## *Editorial*

# Playing with Qantas

The flood of money looking for investment opportunities around the globe has resulted in two things: first, an increased rate of leveraged buyouts (LBOs), as management or private equity has succeeded in gaining control of publicly listed companies, and, second, an awareness that many such companies have been undervalued perhaps despite their fundamentals (such as the large mining houses) or because of under managed assets (such as the Myer department stores). The original 'barbarian at the gates', Kohlberg Kravis Roberts, has been at the forefront of such activity, as reported in the *Financial Times* (14 May 2007), although not always successfully.

A recent failure of such a buyout was the private equity bid for Qantas, which stumbled at attaining its 90 percent target when two institutional shareholders with 10 percent of the shares rejected its offer. The Airline Partners Australia consortium then set 70 percent acceptance as its target, to be obtained by 18 May, following a 50 percent hurdle by 7 pm (Eastern Australian standard time) on Friday, 4 May. As readers might recall, the offer was enthusiastically supported by top management at the Qantas board, some of whom personally stood to gain considerably under the new ownership. The offer price of $5.45, although a 30 percent premium over the market price when first announced in November 2006, had become less attractive in the intervening months, as business improved.

Nonetheless, observers were surprised when the consortium reported, ninety minutes after the 7 pm deadline, that they had received only 46 percent acceptances. In a piece published four days later, I attempted to explain this outcome (Marks 2007):

*The Game's Up at Qantas*

As a shareholder of Qantas, you have the opportunity to sell your shares to the Macquarie Bank-led Airline Partners Australia consortium (APA), who need a 50 percent acceptance rate by the 7pm deadline to allow their takeover process to progress. The offered price of $5.45 looks attractive (and is about a quarter higher than last November's pre-bid price) but this year's prospects for the airline look very good, with three recent profit forecast upgrades.

So much so that the best outcome for you would be to hold onto your shares while the takeover goes ahead: as a minority shareholder, you would either gain from the airline's rosy future and from the 'new broom' of cost cutting and capital disbursement, or would be offered a higher price to sell out later. Even if the takeover fails, you are better off holding onto your shares, since the airline is now in play. So you decide to hold.

It's a dominant strategy: no what others do and no matter whether the consortium reaches the 50 percent target by the deadline, you're better off holding your shares rather than selling them to the consortium, especially if enough other shareholders do sell by the deadline so that the take-over proceeds.

But most shareholders think as you do, which means that the bid may not succeed since it has less than 50 percent of shares offered by the deadline. All would like to free-ride on the sales of others' shares to the consortium: it's not often that humble shareholders can share in the rich pickings afforded private-equity takeover owners.

Ideally, if you had a crystal ball, you could see by how much the acceptance rate of the deadline was deficient, and sell the consortium just the number of shares needed to exceed the 50 percent requirement, assuming that you held enough shares to make the difference.

Well, the US hedge fund Heyman Investment Associates held 10 percent of Qantas, and the deficit after 7pm last Friday was about 4 percent. Oops! Well, why not offer 4-plus percent of the shares *after* the deadline? Surely the Takeovers Panel or the Australian Securities and Investments Commission wouldn't object, would they?

Yes, they would! The deficit was not a consequence of confusion or miscommunication. In today's wired world? No, it was the result of a strategic play gone wrong: waiting for others to sell their shares into the consortium while hoping to go along for the post-takeover ride. The Takeovers Panel should resist any pressure to change the rules ex post, not least because the Australian regulator's reputation matters now and into the future.

There are rumours that private equity is sniffing around the two largest mining houses in Australia. It is possible that deadlines similar to last Friday's will occur for future takeovers. If the Takeovers Panel has acquired a reputation as a weak regulator—saying no at first, but willing to accommodate later—then not only will future contentious takeovers be even more bloody (and costly—corporate lawyers don't come cheap), but Australian investors' confidence in a level playing field for all shareholders will be shattered, with adverse consequences for any company trying to raise equity capital here.

And the consortium should not be allowed to revisit its current offer, perhaps with a higher price and revised conditions, since such a concession would just encourage future takeover consortiums to acquire shares cheaply from naïve shareholders first, before rewarding the more cautious shareholders, who were holding out for more, with higher prices. The ground must be level.

The game last Friday was essentially simultaneous-move, since no-one but APA knew the offers to sell as the clock ticked. But even if they had announced, say, the percentage already offered, minute-by-minute, hold-out shareholders would have experienced the same incentive to hold back and let someone else be the seller who pushed the acceptances over 50 percent. Very similar behaviour would have resulted.

### *The Papers*

'There is a tide in the affairs of men….' and of companies? As the part-owner of a company originally a Silicon Valley start-up, then listed on NASDAQ, then delisted as its capitalisation shrank with the puncturing of the dot-com boom, I see the listing of a company (and hopefully not the subsequent delisting) as a necessary step in its road to maturity. As the first paper in this issue, by McKenzie, reports, there are several reasons why a firm might list on a stock exchange, each of them

independent of other firms' decisions. And yet empirical studies have found clear evidence of cycles in listing activity, which suggests some commonality in firms' decision making.

McKenzie is intent on exploring this cyclical behaviour, and trying to find whether stock-market conditions are a factor, by examining the determinants for listing for a wide range of 38 international exchanges. He forms evidence that so-called 'hot issue markets' signal an increased appetite for new issues on the part of investors. He further finds that, although he was unable to identify any explanations for listings on stock markets in emerging economies, there was a wide range of influences on listing activities in developed economies, most importantly past volume. Given the importance of the stock market to provide a market for risk in the economy, as Arrow (1964) that outlined over fifty years ago, these results should help both policy-makers and the directors of as-yet unlisted companies in their deliberations, not least, for emerging-economy firms, of whether to join the growing number of listings on such exchanges as the London Stock Exchange.

At long last the recent Australian Budget suggests that support for Australian universities is finally the focus of concern on both sides of politics. Perhaps because of the relative decline in per-student expenditures over the past eleven years, there have recently been some newsworthy items on changes in the sector, including disagreements at Macquarie University, the changes in the structure of undergraduate education at Melbourne University, consolidation of faculties at Sydney University, and the 'merger' of the erstwhile joint-venture AGSM here at UNSW. Some of these changes may actually improve the quality of education at these institutions.

In most cases these changes have been driven from the top, by council and its chief executive officer, the vice-chancellor (equivalent to the president in the U.S. context). As the CEOs of very large organisations, vice-chancellors are a suitable case for treatment by an academic economist, such as Soh, whose paper finds that, based on data from 1995 to 2002, vice-chancellors received less than half the remuneration earned by CEOs of equivalent companies. Apparently, this is similar to the U.S. disparity, and Soh mentions two possible explanations.

This issue of the *Journal* is unusual in one respect: over its thirty-year life, papers in finance have outnumbered those in any other discipline, and recently have outnumbered those in all other disciplines together. In this issue, however, you will find that finance is in a minority, with only three papers; there are two organisational behaviour papers, and one each from strategy, marketing and economics. The third paper, by Bettman, is the second finance paper in the issue.

In many empirical studies of the determinants of share prices, including such fundamentals as earnings and the book value of equity (both 'value-relevant' in predicting future dividends, which, in turn, determine a firm's market value), the effect of these fundamentals is confirmed. There have, however, been arguments that further information, not captured in current financial statements, might also be value-relevant in determining a firm's market price. For instance, forecast earnings per share is found to be significant, but inclusion of this variable in the model eliminates the significance of contemporaneous earnings per share in determining the price.

According to Bettman, the use of so-called technical information (strategies and trading rules, lagged price, price momentum), as well as fundamentals,

improves the statistical performance of models of share price determination, in her study, using Australian data. This paper follows ones in earlier issues exploring the role of momentum in stock prices.

Unusual for an issue, this one includes two papers by the same author, one sole-authored, and one co-authored. Paul Brewer is interested in international trade. His first paper, accepted by Mark Uncles, marketing area editor, builds on others' work that has constructed measures of the pair-wise differences between countries: it has been suggested that high (low) levels of trade were a function of the two countries' degree of similarity (separation) using some measure.

Brewer reports that the Uppsala internationalisation model developed the first measure of inter-country 'psychic distances,' to operationalise this concept of similarity, to explain, at least to begin with and for small or medium firms, their international links, of various sorts. But he argues that over the past thirty years such measures have had less power in the face of much greater interest in East Asian markets, and that a wholesale revision of measures of psychic distance is needed to accommodate this observation. He returns to the concept, not of country differences, but of ease of information flows, which he argues was the initial 1975 rationale. He derives a new measure that focuses on the ease (or not) with which firm managers can develop knowledge of the foreign country's markets, and examines Australian trade in the light of his new measures. One thought occurs to me: whereas the older measures of psychic distance based on country similarity are symmetric (or undirected: so that country A's psychic distance from country B is equal to country B's distance from country A), there is no reason for a measure of the ease with which country A's managers can learn about country B's business environment to be symmetric or undirected.

The sixth paper is by Brewer and Sherriff, accepted by Anne-Wil Harzing, area editor of strategy, and analyses Australia's changing trade patterns in the light of inter-country cultural differences. The authors conclude that, consistent with Brewer's earlier paper, country-level similarities and differences (as measured by recent measures of psychic distance) may not be equivalent to firm-level measures. As I remarked above, these measures might well be directed and asymmetric.

The fifth paper in the issue is the third finance paper, and continues the literature on active (as opposed to passive) management of mutual funds, where managers attempt to identify profitable trading opportunities and strategies. The paper, by Heaney, Hallahan, Josev and Mitchell, uses estimates of Australian international mutual funds' alphas (a measure of their selectivity in choice of portfolio, it is defined as the measure of a stock's idiosyncratic market performance beyond what its Capital Asset Pricing Model beta would predict,) over a ten-year period, adjusted for survivor bias, to test for time-variance in their excess returns, as the authors argue we should expect for active fund management. They postulate that herding behaviour among managers might provide an explanation of this finding, without further analysis.

The final two papers in the issue are in organisational behaviour. The seventh paper, by Wynder, is concerned about influences on the levels of creativity that organisations need in continuously improving their products, services and processes. To what extent does active involvement of employees in this improvement process result in greater levels of creativity? Might formal systems of employee performance evaluation and control stifle creativity? This study divides

employees into two groups: for employees with high levels of knowledge in the work domain, process-based control reduces intrinsic motivation, misdirects effort, and so reduces creativity cet. par.; for low-knowledge employees the opposite is true. One question for management is where to draw the line.

The final paper, by Grimmer and Oddy, examines the psychological aspects of the mutual obligations between employees and employers that is understood to occur with employment, and their effect on employees' behaviour. Their subjects are volunteer students, and their findings indicate that perceived violations of the contract were associated with lower commitment to the employing organisation and lower levels of trust in the organisation.

The final piece in this issue is a book review, by Jessica Milner Davis and Jeremy Davis, of a contemporary version of Ambrose Bierce's *The Devil's Dictionary*, written from the perspective of today's manager. Rodney Marks (no relation) was a student of mine in the AGSM MBA program twenty-five years ago, after a first degree in drama. His resume shows that he later earned a Harvard MBA, before returning to Australia. Humour can be a serious business, but also a means of opening minds to new perspectives, while entertaining.

*Housekeeping*

The 'merger' of the AGSM and the Faculty of Commerce at UNSW, to create the new Australian School of Business, following the collapse of the joint venture with the University of Sydney, moves on apace. The new School has committed to continuing to underwrite the *Journal*, with a revamped governance structure (of which more anon). For now, contact details remain unchanged.

One consequence of the 'merger' is that Linda Camilleri, the *Journal*'s production manager (and all-round supporter) since 2001 has reluctantly moved to a position in the School of Psychology. We miss her. Her position has been filled by Sussanne Nottage, who is quickly learning the ropes; she was involved with the O.B. special issue in 2002. Thanks and farewell, Linda; hello and welcome, Sussanne.

We have two new area editors. After two years as the strategy area editor, Anne-Wil Harzing, perhaps better known as the author of the on-line citation tool, Publish or Perish, has ended her editorship. It was a delight to work with Anne-Wil. Her replacement, also at Melbourne University, is Michael Ryall. Farewell, Anne-Wil; welcome, Michael.

For the past year or two, the O.B. area editorship has been performed by a committee of old-AGSM O.B. faculty, including Stave Frenkel, James Carlopio, Markus Groth, Lex Donaldson, and Bob Wood. Recently, Rose Trevelyan of the old AGSM has agreed to my request to be the sole O.B. area editor, a more satisfactory arrangement from where I sit. Thank you, O.B. gang; welcome, Rose.

Finally, this is the last issue in which Sandra Hoey will be involved. After at least twelve years as the *Journal*'s manager (the records are mute before June 1995), Sandra is retiring in a month or two, and so the old order changes significantly. I'd like to thank Sandra for all her work over the years for the management of the subscription list, negotiations with the printers, handling invoices and payments, and proof-reading every issue: back-office tasks, but

essential to the successful operation of the *Journal*. Thank you and farewell in your retirement, Sandra, from all of us.

**Robert E. Marks**
*General Editor*

## References

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