Corporate Governance & Cross-Border Acquiree Returns[§]

"Paul" Moon Sub Choi[†] and Seth H. Huang[‡]

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Abstract

The theory of corporate governance suggests that managers of poorly governed firms are more likely to make poor investment decisions, and the evidence on high anti-takeover provision (ATP) firms is consistent. We study the effect of domestic and foreign takeovers by U.S. firms and find that high-ATP bidders tend to pay relatively high premiums for either targets. While this suggests that these firms make poor decisions, high-ATP bidders also experience relatively high event study returns at times of foreign takeover news. This contradicts the findings of Masulis *et al.* (2007) for domestic takeovers.

Keywords: Antitakeover Provision, Corporate Governance, Cumulative Abnormal Return, Cross-Border Mergers and Acquisitions

JEL Classification: G14, G15, G34

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[†]Department of Economics, Cornell University, Ithaca, New York 14853; and School of Management, State University of New York, P.O. Box 6000, Binghamton, New York 13902. E-mail: mc369@cornell.edu. Choi has been supported by Kwanjeong Educational Foundation grants 03112BUS044 and 0422USD012.

[‡]Department of Economics, Cornell University, Ithaca, N.Y. 14853. E-mail: hh254@cornell.edu.

1 Introduction

We contribute to the literature by focusing on how target shareholders within and across the border are affected by managerial recklessness of U.S. acquirers proxied by their antitakeover provisions (ATPs). First, we show that, on average, firms with more ATPs in-place pays a higher premium to their domestic shareholders. This is a notable relation of managerial recklessness to the target shareholder value. Second, we extend the domestic finding to the cross-border deals and further corroborate our prediction that overseas target shareholders benefit more from high-ATP U.S. acquirers (dictators) than from low-ATP peers (democrats).[1]

These results are the first documentation of seemingly beneficial effects (*dictator premia*) on targets—regardless of geographical locations—from ATP-ridden, thus supposedly, over spending bidders listed in the U.S. Lastly, quite surprisingly, the markets respond more delightedly on acquirers with more ATPs, upon publicizing cross-border merger deals. This is contrary to what Masulis *et al.* (2007) report on U.S. domestic deals. Overall, we confirm that the ATPS are a robust measure of managerial recklessness.

Mergers and acquisitions (M&As) are the most frequent means of corporate control transactions. Shleifer and Summers (1988) comment "... If the value gains (from mergers) are merely transfers of wealth from creditors, employees, suppliers, or communities, they do not represent efficiency improvement." Jensen (1993) argues that "... Little evidence has been found to support substantial wealth transfer from any groups, and it appears that most of these gains represent increases in efficiency." It thus seems natural to ask "Why, how and who benefits or bears costs from mergers?"

[1] According to the classification of Gompers *et al.* (2003) (Masulis *et al.* (2007)), companies with a *G* Index score *1.* lower than or equal to five (nine) are in *democracy*; and *2.* higher than or equal to fourteen (ten) are under *dictatorship*.

It is a conventional wisdom in the market for control that the bidders lose in the stock market when they pay excessive premia to their targets. Masulis *et al.* (2007) find that the acquirers with more ATPs perform worse than their peers with fewer ATPs in cumulative abnormal return (CAR) upon merger announcement. Thus, the target shareholders are expected to benefit more from reckless managers in acquiring firms under "dictatorship" (Gompers *et al.* (2003)) who are less susceptible to hostile takeovers by entrenching themselves with more ATPs.

The market for corporate control has been recognized of its role as a corporate governance discipline[i] and determinant of firm value and long-term stock performance.[ii] Jensen (1993) emphasizes the ii market for corporate control as a key driving force behind Schumpeterian creative destruction of excess capacities; and further points out that, in the dormancy of corporate control market, weak corporate internal control only delays much needed timely restructuring. ATPs tend to safeguard perverse governance structure by insulating managers from market discipline and thus lead to hot-headed takeovers.

Thus, it is deemed crucial to dissect governance transfer mechanism via ATPs; and investigate how acquirers' ATPs determine value transfer upon mergers. We find that the U.S. targets exhibit higher CAR, upon merger announcement, when their domestic bidders are under dictatorship than under democracy.[2] Our subsequent inquisition then goes beyond the domestic account. Our subsequent inquisition then goes beyond the domestic account. Since "crossing the border" serves as another hurdle to takeovers, i.e. an ATP, the *dictator premia* to the target shareholders are not warranted when taking over foreign firms.

In the last decade, corporate governance has been a compelling motivation in the

[2]See Section Four.

confluence of literature in international finance, corporate finance, and law and finance.[3] As Bris and Cabolis (2008) mention, the nationality of a fully-acquired target firm is transferred from the home country of a foreign acquirer. The cross-border market for corporate control, through its transfer mechanism of governance per sovereign and corporate legal measures, provides an intriguing and stringent environment to test the existence of value effects of changes in investor protection governed by both sovereign and corporate legal measures.

La Porta *et al.*'s (1998) (LLSV) seminal work reports a significant relationship between the extent of legal protection and the development of financial markets, and has procreated numerous follow-up articles relating to their findings. Recently, Lubrano (2003) documents enhancement in corporate governance contributes to the maturity of capital markets. Claessens and Laeven (2003) also note that in countries with better-enforced property rights, corporations are more likely to make wiser allocation of resources with consequentially higher growth prospect.

However, Bris and Cabolis (2008) carefully annotate that it may not be feasible to infer from sovereign measures of corporate governance that improvement in investor protection within a country positively affects the financial markets. Reffecting such concern, academics relied on case-by-case scenarios such as on the Poland-Czech Republic case in Glaeser *et al.* (2001); or constructed indicators for transition economies in Pistor (2000), for Korea in Black *et al.* (2006), and for Finland in Hyytinen *et al.* (2001).

There are two broad threads in the literature of law and finance.[iii] In the *classical* perspective, more secure protection of investors provided by law is positively corre-

[3]According to Coffee's (1999) *bonding hypothesis*, cross-listings are a bonding mechanism that incentivizes firms incorporated in a jurisdiction with less investor-protection and/or poorer legal enforcement to willingly expose themselves to higher disclosure guidelines *and* stricter rule of law of the U.S. markets and exchanges for the benefits of investors.

lated with more sound financial markets. Legal measures influence corporate financing decision in Demirgüç-Kunt and Maksimovic (1998, 1999); financial market efficiency in Mørck *et al.* (2000); the degree of foreign exchange crashes in Johnson *et al.* (2000); corporate capital allocation in Wurgler (2000), Beck and Levine (2002), and Claessens and Laeven (2003); and firm valuation in La Porta *et al.* (2002) and Himmelberg *et al.* (2002).

The *alternative* approach maintains that firms can optimally wriggle through the legal system by voluntarily implementing more stringent corporate governance guidelines. Regardless of different legal structures, this Coase-type efficiency hypothesis implies that an investor will be protected to the same extent by all firms provided that contracts are well abided by. In *synthesis*, we will observe that not only (aggregate, legal, and "classical") cross-country variations, but also (idiosyncratic, private contractual, and "complementary") cross-firm differences in corporate governance matter to determine valuation following cross-border M&As.

For example, La Porta *et al.* (2002) demonstrate that the benefits from better shareholder protection is larger when the percentage of cash flow rights entitled to the chief executive officer (CEO) is smaller. Daines (2001) shows that the market values of the assets of firms based in Delaware are higher based on the cross-sectional results. In the same line, Bris and Cabolis (2008) exploit their extensive cross-country *and* cross-firm data to emphasize that firm-level corporate governance measures determine significant value effects.

A firm-level analysis of corporate governance is necessary because private contracts are valued—the legal structure of a corporation is the legal minimum *and* its articles. Consistently, empirics have shown that private contracts are indeed priced. Consistently, empirics have shown that private contracts are indeed priced. Gompers *et al.* (2003),

Bebchuk *et al.* (2004), Bebchuk and Cohen (2005), and Cremers and Nair (2005) all document negative association between various combinations of ATPs[4] and corporate valuation and/or long-run equity return of U.S. listed companies, in which contractual enforcement is considered effective.[iv]

Masulis *et al.* (2007) further continue to probe the value effects of ATPs on acquirer returns and show that the stock markets respond negatively by yielding significantly lower CAR around acquisition announcements made by firms with more ATPs; and confirm the agency-based inference Gompers *et al.* (2003) connect with "why ATPs are related to shareholder wealth..."

Seminal results of this paper are as follows. First, we show that, on average, firms with more ATPs in-place pays a higher premium to their domestic shareholders. This is a notable relation of managerial recklessness to the target shareholder value. Second, we extend the domestic finding to the cross-border deals and further corroborate our prediction that overseas target shareholders benefit more from high-ATP U.S. acquirers (dictators) than from low-ATP peers (democrats). These outcomes are the first documentation of seemingly beneficial effects (*dictator premia*) on targets—regardless of geographical locations—from ATP-ridden, thus supposedly, over spending bidders listed in the U.S.

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[4]The ATP index of each company is the number of ATPs listed in the firm article. Thus, the more ATPs a firm has in place, the higher its index. Gompers *et al.* (2003) index is based on 24 ATPs. Bebchuk *et al.* (2004) index is based on six out of the 24 ATPs. Bebchuk and Cohen's (2005) index is a binary variable based on whether a firm has a staggered board. Cremers and Nair's (2005) index is composed of three ATPs and corroborate effectiveness of the market for corporate control, provided that a firm has a strong internal corporate governance. In addition, Cremers and Nair (2005) construct two variables to proxy internal governance. They are *1.* the percentage of stocks held by an institutional investor with at least 5% ownership (BLOCK); and *2.* the aggregate percentage of stocks owned by eighteen public pension funds (PP).

Masulis *et al.* (2007) report on U.S. domestic deals. Our contribution to the literature is made by focusing on how target shareholders within and across the border are affected by managerial recklessness of U.S. acquirers proxied by their ATPs. Masulis *et al.* (2007) look at acquirers' ATPs to see how domestic investors appraise managerial decisions at bidders. Bris and Cabolis (2008) measure (bidders' and targets') combined cross-border merger premia against sovereign and firm-level LLSV-derived accounting standards. Overall, we confirm that the ATPS are a robust measure of managerial recklessness.

The remainder of this paper is as follows. Section Two cites existing theories to complement with our reasoning, and thus formulates testable hypotheses. Section Three describes the data and method we employ. Empirical analyses are conducted with estimation results in Section Four, and we conclude in Section Five.

2 Theory and hypothesis

2.1 U.S. domestic deals

The market for corporate control serves as a magnifying glass to the innate conflict of interest between shareholders and managers in large listed firms. This agency-problem idea was initially sowed by Berle and Means (1933) and reaped by Jensen and Meckling (1976). Core, Holthausen and Larcker (1999) give support to the negative relationship between a firm's extent of corporate governance and its agency problem. In addition, they show that firms with agency problems perform worse. Jensen and Ruback (1983), Jarrell *et al.* (1988), and Andrade *et al.* (2001) have extensively reviewed the literature on this topic.

Mørck *et al.* (1990) find that acquisitions can substantially benefit managers *and*

hurt shareholders. Also, managers do not always making acquisition decisions to maximize shareholder value. According to Jensen's (1986) free cash flow hypothesis, [v] managers may relish personal interests at the unendorsed expense of shareholders. Jensen's proposition has been empirically supported by Lang et al. (1991). Also, Yermack's (2006) study shows that corporate size, as a result of empire building, is directly associated with egregious executive perquisites, e.g. company jets etc.

Mitchell and Lehn (1990) document that the market for corporate control can suppress incentives of corporate empire building such that firms making unwise acquisitions are more likely to be taken over.[5] However, as Bebchuk *et al.* (2002, 2003) and Field and Karpo (2002) explain, antitakeover provisions (ATPs) make a takeover difficult to succeed and thus curb the incentives of potential bidders to acquire firms, by significantly procrastinating the procedures and thereby incurring higher expected costs of a hostile acquisition.

ATPs can, thus, effectively neutralize the penalizing attempts by the market for corporate control aimed at reckless CEOs' empires and the hubris is reflected in perquisites. Hence, managers entrenched by more ATPs are more likely to plunge into value-detroying acquisitions since they are less likely to be disciplined by the market for corporate control.[vi,vii,viii]

The first goal of this paper is to establish the link between acquirer's managerial recklessness and target's enterprise value upon merger announcement. Accordingly, we examine how stock market participants predict the subsequent value effects on the acquirees upon merger with acquirers with perverse governance structure armed with

[5]However, takeovers do not appear to be an important governance mechanism in countries where there are high ownership concentration, like in the Netherlands, Israel, China etc. Hostile takeover attempts in Germany have been rare, due presumably to the significant ownership concentration that characterizes the equity market. A number of authors present evidence that a German control market does exist, albeit one that is different in form from that of the U.S. and the U.K.

ATPs. The number of ATPs a firm has is a proxy for managerial recklessness and is a negative measure of the firm's commitment to investor protection. The greater the number of ATPs, the worse a firm's corporate governance.

Do U.S. targets respond more favorably to domestic bidders with high ATPs while the bidders are making value-destroying decisions? Specifically, do targets benefit from such decisions? As mentioned, Masulis *et al.* (2007) have shown that when bidders with many ATPs make acquisitions, their stock values are undermined more severely, indicating that the market evaluates this decision unfavorably and believes that these acquisitions are counter-synergetic. The acquiring firms are, thus, suspected of paying merger premia to the target shareholders at the expense of their own shareholders.

We make a logical assumption: an acquisition is not worth attaining when it yields negative net present value. This means that the benefits will be greater as profit or money saved due to cost-reducing synergy, do not outweigh the costs paid out for this acquisition. Masulis *et al.* (2007) show that firms which lack investor protection (proxied by ATPs) make value-destroying acquisitions. Based on our assumption, bidders suffer from such erosion in value because shareholders believe that they are over-paying for the targets.

We contend that when high-ATP bidders acquire targets, the target shareholders will have higher profit. This implies that, if high-ATP bidders' prices tend to drop more after merger announcements, then their target prices should tend to rise more, creating a wealth transfer mechanism between the bidder shareholders and target shareholders. We predict that the more the U.S. acquirers have ATPS in their corporate articles, the higher the cumulative abnormal returns of U.S. targets upon merger announcement.

> *H1 [Dictator Premia Hypothesis] : Ceteris paribus, the higher the anti-takeover provision (ATP) index of a U.S. acquirer, the higher the cumula-*

tive abnormal return (CAR) on the domestic acquiree.

2.2 Cross-border deals

Why do corporations merge across the borders? Caves (1996) gives an early economic analysis of existence and sequential outcomes of transnational companies. More recently, Alexander (2000) notes that firms are drawn to takeover for management control overseas due to *1.* intensive conglomeration, preemptive restructuring, war for scale of economies, *2.* response to technological innovations, *3.* need for global advertisement, *4.* depletion of domestic merger targets, *5.* and expansion into new markets.

Implications of La Porta *et al.* (1998) (LLSV) led to awakening the need of worldwide reform in corporate governance to uphold investor protection.[ix] Contemporaneously, a series of public firm scandals in the U.S. catalyzed the enactment of the Sarbanes-Oxley Act in 2002.[x] In the *thetic* perspective of law and finance literature, more secure protection of investors provided by law is positively correlated with more sound financial markets. This view implies that countries with less investor-protective regimes tend to yield detrimental effects on the valuation of resident firms.

The *antithetic* approach maintains that firms can shrewdly circumvent the legal system by voluntarily implementing more stringent corporate governance guidelines. The far end of this Coasian claim says that laws maintained by sovereign authorities are needless since an investor will be protected to the same extent by all firms, provided that contracts are well enforced. In the international market for corporate control, we expect to observe a continuum along which not only the cross-country differences but also cross-firm variations in corporate governance matter in determining valuation of merging entities following cross-border transactions.

Bris and Cabolis (2008) reason that in cross-border mergers, the merger premia are

positively associated with *1.* potentially superior managerial capabilities that a more investor-protective acquirer may transfer; *2.* severe agency-based information asymmetry due to low ownership concentration in the acquirers; *3.* more heated competition in the acquirer's domestic market for control; and *4.* differences in bargaining ability between domestic and cross-border acquirers.[xi,xii]

Extending our case of domestic deals beyond the border, the manager of a U.S. bidder with more ATPs in-place is often expected to make value-destroying foreign acquisitions. Again, this is likely to be a boon to the overseas target shareholders.

> *H2a [Cross-border Dictator Premia Hypothesis] : The cumulative abnormal return of a foreign target of a U.S. acquirer under dictatorship is, on average, higher than that of a U.S. acquirer under democracy.*[6]

As a foreign firm, being acquired by a U.S.-listed corporation is a *de facto* "roundabout" cross-listing in the U.S. There is an increasing emphasis in the recent literature in international finance, including Doidge *et al.* (2007), that positive cross-listing premia on U.S. exchanges are due to improvement in corporate governance with more stringent disclosure rules and increased analyst coverage. However, being acquired by a high-ATP firm also implies a likely contagion of ill-governance across the border. A cross-border merger leads to a varying degree of transfer of the supposed legal protection of the bidder to the target firm, and thus, to the target investors.

A foreign target whose U.S. acquirer is under democracy, with respect to the number of ATPs, the marginal benefit to cross-border target shareholders will exceed the marginal cost of perverse governance structure of the U.S. acquirer. To the contrary, a foreign acquiree whose U.S. bidder is under dictatorship, with respect to the number

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of ATPs, the marginal wealth effect on the target will be dominated by the incremental cost born by toxic provisions. Specifically, on a cross-section, the CAR on a foreign target is expected to respond concavely with respect to the number of U.S. acquirer's ATPs.

> *H2b [Concave foreign target CAR Hypothesis] : On average, the CAR of a foreign target firm is concave with respect to the number of U.S. acquirer's ATPs.*

3 Data and method

3.1 Data

3.1.1 Antitakeover provisions

The ATP index of each company is the number of ATPs listed in the firm article. Thus, the higher number of ATPs a firm has in-place, the higher its index. Gompers *et al.*'s (2003) *G* Index is based on 24 ATPs.[7,8] According to the classification of Gompers *et al.* (2003) (Masulis *et al.* (2007)), companies with a *G* Index score *1.* lower than or equal to five (nine) are in *democracy*[xiii]; and *2.* higher than or equal to fourteen (ten) are under *dictatorship*.

The *G* Index is compiled based on the Investor Responsibility Research Center (IRRC) database of firm-level ATPs for publication years of 1990, 1993, 1995, 1998, 2000, 2002, 2004, and 2006. The existing volumes provide information on ATPs at *circa* 1,500 firms during each of the publication years. Following Masulis *et al.* (2007)

[7] URL: `http://finance.wharton.upenn.edu/~ metrick/governance.xls`

[8] Bebchuk *et al.*'s (2004) index is based on six out of the 24 ATPs. Cremers and Nair's (2005) index is composed of three ATPs. Bebchuk and Cohen's (2005) index is a binary variable based on whether a firm has a staggered board.

and Gompers *et al.* (2003), in this paper, we assume that the firm has the same number of ATPs in the years between two consecutive publications years.[xiv]

The firms that are included by IRRC volumes comprise members of the S&P 500 index and the annual list of the largest corporations published by Forbes, Business Week and Fortune magazines. The IRRC database represents 90 percent of U.S. stock market capitalization in each year and the more recent volumes include more firms.

3.1.2 U.S. domestic deals

For U.S. domestic deals, we acquire the original data from the Securities Data Corporation's (SDC) U.S. acquisitions database. Table 1 shows 1456 acquisitions between January 1990 and December 2007 that meet the following criteria:

1. Public acquirers incorporated in the U.S.
2. Public targets incorporated in the U.S.
3. With a transaction value of more than $1 million.
4. The acquirer controls less than 50% of the target's shares prior to the announcement and owns 100% of the target's shares after the transaction.
5. The acquirer has annual financial statement information available from Compustat and stock return data (210 trading days prior to acquisition announcements) from the University of Chicago's Center for Research in Security Prices (CRSP) Daily Stock Price and Returns file.
6. The acquirer is included in the Investor Responsibility Research Center's (IRRC) database of ATPs.

As we match the SDC data with the G Index, the U.S. acquirers are assigned with the number of ATPs, and the sample size reduces to 1439 domestic acquisitions.

3.1.3 Cross-border deals

We obtain the cross-border deals data recorded by the SDC database since 1984 with following criteria:

1. public acquirers incorporated in the U.S.
2. public acquirees incorporated in non-U.S. countries
3. completed deal size above U.S.$1 million.

As a result, the preliminary merger data consists of total 1,024 cross-border takeovers announced by U.S. firms October 31, 1984, through October 15, 2007 with an average deal size of U.S.$359.24 million for an average stake of 59%. The most energetic U.S. acquirers of foreign targets are *1.* Citigroup, Coca-Cola, and Merrill Lynch (12 deals each); followed by *4.* Microsoft (11 deals).

There are 57 countries where the targets were incorporated at the merger announcements: *1.* Canadian firms led the league by accounting for 25.3% (259 deals) of the total cross-border acquisitions made by U.S. bidders; followed by *2.* U.K. (17%; 174 deals); and *3.* Australia (8.3%; 85 deals).[xv] There are 217 SIC-classified[xvi] target industries, led by *1.* Crude Petroleum and Natural Gas, and Prepackaged Software (44 deals each); followed by *3.* Pharmaceutical Preparations (32 deals); and *4.* Gold Ores (28 deals) etc.

The cross-border deals SDC data is matched with the G Index, and the sample size reduces to 587 cross-border acquisitions. For the sovereign corporate governance indi-

cators, we source *Accounting Standards* from La Porta *et al.* (1998) (LLSV), and *Antidirector Rights*—which proxies the degree of shareholder protection—from Djankov *et al.* (2008). As a relative measure of country-specific equity market development, *Stock Market Capitalization to GDP* is suggested by Djankov *et al.* (2008). Table 2 describes the databases compiled by LLSV and Djankov *et al.* (2008)

3.2 Event study

Previous articles using event study techniques by analyzing firms' CARS closer to the announcements of ATP adoptions or amendments including DeAngelo and Rice (1983), Linn and McConnell (1983), Malatesta and Walkling (1988), and Ryngaert (1988). Bhagat and Romano (2002) provide an extensive survey. Masulis *et al.*'s (2007) short-term event study approach is deemed robust to the critiques objections on long-run event studies. Thus, we measure shareholder wealth effects of ATPs with short-term event windows around U.S. domestic and cross-border merger announcements.

3.2.1 U.S. domestic deals

We measure target announcement effects by market model adjusted stock returns around initial acquisition announcements, following conventional practices of event study. The 5-day, 11-day and 21-day CARs are computed. Following Masulis *et al.*, we use the CRSP equal-weighted return as the market return and estimate the market model over the 200-day period from event day -210 to event day -11 in order to capture stock run-ups.

$$R_{ik\tau} = \alpha_{ik} + \beta_i^m R_{m\tau} + \epsilon_{ik\tau} \quad \forall \tau \in [-210, \cdots, -11],$$

where *1.* $R_{i\tau}$ is the daily return for the U.S. acquiree i with a U.S. bidder k; *2.* $R_{m\tau}$ is the S&P 500 index; and *4.* $\epsilon_{ik\tau}$ is the daily excess return for the i.

We, then, measure the U.S. domestic target shareholder wealth effects of acquirer ATPs with three event windows—[-2,+2], [-5,+5], [-10,+10]—around merger announcements in year t by feeding the predicted daily abnormal returns $\widehat{\epsilon_{ij\tau}}$ based on the estimated coefficients from the above market model into the following formula of the acquiree CAR.

$$CAR_{ijt}[\pm d] \triangleq \left\{ \prod_{\tau=-d}^{+d} (1 + \widehat{\epsilon_{ij\tau}}) \right\} - 1, \quad \forall\, d \in \{2, 5, 10\} \text{ and for some year } t.$$

We also record the variance for each company's price movement. The reason to take the information on individual variance into account is because that the market model often gives poor predictions. The abnormal returns largely are dependant on the predictive power of each firms' respective market model, and if the variance (standard error) is high, that means the abnormal returns inferred from these models are not precise. In the following regressions, we use a inverse-variance weighting and assign more weight to firms that experience lower variances during the 200-day periods.

3.2.2 Cross-border deals

Recent articles employing event study on the cross-border transfer of corporate control have emerged in a cluster. Chari *et al.* (2004) find the bidder's return is larger when the acquiring firm attains management control of the cross-border target. Starks and Wei (2004) investigate how marginal investor protection affect the announcement effect of cross-border acquisitions of U.S. firms, and report that *1.* acquisition premia decrease with the degree of the acquirer's corporate governance and that *2.* bidders from more investor-protective countries are more likely to be stock-financed.

Similarly, Kuipers *et al.* (2003) show that the return to U.S. targets increases with the level of investor protection in the acquirer's home country. Doukas and Travlos (1988) exhibit that the cross-border merger announcement effect is greater if the bidder is a first-time entrant into the foreign market. Bris and Cabolis (2004) deal with industry effects of cross-border mergers due to marginal investor protection, and find that the Tobin's (1969) Q of an acquree industry increases with the percentage of the industry market capitalization, if the acquirer is based in a more investor-protective country.

For each cross-border deal, we first estimate the dollar-translated market model for predating days $[-210, \cdots, -11]$, and extract the coefficient estimates, following Bris and Cabolis (2008). The last ten days prior to a merger announcement are excluded to skim off the market run-up, following Masulis *et al.* (2007).

$$R_{ijk\tau} \;=\; \alpha_{ijk} \;+\; \beta_i^m \, R_{mj\tau} \;+\; \beta_i^w \, R_{w\tau} \;+\; \epsilon_{ijk\tau} \quad \forall\, \tau \;\in\; [-210, \cdots, -11],$$

where *1.* $R_{ijk\tau}$ is the daily return for foreign acquiree i based in country j with U.S. bidder k; *2.* $R_{mj\tau}$ is the market index return in country j; *3.* $R_{w\tau}$ is the return on the MSCI world index; and *4.* $\epsilon_{ijk\tau}$ is the daily excess return for the cross-border target i.

We, again, measure the cross-border acquiree shareholder wealth effects of acquirer ATPs with three event windows—[-2,+2], [-5,+5], [-10,+10]—around merger announcements analogously to the domestic case to arrive at the cross-border target's CAR.

$$CAR_{ijkt}[\pm d] \;\triangleq\; \left\{ \prod_{\tau=-d}^{+d} (1 \;+\; \widehat{\epsilon_{ijk\tau}}) \right\} \;-\; 1, \quad \forall\, d \;\in \{2, 5, 10\} \text{ and for some year } t.$$

In addition, a cross-border acquiree's CAR is conditioned "DEMO" if the acquirer has a G index score less than or equal to nine, thus in "democracy;" or "DICT" if

higher than or equal to ten, thus in "dictatorship," following Masulis *et al.* (2007). The cumulative abnormal returns for U.S. bidders (BCARs) are estimated in the similar way by using the CRSP equal-weighted texts&P 500 Index as the domestic market index.

4 Results

4.1 U.S. domestic deals

For U.S. domestic deals, we base our discussions on three key categories of variables: *1.* target return as the dependent variable; *2.* ATP indices as the explanatory variable; and *3.* the deal characteristics, bidder characteristics, macroeconomic effect on the M&A industry, and low-priced stocks consideration as control variables.

4.1.1 Deal characteristics

Here, we examine the relationship between target abnormal return and bidders' corporate governance measure, after controlling for deal characteristics. We include acquirer's G Index as the explanatory variable and cash dummy, log deal value, and whether acquirer and target are in high-tech industries as control variables. Table 3 shows that in accordance with the theory developed in Section Two, the targets experience higher abnormal returns if the acquirers are more dictatorial (higher G Index score).

The result is consistent for 21-day, 11-day and 5-day event windows. After controlling for deal characteristics, including whether deal is financed at least partially with cash, the size of the deal and whether acquirers and targets are of high-tech industries, we see that target experiences value creation when the acquisition is announced by bidder with high G Index. Since Masulis *et al.* (2007) show that acquirers with higher

G Index experience more severe value destruction around the merger announcements, our finding supports the argument that these announcements form a wealth-transfer mechanism between acquirer and target shareholders.

There are several other factors that affect the targets abnormal returns. First, target shareholders find that cash is more attractive as considerations. It is because acquirer's stock price experience higher volatility after a merger announcement. Though there are always covenants that fix a price range for target shareholders, cash is considered to be "safer" and "concrete" by target shareholders/investors. Therefore, it is not surprising to find that mergers at least partially financed by cash experience much higher abnormal returns. The binary variable we create for this model specification is both economically and statistically significant. The cash dummy variable has a coefficient of 0.05 and t-statistic of 6.69.

The deal size also plays an important role in affecting the target abnormal returns. Given limited resources, acquirers will not be able to pay high premiums if targets are considerably large in an absolute sense. This limits managers' ability to overpay in a direct way, which causes the target abnormal returns to be lower. Whether the target is a high-tech firm or not also plays an important role that affects the target's abnormal returns.

Company valuations depend largely on their growth rates. In a discounted cash flow approach, the expected growth rate can affect the price substantially. Normally, high-tech firms are considered to be fast-growing firms. Therefore, based on our sample, target shareholders can expect higher premium if they are high-tech firms. The results are statistically significant for all event windows.

4.1.2 Bidder characteristics of target abnormal returns

We would like to take into account all relevant characteristics about an acquisition. Target characteristics are inherently important because we are studying the price responses of targets. However, as expected, targets tend to be much smaller than acquiring firms, and the largest database available, COMPUSTAT, do not have needed information on most targets in our sample.

Looking at the acquisitions for which we have data on all three categories of characteristics (deal, acquirer and target), we have only 90 observations remaining. Taking our original model, with only the five explanatory variables characterizing the acquisition, the F-statistic for these 90 observations falls from 21.43 when N=1439 to 2.27 with N=90. This F-statistic is not significant at the 5% level and only the constant is significant in the regression.

Adding the acquiring firm characteristics and the target firm characteristics simply weakens the F-statistic to 1.38. So, while ideally we would include all three sets of characteristics, the remaining sample provides insufficient information to even assess the base-case model. We are left with meaningful empirical judgement on the larger samples which have acquisition data or have both acquisition data and acquiring firm data.

However, even with such data restrictions, we are able to control for several major acquirer characteristics. In Table 4, although adding these new characteristics reduces our sample size down to 526, when run with original model-specification, the results are consistent with those in Table 3 model specification, indicating these 526 observations are representative of the entire sample.

The acquirer characteristics include acquirer Tobin's Q, leverage ratio, free cash flow ratio, the relative deal size and whether it is a diversifying acquisition. After controlling

for these characteristics, Table 4 provides consistent support to target's more positive investor response to acquirer with higher G Index. In fact, the G Index in this model is more economically significant than the previous one. The previous variables yield consistent results except for the respective target and acquirer industries. In this model, whether the acquirer is a high-tech firm is significant in affecting target abnormal returns, whereas whether target is a high-tech firm is not significant.[9]

It is interesting to note that, based on our sample, acquirer's leverage has the strongest statistical and economic effect on the target abnormal returns: the higher leveraged the acquirer firm is, the lower the abnormal returns. This indicates that target investors' initial reaction is overall negative for highly-leveraged firms. There are three interpretations. First, investors place doubts on the management quality of the acquirer since the management team has put the firm in a financially-dire situation, but insisting on acquiring more firms. Second, highly-leveraged firms may have lower possibility and resources to complete the deal. Third, existing leverage limits reckless managers to overpay for a target, limiting the excess premium that can be expected by target shareholders.

Whether the acquirer is entering a different industry also has significant effect on target abnormal returns. We define an acquisition to be a diversifying one if the acquirer and target have different SIC codes. Target shareholders, based on our sample, expect the acquirer to pay more for an acquisition if the acquirer operates in a different industry.

The relative deal size compared to the acquirer's assets is significant. It is self-evident, since the bigger the deal size compared to the acquirer's own assets, the fewer resources

[9]We attribute this reverse result to potential multicollinearity issues. Although not presented in the paper, the target high-tech dummy is highly correlated with the leverage ratio and its G Index, which potentially can cause problems. However, the effects of G Index on target abnormal returns remain consistent.

the mangers can use to pay excessive premiums. We also control for this "resources scarcity" effect by controlling for the size of the deal values.

Masulis *et al.* (2007) also controls for target size through target asset value and market capitalization 10 days prior to announcement. But we opt not to use market capitalization because we have already controlled for "stock-run ups" up to 10 days prior to announcement, and the CAR windows we report also already include the [-10, +10] time frame.

One reason to control for the target size stems from an argument by Moeller *et al.* (2004). They find robust evidence that bidder size is negatively correlated with the acquirer's announcement-period CAR. It is interpreted as a support for the managerial hubris hypothesis (Roll (1986)), since they find that larger acquirers pay higher premiums. Masulis *et al.* (2007) offers an alternative explanation that large firm size serves as a rather effective takeover defense, since it takes more resources to acquire them.

It is the same as being entrenched by ATPs, and managers of large firms are more likely to make value-destroying acquisitions. Following their line of logic, if larger targets are harder to acquire simply because of their sheer sizes, then we should expect target shareholders to react more negatively toward the acquisition, since it is harder to be rewarded with a high premium. Thus, we can expect that if the relative deal size is small for the acquirer, the higher the target' CAR will be.

Our finding supports the above argument. In Table 4, the relative deal size is significant through all event windows: the larger the ratio between deal size (total price offered to target) and acquirer's market capitalization, the smaller target's CAR is. Masulis *et al.* (2007) incorporates Tobin's Q as one of the bidder characteristics. But prior literature has shown that Tobin's Q has an ambiguous effect on the CAR, so the need to incorporate this factor is debatable. Moreover, since Tobin's Q involves

target market capitalization, it is likely to cause a multicolinearity problem. As a result, although we include Tobin's Q in our model but find no significance.

Whether a deal is cash-financed or non-cash-financed still plays an important role in how investors are evaluating the deals. We can see, in Table 4, deals that are financed at least partially by cash (Cash Dummy) experience far higher abnormal returns, which is consistent with the literature. The target-acquirer size ratio has a negative and significant impact on the target announcement returns. This simply means that, the larger the target is relative to the acquirer, the less likely the acquirer can overpay given limited financial resources. This restraint may place an upper bound on bidders' empire building capacity. As for the G Index, the impact on target announcement returns are consistent and significant, again reaffirming our argument.

4.1.3 Controlling for market condition and financing easiness

The market for corporate control experiences various cycles. Mergers and acquisitions (M&A) activities can be fueled by the easiness to finance acquisitions through the use of debt instruments, such as high-yield bonds in the 1980s and collateralized debt securities in from 2003 to 2007. They can also be catalyzed by economic booms. Based on the valuation techniques of advisors, the resulting premiums offered to targets are often overly-optimistic during heated markets.

The "continuation value," or "terminal value," which is defined as the value of the going concern beyond the initial forecast years, occupies a large portion of a company value. The continuation value depends largely on the expected growth rate of both the respective industry and the own company's growth. Thus, during an economic expansion, companies tend to be overvalued because of the overestimation of growth rates.

Here, we control for such effects by adopting a proxy for the market condition. The proxy is defined to be the average premium paid to targets in a given year. If an acquisition is announced during a boom year, it is likely that bidders can be overly optimistic, especially of dictatorial bidders due to managerial recklessness. Controlling for the market condition should strengthen the effect of our explanatory variable, the G Index.

In Table 5, we see that, controlling for the market condition in a given year does strengthen the effect for 11-day and 21-day windows, but not the 5-day window, though it remains statistically significant. Compared to Table 4, the t-statistic for the G Index in the 5-day window increases from 1.87 to 2.51, and the t-statistic for the 10-day window increases from 2.04 to 2.42. This result tells us that dictatorial managers can be less-constrained during a boom in their respective industry.

We then control for the market condition along with the bidder characteristics in our next regression model. In the following regression (Table 6), we can see that controlling for the market condition strengthens the effect of G Index in all abnormal return windows. Compared to Table 4, the t-statistics for the G Index for 5-day, 11-day and 21-day windows increase from 1.84 to 2.00, 1.87 to 2.02, and 2.04 to 2.17, respectively.

This result again provides support for our hypothesis that target investors expect dictatorial managers to pay even higher premiums. In Masulis *et al.* (2007), they repress the year effects in their models. We believe that it better suits our purpose to control for the average market activity instead, and that this effect should be treated separately.

Our results are such that there is a wealth transfer mechanism which takes place in these announcement windows. The destruction of values of dictatorial firms leads

to an increase in value for their targets. As for the other control variables, both the magnitude and statistical significance of the parameters are stable across the above two model specifications shown in Table 5 and Table 6.

4.1.4 Low-priced stocks consideration

Lastly, we deal with the concern and some irregularities that involve low-priced ("penny") stocks. In our study, we define penny stocks to be targets whose stock prices are traded less than $10.00 on announcement days. Cheap stocks can sometimes lead to erratic behaviors. They are often associated with companies which are on the brink of bankruptcy, suffering from unfounded news of possible financial difficulties or small firms. Since they trade at low prices, the standard deviation associated with the price movement tends to be much larger than higher-priced stocks. This implies that the result can potentially skew the effect of bidders' degree of corporate governance.

We control for the possible effect associated with penny stocks. The result of the new variable is quite pronounced in our initial model involving deal characteristics. Table 7 shows that as a penny-stock company, the target experiences far greater abnormal returns during the event windows. This effect is statistically and economically significant for all event windows. With this model specification, we find that the explanatory variable G Index is weaken slightly, both statistically and significant. However, the effect remains positive after controlling for penny stocks, target shareholders still experience greater value creation from dictatorial firms.

In Table 8, after controlling for deal characteristics, the effect of G Index remains consistent and almost identical with the previous specification shown in Table 4. However, the penny stock dummy variable is not significant in this case due to a possible multicollinearity.

4.2 Cross-border deals

4.2.1 Preliminary results

In Table 9, in line with Jensen (1993),[xvii] the estimated cross-border acquiree (cumulative abnormal) returns (CBARs) are highly positive at 13.8%, 14.0%, and 18.4% over the event windows ($[-2,+2]$, $[-5,+5]$, and $[-10,+10]$), respectively, and are conspicuously statistically significant at near zero Wilcoxon's (1945) signed-rank test[10] p-values. The U.S. bidders' CARs (BCARs) are negative at -53bp, -73bp, and -56bp, over the same event windows, respectively, and are also evidently statistically significant, supporting the finding of Moeller *et al.*.[xviii]

It appears that the U.S. bidders are acquiring foreign targets at some expenses of their own shareholders—or the managers in the U.S. acquiring firms make advantage of seemingly negligible tolerance of their shareholders in exchange for premia paid to their overseas target shareholders (Table 10). On average, within a 10-day symmetric window around merger announcement, a 1% increase in the cross-border target CAR is significantly (Table 11) associated with a 5bp decrease in the U.S. bidder CAR.

4.2.2 Cross-border dictator premia

In Table 12, for cross-border mergers, the target CARs of dictatorial[11] U.S. bidders are higher than those of democratic U.S. bidders. As we test this *dictator premia* to the foreign shareholders for statistical significance in Table 13, the null hypothesis for all

[10] *Wilcoxon* test is a statistical significance test for nonparametric pairwise comparison. See Wilcoxon (1945).

[11] We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a G Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. However, due to a relatively small size of cross-border mergers sample compared to the U.S. domestic mergers sample, imposing the original classification of Gompers *et al.* (2003) leaves a much smaller room for credibility of statistical reasoning.

event windows are rejected—and more strongly as the window widens—by *Wilcoxon*-test in favor of the alternative hypothesis.

$$H2a: \text{CBAR}[\pm d]|_{\text{DICT}} > \text{CBAR}[\pm d]|_{\text{DEMO}} \quad \forall\, d \in \{2, 5, 10\}.$$

Across the continuum of acquisition stakes, managers entrenched with more ATPs are deemed to make reckless cross-border acquisitions by incurring excessive merger premia, and that is reflected on the target CARs. In deed, "bad"—ATPs-ridden—CEOs making impulsive empire-building decisions are a blessing to the shareholders of the foreign target firms.

4.2.3 Concave cross-border target returns

Table 14 shows the sample means of both foreign targets' and U.S. acquirers' CARs per each number of U.S. acquirer's ATPs (G Index). We predicted concave CBARs against the G index of U.S. acquirers in Section Two. The linear and quadratic fitted results are shown in Table 15 where the dependent variables are the sample means of the CBARs for 5-day, 11-day, and 21-day event windows. It appears the data is statistically significantly supportive of our concavity hypothesis (*H2b*) since the quadratic regression model explains the causality from U.S. bidders' G index to their foreign targets' event study returns better than the linear model.

Especially, for 5-day and 11-day periods around merger announcement the association is strongly negatively quadratic as suggested by the statistical significance of the respective F-statistics. This implication is visually corroborated in Figures 1, 3, and 5. The curvature is as we expected in Section Two, and is novel in the literature. It appears Masulis *et al.*'s (2007) classifications of dictators versus democrats are well suited to our analysis since Figures 1, 3, 5 suggest the cut-off number of ATPs is nine or ten. The pattern blurs as event window widens.

For the U.S. acquirers with high commitment to investor protection (democrats with G Index less than or equal to nine), more ATP is considered increasingly beneficial to foreign target shareholders since the marginal cost of bad-governance transfer is outweighed by the marginal benefit of extra merger premium. However, the former begins to exceed the latter as reversal materializes for the U.S. bidders under dictatorship (with G Index more than or equal to ten).

4.2.4 Announcement returns of U.S. bidders

The analogous plots of the cross-sectional averages of BCARs, based on Table 14, are shown in Figures 2, 4, and 6. Surprisingly, U.S. acquirer average CARs rise against the number of its ATPs—contrary to Masulis *et al.*'s (2007) domestic deals case—and the pattern becomes apparent as event window widens.

In case of U.S. domestic merger deals, according to Masulis *et al.* (2007), dictatorial U.S. acquirers perform worse than their democratic peers in excess of market return, upon merger announcement. It is deemed that their discount is due to excessive premia paid to the acquirees. The over-paid premia to the target firms are reflected in the downfall of share prices of acquirers, as noted by Copeland *et al.* (2000).

The impotence of the lesson we learned from Masulis *et al.*'s (2007) is reflected in Figures 2, 4, and 6, where the more U.S. bidders' have ATPs in-place, the higher its CAR upon cross-border merger announcement. Whether foreign investing or global diversification of U.S. firms is valuable from shareholders point of view remains somewhat controversial in the existing articles.[xix] Dennis, Dennis, and Yost (2002) argue U.S. acquirers' foreign investing, at the aggregate level, trades at a discount, while Doukas and Lang (2003) dispute it.

Overall, past studies have shown that cross-border deals do not destroy bidders'

shareholder value as much as they do when they acquire domestic targets. This is deemed possible due to the foreign targets' rise in values which are positively associated with their U.S. acquirers' managerial recklessness proxied by the number of ATPs installed in the corporate articles. Our result provides a clue to resolving the disarray in the literature.

On another account, the domestic merger sample of Masulis *et al.* (2007) includes private targets whereas ours does not. High-ATP firms seeking to acquire unlisted and, thus, less-proven domestic targets can be deemed empire-building. Purchasing listed and, thus, analyst-covered foreign companies is more likely to be perceived value-additive. In addition, the sample period of Masulis *et al.*'s (2007) data includes the valuation bubble era in the late nineties and this should have also contributed to overpaying unlisted acquirees which led to undermining acquirers' shareholder values.

4.2.5 Democrat premia in full cross-border acquisitions

Bris and Cabolis (2008) argue a full acquisition transfers the same level of investor protection from the acquirer—prescribed by the applicable laws in the bidder's home country—to the foreign target firm.[xx,xxi] As we narrow the focus to 100% acquisitions, the picture looks different in Table 16. Compared to Table 12, the CBARs are not only absolutely larger than before in line with the finding of Bris and Cabolis (2008), the investors of cross-border targets respond positively and "more" upon acquisition announcements made by democratic U.S. bidders.

A full acquisition means the target firm will inherit the same degree of investor protection governed by the provisions in the U.S. acquirer's corporate articles. The positive CBARs are directionally in line with our hypothesis. As we test statistical significance of the numerical results in Table 17, the data turns out rather lukewarm

to the logic we have drawn hitherto.

4.2.6 Sovereign corporate governance measures

In addition to the cross-sectional differences in ATPs amongst the U.S. acquirers, we show how cross-border sovereign differences in La Porta *et al.*'s (1998) LLSV-measures affect merger returns of the foreign acquiree shareholders. Table 18 shows cross-border targets' CARs by U.S. acquirers' ATPs and target countries' corporate governance measures.

Through all event windows, the target shareholder values (CBARs) are, on average, higher in the countries with sovereign governance scores higher than the respective medians. Within the low-sovereign governance countries, dictator premia of cross-border targets seem week and statistically disputable. To the contrary, in the countries with high governance scores the target shareholders appear to benefit evidently more from reckless managers of U.S. acquiring firms under dictatorship ($G \geq 10$) than from prudent managers of U.S. bidders under democracy ($G \leq 9$). The dollar difference is statistically and economically significant.

Countries with low sovereign scores are considered to have immature capital markets. Average estimates of CBARs in the "lower"-bracket economies appear less statistically significant. This result reminds us of Doidge *et al.*'s (2006) argument that in less-developed economies, after controlling for sovereign characteristics, corporations are statistically insignificantly different in the level of corporate governance.

5 Conclusion

Our contribution to the market for corporate control literature is in two-fold: one in U.S. domestic deals and the other in cross-border deals. We find that the more antitakeover provisions (ATPs) a U.S. acquirer has in-place the higher premia they pay to their domestic shareholders. We extend the domestic finding to the cross-border context and further corroborate that cross-border target shareholders benefit more from high-ATP U.S. acquirers (dictators) than from low-ATP peers (democrats).

These results are the *first* documentation of seemingly beneficial effects (*dictator premia*) on targets—regardless of geographic locations—from ATP-ridden and, thus supposedly, over-spending bidders listed in the U.S. Lastly, quite surprisingly, the markets respond more delightedly on acquirers with more ATPs, upon publicizing cross-border merger deals. This finding is contrary to what Masulis *et al.* (2007) report in U.S. domestic deals. Our contribution to the literature is made by focusing on how target shareholders within and across the border are affected by managerial recklessness of U.S. acquirers proxied by their ATPs.

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Appendix A1: Tables

Table 1: Sample distribution by announcement year—U.S. domestic deals

Year	Number of Acquisitions	Percentage of Percentage of Sample	Mean Target Market Value of Equity ($ mil)	Mean Deal Value ($ mil)	Offering Price/ Target Earnings Ratio
1990	28	1.92%	463	465	36.9
1991	32	2.20%	470	525	54.2
1992	37	2.54%	326	342	30.4
1993	49	3.37%	522	500	31.5
1994	41	2.82%	685	651	57.3
1995	82	5.63%	1,201	1,237	35.5
1996	82	5.63%	1,302	1,405	32.0
1997	98	6.73%	1,150	1,201	106.2
1998	171	11.74%	2,475	2,634	69.9
1999	176	12.09%	2,086	2,257	191.2
2000	147	10.10%	3,281	3,548	46.6
2001	101	6.94%	1,178	1,311	71.9
2002	57	3.91%	1,541	1,566	42.9
2003	79	5.43%	1,470	1,507	68.4
2004	65	4.46%	2,557	2,668	36.9
2005	72	4.95%	4,081	4,237	28.3
2006	66	4.53%	2,090	2,133	62.3
2007	73	5.01%	1,779	1,852	35.4

The U.S. domestic deals sample consists of 1456 completed U.S mergers and acquisitions as given by SDC between 1990 and 2007. All firms are covered by the IRRC ATP database.

Table 2: Sovereign corporate governance measures—cross-border deals

Country	AD	AD_{HIGH}	AS	AS_{HIGH}	SMCTG	$SMCTG_{HIGH}$
Argentina	2.0	0	45.0	0	4.062	1
Austria	2.5	0	54.0	0	2.797	0
Australia	4.0	1	75.0	1	4.625	1
Belgium	3.0	0	61.0	1	4.208	1
Bolivia	2.0	0			2.747	0
Brazil	5.0	1	54.0	0	3.648	0
Canada	4.0	1	74.0	1	4.665	1
Switzerland	3.0	0	68.0	1	5.517	1
Chile	4.0	1	52.0	0	4.496	1
China	1.0	0			3.768	0
Colombia	3.0	0	50.0	0	2.660	0
Czech Republic					3.006	0
Germany	3.5	1	62.0	1	4.002	1
Denmark	4.0	1	62.0	1	4.071	1
Ecuador	2.0	0			1.758	0
Spain	5.0	1	64.0	1	4.381	1
Finland	3.5	1	77.0	1	5.177	1
France	3.5	1	69.0	1	4.494	1
United Kingdom	5.0	1	78.0	1	5.061	1
Greece	2.0	0	55.0	0	4.515	1
Hong Kong	5.0	1	69.0	1	5.889	1
Croatia	2.5	0			2.803	0
Hungary	2.0	0			3.178	0
Indonesia	4.0	1			3.207	0
Ireland	5.0	1			4.214	1
Israel	4.0	1	64.0	1	3.970	1
India	5.0	1	57.0	0	3.520	0
Italy	2.0	0	62.0	1	3.967	0
Jordan	1.0	0			4.352	1
Japan	4.5	1	65.0	1	4.237	1
Kenya	2.0	0			2.728	0
South Korea	4.5	1	62.0	1	3.991	1
Luxembourg	2.0	0			4.974	1
Mexico	3.0	0	60.0	0	3.086	0
Malaysia	5.0	1	76.0	1	5.000	1
Netherlands	2.5	0	64.0	1	4.881	1
Norway	3.5	1	74.0	1	3.681	0
New Zealand	4.0	1	70.0	1	3.691	0
Peru	3.5	1	38.0	0	3.127	0
Philippines	4.0	1	65.0	1	3.871	0
Poland	2.0	0			2.815	0
Portugal	2.5	0	36.0	0	3.833	0
Romania	5.0	1			1.705	0
Russia	4.0	1			3.503	0
Sweden	3.5	1	83.0	1	4.721	1
Singapore	5.0	1	78.0	1	5.105	1
Thailand	4.0	1	64.0	1	3.802	0
Turkey	3.0	0	51.0	0	3.564	0
Taiwan	3.0	0	65.0	1	4.624	1
Venezuela	1.0	0	40.0	0	1.705	0
South Africa	5.0	1	70.0	1	5.049	1

Accounting Standards (AS) is from La Porta *et al.* (1998), and *Antidirector Rights* (AD)—which proxies the degree of shareholder protection—is from Djankov *et al.* (2008). As a relative measure of country-specific equity market development, *Stock Market Capitalization to GDP* (SMCTG) is suggested by Djankov *et al.* (2008). Any "high" dummy variable equals one if a country's sovereign corporate governance score is higher than the median, and zero otherwise.

Table 3: Initial regression analysis of target returns—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.19^{***}	0.21	0.24^{***}
	8.75	8.88	10.04
G Index	0.002^{**}	0.003^{**}	0.003^{**}
	2.23	2.03	2.23
Transaction Value	-0.01^{***}	-0.01^{***}	-0.071^{***}
	-4.64	-5.21	-6.53
Cash Dummy	0.05^{***}	0.05^{***}	0.042^{***}
	6.69	6.16	4.87
Acquirer High-Tech	0.004	0.02	0.02
	0.25	1.16	1.13
Target High-Tech	0.04^{***}	0.03^{**}	0.04^{***}
	2.84	2.00	2.47
Number of Observations	1,439	1,439	1,439
Adjusted R^2	0.06	0.06	0.07

The sample consists of 1,439 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC ATP provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. All regressions control for year fixed effects, whose coefficient estimates are suppressed.

Table 4: Regression analysis of target returns and bidder characteristics—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.229***	0.286***	0.317***
	3.64	4.45	4.92
G Index	0.005**	0.005**	0.006**
	1.84	1.87	2.04
Transaction Value	−0.016***	−0.02***	−0.02***
	−2.53	−2.67	−3.62
Cash Dummy	0.069***	0.073***	0.07*
	4.43	4.57	4.33
Acquirer High-Tech	−0.065***	−0.050*	−0.05*
	−2.50	−1.88	−1.76
Target High-Tech	0.053**	0.026	0.03
	2.01	0.98	0.93
Acquirer Tobin's Q	0.002	0.004	0.005
	0.35	0.57	0.83
Acquirer Leverage	−0.080	−0.152**	−0.14**
	−1.31	−2.43	−2.23
Acquirer FCF	0.274*	0.108	0.083
	1.85	0.71	0.54
Acquirer Assets	−0.002	−0.006	−0.004
	−0.25	−0.92	−0.66
Diversifying Dummy	0.021	0.039***	0.034**
	1.40	2.46	2.15
Relative Deal-Size	−0.022**	−0.023**	−0.017*
	−2.29	−2.39	−1.74
Acquirer Deal-Size × Target High-Tech	0.028**	0.023**	0.016
	2.27	2.31	1.61
Number of Observations	526	526	526
Adjusted R^2	0.0921	0.1031	0.1107

The sample consists of 526 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC ATP provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. All regressions control for year fixed effects, whose coefficient estimates are suppressed.

Table 5: Deal characteristics after controlling for M&A market condition—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.113^{***}	0.122^{***}	0.162^{***}
	3.56	3.72	4.71
G Index	0.003^{*}	0.004^{***}	0.004^{***}
	1.78	2.51	2.42
Transaction Value	-0.010^{***}	-0.011^{***}	-0.016^{***}
	-3.86	-4.44	-5.78
Cash Dummy	0.058^{***}	0.055^{***}	0.047^{***}
	7.23	6.68	5.37
Acquirer High-Tech	0.004	0.019	0.020
	0.22	1.13	1.10
Target High-Tech	0.050^{***}	0.037^{**}	0.047^{***}
	3.04	2.19	2.65
M&A Market Condition	0.001^{***}	0.001^{***}	0.001^{***}
	3.76	3.66	3.43
Number of Observations	1,439	1,439	1,439
Adjusted R^2	0.06	0.07	0.07

The sample consists of 1,439 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC ATP provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. All regressions control for year fixed effects, whose coefficient estimates are suppressed.

Table 6: Regression analysis of target returns and bidder characteristics—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.04	0.103	0.149**
	0.55	1.36	1.96
G Index	0.005**	0.006**	0.006**
	2.00	2.02	2.17
Transaction Value	−0.011*	−0.013**	−0.092***
	−1.86	−2.03	−3.04
Cash Dummy	0.076***	0.080***	0.076***
	4.94	5.05	4.76
Acquirer High-Tech	−0.060**	−0.045*	−0.043*
	−2.36	−1.73	−1.63
Target High-Tech	0.063**	0.036	0.034
	2.43	1.36	1.28
Acquirer Tobin's Q	−0.0002	−0.0003	0.002
	−0.30	−0.04	0.27
Acquirer Leverage	−0.117**	−0.189***	−0.14***
	−1.94	−3.03	−2.78
Acquirer FCF	0.294**	0.128	0.101
	2.02	0.86	0.67
Acquirer Assets	−0.002	−0.006	−0.004
	−0.34	−1.02	−0.74
Diversifying Dummy	0.025*	0.042***	0.037**
	1.65	2.72	2.38
Relative Deal-Size	−0.024***	−0.026***	−0.019**
	−2.62	−2.70	−2.01
Acquirer Deal-Size × Target High-Tech	0.024***	0.0253***	0.018*
	2.60	2.62	1.88
M&A Market Condition	0.003***	0.003***	0.003***
	4.61	4.39	4.01
Number of Observations	526	526	526
Adjusted R^2	0.13	0.13	0.14

The sample consists of 526 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC antitakeover provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. All regressions control for year fixed effects, whose coefficient estimates are suppressed.

Table 7: Deal characteristics and low-priced stocks—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.169^{***}	0.178^{***}	0.175^{***}
	7.14	7.29	7.03
G Index	0.003^{**}	0.004^{***}	0.004^{***}
	1.94	2.03	2.63
Transaction Value	-0.008^{***}	-0.010^{***}	-0.013^{***}
	-3.18	-3.76	-4.89
Cash Dummy	0.05^{***}	0.049^{***}	0.04^{***}
	6.57	6.04	4.74
Acquirer High-Tech	0.000	0.013	0.013
	-0.15	0.78	0.70
Target High-Tech	0.04^{***}	0.028^{*}	0.036^{**}
	2.46	1.63	2.06
Penny Dummy	0.066^{***}	0.066^{***}	0.076^{***}
	3.93	3.83	4.24
Number of Observations	1,439	1,439	1,439
Adjusted R^2	0.07	0.07	0.08

The sample consists of 1,439 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC antitakeover provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. All regressions control for year fixed effects, whose coefficient estimates are suppressed.

Table 8: Low priced stocks and bidder characteristics—U.S. domestic deals

	[-2,+2]	[-5,+5]	[-10,+10]
Intercept	0.233	0.301***	0.323**
	3.55	4.80	4.80
G Index	0.005*	0.005*	0.006**
	1.83	1.85	2.03
Transaction Value	−0.016***	−0.019***	−0.024***
	−2.46	−2.77	−3.52
Cash Dummy	0.069***	0.072***	0.069***
	4.40	4.50	4.30
Acquirer High-Tech	−0.065***	−0.050*	−0.047*
	−2.50	−1.90	−1.77
Target High-Tech	0.053**	0.027	0.025
	2.10	1.02	0.95
Acquirer Tobin's *Q*	0.002	0.003	0.005
	−0.30	0.58	0.84
Acquirer Leverage	−0.079	−0.149***	−0.14**
	−1.29	−2.38	−2.21
Acquirer FCF	0.294**	0.116	0.086
	2.02	0.76	0.56
Acquirer Assets	−0.002	−0.006	−0.004
	−0.34	−0.93	−0.67
Diversifying Dummy	0.021	0.024**	0.034**
	1.65	2.44	2.14
Relative Deal-Size	−0.021**	−0.024**	−0.017**
	−2.30	−2.44	−1.75
Acquirer Deal-Size × Target High-Tech	0.022**	0.023**	0.016*
	2.28	2.36	1.63
Penny Dummy	−0.007	−0.025	−0.011
	−0.22	−0.77	−0.33
Number of Observations	526	526	526
Adjusted R^2	0.09	0.10	0.11

The sample consists of 526 completed U.S. mergers and acquisitions (listed in SDC) between 1990 and 2007 made by firms covered by the IRRC antitakeover provision database. The dependent variable is the target's 5-day, 11-day, 21-day windows of cumulative abnormal return around announcement dates. The numerical values below the estimates are *t*-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively.

Table 9: Sample means of CARs with Wilcoxon-test p-values—cross-border deals

	CBAR	H_1 : CBAR > 0	BCAR	H_1 : BCAR < 0
$[-2, +2]$	0.137	0.000	-0.005	0.000
$[-5, +5]$	0.140	0.000	-0.007	0.002
$[-10, +10]$	0.184	0.000	-0.006	0.029

Cross-border acquiree returns (CBARs) are cumulative abnormal returns of cross-border targets through 5-day, 11-day, and 21-day event study windows. Bidder cumulative abnormal returns (BCARs) are of the U.S. acquirers through the same respective periods. Wilcoxon (1945) test is a statistical significance test for nonparametric pairwise comparison.

Table 10: Spearman's (1904) rank correlation matrix—cross-border deals

	CBAR$[\pm 2]$	CBAR$[\pm 5]$	CBAR$[\pm 10]$	BCAR$[\pm 2]$	BCAR$[\pm 5]$	BCAR$[\pm 10]$
CBAR$[\pm 2]$	1.0000	0.8471	0.7322	-0.0563	-0.0176	-0.0405
CBAR$[\pm 5]$		1.0000	0.8464	-0.0832	-0.0504	-0.0648
CBAR$[\pm 10]$			1.0000	-0.0630	-0.0464	-0.0444
BCAR$[\pm 2]$				1.0000	0.7644	0.5570
BCAR$[\pm 5]$					1.0000	0.7258
BCAR$[\pm 10]$						1.0000

CBAR$[\pm d]$ is the cumulative abnormal returns of cross-border targets through $(2d+1)$-day event study window. BCAR$[\pm d]$ is the cumulative abnormal returns of U.S. acquirers through the same period.

Table 11: p-values for Spearman's (1904) rank correlation matrix—cross-border deals

	CBAR$[\pm 2]$	CBAR$[\pm 5]$	CBAR$[\pm 10]$	BCAR$[\pm 2]$	BCAR$[\pm 5]$	BCAR$[\pm 10]$
CBAR$[\pm 2]$	0.000	0.000	0.007	0.005	0.011	0.011
CBAR$[\pm 5]$		0.000	0.005	0.001	0.005	0.005
CBAR$[\pm 10]$			0.000	0.000	0.001	0.007
BCAR$[\pm 2]$				0.000	0.000	0.005
BCAR$[\pm 5]$					0.000	0.002
BCAR$[\pm 10]$						0.000

CBAR$[\pm d]$ is the cumulative abnormal returns of cross-border targets through $(2d+1)$-day event study window. BCAR$[\pm d]$ is the cumulative abnormal returns of U.S. acquirers through the same period.

Table 12: Cross-border acquiree returns (CBARs)

	Mean	Median	s.d.	#(Deals)
$\text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.155	0.029	0.575	235
$\text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.121	0.015	0.267	243
$\text{CBAR}[\pm 5]\vert_{\text{DICT}}$	0.141	0.044	0.361	236
$\text{CBAR}[\pm 5]\vert_{\text{DEMO}}$	0.127	0.013	0.277	242
$\text{CBAR}[\pm 10]\vert_{\text{DICT}}$	0.217	0.054	1.418	236
$\text{CBAR}[\pm 10]\vert_{\text{DEMO}}$	0.151	0.011	0.341	243

We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a G Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. $\text{CBAR}[\pm d]\vert_{\text{DICT}}$ is the cumulative abnormal returns of cross-border targets acquired by dictatorial U.S. acquirers through $(2d+1)$-day event study window. $\text{CBAR}[\pm d]\vert_{\text{DEMO}}$ is that of democratic U.S. acquirers.

Table 13: $H_1 : \text{CBAR}\vert_{\text{DICT}} > \text{CBAR}\vert_{\text{DEMO}}$—cross-border deals

	Wilcoxon p-value
$H_1 : \text{CBAR}[\pm 2]\vert_{\text{DICT}} > \text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.066
$H_1 : \text{CBAR}[\pm 5]\vert_{\text{DICT}} > \text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.036
$H_1 : \text{CBAR}[\pm 10]\vert_{\text{DICT}} > \text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.019

We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a G Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. $\text{CBAR}[\pm d]\vert_{\text{DICT}}$ is the cumulative abnormal returns of cross-border targets acquired by dictatorial U.S. acquirers through $(2d+1)$-day event study window. $\text{CBAR}[\pm d]\vert_{\text{DEMO}}$ is that of democratic U.S. acquirers. Wilcoxon (1945) test is a statistical significance test for nonparametric pairwise comparison.

Table 14: Sample means of CARs per number of ATPs—cross-border deals

G	$\text{CBAR}[\pm 2]$	$\text{CBAR}[\pm 5]$	$\text{CBAR}[\pm 10]$	$\text{BCAR}[\pm 2]$	$\text{BCAR}[\pm 5]$	$\text{BCAR}[\pm 10]$
2	0.061	-0.022	0.140	-0.309	-0.354	-0.239
3	-0.001	-0.001	-0.001	0.012	0.042	0.035
4	0.091	0.088	0.116	0.034	0.048	-0.012
5	0.110	0.113	0.177	-0.012	-0.009	-0.018
6	0.070	0.087	0.124	0.002	-0.004	0.005
7	0.153	0.160	0.180	-0.017	-0.005	0.029
8	0.092	0.063	0.061	-0.018	-0.019	-0.024
9	0.109	0.132	0.147	-0.012	-0.009	-0.004
10	0.137	0.158	0.140	-0.020	-0.023	-0.017
11	0.103	0.113	0.110	-0.002	0.009	0.002
12	0.123	0.118	0.123	-0.005	0.006	0.009
13	0.175	0.121	0.127	-0.004	-0.002	-0.002
14	0.070	0.066	0.067	0.023	0.022	0.052
15	0.054	0.040	0.047	-0.017	0.051	0.035
16	0.069	0.306	0.329	0.023	0.027	0.032
18	-0.002	0.008	-0.007	-0.003	-0.010	0.057
19	-0.001	0.087	0.093	-0.065	0.047	0.093

G Index is the number of ATPs of U.S. acquirers provided by Gompers *et al.* (2003). $\text{CBAR}[\pm d]$ is the cumulative abnormal returns of cross-border targets through $(2d+1)$-day event study window. $\text{BCAR}[\pm d]$ is the cumulative abnormal returns of U.S. acquirers through the same period.

Table 15: Quadratic announcement returns of foreign targets against G Index of U.S. acquirers

	[-2,+2]		[-5,+5]		[-10,+10]	
	Linear	*Quadratic*	*Linear*	*Quadratic*	*Linear*	*Quadratic*
Intercept	0.106^{**}	-0.054	0.106^{**}	-0.068	0.144^{**}	0.001
	2.867	-1.145	2.867	-1.255	2.371	0.011
G Index	-0.0004	0.040^{***}	-0.0004	0.037^{***}	-0.0002	0.036
	-0.135	3.942	-0.135	3.181	-0.046	1.59
$(G$ Index$)^2$		-0.002^{***}		-0.002^{**}		-0.001
		-4.09		-2.925		-1.643
No. of Obs.	587	587	587	587	587	587
F-statistic	0.018	8.381^{***}	1.442	5.362^{**}	0.002	1.351
Adj. R^2	-0.065	0.480	-0.065	0.353	-0.067	0.042

The sample consists of 587 completed cross-border takeover deals (listed in SDC) for public foreign targets by U.S. acquirers covered by the IRRC antitakeover provision database between October 31, 1984, and October 15, 2007. The dependent variable is the sample means of cross-border target's 5-day, 11-day, 21-day windows of cross-cumulative abnormal returns around announcement dates. The numerical values below the estimates are t-statistics. ***, **, and * stand for statistical significance based on two-sided tests at the 1%, 5%, and 10% level, respectively. The G Index (Gompers *et al.* (2003)) is the number of antitakeover provisions of U.S. acquirers.

Table 16: Cross-border acquiree returns (CBARs) in 100% acquisitions

	Mean	Median	s.d.	#(Deals)
$\text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.213	0.117	0.290	84
$\text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.239	0.122	0.366	82
$\text{CBAR}[\pm 5]\vert_{\text{DICT}}$	0.232	0.154	0.342	84
$\text{CBAR}[\pm 5]\vert_{\text{DEMO}}$	0.245	0.136	0.363	82
$\text{CBAR}[\pm 10]\vert_{\text{DICT}}$	0.233	0.174	0.272	84
$\text{CBAR}[\pm 10]\vert_{\text{DEMO}}$	0.298	0.179	0.432	82

We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a G Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. $\text{CBAR}[\pm d]\vert_{\text{DICT}}$ is the cumulative abnormal returns of cross-border targets acquired by dictatorial U.S. acquirers through $(2d+1)$-day event study window. $\text{CBAR}[\pm d]\vert_{\text{DEMO}}$ is that of democratic U.S. acquirers.

Table 17: $H_1 : \text{CBAR}\vert_{\text{DEMO}} > \text{CBAR}\vert_{\text{DICT}}$ in 100% acquisitions—cross-border deals

	Wilcoxon p-value
$H_1 : \text{CBAR}[\pm 2]\vert_{\text{DEMO}} > \text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.486
$H_1 : \text{CBAR}[\pm 5]\vert_{\text{DEMO}} > \text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.404
$H_1 : \text{CBAR}[\pm 10]\vert_{\text{DEMO}} > \text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.493

We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a G Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. $\text{CBAR}[\pm d]\vert_{\text{DICT}}$ is the cumulative abnormal returns of cross-border targets acquired by dictatorial U.S. acquirers through $(2d+1)$-day event study window. $\text{CBAR}[\pm d]\vert_{\text{DEMO}}$ is that of democratic U.S. acquirers. Wilcoxon (1945) test is a statistical significance test for nonparametric pairwise comparison.

Table 18: Sample means of CBARs by U.S. acquirers' and target countries' corporate governance

	AD		AS		SMCTG	
	Low	*High*	*Low*	*High*	*Low*	*High*
$\text{CBAR}[\pm 2]\vert_{\text{DICT}}$	0.043	0.166	0.013	0.173	0.012	0.179
t	2.427	4.034	1.602	4.108	2.133	4.104
p-value	0.024	0.000	0.121	0.000	0.040	0.000
No. of Obs.	22	214	28	208	35	201
$\text{CBAR}[\pm 2]\vert_{\text{DEMO}}$	0.048	0.131	0.030	0.134	0.018	0.135
t	2.298	6.882	1.666	6.996	1.069	7.087
p-value	0.030	0.000	0.107	0.000	0.294	0.000
No. of Obs.	26	216	29	213	29	214
$\text{CBAR}[\pm 5]\vert_{\text{DICT}}$	0.048	0.151	0.007	0.159	0.010	0.164
t	2.362	5.844	0.866	6.020	1.544	6.008
p-value	0.028	0.000	0.394	0.000	0.132	0.000
No. of Obs.	22	214	28	208	35	201
$\text{CBAR}[\pm 5]\vert_{\text{DEMO}}$	0.053	0.136	0.043	0.139	0.022	0.141
t	2.044	6.932	1.593	7.008	1.022	7.133
p-value	0.052	0.000	0.122	0.000	0.316	0.000
No. of Obs.	26	216	29	213	29	214
$\text{CBAR}[\pm 5]\vert_{\text{DICT}}$	0.041	0.235	−0.006	0.246	0.001	0.254
t	2.217	2.307	−0.380	2.357	0.115	2.348
p-value	0.038	0.022	0.707	0.019	0.909	0.020
No. of Obs.	22	214	28	208	35	201
$\text{CBAR}[\pm 10]\vert_{\text{DEMO}}$	0.119	0.155	0.088	0.160	0.032	0.167
t	2.261	6.515	1.811	6.647	1.028	6.861
p-value	0.033	0.000	0.081	0.000	0.313	0.000
No. of Obs.	26	216	29	213	29	214

We follow the classification of "dictators" by Masulis *et al.* (2007) if the acquirer has a *G* Index score—number of ATPs—higher than or equal to ten, or "democrats" if less than or equal to nine. Gompers *et al.* (2003) previously classified dictators with firms with more than or equal to 14 ATPs and democrats with firms with less than or equal to five ATPs. $\text{CBAR}[\pm d]\vert_{\text{DICT}}$ is the cumulative abnormal returns of cross-border targets acquired by dictatorial U.S. acquirers through $(2d+1)$-day event study window. $\text{CBAR}[\pm d]\vert_{\text{DEMO}}$ is that of democratic U.S. acquirers. *Accounting Standards* (AS) is from La Porta *et al.* (1998), and *Antidirector Rights* (AD)—which proxies the degree of shareholder protection—is from Djankov *et al.* (2008). As a relative measure of country-specific equity market development, *Stock Market Capitalization to GDP* (SMCTG) is suggested by Djankov *et al.* (2008). Any "high" dummy variable equals one if a country's sovereign corporate governance score is higher than the median, and zero otherwise.

Appendix A2: Figures

Figure 1: Cross-border targets' CARs against U.S. acquirers' ATPs—[-2,+2]

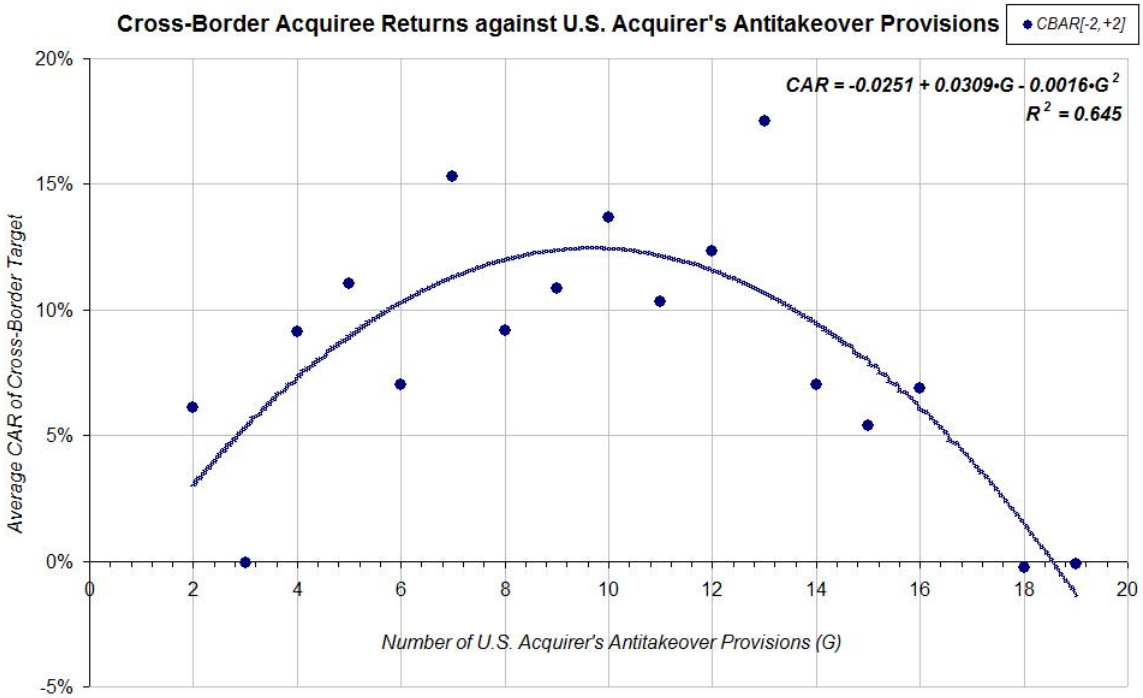


Figure 2: U.S. acquirers' CARs against their ATPs—[-2,+2]

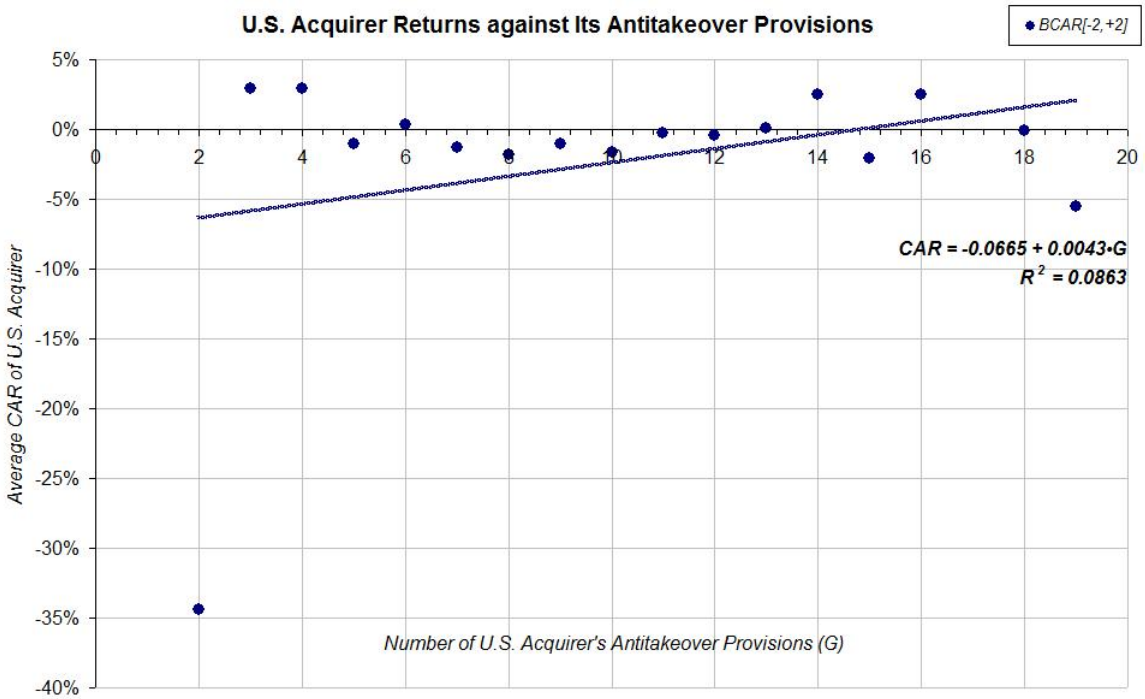


Figure 3: Cross-border targets' CARs against U.S. acquirers' ATPs—[-5,+5]

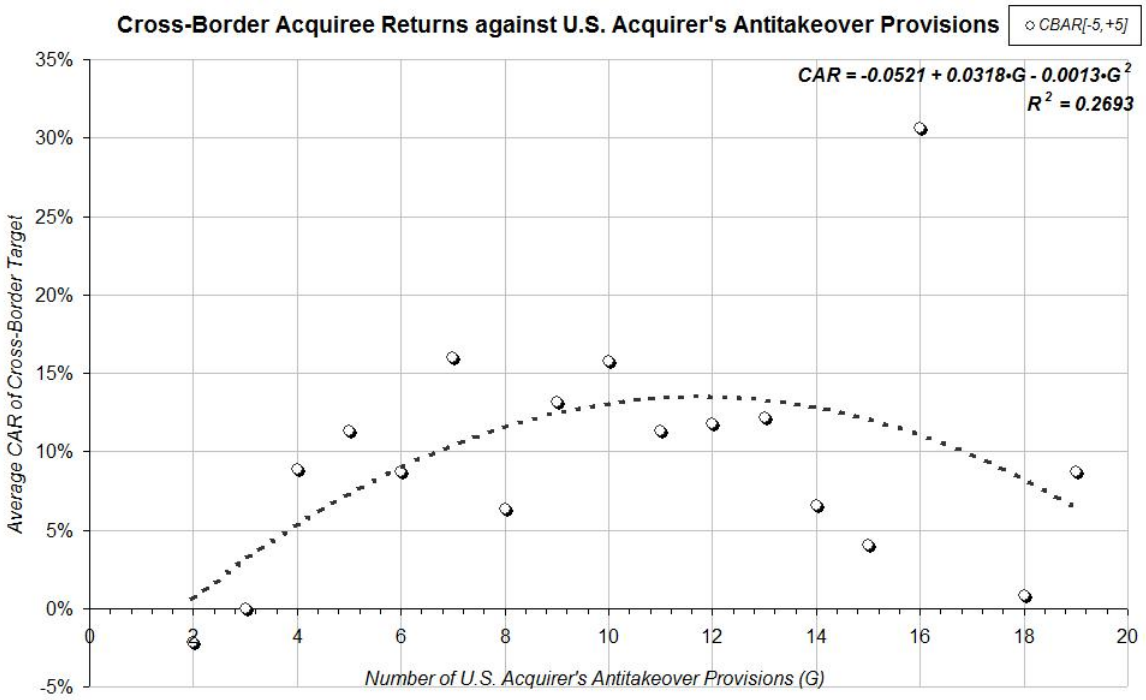


Figure 4: U.S. acquirers' CARs against their ATPs—[-5,+5]

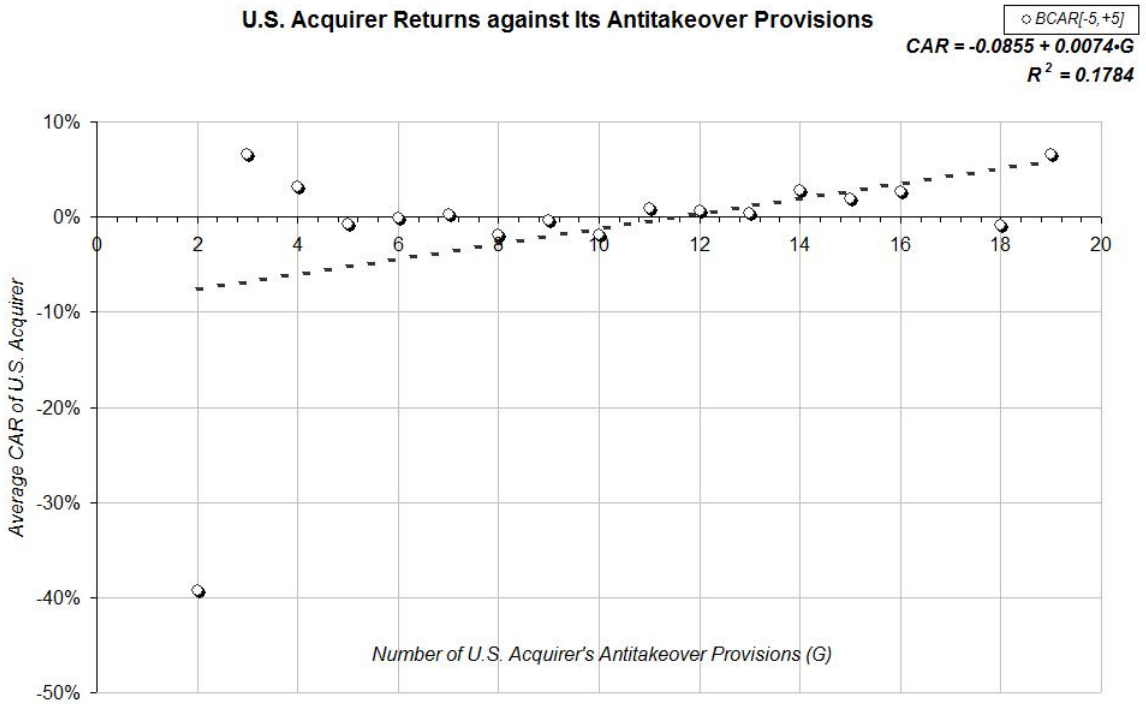


Figure 5: Cross-border targets' CARs against U.S. acquirers' ATPs—$[-10, +10]$

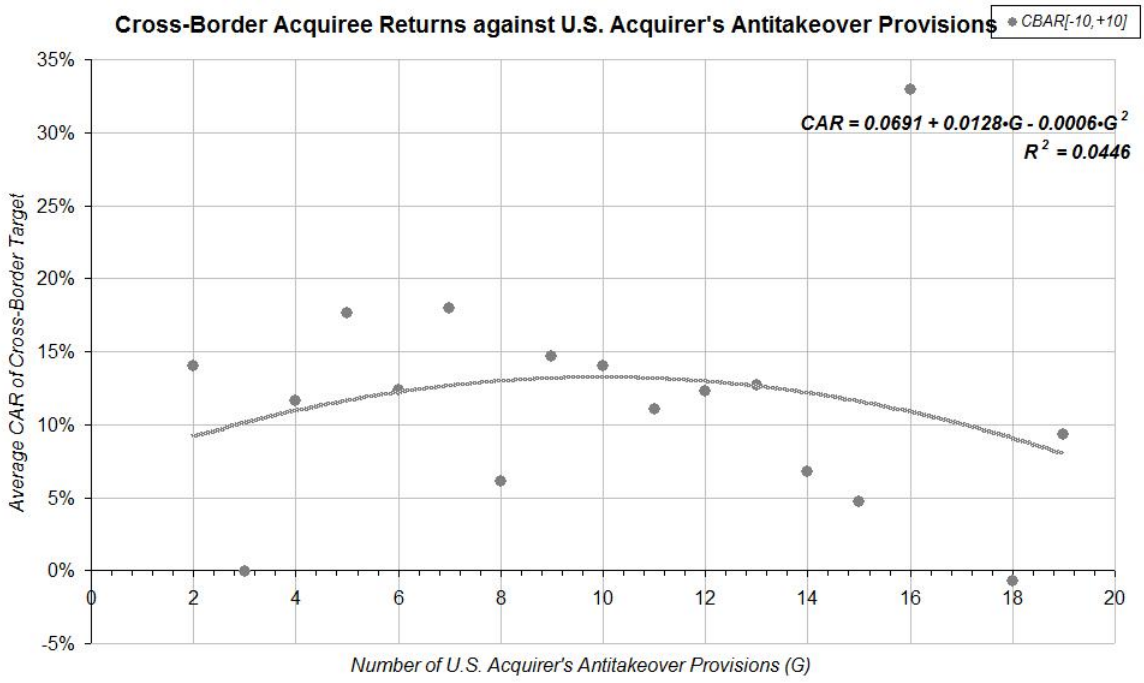
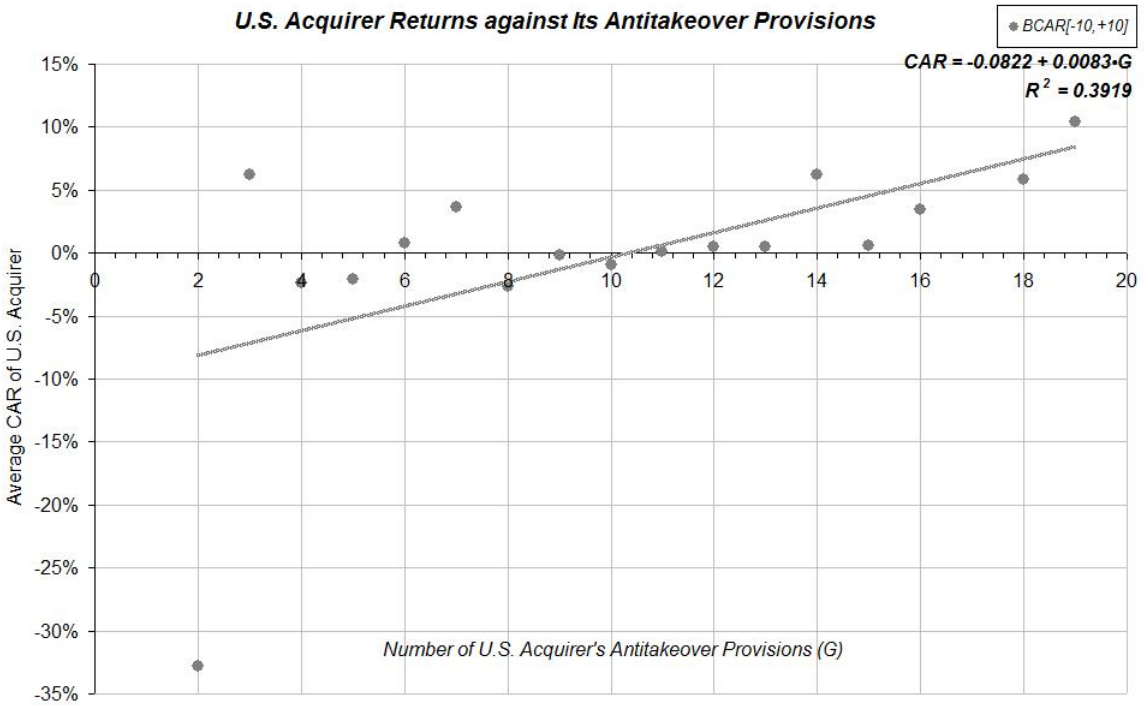


Figure 6: U.S. acquirers' CARs against their ATPs—$[-10, +10]$



Appendix A3: Variable definitions

Abnormal returns and antitakeover provision index

- *2-Day Window.* Five-day cumulative abnormal return (in percentage points) calculated using the market model. The market model parameters are estimated over the period the CRSP equally-weighted return as the market index.
- *5-Day Window.* Eleven-day cumulative abnormal return (in percentage points) calculated using the market model. The market model parameters are estimated over the period the CRSP equally-weighted return as the market index.
- *10-Day Window.* Twenty-two-day cumulative abnormal return (in percentage points) calculated using the market model. The market model parameters are estimated over the period the CRSP equally-weighted return as the market index.
- *G Index.* Provided by Gompers *et al.* (2003), based on 24 ATPs. Higher index levels correspond to more managerial power and low corporate governance measure.

Deal characteristics

- *Transaction Value.* Log Transaction Value recorded on SDC.
- *Cash Dummy.* A binary variable: 1 if the deal is at least partially financed by cash, 0 otherwise.
- *Acquirer High-Tech.* Dummy variable: 1 if bidder is from high tech industries defined by Loughran and Ritter (2004), 0 otherwise.
- *Target High-Tech.* Dummy variable: 1 if Target is from high tech industries defined by Loughran and Ritter (2004), 0 otherwise.

Acquirer characteristics

- *Acquirer Assets.* Log of book value of total assets.
- *Tobin's Q* Market value of assets over *Acquirer Assets.*
- *Leverage.* Book value of debts over market value of total assets.
- *Free Cash Flow (FCF).* Operating income before depreciation - interest expenses - income taxes - capital expenditures, scaled by *Acquirer Assets.*
- *Diversifying Dummy.* Dummy variable: 1 if bidder and target do not share a Fama-French industry, 0 otherwise.
- *Relative Deal-Size.* Deal value (from SDC) over bidder market value of equity.
- *M&A Market Condition.* The average premium paid for all deals in a given year, computed as the average of premium paid based on the target stock price four weeks prior to merger announcement in a given year for all announced mergers in our sample.
- *Penny Dummy.* Binary variable: 1 if the target stock price is less than $10.00 on the day of merger announcement, 0 otherwise.

Notes

[i]Three main incentive mechanisms to solving the agency problem are *1.* monitoring by the board of directors; *2.* executive compensation contracts; and *3.* the market for corporate control.

[ii]Existing articles address the consequences of takeover defenses on R&D expenditures in Meulbroek *et al.* (1990); board director compensation in Borokhovich *et al.* (1997), Bertrand and Mullainathan (1999), and Fahlenbrach (2004); corporate leverage in Garvey and Hanka (1999); the cost of debt in Klock, Mansi, and Maxwell (2005) and Cremers *et al.* (2007); and acquirer stock returns in Masulis *et al.* (2007).

[iii]Law and finance—or more broadly speaking, law and economics—is distinct from other areas in finance in that the rule of law overrides or dominates economic reasoning. The *ex ante* rule of law and the *ex post* enforcement of law provide a system of incentive mechanisms in the economy.

[iv]In case of Mexico, Bergman and Nicolaievsky (2006) report that private firms substantially improve investor protection above to the legal minimum, suggesting legal effectiveness.

[v]La Porta *et al.* (2002) report benefits from improving shareholder protection increase as the percentage of cash flows entitled to the entrepreneur decrease.

[vi]In recent studies, the debt-to-equity ratio (D/E) is used to proxy managerial recklessness. Also, employee stock options are also used to proxy managerial recklessness.

[vii]Of course, it is not to conclude that idiotic CEOs who make unwise acquisitions are less likely to be dismissed by the board of directors, as counter-exemplified by Lehn and Zhao (2006).

[viii]Subramanian (2002) and Bebchuk and Cohen (2003) report that states in the U.S. with more antitakeover statutes are able to entice more companies to incorporate, suggesting that managers recognize antitakeover measures carry economic significance.

[ix]As Bris and Cabolis (2008) point out, the LLSV indicators are static—not precisely abiding by LLSV's cross-border approach, arguing either *for* or *against* within-country reform in corporate governance can be erroneous.

[x]However, as Masulis *et al.* (2007) notes, the Act was formulated with insufficient rational rudiments to substantiate its purported efficacy.

[xi]Bris and Cabolis (2008) report that in cross-border mergers, the adjusted merger premium is significantly higher in wholly-owning acquisitions provided that the investor protection—proxied by the LLSV sovereign indicators and LLSV-derived accounting standards—of the acquirer is superior to that of the acquiree's. They conclude that "*it is the effect of adopting the acquirer's better accounting standards via consolidation which matters the most, even relative to the pure change in the legal protections induced by the merger...*"

[xii]Franks and Mayer (1996) examine hostile takeovers in the U.K. and find that they are followed by high turnover among members of the board of directors and significant restructuring. Carline *et al.* (2002) document increases in industry-adjusted operating performance following mergers in the U.K. Short and Keasey (1999) suggest that managers are less able to avoid being taken over in the U.K. than in the U.S. due to the inability of U.K. managers to mount takeover defenses.

[xiii]Managers of those firms are defended by less ATPs and thus are more susceptible to hostile takeovers after making bad acquisitions.

[xiv]Like in Masulis *et al.* (2003), this assumption does not affect the overall empirical results.

[xv]It suggests that the Anglo-Saxon element may be an important factor when U.S. corporations consider off-shore expansion.

[xvi]The Standard Industrial Classification (SIC) provided by the U.S. Census Bureau.

[xvii]Jensen (1993), in his American Finance Association presidential address, mentions "selling-firm shareholders in all M&A transactions in the period 1976 to 1990 were paid premiums over market value of 41 percent, and total M&A transaction generated $750 billion in gains to target firms' shareholders (measured in 1992 dollars)."

[xviii]Moeller *et al.* (2004) find "... Acquiring-firm shareholders lost 12 cents around acquisition announcements per dollar spent on acquisitions for a total loss of $240 billion from 1998 through 2001. Firms that make these acquisitions with large dollar losses perform poorly afterwards."

[xix]We owe this comment to John Doukas.

[xx]The applicable law to a firm can defer with the geographical location of headquarters (*seat theory*) or incorporation (*incorporation theory*). For instance, a foreign firm stock-financing its acquisition of a U.S. firm must comply with rules of the Securities Exchange Commission (SEC) including registering the acquirer's securities. Shareholder protection is provided by the applicable corporate law to the firm as per the incorporation theory, noted by Horn (2001). Unless the merging parties opt out with additional contracts, a wholly-owning acquisition of a cross-border target will result in transfer of the nationality, investor protection determined by the applicable law, and accounting standards from the acquirer.

[xxi]La Porta *et al.* (2000) argue that importing creditor protection by a cross-border acquisition is infeasible notably due to immobility of the collateralized tangible corporate assets. Also, a firm operating transnationally are exposed to corruption only endemically within the foreign jurisdictional boundary for local tax authorities and creditors.