues which pose threats to shareholders' wealth may be publicised. This study has provided new evidence to support this view. By providing extensive coverage of takeover offers, the UK mainstream broadsheet newspaper media may inform a variety of stakeholders, not least the company's shareholders, of how target boards' responses to offers may affect their interests, thereby affecting directors' reputations and promoting better quality governance at the company level. As such, the broadsheet newspaper media can catalyse the disciplinary operation of the market for corporate control and thus, can have a positive, albeit temporary, influence on corporate governance. While the evidence suggests that the mainstream broadsheet newspaper media possesses little potential to signal or limit abuses which may lead to its breakdown, investigation of news media reporting on a larger sample of market abuse cases may produce different results.

Heretofore, the role of the news media in corporate governance has received little attention in the context of the UK. This study has begun to fill this gap in the literature and has identified areas where its findings may be built upon. Given the dispersed nature of ownership of UK listed companies, a far reaching and accessible information intermediary such as the newspaper media may influence corporate governance in the UK in a number of regards.

The future value of the newspaper media in corporate governance is however contingent upon the success of forthcoming regulation and promotion of ethical standards among the UK press. Although complete accuracy and independence may be somewhat idealistic, appropriate standards in these areas are essential in order for newspapers to serve as a credible and reliable source of information. Furthermore, the newspaper media can only perform a sustainable role in shareholder protection if it overcomes the challenges it presently faces in adapting to the digital age. Accordingly, the industry must assume a strategic focus in this regard.

The extent to which the benefits of newspaper reporting may be sustained also relies largely on the efficacy of the primary corporate governance mechanisms in place in UK companies. Initiatives aimed at reducing the barriers to active shareholder engagement with directors and managers must be followed through in policy and practice. Future codes of best practice may also require more fine-tuning such that they are more suitably tailored to company-specific factors and continue to avoid taking a generic approach to governance.

Shareholders in UK listed companies are afforded considerable protection from an active market for corporate control which has been successfully regulated in a flexible and timely manner for almost fifty years. As this study highlights, relatively few instances of market abuse have been detected on either the London Stock Exchange's Main Market or on the AIM since the turn of the century. This study has identified a further attribute of this landscape which can serve to protect shareholders' interests and facilitate the effective functioning of the market for corporate control in the UK- the broadsheet newspaper media. As traditional mechanisms of corporate governance continue to develop and adapt to ever-changing company and market environments, the newspaper media is an information intermediary which may provide valuable assistance in alleviating information asymmetries and in holding directors and managers to account in UK companies. As newspapers face opportunities to expand their reach and impact across various sections of society, including the business and financial community, and across international boundaries, its role in corporate governance may well be one of growing importance which necessitates continued scholarly attention.

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APPENDIX A : UK GUIDANCE ON BEST PRACTICE IN CORPORATE GOVERNANCE, 1992-2012

Report/Code	Details
The Cadbury Report (1992)	Developed and published by the Committee on the Financial Aspects of Corporate Governance, under the chairmanship of Sir Adrian Cadbury, in response to public concern regarding corporate failures of the late 1980s and 1990s. Contained a code setting out the rights and responsibilities of shareholders, directors and auditors.
The Greenbury Report (1995)	Report on a Study of Directors' Remuneration conducted by a committee chaired by Sir Richard Greenbury. Dealt with accountability, disclosure and shareholders' interests.
The Hampel Report (1998)	Published by the Committee on Corporate Governance under the chairmanship of Sir Ronald Hampel. Gave further consideration to the issues addressed in both the Cadbury and Greenbury Reports. Reinforced the importance of corporate governance as a method of shareholder protection and emphasised its positive contribution to the company as a whole.
The Combined Code (1998)	Published by the London Stock Exchange. Consolidated the recommendations of the Cadbury, Greenbury and Hampel Reports. Recommended a system of best practice standards of corporate governance in terms of the board conduct, composition and remuneration, relations with shareholders, accountability and audit. Companies listed on the Main Market of the exchange were mandated to disclose, in all annual reports published on or after 31 December 1998, the extent to which they complied with the Combined Code and in doing so, provide an explanation for any non-compliance.
The Turnbull Report (1999)	Report on a study by the Internal Control Working Party, under the chairmanship of Nigel Turnbull. A response to a recommendation of the Combined Code that boards should report whether they had reviewed the company's system of internal control and risk management. Provided guidance on the internal control procedures necessary to manage risk.
The Higgs Review (2003)	Following the enactment of corporate governance legislation in the US in the Sarbanes-Oxley Act 2002, the UK government commissioned an independent review of the Role and Effectiveness of Non-Executive Directors, led by Derek Higgs, in January, 2003. The review contained recommendations relating to appointments to the board, board structure, tenure and remuneration, the roles of CEO and chairman and shareholder relations.
The Tyson Report (2003)	Report of a task force chaired by Laura D'Andrea Tyson on the recruitment and development of non-executive directors. Provided recommendations on board diversity.
The Smith Report (2003)	Produced by the Co-ordinating Group on Audit and Accounting Issues, under the chairmanship of Sir Robert Smith. Offered specific guidance for audit committees.
The Combined Code (2003)	Issued by the FRC to incorporate the advice put forward in the Turnbull, Higgs and Smith Reports.
The Turnbull Review (2004)	Reviewed effectiveness of guidance set out in the 1999 Report. Recommended a requirement for boards to confirm in the annual report that any necessary remedial action is taken where there are major weaknesses in internal control systems.
The Combined Code (2006)	Outcome of a review of the progress made in implementing the Combined Code (2003). Provided additional guidelines on shareholder voting by proxy and the provision of company information via the company website.

APPENDIX A : UK GUIDANCE ON BEST PRACTICE IN CORPORATE GOVERNANCE, 1992-2012 (continued)

Report/Code	Details
The Combined Code (2008)	Removed a restriction on chairmen from serving on more than one FTSE 100 board and permitted chairmen of smaller companies to sit on the audit committee.
The Walker Review (2009)	In response to the global financial crisis of 2008, an independent review of the effectiveness of corporate governance in the UK banking industry was conducted under Sir David Walker. Recommendations included the creation of a stewardship code, for companies generally, aimed at making management more accountable to institutional investors.
The UK Corporate Governance Code (2010) and the UK Stewardship Code (2010)	Replaced the Combined Code (2008). The section of the Combined Code which dealt with institutional investors was removed and replaced by the separate UK Stewardship Code (2010), which aims to promote the generation of long-term returns to shareholders. The UK Corporate Governance Code (2010) placed more emphasis on risk management and external board evaluation and recommend that all directors of FTSE 350 companies be subject to annual re-election by shareholders.
The UK Corporate Governance Code (2012)	Placed greater emphasis on the independence and effectiveness of external audit and requires companies to report on how they have taken measures to ensure boardroom diversity and to provide more detailed explanations for non-compliance.
The UK Stewardship Code (2012)	Clarifies the aim and definition of stewardship with emphasis on the need for investors to engage with management on companies' long-term strategies and sustainable returns.
The UK Corporate Governance Code (2014)	Introduces requirement for boards to include a viability statement in its strategic report to investors which provides a broad assessment of long-term solvency and liquidity, Boards of listed companies required to ensure that executive remuneration is designed to promote the long-term success of the company and demonstrate how this is being achieved more clearly to shareholders. Companies encouraged to explain, when publishing general meeting results, how they intend to engage with shareholders when a significant percentage of them have voted against any resolution.

APPENDIX B : KEY ASPECTS OF THE UK TAKEOVER CODE

	Requirements of the Code	Rationale
Rule 9: The Mandatory Bid Rule	Requires an offeror, upon gaining control of a certain percentage of the voting rights of a company, to make an offer to the remaining shareholders in the company at a specified price. Rule 9.1 sets the threshold for a mandatory bid at 30% or more of the voting rights of the company. Offers made under Rule 9 must be conditional only upon the offeror having received acceptances in respect of shares which, together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert[95] with it holding shares carrying more than 50% of the voting rights[96]. Mandatory offers must be made at a price no lower than the highest price paid by the offeror or any party acting in concert with it over the twelve months prior to the announcement of the offer[97].	Gives effect to Article 5 of the Takeover Directive, although the Mandatory Bid Rule was included in the Code prior to transposition of the Directive. Reflects the first general principle set out under Article 3(1), which states that *"all holders of the securities of an offeree company of the same class must be afforded equivalent treatment; moreover, if a person acquires control of a company, the other holders of securities must be protected"*. Protects minority shareholders by ensuring they are afforded an equal opportunity to (i) exit the company at a fair price, (ii) share in the takeover premium and (iii) make a decision whether or not to sell their shares, undistorted by the threat of remaining a minority shareholder without an exit option (Goergen, Martynova and Renneboog, 2005; Armour and Skeel, 2006; European Company Law Experts, 2013b).
Rule 21: The Board Neutrality Rule	Rule 21.1 affirms that during the course of an offer or beforehand, if the offeree board considers a bona fide offer is imminent, the board must not, without the approval of shareholders in general meeting, take any actions to frustrate an offer or a potential bona fide offer or to deny the offeree shareholders the opportunity to decide on the merits of the offer. It restricts the offeree board from: (i) issuing shares, transferring or selling shares out of treasury or agreeing to do so; (ii) issuing or granting options in respect of any unissued shares; (iii) creating or issuing, or permitting the creation of issue of, any securities carrying rights of conversion into or subscription for shares; (iv) selling, disposing of or acquiring assets of a material amount, or agreeing to do so and (v) entering into contracts otherwise than in the ordinary course of business. Rule 21.2, states that an offeree company cannot agree to pay an inducement fee to a potential offeror without the Panel's consent. Where consent is granted, the inducement fee should represent no more than 1% of the value of the offeree company and it must be confirmed that payment of the fee is within the best interests of the offeree shareholders.	Gives effect to Article 9 of the Takeover Directive; however, the Code largely restricted offeree directors from defending takeover offers prior to the Directive. Reflects the third General Principle, set out under Article 3(1), which states that *"the board of an offeree company must act in the interests of the company as a whole and must not deny the holders of securities the opportunity to decide on the merits of the bid"*. In the context of a hostile takeover offer, restrictions on frustrating actions implemented through the board neutrality rule have the effect of ensuring that the offeree board acts within its shareholders' interests and that the decision as to whether or not to accept a takeover offer is left with the offeree shareholders. Rule 21.2 limits the ability of the offeree board to invite a white knight[98] to launch a competing bid in a hostile takeover situation so as to frustrate the unwelcome bid.

[95] Under the Code, a group of persons are considered to be acting in concert if they, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company.
[96] The Takeover Code (11th ed.), Rule 9.3 (a).
[97] The Takeover Code (11th ed.), Rule 9.5 (a).
[98] A white knight bidder may be an associate company, customer, supplier or even a competitor of the company (Sudarsanam, 1995).

APPENDIX B: KEY ASPECTS OF THE UK TAKEOVER CODE (Continued)

Rule 36: Restrictions on Partial Offers	A partial offer is one made to shareholders of a certain class to acquire only a proportion of their shares. Under Rule 36.1, the Panel's consent is required for all partial offers. Such consent is likely only to be granted when the offer is for shares carrying less than 30% of voting rights. If the Panel consents, the offeror and any parties acting in concert with it are restricted from making any further acquisitions of shares over the offer period or over the 12 months following the end of the offer period (Rule 36.3). The offer can only be declared unconditional as to acceptances if acceptances are received in respect of all shares offered for (Rule 36.4). The offer must also be approved by at least 50% of the offeree's shareholders who are independent of the offeror and parties acting in concert with it (Rule 36.5). When a partial offer is made for a company with more than one class of equity share capital which could result in the offeror and persons acting in concert with it being interested in shares carrying 30% or more of the voting rights, a comparable offer must be made for each class (Rule 36.8).	The rationale for such tight regulation on partial offers is due to the opportunities they create for offerors to isolate those shareholders who do not receive an offer into a minority group (Yarrow, 1985). Partial offers are often a pre-curser to two-tiered offers where the minority group of remaining shareholders are coerced into tendering their shares at a lower price (Lowenstein, 1983; Bebchuk, 1985; Coates, 2000).
Rule 31: Timing of the Offer	Rule 31 sets out unambiguous deadlines which an offeror must meet and specifies the amount of time which must be allowed for shareholders to decide on the merits and demerits of the offer. An offer must initially remain open for at least 21 days following the date on which the offer document is published (Rule 31.1). After an offer has become or is declared unconditional as to acceptances, the offer must remain open for acceptances for at least 14 days after the date on which it would otherwise have expired (Rule 31.4). An offer may not become or be declared unconditional as to acceptances after midnight on the 60^{th} day after the date on which the initial offer document was published (Rule 31.6). All conditions must be fulfilled or the offer must lapse within 21 days of the first closing date, or the date on which the offer becomes or is declared unconditional as to acceptances, whichever is the latter (Rule 31.7). Consideration must be sent to shareholders within 14 days of the closing date of the offer, or the date on which the offer becomes or is declared wholly unconditional, or the date of the receipt of an acceptance complete in all respects, whichever is the latter (Rule 31.8).	Rule 31.1 prevents the offeror from influencing the offeree shareholders by making them an offer which is open for a limited time only. Rules 31.6 to 31.8 discourage unnecessary delays over the course of a takeover offer.

The Interests of Employees (Rule 24.2)	Deals with the intentions of the offeror with regard to the business, employees and pension scheme(s) of the offeree and of the offeror, where the offeror is a company. Under this rule, the offeror must state, in its offer document, its intentions with regard to the future business of the offeree company and explain the long-term commercial justification for the offer. It must also state its intentions regarding the continued employment of the employees and management of the offeree company and of its subsidiaries, including any material change in the conditions of employment and its strategic plans for the offeree company, and their likely repercussions on employment and the location of the offeree company's places of business. If the offeror has no intention to make any changes in this regard or if it believes there will be no repercussions on employment or the location of the offeree's businesses, it must make a statement to that effect. The offeror is bound to remain committed to any such statements for a period of twelve months from the date on which the offer period ends, or other date referred to in the statement, unless there is a material change in circumstances[99].	Rule 24.2 was amended in September 2011 so as to clarify the responsibilities of both the offeror and offeree boards to communicate the merits and potential consequences of takeover offers to employees (the Panel on Takeovers and Mergers, 2011). This was provoked by the 2010 hostile takeover of Cadbury plc by Kraft Inc. When announcing that it was considering making an offer for Cadbury, Kraft expressed an intention to keep Cadbury's Somerdale factory open. However, within a week of the takeover, Kraft announced the closure of the Somerdale factory (the Panel on Takeovers and Mergers, 2010a). A subsequent consultation by the Panel gave consideration as to the amount and timeliness of information which should be provided to broader stakeholders in offeree companies over the offer period (the Panel on Takeovers and Mergers 2010b). It was noted that while there were provisions in place to ensure that employees remained informed as to the potential consequences of takeovers, offerors tended only to meet their minimum requirements in this regard[100].

[99] The Takeover Code (11th ed.), Rule 19.1, Note 3.
[100] The Takeover Panel (2010), Consultation Paper 2010/2, Para 5.15.

APPENDIX C : MARKET ABUSE UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000

Tables C.1 to C.4 present an overview of key definitions pertaining to market abuse as set out in the Financial Services and Markets Act 2000, and related regulations, and outline the manner in which market abuse is regulated in accordance with these definitions.

Table C.1: Key Market Abuse Definitions under the Financial Services and Markets Act 2000		
	FSMA Section	Definition
Market abuse	118	Behaviour, by one person, or two or more persons acting jointly or in concert, which occurs in relation to qualifying investments admitted to trading on a prescribed market or those for which a request for admission to trading on such a market has been made, and falls within at least one of the four broad categories of (i) insider dealing, (ii) improper disclosure, (iii) misuse of information or (iv) market manipulation. **<u>NOTES:</u>** Prior to the transposition of MAD in July 2005, the definition of market abuse set out in FSMA relied largely on the concept of the regular market user. The regular user test enables it to be determined if behaviour related to qualifying investments traded on a prescribed market falls below the market's expected standards. The test is based on a hypothetical person who regularly deals on the market and in investments of the kind in question[101]. Prior to MAD, market abuse was defined under Section 118 as behaviour likely to be regarded by a regular user of that market who is aware of the behaviour as a failure on the part of the person or persons concerned to observe the standard of behaviour reasonably expected of a person in his or their position in relation to the market; involving at least one of the following categories of behaviour: *Misuse of information*: Behaviour based on information which is not generally available to those using the market but which, if available to a regular user of the market, would or would be likely to be regarded by him as relevant when deciding the terms on which transactions in investments of the kind in question should be effected. *Giving a false or misleading impression*: Behaviour that is likely to give a regular user of the market a false or misleading impression as to the supply of, or demand for, or as to the price or value of, investments of the kind in question. *Distortion:* Behaviour that would, or would be likely to, be regarded by a regular user of the market as behaviour which would, or would be likely to, distort the market in investments of the kind in question. Since the transposition of MAD, the regular user test is retained in FSMA only for those categories of abusive behaviour which are not drawn from the Directive[102]. These are contained under subsections 118(4) and (8) of FSMA. Both of these subsections and section 130A which defines the regular user, cease to have effect as of the 31 December 2014.
Insiders	118B	Any person who has inside information- (a) as a result of his membership of an administrative, management or supervisory body of an issuer of qualifying investments, (b) as a result of his holding in the capital in the issuer of qualifying investments, (c) as a result of having access to the information through the exercise of his employment, profession or duties, (d) as a result of his criminal activities, or (e) which he has obtained by other means and which he knows, or could reasonably be expected to know, is inside information.

[101] MAR 1.2.20 G.
[102] The Financial Services and Markets Act 2000 (Market Abuse) Regulations, SI 2005/381.

Table C.2: Definition of Inside Information under the Financial Services and Markets Act 2000

In relation to qualifying investments, or related investments, which are not commodity derivatives, inside information is defined under FSMA s.118C (2) as information of a precise nature which (a) is not generally available, (b) relates, directly or indirectly, to one or more issuers of the qualifying investments or to one or more of the qualifying investments, and (c) would, if generally available, be likely to have a significant effect on the price of the qualifying investment or the price of related investments[103]*. Accordingly, inside information has four defining characteristics; it is (i) precise, (ii) not generally available, (iii) relevant and (iv) price-sensitive, these characteristics are defined below.*

Characteristic	FSMA Section	Definition	Guidance on Interpretation
Precise	118C(5)	Information is precise if it (a) indicates circumstances that exist or may reasonable be expected to come into existence, or an event that has occurred or may reasonably be expected to occur, and (b) is specific enough to enable a conclusion to be drawn as to the possible effect of those circumstances, or that event on the price of qualifying investments or related investments.	This definition is extracted from Article 1(1) of Directive 2003/124/EC. Part (a) concerns the content of information and indicates that any factual statement, related in any way, to an actual circumstance or event within the issuer may constitute as inside information. According to the CESR's Level Two advice, a circumstance exists or a matter is true when it is based on firm and objective evidence which can be communicated accurately (as opposed to rumours), i.e. if the circumstances can be proven to exist or if the matter can be proven to be true[104]. Part (a) acknowledges that a circumstance or event need not yet be existent to be accurately communicated as inside information. DTR 2.7 guides issuers to carefully assess whether speculation or rumours gives rise to a situation where a disclosure obligation is triggered, this will depend on the accuracy of the rumour. Part (b) concerns the effects of the information. The CESR advises that information would be likely to be categorised as precise if it would lead a reasonable investor to make an investment decision without, or at low, risk or without haste or if it would be likely to be exploited immediately on the market[105].
Not Generally Available	118C(8)	Information which can be obtained by research or analysis conducted by, or on behalf of, users of a market is to be regarded as being generally available to them.	MAR 1.2.12 E lists a number of factors which should be considered in determining whether or not information is generally available, these are: (a) Whether the information has been disclosed to a prescribed market or a prescribed auction platform through an RIS or otherwise in accordance with the rules of that market; (b) Whether the information is contained in records which are open to inspection by the public; (c) Whether the information is otherwise generally available, including through the internet, or some other publication (including if it is only available on payment of a fee), or is derived from information which has been made public; (d) Whether the information can be obtained by observation by members of the public without infringing rights or obligations of privacy, property or confidentiality; and (e) The extent to which the information can be obtained by analysing or developing other information which is generally available. Article 1(1) of MAD defines inside information as that which has not been made public rather than that which is not generally available. The CESR advises that information may be deemed to be publically available without having being disclosed by the issuer in conformity with the requirements set out by the competent authority[106].

[103] A similar definition for inside information in relation to a person charged with the execution of orders concerning any qualifying investments or related investments is contained under Section 118C (4).

[104] CESR/02-089d, para. 20.

[105] CESR/02-089d, para. 20.

[106] CESR/06-562b, para. 1.9.

Table C.2 Continued: Definition of Inside Information under the Financial Services and Markets Act 2000			
Characteristic	FSMA Section	Definition	Guidance on Interpretation
Relevant	118C(2)(b) and 118C(4)(c)	Information which relates, directly or indirectly, to one or more issuers of the qualifying investments or to one or more of the qualifying investments.	This definition is taken almost directly from Article 1(1) of MAD. Examples of information directly concerning the issuer, suggested in CESR advice include changes in control and control agreements; management and board changes; mergers, splits and spin-offs[107]. The definitions of inside information provided under Section 118C of FSMA and under Article 1(1) of MAD indicate that it is not necessary for the information to originate within the issuer[108].
Price Sensitive	118C (6)	Information would be likely to have a significant effect on price if and only if it is information of a kind which a reasonable investor would be likely to use as part of his investment decisions.	The concept of a 'reasonable investor' is introduced in Recital 1 of Directive 2003/124/EC, which states that: *"Reasonable investors base their investment decisions on information already available to them, that is to say, on ex-ante available information. Therefore, the question whether, in making an investment decision, a reasonable investor would be likely to take into account a particular piece of information should be appraised on the basis of the ex-ante information. Such an assessment has to take into consideration the anticipated impact of the information in light of the totality of the related issuer's activity, the reliability of the source of information and any other market variables likely to affect the related financial instrument or derivative financial instrument related thereto in the given circumstances".* It would not be possible to establish a measure of how a movement in the price of an investment could be affected by inside information given the different markets and investments to which market abuse regulations apply[109]. The concept of a reasonable investor essentially provides a guideline which helps assess the likelihood of information having a significant effect on the price of an investment. DTR 2.2.5 guides that, in identifying inside information, both the investment to which it relates and the reasonable investor who might potentially access it must be considered. It advises that the reasonable investor requires an issuer to (i) take into account that the significance of the information in question will vary with the issuer, depending on factors such as the issuer's size, recent developments and the market sentiment about the issuer and the sector in which it operates; and (ii) assume that a reasonable investor will make investment decisions relating to the relevant financial instrument to maximise his economic self-interest. DTR 2.2.6 acknowledges that it may not be possible to apply the reasonable investor test to every situation. Any assessment of information should be considered in light of the totality of the issuer's activities, the reliability of the source of the information and other market variables.

[107] CESR/06-562b, para. 1.15.
[108] CESR/02-089d, para. 31.
[109] CESR/02-089d, para. 24.

Table C.3: Behaviour which constitutes as Market Abuse under the Financial Services and Markets Act 2000- Insider Dealing, Improper Disclosure and Misuse of Information			
Behaviour	FSMA Section	Definition	Guidance on Interpretation
Insider Dealing	118(2)	Insider dealing occurs where an insider deals, or attempts to deal, in a qualifying investment or related investment on the basis of inside information relating to the investment in question.	Section 130A defines 'dealing', in relation to an investment as: *"acquiring or disposing of the investment whether as principle or agent or directly or indirectly, and includes agreeing to acquire or dispose of the investment, and entering into and bringing to an end a contract creating it"*. MAR 1.3.2E sets out four types of behaviour which constitute insider dealing: (i) dealing on the basis of inside information which is not trading information; (ii) front running or pre-positioning; (iii) in the context of a takeover, an offeror or a potential offeror entering into a transaction in a qualifying investment on the basis of inside information concerning the proposed bid, that provides merely an economic exposure to movements in the price of the target company's shares (for example, a spread bet on the target company's share price); and (iv) in the context of a takeover, a person who acts for the offeror or potential offeror dealing for his own benefit in a qualifying investment or related investments on the basis of information concerning the proposed bid which is inside information.
Improper Disclosure	118(3)	Improper disclosure occurs where an insider discloses inside information to another person otherwise than in the proper course of the exercise of his employment, profession or duties.	MAR 1.4.2E lists two specific types of behaviour which constitutes an improper disclosure, these are: (i) disclosures of inside information by the director of an issuer to another in a social context; and (ii) selective briefing of analysts by directors of issuers or others who are persons discharging managerial responsibilities. MAR 1.4.5E indicates that, in determining if a disclosure is improper, the FCA will consider (i) if the disclosure is permitted by its own rules or those of the Takeover Code or prescribed market in question, (ii) if the disclosure is accompanied by the imposition of confidentiality requirements upon the person to whom the disclosure is made and (iii) if the information is trading information and if it is necessary and reasonable for the disclosure to be made. Under MAR 1.4.7 G, encouraging another to disclose inside information or pressing an insider for information constitutes as market abuse.
Misuse of Information	118(4)	Behaviour not falling within the category of insider dealing or improper disclosure that is (a) based on information not generally available to those using the market but which, if available to a regular user of the market, would be, or would be likely to be regarded by him as relevant when deciding the terms on which transactions in qualifying investments should be effected, and (b) is likely to be regarded by a regular user of the market as a failure on the part of the person concerned to observe the standard of behaviour reasonably expected of a person in his position in relation to the market.	Under MAR 1.5.2E, misuse of information may involve: (i) dealing or arranging deals in qualifying investments based on relevant information which is not generally available and relates to matters which a regular user would reasonably expected to be disclosed to users of the particular prescribed market or prescribed auction platform but does not amount to insider dealing under Section 118 (2) either because the dealing relates to a qualifying investment (to which Section 118 (2) does not apply) or because the relevant information is not inside information as defined under Section 118C or; (ii) a director giving relevant information, which is not generally available and relates to matters which a regular user would reasonably expect to be disclosed to users of the particular prescribed market, to another otherwise than in the proper course of the exercise of his employment or duties in a way that does not amount to improper disclosure as defined under Section 118 (3).

Table C.3 Continued: Behaviour which constitutes as Market Abuse under the Financial Services and Markets Act 2000- Market Manipulation			
Behaviour	FSMA Section	Definition	Guidance on Interpretation
Manipulating Transactions	118(5)	Manipulating transactions concerns effecting transactions or orders to trade (otherwise than for legitimate reasons and in conformity with accepted market practices on the relevant market) which- (a) give, or are likely to give, a false or misleading impression as to the supply of, or demand for, or as to the price of, one or more qualifying investments, or (b) secure the price of one or more such investments at an abnormal or artificial level.	Examples of such behaviour provided under MAR 1.6.2E include: (i) buying or selling investments at the close of the market with the effect of misleading investors who act on the basis of closing prices, other than for legitimate reasons; (ii) wash trades; (iii) painting the tape; (iv) entering orders into an electronic trading system at prices which are higher than the previous bid or lower than the previous offer, and withdrawing them before they are executed in order to give a misleading impression of supply and demand for a qualifying investment; (v) buying or selling on the secondary market of qualifying investments or related derivatives prior to the auction with the effect of fixing the auction clearing price for the auctioned products at an abnormal or artificial level or misleading bidders in the auction market, other than for legitimate reasons.
Manipulating Devices	118 (6)	Behaviour consisting of effecting transactions or orders to trade which employ fictitious devices or any other form of deception or contrivance.	MAR 1.7.2E outlines that such behaviour may involve: (i) taking advantage of occasional or regular access to the media by voicing an opinion about a qualifying investment while having previously taken positions on that investment and profiting subsequently from the impact of the opinions voiced on the price of that investment without having disclosed that conflict of interest to the public in a proper and effective way; (ii) a transaction or series of transactions that are designed to conceal the ownership of a qualifying investment so that disclosure requirements are circumvented by the holding of the investment in the name of a colluding party, such that disclosures are misleading in respect to the true underlying holding; (iii) pump and dump schemes.

Table C.3 Continued: Behaviour which constitutes as Market Abuse under the Financial Services and Markets Act 2000- Market Manipulation

Behaviour	FSMA Section	Definition	Guidance on Interpretation
Dissemination	118 (7)	Behaviour consisting of the dissemination of information by any means which gives, or is likely to give, a false or misleading impression as to a qualifying investment by a person who knew or could reasonably be expected to have known that the information was false or misleading.	MAR 1.8.3E provides some examples of such behaviour which include: (i) knowingly or recklessly spreading false or misleading information about a qualifying investment through the media, including in particular through an RIS or similar information channel; or (ii) undertaking a course of conduct in order to give a false or misleading impression about a qualifying investment.
Distortion and misleading behaviour	118 (8)	Behaviour other than that described in the previous three subsections which- (a) is likely to give a regular user of the market a false or misleading impression as to the supply of, or demand for or price or value of, qualifying investments, or (b) would be, or would likely to be, regarded by a regular user of the market as behaviour that would distort, or would be likely to distort, the market in such an investment, and the behaviour is likely to be regarded by a regular user of the market as a failure on the part of the person concerned to observe the standard of behaviour reasonably expected of a person in his position in relation to the market.	Factors the FCA will consider in determining whether or not behaviour creates a false or misleading impression listed under MAR 1.9.4E include: (i) the experience and knowledge of the users of the market in question; (ii) the structure of the market, including its reporting, notification and transparency requirements; (iii) the legal and regulatory requirements of the market; (iv) the identity and position of the person responsible for the behaviour; and (v) the extent and nature of the visibility or disclosure of the person's activity. Factors the FCA will consider in determining whether or not behaviour fails to meet the standards expected by a regular user listed under MAR 1.9.5E include: (i) if the transaction is pursuant to a prior legal or regulatory obligation to a third party; (ii) if the transaction is executed in a way which takes into account the need for the fair and efficient operation of the market; (iii) the characteristics of the market in question including the users and applicable rules and codes of conduct; (iv) the position of the person in question and the standards reasonably to be expected of him in light of his experience skill and knowledge; (v) if an organisation created a false or misleading impression, whether the individuals responsible could only know they were likely to create a false or misleading impression of they had access to other information that was held behind a Chinese wall or similarly effective arrangement.

Table C.4: Further Aspects of Market Abuse Regulation in the UK	
Relevant Rules and Guidelines	Requirements/Guidance
Disclosure and Confidentiality Regarding Inside Information: Prompt disclosure of price sensitive inside information reduces the opportunity for market abuse to occur. However, managers and directors may require time to ensure that information is correct and does not reach the public prematurely such that it might jeopardise the interests of the company. Accordingly, Article 6 of MAD imposes a duty on issuers to disclose inside information, unless there are legitimate reasons to refrain from doing so. The provisions of Article 6 are applied in the UK under DTR 2.	
DTR 2.2.1	An issuer must notify an RIS as soon as possible of any inside information which directly concerns it unless it takes responsibility, under DTR 2.5.1, for delaying the disclosure so as not to prejudice its legitimate interests.
DTR 2.5.6	Whenever an issuer or person acting on his behalf discloses any inside information to any third party, the issuer must make a complete and effective public disclosure of that information via an RIS.
Insider Lists: To reduce ambiguity as to which individuals are considered insiders, Article 6 (3) of MAD requires issuers to draw up and maintain an insider list. In the UK, the requirement to create and maintain an insider list is set out under DTR 2.8.	
DTR 2.8.1	Issuers must ensure that it and persons acting on its behalf or on its account draw up insider lists.
DTR 2.8.2	An issuer must, as soon as possible, provide the insider list to the FCA, if requested to do so.
DTR 2.8.3	Insider lists specify the identity of the person with access to inside information, the reason for the access and the date on which the list was created and updated.
DTR 2.8.4	Insider lists must be promptly be amended as additional individuals gain access or cease to have access to the information or as their reasons for access change.
DTR 2.8.5	Insider lists must be retained for at least five years after their creation or amendment.
DTR 2.8.9	An issuer must ensure its employees with access to inside information acknowledge the legal and regulatory duties entailed and are aware of the sanctions attaching to the misuse or improper circulation of such information.
DTR 2.8.10	An issuer must ensure that any person acting on its behalf or its account has drawn up an insider list and can ensure that those included on the list acknowledge the legal and regulatory duties entailed and are aware of the sanctions attaching to the misuse or improper circulation of inside information.
Managers' Transactions: Prompt disclosure of transactions in securities by management within the issuer and by persons associated with them promotes market transparency and reduces the potential for market abuse to occur. Article 6 of Directive 2004/72/EC provides detailed guidance as to how the competent authorities of Member States are to be notified of such transactions. In the UK, the rules as to how managers and their associates are to notify the FCA of transactions conducted on their account are contained under DTR 3.1.	
DTR 3.1.2	Persons discharging managerial responsibilities and their connected persons must notify the issuer in writing of the occurrence of all transactions conducted on their account in the shares of the issuer or derivatives or related instrument within four business days of the transaction date.
DTR 3.1.3	Notifications must include the name of the person discharging managerial responsibilities or the name of the person associated with him, the reason for responsibility to notify, the name of the issuer, a description of the financial instrument, the nature of the transaction, the date and place of the transaction and the price and volume of the transaction.

APPENDIX D : THE EUROPEAN MARKET ABUSE REGULATION (REGULATION NO. 596/2014)

The European Commission adopted proposals for a regulation on insider dealing and market manipulation in October 2011. The Regulation seeks to ensure that financial instruments trading only on multilateral trading facilities and organised trading facilities are covered[110]; to improve protection against market abuse through commodity derivatives[111]; to ensure better detection of market abuse by enhancing the power of competent authorities to investigate[112] and by introducing minimum principles for administrative measures or sanctions[113]; and to introduce a proportionate regime for issuers, whose financial instruments are admitted to trading on Small and Medium Enterprise growth markets[114]. The Regulation also accounts for the increase in the use of automated trading strategies such as algorithmic trading or high frequency trading, some of which may potentially constitute as market abuse. Pending the reclassification of emission allowances as financial instruments as part of a review of MiFID, it will be necessary for the Market Abuse Regulation to cover emission allowances[115].

In July 2012, the Commission adopted amended proposals for the Regulation. Following investigations into possible manipulation of the EURIBOR (Euro InterBank Offered Rate) and LIBOR (London InterBank Offered Rate), which are base interest rates or benchmarks indicating the interest rates at which banks are prepared to lend to each other in Europe and on the London money market respectively, it was proposed that such benchmarks come within the scope of the Regulation[116]. It was proposed that a definition of the benchmarks be included and that the definition of the offence of market manipulation be amended to capture

[110] European Commission, COM (2011) 651 Final, Para. 3.4.1.1; EU Regulation 596/2014, Recital 8; Article 2.
[111] European Commission, COM (2011) 651 Final, Para. 3.4.1.2; EU Regulation 596/2014, Recital 20.
[112] European Commission, COM (2011) 651 Final, Para. 3.4.4.1; EU Regulation 596/2014, Recital 62; 70; Article 23.
[113] European Commission, COM (2011) 651 Final, Para. 3.4.5.1; EU Regulation 596/2014, Recital 71.
[114] European Commission, COM (2011) 651 Final, Para. 3.4.3.3; EU Regulation 596/2014, Recital 6.
[115] European Commission, COM (2011) 651 Final, Para. 3.4.1.5; EU Regulation 596/2014, Recital 21; 51.
[116] European Commission, COM (2012) 421 Final, Para. 1.

manipulation of benchmarks and attempts at such manipulation[117]. The Regulation, which under the Lamfalussy format is a Level One document, was agreed upon by the European Parliament, the Council and the Commission in June 2013 and endorsed by the Parliament in September 2013. The following November, the European Securities and Markets Authority (hereinafter, the ESMA)[118] published a Discussion Paper regarding possible Level Two implementing measures, which are likely to include regulatory technical standards, delegated acts and guidelines. The Regulation was published in the Official Journal of the EU in June 2014.

At the same time as it adopted proposals for the Market Abuse Regulation, which continues to treat insider dealing and market manipulation as civil offences, the Commission also adopted proposals for a Directive requiring Member States to take necessary measures to ensure that the criminal offences of insider dealing and market manipulation are subject to criminal sanctions (European Commission, 2011). The Directive makes insider dealing[119] and market manipulation[120] criminal offences if committed intentionally. Attempting, inciting, aiding or abetting insider dealing or market manipulation is also considered as a criminal offence[121]. The Commission also adopted amended proposals for the Directive in July 2012. The proposed Directive was agreed upon by the Council in December 2012 and the Parliament voted to approve the Directive in February 2014. The Directive was also published in the Official Journal of the EU in June 2014. Under the Protocol on the Area of Freedom, Security and Justice, adoption of the Directive is optional for the United Kingdom. In June 2012, the UK Government announced that it will not yet opt into the Directive, choosing to examine the impact of the legislation before making any further decisions (House of Commons, 2012).

[117] European Commission, COM (2012) 421 Final, Para. 2.3.
[118] The ESMA assumed all existing and ongoing tasks from the CESR in January 2011.
[119] Directive 2014/57/EU, Article 3.
[120] Directive 2014/57/EU, Article 5.
[121] Directive 2014/57/EU, Article 6.

APPENDIX E : THE LEVESON INQUIRY INTO THE CULTURE, PRACTICE AND ETHICS OF THE PRESS

Investigative journalism can serve as a means of holding corporate power to account; however, investigative journalism, when conducted for other motives, can easily breach ethical boundaries, particularly when it is not suitably regulated. In July 2009, an investigative journalist at the UK broadsheet, the Guardian, revealed that the national police had been implicated in concealing the extent of mobile phone hacking by a journalist at the UK tabloid, the News of the World, owned by News Corp. International. This created great concern among the public as to the extent of such invasive tactics in the industry generally and raised questions regarding to degree to which the press's regard for innocent individuals' privacy was regulated on a national level. In response, the UK government, in 2011, commissioned the Right Honourable Lord Justice Brian Leveson to conduct an Inquiry into the Culture, Practices and Ethics of the Press.

The Leveson Inquiry included nine months of hearings during which evidence was received from 637 witnesses. It coincided with an extensive police investigation into interception of mobile phone messages which led to over 90 arrests. The final report of the Leveson Inquiry, published in November 2012, exposes a variety of unethical practices in which the UK press engaged for many years and includes numerous recommendations for reform. In the report, the Right Hon. Lord Justice Leveson notes that while UK journalists and members of the press are granted considerable legal protection and rights to information, these rights come with responsibilities, of which there had been outright neglect by certain members of the news media industry. These responsibilities to serve the public interest, to respect the truth, to obey the law and to uphold the rights and liberties of individuals are fundamental to the press's role in the functioning of society[122]. The Right Hon. Lord Justice Leveson noted that the relationship between the press, politicians and the police has become too close. Although the day-to-day relationship between the press and politicians is a healthy one, there have been times where the

[122] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Executive Summary, Para. 6.

government had allowed the press free reign to investigate and report without adequate standards of practice. When mobile phone hacking first became an issue, the political response had not been commensurate with public concern[123].

The report contains many very specific recommendations for the future of press regulation, some of which are discussed below. Aware that the newspaper media is currently experiencing great challenges in evolving with technological change, maintaining readership and managing costs, the Right Hon. Lord Justice Leveson stresses that it is not his intention to recommend burdensome regulation which would make it even harder for UK newspapers to survive.

Media Ownership, Competition and News Plurality

The Leveson Report takes particular note of the dangers of concentrated ownership of the UK media, especially with regard to the power held by the Murdoch family. Presently, the Murdoch family controls a substantial stake in the British Sky Broadcasting Group (hereinafter, BSkyB) through their ownership of the international media company, News Corp. International. James Murdoch, son of Rupert Murdoch, News Corp.'s chairman, has served as both CEO and board chairman of BSkB. Murdoch Junior was forced to step down from his role as board chairman of BSkyB in 2012, following the hacking scandal at News Corp. Murdoch Jnr.'s departure from the role of chairman followed years of pressure from BSkyB's institutional shareholders to reduce the Murdoch family's control over the board of directors (Weber, 2005). Nevertheless, he remains on the board as a non-executive director (BSkyB, 2014).

The Leveson Report notes that there had been a long-standing relationship between the Murdochs and the government, indications of which emerged when Murdoch acquired the broadsheet newspaper, the Times, without any significant reservations being held by the Thatcher Administration[124]. Further cause for concern over the Murdochs' power within the UK media industry and their relationship with the government exists in the handling of an attempt

[123] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Executive Summary, Para. 113.
[124] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Three, Part I, Chapter 2.

by News Corp. to increase its holding in BSkyB in 2010. Although efforts were made on the behalf of the government to remain impartial in deciding on the merits of the bid, which eventually failed, the Right Hon. Lord Justice Leveson reports that informal meetings took place between parties involved. The evidence presented before the Leveson Inquiry suggests that potential remains for the government to allow powerful interests to dominate within the media. Accordingly, the Leveson Report advises that there be greater transparency at each stage of political decision making in relation to media mergers[125]. Chapter Nine of the first volume of the Leveson Report makes various recommendations as to how media ownership and plurality might be better regulated. These include continual reviews of plurality in the news, with a remit extending to online publications, and more effective consultation by the government with Ofcom and opposition parties when deciding if media mergers are within the public interest, with the basis of all decisions being made publically available.

The PCC Editors' Code

The PCC was subject to considerable criticism over the course of the Leveson Inquiry. The Right Hon. Lord Justice Leveson identifies the fundamental problem with the PCC is that it is essentially a complaints handling body rather than a regulator. He also notes that the PCC Code Committee is comprised solely of serving newspaper and magazine editors and thus, lacks independence[126]. It is noted that disciplinary action taken by the PCC has been done with the greatest leniency toward the editor or journalist in question[127] and that throughout its history the PCC has proven that its interests are aligned with those of the press rather than the public[128].

As an outcome of the Leveson Inquiry, the PCC agreed to enter a transitional phase in preparation for its own abolition and replacement[129]. Chapter Seven of the fourth volume of the Report of the Inquiry includes a number of specific recommendations as to the structure and

[125] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Three, Part I, Chapter 2.
[126] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part J, Chapter 4.
[127] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part J, Chapter 4, Para. 6.54.
[128] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Executive Summary, Para. 45.
[129] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part K, Chapter 4.

roles of the new regulatory body and the administration of the new regulatory system. It is emphasised as crucial that the system of self-regulation be continued, however the system should have statutory underpinnings and be overseen by a genuinely independent body[130]. The Right Hon. Lord Justice Leveson envisages that such a body will establish and promote standards through a more rigorous code and monitor newspapers' compliance with that code[131]. The body would also encourage newspapers to be as transparent as possible regarding the sources of information for news stories, while ensuring that sources are protected when necessary[132]. In order to incentivise members of the press to participate in the regulatory regime, it is proposed that they be offered legal assistance in the event of defamation cases[133].

The New Regulatory Regime

On 30 October 2013, a Royal Charter on Self-regulation of the Press was sealed. The Charter provides for the establishment of a recognition panel for any new press regulator[134]. The board of the panel must reflect experience in the law, finance, public policy and consumer rights[135], and be suitably independent to the extent that current and former editors of publishers and members of the government cannot be members[136].

The Charter sets out a number of criteria which a regulatory body must meet in order to be recognised by the panel. The body must have a board which is independent from industry and the government[137]. The body must contain a code committee which would assume ultimate responsibility for standards codes administered by the body. Serving editors may play a role on this committee, but not one which is decisive[138]. Codes must take into account the importance of freedom of speech, the public interest, the need for confidentiality and protection of sources and

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[130] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part K, Chapter 4, Para. 4.
[131] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part K, Chapter 4.
[132] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Executive Summary, Para. 63.
[133] Report of the Inquiry into the Culture, Practices and Ethics of the Press (2012), Volume Four, Part K, Chapter 2, Para. 10.
[134] Royal Charter on Self-regulation of the Press 2013, Article 1.1, Article 3.1.
[135] Royal Charter on Self-regulation of the Press 2013, Schedule 1, Para. 3.2 (b).
[136] Royal Charter on Self-regulation of the Press 2013, Schedule 1, Para. 3.3.
[137] Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 1.
[138] Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 7.

the rights on individuals and it must set out standards of journalistic conduct, respect for privacy except when issues are in the public interest, accuracy and the need to avoid misrepresentation[139]. The body should make it clear to media vehicles which subscribe to the code that they will be held strictly accountable under the standards of the code[140]. The board of the body should require subscribers to have an adequate and speedy process in place for handling complaints[141] and it should have the power to hear and decide on complaints about breaches of the code[142]. The board should have sufficient powers to investigate breaches of the code[143], to impose financial sanctions and to require corrections and apologies to be published where breaches arise[144]. It should also provide an arbitral process for civil legal claims against subscribers[145]

Thus far, the only initiative taken to establish a recognition panel has been the Impress Project (House of Commons, 2014). Impress aims to enhance the integrity and freedom of the press while encouraging the highest ethical standards in journalism (the Impress Project, 2014). This is to be achieved through complaints handling, arbitration and investigation[146]. Impress will be open to subscribers from across the UK[147]. The regulatory code employed by Impress will initially remain the same as the PCC Editors' Code, which will be reviewed over the first year of full operation and annually thereafter[148].

The newspaper and magazine industry has begun to establish its regulatory body, the Independent Press Standards Organisation (hereinafter, IPSO), which has established a set of regulations for the industry (IPSO, 2013). Its remit extends to editorial content included in printed newspapers, magazines and that published on electronic services operated by regulated entities[149]. Its functions involve handling complaints about breaches of the Editors' Code,

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139 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 8.
140 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 8A.
141 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para.10.
142 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 11.
143 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para.18.
144 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para.19.
145 Royal Charter on Self-regulation of the Press 2013, Schedule 3, Para. 22.
146 The Impress Project (2014), Prospectus, Para. 1.
147 The Impress Project (2014), Prospectus, Para. 13.
148 The Impress Project (2014), Prospectus, Para. 16.
149 The Independent Press Standards Organisation (2013), Regulation 1.

monitoring compliance with the Editors' Code[150], investigating and adjudicating in cases of non-compliance[151], providing subscribers with guidance on matters concerning the Editors' Code[152] and notifying subscribers of potential breaches without restricting their freedom to publish[153].

150 The Independent Press Standards Organisation (2013), Regulation 4.1.
151 The Independent Press Standards Organisation (2013), Regulation 4.2.
152 The Independent Press Standards Organisation (2013), Regulation 4.5.
153 The Independent Press Standards Organisation (2013), Regulation 4.6.

APPENDIX F : CURRENT REGULATION OF THE UK NEWSPAPER MEDIA

The Defamation Act 2013	Provides protection for individuals, members of the press, scientists and academics who wish to publish information and views without the threat of libel action. Gives legal recourse to those who are genuinely defamed.
The PCC Editors' Code of Practice (2012)	Applies to editorial material in both printed and online publications. Includes general standards of accuracy and privacy. Issues principles to be followed when reporting and publishing specific material regarding issues such as children, the medical profession, crime and finance. The latter matter is dealt with under Provision 13, which states: (i) Even where the law does not prohibit it, journalists must not use for their own profit financial information they receive in advance of its general publication, nor should they pass such information to others. (ii) They must not write about shares or securities in whose performance they know that they or their close families have a significant financial interest without disclosing the interest to the editor or financial editor. (iii) They must not buy or sell, either directly or through nominees or agents, shares or securities about which they have written recently or about which they intend to write in the near future. Any publication judged to have breached the PCC Editors' Code must publish the adjudication in full and with due prominence[154].
The FCA Perimeter Guidance Manual (PERG)	Contains rules and guidelines authorising and controlling activities which occur on the boundaries of regulated markets, a number of which pertain to media reporting on investments. These include: **PERG 7.3.4:** since the investment advice provided by journalists and members of the media is not made on the basis of commission, the activities of journalists are considered to be in the interests of their readers rather than as part of an arrangement with any particular market participant. For example, an investigative journalist may on occasion deem it necessary to warn investors against the purchase of a particular investment because there are suspicions of fraud in connection with that investment. It is the opinion of the FCA that such an exercise is conducted in the public interest rather than for any commercial gain. **PERG 8.12.23:** acknowledges that journalists and other members of the media will inevitably offer share tips and recommendations on companies in which to invest and that this may affect trading on the stock markets. **PERG 8.12.25:** anyone who writes for or contributes to a publication, service or broadcast is considered as a person acting in the capacity of a journalist. This includes experts or analysts who may be asked to contribute articles for a publication or website service or to offer their opinion in a broadcast. **PERG 8.12.25:** requires that, under Article 54 of the Regulated Activities Order, 2001, the purpose of media reports must not be to lead or enable persons to buy or sell securities or relevant investments. **PERG 8.12.26:** where the subject matter of a report is shares, share options, futures or CFDs relating to shares and where the report identifies directly a person who issues or provides such an investment, the report must be accompanied by an indication of the nature of any financial interest held by the journalist, editor or a member of his family. **PERG 8.12.27**: exceptions to the disclosure requirement of PERG 8.12.26 include reports in publications, services or broadcasts which have proper systems and procedures which prevent the publication of communications without disclosure of financial interests; or fall within the remit of the PCC Editors' Code; the Ofcom Broadcasting Code; or the BBC Producers' Guidelines.

[154] PCC Code (2012), Preamble.

APPENDIX G : SENSITIVITY ANALYSIS

Tables G.1 to G.13 present the results of the corporate governance quality sensitivity analysis discussed in Chapter Seven. Tables G.1 to G.3 present the results of the first set of sensitivity tests which examine alternative associations between benchmark-adjusted corporate governance quality change and newspaper reporting. Tables G.4 to G.6 presents the results of the second set of tests which examine associations between the annual corporate governance quality variables and newspaper reporting. Tables G.7 to G.9 present the results of the third set of tests which examine potential time lags in the association between corporate governance quality and newspaper reporting. Tables G.10 to G.12 present the results of the fourth set of tests which examine corporate governance quality as a determinant of newspaper reporting. Table G.13 presents the results of the fifth set of tests which examine the intensity of newspaper reporting.

Table G.1a: Sensitivity Analysis Test 1- Alternative Associations between Benchmark-adjusted Corporate Governance Quality Change and Newspaper Reporting: The Determinants of Event Year Newspaper Reporting

Below are the results of the OLS regression of the event year newspaper reporting variable (NPR_t) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_t	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.720	0.091	0.043
$CSIZE_{t-1}$	6.130	0.001***	0.367
AGE_{t-1}	-1.310	0.196	0.026
$INDGEN_{t-1}$	-2.630	0.011**	0.096
ISS_t	-4.030	0.001***	0.200
$ECON_{t-1}$	-1.720	0.089*	0.044
R^2: 0.552	**Adj. R^2:** 0.518	**F** (5, 65):	16.030 (0.001)***
Takeover Subset (n=53)			
Constant	3.610	0.001	0.217
$CSIZE_{t-1}$	8.770	0.001***	0.621
AGE_{t-1}	-2.180	0.034**	0.092
$INDGEN_{t-1}$	-3.770	0.001***	0.232
ISS_t	2.420	0.019**	0.111
$ECON_{t-1}$	-3.770	0.001***	0.232
R^2: 0.666	**Adj. R^2:** 0.631	**F** (5, 47):	18.780 (0.001)***
Market Abuse Subset (n=18)			
Constant	-0.469	0.647	0.018
$CSIZE_{t-1}$	-0.674	0.513	0.036
AGE_{t-1}	1.170	0.266	0.102
$INDGEN_{t-1}$	-1.060	0.309	0.086
ISS_t	1.470	0.169	0.152
$ECON_{t-1}$	0.439	0.669	0.016
R^2: 0.323	**Adj. R^2:** 0.041	**F** (5, 12):	1.144 (0.390)

Variable Definitions: **NPR_t:** Event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); Explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.1b: Sensitivity Analysis Test 1: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*71*	
		Mean	2.867	0.000
		Std. Dev.	1.451	1.307
		Min	-1.359	-3.167
		Max	5.999	3.454
Takeover Subset	*n=*		*53*	
		Mean	3.534	0.000
		Std. Dev.	1.437	1.016
		Min	0.567	-3.168
		Max	6.080	3.300
Market Abuse Subset	*n=*		*18*	
		Mean	0.902	0.000
		Std. Dev.	0.496	0.718
		Min	-0.260	-1.085
		Max	1.687	1.485

Table G.1c: Sensitivity Analysis Test 1: Benchmark-adjusted Pre-event to Event CGQ Change on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event change in Corporate Governance Quality ($\Delta CGQ_{t-1\rightarrow t(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t-1\rightarrow t(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.560	0.125	0.039
$RESNPR_t$	-0.004	0.997	0.001
$CSIZE_{t-1}$	1.630	0.107	0.043
AGE_{t-1}	-0.510	0.612	0.004
$INDGEN_{t-1}$	0.458	0.648	0.004
ISS_t	-1.270	0.210	0.026
$ECON_{t-1}$	-1.570	0.122	0.039
$CGQ_{t-1(ad)}$	-5.210	0.001**	0.311
$PERF_{t-1}$	-1.000	0.320	0.017
$INST_{t-1}$	1.450	0.152	0.034
$BLAME_t$	-0.352	0.726	0.002
R^2: 0.363	**Adj. R^2:** 0.257	**F** (10, 60):	3.417 (0.001)***
Takeover Subset (n=53)			
Constant	0.379	0.706	0.003
$RESNPR_t$	-0.961	0.342	0.022
$CSIZE_{t-1}$	1.460	0.151	0.049
AGE_{t-1}	-0.646	0.522	0.010
$INDGEN_{t-1}$	0.633	0.530	0.009
ISS_t	3.130	0.003***	0.189
$ECON_{t-1}$	-0.467	0.643	0.005
$CGQ_{t-1(ad)}$	-7.870	0.001***	0.596
$PERF_{t-1}$	-0.978	0.334	0.022
$INST_{t-1}$	0.087	0.931	0.001
$BLAME_t$	-1.760	0.085*	0.069
R^2: 0.631	**Adj. R^2:** 0.534	**F** (10, 42):	7.167 (0.001)***
Market Abuse Subset (n=18)			
Constant	1.090	0.311	0.146
$RESNPR_t$	0.817	0.441	0.087
$CSIZE_{t-1}$	-0.873	0.412	0.098
AGE_{t-1}	-0.620	0.555	0.052
$INDGEN_{t-1}$	-0.220	0.832	0.007
ISS_t	-0.287	0.782	0.012
$ECON_{t-1}$	-1.070	0.321	0.140
$CGQ_{t-1(ad)}$	-0.551	0.599	0.042
$PERF_{t-1}$	1.240	0.256	0.179
$INST_{t-1}$	1.310	0.232	0.196
$BLAME_t$	1.290	0.236	0.193
R^2: 0.631	**Adj. R^2:** 0.104	**F** (10, 7):	1.198 (0.417)

Variable Definitions: **$\Delta CGQ_{t-1\rightarrow t(ad)}$:** Benchmark-adjusted pre-event to event year change in Corporate Governance Quality; **$RESNPR_t$:** Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting (Tables G.1a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.2a: Sensitivity Analysis Test 1: The Determinants of Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the pre-event year newspaper reporting variable (NPR_{t-1}) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_{t-1}	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.316	0.753	0.002
$CSIZE_{t-1}$	1.040	0.301	0.019
AGE_{t-1}	2.070	0.043**	0.071
$INDGEN_{t-1}$	0.117	0.907	0.001
ISS_t	-1.160	0.252	0.023
$ECON_{t-1}$	0.317	0.752	0.002
R^2: 0.210	**Adj. R^2:** 0.139	**F** (5, 56):	2.969 (0.019)**
Takeover Subset (n=46)			
Constant	-0.145	0.885	0.001
$CSIZE_{t-1}$	1.120	0.270	0.030
AGE_{t-1}	1.880	0.067*	0.081
$INDGEN_{t-1}$	0.106	0.916	0.001
ISS_t	-0.828	0.413	0.017
$ECON_{t-1}$	0.155	0.877	0.001
R^2: 0.154	**Adj. R^2:** 0.048	**F** (5, 40):	1.456 (0.226)

Variable Definitions: **NPR_{t-1}:** Pre-event year newspaper reporting measured as ln (1 + No. newspaper reports in the pre-event year); Explanatory variables are as before.

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

Table G.2b: Sensitivity Analysis Test 1: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Pre-event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*			*62*
		Mean	0.891	0.000
		Std. Dev.	0.750	1.489
		Min	-0.873	-2.171
		Max	2.339	4.717
Takeover Subset	*n=*			*46*
		Mean	1.200	0.000
		Std. Dev.	0.689	1.707
		Min	-0.033	-2.339
		Max	2.474	4.533

Table G.2c: Sensitivity Analysis Test 1: Benchmark-adjusted Event to Post-event Year CGQ Change on Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.024	0.981	0.001
$RESNPR_{t-1}$	-0.203	0.840	0.001
$CSIZE_{t-1}$	2.270	0.027**	0.092
AGE_{t-1}	1.150	0.256	0.025
$INDGEN_{t-1}$	0.760	0.451	0.011
ISS_{t}	0.898	0.374	0.016
$ECON_{t-1}$	-0.055	0.957	0.001
$CGQ_{t(ad)}$	-2.390	0.021**	0.101
$PERF_{t}$	0.060	0.953	0.001
$INST_{t-1}$	-0.425	0.673	0.004
$BLAME_{t}$	-0.024	0.981	0.001
R^2: 0.200	**Adj. R^2:** 0.043	**F** (10, 51):	1.274 (0.270)
Takeover Subset (n=46)			
Constant	-0.668	0.509	0.013
$RESNPR_{t-1}$	-0.967	0.340	0.026
$CSIZE_{t-1}$	2.850	0.007***	0.188
AGE_{t-1}	1.430	0.163	0.055
$INDGEN_{t-1}$	0.303	0.764	0.003
ISS_{t}	0.621	0.539	0.011
$ECON_{t-1}$	0.559	0.580	0.009
$CGQ_{t(ad)}$	-1.570	0.125	0.066
$PERF_{t}$	-1.200	0.240	0.039
$INST_{t-1}$	0.006	0.995	0.001
$BLAME_{t}$	2.720	0.010**	0.174
R^2: 0.403	**Adj. R^2:** 0.232	**F** (10, 35):	2.361 (0.030)**

Variable Definitions: $\mathbf{\Delta CGQ_{t\rightarrow t+1(ad)}}$: Benchmark-adjusted event to post-event year change in Corporate Governance Quality; $\mathbf{RESNPR_{t-1}}$: Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting (Tables G.2a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level

Table G.3a: Sensitivity Analysis Test 1: The Determinants of Post-event Year Newspaper Reporting

Below are the results of the OLS regression of the post-event year newspaper reporting variable (NPR_{t+1}) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_{t+1}	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.263	0.793	0.001
$CSIZE_{t-1}$	2.380	0.021**	0.092
AGE_{t-1}	0.204	0.839	0.001
$INDGEN_{t-1}$	-0.946	0.348	0.016
ISS_t	2.030	0.047**	0.069
$ECON_{t-1}$	-0.325	0.747	0.002
R^2: 0.155	**Adj. R^2:** 0.080	**F** (5, 56):	2.056 (0.085)*
Takeover Subset (n=46)			
Constant	0.520	0.606	0.007
$CSIZE_{t-1}$	2.210	0.033**	0.109
AGE_{t-1}	0.749	0.458	0.014
$INDGEN_{t-1}$	-0.893	0.377	0.020
ISS_t	-0.271	0.788	0.002
$ECON_{t-1}$	-0.547	0.587	0.007
R^2: 0.176	**Adj. R^2:** 0.072	**F** (5, 40):	1.703 (0.156)
Market Abuse Subset (n=16)			
Constant	-0.196	0.848	0.004
$CSIZE_{t-1}$	1.900	0.086*	0.266
AGE_{t-1}	-2.310	0.044**	0.347
$INDGEN_{t-1}$	-0.967	0.357	0.086
ISS_t	2.730	0.021**	0.427
$ECON_{t-1}$	0.040	0.969	0.001
R^2: 0.585	**Adj. R^2:** 0.378	**F** (5, 10):	2.820 (0.077)*

Variable Definitions: **NPR_{t+1}:** Post-event year newspaper reporting measured as ln (1 + No. newspaper reports in the post-event year); Explanatory variables are as before.

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

Table G.3b: Sensitivity Analysis Test 1: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Post-event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*62*	
		Mean	1.044	0.000
		Std. Dev.	0.545	1.206
		Min	-0.323	-2.097
		Max	2.443	4.559
Takeover Subset	*n=*		*46*	
		Mean	0.921	0.000
		Std. Dev.	0.590	1.229
		Min	-0.350	-1.755
		Max	1.864	4.632
Market Abuse Subset	*n=*		*16*	
		Mean	1.398	0.000
		Std. Dev.	0.862	0.789
		Min	-0.280	-1.197
		Max	3.929	1.596

Table G.3c: Sensitivity Analysis Test 1: Benchmark-adjusted Event to Post-event CGQ Change on Post-event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon the post-event year newspaper reporting variable ($RESNPR_{t+1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.009	0.993	0.001
$RESNPR_{t+1}$	-0.351	0.727	0.002
$CSIZE_{t-1}$	2.300	0.025**	0.094
AGE_{t-1}	1.140	0.259	0.025
$INDGEN_{t-1}$	0.758	0.452	0.011
ISS_t	0.949	0.347	0.017
$ECON_{t-1}$	-0.071	0.944	0.001
$CGQ_{t(ad)}$	-2.410	0.019**	0.103
$PERF_t$	0.001	0.999	0.001
$INST_{t-1}$	-0.443	0.659	0.004
$BLAME_t$	0.103	0.918	0.001
R^2: 0.201	**Adj. R^2:** 0.045	**F** (10, 51):	1.284 (0.264)
Takeover Subset (n=46)			
Constant	-0.584	0.563	0.010
$RESNPR_{t+1}$	0.531	0.599	0.008
$CSIZE_{t-1}$	2.840	0.008***	0.189
AGE_{t-1}	1.410	0.167	0.054
$INDGEN_{t-1}$	0.325	0.747	0.003
ISS_t	0.764	0.450	0.016
$ECON_{t-1}$	0.469	0.642	0.006
$CGQ_{t(ad)}$	-1.490	0.145	0.060
$PERF_t$	-1.080	0.287	0.032
$INST_{t-1}$	0.100	0.921	0.001
$BLAME_t$	2.550	0.015**	0.157
R^2: 0.392	**Adj. R^2:** 0.218	**F** (10, 35):	2.255 (0.037)**
Market Abuse Subset (n=16)			
Constant	2.320	0.068	0.518
$RESNPR_{t+1}$	0.977	0.374	0.160
$CSIZE_{t-1}$	0.719	0.504	0.094
AGE_{t-1}	0.250	0.812	0.012
$INDGEN_{t-1}$	0.478	0.653	0.044
ISS_t	-1.890	0.117	0.417
$ECON_{t-1}$	-2.290	0.070*	0.513
$CGQ_{t(ad)}$	-1.050	0.342	0.181
$PERF_t$	1.490	0.196	0.308
$INST_{t-1}$	-0.626	0.559	0.073
$BLAME_t$	-1.580	0.175	0.333
R^2: 0.738	**Adj. R^2:** 0.215	**F** (10, 5):	1.410 (0.370)

Variable Definitions: **$\Delta CGQ_{t\rightarrow t+1(ad)}$:** Benchmark-adjusted event to post-event year change in Corporate Governance Quality; **$RESNPR_{t+1}$:** Newspaper Reporting in the post-event year, measured using the residual values obtained from the first stage OLS regression model when applied to post-event year newspaper reporting (Tables G.3a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.4a: Sensitivity Analysis Test 2- Annual Corporate Governance Quality Variables: The Determinants of Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the pre-event year newspaper reporting variable (NPR_{t-1}) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_{t-1}	t-value	t-prob	Part. R^2
Full Sample (n=135)			
Constant	-0.539	0.591	0.002
$CSIZE_{t-1}$	2.120	0.036**	0.034
AGE_{t-1}	0.445	0.647	0.002
$INDGEN_{t-1}$	-0.360	0.719	0.001
ISS_t	-1.950	0.053*	0.029
$ECON_{t-1}$	0.532	0.596	0.002
R^2: 0.109	**Adj. R^2:** 0.074	**F** (5, 129):	3.149 (0.010)**
Takeover Subset (n=110)			
Constant	-0.378	0.706	0.001
$CSIZE_{t-1}$	1.910	0.059*	0.034
AGE_{t-1}	0.400	0.690	0.002
$INDGEN_{t-1}$	-0.471	0.639	0.002
ISS_t	-0.183	0.855	0.001
$ECON_{t-1}$	0.356	0.722	0.001
R^2: 0.053	**Adj. R^2:** 0.007	**F** (5, 104):	1.163 (0.332)

Variable Definitions: **NPR_{t-1}:** Pre-event year newspaper reporting measured as ln (1 + No. newspaper reports in the pre-event year); Explanatory variables are as before.

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

Table G.4b: Sensitivity Analysis Test 2: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Pre-event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*135*	
		Mean	0.980	0.000
		Std. Dev.	0.533	1.526
		Min	-0.915	-2.031
		Max	2.169	4.954
Takeover Subset	*n=*		*110*	
		Mean	1.187	0.000
		Std. Dev.	0.396	1.677
		Min	0.245	-2.003
		Max	2.184	4.821

Table G.4c: Sensitivity Analysis Test 2: Pre-event Year Benchmark-adjusted CGQ on Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of pre-event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t-1(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $CGQ_{t-1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=135)			
Constant	0.425	0.671	0.001
$RESNPR_{t-1}$	-1.910	0.059*	0.028
$CSIZE_{t-1}$	4.510	0.001***	0.140
AGE_{t-1}	0.361	0.719	0.001
$INDGEN_{t-1}$	0.193	0.847	0.001
ISS_t	-0.419	0.676	0.001
$ECON_{t-1}$	-0.536	0.593	0.002
$PERF_{t-1}$	0.187	0.852	0.001
$INST_{t-1}$	1.100	0.274	0.010
$BLAME_t$	-0.863	0.390	0.006
R^2: 0.259	**Adj. R^2:** 0.205	**F** (9, 125):	4.850 (0.001)***
Takeover Subset (n=110)			
Constant	-1.040	0.299	0.011
$RESNPR_{t-1}$	-2.150	0.034**	0.044
$CSIZE_{t-1}$	2.730	0.008***	0.069
AGE_{t-1}	0.692	0.490	0.005
$INDGEN_{t-1}$	-0.396	0.693	0.002
ISS_t	2.030	0.045**	0.040
$ECON_{t-1}$	0.938	0.350	0.009
$PERF_{t-1}$	0.425	0.672	0.002
$INST_{t-1}$	0.964	0.337	0.009
$BLAME_t$	0.096	0.924	0.001
R^2: 0.221	**Adj. R^2:** 0.151	**F** (9, 100):	3.156 (0.002)***

Variable Definitions: **$CGQ_{t-1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the pre-event year; **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting (Tables G.4a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.5a: Sensitivity Analysis Test 2: The Determinants of Event Year Newspaper Reporting

Below are the results of the OLS regression of the event year newspaper reporting variable (NPR_t) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_t	t-value	t-prob	Part. R^2
Full Sample (n=72)			
Constant	0.820	0.415	0.010
$CSIZE_{t-1}$	5.170	0.001***	0.288
AGE_{t-1}	-0.577	0.566	0.005
$INDGEN_{t-1}$	-1.960	0.054*	0.055
ISS_t	-3.530	0.001***	0.159
$ECON_{t-1}$	-0.822	0.414	0.010
R^2: 0.487	**Adj. R^2:** 0.448	**F** (5, 66):	12.530 (0.001)***
Takeover Subset (n=54)			
Constant	1.790	0.080	0.063
$CSIZE_{t-1}$	6.230	0.001***	0.447
AGE_{t-1}	-0.903	0.371	0.017
$INDGEN_{t-1}$	-2.230	0.031**	0.094
ISS_t	1.600	0.116	0.051
$ECON_{t-1}$	-1.900	0.064*	0.070
R^2: 0.492	**Adj. R^2:** 0.439	**F** (5, 48):	9.291 (0.001)***
Market Abuse Subset (n=18)			
Constant	-0.469	0.647	0.018
$CSIZE_{t-1}$	-0.674	0.513	0.036
AGE_{t-1}	1.170	0.266	0.102
$INDGEN_{t-1}$	-1.060	0.309	0.086
ISS_t	1.470	0.169	0.152
$ECON_{t-1}$	0.439	0.669	0.016
R^2: 0.323	**Adj. R^2:** 0.041	**F** (5, 12):	1.144 (0.390)

Variable Definitions: NPR_t: Event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); Explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.5b: Sensitivity Analysis Test 2: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*72*	
		Mean	2.836	0.000
		Std. Dev.	1.366	1.400
		Min	-1.277	-4.129
		Max	5.850	3.483
Takeover Subset	*n=*		*54*	
		Mean	3.481	0.000
		Std. Dev.	1.252	1.273
		Min	0.785	-5.046
		Max	5.761	3.293
Market Abuse Subset	*n=*		*18*	
		Mean	0.902	0.000
		Std. Dev.	0.496	0.718
		Min	-0.260	-1.108
		Max	1.687	1.485

Table G.5c: Sensitivity Analysis Test 2: Event Year Benchmark-adjusted CGQ on Event Year Newspaper Reporting

Below are the results of the OLS regression of event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $CGQ_{t(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=72)			
Constant	0.933	0.355	0.014
$RESNPR_t$	0.682	0.498	0.008
$CSIZE_{t-1}$	0.806	0.423	0.011
AGE_{t-1}	-0.105	0.917	0.001
$INDGEN_{t-1}$	0.548	0.586	0.005
ISS_t	-1.170	0.246	0.022
$ECON_{t-1}$	-0.927	0.358	0.014
$CGQ_{t-1(ad)}$	7.670	0.001**	0.491
$PERF_t$	-0.816	0.418	0.011
$INST_{t-1}$	1.330	0.189	0.028
$BLAME_t$	-0.372	0.711	0.002
R^2: 0.676	**Adj. R^2:** 0.623	**F** (10, 61):	12.740 (0.001)***
Takeover Subset (n=54)			
Constant	-0.084	0.934	0.001
$RESNPR_t$	0.950	0.347	0.021
$CSIZE_{t-1}$	0.559	0.579	0.007
AGE_{t-1}	-0.166	0.869	0.001
$INDGEN_{t-1}$	0.737	0.465	0.013
ISS_t	1.970	0.055*	0.083
$ECON_{t-1}$	0.045	0.964	0.001
$CGQ_{t-1(ad)}$	2.880	0.006***	0.162
$PERF_t$	-0.408	0.685	0.004
$INST_{t-1}$	0.440	0.662	0.005
$BLAME_t$	-2.060	0.045**	0.090
R^2: 0.435	**Adj. R^2:** 0.304	**F** (10, 43):	3.310 (0.003)***
Market Abuse Subset (n=18)			
Constant	1.100	0.309	0.147
$RESNPR_t$	0.812	0.444	0.086
$CSIZE_{t-1}$	-0.869	0.413	0.098
AGE_{t-1}	-0.622	0.554	0.052
$INDGEN_{t-1}$	-0.210	0.839	0.006
ISS_t	-0.299	0.773	0.013
$ECON_{t-1}$	-1.070	0.320	0.141
$CGQ_{t-1(ad)}$	3.860	0.006***	0.681
$PERF_t$	1.230	0.257	0.179
$INST_{t-1}$	1.290	0.236	0.193
$BLAME_t$	1.280	0.242	0.189
R^2: 0.917	**Adj. R^2:** 0.799	**F** (10, 7):	7.754 (0.006)***

Variable Definitions: **$CGQ_{t(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; **$RESNPR_t$:** Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting (Tables G.5a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.6: Sensitivity Analysis Test 2: Post-event Year Benchmark-adjusted CGQ on Post-event Year Newspaper Reporting

Below are the results of the OLS regression of post-event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_{t+1}$) and the additional explanatory variables. Results of the OLS regression of the post-event year newspaper reporting variable (NPR_{t+1}) upon the five potential determinants of newspaper reporting are provided in Tables G.3a and b.

Dependent Variable: $CGQ_{t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	1.090	0.280	0.023
$RESNPR_{t+1}$	-0.122	0.903	0.001
$CSIZE_{t-1}$	2.010	0.049**	0.073
AGE_{t-1}	0.592	0.556	0.007
$INDGEN_{t-1}$	0.315	0.754	0.002
ISS_t	0.091	0.928	0.001
$ECON_{t-1}$	-1.140	0.259	0.025
$CGQ_{t(ad)}$	4.470	0.001**	0.281
$PERF_{t+1}$	0.203	0.840	0.001
$INST_{t-1}$	-0.535	0.595	0.006
$BLAME_t$	-0.755	0.454	0.011
R^2: 0.568	**Adj. R^2:** 0.483	**F** (10, 51):	6.707 (0.001)***
Takeover Subset (n=46)			
Constant	0.435	0.667	0.005
$RESNPR_{t+1}$	0.665	0.511	0.013
$CSIZE_{t-1}$	1.530	0.135	0.063
AGE_{t-1}	0.905	0.372	0.023
$INDGEN_{t-1}$	0.208	0.836	0.001
ISS_t	-0.222	0.826	0.001
$ECON_{t-1}$	-0.459	0.649	0.006
$CGQ_{t(ad)}$	3.210	0.003***	0.228
$PERF_{t+1}$	0.478	0.636	0.007
$INST_{t-1}$	-0.463	0.646	0.006
$BLAME_t$	0.406	0.688	0.005
R^2: 0.432	**Adj. R^2:** 0.269	**F** (10, 35):	2.657 (0.016)**
Market Abuse Subset (n=16)			
Constant	3.960	0.011	0.758
$RESNPR_{t+1}$	1.640	0.162	0.350
$CSIZE_{t-1}$	-0.343	0.746	0.023
AGE_{t-1}	1.950	0.109	0.432
$INDGEN_{t-1}$	2.470	0.057*	0.549
ISS_t	-2.670	0.045**	0.587
$ECON_{t-1}$	-3.790	0.013**	0.742
$CGQ_{t(ad)}$	2.080	0.092*	0.464
$PERF_{t+1}$	3.380	0.020**	0.696
$INST_{t-1}$	-1.920	0.113	0.425
$BLAME_t$	-1.720	0.146	0.372
R^2: 0.946	**Adj. R^2:** 0.839	**F** (10, 5):	8.817 (0.013)**

Variable Definitions: **$CGQ_{t+1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the post-event year; **$RESNPR_{t+1}$:** Newspaper Reporting in the post-event year, measured using the residual values obtained from the first stage OLS regression model when applied to post-event year newspaper reporting (Tables G.3a and b); **$PERF_{t-1}$:** Industry-adjusted company performance in the post-event year, measured as: (company sales in post-event year – average industry sales in post-event year)/standard deviation of industry sales in post-event year; Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.7a: Sensitivity Analysis Test 3- Potential Time Lags: The Determinants of Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the pre-event year newspaper reporting variable (NPR_{t-1}) upon the five potential determinants of newspaper reporting.

Dependent Variable: NPR_{t-1}	t-value	t-prob	Part. R^2
Full Sample (n=72)			
Constant	-0.108	0.914	0.001
$CSIZE_{t-1}$	1.460	0.150	0.031
AGE_{t-1}	2.080	0.042**	0.061
$INDGEN_{t-1}$	0.207	0.837	0.001
ISS_t	-1.360	0.178	0.027
$ECON_{t-1}$	0.100	0.920	0.001
R^2: 0.205	**Adj. R^2:** 0.145	**F** (5, 66):	3.410 (0.008)***
Takeover Subset (n=54)			
Constant	0.029	0.977	0.001
$CSIZE_{t-1}$	1.580	0.120	0.050
AGE_{t-1}	1.920	0.061*	0.071
$INDGEN_{t-1}$	0.161	0.872	0.001
ISS_t	-0.615	0.541	0.008
$ECON_{t-1}$	-0.038	0.970	0.001
R^2: 0.150	**Adj. R^2:** 0.061	**F** (5, 48):	1.690 (0.155)

Variable Definitions: **NPR_{t-1}:** Pre-event year newspaper reporting measured as ln (1 + No. newspaper reports in the pre-event year); Explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.7b: Sensitivity Analysis Test 3: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Pre-event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*72*	
		Mean	0.876	0.000
		Std. Dev.	0.730	1.437
		Min	-1.003	-2.137
		Max	2.314	4.732
Takeover Subset	*n=*		*54*	
		Mean	1.168	0.000
		Std. Dev.	0.685	1633
		Min	-0.491	-2.347
		Max	2.776	4.542

Table G.7c: Sensitivity Analysis Test 3: Event Year Benchmark-adjusted CGQ on Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $CGQ_{t(ad)}$	t-value	t-prob	Part. R^2
<u>*Full Sample (n=72)*</u>			
Constant	1.100	0.277	0.020
$RESNPR_{t-1}$	0.643	0.523	0.007
$CSIZE_{t-1}$	0.448	0.656	0.003
AGE_{t-1}	-0.018	0.986	0.001
$INDGEN_{t-1}$	0.638	0.526	0.007
ISS_t	-0.975	0.334	0.016
$ECON_{t-1}$	-1.090	0.281	0.019
$CGQ_{t-1(ad)}$	7.460	0.001**	0.481
$PERF_t$	0.453	0.652	0.003
$INST_{t-1}$	1.860	0.068*	0.055
$BLAME_t$	-0.579	0.565	0.006
R^2: 0.682	**Adj. R^2:** 0.629	**F** (10, 60):	12.890 (0.001)***
<u>*Takeover Subset (n=54)*</u>			
Constant	-0.031	0.976	0.001
$RESNPR_{t-1}$	1.840	0.073*	0.074
$CSIZE_{t-1}$	0.103	0.919	0.001
AGE_{t-1}	0.591	0.558	0.008
$INDGEN_{t-1}$	0.901	0.373	0.019
ISS_t	2.080	0.043**	0.094
$ECON_{t-1}$	-0.021	0.983	0.001
$CGQ_{t-1(ad)}$	3.140	0.003***	0.190
$PERF_t$	1.610	0.115	0.058
$INST_{t-1}$	1.840	0.073*	0.075
$BLAME_t$	-1.900	0.064*	0.080
R^2: 0.446	**Adj. R^2:** 0.314	**F** (10, 42):	3.381 (0.003)***

<u>**Variable Definitions:**</u> **$CGQ_{t(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting (Tables G.7a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.8a: Sensitivity Analysis Test 3: The Determinants of Event Year Newspaper Reporting			
Below are the results of the OLS regression of the event year newspaper reporting variable (NPR_t) upon the five potential determinants of newspaper reporting.			
Dependent Variable: NPR_t	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.696	0.489	0.009
$CSIZE_{t-1}$	4.300	0.001***	0.248
AGE_{t-1}	-0.442	0.660	0.004
$INDGEN_{t-1}$	-2.000	0.051*	0.066
ISS_t	-2.940	0.005***	0.134
$ECON_{t-1}$	-0.693	0.491	0.009
R^2: 0.485	**Adj. R^2:** 0.439	**F** (5, 56):	10.560 (0.001)***
Takeover Subset (n=46)			
Constant	1.350	0.183	0.044
$CSIZE_{t-1}$	5.610	0.001***	0.440
AGE_{t-1}	-1.010	0.318	0.025
$INDGEN_{t-1}$	-2.130	0.040**	0.101
ISS_t	1.920	0.062*	0.085
$ECON_{t-1}$	-1.480	0.147	0.052
R^2: 0.515	**Adj. R^2:** 0.454	**F** (5, 40):	8.493 (0.001)***
Market Abuse Subset (n=16)			
Constant	-0.482	0.641	0.023
$CSIZE_{t-1}$	-0.567	0.583	0.031
AGE_{t-1}	1.400	0.193	0.163
$INDGEN_{t-1}$	-0.774	0.457	0.057
ISS_t	1.130	0.285	0.113
$ECON_{t-1}$	0.467	0.650	0.021
R^2: 0.333	**Adj. R^2:** -0.001	**F** (5, 10):	0.999 (0.465)
Variable Definitions: NPR_t: Event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); Explanatory variables are as before.			
***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level			

Table G.8b: Sensitivity Analysis Test 3: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Event Year Newspaper Reporting on its Potential Determinants				
			Predicted	Residual
Full Sample	*n=*		*62*	
		Mean	2.809	0.000
		Std. Dev.	1.370	1.410
		Min	-1.035	-4.094
		Max	5.822	3.543
Takeover Subset	*n=*		*46*	
		Mean	3.468	0.000
		Std. Dev.	1.296	1.258
		Min	0.515	-5.027
		Max	5.911	3.238
Market Abuse Subset	*n=*		*16*	
		Mean	0.914	0.000
		Std. Dev.	0.508	0.719
		Min	-0.073	-1.119
		Max	1.967	1.471

Table G.8c: Sensitivity Analysis Test 3: Post-event Year Benchmark-adjusted CGQ on Event Year Newspaper Reporting

Below are the results of the OLS regression of post-event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $CGQ_{t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	1.070	0.288	0.022
$RESNPR_t$	-1.320	0.193	0.033
$CSIZE_{t-1}$	1.790	0.079*	0.059
AGE_{t-1}	0.564	0.575	0.006
$INDGEN_{t-1}$	0.285	0.777	0.002
ISS_t	0.040	0.968	0.001
$ECON_{t-1}$	-1.120	0.268	0.024
$CGQ_{t(ad)}$	4.630	0.001**	0.296
$PERF_{t+1}$	0.474	0.637	0.004
$INST_{t-1}$	-0.338	0.736	0.002
$BLAME_t$	-0.651	0.518	0.008
R^2: 0.578	**Adj. R^2:** 0.496	**F** (10, 51):	6.992 (0.001)***
Takeover Subset (n=46)			
Constant	0.256	0.799	0.002
$RESNPR_t$	-0.095	0.925	0.001
$CSIZE_{t-1}$	1.750	0.089*	0.080
AGE_{t-1}	0.920	0.364	0.024
$INDGEN_{t-1}$	0.161	0.873	0.001
ISS_t	0.130	0.897	0.001
$ECON_{t-1}$	-0.305	0.762	0.003
$CGQ_{t(ad)}$	3.140	0.004***	0.220
$PERF_{t+1}$	-0.089	0.929	0.001
$INST_{t-1}$	-0.372	0.712	0.004
$BLAME_t$	0.963	0.342	0.026
R^2: 0.438	**Adj. R^2:** 0.278	**F** (10, 35):	2.730 (0.014)**
Market Abuse Subset (n=16)			
Constant	3.520	0.017	0.712
$RESNPR_t$	1.170	0.296	0.214
$CSIZE_{t-1}$	0.890	0.414	0.137
AGE_{t-1}	0.515	0.629	0.050
$INDGEN_{t-1}$	2.120	0.087*	0.475
ISS_t	-2.160	0.084*	0.482
$ECON_{t-1}$	-3.410	0.019**	0.699
$CGQ_{t(ad)}$	0.214	0.839	0.009
$PERF_{t+1}$	2.790	0.039**	0.608
$INST_{t-1}$	-1.810	0.131	0.395
$BLAME_t$	-0.598	0.576	0.067
R^2: 0.936	**Adj. R^2:** 0.807	**F** (10, 5):	7.273 (0.020)**

Variable Definitions: **$CGQ_{t+1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the post-event year; **$RESNPR_t$:** Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting (Tables G.8a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.9: Sensitivity Analysis Test 3: Post-event Year Benchmark-adjusted CGQ on Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of post-event year benchmark-adjusted Corporate Governance Quality ($CGQ_{t+1(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables. Results of the OLS regression of the pre-event year newspaper reporting variable (NPR_{t-1}) upon the five potential determinants of newspaper reporting are provided in Tables G.2a and b.

Dependent Variable: $CGQ_{t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.955	0.344	0.018
$RESNPR_{t-1}$	-0.906	0.369	0.016
$CSIZE_{t-1}$	1.840	0.072*	0.062
AGE_{t-1}	0.589	0.559	0.007
$INDGEN_{t-1}$	0.389	0.699	0.003
ISS_t	-0.171	0.865	0.001
$ECON_{t-1}$	-0.999	0.323	0.019
$CGQ_{t(ad)}$	4.320	0.001**	0.268
$PERF_{t+1}$	0.502	0.618	0.005
$INST_{t-1}$	-0.475	0.637	0.004
$BLAME_t$	-0.170	0.866	0.001
R^2: 0.571	**Adj. R^2:** 0.487	**F** (10, 51):	6.781 (0.001)***
Takeover Subset (n=46)			
Constant	0.126	0.901	0.001
$RESNPR_{t-1}$	-1.220	0.231	0.041
$CSIZE_{t-1}$	1.620	0.113	0.070
AGE_{t-1}	1.000	0.324	0.028
$INDGEN_{t-1}$	0.262	0.795	0.002
ISS_t	-0.522	0.605	0.008
$ECON_{t-1}$	-0.173	0.864	0.001
$CGQ_{t(ad)}$	3.200	0.003***	0.227
$PERF_{t+1}$	0.303	0.764	0.003
$INST_{t-1}$	-0.522	0.605	0.008
$BLAME_t$	1.160	0.254	0.037
R^2: 0.461	**Adj. R^2:** 0.307	**F** (10, 35):	2.993 (0.008)***

Variable Definitions: **$CGQ_{t+1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the post-event year; **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting (Tables G.2a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.10a: Sensitivity Analysis Test 4- CGQ as a Determinant of Newspaper Reporting: The Determinants of Pre-event Year Newspaper Reporting

Below are the results of the OLS regression of the pre-event year newspaper reporting variable (NPR_{t-1}) upon the potential determinants of newspaper reporting, including pre-event year benchmark-adjusted corporate governance quality.

Dependent Variable: NPR_{t-1}	t-value	t-prob	Part. R^2
<u>*Full Sample (n=71)*</u>			
Constant	0.907	0.368	0.013
$CSIZE_{t-1}$	3.030	0.004***	0.126
AGE_{t-1}	1.670	0.099*	0.042
$INDGEN_{t-1}$	0.123	0.902	0.001
ISS_t	-2.310	0.024**	0.077
$ECON_{t-1}$	-0.932	0.355	0.013
$CGQ_{t-1(ad)}$	-3.140	0.003***	0.133
R^2: 0.317	**Adj. R^2:** 0.253	**F** (6, 64):	4.958 (0.001)***
<u>*Takeover Subset (n=53)*</u>			
Constant	0.415	0.680	0.004
$CSIZE_{t-1}$	2.620	0.019**	0.130
AGE_{t-1}	1.720	0.093*	0.060
$INDGEN_{t-1}$	0.031	0.976	0.001
ISS_t	0.250	0.803	0.001
$ECON_{t-1}$	-0.458	0.649	0.005
$CGQ_{t-1(ad)}$	-2.980	0.005***	0.161
R^2: 0.292	**Adj. R^2:** 0.200	**F** (6, 46):	3.168 (0.011)**

<u>Variable Definitions:</u> NPR_{t-1}: Pre-event year newspaper reporting measured as ln (1 + No. newspaper reports in the pre-event year); **$CGQ_{t-1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the pre-event year; Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.10b: Sensitivity Analysis Test 4: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Pre-event Year Newspaper Reporting on its Potential Determinants

			Predicted	Residual
Full Sample	*n=*		*71*	
		Mean	0.907	0.000
		Std. Dev.	0.926	1.358
		Min	-0.874	-2.427
		Max	3.050	4.768
Takeover Subset	*n=*		*53*	
		Mean	1.215	0.000
		Std. Dev.	0.975	1.517
		Min	-0.554	-2.489
		Max	3.573	4.764

Table G.10c: Sensitivity Analysis Test 4: Benchmark-adjusted Pre-Event to Event Year Corporate Governance Quality Change on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event change in Corporate Governance Quality ($\Delta CGQ_{t-1\rightarrow t(ad)}$) upon the event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t-1\rightarrow t(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.730	0.087	0.048
$RESNPR_{t-1}$	1.870	0.069*	0.055
$CSIZE_{t-1}$	1.790	0.079*	0.051
AGE_{t-1}	-0.515	0.608	0.004
$INDGEN_{t-1}$	0.178	0.859	0.001
ISS_t	-1.220	0.226	0.024
$ECON_{t-1}$	-1.750	0.086*	0.049
$CGQ_{t-1(ad)}$	-5.300	0.001***	0.319
$PERF_{t-1}$	-1.700	0.095*	0.046
$INST_{t-1}$	1.640	0.107	0.043
$BLAME_t$	-0.645	0.522	0.007
R^2: 0.398	**Adj. R^2:** 0.297	**F** (10, 60):	3.964 (0.001)***
Takeover Subset (n=53)			
Constant	0.233	0.817	0.001
$RESNPR_{t-1}$	1.740	0.090*	0.067
$CSIZE_{t-1}$	1.880	0.066*	0.078
AGE_{t-1}	-0.884	0.382	0.018
$INDGEN_{t-1}$	0.516	0.608	0.006
ISS_t	2.670	0.011**	0.145
$ECON_{t-1}$	-0.320	0.751	0.002
$CGQ_{t-1(ad)}$	-7.830	0.001***	0.593
$PERF_{t-1}$	-1.370	0.177	0.043
$INST_{t-1}$	0.178	0.860	0.001
$BLAME_t$	-1.650	0.106	0.061
R^2: 0.648	**Adj. R^2:** 0.564	**F** (10, 42):	7.720 (0.001)***

Variable Definitions: **$\Delta CGQ_{t-1\rightarrow t(ad)}$:** Benchmark-adjusted pre-event to event year change in Corporate Governance Quality; **$RESNPR_{t-1}$:** Newspaper Reporting in the pre-event year, measured using the residual values obtained from the first stage OLS regression model when applied to pre-event year newspaper reporting (Tables G.10a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.11a: Sensitivity Analysis Test 4: The Determinants of Event Year Newspaper Reporting

Below are the results of the OLS regression of the event year newspaper reporting variable (NPR_t) upon the potential determinants of newspaper reporting, including event year benchmark-adjusted corporate governance quality.

Dependent Variable: NPR_t	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.583	0.562	0.006
$CSIZE_{t-1}$	3.510	0.001**	0.183
AGE_{t-1}	-0.416	0.679	0.003
$INDGEN_{t-1}$	-2.090	0.041**	0.074
ISS_t	-2.740	0.008***	0.120
$ECON_{t-1}$	-0.573	0.569	0.006
$CGQ_{t(ad)}$	0.806	0.424	0.012
R^2: 0.491	**Adj. R^2:** 0.436	**F** (6, 55):	8.856 (0.001)***
Takeover Subset (n=46)			
Constant	1.720	0.094	0.070
$CSIZE_{t-1}$	5.100	0.001***	0.400
AGE_{t-1}	-1.090	0.281	0.030
$INDGEN_{t-1}$	-2.530	0.015**	0.142
ISS_t	0.697	0.490	0.012
$ECON_{t-1}$	-1.810	0.077*	0.078
$CGQ_{t(ad)}$	1.760	0.087*	0.073
R^2: 0.551	**Adj. R^2:** 0.481	**F** (6, 39):	7.962 (0.001)***
Market Abuse Subset (n=16)			
Constant	-2.100	0.065	0.330
$CSIZE_{t-1}$	2.390	0.041**	0.387
AGE_{t-1}	-2.610	0.028**	0.431
$INDGEN_{t-1}$	-0.771	0.461	0.062
ISS_t	1.640	0.135	0.231
$ECON_{t-1}$	2.130	0.062*	0.336
$CGQ_{t(ad)}$	2.390	0.041**	0.387
R^2: 0.592	**Adj. R^2:** 0.319	**F** (6, 9):	2.172 (0.142)

Variable Definitions: **NPR_t:** Event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); **$CGQ_{t(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.11b: Sensitivity Analysis Test 4: Descriptive Statistics: Predicted and Residual Values from OLS Regressions of Event Year Newspaper Reporting on its Potential Determinants

		Predicted	Residual
Full Sample *(n=62)*	Mean	2.809	0.000
	Std. Dev.	1.303	1.472
	Min	-1.163	-3.866
	Max	5.335	3.425
Takeover Subset *(n=46)*	Mean	3.468	0.000
	Std. Dev.	1.526	0.964
	Min	0.094	-1.459
	Max	6.379	3.231
Market Abuse Subset *(n=16)*	Mean	0.914	0.000
	Std. Dev.	0.738	0.478
	Min	-0.376	-0.701
	Max	1.914	1.105

Table G.11c: Sensitivity Analysis Test 4: Benchmark-adjusted Event to Post-event CGQ Change on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	0.007	0.994	0.001
$RESNPR_t$	-0.247	0.806	0.001
$CSIZE_{t-1}$	2.240	0.029**	0.090
AGE_{t-1}	1.150	0.257	0.025
$INDGEN_{t-1}$	0.741	0.462	0.011
ISS_t	0.931	0.356	0.017
$ECON_{t-1}$	-0.086	0.932	0.001
$CGQ_{t(ad)}$	-2.390	0.021**	0.101
$PERF_t$	0.114	0.909	0.001
$INST_{t-1}$	-0.382	0.704	0.003
$BLAME_t$	0.098	0.994	0.001
R^2: 0.200	**Adj. R^2:** 0.043	**F** (10, 51):	1.276 (0.268)
Takeover Subset (n=46)			
Constant	-0.611	0.545	0.011
$RESNPR_t$	0.652	0.518	0.012
$CSIZE_{t-1}$	2.890	0.007***	0.193
AGE_{t-1}	1.400	0.171	0.053
$INDGEN_{t-1}$	0.323	0.749	0.003
ISS_t	0.822	0.417	0.019
$ECON_{t-1}$	0.493	0.625	0.007
$CGQ_{t(ad)}$	-1.540	0.133	0.063
$PERF_t$	-1.210	0.233	0.040
$INST_{t-1}$	0.049	0.961	0.001
$BLAME_t$	2.590	0.014**	0.161
R^2: 0.394	**Adj. R^2:** 0.221	**F** (10, 35):	2.278 (0.035)**
Market Abuse Subset (n=16)			
Constant	1.970	0.106	0.437
$RESNPR_t$	0.413	0.697	0.033
$CSIZE_{t-1}$	0.946	0.388	0.152
AGE_{t-1}	0.036	0.973	0.001
$INDGEN_{t-1}$	0.452	0.670	0.039
ISS_t	-1.640	0.162	0.350
$ECON_{t-1}$	-1.940	0.109	0.431
$CGQ_{t(ad)}$	-1.270	0.261	0.243
$PERF_t$	1.070	0.335	0.186
$INST_{t-1}$	-0.479	0.652	0.044
$BLAME_t$	-0.940	0.390	0.150
R^2: 0.698	**Adj. R^2:** 0.095	**F** (10, 5):	1.158 (0.463)

Variable Definitions: **$\Delta CGQ_{t\rightarrow t+1(ad)}$:** Benchmark-adjusted event to post-event year change in Corporate Governance Quality; **$RESNPR_t$:** Newspaper Reporting in the event year, measured using the residual values obtained from the first stage OLS regression model when applied to event year newspaper reporting (Tables G.11a and b); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level

Table G.12a: Sensitivity Analysis Test 4: The Determinants of Event Year Newspaper Reporting

Below are the results of the OLS regression of the event year newspaper reporting variable (NPR_t) upon the potential determinants of newspaper reporting, including pre-event year benchmark-adjusted corporate governance quality.

Dependent Variable: NPR_t	t-value	t-prob	Part. R^2
Full Sample (n=135)			
Constant	1.300	0.196	0.013
$CSIZE_{t-1}$	7.070	0.001**	0.281
AGE_{t-1}	-0.151	0.880	0.001
$INDGEN_{t-1}$	-2.920	0.004***	0.063
ISS_t	-5.230	0.001***	0.176
$ECON_{t-1}$	-1.330	0.186	0.014
$CGQ_{t-1(ad)}$	0.569	0.570	0.003
R^2: 0.517	**Adj. R^2:** 0.494	**F** (6, 128):	22.810 (0.001)***
Takeover Subset (n=110)			
Constant	2.540	0.013	0.059
$CSIZE_{t-1}$	7.970	0.001***	0.382
AGE_{t-1}	-0.126	0.900	0.001
$INDGEN_{t-1}$	-3.500	0.001***	0.107
ISS_t	-0.324	0.747	0.001
$ECON_{t-1}$	-2.620	0.010**	0.063
$CGQ_{t-1(ad)}$	1.530	0.128	0.022
R^2: 0.509	**Adj. R^2:** 0.480	**F** (6, 103):	17.77 (0.001)***
Market Abuse Subset (n=25)			
Constant	-0.539	0.596	0.016
$CSIZE_{t-1}$	-0.838	0.413	0.038
AGE_{t-1}	0.224	0.825	0.003
$INDGEN_{t-1}$	-0.640	0.530	0.022
ISS_t	1.550	0.140	0.117
$ECON_{t-1}$	0.516	0.612	0.015
$CGQ_{t-1(ad)}$	0.872	0.395	0.041
R^2: 0.147	**Adj. R^2:** -0.138	**F** (6, 18):	0.515 (0.789)

Variable Definitions: NPR_t: Event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); **$CGQ_{t-1(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level

Table G.12b: Sensitivity Analysis Test 4: The Determinants of Post-event Year Newspaper Reporting

Below are the results of the OLS regression of the post-event year newspaper reporting variable (NPR_{t+1}) upon the potential determinants of newspaper reporting, including event year benchmark-adjusted corporate governance quality.

Dependent Variable: NPR_{t+1}	t-value	t-prob	Part. R^2
Full Sample (n=72)			
Constant	0.930	0.356	0.013
$CSIZE_{t-1}$	2.410	0.019**	0.082
AGE_{t-1}	0.477	0.635	0.004
$INDGEN_{t-1}$	-1.150	0.254	0.020
ISS_t	1.940	0.056*	0.055
$ECON_{t-1}$	-0.986	0.328	0.015
$CGQ_{t(ad)}$	-0.932	0.355	0.013
R^2: 0.175	**Adj. R^2:** 0.098	**F** (6, 65):	2.292 (0.045)**
Takeover Subset (n=54)			
Constant	1.040	0.304	0.022
$CSIZE_{t-1}$	2.050	0.046**	0.082
AGE_{t-1}	1.090	0.282	0.025
$INDGEN_{t-1}$	-1.160	0.253	0.028
ISS_t	-0.502	0.618	0.005
$ECON_{t-1}$	-1.050	0.298	0.023
$CGQ_{t(ad)}$	0.289	0.774	0.002
R^2: 0.165	**Adj. R^2:** 0.058	**F** (6, 47):	1.543 (0.185)
Market Abuse Subset (n=18)			
Constant	0.228	0.824	0.005
$CSIZE_{t-1}$	1.750	0.108	0.218
AGE_{t-1}	-2.560	0.026**	0.375
$INDGEN_{t-1}$	-1.050	0.318	0.090
ISS_t	2.570	0.026**	0.375
$ECON_{t-1}$	-0.347	0.735	0.011
$CGQ_{t(ad)}$	-0.289	0.778	0.008
R^2: 0.633	**Adj. R^2:** 0.432	**F** (6, 11):	3.159 (0.047)**

Variable Definitions: **NPR_{t+1}:** Post-event year newspaper reporting measured as ln (1 + No. newspaper reports in the event year); **$CGQ_{t(ad)}$:** Benchmark-adjusted Corporate Governance Quality in the event year; Other explanatory variables are as before.

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

Table G.13a: Descriptive Statistics: Coefficient of Variation in Reporting by Newspaper Publications (cvp_t) and Coefficient of Variation in Reporting by Newspaper Groups (cvg_t)

	Whole Sample (n= 136)				Takeover (n= 111)				Market Abuse (n= 25)			
	cvp_{t-1}	cvp_t	cvg_{t-1}	cvg_t	cvp_{t-1}	cvp_t	cvg_{t-1}	cvg_t	cvp_{t-1}	cvp_t	cvg_{t-1}	cvg_t
Mean	0.43	1.17	0.26	0.71	0.48	1.14	0.29	0.67	0.22	1.33	0.16	0.91
Std.dev.	0.70	0.74	0.48	0.62	0.68	0.65	0.46	0.56	0.77	1.07	0.56	0.80
Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Max	2.85	2.90	2.05	2.11	2.85	2.84	2.00	2.11	2.84	2.90	2.05	2.00

Coefficient Definitions

$cvp_{t:}$ Coefficient of variation among newspaper publications in a given year, t, of a TMA case, measured as the ratio of the standard deviation of reports per publication in t to the mean reports per publication in t.

$cvg_{t:}$ Coefficient of variation among newspaper groups in a given year, t, of a TMA case, measured as the ratio of the standard deviation of reports per group in t to the mean reports per group in t.

Table G.13b: Sensitivity Analysis Test 5- The Intensity of Newspaper Reporting: Benchmark-adjusted Pre-Event to Event Year Corporate Governance Quality Change on Publication Intensity-adjusted Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event change in Corporate Governance Quality ($\Delta CGQ_{t-1\rightarrow t(ad)}$) upon pre-event year newspaper reporting as adjusted to reflect the intensity of reporting by newspaper publications ($RESNPRvp_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
<u>*Full Sample (n=71)*</u>			
Constant	1.580	0.120	0.040
$RESNPRvp_{t-1}$	2.000	0.049**	0.063
$CSIZE_{t-1}$	1.840	0.070*	0.054
AGE_{t-1}	-0.799	0.427	0.011
$INDGEN_{t-1}$	0.107	0.915	0.001
ISS_t	-0.717	0.477	0.009
$ECON_{t-1}$	-1.610	0.114	0.041
$CGQ_{t-1(ad)}$	-4.930	0.001***	0.288
$PERF_{t-1}$	-1.740	0.087*	0.048
$INST_{t-1}$	1.580	0.118	0.040
$BLAME_t$	-0.836	0.406	0.012
R^2: 0.403	**Adj. R^2:** 0.303	**F** (10, 60):	4.045 (0.001)***
<u>*Takeover Subset (n=53)*</u>			
Constant	0.425	0.673	0.004
$RESNPRvp_{t-1}$	1.690	0.098*	0.064
$CSIZE_{t-1}$	1.900	0.065*	0.079
AGE_{t-1}	-0.917	0.364	0.020
$INDGEN_{t-1}$	0.618	0.540	0.009
ISS_t	2.140	0.038**	0.099
$ECON_{t-1}$	-0.510	0.613	0.006
$CGQ_{t-1(ad)}$	-7.130	0.001***	0.547
$PERF_{t-1}$	-1.470	0.148	0.049
$INST_{t-1}$	0.556	0.581	0.007
$BLAME_t$	-1.910	0.064*	0.080
R^2: 0.646	**Adj. R^2:** 0.562	**F** (10, 42):	7.681 (0.001)***

<u>Variable Definitions:</u> **$\Delta CGQ_{t-1\rightarrow t(ad)}$:** Benchmark-adjusted pre-event to event year change in Corporate Governance Quality; **$RESNPRvp_{t-1}$:** Publication intensity-adjusted pre-event year newspaper reporting, measured as: coefficient of variation in reporting among publications in the pre-event year (cvp_{t-1}) x pre-event year newspaper reporting ($RESNPR_{t-1}$); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.13c: Sensitivity Analysis Test 5: Benchmark-adjusted Event to Post-event Year Corporate Governance Quality Change on Publication Intensity-adjusted Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon event year newspaper reporting as adjusted to reflect the intensity of reporting by newspaper publications ($RESNPRvp_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.020	0.985	0.001
$RESNPRvp_t$	-0.076	0.940	0.001
$CSIZE_{t-1}$	2.130	0.038**	0.082
AGE_{t-1}	1.140	0.260	0.025
$INDGEN_{t-1}$	0.757	0.453	0.011
ISS_t	0.948	0.348	0.017
$ECON_{t-1}$	-0.060	0.953	0.001
$CGQ_{t(ad)}$	-2.320	0.024**	0.096
$PERF_t$	0.062	0.951	0.001
$INST_{t-1}$	-0.394	0.696	0.003
$BLAME_t$	0.142	0.888	0.001
R^2: 0.199	**Adj. R^2:** 0.042	**F** (10, 51):	1.270 (0.272)
Takeover Subset (n=46)			
Constant	-0.512	0.612	0.007
$RESNPRvp_t$	-0.733	0.468	0.015
$CSIZE_{t-1}$	2.930	0.006***	0.197
AGE_{t-1}	1.290	0.206	0.045
$INDGEN_{t-1}$	0.315	0.755	0.004
ISS_t	0.860	0.395	0.021
$ECON_{t-1}$	0.391	0.698	0.004
$CGQ_{t(ad)}$	-1.490	0.146	0.060
$PERF_t$	-1.230	0.228	0.041
$INST_{t-1}$	-0.001	0.999	0.001
$BLAME_t$	2.550	0.015**	0.157
R^2: 0.396	**Adj. R^2:** 0.224	**F** (10, 35):	2.297 (0.034)**
Market Abuse Subset (n=16)			
Constant	1.930	0.111	0.428
$RESNPRvp_t$	0.237	0.822	0.011
$CSIZE_{t-1}$	0.920	0.400	0.145
AGE_{t-1}	-0.007	0.995	0.001
$INDGEN_{t-1}$	0.423	0.690	0.035
ISS_t	-1.620	0.166	0.345
$ECON_{t-1}$	-1.900	0.116	0.419
$CGQ_{t(ad)}$	-1.120	0.314	0.200
$PERF_t$	1.020	0.355	0.172
$INST_{t-1}$	-0.466	0.661	0.042
$BLAME_t$	-0.923	0.399	0.146
R^2: 0.692	**Adj. R^2:** 0.075	**F** (10, 5):	1.122 (0.478)

Variable Definitions: **$\Delta CGQ_{t\rightarrow t+1(ad)}$:** Benchmark-adjusted event to post-event year change in Corporate Governance Quality; **$RESNPRvp_t$:** Publication intensity-adjusted event year newspaper reporting, measured as: coefficient of variation in reporting among publications in the event year (cvp_t) x event year newspaper reporting ($RESNPR_t$); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level

Table G.13d: Sensitivity Analysis Test 5: Benchmark-adjusted Pre-Event to Event Year Corporate Governance Quality Change on Group Intensity-adjusted Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event change in Corporate Governance Quality ($\Delta CGQ_{t-1\rightarrow t(ad)}$) upon pre-event year newspaper reporting as adjusted to reflect the intensity of reporting by newspaper groups ($RESNPRvg_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t-1\rightarrow t(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.560	0.124	0.039
$RESNPRvg_{t-1}$	1.999	0.051*	0.062
$CSIZE_{t-1}$	1.650	0.104	0.043
AGE_{t-1}	-0.798	0.428	0.011
$INDGEN_{t-1}$	0.077	0.939	0.001
ISS_t	-0.663	0.510	0.007
$ECON_{t-1}$	-1.580	0.119	0.040
$CGQ_{t-1(ad)}$	-4.680	0.001***	0.267
$PERF_{t-1}$	-1.410	0.165	0.032
$INST_{t-1}$	1.480	0.145	0.035
$BLAME_t$	-0.911	0.366	0.014
R^2: 0.402	**Adj. R^2:** 0.303	**F** (10, 60):	4.037 (0.001)***
Takeover Subset (n=53)			
Constant	0.412	0.683	0.004
$RESNPRvg_{t-1}$	1.190	0.242	0.032
$CSIZE_{t-1}$	1.700	0.097*	0.064
AGE_{t-1}	-0.877	0.386	0.018
$INDGEN_{t-1}$	0.513	0.610	0.006
ISS_t	2.410	0.020**	0.122
$ECON_{t-1}$	-0.497	0.622	0.006
$CGQ_{t-1(ad)}$	-6.560	0.001***	0.506
$PERF_{t-1}$	-1.020	0.314	0.024
$INST_{t-1}$	0.393	0.697	0.004
$BLAME_t$	-1.700	0.097*	0.064
R^2: 0.635	**Adj. R^2:** 0.548	**F** (10, 42):	7.295 (0.001)***

Variable Definitions: **$\Delta CGQ_{t-1\rightarrow t(ad)}$:** Benchmark-adjusted pre-event to event year change in Corporate Governance Quality; **$RESNPRvg_{t-1}$:** Group intensity-adjusted pre-event year newspaper reporting, measured as: coefficient of variation in reporting among newspaper groups in the pre-event year (cvg_{t-1}) x pre-event year newspaper reporting ($RESNPR_{t-1}$); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table G.13e: Sensitivity Analysis Test 5: Benchmark-adjusted Event to Post-event Year Corporate Governance Quality Change on Group Intensity-adjusted Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event change in Corporate Governance Quality ($\Delta CGQ_{t\rightarrow t+1(ad)}$) upon event year newspaper reporting as adjusted to reflect the intensity of reporting by newspaper groups ($RESNPRvp_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CGQ_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.023	0.981	0.001
$RESNPRvg_t$	-0.094	0.925	0.001
$CSIZE_{t-1}$	2.130	0.038**	0.082
AGE_{t-1}	1.140	0.262	0.025
$INDGEN_{t-1}$	0.759	0.451	0.011
ISS_t	0.948	0.347	0.017
$ECON_{t-1}$	-0.056	0.956	0.001
$CGQ_{t(ad)}$	-2.300	0.026**	0.094
$PERF_t$	0.066	0.948	0.001
$INST_{t-1}$	-0.394	0.695	0.003
$BLAME_t$	0.140	0.890	0.001
R^2: 0.199	**Adj. R^2:** 0.042	**F** (10, 51):	1.270 (0.272)
Takeover Subset (n=46)			
Constant	-0.525	0.603	0.008
$RESNPRvg_t$	-0.692	0.494	0.014
$CSIZE_{t-1}$	2.920	0.006***	0.196
AGE_{t-1}	1.270	0.212	0.044
$INDGEN_{t-1}$	0.319	0.752	0.003
ISS_t	0.852	0.400	0.020
$ECON_{t-1}$	0.406	0.687	0.005
$CGQ_{t(ad)}$	-1.530	0.136	0.063
$PERF_t$	-1.220	0.231	0.041
$INST_{t-1}$	-0.011	0.991	0.001
$BLAME_t$	2.540	0.016**	0.156
R^2: 0.395	**Adj. R^2:** 0.222	**F** (10, 35):	2.287 (0.035)**
Market Abuse Subset (n=16)			
Constant	2.100	0.090	0.469
$RESNPRvg_t$	0.634	0.554	0.074
$CSIZE_{t-1}$	1.140	0.306	0.206
AGE_{t-1}	-0.087	0.934	0.002
$INDGEN_{t-1}$	0.577	0.589	0.063
ISS_t	-1.780	0.135	0.388
$ECON_{t-1}$	-2.070	0.093*	0.463
$CGQ_{t(ad)}$	-1.370	0.228	0.274
$PERF_t$	0.969	0.377	0.158
$INST_{t-1}$	-0.463	0.663	0.041
$BLAME_t$	-0.560	0.599	0.059
R^2: 0.711	**Adj. R^2:** 0.134	**F** (10, 5):	1.232 (0.433)

Variable Definitions: $\mathbf{\Delta CGQ_{t\rightarrow t+1(ad)}}$: Benchmark-adjusted event to post-event year change in Corporate Governance Quality; $\mathbf{RESNPRvg_t}$: Group intensity-adjusted event year newspaper reporting, measured as: coefficient of variation in reporting among newspaper groups in the event year (cvg_t) x event year newspaper reporting ($RESNPR_t$); Other explanatory variables are as before.

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

APPENDIX H : FURTHER ANALYSIS- CGQ COMPONENT ANALYSIS

Tables H.1 to H.10 present the results of analysis of associations between the benchmark-adjusted changes in each of the ten components of CGQ and newspaper reporting. In each table, Part A presents the results of the OLS regression of pre-event to event year changes in one of the ten components of CGQ upon the pre-event year newspaper reporting variable, $RESNPR_{t-1}$, and the additional explanatory variables and Part B presents the results of the OLS regression of event to post-event year changes in one of the ten components upon the event year newspaper reporting variable, $RESNPR_t$, and the additional explanatory variables. $RESNPR_{t-1}$ and $RESNPR_t$ are derived from the first stage regression model (Equation 5.1), the results for which are presented in Table 7.28 in the main analysis in Chapter Seven.

For the pre-event to event year changes, associations are examined using the second stage OLS regression model which takes the general form:

$$\Delta CGQ_{t-1\rightarrow t(ad)} = \alpha_1 + \alpha_2 RESNPR_{t-1} + \alpha_3 AGE_{t-1} + \alpha_4 CSIZE_{t-1} + \alpha_5 INDGEN_{t-1} + \alpha_6 ISS_t + \alpha_7 ECON_{t-1} + \alpha_8 CGQ_{t-1(ad)} + \alpha_9 BLAME_t + {}_{\alpha 10}PERF_{t-1} + \alpha_{11} INST_{t-1} + \varepsilon_t$$

Where:

$\Delta CGQ_{t-1\rightarrow t(ad)}$ = the benchmark-adjusted pre-event to event year change in the score assigned to one of the ten CGQ components.

$RESNPR_{t-1}$ = newspaper reporting in the pre-event year, measured using the residual values obtained from the first stage regression model (Equation 5.1; Table 7.28).

$CGQ_{t-1(ad)}$ = the benchmark-adjusted score assigned to one of the ten CGQ components in the pre-event year.

For the event to post-event changes, associations are examined using the second stage OLS regression model which takes the general form:

$$\Delta CGQ_{t\rightarrow t+1(ad)} = \alpha_1 + \alpha_2 RESNPR_t + \alpha_3 AGE_{t-1} + \alpha_4 CSIZE_{t-1} + \alpha_5 INDGEN_{t-1} + \alpha_6 ISS_t + \alpha_7 ECON_{t-1} + \alpha_8 CGQ_{t(ad)} + \alpha_9 BLAME_t + {}_{\alpha 10}PERF_t + \alpha_{11} INST_{t-1} + \varepsilon_t$$

<u>Where:</u>

$\Delta CGQ_{t\rightarrow t+1(ad)}$ = the benchmark-adjusted event to post-event year change in the score assigned to one of the ten CGQ components.

$RESNPR_t$ = newspaper reporting in the event year, measured using the residual values obtained from the first stage regression model (Equation 5.1; Table 7.28).

$CGQ_{t(ad)}$ = the benchmark-adjusted score assigned to one of the ten CGQ components in the event year.

In both instances, the additional explanatory variables are:

AGE_{t-1} = company age in the pre-event year.

$CSIZE_{t-1}$ = company size in the pre-event year.

$INDGEN_{t-1}$ = the general industry in which a company operates in the pre-event year.

ISS_t = the primary reason for regulation of takeover or market abuse case as reported in the event year.

$ECON_{t-1}$ = the economic environment in the pre-event year.

$BLAME_t$ = a binary variable which assumes a value of 1 if the company is responsible for regulatory intervention in the TMA case and 0 if otherwise as reported in the event year.

$PERF_{t-1}/PERF_t$ = industry-adjusted company performance in the pre-event/event year.

$INST_{t-1}$ = the proportion of institutional ownership of the company in the pre-event year.

.The variables employed to make initial measurements of the ten components of CGQ are defined in Chapter Five and again in the relevant tables below. Scores are assigned to the components and adjusted as described in Chapter Five. As explained in Chapter Seven, analysis of the association between the pre-event to event year change in CGQ and pre-event newspaper reporting is not performed for the market abuse subset of the sample in isolation due to low levels of pre-event year newspaper reporting.

Table H.1a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Board Meetings on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for board meetings ($\Delta MEET_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta MEET_{t-1 \rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.430	0.159	0.033
$RESNPR_{t-1}$	0.693	0.491	0.008
$CSIZE_{t-1}$	2.270	0.027**	0.079
AGE_{t-1}	0.657	0.514	0.007
$INDGEN_{t-1}$	0.154	0.878	0.001
ISS_t	-0.818	0.417	0.011
$ECON_{t-1}$	-1.470	0.146	0.035
$MEET_{t-1(ad)}$	-4.360	0.001***	0.240
$PERF_{t-1}$	-1.050	0.297	0.018
$INST_{t-1}$	0.888	0.378	0.013
$BLAME_t$	-1.010	0.318	0.017
R^2: 0.320	**Adj. R^2:** 0.207	**F** (10, 60):	2.832 (0.006)***
Takeover Subset (n=53)			
Constant	0.524	0.603	0.007
$RESNPR_{t-1}$	0.683	0.499	0.011
$CSIZE_{t-1}$	1.840	0.073*	0.075
AGE_{t-1}	0.721	0.475	0.012
$INDGEN_{t-1}$	0.219	0.827	0.001
ISS_t	0.435	0.666	0.005
$ECON_{t-1}$	-0.579	0.566	0.008
$MEET_{t-1(ad)}$	-3.640	0.001***	0.240
$PERF_{t-1}$	-0.830	0.411	0.016
$INST_{t-1}$	0.388	0.700	0.004
$BLAME_t$	-0.239	0.813	0.001
R^2: 0.328	**Adj. R^2:** 0.168	**F** (10, 42):	2.052 (0.051)*

Definitions for Board Meetings

MEET: No. board meetings in the year

$\Delta MEET_{t-1 \rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for board meetings between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H1b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Board Meetings on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for board meetings ($\Delta MEET_{t \rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta MEET_{t \rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.772	0.444	0.012
$RESNPR_t$	-0.793	0.431	0.012
$CSIZE_{t-1}$	-0.045	0.964	0.001
AGE_{t-1}	-0.094	0.926	0.001
$INDGEN_{t-1}$	0.710	0.481	0.010
ISS_t	-0.559	0.579	0.006
$ECON_{t-1}$	-0.753	0.455	0.011
$MEET_{t(ad)}$	-3.000	0.004**	0.150
$PERF_t$	-0.092	0.927	0.001
$INST_{t-1}$	-0.015	0.988	0.001
$BLAME_t$	0.772	0.444	0.012
R^2: 0.249	**Adj. R^2:** 0.101	**F** (10, 51):	1.688 (0.109)
Takeover Subset (n=46)			
Constant	-0.220	0.827	0.001
$RESNPR_t$	0.217	0.830	0.001
$CSIZE_{t-1}$	-0.345	0.732	0.003
AGE_{t-1}	0.612	0.545	0.011
$INDGEN_{t-1}$	0.894	0.377	0.022
ISS_t	0.130	0.897	0.001
$ECON_{t-1}$	0.239	0.812	0.002
$MEET_{t(ad)}$	-3.160	0.003***	0.222
$PERF_t$	-0.211	0.834	0.001
$INST_{t-1}$	-0.851	0.401	0.020
$BLAME_t$	0.491	0.626	0.007
R^2: 0.325	**Adj. R^2:** 0.132	**F** (10, 35):	1.682 (0.124)
Market Abuse Subset (n=16)			
Constant	1.560	0.179	0.328
$RESNPR_t$	0.827	0.446	0.120
$CSIZE_{t-1}$	1.060	0.336	0.185
AGE_{t-1}	-0.695	0.518	0.088
$INDGEN_{t-1}$	-0.417	0.694	0.034
ISS_t	-1.790	0.133	0.391
$ECON_{t-1}$	-1.560	0.180	0.327
$MEET_{t(ad)}$	-1.340	0.237	0.265
$PERF_t$	0.036	0.973	0.001
$INST_{t-1}$	0.459	0.666	0.040
$BLAME_t$	-0.920	0.400	0.145
R^2: 0.596	**Adj. R^2:** -0.211	**F** (10, 5):	0.739 (0.681)

Definitions for Board Meetings

MEET: No. board meetings in the year

$\Delta MEET_{t \rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for board meetings between the event and post-event years

***Significant at the 1% level, **Significant at the 5% level

Table H.2a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Board Leadership on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for board leadership ($\Delta CEOCH_{t-1\rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta CEOCH_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	2.780	0.008	0.155
$RESNPR_{t-1}$	1.520	0.137	0.052
$CSIZE_{t-1}$	2.370	0.023**	0.118
AGE_{t-1}	-0.200	0.843	0.001
$INDGEN_{t-1}$	0.498	0.621	0.006
ISS_t	-0.147	0.884	0.001
$ECON_{t-1}$	-2.830	0.007***	0.160
$CEOCH_{t-1(ad)}$	-5.570	0.001***	0.425
$PERF_{t-1}$	-1.240	0.221	0.035
$INST_{t-1}$	2.040	0.048	0.090
$BLAME_t$	0.440	0.662	0.005
R^2: 0.601	**Adj. R^2:** 0.506	**F** (10, 60):	6.702 (0.001)***
Takeover Subset (n=53)			
Constant	3.140	0.003	0.141
$RESNPR_{t-1}$	2.590	0.012**	0.101
$CSIZE_{t-1}$	2.610	0.012**	0.102
AGE_{t-1}	-0.238	0.813	0.001
$INDGEN_{t-1}$	0.399	0.691	0.003
ISS_t	0.347	0.730	0.002
$ECON_{t-1}$	-3.210	0.002***	0.147
$CEOCH_{t-1(ad)}$	-5.550	0.001***	0.340
$PERF_{t-1}$	-2.140	0.037**	0.071
$INST_{t-1}$	2.030	0.047**	0.064
$BLAME_t$	0.035	0.972	0.001
R^2: 0.528	**Adj. R^2:** 0.449	**F** (10, 42):	6.317 (0.001)***

Definitions for Board Leadership

CEOCH: 1 if the CEO is the chairman, 0 if otherwise

$\Delta CEOCH_{t-1\rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for board leadership between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level

Table H2b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Board Leadership on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for board leadership ($\Delta CEOCH_{t \rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta CEOCH_{t \rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.033	0.974	0.001
$RESNPR_t$	1.390	0.171	0.036
$CSIZE_{t-1}$	1.650	0.105	0.051
AGE_{t-1}	-0.065	0.949	0.001
$INDGEN_{t-1}$	0.481	0.633	0.005
ISS_t	0.260	0.796	0.001
$ECON_{t-1}$	-0.059	0.953	0.001
$CEOCH_{t(ad)}$	-5.080	0.001**	0.336
$PERF_t$	-0.140	0.889	0.001
$INST_{t-1}$	-0.203	0.840	0.001
$BLAME_t$	0.275	0.785	0.002
R^2: 0.392	**Adj. R^2:** 0.273	**F** (10, 51):	3.292 (0.002)***
Takeover Subset (n=46)			
Constant	0.024	0.981	0.001
$RESNPR_t$	1.140	0.261	0.036
$CSIZE_{t-1}$	1.570	0.125	0.066
AGE_{t-1}	0.040	0.968	0.001
$INDGEN_{t-1}$	0.645	0.523	0.012
ISS_t	0.392	0.697	0.004
$ECON_{t-1}$	-0.056	0.956	0.001
$CEOCH_{t(ad)}$	-5.770	0.001***	0.487
$PERF_t$	0.101	0.920	0.001
$INST_{t-1}$	-0.220	0.827	0.001
$BLAME_t$	-0.163	0.872	0.001
R^2: 0.558	**Adj. R^2:** 0.431	**F** (10, 35):	4.413 (0.001)***
Market Abuse Subset (n=16)			
Constant	3.369	0.001	0.999
$RESNPR_t$	-0.051	0.962	0.001
$CSIZE_{t-1}$	-0.722	0.503	0.094
AGE_{t-1}	0.252	0.811	0.013
$INDGEN_{t-1}$	0.559	0.600	0.059
ISS_t	-0.314	0.776	0.019
$ECON_{t-1}$	-0.658	0.540	0.080
$CEOCH_{t(ad)}$	-0.555	0.603	0.058
$PERF_t$	0.056	0.958	0.001
$INST_{t-1}$	-0.803	0.458	0.114
$BLAME_t$	0.710	0.509	0.092
R^2: 0.359	**Adj. R^2:** -0.930	**F** (10, 5):	0.288 (0.979)

Definitions for Board Leadership

CEOCH: 1 if the CEO is the chairman, 0 if otherwise

$\Delta CEOCH_{t \rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for board leadership between the event and post-event years

***Significant at the 1% level, **Significant at the 5% level

Table H.3a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Board Balance on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for board balance ($\Delta ED_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta ED_{t-1 \rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	2.830	0.006	0.118
$RESNPR_{t-1}$	0.345	0.732	0.002
$CSIZE_{t-1}$	-1.740	0.086*	0.048
AGE_{t-1}	-0.213	0.832	0.001
$INDGEN_{t-1}$	-0.280	0.781	0.001
ISS_t	1.710	0.093*	0.046
$ECON_{t-1}$	-2.800	0.007***	0.116
$ED_{t-1(ad)}$	-5.170	0.001***	0.308
$PERF_{t-1}$	1.050	0.298	0.018
$INST_{t-1}$	0.354	0.724	0.002
$BLAME_t$	-2.530	0.014**	0.096
R^2: 0.483	**Adj. R^2:** 0.397	**F** (10, 60):	5.613 (0.001)***
Takeover Subset (n=53)			
Constant	1.030	0.308	0.025
$RESNPR_{t-1}$	-0.341	0.735	0.003
$CSIZE_{t-1}$	-1.610	0.116	0.058
AGE_{t-1}	-0.023	0.982	0.001
$INDGEN_{t-1}$	0.214	0.832	0.001
ISS_t	0.297	0.768	0.002
$ECON_{t-1}$	-0.996	0.325	0.023
$ED_{t-1(ad)}$	-3.640	0.001***	0.240
$PERF_{t-1}$	1.570	0.123	0.056
$INST_{t-1}$	-0.541	0.591	0.007
$BLAME_t$	-2.820	0.007***	0.159
R^2: 0.348	**Adj. R^2:** 0.193	**F** (10, 42):	2.241 (0.034)**

Definitions for Board Balance

ED: Percentage executive directors on the board

$\Delta ED_{t-1 \rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for board balance between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H3b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Board Balance on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for board balance ($\Delta ED_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta ED_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.333	0.741	0.002
$RESNPR_t$	1.550	0.127	0.045
$CSIZE_{t-1}$	-1.780	0.080*	0.059
AGE_{t-1}	0.815	0.419	0.013
$INDGEN_{t-1}$	1.260	0.212	0.030
ISS_t	1.240	0.220	0.029
$ECON_{t-1}$	0.361	0.719	0.003
$ED_{t(ad)}$	-2.000	0.051*	0.073
$PERF_t$	1.010	0.317	0.020
$INST_{t-1}$	-0.718	0.476	0.010
$BLAME_t$	-2.160	0.036**	0.084
R^2: 0.280	**Adj. R^2:** 0.138	**F** (10, 51):	1.979 (0.055)*
Takeover Subset (n=46)			
Constant	-0.651	0.519	0.012
$RESNPR_t$	-0.235	0.815	0.002
$CSIZE_{t-1}$	-0.936	0.356	0.024
AGE_{t-1}	0.412	0.683	0.005
$INDGEN_{t-1}$	0.465	0.645	0.006
ISS_t	1.910	0.065*	0.094
$ECON_{t-1}$	0.604	0.550	0.010
$ED_{t(ad)}$	-1.710	0.096*	0.077
$PERF_t$	0.084	0.934	0.001
$INST_{t-1}$	-0.242	0.811	0.002
$BLAME_t$	0.001	0.999	0.001
R^2: 0.187	**Adj. R^2:** -0.045	**F** (10, 35):	0.805 (0.626)
Market Abuse Subset (n=16)			
Constant	-0.323	0.760	0.020
$RESNPR_t$	0.399	0.707	0.031
$CSIZE_{t-1}$	-1.250	0.267	0.238
AGE_{t-1}	0.319	0.763	0.020
$INDGEN_{t-1}$	0.684	0.525	0.086
ISS_t	0.108	0.918	0.002
$ECON_{t-1}$	0.337	0.750	0.022
$ED_{t(ad)}$	-0.424	0.689	0.035
$PERF_t$	-0.585	0.584	0.064
$INST_{t-1}$	-0.041	0.969	0.001
$BLAME_t$	-0.883	0.418	0.135
R^2: 0.728	**Adj. R^2:** 0.183	**F** (10, 5):	1.335 (0.395)

Definitions for Board Balance

ED: Percentage executive directors on the board

$\Delta ED_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for board balance between the event and post-event years

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

Table H.4a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Board Size on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for board size ($\Delta SIZE_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta SIZE_{t-1 \rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	0.960	0.341	0.015
$RESNPR_{t-1}$	0.473	0.638	0.004
$CSIZE_{t-1}$	-0.109	0.914	0.001
AGE_{t-1}	0.040	0.968	0.001
$INDGEN_{t-1}$	-0.426	0.672	0.003
ISS_t	0.469	0.641	0.004
$ECON_{t-1}$	-0.940	0.351	0.015
$SIZE_{t-1(ad)}$	0.411	0.683	0.003
$PERF_{t-1}$	0.214	0.831	0.001
$INST_{t-1}$	0.133	0.895	0.001
$BLAME_t$	-2.050	0.044**	0.066
R^2: 0.079	**Adj. R^2:** -0.075	**F** (10, 60):	0.514 (0.873)
Takeover Subset (n=53)			
Constant	1.050	0.299	0.026
$RESNPR_{t-1}$	-0.720	0.476	0.012
$CSIZE_{t-1}$	-0.790	0.434	0.015
AGE_{t-1}	0.026	0.980	0.001
$INDGEN_{t-1}$	0.024	0.981	0.001
ISS_t	1.950	0.058**	0.083
$ECON_{t-1}$	-1.070	0.289	0.027
$SIZE_{t-1(ad)}$	-0.539	0.593	0.007
$PERF_{t-1}$	0.509	0.614	0.006
$INST_{t-1}$	0.208	0.836	0.001
$BLAME_t$	-2.000	0.052	0.087
R^2: 0.193	**Adj. R^2:** 0.001	**F** (10, 42):	1.008 (0.453)

Definitions for Board Size

SIZE: No. directors on the board

$\Delta SIZE_{t-1 \rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for board size between the pre-event and event years

**Significant at the 5% level

Table H4b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Board Size on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for board size ($\Delta SIZE_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta SIZE_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.294	0.770	0.002
$RESNPR_t$	1.280	0.205	0.031
$CSIZE_{t-1}$	0.335	0.739	0.002
AGE_{t-1}	0.763	0.449	0.011
$INDGEN_{t-1}$	0.239	0.812	0.001
ISS_t	0.985	0.330	0.019
$ECON_{t-1}$	0.266	0.792	0.001
$SIZE_{t(ad)}$	-1.890	0.065*	0.065
$PERF_t$	-1.110	0.274	0.023
$INST_{t-1}$	-0.132	0.896	0.001
$BLAME_t$	0.183	0.855	0.001
R^2: 0.127	**Adj. R^2:** -0.044	**F** (10, 51):	0.745 (0.679)
Takeover Subset (n=46)			
Constant	-0.548	0.587	0.009
$RESNPR_t$	0.889	0.380	0.022
$CSIZE_{t-1}$	0.301	0.765	0.003
AGE_{t-1}	0.903	0.373	0.023
$INDGEN_{t-1}$	0.336	0.739	0.003
ISS_t	-0.383	0.704	0.004
$ECON_{t-1}$	0.552	0.584	0.009
$SIZE_{t(ad)}$	-0.276	0.784	0.002
$PERF_t$	-0.712	0.481	0.014
$INST_{t-1}$	-1.210	0.234	0.040
$BLAME_t$	0.411	0.684	0.005
R^2: 0.130	**Adj. R^2:** -0.119	**F** (10, 35):	0.521 (0.863)
Market Abuse Subset (n=16)			
Constant	-1.730	0.145	0.373
$RESNPR_t$	0.223	0.833	0.010
$CSIZE_{t-1}$	2.040	0.097*	0.454
AGE_{t-1}	0.425	0.688	0.035
$INDGEN_{t-1}$	0.103	0.922	0.002
ISS_t	-0.211	0.841	0.009
$ECON_{t-1}$	1.720	0.146	0.372
$SIZE_{t(ad)}$	-2.580	0.049**	0.571
$PERF_t$	-0.852	0.433	0.127
$INST_{t-1}$	1.110	0.318	0.197
$BLAME_t$	0.316	0.765	0.020
R^2: 0.753	**Adj. R^2:** 0.260	**F** (10, 5):	1.527 (0.335)

Definitions for Board Size

SIZE: No. directors on the board

$\Delta SIZE_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for board size between the event and post-event years

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

Table H.5a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Director Independence on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for director independence ($\Delta INED_{t-1\rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta INED_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	0.394	0.695	0.003
$RESNPR_{t-1}$	0.954	0.344	0.015
$CSIZE_{t-1}$	0.493	0.624	0.004
AGE_{t-1}	-1.860	0.068*	0.055
$INDGEN_{t-1}$	0.635	0.528	0.007
ISS_t	-0.486	0.629	0.004
$ECON_{t-1}$	-0.407	0.685	0.003
$INED_{t-1(ad)}$	-1.700	0.094*	0.046
$PERF_{t-1}$	-0.597	0.553	0.006
$INST_{t-1}$	0.862	0.392	0.012
$BLAME_t$	-0.282	0.779	0.001
R^2: 0.184	**Adj. R^2:** 0.048	**F** (10, 60):	1.353 (0.224)
Takeover Subset (n=53)			
Constant	-0.256	0.799	0.002
$RESNPR_{t-1}$	0.126	0.900	0.001
$CSIZE_{t-1}$	-0.205	0.839	0.001
AGE_{t-1}	-1.550	0.129	0.054
$INDGEN_{t-1}$	0.578	0.567	0.008
ISS_t	0.186	0.853	0.001
$ECON_{t-1}$	0.254	0.801	0.002
$INED_{t-1(ad)}$	-1.850	0.071*	0.076
$PERF_{t-1}$	-0.002	0.998	0.001
$INST_{t-1}$	0.238	0.813	0.001
$BLAME_t$	0.132	0.896	0.001
R^2: 0.206	**Adj. R^2:** 0.016	**F** (10, 42):	1.087 (0.394)

Definitions for Director Independence

INED: Percentage non-executive directors on the board who are independent

$\Delta INED_{t-1\rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for director independence between the pre-event and event years

*Significant at the 10% level

Table H5b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Director Independence on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for director independence ($\Delta INED_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta INED_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
<u>*Full Sample (n=62)*</u>			
Constant	0.034	0.973	0.001
$RESNPR_t$	-0.979	0.332	0.018
$CSIZE_{t-1}$	1.380	0.174	0.036
AGE_{t-1}	0.978	0.333	0.018
$INDGEN_{t-1}$	0.267	0.790	0.001
ISS_t	-0.001	0.999	0.001
$ECON_{t-1}$	-0.085	0.933	0.001
$INED_{t(ad)}$	-3.200	0.002***	0.167
$PERF_t$	0.845	0.402	0.014
$INST_{t-1}$	-0.191	0.849	0.001
$BLAME_t$	-0.074	0.941	0.001
R^2: 0.216	**Adj. R^2:** 0.062	**F** (10, 51):	1.407 (0.204)
<u>*Takeover Subset (n=46)*</u>			
Constant	-0.297	0.768	0.003
$RESNPR_t$	-0.149	0.882	0.001
$CSIZE_{t-1}$	1.760	0.087*	0.081
AGE_{t-1}	1.310	0.200	0.047
$INDGEN_{t-1}$	0.568	0.574	0.009
ISS_t	-1.340	0.189	0.049
$ECON_{t-1}$	0.276	0.784	0.002
$INED_{t(ad)}$	-2.600	0.014	0.162
$PERF_t$	0.455	0.652	0.006
$INST_{t-1}$	0.117	0.908	0.001
$BLAME_t$	0.534	0.597	0.008
R^2: 0.307	**Adj. R^2:** 0.109	**F** (10, 35):	1.548 (0.164)
<u>*Market Abuse Subset (n=16)*</u>			
Constant	2.490	0.055	0.554
$RESNPR_t$	1.360	0.231	0.271
$CSIZE_{t-1}$	0.203	0.847	0.008
AGE_{t-1}	0.380	0.720	0.028
$INDGEN_{t-1}$	0.522	0.624	0.052
ISS_t	-1.960	0.107	0.435
$ECON_{t-1}$	-2.390	0.062*	0.534
$INED_{t(ad)}$	-1.270	0.261	0.243
$PERF_t$	2.630	0.046**	0.581
$INST_{t-1}$	-1.640	0.162	0.349
$BLAME_t$	-1.110	0.318	0.197
R^2: 0.761	**Adj. R^2:** 0.284	**F** (10, 5):	1.596 (0.316)

<u>**Definitions for Director Independence**</u>

INED: Percentage non-executive directors on the board who are independent

$\Delta INED_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for director independence between the event and post-event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H.6a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Audit Committee Size on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for audit committee size ($\Delta ACS_{t-1\rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta ACS_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.220	0.227	0.024
$RESNPR_{t-1}$	1.090	0.278	0.020
$CSIZE_{t-1}$	2.590	0.012**	0.101
AGE_{t-1}	0.082	0.935	0.001
$INDGEN_{t-1}$	-0.145	0.885	0.001
ISS_t	-1.180	0.242	0.023
$ECON_{t-1}$	-1.270	0.211	0.026
$ACS_{t-1(ad)}$	-2.860	0.006***	0.120
$PERF_{t-1}$	-1.280	0.207	0.027
$INST_{t-1}$	0.235	0.815	0.001
$BLAME_t$	1.440	0.156	0.033
R^2: 0.230	**Adj. R^2:** 0.102	**F** (10, 60):	1.794 (0.081)*
Takeover Subset (n=53)			
Constant	1.100	0.276	0.028
$RESNPR_{t-1}$	0.820	0.417	0.016
$CSIZE_{t-1}$	2.610	0.012**	0.140
AGE_{t-1}	1.240	0.221	0.035
$INDGEN_{t-1}$	0.008	0.994	0.001
ISS_t	3.340	0.002***	0.210
$ECON_{t-1}$	-1.260	0.216	0.036
$ACS_{t-1(ad)}$	-5.530	0.001***	0.421
$PERF_{t-1}$	-1.370	0.177	0.043
$INST_{t-1}$	0.838	0.407	0.016
$BLAME_t$	2.600	0.013**	0.139
R^2: 0.562	**Adj. R^2:** 0.458	**F** (10, 42):	5.388 (0.001)***

Definitions for Audit Committee Size

ACS: No. members on the audit committee

$\Delta ACS_{t-1\rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for audit committee size between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H6b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Audit Committee Size on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for audit committee size ($\Delta ACS_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta ACS_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.597	0.553	0.007
$RESNPR_t$	-0.820	0.416	0.013
$CSIZE_{t-1}$	0.018	0.986	0.001
AGE_{t-1}	0.662	0.511	0.009
$INDGEN_{t-1}$	-0.619	0.539	0.008
ISS_t	-0.121	0.904	0.001
$ECON_{t-1}$	0.613	0.543	0.007
$ACS_{t(ad)}$	-1.250	0.218	0.030
$PERF_t$	0.496	0.622	0.005
$INST_{t-1}$	-0.825	0.413	0.013
$BLAME_t$	-0.250	0.804	0.001
R^2: 0.089	**Adj. R^2:** -0.089	**F** (10, 51):	0.501 (0.881)
Takeover Subset (n=46)			
Constant	-1.220	0.232	0.041
$RESNPR_t$	0.524	0.603	0.008
$CSIZE_{t-1}$	-0.144	0.886	0.001
AGE_{t-1}	0.642	0.525	0.012
$INDGEN_{t-1}$	-0.946	0.351	0.025
ISS_t	0.521	0.606	0.008
$ECON_{t-1}$	1.220	0.232	0.041
$ACS_{t(ad)}$	-0.264	0.793	0.002
$PERF_t$	-0.409	0.685	0.005
$INST_{t-1}$	-1.620	0.115	0.070
$BLAME_t$	0.910	0.369	0.023
R^2: 0.180	**Adj. R^2:** -0.053	**F** (10, 35):	0.773 (0.654)
Market Abuse Subset (n=16)			
Constant	0.507	0.633	0.049
$RESNPR_t$	-0.387	0.715	0.029
$CSIZE_{t-1}$	0.319	0.762	0.020
AGE_{t-1}	-0.021	0.984	0.001
$INDGEN_{t-1}$	-0.246	0.815	0.012
ISS_t	-0.607	0.571	0.069
$ECON_{t-1}$	-0.498	0.640	0.047
$ACS_{t(ad)}$	-0.668	0.534	0.082
$PERF_t$	0.431	0.685	0.036
$INST_{t-1}$	0.196	0.852	0.008
$BLAME_t$	-0.771	0.476	0.106
R^2: 0.358	**Adj. R^2:** -0.925	**F** (10, 5):	0.279 (0.959)

Definitions for Audit Committee Size

ACS: No. members on the audit committee

$\Delta ACS_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for audit committee size between the event and post-event years

Table H.7a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Audit Committee Independence on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for audit committee independence ($\Delta ACI_{t-1\rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta ACI_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	2.760	0.008	0.113
$RESNPR_{t-1}$	1.220	0.227	0.024
$CSIZE_{t-1}$	0.663	0.510	0.007
AGE_{t-1}	0.626	0.533	0.007
$INDGEN_{t-1}$	-0.065	0.948	0.001
ISS_t	-2.360	0.022**	0.085
$ECON_{t-1}$	-2.720	0.009***	0.110
$ACI_{t-1(ad)}$	-4.440	0.001***	0.247
$PERF_{t-1}$	-0.777	0.440	0.010
$INST_{t-1}$	0.551	0.584	0.005
$BLAME_t$	-0.744	0.460	0.009
R^2: 0.364	**Adj. R^2:** 0.259	**F** (10, 60):	3.449 (0.001)***
Takeover Subset (n=53)			
Constant	1.960	0.056	0.084
$RESNPR_{t-1}$	-0.177	0.861	0.001
$CSIZE_{t-1}$	0.108	0.914	0.001
AGE_{t-1}	1.070	0.289	0.027
$INDGEN_{t-1}$	0.831	0.411	0.016
ISS_t	1.400	0.168	0.045
$ECON_{t-1}$	-1.970	0.055*	0.085
$ACI_{t-1(ad)}$	-6.160	0.001***	0.475
$PERF_{t-1}$	0.021	0.984	0.001
$INST_{t-1}$	0.606	0.548	0.009
$BLAME_t$	0.054	0.957	0.001
R^2: 0.560	**Adj. R^2:** 0.455	**F** (10, 42):	5.340 (0.001)***

Definitions for Audit Committee Independence

ACI: 1 if the majority of the audit committee is independent, 0 if otherwise

$\Delta ACI_{t-1\rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for audit committee independence between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H7b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Audit Committee Independence on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for audit committee independence ($\Delta ACI_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta ACI_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	1.550	0.127	0.045
$RESNPR_t$	-1.360	0.180	0.035
$CSIZE_{t-1}$	2.670	0.010**	0.123
AGE_{t-1}	0.956	0.344	0.018
$INDGEN_{t-1}$	-0.122	0.903	0.001
ISS_t	0.946	0.349	0.017
$ECON_{t-1}$	-1.640	0.108	0.050
$ACI_{t(ad)}$	-3.170	0.003**	0.165
$PERF_t$	0.815	0.419	0.013
$INST_{t-1}$	0.250	0.804	0.001
$BLAME_t$	-1.500	0.140	0.042
R^2: 0.282	**Adj. R^2:** 0.142	**F** (10, 51):	2.006 (0.052)*
Takeover Subset (n=46)			
Constant	0.980	0.334	0.027
$RESNPR_t$	-0.328	0.745	0.003
$CSIZE_{t-1}$	2.350	0.024**	0.137
AGE_{t-1}	1.130	0.264	0.036
$INDGEN_{t-1}$	-0.213	0.833	0.001
ISS_t	-1.370	0.181	0.051
$ECON_{t-1}$	-0.999	0.325	0.028
$ACI_{t(ad)}$	-1.040	0.307	0.030
$PERF_t$	0.496	0.623	0.007
$INST_{t-1}$	0.375	0.710	0.004
$BLAME_t$	-0.634	0.530	0.011
R^2: 0.317	**Adj. R^2:** 0.122	**F** (10, 35):	1.624 (0.140)
Market Abuse Subset (n=16)			
Constant	2.110	0.089	0.471
$RESNPR_t$	0.203	0.848	0.008
$CSIZE_{t-1}$	0.645	0.547	0.077
AGE_{t-1}	0.143	0.892	0.004
$INDGEN_{t-1}$	0.986	0.369	0.163
ISS_t	-1.690	0.151	0.364
$ECON_{t-1}$	-2.050	0.096*	0.456
$ACI_{t(ad)}$	-1.480	0.199	0.305
$PERF_t$	1.960	0.107	0.435
$INST_{t-1}$	-1.270	0.259	0.245
$BLAME_t$	-1.450	0.206	0.297
R^2: 0.711	**Adj. R^2:** 0.132	**F** (10, 5):	1.229 (0.434)

Definitions for Audit Committee Independence

ACI: 1 if the majority of the audit committee is independent, 0 if otherwise

$\Delta ACI_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for audit committee independence between the event and post-event years

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

Table H.8a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Audit Committee Meetings on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for audit committee meetings ($\Delta ACM_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta ACM_{t-1 \rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	0.982	0.330	0.016
$RESNPR_{t-1}$	3.930	0.002***	0.205
$CSIZE_{t-1}$	3.050	0.003***	0.134
AGE_{t-1}	-0.881	0.382	0.013
$INDGEN_{t-1}$	-1.370	0.176	0.030
ISS_t	-0.957	0.343	0.015
$ECON_{t-1}$	-1.020	0.314	0.017
$ACM_{t-1(ad)}$	-4.110	0.001***	0.220
$PERF_{t-1}$	-2.160	0.035**	0.072
$INST_{t-1}$	-0.963	0.340	0.015
$BLAME_t$	-1.800	0.077*	0.051
R^2: 0.425	**Adj. R^2:** 0.330	**F** (10, 60):	4.443 (0.001)***
Takeover Subset (n=53)			
Constant	-0.005	0.996	0.001
$RESNPR_{t-1}$	3.000	0.005***	0.177
$CSIZE_{t-1}$	2.950	0.005***	0.172
AGE_{t-1}	-0.839	0.406	0.017
$INDGEN_{t-1}$	-0.518	0.608	0.006
ISS_t	1.550	0.129	0.054
$ECON_{t-1}$	-0.091	0.928	0.001
$ACM_{t-1(ad)}$	-4.480	0.001***	0.323
$PERF_{t-1}$	-0.931	0.357	0.020
$INST_{t-1}$	-0.768	0.447	0.014
$BLAME_t$	-0.692	0.493	0.011
R^2: 0.495	**Adj. R^2:** 0.375	**F** (10, 42):	4.115 (0.001)***

Definitions for Audit Committee Meetings

ACM: No. audit committee meetings in the year

$\Delta ACM_{t-1 \rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for audit committee meetings between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H8b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Audit Committee Meetings on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for audit committee meetings ($\Delta ACM_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta ACM_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.887	0.379	0.015
$RESNPR_t$	-1.830	0.073*	0.062
$CSIZE_{t-1}$	1.330	0.191	0.033
AGE_{t-1}	-0.529	0.599	0.006
$INDGEN_{t-1}$	0.675	0.503	0.009
ISS_t	-0.816	0.418	0.013
$ECON_{t-1}$	-0.899	0.373	0.016
$ACM_{t(ad)}$	-3.630	0.001***	0.206
$PERF_t$	0.297	0.768	0.002
$INST_{t-1}$	-0.443	0.660	0.004
$BLAME_t$	-0.507	0.614	0.005
R^2: 0.350	**Adj. R^2:** 0.223	**F** (10, 51):	2.749 (0.009)***
Takeover Subset (n=46)			
Constant	-0.107	0.915	0.001
$RESNPR_t$	-0.900	0.374	0.023
$CSIZE_{t-1}$	1.640	0.110	0.072
AGE_{t-1}	-0.050	0.961	0.001
$INDGEN_{t-1}$	0.817	0.419	0.019
ISS_t	0.485	0.631	0.007
$ECON_{t-1}$	0.073	0.942	0.001
$ACM_{t(ad)}$	-3.710	0.001***	0.283
$PERF_t$	-0.482	0.633	0.007
$INST_{t-1}$	-0.672	0.506	0.013
$BLAME_t$	0.585	0.563	0.010
R^2: 0.401	**Adj. R^2:** 0.230	**F** (10, 35):	2.342 (0.031)**
Market Abuse Subset (n=16)			
Constant	2.700	0.043	0.593
$RESNPR_t$	-0.352	0.739	0.024
$CSIZE_{t-1}$	0.687	0.523	0.086
AGE_{t-1}	1.270	0.259	0.245
$INDGEN_{t-1}$	0.760	0.482	0.104
ISS_t	-0.508	0.633	0.049
$ECON_{t-1}$	-2.690	0.043**	0.592
$ACM_{t(ad)}$	-1.470	0.202	0.301
$PERF_t$	2.800	0.038**	0.610
$INST_{t-1}$	-1.550	0.182	0.324
$BLAME_t$	-2.030	0.098*	0.453
R^2: 0.801	**Adj. R^2:** 0.404	**F** (10, 5):	2.018 (0.227)

Definitions for Audit Committee Meetings

ACM: No. audit committee meetings in the year

$\Delta ACM_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for audit committee meetings between the event and post-event years

***Significant at the 1% level, **Significant at the 5% level, *Significant at the 10% level

Table H.9a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in CEO Pay-Performance Sensitivity on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for CEO pay-performance sensitivity ($\Delta PPS_{t-1\rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta PPS_{t-1\rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	0.969	0.336	0.015
$RESNPR_{t-1}$	1.170	0.246	0.022
$CSIZE_{t-1}$	0.211	0.834	0.001
AGE_{t-1}	-0.500	0.619	0.004
$INDGEN_{t-1}$	-1.110	0.270	0.020
ISS_t	0.158	0.875	0.001
$ECON_{t-1}$	-0.988	0.327	0.016
$PPS_{t-1(ad)}$	-0.429	0.670	0.003
$PERF_{t-1}$	-0.716	0.477	0.009
$INST_{t-1}$	2.110	0.039**	0.069
$BLAME_t$	0.860	0.393	0.012
R^2: 0.133	**Adj. R^2:** -0.011	**F** (10, 60):	0.924 (0.517)
Takeover Subset (n=53)			
Constant	-0.974	0.336	0.022
$RESNPR_{t-1}$	2.100	0.042**	0.095
$CSIZE_{t-1}$	0.422	0.675	0.004
AGE_{t-1}	-0.932	0.357	0.020
$INDGEN_{t-1}$	-1.490	0.144	0.050
ISS_t	-2.040	0.047**	0.091
$ECON_{t-1}$	1.040	0.306	0.025
$PPS_{t-1(ad)}$	-0.135	0.894	0.001
$PERF_{t-1}$	-0.842	0.405	0.017
$INST_{t-1}$	-0.902	0.372	0.019
$BLAME_t$	1.210	0.232	0.034
R^2: 0.239	**Adj. R^2:** 0.058	**F** (10, 42):	1.321 (0.251)

Definitions for CEO Pay-Performance Sensitivity

PPS: CEO pay-performance sensitivity ratio, measured as: annual change in CEO pay: annual change in shareholders' wealth	**$\Delta PPS_{t-1\rightarrow t(ad)}$:** Benchmark-adjusted change in score assigned for CEO pay-performance sensitivity between the pre-event and event years

**Significant at the 5% level

Table H9b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in CEO Pay-Performance Sensitivity on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for CEO pay-performance sensitivity ($\Delta PPS_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta PPS_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	-0.831	0.410	0.013
$RESNPR_t$	-0.013	0.990	0.001
$CSIZE_{t-1}$	0.227	0.821	0.001
AGE_{t-1}	-0.407	0.685	0.003
$INDGEN_{t-1}$	-0.396	0.694	0.003
ISS_t	-1.500	0.139	0.042
$ECON_{t-1}$	0.857	0.395	0.014
$PPS_{t(ad)}$	-2.190	0.033**	0.086
$PERF_t$	-0.016	0.988	0.001
$INST_{t-1}$	-0.763	0.449	0.011
$BLAME_t$	0.818	0.417	0.013
R^2: 0.152	**Adj. R^2:** -0.014	**F** (10, 51):	0.915 (0.527)
Takeover Subset (n=46)			
Constant	0.299	0.767	0.003
$RESNPR_t$	0.401	0.691	0.005
$CSIZE_{t-1}$	0.432	0.668	0.005
AGE_{t-1}	-0.346	0.731	0.003
$INDGEN_{t-1}$	-0.365	0.718	0.004
ISS_t	-0.343	0.734	0.003
$ECON_{t-1}$	-0.296	0.769	0.003
$PPS_{t(ad)}$	-1.660	0.105	0.073
$PERF_t$	0.605	0.549	0.010
$INST_{t-1}$	0.364	0.718	0.004
$BLAME_t$	-0.540	0.592	0.008
R^2: 0.144	**Adj. R^2:** -0.100	**F** (10, 35):	0.590 (0.811)
Market Abuse Subset (n=16)			
Constant	-0.893	0.413	0.138
$RESNPR_t$	0.876	0.421	0.133
$CSIZE_{t-1}$	-1.990	0.103	0.443
AGE_{t-1}	0.055	0.959	0.001
$INDGEN_{t-1}$	1.800	0.132	0.393
ISS_t	-0.314	0.766	0.019
$ECON_{t-1}$	0.960	0.381	0.156
$PPS_{t(ad)}$	-2.350	0.065*	0.526
$PERF_t$	0.426	0.688	0.035
$INST_{t-1}$	-1.910	0.114	0.422
$BLAME_t$	2.520	0.053*	0.559
R^2: 0.778	**Adj. R^2:** 0.335	**F** (10, 5):	1.756 (0.278)

Definitions for CEO Pay-Performance Sensitivity

PPS: CEO pay-performance sensitivity ratio, measured as: annual change in CEO pay: annual change in shareholders' wealth

$\Delta PPS_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for CEO pay-performance sensitivity between the event and post-event years

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

Table H.10a: OLS Regression of Benchmark-adjusted Pre-Event to Event Year Change in Directors' Share Ownership on Pre-Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted pre-event to event changes in the scores assigned for directors' share ownership ($\Delta SHARE_{t-1 \rightarrow t(ad)}$) upon the pre-event year newspaper reporting variable ($RESNPR_{t-1}$) and the additional explanatory variables.

Dependent Variable: $\Delta SHARE_{t-1 \rightarrow t(ad)}$

	t-value	t-prob	Part. R^2
Full Sample (n=71)			
Constant	1.500	0.139	0.036
$RESNPR_{t-1}$	1.580	0.120	0.040
$CSIZE_{t-1}$	-1.220	0.227	0.024
AGE_{t-1}	-0.827	0.411	0.011
$INDGEN_{t-1}$	-1.170	0.245	0.023
ISS_{t}	0.163	0.871	0.001
$ECON_{t-1}$	-1.470	0.146	0.035
$SHARE_{t-1(ad)}$	-3.130	0.003***	0.141
$PERF_{t-1}$	-0.727	0.470	0.009
$INST_{t-1}$	2.670	0.010**	0.107
$BLAME_{t}$	-0.667	0.508	0.007
R^2: 0.296	**Adj. R^2:** 0.178	**F** (10, 60):	2.520 (0.013)**
Takeover Subset (n=53)			
Constant	-0.742	0.462	0.013
$RESNPR_{t-1}$	2.500	0.016**	0.130
$CSIZE_{t-1}$	-0.630	0.532	0.009
AGE_{t-1}	-1.410	0.166	0.045
$INDGEN_{t-1}$	-1.660	0.105	0.061
ISS_{t}	-0.882	0.383	0.018
$ECON_{t-1}$	0.806	0.425	0.015
$SHARE_{t-1(ad)}$	-1.380	0.174	0.044
$PERF_{t-1}$	-0.616	0.541	0.009
$INST_{t-1}$	-1.010	0.317	0.024
$BLAME_{t}$	-0.380	0.706	0.003
R^2: 0.259	**Adj. R^2:** 0.083	**F** (10, 42):	1.468 (0.185)

Definitions for Directors' Share Ownership

SHARE: Proportion of company shares owned by the board

$\Delta SHARE_{t-1 \rightarrow t(ad)}$: Benchmark-adjusted change in score assigned for directors' share ownership between the pre-event and event years

***Significant at the 1% level, **Significant at the 5% level

Table H10b: OLS Regression of Benchmark-adjusted Event to Post-Event Year Change in Directors' Share Ownership on Event Year Newspaper Reporting

Below are the results of the OLS regression of the benchmark-adjusted event to post-event changes in the scores assigned for directors' share ownership ($\Delta SHARE_{t\rightarrow t+1(ad)}$) upon the event year newspaper reporting variable ($RESNPR_t$) and the additional explanatory variables.

Dependent Variable: $\Delta SHARE_{t\rightarrow t+1(ad)}$	t-value	t-prob	Part. R^2
Full Sample (n=62)			
Constant	0.143	0.887	0.001
$RESNPR_t$	0.506	0.615	0.005
$CSIZE_{t-1}$	-1.000	0.320	0.019
AGE_{t-1}	0.187	0.853	0.001
$INDGEN_{t-1}$	-1.300	0.198	0.032
ISS_t	-1.460	0.150	0.040
$ECON_{t-1}$	-0.085	0.933	0.001
$SHARE_{t(ad)}$	-3.840	0.001***	0.225
$PERF_t$	-0.557	0.580	0.006
$INST_{t-1}$	-0.423	0.674	0.004
$BLAME_t$	0.645	0.522	0.008
R^2: 0.329	**Adj. R^2:** 0.197	**F** (10, 51):	2.496 (0.016)**
Takeover Subset (n=46)			
Constant	0.395	0.696	0.004
$RESNPR_t$	1.040	0.304	0.030
$CSIZE_{t-1}$	-0.648	0.521	0.012
AGE_{t-1}	0.328	0.745	0.003
$INDGEN_{t-1}$	-0.912	0.368	0.023
ISS_t	-1.160	0.252	0.037
$ECON_{t-1}$	-0.328	0.745	0.003
$SHARE_{t(ad)}$	-3.010	0.005***	0.206
$PERF_t$	-0.035	0.972	0.001
$INST_{t-1}$	-0.427	0.672	0.005
$BLAME_t$	-0.407	0.687	0.005
R^2: 0.377	**Adj. R^2:** 0.199	**F** (10, 35):	2.121 (0.049)**
Market Abuse Subset (n=16)			
Constant	-0.193	0.854	0.007
$RESNPR_t$	0.022	0.983	0.001
$CSIZE_{t-1}$	-0.239	0.821	0.011
AGE_{t-1}	0.366	0.729	0.026
$INDGEN_{t-1}$	0.519	0.626	0.051
ISS_t	-0.111	0.916	0.002
$ECON_{t-1}$	0.217	0.837	0.009
$SHARE_{t(ad)}$	-0.034	0.952	0.001
$PERF_t$	0.482	0.650	0.044
$INST_{t-1}$	-0.803	0.458	0.114
$BLAME_t$	0.898	0.410	0.139
R^2: 0.627	**Adj. R^2:** -0.118	**F** (10, 5):	0.841 (0.620)

Definitions for Directors' Share Ownership

SHARE: Proportion of company shares owned by the board

$\Delta SHARE_{t\rightarrow t+1(ad)}$: Benchmark-adjusted change in score assigned for directors' share ownership between the event and post-event years

***Significant at the 1% level, **Significant at the 5% level