

**The Value of Investor Protection:
Firm Evidence from Cross-Border Mergers**

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Abstract

International law prescribes that in a cross-border merger where the acquiror buys 100 percent of the target, the target firm becomes a national of the country of the acquiror. Among other effects, the change in nationality implies a change in investor protection, because the law that is applicable to the newly merged firm changes as well. Therefore, cross-border mergers provide a natural experiment to analyze the effects of changes—both improvements and deteriorations—in corporate governance on firm value. We construct measures of the change in investor protection induced by cross-border mergers in a sample of 506 acquisitions from 39 countries, spanning the period 1989 to 2002. We find that the merger premium in a cross-border merger is higher—relative to a matching, domestic acquisition—the better the shareholder protection and the accounting standards in the country of origin of the acquiror. This result is only significant in acquisitions where the acquiror buys 100 percent of the target, and therefore where the nationality of the target firm changes. We test several explanations for this result, and find that foreign acquirors pay higher premia to compensate insiders for their lost private benefits of control, but also that the higher premia is consistent with target shareholders attaching a positive valuation effect to the improvement in shareholder protection resulting from the acquisition.

KEYWORDS: corporate governance, market regulation, cross-border acquisitions

JEL classification: F3, F4, G3

I Introduction

One commonly accepted paradigm in Finance is that better corporate governance is associated with better financial markets. Academic research starting with the pioneering work by La Porta et al. (1998) (LLSV) has documented a strong association between good investor protection and measures of financial development.¹ Spurred by these findings, politicians and regulators around the world have started a process of corporate governance reform aimed to improve the quality of the investor protection provided by the legal system.² Thus cross-sectional differences among countries have translated into policy decisions that involve changes in the corporate governance framework in a country.

Because of the cross-sectional nature of most studies in corporate governance, they are at best unhelpful when one is arguing either in favor of or against legal change. Most of the academic literature relies on the indicators constructed by LLSV, which are static by nature. Therefore, unless one has either episodic evidence (as in Glaeser et al., 2001, on the Poland–Czech Republic difference) or new indicators (as in Pistor, 2000, for transition economies; and Hyytinen et al., 2001, for Finland), it is not possible to conclude that improvements in investor protection within a country have positive effects in the financial markets. In this paper we circumvent these issues by using cross-border mergers as a mechanism for corporate governance change and study the value effects of such changes.

Our study is based on the observation that in a cross-border merger the target firm usually adopts the accounting standards, disclosure practices and governance structures of the acquiring firm. By international law the nationality of a firm changes when 100 percent of it is acquired by a foreign firm. Among other implications, a change in nationality implies that the law that applies to the target company—and therefore the protection provided by such law to the target firm's investors—changes as well. Therefore cross-border mergers are an ideal setting to analyze valuation effects of changes in investor protection.

A second advantage of our approach is that cross-border mergers allow target firms to adopt a less protective system. Therefore we are able to analyze the effects of both improvements and deteriorations in investor protection. Finally, cross-border mergers can happen between firms in different countries, legal systems, and levels of financial development. Consequently the sample of merging firms is rich enough to allow us to control for factors, other than corporate governance, which affect the value of cross-border mergers.

We construct a sample of 506 cross-border mergers in the period 1989 to 2002. Target firms are from 39 different countries and acquiring firms are from 25 different countries. We analyze the relationship between the announcement effect of the acquisition in the acquiror and target stock returns, and measures

of investor protection in the two countries. We show in Section VII.A that the announcement effect of the acquisition is highly correlated with the premium paid by the acquiror. We quantify the potential transfer of investor protection from the acquiror to the target with the differences in several measures of protection between the countries of nationality of the acquiror and the target. These measures are the indices of shareholder protection, creditor protection, and accounting standards from LLSV, and the corruption index constructed by the International Risk Guide. We argue (in Section II) that a change in the corporate law will affect the level of shareholder protection and accounting standards. However, the level of corruption and the degree of creditor protection are inherent to the country where the company operates, and the country where the assets are located, respectively.

In order to isolate the pure corporate governance effects of the cross-border mergers, we select for each of the mergers in our sample a matching, domestic acquisition where the target firm shares similar characteristics of the cross-border target. We then construct matching-acquisition adjusted, buy-and-hold returns for the sample of cross-border mergers, and for a period of five days around the announcement of the cross-border merger. The reason for the matching sample is that the announcement effect—and hence the premium paid—of the cross-border merger can be affected by unobservable firm characteristics. Coffee (1999) argues that companies where investors are less protected will tend to be acquisition targets. Also, if markets are inefficient, an acquisition of a relatively undervalued firm could benefit both the acquiror and the target in a stock-for-stock deal (Shleifer and Vishny, 2003). Moreover the matching sample allows us to control for factors like the liquidity of the market, the industry’s concentration and competitive landscape, and the likelihood of a firm in a given country, industry, and year, being acquired.

We first show that the average acquisition where the acquiror comes from an above-median shareholder protection country and the target comes from a below-median shareholder protection country results in matching-acquisition adjusted abnormal returns of 5.78 percent (significant at the five percent level) for the target firm in days $t = -2$ to $t = +2$ around the acquisition announcement. Abnormal returns when the acquiror comes from a below-median country and the target from an above-median country are -13.41 percent (also significant at the one percent level). The results are very similar for the index of accounting standards, and the opposite for creditor protection. Moreover we do not find significant differences in terms of corruption.

Because such differences can be caused by deal-specific characteristics we perform a multivariate analysis where we regress target abnormal returns on firm, year, industry, and country characteristics, as well as on corporate governance differences between the acquiror and the target. In addition, we differentiate between 100 percent acquisitions and the rest. We find that in 100 percent acquisitions a one-standard

deviation increase (reduction) in the difference in shareholder protection between the acquiror and the target results in 0.22 standard deviations increase (reduction) in the adjusted abnormal return. Similarly, the economic significance of the accounting standards difference is 0.19 standard deviations. However there is no significant relationship for other cross-border mergers. This result is entirely consistent with the provisions of international law, which prescribes that by default only in 100 percent acquisitions do changes in nationality of the target firm become effective.

When we split the corporate governance index differences between positive and negative values we find that only when the acquiror is better—in terms of shareholder protection—than the target, the announcement effect of the acquisition for the target shareholders is related to shareholder protection. When a target firm is acquired by a firm from a country with a shareholder protection index which is one standard deviation higher than its own, target shareholders realize, relative to shareholders of a comparable target firm that is acquired by a domestic firm, a five-day return which is 0.18 standard deviations higher. The economic significance of such difference increases to 0.37 standard deviations when we consider only acquisitions where the acquiror buys 100 percent of the target. This result is not driven by a larger fraction of the target shares being bought, since we also control for the percent of shares that is bought by the acquiror (which is neither statistically nor economically significant). We find a similar result for the accounting standards difference although with a slightly lower economic significance. Interestingly, such effect is not symmetric: shareholders in the same target firm above do not suffer a significantly lower return from being acquired by a lower-shareholder-protection target, which suggests that target firms are able to improve upon the legal code by default via private contracting. Regarding corruption differences we find that target firms seem to be affected by corruption levels in the country of origin of the acquiring firms. However it is only in 100 percent acquisitions and in acquisitions with the corruption level in the acquiring country is lower (the corruption index is higher) that the abnormal return for the target shareholders is significantly positive (economic significance 0.22 standard deviations).

We also analyze the relationship between investor protection differences and the acquiror's abnormal return. Consistent with the provisions in international law we only find a significant effect of the differences in corruption: the higher the difference in the corruption index between the acquiror and the target (that is, the less *corrupted* the acquiror is relative to the target), the higher the acquiror's abnormal return.

The second part of the paper studies why target shareholders experience higher returns when the acquiror is from a more protective country than the country of the target. This is equivalent to explaining why acquirors pay higher premia in these transactions. We propose several possible explanations. First, it is possible that acquirors from more protective countries have better managerial skills, and are more

efficient in managing the target firm. However, using several measures of accounting performance we find that cross-border mergers where the acquiror is more protective than the target actually underperform relative to matching domestic acquisitions two and three years after the announcement.

An alternative explanation is that in more protective countries ownership concentration is more dispersed; therefore acquiring firms suffer from agency problems as in Jensen and Meckling (1976), and end up overpaying for their targets. To test this hypothesis, we construct a sample of domestic acquisitions that matches the characteristics of the acquirors in the sample of cross-border mergers. We then perform an analysis of ownership concentration in our cross-border acquirors, and find that, while there are significant differences in the premia they pay depending on the shareholder protection difference between the acquiring and the target country, there is no significant difference in inside ownership. Therefore differences in premia cannot be explained by agency problems.

In a similar fashion, auctions for control that are won by acquirors in more protective countries can be more competitive and result in higher premia. However we find that, relative to domestic acquirors, cross-border acquirors from more protective countries pay lower, not higher, merger premia.

Private benefits of control can also explain our results. If a group of shareholders control firms in poor-protection countries, foreign acquirors must compensate them for the loss of private benefits. Dyck and Zingales (2004) compute a measure of private benefits of control for a sample of 39 countries and find that private benefits are higher in countries with weaker legal protection. They measure private benefits as the difference between the per-share value of a control block, and the price of the stock in the market, using a sample of control transfers both domestic and cross-border. In Dyck and Zingales (2004) block premia are lower when the acquiror is a foreign firm coming from a more protective country. Their interpretation is that in countries with better investor protection it is more difficult for managers to extract private benefits of control, hence their willingness to pay for control is also lower. We instead find that the merger premium is higher the higher the percentage of shares of the target owned by insiders. Moreover, we find that the magnitude of such relationship is larger the higher the difference in shareholder protection between the acquiring and the target countries. This provides support for the idea that insiders in weak-protection countries need to be compensated for the loss of private benefits of control. However, even after controlling for ownership concentration, shareholder protection differences still explain larger premia. Therefore this explanation does not fully explain our findings.

The last result above is indeed strongly supportive of the model of investor protection and corporate valuation formalized by La Porta et al. (2002). They show that the benefits from improving shareholder protection are larger the smaller is the percentage of cashflow rights owned by the entrepreneur. We

confirm that the merger premium is the largest in cross-border mergers where the improvement in investor protection resulting from the change of nationality of the target is large; and where the percentage of closely held shares is large, and therefore the potential reduction in ownership concentration is substantial as well.

In summary—we show that when firms adopt better shareholder protection and better accounting standards by means of a cross-border merger, acquirors pay more, and higher premia are positively valued by the market. This effect is significant only in 100 percent acquisitions. It is however not true that when a target firm adopts the practices of a less protective country the market impact of the acquisition for the shareholders of the target firm is lower than in a similar domestic transaction. This result suggests that the merging parties engage in private contracting that aims to overcome the loss in protection for the target's shareholders. We do not find evidence of a significant effect on the acquiring firm. That is, when a firm acquires in a more protective environment its shareholders do not benefit from the stronger protection provided to the shareholders of the target firm. This result is consistent with the view that there is no legal requirement in international law that forces the acquiror's shareholders to transfer the nationality of the newly merged firm to the host country. Finally we find that firms involved in cross-border mergers are affected by the levels of corruption in the acquiring and target countries. That is, while being acquired by a firm in a less-corrupted environment results in a significantly higher return to the target shareholders, acquiring firms experience larger returns than domestic acquirors when they buy in more-corrupted environments. All in all, we identify a positive value of adopting better corporate governance and quantify its economic effect. These results are robust to the endogeneity of some of the characteristics of the mergers in our sample as well as to the effects of simple changes in control that do not entail changes in nationality.

Our paper is closely related to Starks and Wei (2004) and Kuipers et al. (2003). Both papers analyze how differences in investor protection determine the announcement effect of cross-border acquisitions of U.S. companies. Starks and Wei (2004) find that takeover premia are decreasing in the quality of the corporate governance in the acquiring country and that acquirors from more protective countries are more likely to finance their acquisitions with stock. Kuipers et al. (2003) show that the return to targets of cross-border deals in the U.S. is positively related to the quality of the investor protection in the acquiror's country. Our results are consistent with both papers although our sample consists of targets from 39 countries and includes acquisitions where the target firm is not always better—in terms of investor protection—than the acquiror. Furthermore, in our paper differences in valuation arise mainly from differences in the legal environment in the target country—not the acquiring country.

Chari et al. (2004) study the stock market's reaction to cross-border mergers, and find that they are larger when the target comes from an emerging market. Moreover, they find that such effect is significant only when the control of the company changes to the acquiring firm. Again, this is consistent with our finding that cross-border mergers have a positive effect on a less-protective target when 100 percent of the firm is acquired. However, Section VIII.B shows that changes in nationality and not changes in control explain the valuation effects we document.

Our work is also related to Doukas and Travlos (1988), who show that the announcement effect of a cross-border merger is larger when the acquiring firm is entering a new geographic market for the first time. Bris and Cabolis (2004) analyze the industry effects of cross-border mergers that are caused by differences in investor protection, and they find that the Tobin's Q of an industry is positively related to the percentage of the market capitalization in the industry that is acquired by firms coming from more-protective countries. Rossi and Volpin (2004) show that firms in less-protective countries are more likely to be targets of cross-border mergers, than targets of domestic mergers. However this result is a natural consequence of the fact that less-protective countries have less-developed financial markets and hence fewer acquisitions. Moreover they do not derive any value effect. Finally our paper is in the same spirit as Daines (2001), who provides cross-sectional results to show that the market assigns a higher value to the assets of firms incorporated in Delaware. Our rich panel allows us to extend Daines' methodology.

The paper is organized as follows. Section III describes the data and their sources. Section IV outlines the construction of merger-specific corporate governance indices from the original merger sample. In Section V we describe our methodology to calculate matching-acquisition abnormal returns, and provide preliminary results. Section VI furnishes is devoted to the multivariate analysis. In Section VII we propose and test several explanations for our results, and in Section VIII we provide some robustness tests. Section VII concludes. To begin, however, we need to establish how cross-border mergers alter the level of protection provided to the investors of the merging firms and we do this in the following section.

II Governance Transfer due to Mergers and Acquisitions

Corporate governance concerns the enhancement of corporate performance via the supervision, or monitoring, of management performance and ensures the accountability of management to investors (Kasey and Wright, 1997). The type and the extent of management supervision—which may or may not be choice variables for the firm—depend on legal rules. A formal change of the law will alter the rules and, therefore, the governance. Most importantly for us, a contractual arrangement between two firms may *effectively*

change the legal rules and subsequently the corporate governance structure. It is the latter type of change in the rules that we are focusing on in this paper. Specifically we are studying the effects that cross-border mergers have on management control and ultimately on the performance of a firm. In this section we discuss how cross-border mergers affect the effective legal environment of both the acquiror and the new merged firm, and the potential corporate governance implications of such a change.

With the caveats detailed below, a cross-border merger entails a change in the nationality of the target firm, and therefore a change in the Corporate Law—or Commercial Code—applicable to the firm. For example, DaimlerChrysler, which is the result of the merger of a German and a U.S. company, is domiciled in Germany. As such, it has adopted a two-tier board structure, as required by German law.

In principle, it is possible that contractual arrangements between the parties involved in a cross-border merger circumvent the legal effects of the transaction, implying that in some cases the acquiring firm adopts the practices of the target. Thus, the merging parties can make contractual arrangements so that the merged firm reports using the accounting standards of the target firm's country or a third country. For instance, the firm resulting from the 1996 acquisition of the Swedish Merita Nordbanken by the Danish Unidanmark started to report in Swedish GAAP—the standards of the target firm—following the agreement of both groups of shareholders. In other cases the legal system prevents the transfer of corporate governance practice. Foreign firms acquiring in the U.S. with stock, for instance, must register their securities with the S.E.C., thereby acquirors must comply to some extent with the legal rules in the country of nationality of the target firm.

Our challenge is to identify changes in investor protection induced by changes in the *nationality* of the target firm.³ In what follows, we discuss the implications of such a change for four indices of corporate governance. In particular, we focus on the protection provided to the shareholders and the creditors of the firms involved as well as the changes in accounting standards and political corruption induced by cross-border mergers.

Finally, an important distinction to make is that the resulting corporate law that applies to a firm after a cross-border merger can be different from the law applicable to the acquisition itself. The U.S. regulation, for instance, requires foreign acquirors of a corporation where at least 10 percent of the shares are held by U.S. investors to comply with the Williams Act.⁴ Therefore U.S. law applies to the acquisition, notwithstanding the nationality of the parties involved, and the law that applies to their practices.

A Shareholder protection

Shareholder protection refers to the protection provided by the corresponding Corporate Law or the Commercial code to the shareholders of a company. In principle, the law applicable to companies is the law of the country of nationality of the firm. The relevant protection is not determined by the law of the country of nationality of the shareholders, the country where the firm operates, or the country where some firm's assets are located. Therefore, the location of the shareholders of the company is in principle irrelevant (Horn, 2001.) In a cash-for-stock merger, the shareholders of the newly created firm are the old shareholders of the acquiror, while in a stock-for-stock merger some shareholders of the newly created firm are located in the country of nationality of the target. Consequently, a cross-border merger results in the change of nationality of the target firm, the laws applicable to the firm, and possibly a change in the level of shareholder protection provided by the law to the shareholders of the target firm.

There are important exceptions to this rule. The most important is the principle of *extraterritoriality*, which dictates that in certain cases a state can assert jurisdiction over its nationals abroad. In the case of cross-border mergers, a host state is entitled to subject a foreign-owned subsidiary to local corporate law by reason of domicile of the subsidiary (Muchlinski, 1997). This becomes relevant when rights of minority shareholders are to be protected in a country different from the country of nationality of the firm. However, the extraterritoriality of corporate law is not applied when a foreign firm acquires 100 percent of the shares of a company. The reason is that the extraterritoriality of corporate law is applied in international law following what is known as the "nationality test" (Muchlinski, 1997). The domicile of the target firm remains in the host country when less than 100 percent of the shares of the target are acquired by the foreign firm. The textbook case that illustrates the nationality test is Fruehauf, where Fruehauf France SA was a company two-thirds owned by its American parent. The French regulation was applied to a case involving exports by Fruehauf France to the People's Republic of China, which were prohibited under the U.S. Trading with the Enemy Legislation (Muchlinsky, 1997). The U.S. Treasury Department accepted that the French subsidiary was under control of French law by domicile, even though it was legally a U.S. corporation.

Another exception in determining the law that is applicable to the new firm relates to the design of the cross-border merger. In the Daimler-Chrysler merger, for instance, German incorporation was chosen because the transfer of control of a German company to a foreign firm is prohibited by law (Decher, 2001). Moreover, tax issues were also of a great importance because the exchange of Daimler-Benz shares into a U.S. corporation would have triggered an enormous tax expense for Deutsche Bank, the largest

shareholder of Daimler-Benz. In the Hoechst / Rhone-Poulenc merger, the parties agreed that the French Rhone-Poulenc SA would be chosen as the surviving entity, irrespective of the larger business value of Hoechst, because of tax reasons. In these cases, the definition of 'acquiror' and 'target' are quite arbitrary.

In the case of cross-border mergers, the Securities Data Corporation—our source of data—considers the acquiror to be the surviving firm, and therefore from SDC data, one can conclude that the corporate law applicable to the newly created firm is the law of the country of nationality of the acquiror, defined in this way.

To conclude, absent contractual arrangements between the parties, international law states that acquisitions of 100% interest in a company by a foreign firm result in a change of the law applicable to the target firm.

B Creditor rights

To the extent that a U.S. multinational, for example, cannot force Chapter 11 on the default of one of its subsidiaries in another country, creditor protection is not transferable from the U.S. to that country. La Porta et al. (2000) intuitively argue that importing creditor protection by acquiring a firm in another country is not possible, because corporate assets remain under the jurisdiction of the country where they are located and not under the jurisdiction where the firm is incorporated. This, in principle, is correct, with some caveats that we describe next.

For secured claims, it is generally assumed that the law of the *situs* of the collateral is the applicable law for all purposes. Generally, this rule is well founded for real estate. There is, however, a relevant debate in international law regarding intangibles, which by nature do not have a physical location. In general, if fixed assets are the collateral of the target firm's debt, the law applicable to those assets—and therefore to the creditors—of the target firm remains in the host country.

In certain cases, courts in the country of nationality of the firm have jurisdiction over assets located in other countries. For instance, U.S. courts have jurisdiction over bankruptcy cases where creditors or assets are in the U.S., irrespective of the nationality of the firm (U.S. Bankruptcy Code §304). The U.S. law applies either when the assets or the creditors are located abroad. For instance, if a U.S. firm acquires a firm in Argentina, U.S. courts have jurisdiction over the assets of the newly created firm in Argentina. Section §541(a) of the U.S. bankruptcy code establishes that the estate includes all of the assets of the debtor, "*wherever located and by whomever held*". The U.S. follows the *universality approach*, under which an insolvency case should be treated as a single case, and creditors should be treated equally irrespective of their location. In contrast, under the *territoriality approach* each country has jurisdiction over the assets

of the firm located within the country (Bufford et al., 2001).

To summarize, the acquisition of a firm in a host state by a foreign firm does not change the jurisdiction of the insolvency proceeding to the foreign country, as long as either creditors or assets remain in the host country. However a conflict of jurisdiction may arise if the country follows—like the U.S.—the universality approach. Therefore creditor protection is—in general—invariant to changes in control. Note, that the merging parties cannot agree upon the jurisdiction over the firm's assets, since boards of directors represent shareholders' interests only, unless the firm is in distress.

C Accounting standards

The resulting accounting standards of a newly merged firm are by default the accounting standards of the country of nationality of the acquiring firm if it buys 100 percent of the target.. This derives from the discussion on the relevant corporate law above. As an example, in the 1999 acquisition of Canadian Seagram by French Vivendi the newly merged firm adopted the French accounting system. Similarly, Seita, a French Tobacco company, was acquired in October 1999 by Tabacalera, from Spain, to form a new entity called Altadis, which started reporting under Spanish GAAP. Firms can exceptionally alter that situation via contractual arrangements as in the Unidanmark – Merita Nordbanken transaction described above.

Consolidation rules play an important role in determining the accounting standards that apply to a cross-border merger. In general, 100 percent acquisitions result in consolidation. However, by US GAAP any acquisition involving more than 50 percent of the voting shares triggers consolidation.⁵ Under IAS, accounting consolidation is required when control changes, but a change of control may not require that more than one-half of the voting shares of the target are owned by the acquiror.⁶ Local standards can establish different rules. Therefore, whether the target company in a cross-border merger adapts the accounting standards of the acquiring firm, depends on the consolidation rules set by the accounting standards of the acquiror.

Note that, although contractual arrangements can improve the accounting standards of the merged firm, in some situations firms decide not to do so. The case of Altadis is representative of this situation, whereby a French company changed its standards to Spanish GAAP, which LLSV rank below the French GAAP in terms of quality.

D Corruption

Our measure of corruption is defined by the International Country Risk Guide as '*a measure of corruption within the political system that is a threat to foreign investment by distorting the economic and financial*

*environment, reducing the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability, and introducing inherent instability into the political process.*¹⁷

Therefore, a firm operating internationally is affected by the corruption in the country where it operates, the country where it pays taxes and the country where its creditors are located. This happens irrespective of the nationality of the newly merged firm.

A cross-border merger affects the level of corruption that involves both the acquiring and the target firm. When acquiring abroad, a firm must get involved with the system of political relations prevailing in the country where the target firm operates. Similarly, the target firm becomes subject to the system of political relations present in the country of the acquiring company.

There is evidence in the literature that foreign investors are affected by the corruption level in the host country. Simonov and Gianetti (2002), who use data on investment choices by individual investors in Sweden, show that individuals who are more likely to have connections with the local financial community and have access to information prefer to invest in firms where there is more room for extraction of private benefits of control.

E Final note

Corporate law provides the minimum standards that a firm must comply with, in order to be legally operational. However, nothing precludes merging firms to adopt stricter rules than the ones prescribed in the law. Indeed, the anecdotal evidence we provide above points to situations where firms opt to more austere practices than the ones imposed by the relevant corporate law. The methodology that we adopt in the empirical section is the practice prescribed by corporate and international laws and designates the minimum adjustment that merging firms must legally undertake. The exceptions, where firms adopt stricter rules, make our findings stronger.

III Data

A Initial Sample

Our main source of data is the Securities Data Corporation Mergers and Acquisition database (SDC). We obtain information on all completed acquisitions of public companies between January 1989 and December 2002 for all available countries. We exclude leverage buyouts, spinoffs, recapitalizations, self-tender offers, exchange offers, repurchases, minority stake purchases, acquisitions of minority interest, and privatizations. This initial dataset contains 8,053 announcements of which 1,508 are cross-border.

Table 1 describes the construction of our sample, which we divide into two groups: cross-border and domestic mergers.

[INSERT TABLE 1]

SDC provides detailed information on the deal, as well as on characteristics of the merging firms. However, SDC does not provide information on stock prices. Therefore, we merge the information obtained from SDC with Worldscope-Datastream. This SDC+Worldscope dataset comprises 3,339 observations where 713 correspond to cross-border deals.

Relative to the initial sample the firms in the SDC+Worldscope dataset are significantly larger in terms of total assets. Table 1 shows that the median cross-border target in the SDC+Worldscope sample has total assets of \$389 million, versus \$179 million in the initial sample. Similarly, acquirors in cross-border mergers have assets of \$8.6 billion in the SDC+Worldscope sample, compared to \$3.8 billion in the original SDC sample. Moreover, based on Kolmogorov-Smirnov tests of differences, we show that the distribution of total assets is statistically different in both samples. Results are similar for the subsample of domestic mergers.

B Matching Sample

We construct the "final sample" by identifying a domestic merger for each cross-border merger in the SDC+Worldscope sample. The domestic merger meets the following criteria: (i) it is announced in the same year as the cross-border merger, (ii) the target firm belongs in the same country and industry (2-digit SIC code) as the target firm of the cross-border merger, (iii) the target company is different from the target company of the cross-border merger, (iv) the percentage of the target's shares sought by the acquiror is below 50 percent if the percent sought in the cross-border merger is below 50 percent, and vice versa, and (v) the target firm is the closest in terms of total assets to the target of the corresponding cross-border merger.

The final sample excludes observations when there is a single acquisition in a given year, industry, and country, as well as when the matching target firm is either more than double in size or less than half in size than the corresponding cross-border target. The final sample also excludes cross-border mergers for which the investor protection indices in LLSV are not available like the Eastern European countries.

The sample that satisfies all the above characteristics consists of 1,012 observations. There are 506 cross-border mergers and 506 corresponding domestic mergers for which we have complete information on deal characteristics and stock price history for both the target and the acquiring firm.

Table 1 shows that, relative to the original sample, our final sample of matching pairs contains significantly larger firms. For instance, while the median size of a cross-border target is \$179 million in the original sample, it increases to \$359 million in the final sample (significantly different at the 1 percent level). However, the differences between the SDC+Worldscope sample and the final sample are not large. Total assets are \$388 million and \$359 million, respectively, and their difference is statistically significant only at the 10 percent level, for cross-border targets. The sample of acquirors in cross-border mergers, and the sample of target firms in the domestic mergers are not significantly different between the SDC+Worldscope and Final samples.

C Description of the Data

Our sample of cross-border mergers is geographically fairly diversified. It contains acquisition announcements from target firms from 39 countries and acquiring firms from 25 countries. Table 2 provides descriptive statistics of the firms in the sample.

[INSERT TABLE 2]

With respect to acquirors Table 2 shows that cross-border acquirors are significantly larger than domestic acquirors (\$7.7 billion versus \$3.1 billion, significantly different at the 1 percent level) and have a higher Tobin's Q. These differences remain significant one year after the acquisition announcement. Note also that in the median cross-border merger the acquiror is twenty times as large as the target, compared with 8.4 times in a domestic merger. Relative to target firms acquirors in cross border mergers: display higher Tobin's Qs; higher sales; higher return on assets; and higher cash flow to assets. We find similar differences in domestic mergers, and we additionally find that domestic acquirors invest more than domestic targets.

With respect to target firms the matching procedure is very efficient. There are no significant differences between cross-border targets and matching domestic targets at time $t = 0$ in the five accounting variables we consider. One year after the acquisition, cross-border targets compared to matching domestic targets display significantly higher return on assets (4.51 percent versus 3.32 percent), and higher cash-flow-to-assets (11.26 percent versus 8.54 percent). The sample of target firms is significantly reduced at $t = 1$ (260 firms instead of 348 firms) because some target firms are delisted in the domestic market.

Finally, Table 2 shows the differences between the firms in the two subsamples. We obtain accounting information from Worldscope, and we report in the table results of a non-parametric Wilcoxon test for the differences between firms in the same pair. These differences are reported in the year of the acquisition

announcement as well as one year before and one year after. We report: total assets,⁸ Tobin's Q, sales to total assets, return on assets, cash flow to sales, and investment to assets. Tobin's Q is computed as the book value of total assets, minus the book value of the common equity, plus the market value of the common equity, divided by the book value of total assets.

[INSERT TABLE 3]

Most of our targets (84 out of 506, or 17 percent) and most of our acquirors (139 out of 506, or 27 percent) come from the U.S. We have 8 targets from Africa, 104 from Asia, 48 from Latin America, 133 from North America, 43 from Oceania, and 170 from Western Europe. Similarly our sample includes 8 acquirors from Africa, 54 from Asia, 5 from Latin America, 169 from North America, 30 from Oceania, and 240 from Western Europe. Most of the mergers are friendly (99 percent) and "non-horizontal" (68 percent). We define an acquisition as horizontal when the main four-digit SIC code of the target and the acquiror coincide. Consequently non-horizontal acquisitions include both vertical and conglomerate mergers. Additionally 72 percent of our acquisitions use cash as the only means of payment. (See Appendix Table A)

IV The Quality of Investor Protection

In this section we assemble country-specific corporate governance indices. Our starting point is the indices on shareholder rights, creditor rights, accounting standards, and the efficiency of the legal system, from LLSV, and the corruption index constructed by the International Country Risk Guide.⁹ The shareholder and the creditor rights indices are multiplied by the efficiency of the legal system to obtain the shareholder protection and creditor protection indices, respectively. All variables used in the paper are described in Appendix I.

Ideally we would like to have firm-specific measures of investor protection. The LLSV indices give us the system of protection *by default*, which is the one we use in the paper. Fortunately, Worldscoop provides information on the accounting standards followed by individual firms, specifying whether the firm follows local standards, IAS, U.S. GAAP, or E.U. standards. We combine this information with the LLSV index in the following way: when a firm follows local standards, we assign that firm the value of the LLSV index. When the firm follows any international standard, we assign that firm an index of accounting standards of 83. This is the maximum value of the LLSV index, corresponding to Sweden. When the firm follows U.S. GAAP, we assign that firm an index of accounting standards of 71 (this value of the LLSV index for the

U.S.). Finally, even when Worldscope reports that a firm follows local standards, we assign a value of 71 if the firm is listed in the U.S. through an ADR or a direct listing . Consequently, the indices of shareholder and creditor protection are constant over time, but the indices of accounting standards and corruption are time varying.

Each acquisition in our sample is then characterized by eight indices: shareholder protection, creditor protection, accounting standards, and corruption for the acquiring firm's country, and the analogous indices for the target firm's country. The difference of the corresponding indices between the two countries provides an indication of the potential *corporate governance quality transfer* that results from the cross-border merger. To illustrate this point, suppose that a U.K. firm acquires a Greek firm. Since the shareholder protection index in Greece is 14, and the shareholder protection index in the U.K. is 50, the acquisition serves as a way of contractual transfer of corporate governance practices from the U.K. to Greece. The magnitude of such transfer is $50 - 14 = 36$.¹⁰

Rossi and Volpin (2004) report that the corporate governance quality of acquirors in cross-border mergers is significantly higher than the quality of targets. Our results are consistent with their finding: in our original sample of 1,508 cross-border acquisitions there are observations where the acquiror comes from an above-median shareholder protection country and the target comes from an below-median country (26.2 percent) than the reverse (18.03 percent). The rest are acquisitions where both parties are similar in terms of shareholder protection.¹¹

Referee: Please see "Table 1 for Referee" for more detail

V Abnormal Returns

A Computation of Buy-and-hold Abnormal Returns

We measure the market impact of each acquisition by calculating buy-and-hold cumulative abnormal returns (BHCAR). We first estimate a market model regression of dollar-denominated daily returns on the corresponding dollar-denominated market return and the MSCI world index. Return data are obtained from Datastream. Abnormal returns are calculated for a window around the tender offer announcement for all the firms for which daily data are available. Market model regressions are performed in the following way:

$$R_{ijt} = \alpha_i + \beta_i^m R_{mjt} + \beta_i^w R_{wt} + \epsilon_{it} \quad t = -260, \dots, -100$$

where R_{ijt} refers to the daily stock return for either the target or the acquiring firm i in country j , R_{mjt} is the market return in country j , and R_{wt} is the world index.¹² The residual ϵ_{it} defines the excess return for each firm and day. Days are, for the remainder of the paper, trading days.¹³ We then compute abnormal returns, and accumulate them over four different subperiods: $(-100, -3)$, $(-2, +2)$, $(0, +10)$, and $(0, +100)$. BHCAR in period (T_1, T_2) for firm i is computed as:

$$BHCAR_i^{(T_1, T_2)} = \prod_{t=T_1}^{t=T_2} (1 + \hat{\epsilon}_{it})$$

During the five days surrounding an acquisition announcement, target firms experience a 14.20 percent abnormal return (significant at the one percent level), and acquirors experience negative returns of -1.12 percent (significant at the five percent level). Over the period of 100 days following the acquisition announcements, target shareholders realize a 33.98 percent abnormal return, and acquirors' return is -5.36 percent (both significant at the one percent level). There is no significant price run up in days $(-100, -3)$ for targets, but a negative and significant abnormal return (-0.09 percent) for acquirors.

	(-100,-3)	(-2,+2)	(0,+10)	(0,+100)
Targets	-0.05%	14.20% ***	11.94% ***	33.98% ***
Acquirors	-0.09% ***	-1.12% **	-0.91%	-5.36% ***

Referee: Please see "Table 2 for Referee" for more detail

B Matching-Acquisition Adjusted Abnormal Return

In this section we describe the construction of the most important variable in our analysis. Abnormal returns are strongly determined by specific characteristics of the country where the acquisition takes place. In particular, market liquidity, regulation, and financial development determine the market response to an acquisition, which is independent of corporate governance considerations. For instance, Bhattacharya et al. (1999) show that the market does not respond to corporate events in Mexico. They blame the inexistence of insider trading enforcement for the non-significant market effect of earnings and acquisition announcements. The existing literature documents a significant relationship between financial and economic development (La Porta et al., 2000). Thus we expect a positive, yet spurious, relationship between the quality of the investor protection in the target country, and the announcement effect of acquisitions in that country. Indeed, Table 3 below confirms such relationship.

We try to isolate the pure corporate governance effects by adjusting our BHCARs relative to the matching domestic acquisitions. Therefore, we compute for each cross-border merger in our sample,

matching-acquisition adjusted BHCARs (*MABHCAR*) for both target and acquiring firms, in the following way:

$$MABHCAR_i = BHCAR_i^{CB} - BHCAR_i^{DOM} \quad (1)$$

where $BHCAR_i^{CB}$ is the cumulative buy-and-hold return for the cross-border acquisition i in days $t = -2$ to $t = +2$, and $BHCAR_i^{DOM}$ is the cumulative buy-and-hold return for the domestic acquisition that matches acquisition i , selected as described in section III.B.

Because the two target firms in each pair are from the same country, matching-acquisition adjusted BHCARs measure the incremental announcement effect of the cross-border acquisition that is driven by the foreign nationality of the acquiror. Table 3 and 4 report *BHCARs* and *MABHCARs* for target and acquiring firms, respectively. Section VII.A proves that *BHCARs* and *MABHCARs* measure the merger premia that are paid in the acquisition.

[INSERT TABLE 3]

In Table 3 we classify countries relative to the medians of the investor protection indices we consider and a proxy for economic development, OECD membership.¹⁴ We then classify the cross-border mergers in the sample depending on the country of nationality of the acquiror and the target. Chari et al. (2004) show that monthly returns for target firms at the announcement of cross-border mergers average 5.05 to 6.68 percent. They show that such benefits derive from the transfer of majority control from emerging markets to developed markets. Our results are consistent with their view. We find that, while the average *BHCAR* for acquisitions where the acquiror is an OECD member and the target is not is 15.08 percent, the average *BHCAR* in the opposite direction is 7.86 percent (both significant at the one percent level). These differences are driven by the OECD membership of both the acquiror and the target. This can be deduced from the tests of differences that show that abnormal returns are significantly different depending on the OECD membership in the acquiring (target) country (p-values are lower than 0.01 and 0.0105 respectively). When the target country is not an OECD member, acquirors in OECD countries pay higher premia. In Section VIII.B we test whether differences in abnormal returns are due to changes in nationality, or to changes in control.

Interestingly, while Table 3 shows that unadjusted abnormal returns are larger when the target firm is in an OECD member, we find that, after adjusting by a matching acquisition, abnormal returns are larger when the target firm is a nonmember (*MABHCARs* are significantly positive for non-members, and insignificant for members, although their difference is insignificant).

The second panel in Table 3 shows that the previous results can be explained by differences in shareholder protection. In fact, the average acquisition where the acquiror comes from an above-median shareholder protection country, and the target comes from a below-median shareholder protection country, results in abnormal announcement returns of 18.70 percent (5.78 percent matching-acquisition adjusted, significant at the five percent level). Abnormal returns in the opposite case are 5.52 percent (−13.41 percent matching-acquisition adjusted, significant at the one percent level). Therefore, for target firms, it is the difference in shareholder protection in the acquiring firm that determines abnormal returns.

The results for accounting standards mirror our findings for shareholder protection. This is not surprising given the high correlation between the shareholder protection and accounting standards indices (see Table C in the Appendix, and La Porta et al., 2000).

Our findings regarding creditor protection are, however, the opposite. When the acquiror is better than the target in terms of creditor protection, abnormal returns to the target firm are negative (−5.95 percent *MABHCAR*, significant at the five percent level) and when the acquiror is worse than the target, abnormal returns to the target firm are positive (10.16 percent *MABHCAR*, significant at the one percent level). Given the level of creditor protection for the acquiring firm, differences in creditor protection for the target result in significantly different adjusted *BHCARs* (p-value for the difference 0.0045). Finally, we do not find significant differences in returns depending on the level of corruption.

In Table 4 we analyze abnormal returns for acquiring firms. First, and unlike Chari et al. (2004), we find that acquirors in cross-border mergers do not experience positive abnormal returns (even on a matching-acquisition adjusted basis). Our results may be due to a different estimation window, since Chari et al. (2004) report abnormal returns for the month surrounding the announcement, and we focus on five-days announcement effects. Moreover, they calculate abnormal returns relative to a domestic market benchmark, while we calculate abnormal returns relative to the domestic market, and a world index.

[INSERT TABLE 4]

An interesting result is that returns to acquirors depend on the OECD membership of the target firm, but not on the OECD membership of the acquiror itself. Regarding the shareholder protection, we find some intriguing results. When the target firm is in a below-median shareholder protection environment, acquirors suffer higher negative returns compared to acquirors from an above-median shareholder protection country (−3.40 percent versus −1.10 percent adjusted return, with a p-value for the difference of 0.0155). Such a difference is not significant for above-median shareholder protection acquirors.

In sum, when the acquiror is from a country with better shareholder protection, the acquiror's abnormal return is significantly negative. However, when the acquiror is from a country with worse creditor protection and more corruption than the target, the acquiror's abnormal return is more negative than in the opposite case.

In the next section we analyze the determinants of abnormal returns in multivariate fixed-effect regressions.

VI Multivariate Analyses

A Econometric Specification and Controls

In this section we explore the determinants of the matching-acquisition adjusted abnormal returns to target and acquiring firms, as a function of country, industry, and firm-specific characteristics. We specify fixed-effect regressions with $MABHCAR$ as endogenous variable, in the following way:

$$MABHCAR_{it}^{jk} = \alpha_j + d_t + \Phi \cdot C_{jt} + \Psi \cdot GDP_{\xi t} + \mathbf{B} \cdot \mathbf{G}_{jk} + \mathbf{\Gamma} \cdot \mathbf{Z}_i + \varepsilon_i \quad (2)$$

for cross-border acquisition i happening in year t , such that the target firm of industry I is a national of country j and the acquiror is a national of country k . In words, we estimate a cross-sectional regression with target-country-fixed effects, and year-fixed effects.¹⁵ Because acquisitions are matched by the industry of the target firm, industry controls are not necessary. Moreover, we control for certain characteristics of the two countries that are time varying, like the exchange rate between the domestic currency and the U.S. dollar, C_{jt} , and the GDP per capita (in logs), GDP_{ξ} where $\xi = j$ for the country of the target firm and $\xi = k$ for the country of the acquiring firm.

The regulatory environment shapes the market for corporate control in a country. In some countries antitrust laws and merger controls pose strong restrictions to acquirors, which can determine certain characteristics of the deals that take place. We collect information on the date of enactment or the latest amendment of antitrust and merger control laws for our sample of countries, from the White & Case survey "*Worldwide Antitrust Merger Notification Requirements*." This publication also provides information on the main provisions of the laws. Additionally, Dyck and Zingales (2004) collect information on legal requirements that make mandatory the purchase of additional shares once a certain threshold has been reached. We summarize all this information in an index of merger law quality that ranges from zero to six. The index is the sum of six indicators: (1) The national merger law contemplates some form of mandatory merger notification (Y/N); (2) Lack of merger notification involves penalties (Y/N); and (3) Penalties are

proportional to the size of the deal; and (4) Penalties are above the median across all countries; (5) The Law Requires the Mandatory Purchase of Additional Shares above certain threshold; and (6) The Shareholding that Triggers Mandatory Purchase of Shares is below 50 percent; Countries without Merger or Takeover laws are assigned a value of zero. The merger law index is time varying because it equals zero before a country enacts any type of merger law. In our sample of 506 cross-border deals, 35 (7 percent) happen in countries without any type of merger control. Moreover, we take into account amendments to the original merger law that improve the index. For our cross-sectional regressions, we additionally construct a dummy variable that equals one when the country has merger control laws in place in the year of announcement of the corresponding cross-border merger, zero otherwise. Except for five countries¹⁶, antitrust laws and merger control laws are enacted or amended at the same time. Therefore we cannot estimate the effect of antitrust laws alone, which is highly correlated with the effect of merger laws.

The vector G_{jk} includes measures of investor protection in the countries of the target and the acquiror, as well as differences between them. These are the variables that we construct in section IV.

The vector Z_i includes controls that are acquisition specific. In particular, we construct dummy variables that equal one when: (i) the acquisition is non-horizontal; (ii) target shareholders are paid only with cash, (iii) the acquisition is hostile. Vertical and conglomerate mergers have different wealth effects than horizontal acquisitions. Differentiating between all-cash mergers and the rest is also important. Starks et al. (2004) analyze the impact of cross-border acquisitions of U.S. targets on returns to the acquiring firms. They find that only in stock-for-stock offers the abnormal return to the acquiror depends on the investor protection levels in the U.S. They argue that in cash offers target firm shareholders cash out and are not facing different corporate governance regimes. Moreover, Eckbo et al (1990) find that abnormal returns to target firms are significantly larger for all-stock mergers, compared to cash-and-stock and all-cash acquisitions. Schwert (2000) presents some mixed evidence relating the attitude of the bidder-hostile or friendly-to stock price runup prior to acquisition announcements and merger premia. We additionally control for the percentage of the target shares' sought by the acquiror.

We take into account the possibility that the merging firms list in the U.S., either through a direct listing, or an ADR. Firms that list in the U.S. are subject to the S.E.C. reporting requirements, and usually commit to higher levels of investor protection. We construct two dummies that equal one when the target (acquiring) firm has an ADR listed at the time of the merger announcement. We do not control for other target firm characteristics because our matching procedure cancels out the effect of those variables on matching-acquisition adjusted abnormal returns.

Additionally, we control for the overall frequency of mergers in the target country, measured by the

number of completed acquisitions of domestic public firms in a given year, divided by the total number of publicly listed firms in the country.¹⁷ We measure the frequency of all mergers, as well as the frequency of cross-border mergers only. These variables measure the degree to which a given cross-border merger is unexpected in a country, and we expect it to display a negative sign.¹⁸ In some specifications we also include the difference in market capitalization to GDP between the acquiring and the target countries as a measure of financial development. Finally, Φ , Ψ , B and Γ , are sets of parameters to be estimated.

International law prescribes that cross-border mergers entail a change in the law applicable to the target firm when the acquisition is for 100 percent of the target's shares. Therefore we specify an alternative model where we interact a dummy variable D^{100} that equals one for 100 percent acquisitions, zero otherwise, with the corporate governance indices, to estimate the following regression:

$$MABHCAR_{it}^{jk} = \alpha_j + d_t + \Phi \cdot C_{jt} + \Psi \cdot GDP_{\xi t} + B^0 \cdot G_{jk} + B^1 \cdot D_i^{100} \cdot G_{jk} + \Gamma \cdot Z_i + \varepsilon_i \quad (3)$$

We expect the coefficients in B^0 to be different from the coefficients in B^1 . Note that, like in Chari et al. (2004), changes in control result in a value for $D^{100} = 1$. In Section VIII.B we provide results based on two different dummies: one that captures changes in control, and another one that captures changes of nationality only.

B Results: Target Firms

In Table 5 we report results for the estimation of equations (2) and (3). Because the next tables are similar, we will discuss the format in some detail here. The first column shows the "economic significance" of the variables that are statistically significant in at least one of the econometric models we specify.¹⁹ Economic significance is measured in units of standard deviations of the endogenous variable per one standard deviation change in the corresponding exogenous variable. All but one of our regressions use year and target country fixed effects: in model (2) we include target-country specific corporate governance variables, so random-country effects are a natural alternative. The table also reports three R-squared coefficients: "R-squared within" measures the explanatory power of our regressions within each target country; "R-squared between" measures the explanatory power across target countries. "R-squared overall" is the combination of the two.

We have data on all variables available for matching pairs from 31 countries, and a total of 241 observations. Among the acquisition-specific variables that determine abnormal returns, hostility shows a significant coefficient with the expected positive sign. A one-standard deviation increase in the probability

of an acquisition being hostile increases the incremental announcement effect of a cross-border merger by 0.412 standard deviations. When the acquiror has an ADR listed in the U.S., the announcement effect of the acquisition is 0.21 standard deviations higher. The acquisition frequency in the target country has the expected negative impact on the announcement effect of the cross-border mergers in our sample. A one-standard deviation increase in the percent of domestic firms acquired in the country reduce the *MABHCAR* of the cross-border mergers in our sample by -0.26 standard deviations.

[INSERT TABLE 5]

Corporate governance variables do not determine merger premia (model [2]). In model [3] we show that it is not the difference in financial development between the countries of the target and acquiring firms that determines the magnitude of the announcement effect. Instead, it is the difference in shareholder protection and accounting standards between the two countries involved that determines the market impact of the acquisition. In fact, only when we consider 100 percent acquisitions are the coefficients of “Shareholder Protection Difference” and “Accounting Standards Difference” significant. A one-standard deviation increase in the difference in shareholder protection results in 0.22 standard deviations increase in the adjusted abnormal return. This result is consistent with the provisions of international law, which prescribes that only 100 percent acquisitions effectively change the nationality of the target firm. Results on accounting standards deserve some interpretation. Model (9) shows that, when the accounting system of the target firm is unaffected by the cross-border merger, being acquired by a firm in a country with more strict standards is associated to a lower announcement effect (premium). This means that acquirors penalize weak accounting standards in the premia they pay. Accounting standards change for two reasons: because of local accounting rules regarding consolidations in acquisitions, and by international law in 100 percent acquisitions. In both cases we find a significant incremental effect (0.167 and 0.189 standard deviations of the endogenous variable respectively).

[INSERT TABLE 6]

In Table 6 we split the corporate governance index differences between positive and negative values. Our objective is to test for any asymmetries in corporate governance transfers. The main result of the table is that the announcement effect of the acquisition for the target firm, and hence the premium, is related to shareholder protection only when the acquiring firm comes from a country with better shareholder protection. The 1.096 coefficient in the first row of model (1) means that, when a target firm is acquired by

a firm from a country with a one-standard deviation higher shareholder protection index than its own, target shareholders realize a five-day return that is 0.18 standard deviations higher relative to shareholders of a comparable target firm that is acquired by a domestic firm. The economic significance of such difference increases to 0.37 standard deviations when we consider only acquisitions where the acquiror buys 100 percent of the target. Note that this result is not driven by a larger fraction of the target shares being bought, since the coefficient of the “Percentage of Shares Sought by Acquiror” is neither statistical nor economically significant. We find a similar result for the accounting standards difference, although with a slightly lower economic significance. Accounting consolidation rules have a positive effect, but the variable is marginally insignificant.

Interestingly, the asymmetry in the effect implies that shareholders of a target firm that is acquired by a firm from a weaker-shareholder-protection environment do not suffer a significantly lower return. This confirms the intuition that we described in II.E: nothing precludes merging firms to adopt stricter governance rules than the ones prescribed by the corporate code. This result suggests that target firms are able to circumvent the default governance code via private contracting.

Regarding the differences in corruption levels, we find evidence consistent with Section II.D: target firms seem to be affected by corruption levels in the country of origin of the acquiring firms. However, it is only in 100 percent acquisitions, and in acquisitions where the corruption level in the acquiring country is lower (the corruption index is higher) that the abnormal return for the target shareholders is significantly positive (economic significance 0.22 standard deviations).

C Results: Acquiring Firms

Tables 7 report the corresponding results when the endogenous variable is the matching-acquisition adjusted, buy-and-hold abnormal return to the acquiring firm’s shareholders. Accounting consolidation rules have a negative impact: when the acquiror comes from a country with better standards, consolidating the financial statements of the target is associated to a negative announcement effect (economic significance 0.29 standard deviations).

Referee: Please see "Table 3 for Referee" for more detail

The acquiror’s abnormal return is larger, the higher the difference in the level of corruption between the target and the acquiring country. The economic significance of this coefficient is 0.255. Table 11 shows that the result is driven by acquisitions where the corruption index of the acquiring firm is higher (i.e., the level of corruption is lower) than the target (economic significance 0.250). That is, relative to a domestic

acquiror, a foreign acquiror coming from a less corrupted environment benefits more, *ceteris paribus*. In addition, acquiror returns are: lower in vertical mergers; and higher, in cash-financed acquisitions.

[INSERT TABLE 7]

D Summary of the Results

In general, target firms in a weaker corporate governance environment relative to the acquiring firms adopt better practices because of a change in the country of incorporation of the firm. We show that the market positively values this change in the nationality of the target firm. The opposite, however, is not true. When a target firm opts into a less protective country, the market impact of the acquisition for the shareholders of the target firm is not negative. This result suggests that the merging parties engage in private contracting that aims to overcome the weaker protection for the target's shareholders.

We do not find evidence of the *symmetric* effect. That is, when a firm acquires in a more protective environment, its shareholders do not benefit from the stronger protection provided to the shareholders of the target firm. This result is consistent with the view that there is no legal requirement in international law that forces the acquiror's shareholders to transfer the nationality of the newly merged firm to the host country.

The quality of the accounting standards in a cross-border merger is important. By default, a transfer of nationality of the target firm implies a change in the accounting standards. Only when the accounting standards of the acquiring company are stronger, does the target firm shareholders experience abnormal returns relative to targets of domestic acquisitions. Moreover, such an abnormal return is only earned in 100 percent acquisitions, which is consistent with international law.

Finally, we find that firms involved in cross-border mergers are affected by the levels of corruption in the acquiring and target countries. That is, while being acquired by a firm in a less-corrupted environment results in a significantly higher return to the target firm's shareholders, acquiring firms experience higher returns than domestic acquirors when they buy in more-corrupted environments.

VII Proposed Explanations

A High Returns reflect Higher premia

Schwert (1996) computes the merger premium as the total abnormal returns in the target firm from day $t = -42$ to day $t = +126$ relative to the tender offer announcement. In a regression of the bid premium on

the stock price runup (the abnormal return from day $t = -42$ to day $t = 0$) he finds an average coefficient of 1.1 for a sample of around 1,800 acquisitions in the U.S. Schwert's results suggest that the announcement effect of a tender offer is mostly a reflection of the premium paid by the acquiror. We show next that this is the case in our sample as well.

Data on merger premia are not available for all the acquisitions in our sample. We compute merger premium as the percent difference between the value of the consideration offered to the target shareholders (the bid price), and the target company's stock price ten days prior to announcement in domestic currency. The value of the consideration offered to target shareholders depends on whether the merger is cash- or stock-financed. In stock-for-stock mergers the bid price is computed as the exchange ratio times the stock price of the acquiror as of the day of the announcement in the domestic currency of the target firm.

We then calculate the difference between the merger premium and the premium paid in the matching, domestic transaction for each cross-border merger. However the approach of matching by the characteristics of the target firm is not appropriate to analyze merger premia, since there can be differences between the acquiring firms in the two samples. Therefore, we construct for the purposes of this section a second sample of matching acquisitions similar to the one described in section III.B. For each of the 506 cross-border mergers in our final sample, we identify in the country of nationality of the acquiring firm a domestic merger which meets the following criteria: (i) it is announced in the same year as the cross-border merger, (ii) the acquiring firm belongs in the same country and industry (2-digit SIC code) as the acquiring firm of the cross-border merger, (iii) the acquiring company is different from the acquiring company of the cross-border merger, (iv) the percentage of the target's shares sought by the acquiror is below 50 percent if the percent sought in the cross-border merger is below 50 percent, and vice versa, and (v) the acquiring firm is the closest in terms of total assets to the acquiring of the corresponding cross-border merger. Out of 506 acquisitions we are able to match 297 deals with available return information in Datastream both by target and acquiring firm. With the initial matching sample and the acquiror-matched sample we can study whether merger premium differ from domestic acquisitions irrespective of the characteristics of the acquiring and target firms.

[INSERT TABLE 8]

In Table 8 we report the median premium for the sample of cross-border mergers with available data (208) as well as the acquiror- and target-adjusted premia. In median cross-border acquirors pay a premium of 8.28 percent with respect to the target price ten days before the announcement. This is very similar to the 8.41 percent CAR calculated over a period of five days around the announcement. Relative to

acquisitions with comparable targets, premia in cross-border mergers are not significantly different in median although significantly lower in mean (-0.03 percent target-matched premium). With respect to domestic acquisitions with similar acquirors, premium in cross-border mergers are not different either.

In Table 9 we confirm the relationship between premia and abnormal returns. We regress merger premia on abnormal returns and several controls, including firm- and country-specific characteristics as well as country- and year-fixed effects. A one-standard deviation increase in the MABHAR of the target is associated with an increase in the unadjusted premium of 0.38 standard deviations and an increase in the target-matched relative premium of 0.68 standard deviations. With respect to the acquiror we only find that a one-standard deviation increase in the MABHAR of the acquiror is associated with a reduction in the target-matched relative premium of 0.23 standard deviations. These results suggest that our results that abnormal returns for target shareholders are higher when the acquiring parties come from countries with better investor protection are caused by higher premia.

[INSERT TABLE 9]

B Possible Explanations

The question is then why acquirors from more protective countries pay higher premium. In the next sections, we propose and test several possible explanations.

B.1 Explanation 1: Foreign Acquirors are Better Acquirors

First, a higher premium can reflect the gains from the acquisition due to the more efficient management of resources or superior ability. The preliminary evidence in Table 2 is that, one year after the completion of the merger acquirors in cross-border mergers do not outperform domestic acquirors in terms of return on assets, investment and profitability.

We provide further evidence on this hypothesis next. Table 10 reports accounting measures for the merged company as well as for the target company alone, one, two, and three years after the announcement of the cross-border transaction. Because most targets are delisted after the merger, the sample of remaining targets is very small especially in year 3. We obtain data on total sales, investment rates, return on assets, and cash flow from Worldscope. We classify our sample depending on the shareholder protection difference between the acquiror and the target. We then compute the difference in accounting performance measures between each cross-border merger in our sample and the corresponding matching domestic acquisition. We report non-parametric tests of differences.

[INSERT TABLE 10]

Three years after the announcement, there is no evidence of abnormal accounting performance by either the target or the combination of the target and the acquiror. Except for the return on assets (which is insignificantly lower in cross-border mergers) the other measures of performance are virtually identical in cross-border and domestic transactions. We then classify acquisitions depending on the change in shareholder protection. When the acquiror is less protective than the target there is evidence of significant underperformance (return on assets of the merged firm is 32.8% lower in cross-border mergers, and the difference is significant at the five percent level). For 100 percent acquisitions there is evidence of underperformance irrespective of the sign of the difference in shareholder protection. Results are similar for targets alone although significance levels are much smaller due to the reduced sample size.

Therefore acquirors from more protective countries do not pay more because they are more efficient.

B.2 Explanation 2: Foreign Acquirors in cross-border mergers suffer more from agency problems.

In countries with better investor protection, corporate ownership is more dispersed (La Porta et al., 1999). In widely held corporations, agency conflicts cause managers to make value-reducing decisions at the expense of shareholders (Jensen and Meckling, 1976) in the presence of free cash flows. Among these strategies managers will likely make unprofitable acquisitions and will overpay for the targets they acquire. This hypothesis implies that cross-border acquirors display more dispersed ownership relative to domestic acquirors; and that ownership concentration is lower among acquirors in acquisitions where the difference in shareholder protection acquiror-target is positive.

Moreover, this hypothesis implies that if cross-border acquirors have more dispersed ownership they overpay relative to domestic acquirors. However our matching sample of acquisitions where target firms are similar is not of use here. Therefore we need to analyze the difference in ownership concentration and in merger premia for the sample of cross-border mergers, relative to the acquiror-matched sample of domestic mergers.

We obtain data on the percentage of closely held shares for the acquiring firms in our sample from Worldscope. We also obtain these data for the acquirors in the sample of acquiror-matched domestic mergers. "Closely held shares" are defined as percentage of shares held by insiders, which includes shares held by officers, directors and their immediate families; shares held in trust; shares of the company held by any other corporation; shares held by pension/benefit plans; and shares held by individuals who hold 5% or

more of the outstanding shares. (See Appendix Table B for a detailed description of this variable). Closely held shares are a good proxy for ownership concentration, and they are exactly what the α parameter in Jensen and Meckling (1976) measures.

We then compute the mean and median difference in inside ownership between acquirors in cross-border mergers and matching acquirors, and compute such differences depending on the shareholder protection difference between the acquiror and the target country. Results are in Table 11.

[INSERT TABLE 11]

We are able to match 238 cross-border acquisitions with available data. The average percentage of closely held shares is 9.7 percent lower in domestic acquisitions and the difference is significant at the one percent level. In the average cross-border merger 25.8 percent of the shares of the acquiror are held by insiders. In domestic acquisitions with comparable acquirors 34.6 percent of the shares are closely held. Therefore cross-border acquirors are more likely to be firms with more dispersed ownership.

There is not a significant difference between acquisitions where the shareholder protection difference is positive and the rest. More importantly there is no significant difference in 100 percent acquisitions either. Although ownership concentration is higher in cross-border acquirors than in domestic acquirors, the difference between these two is not larger when the shareholder protection difference is positive (p-value for the difference, 0.1564).

Table 12 reports unadjusted merger premia as well as premia adjusted by both acquiror-matched domestic acquisition and by target-matched domestic acquisition. The target-matched relative premium is significantly positive (p-value of 0.0809) when the shareholder protection difference is positive and especially in 100 percent acquisitions (7.54 percent, significant at the one percent level). These results are consistent with Tables 5 and 6. The reported acquiror-matched relative premia are not consistent with the agency cost hypothesis. While Table 11 reports that cross-border acquirors in cross-border mergers where the shareholder protection index difference is positive have more dispersed ownership than domestic acquirors, Table 12 shows that they indeed pay lower premia (the relative premium is -7.44 percent, which is significantly different from zero at the five percent level). Among acquisitions with negative shareholder protection index difference, ownership concentration is lower in cross-border mergers in Table 11 (24.8 percent of shares closely held, versus 31.3 percent in domestic mergers) but merger premia are not significantly different (p-value of 0.7120).

[INSERT TABLE 12]

In conclusion our data do not support the hypothesis that higher merger premia paid by acquirors in countries with better legal protections are associated to agency costs of free cash flows.

B.3 Explanation 3: Auctions for control are more competitive when acquirors are from countries with better protection

It can be possible that cross-border mergers are the result of more competitive bidding process that results in higher premia, especially when won by acquirors in countries with better protection. It is easy to reject his hypothesis with the results in Table 12. For mergers where the shareholder protection index difference is positive, we find that cross-border acquirors pay premia that are lower than premia paid in comparable, domestic acquisitions (matched by acquirors). Therefore merger premia are the highest when both the target and the acquiror are in a country with high protection. This is also consistent with the relative premia that we report for acquisitions with negative shareholder protection index difference: when compared to domestic acquisitions with similar targets (that is, domestic acquisitions in countries with high protection), premia are significantly lower (-8.23 percent relative premium, significant at the one percent level)

B.4 Explanation 4: Higher Premium must be paid to compensated for lost private benefits of control

Dyck and Zingales (2004) provide a comprehensive study of control premia in a sample of firms from 39 countries. They compute control premia as the difference between the per-share price paid for a control block and the price of the stock on a public exchange two days after the announcement of the transaction. When they regress the control premium on the difference in investor protection between the country of the (foreign) acquiror and the country of the target they find that a one-standard deviation increase in the LLSV index of antidirector rights results in 3.68 percent lower control premium.²⁰ Their interpretation is that in countries with better investor protection it is more difficult for managers to extract private benefits of control, hence their willingness to pay for control is also lower. Dyck and Zingales exclude tender offers from their sample and they do not distinguish between change in control and change in nationality. Therefore our samples are not comparable. Our result that the merger premium is positively related to the difference in shareholder protection between the acquiror and the target contradicts Dyck and Zingales (2004), and suggests instead that in order for cross-border acquirors to take over companies in low-protection countries they need to pay higher premia to compensate owners for the lost private benefits of control.

In this section we test this hypothesis. We use data from *Worldscope* on the percentage of shares owned by insiders. In Table 13 we interact our shareholder protection index difference with two dummy variables that measure the amount of shares closely held. We define two thresholds of 20 and 50 percent and construct two dummy variables that equal one when the percent of closely held shares in the target firm exceeds either 20 or 50 percent, and zero otherwise. If the positive abnormal return to the target firm that we find in Tables 5 and 6 is caused by private benefits of control then we should find that such abnormal return is higher the larger the percent held by insiders is. We also measure the difference between the percentage of closely held shares in the target company, and those in the target of the matching acquisition. If MABHCARs are affected by ownership concentration then they will be higher when the percent owned by insiders is larger in the target firm of a cross-border firm than in the target of a similar, domestic acquisition.

[INSERT TABLE 13]

We find results consistent with the private benefits of control hypothesis. When the difference in closely held shares between the cross-border target and the domestic target increases one standard deviation, MABHCARs in 100 percent acquisitions increase 0.134 standard deviations (statistically significant at the 10 percent level in model 1). However our previous results on differences in shareholder protection are not driven by private benefits of control alone. In the same regression the coefficient of "Shareholder Protection Index - Acquiror minus Target" is still economically and statistically significant. Moreover, when we interact the closely held shares percent difference with the shareholder protection difference the coefficient is positive and statistically significant at the one percent level. Therefore there is a positive relationship between the amount of shares held by insiders and the target company's abnormal returns—and hence the premium. Such relationship is stronger the higher the difference in shareholder protection between the acquiror and the target. The economic significance of this interaction is large: 0.317 standard deviations of the endogenous variable.

Results are similar for the 20 percent and 50 percent dummies. That is, when insiders own more than 20 (50) percent of the shares of the target company a one standard deviation increase in the difference in shareholder protection between the acquiror and the target, increases the abnormal return by 0.285 (0.381) standard deviations. As shown in models (7) to (12) our results regarding accounting standards can be partly explained by the percentage of closely held shares as well.

To summarize—we find strong evidence that a higher premium is associated to a larger ownership by insiders and therefore compensates insiders for the loss private benefits of control. However, the effect of

shareholder protection is still significant, even after controlling for the percentage of shares closely held.

B.5 Explanation 5: Higher Premium reflects the value of better investor protection

A final explanation for our findings is formalized by La Porta et al. (2002). They model the relationship between investor protection and corporate valuation. In their model, the entrepreneur owns a percentage of the cashflow rights, and chooses the optimal level of theft that maximizes after-theft cashflows, plus benefits from expropriation, minus costs of such expropriation. They first show that in countries with better shareholder protection, there is less expropriation of minority shareholders. Moreover, they show that, other things being equal, firms in more protective legal regimes should have higher valuation. Additionally, firm value is higher the higher the cashflow ownership by the controlling shareholders.

We find results consistent with their model in Table 13. La Porta et al. (2002) test their model in a cross-section of countries. Instead, we provide evidence on the effect of inside ownership when investor protection improves, along the lines of Shleifer and Wolfenzon (2002). First we show that controlling for inside ownership an improvement in shareholder protection (and accounting standards) in the target firm increases the premium that a potential acquiror has to pay. La Porta et al. (2002) claim that if the cost function is quadratic the marginal benefit of higher cashflow ownership decreases as shareholder protection improves. We interpret our evidence as supportive of such proposition. Models (5) and (6) in Table 13 show that the effect on value of improving the level of investor protection is larger the larger the reduction in ownership concentration as a result of the acquisition. This is so because when insiders control more than 50 percent of the shares a one-standard deviation increase in the shareholder protection difference increases MABHCARs by 0.381 standard deviations. However, when insiders control more than 20 percent the effect on MABHCAR is 0.285 standard deviations. Because the potential reduction in ownership concentration through a cross-border merger is, other things equal, larger when insiders control more shares, the announcement effect of the acquisition—and hence the premium—is larger.

VIII Robustness Tests

A Endogeneity Issues

In this section we want to ensure the accuracy of our methodology. For instance, differences in valuation are systematically related to unobservable firm characteristics, it is possible to find a significant, yet spurious, relationship between corporate governance and firm valuation.

Starks and Wei (2004) find that acquirors from countries with better corporate governance are more

likely to finance acquisitions of U.S. firms with stock. Because Eckbo et al. (1990) find that stock mergers result in larger abnormal announcement effects for targets, this effect alone can explain our findings in the previous sections—even though we control for the means of payment in our regressions.

The endogeneity problem can be address by using a two-step estimation method. There are three explanatory variables in our regressions that can potentially be affected by corporate governance characteristics: the means of payment, whether the acquisition is vertical or not, and the percentage sought in the transaction.²¹ In unreported probit regressions, we find that measures of investor protection are significantly related to the probability that the acquisition is financed with cash. However, there is no relationship between investor protection and the other two variables.²²

Referee: Please see "Table 4 for Referee"

To control for the endogenous choice of a cash merger, we have estimated treatment effect regressions similar to Tables 5-8 where the variable "Cash Merger (Y/N)" is instrumented, using the corporate governance indices as explanatory variables.²³ We do not find any qualitative change in our results.

Referee: Please see "Table 5 for Referee"

B Change of Nationality or Change in Control?

Our results are consistent with a positive valuation effect of a change in control for the target firm. Chari et al. (2004) document larger abnormal returns to target firms in emerging markets, when the acquiror is a firm from a more developed country. We consider that an acquisition entails a change of nationality of the target firm when the acquiror buys 100 percent of the target. In turn, a 100 percent acquisition results automatically in a change in control as well. In this section we separate the effect of a change in control from the effect of a change in nationality and, therefore, a change in the rules that protect investors.

We characterize the acquisitions in our sample with two dummy variables: D^{100} , described in Section VI.A, and a dummy variable D^{50} that equals one when the percent of shares acquired in the transaction is larger than 50 percent. Consequently, for an acquisition where both control and nationality change, the dummy variables become $\{D^{100} = 1, D^{50} = 1\}$. However, when an acquisition changes the control but not the nationality of the target firm, the dummy variables become $\{D^{100} = 0, D^{50} = 1\}$. We interact both dummies with our measures of investor protection change, in multivariate regressions similar to (3).

[INSERT TABLE 14]

In Table 14 we summarize the results of the regressions for both the target and the acquiring firm. With respect to Tables 5 and 6, there is no change in the economic and statistical significance of the interaction between D^{100} and the investor protection indices. Moreover, D^{50} is not significant at explaining target's abnormal returns. Only for the acquiror we find an effect of changes in control. When a firm buys more than 50 percent of another company, in a country with creditor protection and accounting standards which are one standard deviation worse than their own, the announcement effect of the acquisition decreases by 0.17 and 0.53 standard deviations, respectively. Because a change in control does not imply a change in creditor protection, the first result is consistent with a negative valuation effect of bad creditor protection, which remains the one in the country of nationality of the target. The effect of accounting standards may be explained by the lower value that the acquiring shareholders ascribe to a firm with poor accounting standards.

IX Conclusion

This paper presents evidence showing that improvements in accountability and transparency are positively valued by the market. We consider the changes in corporate governance induced by cross-border mergers. For around 500 acquisitions in 39 different countries, and in the period 1989–2002, we construct measures of the corporate governance quality of the deal by taking differences in the indices of investor protection in the countries of the acquiror and the target. Four corporate governance indicators are considered: shareholder protection, creditor protection, accounting standards, and level of corruption. We investigate the relationship between corporate governance quality changes and the announcement effect of an acquisition for the bidder and the target. In order to isolate the pure corporate governance effects, we measure abnormal returns for each of our cross-border mergers relative to a matching, domestic acquisition with similar characteristics.

We undertake a simple and intuitive experiment. By using a sample of cross-border mergers and matching domestic acquisitions we are able to isolate the direct relationship between corporate governance and returns. Our study does not claim that countries or firms that better protect their shareholders are more valuable. Instead, we show that changes in corporate governance within a firm have value implications. Besides, unlike country-specific studies, ours provides a setting where corporate governance quality improves as often as it worsens. In fact, we find that opting into a more protective regime is sometimes not the opposite of opting into a less protective one.

Our main result is that acquisitions of firms in weaker shareholder protection countries by firms in

stronger protective regimes results in a higher announcement effect for the target firm, relative to a similar target in a domestic acquisition. This result is robust to country, year, and industry characteristics. It is however not true that acquisitions by firms in weaker corporate governance environments result in a negative announcement effect for the acquiror.

Our results do not suggest that corporate governance is a motive for cross-border acquisitions. Even if target firms could opt into the best corporate governance system, it is not clear that acquirors in such a system would be willing to take over a firm in an environment with worse investor protection. Quite the contrary, our study finds that acquiring firms do not gain or lose value by merging with firms that provide weaker protection to investors and poorer accounting standards. The question is then why these mergers happen, and it goes beyond the scope of this paper.²⁴

An area for future research is the study of the specific characteristics of cross-border mergers that affect firm value. In our paper, we control for the frequency of domestic and cross-border acquisitions affecting a particular country, and show that these ratios are significantly related to the market's reaction to the announcement of a cross-border merger. Exploring the factors behind these costs and benefits, and documenting the differences between domestic and cross-border mergers, deserve future work.

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11. In our final sample of 508 deals, there are more cross-border acquisitions where the acquiror comes from a below-median shareholder protection country and the target comes from an above-median country (24.5 percent), than the reverse (22.5 percent).
12. The market index is the corresponding market index in the country of nationality of the target and the acquiring firm, respectively.
13. While in the US lack of data for a particular stock in a given day is not an issue, in emerging markets it is. Sometimes trading is suspended for a particular stock during a short period. Therefore, when the price information is missing for a given stock in a given day, one does not know whether it is due to non-trading or data unavailability (this is especially true in Datastream). A window of 30 trading days prior to the announcement of an acquisition may mean 6 weeks for one stock, and three months for other.
14. There are 23 out of 39 target countries in our sample which are OECD members.
15. In some specifications we estimate target-country random effects.
16. Finland, Peru, Turkey, Switzerland, and Argentina. See a listing of enactment dates in Table A in the Appendix.
17. The number of publicly listed firms in the country is from the World Bank Development Indicators.
18. We have alternatively estimated our regressions with a measure of the frequency of acquisitions which is industry and year specific. There is no quantitative change in our results. We prefer the country measure, because otherwise there are too many zeroes.
19. When the coefficient is significant in two or more models, the reported economic significance is the average of the models where the coefficient is significant.
20. The index of antidirector rights varies from zero to five, and has a standard deviation of 1.3637. The coefficient of "Interaction of Relative Strength of Antidirector Rights and Foreign Acquiror" in Dyck and Zingales (2004), Table V, is -0.027 .
21. It can be argued that also the attitude of the acquiror is linked to regulatory variables specific to the target and acquiring country. However, the number of hostile bids in our sample is so small that such analysis is difficult.
22. Regarding the relationship between the probability of an acquisition being financed with cash and shareholder protection, we find results different from Starks and Wei (2004). That is, the higher the difference in protection between the acquiror and the target, the more likely it is that the acquisition is financed with cash, and only in 100% acquisitions. One possible explanation for the differential results is that we control for the acquiror having an ADR listed in the U.S., which is negatively related to the probability of paying with cash.
23. These results are available from the authors upon request.
24. As Alexander (2000) indicates, there can be several reasons why firms undertake cross-border mergers: intensive consolidation or preempting restructuring, battle for scale driven by structural pressures, response to technological changes, increases in scale to market, the need to advertise globally, exhaustion of the domestic merger route, and the opportunity to gain a foothold in new markets. See also Caves (1996), who provides an economic analysis of the existence and consequences of multinational firms.

Cross-Border Mergers

	Original SDC Sample		SDC + Worldscope Sample		Final Sample	
	Target	Acquiror	Target	Acquiror	Target	Acquiror
Number of Acquisitions	1,508		713		506	
Total Assets (\$Mil) at t=0						
Mean	\$2,052.6	\$35,290.7	\$2,945.6	\$76,588.3	\$3,799.6	\$63,282.3
Median	\$179.4	\$3,778.5	\$388.9	\$8,577.5	\$359.0	\$7,644.5
Min	\$0.0	\$19.0	\$0.0	\$19.0	\$0.0	\$19.0
Max	\$140,979.9	\$944,327.0	\$140,102.0	\$1,615,859.0	\$123,995.2	\$925,791.5
Standard Deviation	\$9,399.9	\$105,804.0	\$9,787.0	\$189,221.5	\$10,866.5	\$155,780.7
Test of Differences with Original SDC Sample (p-value)			0.1841*** (0.0000)	0.1798*** (0.0000)	0.1715*** (0.0000)	0.1685*** (0.0000)
Test of Differences with SDC + Worldscope Sample (p-value)					0.0862* (0.0680)	0.0437 (0.6760)

Domestic Mergers

	Original SDC Sample		SDC + Worldscope Sample		Final Sample	
	Target	Acquiror	Target	Acquiror	Target	Acquiror
Number of Acquisitions	6,545		2,626		506	
Total Assets (\$Mil) at t=0						
Mean	\$2,528.9	\$11,924.0	\$2,425.6	\$16,912.0	\$2,610.6	\$25,993.5
Median	\$148.4	\$1,259.4	\$295.1	\$2,337.8	\$361.8	\$2,889.6
Min	\$1.4	\$6.8	\$1.4	\$6.8	\$1.4	\$6.8
Max	\$574,103.3	\$1,057,657.0	\$120,094.0	\$1,057,657.0	\$82,618.7	\$925,791.5
Standard Deviation	\$19,548.7	\$42,800.3	\$8,346.6	\$62,985.0	\$7,687.6	\$72,349.3
Test of Differences with Original SDC Sample (p-value)			0.1729*** (0.0000)	0.1122*** (0.0000)	0.2074*** (0.0000)	0.1851*** (0.0000)
Test of Differences with SDC + Worldscope Sample (p-value)					0.0724 (0.1080)	0.1029*** (0.0010)

Table 1. Construction of the sample

The original sample consists of all domestic and cross-border mergers identified by the Securities Data Corporation (SDC) M&A Database, between January 1989, and December 2002. Only completed deals where both the acquirer and the target are publicly listed corporations are included, and we exclude from the sample: leverage buyouts, privatizations, acquisitions of minority interest, and spin-offs. We then construct a sample of cross-border mergers with accounting information available in Worldscope (SDC + Worldscope sample). Finally, we identify, for each of the cross-border mergers in the sample, another domestic acquisition in the same year, where the target company belongs in the same country and industry, and is the closest in size to the cross-border target. The "Final Sample" includes only those cross-border mergers for which a matching acquisition could be identified, and after winsorizing the sample at the 1 percent level. The table shows the Total Assets at the announcement of the acquisition for the three samples. Tests of differences are based on a non-parametric, Kolmogorov-Smirnov test.

OECD Membership - Acquiror									
		Non-Member		Member		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
OECD Membership - Target	Non-Member	-0.18%	0.82%	15.08% ***	9.65% **	8.36% ***	6.27% **	(0.0022)	(0.1644)
	Member	7.86% ***	-3.01% **	14.75% ***	0.74%	13.60% ***	0.09%	(0.0000)	(0.0107)
	All	7.12% ***	-2.79% **	14.76% ***	0.92%	14.20% ***	0.26%	(0.0000)	(0.0089)
	Difference (p-value)	(0.0557)	(0.0812)	(0.9538)	(0.1742)	(0.0105)	(0.1422)		
Shareholder Protection - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Shareholder Protection - Target	Below Median	13.92% ***	0.45%	18.70% ***	5.78% **	14.18% ***	0.74%	(0.0216)	(0.0855)
	Above Median	5.52% ***	-13.41% ***	21.68% ***	1.31%	14.41% **	-5.13% **	(0.0000)	(0.0016)
	All	13.59% ***	-0.10%	20.10% ***	3.64% *	14.20% ***	0.26%	(0.0002)	(0.0163)
	Difference (p-value)	(0.0013)	(0.0001)	(0.6288)	(0.3698)	(0.8679)	(0.0879)		
Creditor Protection - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Creditor Protection - Target	Below Median	14.31% ***	0.42%	8.35% ***	-5.95% **	14.03% ***	0.10%	(0.0507)	(0.0571)
	Above Median	23.70% ***	10.16% ***	7.15% ***	-6.32% **	16.26% **	2.32%	(0.0009)	(0.0005)
	All	14.72% ***	0.81%	7.83% ***	-6.10% ***	14.20% ***	0.26%	(0.0025)	(0.4100)
	Difference (p-value)	(0.0105)	(0.0044)	(0.5959)	(0.7214)	(0.6040)	(0.0045)		
Accounting Standards - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Accounting Standards - Target	Below Median	13.03% ***	-0.05%	15.30% ***	2.36%	13.12% ***	0.06%	(0.6835)	(0.5275)
	Above Median	11.43% ***	-1.89% *	21.69% ***	6.52% *	17.33% ***	3.00%	(0.0377)	(0.3911)
	All	12.98% ***	-0.10%	18.43% ***	4.35% *	13.40% ***	0.26%	(0.0130)	(0.2823)
	Difference (p-value)	(0.5610)	(0.4562)	(0.0046)	(0.1008)	(0.0028)	(0.0546)		
Corruption - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Corruption - Target	Below Median	14.34% ***	0.17%	12.39% ***	-1.36%	14.27% ***	0.11%	(0.0001)	(0.6611)
	Above Median	14.02% ***	3.58%	5.49% **	2.66%	12.52% **	3.42%	(0.0384)	(0.8811)
	All	14.33% ***	0.30%	11.23% ***	-0.70%	14.20% ***	0.26%	(0.0000)	(0.2863)
	Difference (p-value)	(0.9517)	(0.3356)	(0.2196)	(0.5607)	(0.5749)	(0.7912)		

Table 3. Announcement CARs for target firms and Investor Protection

The table shows CARs and matching-acquisition-adjusted buy-and-hold CARs for the target company at the announcement of cross-border mergers. We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=-100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted BHCARs as $[BHCAR_{cb}-BHCAR_{dom}]$, where $BHCAR_{cb}$ corresponds to the cross-border merger, and $BHCAR_{dom}$ corresponds to the matching domestic acquisition. We then classify deals depending on the indices of investor protection in the country of origin of both the target and the acquiring firm. Market data is from Datastream. Univariate tests of significance are based on cross-sectional t-statistics. Tests of differences are based on a non-parametric Kruskal-Wallis tests, with the null hypothesis that the two samples are from the same population. P-values are in parentheses.

OECD Membership - Acquiror									
		Non-Member		Member		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
OECD Membership - Target	Non-Member	-2.23% *	3.85% *	-0.32%	3.19% ***	-1.23%	3.52% ***	(0.3740)	(0.7989)
	Member	-0.83% **	-1.52% **	-1.35% ***	-1.23% ***	-1.25% ***	-1.29% ***	(0.7497)	(0.6408)
	All	-0.95% ***	-1.19% **	-1.33% ***	-1.16% ***	-1.12% ***	-1.17% ***	(0.5851)	(0.8976)
	Difference (p-value)	(0.4613)	(0.0460)	(0.9244)	(0.0244)	(0.6210)	(0.0028)		
Shareholder Protection - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Shareholder Protection - Target	Below Median	-1.05% ***	-1.10% ***	-1.51% *	-3.40% ***	-1.07% ***	-1.22% ***	(0.6448)	(0.0155)
	Above Median	-1.23%	-0.73%	-2.07% **	-0.53%	-1.69% **	-0.62%	(0.3545)	(0.8695)
	All	-1.06% ***	-1.09% ***	-1.79% ***	-1.97% ***	-1.12% ***	-1.17% ***	(0.2754)	(0.4032)
	Difference (p-value)	(0.8133)	(0.5761)	(0.6188)	(0.0331)	(0.5311)	(0.1588)		
Creditor Protection - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Creditor Protection - Target	Below Median	-1.08% ***	-1.02% ***	-1.34%	-0.86%	-1.09% ***	-1.01% ***	(0.8864)	(0.7690)
	Above Median	-1.18%	-3.21% ***	-1.97% **	-3.22% **	-1.54% **	-3.21% ***	(0.9268)	(0.9366)
	All	-1.08% ***	-1.11% ***	-1.61% **	-1.84% **	-1.12% ***	-1.17% ***	(0.9616)	(0.0174)
	Difference (p-value)	(0.6794)	(0.0677)	(0.7571)	(0.1438)	(0.6162)	(0.5186)		
Accounting Standards - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Accounting Standards - Target	Below Median	-1.28% ***	-1.10% ***	-1.74% **	-2.04% *	-1.30% ***	-1.14% ***	(0.8543)	(0.6677)
	Above Median	0.15%	-0.80%	-1.23%	-2.17% *	-0.63%	-1.59% *	(0.1556)	(0.3171)
	All	-1.23% ***	-1.09% ***	-1.50% ***	-2.09% ***	-1.12% ***	-1.17% ***	(0.6064)	(0.5067)
	Difference (p-value)	(0.1547)	(0.7203)	(0.8247)	(0.5491)	(0.5582)	(0.2581)		
Corruption - Acquiror									
		Below Median		Above Median		All		Difference (p-value)	
		CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR	CAR	Matching Acquisition Adjusted CAR
Corruption - Target	Below Median	-1.14% ***	-1.14% ***	-1.42%	-1.30%	-1.15% ***	-1.15% ***	(0.7778)	(0.9252)
	Above Median	-1.66%	-2.57% ***	4.56%	2.48%	-0.53%	-1.69% *	(0.0244)	(0.0179)
	All	-1.16% ***	-1.19% ***	-0.40%	-0.67%	-1.12% ***	-1.17% ***	(0.5726)	(0.3340)
	Difference (p-value)	(0.2972)	(0.0687)	(0.0783)	(0.0929)	(0.9019)	(0.5058)		

Table 4. Announcement CARs for acquiring firms and Investor Protection

The table shows CARs and matching-acquisition-adjusted buy-and-hold CARs for the target company at the announcement of cross-border mergers. We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=-100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted BHCARs as $[BHCAR_{cb}-BHCAR_{dom}]$, where $BHCAR_{cb}$ corresponds to the cross-border merger, and $BHCAR_{dom}$ corresponds to the matching domestic acquisition. We then classify deals depending on the indices of investor protection in the country of origin of both the target and the acquiring firm. Market data is from Datastream. Univariate tests of significance are based on cross-sectional t-statistics. Tests of differences are based on a non-parametric Kruskal-Wallis tests, with the null hypothesis that the two samples are from the same population. P-values are in parentheses.

	Economic Significance	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Shareholder Protection: Acquiror			-0.102 [0.49]									
Shareholder Protection: Target			0.196 [0.75]									
Creditor Protection: Acquiror			-0.012 [0.07]									
Creditor Protection: Target			-0.13 [0.66]									
Accounting Standards: Target			0.249 [0.79]									
Accounting Standards: Acquiror			-0.662 [1.39]									
Corruption Index: Target			0.0123 [0.001]									
Corruption Index: Acquiror			0.1235 [0.914]									
MarkCap to GDP: Acquiror minus Target Country				0.049 [0.58]								
Shareholder Protection Difference: Acquiror minus Target					0.406 [1.22]	-0.168 [0.43]						
Shareholder Protection Difference, 100% Acquisitions	21.9%					1.349*** [2.64]						
Creditor Protection Difference: Acquiror minus Target							0.263 [0.80]	0.346 [0.74]				
Creditor Protection Difference, 100% Acquisitions								-0.146 [0.25]				
Accounting Standards Difference: Acquiror minus Target	-17.6%								-0.349 [0.52]	-1.369* [1.74]		
Acc.St.Diff. x Acc. Consolidation Acquiror	16.7%								2.628** [2.16]	2.432** [2.02]		
Accounting Standards Difference, 100% Acquisitions	18.9%									2.625** [2.39]		
Corruption Index Difference: Acquiror minus Target											3.036 [1.12]	-1.025 [0.29]
Corruption Difference, 100% Acquisitions	16.3%											8.463* [1.78]
Log (GDP per Capita): Target Country		6.723 [0.93]	-0.788 [0.19]	7.732 [1.04]	6.379 [0.89]	5.378 [0.76]	5.115 [0.70]	5.399 [0.73]	7.149 [0.96]	2.357 [0.31]	2.832 [0.83]	-0.026 [0.01]
Log (GDP per Capita): Acquiror Country		-9.353 [0.61]	-6.93 [1.06]	-9.562 [0.62]	-6.854 [0.44]	-5.588 [0.36]	-5.217 [0.34]	-5.42 [0.35]	-3.017 [0.19]	-6.924 [0.43]	-1.839 [0.30]	-1.613 [0.26]
# Acquisitions / # Listed Firms in Target Country	-25.8%	-473.845** [2.24]	-22.662 [0.21]	-451.626** [2.10]	-399.178* [1.82]	-351.301 [1.62]	-559.516** [2.47]	-563.289** [2.48]	-399.085* [1.85]	-490.002** [2.25]	99.199 [1.12]	68.667 [0.77]
# Cross-Border Acquisitions / # Listed Firms in Target Country		223.539 [0.60]	-64.131 [0.32]	173.854 [0.45]	75.249 [0.19]	-59.219 [0.15]	373.44 [0.96]	366.246 [0.94]	114.201 [0.30]	231.911 [0.62]	-232.148 [1.45]	-209.701 [1.31]
Vertical Merger (Y/N)		-13.17 [1.21]	5.241 [1.17]	-12.811 [1.17]	-12.199 [1.12]	-12.739 [1.18]	-13.77 [1.27]	-13.744 [1.27]	-14.759 [1.36]	-14.909 [1.39]	6.406 [1.45]	6.293 [1.43]
Cash Payment (Y/N)		-2.999 [0.26]	-4.606 [0.94]	-3.079 [0.27]	-1.842 [0.16]	-1.33 [0.12]	-4.527 [0.39]	-4.343 [0.38]	-1.768 [0.15]	-4.474 [0.39]	-5.445 [1.16]	-5.872 [1.25]
Hostile Acquisition (Y/N)	41.2%	187.668*** [6.45]	17.68 [1.28]	186.176*** [6.37]	187.248*** [6.45]	189.246*** [6.60]	213.014*** [6.94]	213.541*** [6.92]	180.587*** [6.21]	183.571*** [6.37]	18.774 [1.50]	17.963 [1.44]
Change in Exchange Rate (Local Currency - Target, per \$)		-44.084 [0.82]	-5.673 [0.24]	-46.115 [0.86]	-58.879 [1.07]	-52.05 [0.96]	-49.3 [0.93]	-50.181 [0.94]	-40.244 [0.75]	-42.059 [0.80]	-6.172 [0.29]	-4.899 [0.23]
Change in Exchange Rate (Local Currency - Acquiror, per \$)		-0.148 [0.00]	-60.337 [1.33]	7.116 [0.07]	56.238 [0.54]	62.835 [0.61]	-6.746 [0.07]	-6.682 [0.07]	-29.299 [0.30]	-25.166 [0.26]	-28.447 [0.76]	-30.499 [0.81]
Percentage of Shares Sought by Acquiror		0.171 [1.10]	0.004 [0.06]	0.177 [1.13]	0.18 [1.16]	0.174 [1.14]	0.198 [1.28]	0.199 [1.28]	0.162 [1.04]	0.157 [1.03]	-0.001 [0.01]	0.011 [0.18]
Target Company has ADR listed		-13.792 [0.62]	-0.88 [0.08]	-13.033 [0.59]	-13.611 [0.62]	-8.821 [0.40]	-14.046 [0.64]	-13.585 [0.62]	-18.678 [0.84]	-18.888 [0.86]	0.453 [0.05]	-0.023 [0.00]
Acquiring Company has ADR listed	21.1%	5.317 [0.40]	23.009*** [2.79]	5.732 [0.43]	5.456 [0.41]	4.894 [0.37]	3.664 [0.28]	3.532 [0.27]	-4.195 [0.30]	-2.951 [0.21]	13.553** [2.52]	12.453** [2.31]
Merger Control (Y/N) - Target		9.811 [0.32]	-1.216 [0.09]	8.946 [0.29]	19.554 [0.62]	10.225 [0.33]	21.137 [0.66]	22.422 [0.69]	16.825 [0.55]	23.301 [0.76]	4.513 [0.37]	5.94 [0.49]
Merger Law Quality Index - Target		-6.019 [1.06]	-0.827 [0.28]	-6.349 [1.11]	-8.284 [1.39]	-8.211 [1.39]	-5.943 [1.01]	-6.029 [1.02]	-6.004 [1.02]	-7.189 [1.23]	-1.768 [0.76]	-2.161 [0.93]
Observations		241	234	241	241	241	240	240	241	241	235	235
Number of Countries		31	30	31	31	31	30	30	31	31	31	31
R-squared within		0.21	0.18	0.21	0.21	0.25	0.21	0.21	0.23	0.25	0.16	0.17
R-squared between		0.06	0.36	0.06	0.06	0.05	0.27	0.26	0.08	0.08	0.15	0.16
R-squared total		0.21	0.22	0.22	0.22	0.24	0.24	0.24	0.23	0.25	0.18	0.19
YEAR EFFECTS		FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED
TARGET COUNTRY EFFECTS		FIXED	RANDOM	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 5. Panel Regressions. Matching-Acquisition-Adjusted CAR for Target Firms (I)

We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a target firm estimated using daily firm and market returns over the period $t=-260$ to $t=100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted CARs as $[CAR_{cb}-CAR_{dom}] / CAR_{dom}$, where CAR_{cb} corresponds to the cross-border merger, and CAR_{dom} corresponds to the matching domestic acquisition. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

	Economic Significance	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Shareholder Protection Difference, only positive	18.3%	1.096** [2.13]	0.086 [0.16]						
Shareholder Protection Difference, only negative		-0.265 [0.52]	-0.334 [0.46]						
Shareholder Prot. Diff., only Positive, 100% Acquisitions	37.4%		4.405*** [4.91]						
Shareholder Prot. Diff., only Negative, 100% Acquisitions			-0.189 [0.23]						
Creditor Protection Difference, only positive				0.033 [0.06]	0.42 [0.44]				
Creditor Protection Difference, only negative				0.539 [0.93]	0.351 [0.49]				
Creditor Prot. Diff., only Positive, 100% Acquisitions					-0.543 [0.50]				
Creditor Prot. Diff., only Negative, 100% Acquisitions					0.419 [0.39]				
Accounting Standards Difference, only positive	-28.3%					-0.947 [0.64]	-3.196** [1.96]		
Accounting St. Diff., only Positive x Accounting Consolidation						0.969 [0.72]	2.214 [1.60]		
Accounting Standards Difference, only negative						0.831 [0.60]	0.195 [0.11]		
Accounting St. Diff., only Negative x Accounting Consolidation						-0.796 [0.28]	-1.088 [0.39]		
Accounting St. Diff., only Positive, 100% Acquisitions	26.8%						5.790*** [2.95]		
Accounting St. Diff., only Negative, 100% Acquisitions							0.08 [0.04]		
Corruption Index Difference, only positive								4.811 [1.39]	-0.782 [0.19]
Corruption Index Difference, only negative								-0.233 [0.05]	-5.092 [0.68]
Corruption Diff., only Positive, 100% Acquisitions	22.4%								18.671** [2.39]
Corruption Diff., only Positive, 100% Acquisitions									3.671 [0.42]
Log (GDP per Capita): Target Country		6.526 [0.91]	2.976 [0.43]	5.503 [0.75]	5.839 [0.78]	6.736 [0.88]	0.361 [0.05]	3.666 [1.03]	-0.288 [0.08]
Log (GDP per Capita): Acquiror Country		-11.54 [0.74]	-16.402 [1.10]	-5.355 [0.34]	-5.585 [0.36]	-8.925 [0.54]	-13.366 [0.82]	-2.218 [0.36]	-2.435 [0.40]
# Acquisitions / # Listed Firms in Target Country	-29.9%	-361.089 [1.64]	-136.457 [0.64]	-577.938** [2.53]	-599.814** [2.57]	-495.337** [2.22]	-535.466** [2.41]	93.099 [1.05]	36.301 [0.40]
# Cross-Border Acquisitions / # Listed Firms in Target Country		42.335 [0.11]	-384.931 [1.01]	385.865 [0.99]	403.763 [1.02]	288.999 [0.74]	428.578 [1.11]	-235.935 [1.47]	-193.143 [1.21]
Vertical Merger (Y/N)		-11.866 [1.09]	-11.723 [1.14]	-13.652 [1.26]	-13.79 [1.27]	-13.367 [1.21]	-14.022 [1.29]	6.372 [1.44]	6.396 [1.46]
Cash Payment (Y/N)		-3.176 [0.28]	-9.533 [0.87]	-4.28 [0.37]	-4.595 [0.39]	-2.872 [0.24]	-8.907 [0.76]	-5.194 [1.10]	-5.353 [1.15]
Hostile Acquisition (Y/N)	41.0%	183.801*** [6.34]	181.680*** [6.60]	212.837*** [6.92]	212.978*** [6.88]	186.730*** [6.20]	180.383*** [6.08]	18.565 [1.48]	16.778 [1.35]
Change in Exchange Rate (Local Currency - Target, per \$)		-69.574 [1.26]	-58.664 [1.12]	-51.574 [0.97]	-52.4 [0.98]	-44.085 [0.81]	-40.645 [0.76]	-6.029 [0.28]	-2.798 [0.13]
Change in Exchange Rate (Local Currency - Acquiror, per \$)		30.301 [0.29]	-1.851 [0.02]	-4.931 [0.05]	-13.539 [0.14]	20.266 [0.20]	23.463 [0.24]	-27.424 [0.73]	-29.642 [0.79]
Percentage of Shares Sought by Acquiror		0.167 [1.08]	-0.235 [1.26]	0.2 [1.29]	0.27 [1.34]	0.178 [1.12]	-0.048 [0.23]	-0.001 [0.01]	-0.033 [0.44]
Target Company has ADR listed		-12.359 [0.56]	-10.269 [0.49]	-14.306 [0.65]	-14.092 [0.64]	-16.407 [0.72]	-20.962 [0.93]	0.268 [0.03]	-0.909 [0.10]
Acquiring Company has ADR listed	17.4%	8.339 [0.63]	8.901 [0.71]	3.516 [0.27]	3.447 [0.26]	2.922 [0.19]	4.348 [0.29]	14.135*** [2.60]	12.716** [2.35]
Merger Control (Y/N) - Target		27.964 [0.88]	13.334 [0.44]	20.229 [0.63]	26.568 [0.78]	9.145 [0.29]	10.982 [0.35]	4.691 [0.38]	7.133 [0.59]
Merger Law Quality Index - Target	-15.3%	-9.728 [1.62]	-12.022** [2.10]	-6.506 [1.09]	-6.913 [1.15]	-6.445 [1.04]	-6.956 [1.15]	-1.829 [0.79]	-2.828 [1.21]
Observations		241	241	240	240	241	241	235	235
Number of Countries		31	31	30	30	31	31	31	31
R-squared within		0.22	0.33	0.21	0.21	0.21	0.25	0.16	0.18
R-squared between		0.07	0.05	0.23	0.27	0.06	0.07	0.19	0.21
R-squared total		0.23	0.31	0.24	0.24	0.22	0.25	0.18	0.21
YEAR EFFECTS		FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED
TARGET COUNTRY EFFECTS		FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 6. Panel Regressions. Matching-Acquisition-Adjusted CAR for Target Firms (II)

We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=-100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted CARs as $[CAR_{cb}-CAR_{dom}]$, where CAR_{cb} corresponds to the cross-border merger, and CAR_{dom} corresponds to the matching domestic acquisition. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

	Economic Significance	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Shareholder Protection Difference, only positive		-8.518 [0.96]	-9.015 [1.00]						
Shareholder Protection Difference, only negative		-8.952 [1.00]	-9.557 [1.05]						
Shareholder Prot. Diff., only Positive, 100% Acquisitions			-0.136 [0.37]						
Shareholder Prot. Diff., only Negative, 100% Acquisitions			0.106 [0.42]						
Creditor Protection Difference, only positive				-9.349 [0.91]	-9.046 [0.88]				
Creditor Protection Difference, only negative				-9.565 [0.93]	-9.094 [0.88]				
Creditor Prot. Diff., only Positive, 100% Acquisitions					0.082 [0.21]				
Creditor Prot. Diff., only Negative, 100% Acquisitions					-0.505 [1.41]				
Accounting Standards Difference, only positive						0.222 [0.10]	0.057 [0.02]		
Accounting St. Diff., only Positive x Accounting Consolidation	-29.6%					-1.025** [2.20]	-1.182** [2.44]		
Accounting Standards Difference, only negative						-0.622 [0.26]	-0.483 [0.20]		
Accounting St. Diff., only Negative x Accounting Consolidation						-0.153 [0.18]	-0.093 [0.11]		
Accounting St. Diff., only Positive, 100% Acquisitions							-0.853 [0.98]		
Accounting St. Diff., only Negative, 100% Acquisitions							-0.519 [0.74]		
Corruption Index Difference, only positive	25.5%							6.234 [1.56]	7.170* [1.67]
Corruption Index Difference, only negative								-5.331 [0.73]	-1.581 [0.18]
Corruption Diff., only Positive, 100% Acquisitions									-5.034 [0.67]
Corruption Diff., only Positive, 100% Acquisitions									-5.975 [0.83]
Log (GDP per Capita): Target Country		-85.567 [0.87]	-90.592 [0.91]	-81.674 [0.82]	-79.234 [0.80]	-85.779 [0.87]	-97.805 [0.99]	-124.96 [1.20]	-127.154 [1.21]
Log (GDP per Capita): Acquiror Country		97.049 [0.70]	96.876 [0.70]	107.647 [0.78]	96.112 [0.68]	137.413 [0.99]	131.046 [0.94]	130.214 [0.90]	137.476 [0.94]
# Acquisitions / # Listed Firms in Target Country		-12.266 [0.10]	-13.353 [0.11]	-16.49 [0.14]	-36.338 [0.29]	-12.088 [0.10]	-34.105 [0.28]	-4.234 [0.03]	-12.193 [0.10]
# Cross-Border Acquisitions / # Listed Firms in Target Country		-133.161 [0.54]	-135.93 [0.55]	-145.039 [0.58]	-108.882 [0.44]	-138.214 [0.56]	-92.319 [0.37]	-129.491 [0.52]	-109.581 [0.44]
Vertical Merger (Y/N)	-12.6%	-6.265* [1.86]	-6.148* [1.81]	-6.494* [1.92]	-6.320* [1.86]	-6.105* [1.79]	-5.635 [1.64]	-6.896** [2.00]	-6.843** [1.98]
Cash Payment (Y/N)	27.5%	14.439*** [3.68]	14.886*** [3.68]	14.252*** [3.61]	14.877*** [3.74]	13.649*** [3.43]	14.069*** [3.52]	14.676*** [3.64]	14.718*** [3.64]
Hostile Acquisition (Y/N)		4.375 [0.37]	4.285 [0.36]	2.274 [0.19]	4.28 [0.36]	4.052 [0.35]	3.369 [0.29]	2.088 [0.18]	2.686 [0.23]
Change in Exchange Rate (Local Currency - Target, per \$)		6.262 [0.28]	5.822 [0.26]	8.204 [0.37]	7.551 [0.34]	7.214 [0.32]	8.028 [0.36]	6.036 [0.26]	5.811 [0.25]
Change in Exchange Rate (Local Currency - Acquiror, per \$)		-25.514 [0.71]	-27.345 [0.75]	-20.674 [0.57]	-11.513 [0.31]	-26.88 [0.74]	-21.5 [0.58]	-13.275 [0.36]	-9.811 [0.26]
Percentage of Shares Sought by Acquiror		-0.027 [0.50]	-0.006 [0.09]	-0.015 [0.29]	-0.066 [0.93]	-0.034 [0.63]	-0.048 [0.66]	-0.012 [0.21]	-0.03 [0.45]
Target Company has ADR listed		-1.108 [0.16]	-0.958 [0.14]	-1.76 [0.25]	-1.635 [0.23]	-1.755 [0.25]	-1.859 [0.27]	-2.452 [0.34]	-1.775 [0.24]
Acquiring Company has ADR listed		-1.363 [0.30]	-1.277 [0.28]	-1.764 [0.39]	-2.162 [0.47]	-1.512 [0.29]	-1.349 [0.25]	-0.233 [0.05]	0.267 [0.06]
Merger Control (Y/N) - Target		-120.106 [0.87]	-128.263 [0.91]	79.293 [1.02]	79.626 [1.02]	-20.414 [0.35]	-30.264 [0.51]	9.293 [0.35]	10.987 [0.41]
Merger Law Quality Index - Target		38.34 [0.86]	41.375 [0.91]	-28.739 [1.07]	-28.788 [1.06]	4.692 [0.27]	8.193 [0.46]	-5.87 [0.83]	-6.135 [0.86]
Observations		258	258	257	257	258	258	253	253
Number of acountry		18	18	18	18	18	18	17	17
R-squared within		0.29	0.29	0.28	0.29	0.3	0.31	0.29	0.3
R-squared between		0.01	0.02	0.06	0.06	0.03	0.02	0.03	0.03
R-squared total		0.3	0.31	0.3	0.3	0.07	0.07	0.08	0.08
YEAR EFFECTS		FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED
TARGET COUNTRY EFFECTS		FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED	FIXED

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 7. Panel Regressions. Matching-Acquisition-Adjusted CAR for Acquiring Firms

We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=-100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted CARs as $[CAR_{cb}-CAR_{dom}]$, where CAR_{cb} corresponds to the cross-border merger, and CAR_{dom} corresponds to the matching domestic acquisition. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

	Buy-and-Hold Abnormal Returns			Merger Premium		
	Mean	Median	Number of Acquisitions	Mean	Median	Number of Acquisitions
Unadjusted	14.2%***	8.41%***	506	15.16%***	8.28%***	208
Acquiror-Matched	-3.70%**	3.19%**	297	-1.61%***	-0.51%	115
Target-Matched	0.26%	-0.34%	506	-0.03%*	-2.69%	199

Table 8. Merger Premiums and Abnormal Returns

Unadjusted, and Matching-Acquisition Adjusted CARs and Merger Premiums. Unadjusted merger premium is the difference between the price paid in the acquisition, relative to the stock price of the target one week prior to the announcement. Acquiror-Matched Relative Premium is the difference between the merger premium, and the premium in a matching, domestic acquisition in the country of the acquiror by a company similar to the acquiror. Target-Matched Relative Premium is the difference between the merger premium, and the premium in a matching, domestic acquisition in the country of the target by a company similar to the target. The sample contains all cross-border mergers with information available in the Securities Data Corporation Database. P-values for means are based on a t-test. P-values for medians are based on a non-parametric Wilcoxon sign-rank test.

	Matching Acquisition Adjusted CAR - Target			Matching Acquisition Adjusted CAR - Acquiror				
	Economic Significance	(1)	(2)	(3)	Economic Significance	(1)	(2)	(3)
Merger Premium – Unadjusted	37.9%	0.478*** [4.22]				-0.046 [0.97]		
Acquiror-Matched Relative Premium			0.047 [0.45]				-0.043 [1.08]	
Target-Matched Relative Premium	67.8%			0.560*** [9.64]	-23.5%			-0.070** [2.31]
TARGET AND ACQUIRING FIRM CONTROLS		✓	✓	✓		✓	✓	✓
TARGET AND ACQUIRING COUNTRY CONTROLS		✓	✓	✓		✓	✓	✓
YEAR EFFECTS								
TARGET COUNTRY EFFECTS		FIXED	FIXED	FIXED		FIXED	FIXED	FIXED
		FIXED	FIXED	FIXED		FIXED	FIXED	FIXED
Observations		147	87	147		148	85	143
Number of Countries		30	25	30		30	25	30
R-squared within		0.26	0.2	0.51		0.12	0.21	0.16
R-squared between		0.51	0.5	0.76		0.26	0.43	0.19
R-squared total		0.38	0.34	0.59		0.15	0.3	0.18

* significant at 10%; ** significant at 5%; *** significant at 1%

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 9. Merger Premia and Abnormal Returns

Regression of Matching-Acquisition Adjusted CAR on different measures of the merger premium. Unadjusted merger premium is the difference between the price paid in the acquisition, relative to the stock price of the target one week prior to the announcement. Acquiror-Matched Relative Premium is the difference between the merger premium, and the premium in a matching, domestic acquisition in the country of the acquiror by a company similar to the acquiror. Target-Matched Relative Premium is the difference between the merger premium, and the premium in a matching, domestic acquisition in the country of the target by a company similar to the target. We control for: the log(GDP per Capita) in target country; the log(GDP per Capita) in the acquiror's country; the # acquisitions / # of listed firms in target Country; the # cross-corder acquisitions / # listed firms in target country; a vertical merger dummy; a cash payment dummy; a hostile acquisition dummy; the change in exchange rate (local currency - target, per \$); the change in exchange rate (local currency - coquiror, per \$); the percentage of shares sought by the acquiror; a dummy for whether the target company has an ADR listed; a dummy for whether the acquiring company has ADR listed; a dummy for the existence of merger controls in the target country; a merger law quality index in the target country. The sample contains all cross-border mergers with information available in the Securities Data Corporation Database. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

Target + Acquiring Firm Combined										Target Firm		
	Total Sales	Investment to Assets	Return on Assets	Cash Flow to Assets	Total Sales	Investment to Assets	Return on Assets	Cash Flow to Assets				
All Firms	One Year After Merger											
	387	55	405	401	260	35	268	269				
	0.0%	0.0%	0.0%	0.0%	13.2% ***	17.7%	-49.7% **	14.2%				
	231	23	237	237	178	25	183	182				
	0.0%	0.0%	0.0%	0.0%	-10.7% *	-25.7%	-46.8% *	52.1% **				
Shareholder Protection Difference > 0	156	32	168	164	82	10	85	87				
	4.5% ***	0.0%	-28.4% ***	-24.1% ***	40.0% **	19.3%	-58.4% *	-37.7%				
	41	1	41	40	8	5	10	6				
	-8.6%	-60.0%	-27.7%	-26.2%	71.5%	31.7%	50.0%	10.9%				
	71	8	79	75								
Shareholder Protection Difference > 0, 100% Acquisition	14.9% ***	0.0%	-41.3% ***	-33.2% ***								
All Firms	Two Years After Merger											
	307	47	317	311	96	8	96	101				
	0.0%	0.0%	-22.0%	-6.3%	-1.9% ***	-54.6%	-15.9% ***	-9.4% **				
	178	18	178	176	69	4	67	71				
	0.0%	0.0%	-7.4% **	0.0%	-11.1%	-32.6%	0.5%	37.5% **				
Shareholder Protection Difference > 0	129	29	139	135	27	4	29	30				
	11.1% ***	0.0%	-38.0% ***	-26.6% ***	18.7% *	-100.0%	-94.8% ***	-100.4% ***				
	26	1	26	24	2	1	2	2				
	48.0% **	-13.1%	-56.6% *	-49.4%	18.0%	31.7%	18.0%	18.0%				
	60	5	65	65								
Shareholder Protection Difference > 0, 100% Acquisition	25.3% ***	0.0%	-52.7% ***	-28.1%								
All Firms	Three Years After Merger											
	200	26	209	210	64	9	63	66				
	0.0%	0.0%	-13.9%	0.0%	-22.2% ***	-60.6%	-23.8% **	14.9%				
	120	10	121	123	46	6	47	47				
	0.0%	0.0%	0.0%	0.0%	-22.2%	-40.1%	-23.8%	30.6%				
Shareholder Protection Difference > 0	80	16	88	87	18	3	16	19				
	0.4% ***	0.0%	-32.8% **	-6.3% **	-25.1%	-100.0% *	-167.4% *	7.7%				
	14		15	15	2	1	2	2				
	3.5%		-53.4% *	-48.9%	65.5%	31.7%	18.0%	18.0%				
	37	2	40	40								
Shareholder Protection Difference > 0, 100% Acquisition	0.0% *	33.6%	-49.4% ***	-48.8% **								

Table 10. Relative Operating Performance of Acquiring and Target Firms

We compute the relative value of the corresponding accounting figure for the acquiring (target) firm, relative to the matching acquiring (target) firm, in percentage, and for years +1, +2, and +3 relative to the year of announcement of the tender offer. The sample contains all cross-border mergers with information available in the Securities Data Corporation Database for which a matching domestic merger with available data in Worldscope could be identified. All accounting information is from Worldscope. P-values for means are based on a t-test. P-values for medians are based on a non-parametric Wilcoxon sign-rank test.

	%Closely-Held Shares -- Acquiror				Difference
	In Cross-Border Merger	In Acquiror- Matched Domestic Merger		Value P-Value	
		Mean	Median		
Total Sample (N=238)	25.8	19.4	34.6	35.0	-9.7*** (0.0000) -11.1*** (0.0000)
Shareholder Protection Difference > 0 (N=153)	26.4	21.0	36.4	38.1	-12.3*** (0.0000) -14.5*** (0.0000)
Shareholder Protection Difference <= 0 (N=85)	24.8	18.9	31.3	23.8	-5.1*** (0.0002) -6.2*** (0.0003)
Kruskal-Wallis test of Differences (p-value)					
	(0.3430)		(0.1286)		(0.1099)
Shareholder Protection Difference > 0, 100% Acquisition (N=24)	18.6	14.7	34.7	36.8	-18.7*** (0.0013) -20.3*** (0.0017)
Shareholder Protection Difference <= 0, 100% Acquisition (N=37)	21.1	14.5	30.6	21.5	-9.2*** (0.0002) -10.0*** (0.0005)
Kruskal-Wallis test of Differences (p-value)					
	(0.7176)		(0.5648)		(0.1564)

* significant at 10%; ** significant at 5%; *** significant at 1%

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 11. Ownership concentration and Shareholder Protection

We report Mean Median Percent of Closely-Held Shares in the acquiring company, for the sample of cross-border merger, and for the matching sample of domestic mergers constructed in the following way. For each of the 506 cross-border mergers in our final sample, we identify, in the country of nationality of the acquiring firm, a domestic merger which meets the following criteria: (i) it is announced in the same year as the cross-border merger, (ii) the acquiring firm belongs in the same country and industry (2-digit SIC code) as the acquiring firm of the cross-border merger, (iii) the acquiring company is different from the acquiring company of the cross-border merger, (iv) the percentage of the target's shares sought by the acquiror is below 50 percent if the percent sought in the cross-border merger is below 50 percent, and vice versa, and (v) the acquiring firm is the closest in terms of total assets to the acquiring of the corresponding cross-border merger. The sample contains all cross-border mergers with information available in the Securities Data Corporation Database. All accounting information is from Worldscope. P-values for means are based on a t-test. P-values for medians are based on a non-parametric Wilcoxon sign-rank test.

	Premium			Acquiror-Matched Relative Premium			Target-Matched Relative Premium		
	N	Median		N	Median	P-value	N	Median	P-value
All Firms	208	8.28%		115	-0.51%	(0.1680)	199	-2.69%	(0.2986)
Shareholder Protection Difference > 0	125	15.12%		67	-7.44%	(0.0185)	80	6.40%	(0.0809)
Shareholder Protection Difference <= 0	83	6.42%		48	0.31	(0.7120)	119	-8.23%	(0.0005)
Shareholder Protection Difference > 0, 100% Acquisition	30	26.65%		17	8.50%	(0.2811)	47	7.54%	(0.0063)
Shareholder Protection Difference <= 0, 100% Acquisition	48	15.97%		31	1.03%	(0.5862)	30	2.84%	(0.9099)

Table 12. Merger Premia and Shareholder Protection

We report Median Tender Offer Premiums for the cross-border acquisitions in the sample. Merger premium is the difference between the price paid in the acquisition, relative to the stock price of the target one week prior to the announcement. We then compute the relative premium as merger premium, minus premium in a matching acquisition. Acquiror-Matched relative premiums are computed relative to the premium in a domestic merger where the acquiror is from the same country as the acquiror in the cross-border merger. Target-Matched relative premiums are computed relative to the premium in a domestic merger where the target is from the same country as the target in the cross-border merger. The sample contains all cross-border mergers with information available in the Securities Data Corporation Database. All accounting information is from Worldscope. P-values are based on a non-parametric Wilcoxon sign-rank test.

	Economic Significance	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Shareholder Protection Difference: Acquiror minus Target		-0.053 [0.13]	0.05 [0.13]	-0.173 [0.44]	-0.143 [0.36]	-0.148 [0.38]	-0.104 [0.28]						
Shareholder Protection Difference, 100% Acquisitions	10.6%	0.970* [1.79]	0.673 [1.31]	1.361*** [2.66]	1.255** [2.35]	-0.308 [0.26]	-0.02 [0.04]						
Accounting Standards Difference: Acquiror minus Target								-0.534 [0.68]	-0.311 [0.42]	-0.92 [1.20]	-0.867 [1.12]	-0.925 [1.23]	-0.656 [0.88]
Accounting Standards Difference, 100% Acquisitions	2.2%							2.049* [1.82]	1.165 [1.06]	2.792*** [2.53]	2.565** [2.24]	1.927** [2.02]	0.04 [0.03]
Closely Held Shares Difference x 100% Acquisition (Y/N)	13.4%	0.489* [1.88]	0.839*** [3.29]					0.577** [2.30]	0.605** [2.51]				
Closely Held Shares Diff. x Sh.Prot. Diff. x 100% Acquisition (Y/N)	31.7%		0.061*** [5.02]										
Closely Held Shares Diff. x Acc.St. Diff. x 100% Acquisition (Y/N)	26.0%								0.114*** [4.20]				
Closely Held Shares >= 20% x 100% Acquisition (Y/N)				19.699 [1.32]		16.365 [1.31]				19.09 [1.28]		15.443 [1.05]	
Closely Held Shares >= 50% x 100% Acquisition (Y/N)					12.218 [0.64]		0.67 [0.04]				15.697 [0.83]		-10.393 [0.54]
Closely Held >= 50% x 100% Acq.(Y/N) x Shareholder Prot. Diff.	38.1%						4.602*** [5.16]						
Closely Held >= 20% x 100% Acq.(Y/N) x Shareholder Prot. Diff.	28.5%					1.871** [2.36]							
Closely Held >= 50% x 100% Acq.(Y/N) x Accounting St. Diff.	33.8%												8.506*** [4.24]
Closely Held >= 20% x 100% Acq.(Y/N) x Accounting St. Diff.	66.0%											9.609*** [3.19]	
Log (GDP per Capita): Target Country		2.527 [0.34]	-0.575 [0.08]	4.848 [0.68]	5.24 [0.73]	4.352 [0.61]	4.319 [0.64]	0.713 [0.09]	0.52 [0.07]	1.82 [0.24]	2.299 [0.30]	3.772 [0.50]	2.566 [0.35]
Log (GDP per Capita): Acquiror Country		-4.711 [0.30]	-6.523 [0.45]	-5.832 [0.37]	-4.948 [0.32]	-4.253 [0.27]	-9.322 [0.63]	-8.209 [0.51]	-10.727 [0.69]	-11.371 [0.70]	-10.25 [0.63]	-15.451 [0.97]	-11.99 [0.76]
# Acquisitions / # Listed Firms in Target Country	-20.7%	-311.177 [1.41]	-71.516 [0.34]	-326.905 [1.50]	-339.096 [1.55]	-331.147 [1.52]	-155.127 [0.74]	-442.335** [2.00]	-313.131 [1.46]	-527.789** [2.42]	-522.684** [2.37]	551.002*** [2.58]	-323.121 [1.49]
# Cross-Border Acquisitions / # Listed Firms in Target Country		-80.699 [0.20]	-411.287 [1.09]	-78.479 [0.20]	-66.007 [0.17]	-36.565 [0.09]	-122.226 [0.33]	199.658 [0.52]	-0.082 [0.00]	318.219 [0.85]	298.525 [0.79]	290.648 [0.79]	114.602 [0.31]
Vertical Merger (Y/N)		-11.957 [1.10]	-13.886 [1.35]	-11.538 [1.07]	-12.115 [1.12]	-11.082 [1.03]	-15.713 [1.53]	-12.382 [1.14]	-12.968 [1.25]	-12.281 [1.13]	-12.61 [1.16]	-10.265 [1.16]	-14.788 [1.41]
Cash Payment (Y/N)		-1.522 [0.14]	-8.918 [0.83]	-1.81 [0.16]	-2.305 [0.20]	-2.502 [0.22]	-4.549 [0.42]	-5.574 [0.49]	-11.678 [1.06]	-6.615 [0.58]	-6.992 [0.61]	-7.245 [0.61]	-6.953 [0.63]
Hostile Acquisition (Y/N)	42.5%	217.943*** [7.09]	197.734*** [6.75]	194.849*** [6.72]	186.476*** [6.41]	184.855*** [6.25]	181.761*** [6.81]	218.301*** [7.09]	216.207*** [7.31]	195.325*** [6.70]	186.369*** [6.37]	209.350*** [7.25]	202.945*** [7.14]
Change in Exchange Rate (Local Currency - Target, per \$)		-52.806 [0.96]	-51.288 [0.99]	-48.644 [0.89]	-53.125 [0.97]	-48.561 [0.89]	-54.207 [1.05]	-45.796 [0.86]	-41.112 [0.80]	-41.846 [0.78]	-46.775 [0.87]	-40.022 [0.77]	-44.816 [0.87]
Change in Exchange Rate (Local Currency - Acquiror, per \$)		63.448 [0.61]	54.909 [0.56]	55.936 [0.53]	65.291 [0.62]	69.348 [0.66]	3.197 [0.03]	22.423 [0.23]	2.543 [0.03]	2.445 [0.03]	13.717 [0.03]	-10.558 [0.11]	2.805 [0.03]
Percentage of Shares Sought by Acquiror		0.186 [1.20]	-0.036 [0.23]	-0.007 [0.03]	0.14 [0.85]	-0.063 [0.30]	-0.063 [0.39]	0.167 [1.07]	0.032 [0.21]	-0.012 [0.06]	0.12 [0.73]	-0.013 [0.06]	0.005 [0.03]
Target Company has ADR listed		-8.137 [0.37]	-10.847 [0.53]	-8.984 [0.41]	-8.883 [0.40]	-9.3 [0.43]	-13.419 [0.65]	-12.058 [0.55]	-14.272 [0.68]	-14.688 [0.67]	-14.096 [0.64]	-14.826 [0.69]	-14.395 [0.68]
Acquiring Company has ADR listed		2.042 [0.16]	8.777 [0.71]	6.302 [0.48]	5.226 [0.40]	6.14 [0.47]	12.328 [0.99]	1.781 [0.13]	4.568 [0.36]	6.643 [0.50]	5.764 [0.43]	10.282 [0.79]	10.352 [0.81]
Antitrust Law (Y/N) - Target		10.885 [0.21]		7.613 [0.14]	9.958 [0.19]	7.45 [0.14]	-0.881 [0.02]	14.833 [0.28]		14.676 [0.28]	16.268 [0.31]	11.745 [0.23]	8.861 [0.17]
Merger Control (Y/N) - Target		13.069 [0.35]	18.888 [0.62]	4.63 [0.13]	7.451 [0.21]	4.133 [0.11]	6.226 [0.18]	15.772 [0.44]	25.641 [0.86]	9.897 [0.28]	11.938 [0.33]	14.791 [0.42]	9.095 [0.26]
Merger Law Quality Index - Target	-10.6%	-7.163 [1.21]	-8.851 [1.57]	-8.002 [1.36]	-8.649 [1.45]	-8.108 [1.38]	-10.018* [1.78]	-6.947 [1.17]	-10.119* [1.76]	-7.563 [1.28]	-8.246 [1.38]	-10.527* [1.80]	-8.217 [1.43]
Observations		235	235	241	241	241	241	235	235	241	241	241	241
Number of Countries		28	28	31	31	31	31	28	28	31	31	31	31
R-squared within		0.26	0.36	0.26	0.25	0.26	0.34	0.25	0.32	0.24	0.23	0.28	0.3
R-squared between		0.21	0.07	0.05	0.05	0.05	0.05	0.25	0.17	0.06	0.07	0.06	0.06
R-squared total		0.28	0.35	0.25	0.25	0.26	0.33	0.27	0.33	0.24	0.24	0.28	0.3
YEAR EFFECTS		FIXED		FIXED	FIXED	FIXED	FIXED	FIXED		FIXED	FIXED	FIXED	FIXED
TARGET COUNTRY EFFECTS		FIXED		RANDOM	FIXED	FIXED	FIXED	FIXED		FIXED	FIXED	FIXED	FIXED

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 13. Panel Regressions. Matching-Acquisition-Adjusted CAR for Target Firms and Private Benefits of Control

We calculate buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=-100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted CARs as $[CAR_{\alpha}-CAR_{\alpha\alpha}]/CAR_{\alpha\alpha}$, where CAR_{α} corresponds to the cross-border merger, and $CAR_{\alpha\alpha}$ corresponds to the matching domestic acquisition. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

	Dependent Variable: Target's Matching Acquisition Adjusted BHAR					Dependent Variable: Acquiror's Matching Acquisition Adjusted BHAR				
	Economic Significance	(1)	(2)	(3)	(4)	Economic Significance	(1)	(2)	(3)	(4)
Shareholder Protection Difference, only positive		0.107 [0.18]					-9.936 [1.09]			
Shareholder Protection Difference, only negative		-0.169 [0.18]					-10.876 [1.18]			
Shareholder Prot. Diff., only Positive, 100% Acquisitions	37.0%	4.364*** [4.35]					-0.219 [0.56]			
Shareholder Prot. Diff., only Positive, > 50% Acquisitions		-0.18 [0.20]					-0.062 [0.20]			
Shareholder Prot. Diff., only Negative, 100% Acquisitions		-0.355 [0.34]					0.46 [1.29]			
Shareholder Prot. Diff., only Negative, > 50% Acquisitions		-0.474 [0.36]					0.557 [1.42]			
Creditor Protection Difference, only positive			0.416 [0.40]					-6.487 [0.63]		
Creditor Protection Difference, only negative			0.287 [0.39]					-6.938 [0.67]		
Creditor Prot. Diff., only Positive, 100% Acquisitions			-0.575 [0.47]					-0.233 [0.58]		
Creditor Prot. Diff., only Positive, > 50% Acquisitions			-0.105 [0.06]			-16.7%		-1.024** [2.20]		
Creditor Prot. Diff., only Negative, 100% Acquisitions			0.503 [0.46]					-0.398 [1.10]		
Creditor Prot. Diff., only Negative, > 50% Acquisitions			1.656 [0.54]					-0.075 [0.08]		
Accounting Standards Difference, only positive				-2.694 [1.56]					1.514 [0.68]	
Accounting St. Diff., only Positive x Accounting Consolidation				2.124 [1.53]		-30.1%			-1.229*** [2.64]	
Accounting Standards Difference, only negative				0.013 [0.01]					0.059 [0.03]	
Accounting St. Diff., only Negative x Accounting Consolidation				-0.876 [0.31]					-0.171 [0.20]	
Accounting St. Diff., only Positive, 100% Acquisitions	5.4%			5.089** [2.33]		-17.2%			-1.591* [1.82]	
Accounting St. Diff., only Positive, > 50% Acquisitions				-1.612 [0.94]		-53.0%			-2.629*** [4.13]	
Accounting St. Diff., only Negative, 100% Acquisitions				0.433 [0.17]					0.212 [0.27]	
Accounting St. Diff., only Negative, > 50% Acquisitions				-0.72 [0.21]					0.492 [0.49]	
Corruption Index Difference, only positive				-0.703 [0.17]						7.430* [1.68]
Corruption Index Difference, only negative				-3.358 [0.43]						-0.234 [0.03]
Corruption Diff., only Positive, 100% Acquisitions	22.6%			18.837** [2.37]						-4.773 [0.63]
Corruption Diff., only Positive, > 50% Acquisitions				-0.745 [0.10]						-2.04 [0.30]
Corruption Diff., only Positive, 100% Acquisitions				1.75 [0.19]						-6.783 [0.92]
Corruption Diff., only Positive, > 50% Acquisitions				-19.299 [0.81]						-12.61 [0.76]
Observations		241	240	241	235		258	257	258	253
Number of Countries		31	30	31	31		18	18	18	17
R-squared within		0.33	0.22	0.24	0.18		0.3	0.31	0.37	0.3
R-squared between		0.05	0.25	0.1	0.19		0.02	0.05	0.04	0.03
R-squared total		0.31	0.24	0.26	0.21		0.05	0.12	0.11	0.08
TARGET AND ACQUIRING FIRM CONTROLS		✓	✓	✓	✓		✓	✓	✓	✓
TARGET AND ACQUIRING COUNTRY CONTROLS		✓	✓	✓	✓		✓	✓	✓	✓
YEAR EFFECTS		FIXED	FIXED	FIXED	FIXED		FIXED	FIXED	FIXED	FIXED
TARGET COUNTRY EFFECTS		FIXED	FIXED	FIXED	FIXED		FIXED	FIXED	FIXED	FIXED

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 14. Robustness tests: Change in Nationality v. Change in Control

Regression of MABHCARs for both the target and the acquiring firm on corporate governance characteristics of the countries of the target and the acquiror. We compute buy-and-hold abnormal returns on days $t=-1$ to $t=+1$ from a market model estimated using daily firm and market returns over the period $t=-260$ to $t=100$ trading days relative to the announcement day of the acquisition. Returns are in dollars. We compute CARs for both the original sample and the matching sample, and calculate matching-acquisition adjusted CARs as $[CAR_{cb}-CAR_{dom}]$, where CAR_{cb} corresponds to the cross-border merger, and CAR_{dom} corresponds to the matching domestic acquisition. Variable definitions are in Appendix I. Robust t-statistics (absolute values) are in parentheses.

Variable	Definition	Source
Shareholder Protection Index, Creditor Protection Index	Like LLSV (1998)	LLSV (1998)
Corruption Index	(maximum 6 points) A measure of corruption within the political system that is a threat to foreign investment by distorting the economic and financial environment, reducing the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability, and introducing inherent instability into the political process.	International Country Risk
Accounting Standards Index	As of 2003, the index is constructed as follows: (1) If a firm follows IAS or EU standards, we assign a value of 1; (2) If a firm follows GAAP, or if the firm is reported to have an ADR listed in the U.S., we assign a value of 0.5; (3) If a firm follows neither IAS nor GAAP, or if the firm is not reported to have an ADR listed in the U.S., we assign a value of 0.	Wordscope, LLSV (1998)
Accounting Consolidation	Accounting Method for Long Term Investments >= 50%	
Merger Quality Index	The index measures the quality of the national merger law. It ranges from 0 to 6, and it is the sum of four indicators: (1) The national merger law contemplates some form of mandatory merger notification (Y/N); (2) Lack of merger notification involves penalties (Y/N); and (3) Penalties are proportional to the size of the deal; (4) Penalties are above the median across all countries; (5) The Law Requires the Mandatory Purchase of Additional Shares above certain threshold; and (6) The Shareholding that Triggers Mandatory Purchase of Shares is below 50 percent; Countries without Merger or Takeover laws are assigned a value of zero.	Worldwide Antitrust Merger Notification Requirements, White & Case 2003-2004 Edition, ISSA Handbook, several editions, Dyck and Zingales (2004)
Merger Laws Existence (Y/N)	The existence (=1) or lack of existence (=0) of Merger - Takeover regulations in the country, in a specific year.	Worldwide Antitrust Merger Notification Requirements, White & Case 2003-2004 Edition, ISSA Handbook, several editions.
Merger Intensity Indicators, Total and Cross-Border	Two indices of merger intensity from the total sample of acquisitions of targets in the corresponding country, from the Securities Data Corporation M&A database. We compute, for every year, the number of (cross-border) mergers, and divide this number by the number of publicly listed firms in the country.	Securities Data Corporation and World Bank Development Indicators
GDP per Capita	GDP per capita is in constant 1995 USD.	World Bank Development Indicators
Exchange Rates	Change in Exchange Rate (Local Currency - Target, per \$), and Change in Exchange Rate (Local Currency - Acquirer, per \$)	Datastream
Target (Acquiring) Firm has an ADR listed	A dummy variable that equals one when the target (acquiring) firm in the acquisition has an ADR listing by the time the tender offer is announced. Information is collected from NYSE and Nasdaq websites, the Bank of New York, and the Foreign Listing department of the NYSE. Also from Wordscope (data item #WC11496, "ADR indicator")	NYSE, Nasdaq, BONY websites, NYSE Foreign Listing Department, Wordscope.
Merger Premium	Premium of offer price to target trading price one week prior to the original announcement date, expressed as a percentage. In a stock-by-stock merger, the consideration offered is based on the stock price of the acquirer on the day of the announcement, in domestic currency.	Securities Data Corporation
Closely Held Shares	Wordscope item #WC05475. It represents shares held by insiders. For Japanese firms, it represents the holdings of the ten largest shareholders. For companies with more than one class of common stock, closely held shares for each class are added together. It includes but is not restricted to: shares held by officers, directors and their immediate families; shares held in trust; shares of the company held by any other corporation; shares held by pension/benefit plans; shares held by individuals who hold 5% or more of the outstanding shares. It excludes: shares under option exercisable within sixty days; shares held in a fiduciary capacity; preferred stock or debentures that are convertible into common shares.	Wordscope
Total Assets	Wordscope item #WC02999	Wordscope
Tobin's Q	[Market value of common equity (item # WC08001) + Total assets (item #WC02999) - Book value of common equity (item #WC03501)] / Total assets (item #WC02999)	Wordscope
Sales to Total Assets	Net Sales (Wordscope item #WC01001) divided by Total Assets (Wordscope item #WC02999)	Wordscope
Return on Assets	Wordscope item #WC8326	Wordscope
Cash Flow to Sales	Funds from operations (Wordscope item #WC04651) divided by Net sales (item #WC01001)	Wordscope
Investment to Assets	Total Investments (Wordscope item #WC02235) divided by Total Assets (Wordscope item #WC02999)	Wordscope

Appendix Table B. Variable Definitions

Definitions and source of some of the variables in the paper.

	Shareholder Protection Difference: Acquiror minus Target	Creditor Protection Difference: Acquiror minus Target	Accounting Standards Difference: Acquiror minus Target	Corruption Index Difference, Acquiror minus Target	Country Market Capitalization Difference, Acquiror minus Target	GDP per Capita Difference, Acquiror minus Target
Creditor Protection Difference: Acquiror minus Target	0.1210*** (0.0051)	1				
Accounting Standards Difference: Acquiror minus Target	0.5086*** (0.0000)	0.1616*** (0.0002)	1			
Corruption Index Difference, Acquiror minus Target	0.1177*** (0.0084)	0.05 (0.2649)	0.2211*** (0.0000)	1		
Country Market Capitalization Difference, Acquiror minus Target	0.4883*** (0.0000)	0.1061* (0.0222)	0.3867*** (0.0000)	0.1458*** (0.0019)	1	
GDP per Capita Difference, Acquiror minus Target	0.2275*** (0.0000)	0.044 (0.3440)	0.3051*** (0.0000)	0.5652*** (0.0000)	0.2916*** (0.0000)	1

* significant at 10%; ** significant at 5%; *** significant at 1%

Appendix Table C. Correlation among Investor protection indices

The table shows the Pearson correlation (p-value) matrix of investor protection indices, and GDP per capita difference.