

Do Poorly Governed Acquirers Transfer Wealth to Targets in Cross-Border Acquisitions?

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We use the number of antitakeover provisions (ATPs) as a proxy for corporate governance and examine its impact in US domestic and foreign acquisitions made by US acquirers. We find that the targets of poorly governed acquirers earn higher postannouncement premiums, despite controls for deal characteristics, macroeconomic conditions, and country-level protections, suggesting that these acquirers overpay. Puzzlingly, in contrast with the domestic US findings of Masulis, Wang, and Xie, poorly governed acquirers in cross-border deals experience higher announcement period returns. The relation between governance and target returns appears concave, but this nonlinearity disappears once differences in country-level governance and deal characteristics are accounted for.

It has been extensively documented that bidding shareholders earn negative announcement period returns, presumably because they overpay for targets. Strong corporate governance should serve to prevent overpayment. In contrast, targets should earn positive announcement period returns when their bidder is poorly governed and, as such, is more likely to overpay. The academic literature has typically focused on the acquirers. Masulis, Wang, and Xie (2007) find for example, in a sample of domestic US mergers and acquisitions, that acquirers with more antitakeover provisions (ATPs) (their proxy for corporate governance) perform worse than their peers at the merger announcement. Gompers, Ishii, and Metrick (2003) argue that these so-called “dictator” firms are more entrenched as their corporate structures offer few or no disincentives for reckless behavior, making them prone to empire building and other similar agency concerns.

In our paper, we focus on the targets. Specifically, we examine whether the negative impact of overpayment on acquirers extends to a complementary positive impact for target shareholders, in a sample of both domestic and cross-border deals made by US acquirers. Consistent with the idea

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that acquirers overpay, we find that targets earn significantly higher positive abnormal returns upon the merger announcement when their bidders are more poorly governed, implying that these deals act as a wealth transfer mechanism.¹ This result holds in both domestic and cross-border deals.

Then, focusing specifically on cross-border deals, we show that targets in general earn positive announcement period returns. Indeed, we initially find that the relation between target returns and acquirer governance is concave, peaking for firms with average governance. This concavity disappears when country-level governance and deal characteristics are considered. Furthermore, we find that targets returns are even more positive when the target is in a country with stronger country-level governance (i.e., when the country has a stronger legal system and greater investor protections). Both findings highlight the importance of considering these factors when investigating the relation between deal premiums and corporate governance.

In contrast, acquirers in cross-border deals generally experience negative returns. In a unique finding of this study, we find that poorly governed US acquirers earn higher merger announcement returns than their well-governed counterparts, suggesting that they overpay to a lesser degree or not at all. Indeed, the best-governed acquirers receive negative announcement period returns while the worst-governed receive positive ones. This puzzling result appears contrary to the results for domestic US acquisitions and implies that poorly governed acquirers are somehow better able or more willing to funnel value away from the foreign targets. We leave resolution of this conjecture to future research.

Existing literature and common sense argue that acquisitions of foreign targets involve more legally complicated and challenging environments since both country-level differences in the legal environment and firm-specific corporate governance play roles in the outcomes. For example, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998) report a significant correlation between legal protection and the development of financial markets, while subsequent work by Lubrano (2003) further documents that improvements in corporate governance contribute to the maturity of capital markets.² Similarly, La Porta et al. (2002) demonstrate that macrolevel shareholder protection is important, especially when chief executive officers' (CEOs') cash flow rights are relatively small, while Starks and Wei (2007) and Kuipers, Miller, and Patel (2003) note that acquirers from countries with superior country-level corporate governance and investor protection pay smaller acquisition premiums.³ Firm-level governance is also a critical factor, as demonstrated by Bris and Cabolis (2008) who note that despite controls for cross-country differences, differences in firm-level corporate governance generate significant value effects for the merged entity. However, that work only applies to differences in accounting standards to proxy for country-level differences and does not investigate ATPs. In our study, we contribute to this literature by controlling for and separating out the effects of both cross-country country-level variations and cross-sectional

¹ This positive return is particularly noteworthy since a poorly governed acquirer may imply negative future prospects for the target. This would imply a negative return for the target.

² Claessens and Laeven (2003) similarly note that firms in countries with better enforced property rights enjoy superior growth prospects. The legal environment of a country can impact financing decisions (Demirgüç-Kunt and Maksimovic, 1999), market efficiency (Mørck, Yu, and Yeung, 2000), the degree of foreign exchange collapse (Johnson et al., 2000), capital allocation (Wurgler, 2000; Beck and Levine, 2002; Claessens and Laeven, 2003), and even firm valuation (La Porta et al., 2002; Himmelberg, Hubbard, and Love, 2002).

³ Doukas and Travlos (1988) find that the announcement effect is greater if the acquirer is a first time entrant into the foreign market. Chari, Ouimet, and Tesar (2004) confirm that the acquirer's return is more positive when it attains management control of the target. For foreign target firms' market reaction to merger announcements, Karolyi and Liao (2009) compare government- versus corporate-led acquisitions and find no significant statistical and economic differences.

firm-level differences in governance, illuminating the roles of each in merger and acquisition premiums.

A second contribution of our study is that it complements existing studies of acquirer returns (such as Masulis et al., 2007) by examining target returns. Investigation of target returns directly tests whether overpayment by poorly governed acquirers benefits targets. Indeed, these acquisitions are often buy-outs where decision-making managers at the target firm essentially cash out. As a result, wealth transfers directly to target managers. In contrast, a variety of factors affect acquirer returns that are difficult to quantify and control for since the acquirer is likely to stay a going concern and is often a larger, more complex business entity than the target. Huang and Walkling (1987) and Song and Walkling (1993) relate merger target wealth effects to deal characteristics and ownership stakes. However, our study is the first to relate target effects to corporate governance and the propensity for acquirers to overpay. In the domestic US context, we document that target returns are higher when bidders have more ATPs. This complements the findings of Masulis et al. (2007) which looks at acquirer returns, confirming the intuition that managerial recklessness leads to higher premiums that benefit target shareholders.

Finally, we provide a unique contribution by investigating cross-border deals, which allows us to separate firm-level from country-level governance factors.⁴ We find that poorly governed US acquirers earn higher postannouncement returns than their well-governed counterparts. This finding contrasts with that of Masulis et al. (2007) and runs counter to the aforementioned intuition.⁵ While we conjecture that the poor governance of the acquirer makes it better able or more willing to take advantage of tunneling or other value-extracting activities in the cross-border context, we leave a complete investigation of this observation to future study.

The remainder of this paper is organized as follows. Section I discusses existing theories that illustrate our key intuition and generate testable hypotheses. Section II describes the data and the empirical methodology employed. Section III presents our empirical and estimation results, while Section IV provides our conclusions.

I. Theories and Testable Hypotheses

Mørck, Shleifer, and Vishny (1990), Lang, Stulz, and Walkling (1991), and Jensen (1986) all conclude that while acquisitions may substantially benefit the firm, they generally benefit managers, and managers generally focus on personal interests rather than the good of the shareholders. Similarly, Yermack (2006) shows that corporate size, that is, empire building, is directly associated with executive perquisites, implying that mergers and acquisitions may be self-serving and generate positive externalities for executives at the cost of shareholder value. While Mitchell and Lehn (1990) find that the market for corporate control can also serve to suppress agency problems, it seems clear that the extent to which firms may be taken over can directly relate to the behavior of their managers.

As Bebchuk, Coates, and Subramaniam (2002, 2003) and Field and Karpo (2002) explain, ATPs make takeovers more difficult as they significantly slow the takeover process, generate higher transactions costs, and curb the incentives of potential bidders to acquire firms in a hostile

⁴ We contrast our findings to those in Bris, Brisley, and Cabolis (2008) and Marynova and Renneboog (2008), who focus on industry or country-level effects. Further, we investigate target returns, rather than combined merger premia, since we aim to identify potential wealth transfers.

⁵ Our study differs from Masulis et al. (2007) in that, in our study, we include only publicly listed acquirers and targets. We choose to focus only on public firms as they are generally more transparent, are followed by more analysts, and are thus more closely monitored by the market and regulators.

takeover. Thus, we posit, as do many others in the literature, that the number of ATPs is a proxy for managerial recklessness and is a negative measure of the firm's commitment to investor protection. A greater number of ATPs indicates poorer corporate governance.

A. US Domestic Deals

The impact of firm-level governance on the market for corporate control has often been studied in the domestic environment using acquirer returns. Our goal is to test for a consistent finding in target returns. Namely, do targets respond more favorably to bidders with high ATPs? Specifically, we hypothesize that:

H1 (Dictator Premium Hypothesis): *Ceteris paribus*, the greater the ATP index of the acquirer, the higher the cumulative abnormal return (CAR) of the domestic target.

B. Cross-Border Deals

Cross-border deals are growing in popularity and generate unique and important sources of value. As documented by Alexander (2000), cross-border takeovers may result from: (1) an intensive conglomeration as a method of preemptive restructuring or generating economies scale, (2) a response to technological innovation, (3) a need for a global marketing platform, (4) the absence of domestic merger targets, and (5) the desire or need to expand into new markets. Extending the intuition from the domestic deals scenario, we hypothesize that bidders with more ATPs will likely overpay in foreign acquisitions such that:

H2 (Cross-border Dictator Premium Hypothesis): *Ceteris paribus*, the greater the ATP index of the acquirer, the higher the CAR of the cross-border target.

The cross-border nature of these deals is nontrivial and potentially significantly complicates the investigation of corporate governance. For example, acquisition by a US-listed corporation creates a *de facto* cross-listing for foreign targets. Doidge, Karolyi, and Stulz (2004) document a positive cross-listing premium (i.e., targets earn higher returns when they are acquired by US firms) arising from improvements in country-level corporate governance due to more stringent disclosure rules, as well as from increased analyst coverage of US stocks. However, at the firm level, it could be that a high ATP acquirer erodes additional value away from the target as it "transmits" its own poor governance over to the target. While Starks and Wei (2007) study cross-border deals, they examine the impact of country-level governance without examining corporate governance at the firm-level. In our main tests, we control for both of these two potentially confounding effects.

II. Data and Methodology

One key piece of data for this study is our measure of corporate governance, the ATP index. For each firm, this index is calculated as the total number of ATPs listed in the firm's articles of incorporation; the greater the number of ATPs, the higher the index. This method mimics the methodologies of Gompers et al.'s (2003) "*G Index*" and Masulis et al. (2007), which are both based on 24 total possible ATPs.⁶ These papers define democracy (dictatorship) as firms with an

⁶ Bebchuk, Cohen, and Ferrell (2004)'s index is based on only six ATPs, while Cremers and Nair's (2005) index is composed of only three. Bebchuk and Cohen (2005) apply a binary variable based on whether a firm has a staggered board.

index less than or equal to 5 (greater than or equal to 14) and less than or equal to 9 (greater than or equal to 10), respectively. We follow the latter of these papers in our definition.

The data required is located at the Investor Responsibility Research Center (IRRC). It contains firm-level data for publication years 1990, 1993, 1995, 1998, 2000, 2002, 2004, and 2006. For years where the *G Index* is unpublished, we linearly extrapolated from the last previous value. Nearly 1,500 firms are represented in the dataset each year, including the S&P 500 and those on the Forbes, Business Week, and Fortune magazines' lists of largest US corporations. On average, the database represents about 90% of US stock market capitalization, though more recent years' data are more inclusive. Following the literature, we assume that the index does not change between publication years.

A. M&A Data

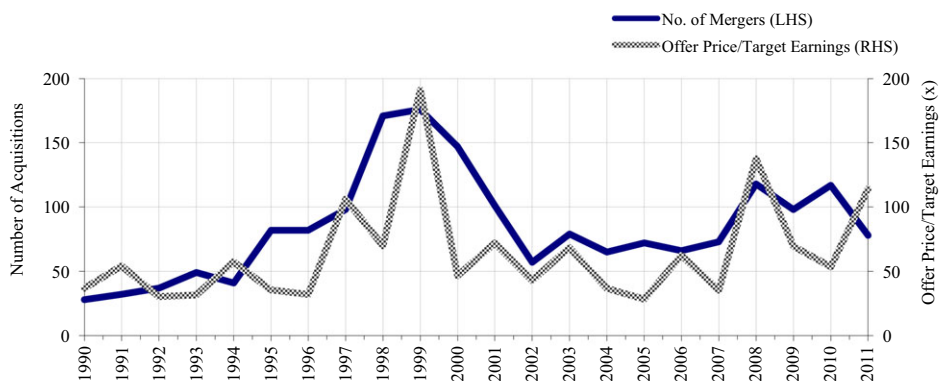
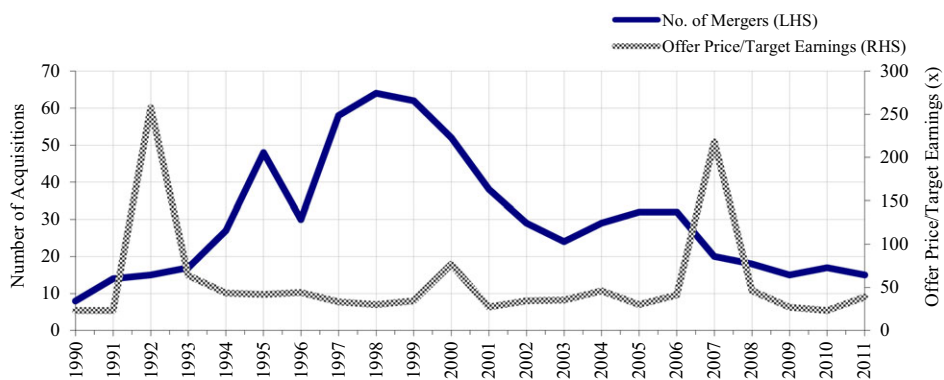
We acquire deal data from the Securities Data Corporation (SDC). For domestic deals, we collect data on 1,867 acquisitions from January 1990 to December 2011 that meet the following criteria: (1) both target and acquirer are public companies incorporated in the United States, (2) transaction value exceeds \$1 million, (3) the acquirer controls less than 50% of the target's shares prior to the announcement and owns 100% of the target's shares after the transaction, and (4) the acquirer has annual financial statement information available from Compustat and stock return data available for at least 210 trading days prior to the acquisition announcement. Then, we match this with our ATP index, reducing the sample to 1,850 domestic acquisitions. Table I illustrates the number of mergers and valuation multiples (price/target earnings) for all deals in our dataset. In Panel A, we note that domestic deal flow and multiples peaked during the Internet Bubble period of the late 1990s.

For cross-border deals, data is available beginning in 1984. We apply criteria that mirror the criteria for domestic deals with the exception that the target must be a public firm incorporated outside of the United States. There are 1,089 of these cross-border deals with an average deal size of \$492.14 million, for an average stake of 61.3%. The most active US acquirers in these deals are Citigroup, Coca-Cola, Merrill Lynch, and Microsoft (12 deals each). In total, 56 target countries are represented with Canada having the largest number of deals, accounting for 27% (294 deals) of the total, followed by the United Kingdom (16.9%; 184 deals) and Australia (8.3%; 90 deals). In terms of target industry, using standard industrial classification (SIC) codes, we find that Prepackaged Software (73 deals) is most common, followed by Crude Petroleum and Natural Gas (68 deals), Gold Ores (47 deals), and Pharmaceutical Preparations (39 deals). Next, we reduce the dataset to match the time period for domestic deals and then merge these data with that of our ATP index, reducing the dataset to 616 cross-border deals. Panel B of Table I provides the number of and valuation multiples for the cross-border deals. Once again, the number of deals peaks in the late 1990s; however, the multiples are lowest during that period, peaking instead near the beginning and end of our data set. The latter observation may be attributed to low multiples related to currency devaluations experienced during the Asian financial crisis.

For country-level legal system indicators, we source accounting standards (AS) from La Porta et al. (1998) and antidirector rights (AD), which proxy for the degree of shareholder protection, from Djankov et al. (2008). We also note that the International Financial Reporting Standards are more comprehensive than most local Generally Accepted Accounting Principles (GAAP). As a result, we adopt the suggestion of Bae, Tan, and Walker (2008) and include an index (IFRS) to reflect how the International Accounting Standards (IAS) of each country differs from the US GAAP based on 21 accounting criteria from 1998 to 2004. This index is not available for every country in our study, requiring a slight reduction in data points in our main tests. Finally, we also

Table I. Deal Distribution by Announcement Year

This table illustrates the time series of the 1,850 and 616 total completed deals for US domestic and cross-border mergers, respectively, as given by SDC from 1990 to 2011. All firms included are covered in the IRRC ATP database

Panel A. US Domestic Deals*Panel B. US Cross-Border Deals*

calculate the ratio of stock market capitalization to gross domestic product (GDP) as a relative measure of country-specific equity market development as suggested by Djankov et al. (2008). Table II summarizes this data.

B. Calculating CAR

Following the sizable literature in this field and others, we apply a short-term event study methodology that analyzes CAR surrounding deal announcements. Previous work applying event study techniques around the announcement of ATP adoption or amendment includes DeAngelo

Table II. Sovereign Corporate Governance Measures

This table presents various measures of nation-specific corporate governance. Accounting Standards (AS) is from La Porta et al. (1998), whereas Antidirector Rights (AD), a proxy for the degree of shareholder protection, and Stock Market Capitalization to GDP (SMCTG), a measure of equity market development, are suggested by Djankov et al. (2008). Governance is considered “high” if a rating is higher than the median. Bae et al. (2008) suggest an index (IFRS) of how country-level International Accounting Standards (IAS) differ from the US’s Generally Accepted Accounting Principles (GAAP) based on 21 accounting criteria. Higher scores imply more discrepancies between IFRS and GAAP.

Country	AD	AS	SMCTG	IFRS	Country	AD	AS	SMCTG	IFRS
Argentina	2	45	4.062		Jordan	1		4.352	
Australia	4	75	4.625	-0.4	Kenya	2		2.728	
Austria	3	54	2.797	2.5	Luxembourg	2		4.974	6.0
Belgium	3	61	4.208	1.4	Malaysia	5	76	5.000	
Bolivia	2		2.747		Mexico	3	60	3.086	
Brazil	5	54	3.648		Netherlands	3	64	4.881	-7.6
Canada	4	74	4.665		New Zealand	4	70	3.691	
Chile	4	52	4.496		Norway	4	74	3.681	-3.8
China	1		3.768		Peru	4	38	3.127	
Colombia	3	50	2.660		Philippines	4	65	3.871	1.1
Croatia	3		2.803		Poland	2		2.815	-0.9
Czech Republic			3.006	0.6	Portugal	3	36	3.833	2.2
Denmark	4	62	4.071	0.1	Romania	5		1.705	
Ecuador	2		1.758		Russia	4		3.503	
Finland	4	77	5.177	4.4	Singapore	5	78	5.105	-4.5
France	4	69	4.494	0.4	South Africa	5	70	5.049	-3.1
Germany	4	62	4.002	1.5	South Korea	5	62	3.991	
Greece	2	55	4.515	6.1	Spain	5	64	4.381	4.9
Hong Kong	5	69	5.889	-1.5	Sweden	4	83	4.721	-0.7
Hungary	2		3.178	0.3	Switzerland	3	68	5.517	2.2
India	5	57	3.520		Taiwan	3	65	4.624	
Indonesia	4		3.207		Thailand	4	64	3.802	
Ireland	5		4.214	-3.3	Turkey	3	51	3.564	
Israel	4	64	3.970		United Kingdom	5	78	5.061	-3.4
Italy	2	62	3.967	0.7	United States	3	71	4.957	0.0
Japan	5	65	4.237		Venezuela	1	40	1.705	-4.9

and Rice (1983), Linn and McConnell (1983), Malatesta and Walkling (1988), and Ryngaert (1988).

For domestic deals, our tests are relatively straightforward. We measure CAR using a market model adjusted for market risk for the $[-2,+2]$, $[-5,+5]$, and $[-10,+10]$ windows around the announcement date. Specifically, following Masulis et al. (2007), we use the CRSP equal-weighted return as our measure of market return and estimate the market model over the 200-day period starting 210 days before the event and ending 11 days before the event to capture stock run-ups. That is:

$$R_{ikt} = \alpha_{ik} + \beta_i^m R_{m\tau} + \varepsilon_{ikt} \quad \forall \tau \in [-210, \dots, -11], \quad (1)$$

where $R_{ik\tau}$ is the daily return for domestic target i with domestic acquirer k , and $R_{m\tau}$ is the aforementioned equal-weighted market return. Following standard practices, we then apply β_i^m , calculate a predicted abnormal return for the event window, and subtract it from the actual return to arrive at CAR:

$$CAR_{ijt} [\pm d] \equiv \left\{ \prod_{\tau=-d}^{+d} (1 + \hat{\varepsilon}_{ij\tau}) \right\} - 1 \quad \forall d \in \{2, 5, 10\} \text{ and for announcement date } t. \quad (2)$$

For cross-border deals, we require some minor revisions. We estimate a dollar-translated market model for predating days $[-210, \dots, -11]$, following Bris and Cabolis (2008), and include both the target's home market index and the MSCI world index. Specifically, we have:

$$R_{ijk\tau} = \alpha_{ijk} + \beta_i^m R_{mj\tau} + \beta_i^w R_{w\tau} + \varepsilon_{ijk\tau} \quad \forall \tau \in [-210, \dots, -11], \quad (3)$$

where $R_{ijk\tau}$ is the daily return for foreign target i based in country j with US bidder k , $R_{mj\tau}$ is the market index return in country j , and $R_{w\tau}$ is the return on the MSCI world index. We calculate CARs for the same event windows, then, in an analogous fashion:

$$CAR_{ijkt} [\pm d] \equiv \left\{ \prod_{\tau=-d}^{+d} (1 + \hat{\varepsilon}_{ij\tau}) \right\} - 1 \quad \forall d \in \{2, 5, 10\} \text{ for announcement date } t. \quad (4)$$

C. Preliminary Results: Domestic Deals

Our tests use target CAR (TCAR) as the dependent variable and the acquirer's ATP index as the key explanatory variable. More importantly, since other measures of firm efficiency may also impact the results, we also apply a number of control variables including deal characteristics, acquirer firm characteristics, as they may confound governance measures, and mergers & acquisitions (M&A) market conditions.

For deal characteristics, we include log deal value and binary variables to establish whether it is a cash deal to determine if the acquirer and the target are in a high-tech industry as defined by Loughran and Ritter (2004). Acquirer firm characteristics include Tobin's Q, leverage ratio, free cash flow ratio, relative deal size, and whether it is a diversifying acquisition. Finally, our proxy for market conditions is the average premium paid to targets in a given year. The general form of our regression is as follows:

$$CAR = \beta_1 \cdot G \text{ Index} + \beta_2 \cdot Deal \text{ Characteristics} + \beta_3 \cdot Acquirer \ \& \ Target \ Characteristics \\ + \beta_4 \cdot M\&A \ Market \ Condition + error \ term. \quad (5)$$

In Table III, we present the results of tests run using only domestic deals. In virtually every test, we find that the G index is positively related to TCAR (i.e., the weaker the governance, the higher the returns to target shareholders) implying expected overpayment on the part of the acquirers. This is consistent with Hypothesis H1 and complements the results of the extant literature. The combination of Masulis et al.'s (2007) finding that poorly governed acquirers lose value and our

Table III. Regression Analyses for Domestic Target Returns

The sample consists of 1,867 completed domestic deals from 1990 to 2011; 1,850 firms are matched with *G Index* which is the acquirer's number of ATPs. Tests requiring firm-level controls are reduced to 682 deals. The dependent variable is the target's 5-day ($[\pm 2]$), 11-day ($[\pm 5]$), and 21-day ($[\pm 10]$) cumulative abnormal returns around the announcement date (TCAR). *Size* is log transaction value. *Cash* takes a value of one if the deal was executed in cash. *Tgt (Acq)* denotes a target (acquirer) variable. *HT* is equal to one if the firm is from a high-tech industry as per Loughran and Ritter 2004. *Lev* is debt over total assets. *Q* is Tobin's Q. FCF is EBITDA less capex scaled by total assets. Asset is log book value of total assets. *Diversify* is equal to one if the acquirer and target do not share a Fama-French industry. Low Price is equal to one if the target stock trades below \$10. *MMC* is the average premium paid for all deals in a given year. The panel dataset is constructed following Dempster, Laird, and Rubin (1977), and van Dyk and Meng (2001). Standard errors are corrected for heteroskedasticity and autocorrelation following Newey and West (1987). All regressions control for year fixed-effects.

	Model 1			Model 2			Model 3			Model 4		
	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]
<i>G Index</i>	0.003**	0.004**	0.004**	0.006**	0.006**	0.007***	0.006*	0.006*	0.007**	0.006**	0.006**	0.007**
<i>Size</i>	-0.020***	-0.020***	-0.065***	-0.015***	-0.021**	-0.021***	-0.013***	-0.017**	-0.022***	-0.012*	-0.011**	-0.085***
<i>Cash</i>	0.045***	0.045***	0.047***	0.065***	0.075***	0.072*	0.065***	0.077**	0.062***	0.080**	0.067***	0.058**
<i>Tgt HT</i>	0.050***	0.040**	0.030***	0.050***	0.025	0.010	0.050**	0.040	0.030	0.050**	0.047*	0.032
<i>Tgt G Index</i>	-0.001*	0.000	0.000	0.000	0.000	0.000	0.000*	0.000	0.000	0.000	-0.001*	0.000
<i>Acq HT</i>	0.005	0.019	0.019	-0.070**	-0.047**	-0.039*	-0.076***	-0.053**	-0.045*	-0.068*	-0.049**	-0.045*
<i>Acq Lev</i>				-0.082	-0.170**	-0.135***	-0.081	-0.155**	-0.147**	-0.134**	-0.173**	-0.138***
<i>Acq Q</i>				0.003	0.005	0.004	0.001	0.004	0.003	0.000	0.000	0.001
<i>Acq FCF</i>				0.376*	0.150	0.090	0.310*	0.120	0.091	0.310*	0.135	0.150
<i>Acq Asset</i>				-0.015	-0.050	-0.003	-0.001	-0.007	-0.008	-0.003	-0.005	-0.005
<i>Size × Tgt HT</i>				0.033**	0.025*	0.020*	0.025**	0.020*	0.020*	0.023***	0.020**	0.015*
<i>Diversify</i>				0.019	0.050**	0.031*	0.021	0.022**	0.031**	0.026*	0.045***	0.035**
<i>Low Price</i>							-0.067	-0.027	-0.010			
<i>MMC</i>										0.029***	0.029***	0.029***
Observations	1850	1850	1850	682	682	682	682	682	682	682	682	682
Adjusted R ²	0.050	0.050	0.060	0.080	0.080	0.105	0.080	0.091	0.105	0.121	0.125	0.138

***Significant at the 0.01 level.
 **Significant at the 0.05 level.
 *Significant at the 0.10 level.

determination that the targets of these acquirers gain value suggests that these deals serve as a wealth transfer mechanism between respective shareholders. This finding is always statistically significant, almost always at the 5% level, regardless of the size of the window used or which control variables are included.

The first set of test results presented in Model 1 includes controls for deal characteristics. Deal size plays a role and is negatively related to returns, statistically significant at the 1% level. Given limited resources, acquirers are unable to pay high premiums if the targets are large in an absolute sense. Cash deals are more attractive as the correlation between TCAR and the cash dummy is positive and generally significant at the 1% level. Cash is less risky than an equivalent market value in shares, so this is not surprising. Whether the target or the acquirer is a high-tech firm seems positively related to TCAR, although this finding is not consistently significant. A positive relation could be due to improvements in future growth prospects, generally considered critical in high-tech firm valuations. We examine whether target firm governance impacts the results since a poorly governed target (a high number of ATPs) may work against the dictator premium. Indeed, we find that the coefficient on the *G Index* of the target firm is negative in the five-day (± 2) horizon, but this effect dissipates as the event window widens. The main finding on acquirer *G* is unaffected.

The results presented in Models 2 and 3 further address acquirer characteristics as controls. The data for these controls is rather limited and reduces our sample size to 682. The results are, however, qualitatively unchanged. More importantly, TCAR is positively related to the *G* index and, as such, negatively related to governance. Cash and deal size coefficients remain significant, though the remaining controls are only significant sporadically. TCAR appears to be negatively related to leverage, possibly a reaction to the increased risk of future financial distress, less access to future capital, or the limited ability for managers to overpay given capital constraints. Alternatively, when the deal represents entrance into a different industry (i.e., the acquirer and target have different SIC codes), TCAR generally reacts positively indicating that greater synergies are likely to result when business units are less redundant. Notably, in Model 3, we control for potential irregularities related to low priced stocks, which we define as a target stock trading at below \$10.00 on announcement day, but find no such effects.

We also consider target characteristics as control variables, including target *G*. However, since targets tend to be small firms, we are only able to identify 90 observations where all of the control variables are available. As a result, in our first set of tests, the *F*-statistic falls from 21.43 when $N = 1,439$ to 2.27 with $N = 90$, the latter is not significant at the 5% level. Due to this lack of power, we do not tabulate the results, though all of the findings are qualitatively consistent with those presented here and available upon request.

Finally, Model 4 includes controls for M&A market conditions, important in the cyclical market for corporate control. M&A activity has been shown influence the ease of financing related to the development of debt instruments, such as high yield bonds in the 1980s and collateralized debt obligations in the mid-2000s. They can also be catalyzed by economic booms. Valuations can likewise be affected by these cycles. We find that while the market condition factor is positively related to TCAR as expected, the *G* index remains significantly positively related, in fact slightly more so. Finally, target firm governance does not appear to be generally significant, although there is evidence that shareholder wealth may be eroded in the 11-day (± 11) window.

Table IV. Cumulative Abnormal Returns for Cross-border Deals

Cross-border targets' (TCAR) and acquirers' (ACAR) cumulative abnormal returns are calculated for 5-day ($[\pm 2]$), 11-day ($[\pm 5]$), and 21-day ($[\pm 10]$) event study windows. Panel A presents a nonparametric Wilcoxon test with hypothesis as shown and p values shown in parentheses. Panel B shows a correlation matrix with ***, **, and * signifying coefficients statistically different from zero at the 1%, 5%, and 10% levels, respectively. For Panel C, we split the data set into those with acquirers who are poorly governed ("dict," G Index greater than or equal to 10) and well-governed ("demo," G Index less than or equal to 9). The final column shows p values from a Wilcoxon test of whether $TCAR(\text{dict}) > TCAR(\text{demo})$. We also present results for 100% deals; that is, deals where the target was fully acquired.

<i>Panel A. Mean Returns</i>						
	TCAR	H1 : TCAR > 0	ACAR	H1 : ACAR < 0		
[+2,-2]	0.133	(0.000)	-0.0049	(0.000)		
[-5,+5]	0.139	(0.000)	-0.0069	(0.003)		
[-10,+10]	0.175	(0.000)	-0.0059	(0.035)		
<i>Panel B. Correlation Matrix</i>						
	TCAR $[\pm 5]$	TCAR $[\pm 10]$	ACAR $[\pm 2]$	ACAR $[\pm 5]$	ACAR $[\pm 10]$	
TCAR $[\pm 2]$	0.812***	0.691***	-0.051***	-0.014***	-0.051*	
TCAR $[\pm 5]$		0.812***	-0.079***	-0.051***	-0.061***	
TCAR $[\pm 10]$			-0.067***	-0.048***	-0.051***	
ACAR $[\pm 2]$				0.751***	0.610***	
ACAR $[\pm 5]$					0.700**	
<i>Panel C. TCAR vs. Governance</i>						
		Mean	Median	SD	Obs	p value (Dict > Demo)
All Deals						
TCAR[-2,+2]	Dict	0.161	0.027	0.521	250	0.075
	Demo	0.120	0.012	0.270	258	0.031
TCAR[-5,+5]	Dict	0.147	0.046	0.370	250	
	Demo	0.128	0.012	0.269	258	0.025
TCAR[-10,+10]	Dict	0.231	0.049	1.490	251	
	Demo	0.142	0.010	0.310	258	
100% Deal						
TCAR[-2,+2]	Dict	0.201	0.101	0.276	89	0.541
	Demo	0.225	0.126	0.381	87	
TCAR[-5,+5]	Dict	0.228	0.149	0.339	89	0.350
	Demo	0.251	0.129	0.390	87	
TCAR[-10,+10]	Dict	0.235	0.169	0.290	89	0.370
	Demo	0.289	0.175	0.441	87	

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

III. Main Results: Cross-Border Deals

The focus of this study is on cross-border deals, the degree of wealth transfer, and the impact of governance at both the country-level and firm levels on this transfer. First, consider the preliminary results presented in Table IV, Panel A where we investigate the CAR of both the acquirer and target.

Consistent with Jensen (1993), TCAR are significantly positive at 13.3%, 13.9%, and 17.5% over the event windows $[-2, +2]$, $[-5, +5]$, and $[-10, +10]$, respectively, with significance calculated using the Wilcoxon p values. However, consistent with Moeller, Schlingemann, and Stulz (2004), US acquirers' cumulative abnormal return (ACAR) are significantly negative at -49bp , -69bp , and -59bp , over the same event windows, respectively. Panel B indicates that correlations between the target and the acquirer returns are likewise negative. Thus, it appears that US acquirers execute deals at some expense to their shareholders, and the resulting wealth transfer appears to be substantial.

What is the role of governance factors in this transfer of wealth? In Table IV, Panel C, we report TCARs for cross-border targets, separated into those with well governed acquirers (democracy) and those who are poorly governed (dictatorship). We note that for all horizons, both mean and median TCAR are higher when the acquirer is poorly governed. The difference between the means is what we call the dictator premium. Despite a large standard deviation in TCARs, this premium is significantly greater than zero for all horizons using Wilcoxon p values as noted in the final column. Indeed, the results are more significant, the longer the event window. This is consistent with Hypothesis H2. Targets of more poorly governed acquirers earn higher returns in cross-border deals. Analogous tests are executed, but not tabulated for domestic deals as cross-border deals are the main focus of this study. The results are entirely consistent with the conclusions discussed throughout and are available upon request.

Interestingly, when we test only those acquisitions where 100% of equity is transferred, the results change dramatically. Bris and Cabolis (2008) argue that a full acquisition is unique in that it effectively transfers the governance of the acquirer (as well as investor protection at the country-level) directly to the foreign target. In that case, one would expect that the lack of overpayment by well governed acquirers may be offset by the marginal benefit of being acquired by a less risky acquirer. In fact, we find that, in these deals, the targets of well governed firms earn higher TCARs than those poorly governed. This statement is true of both the mean and median for virtually all horizons, though statistical significance is weak owing to a large reduction in sample size. We continue to explore the role of full acquisitions in subsequent multivariate regressions.

A. Dictator Premium Concavity and Acquirer Returns

To add further granularity, Panel A of Table V graphs the mean TCAR and ACAR versus G Index for each value of the G index from 2 to 19, the respective minimum and maximum in our cross-border dataset. While TCAR is generally positive and is matched with generally negative or zero ACAR, we find that the relation to the acquirer's G index is not linearly monotonic. With the exception of a small number of outliers, it appears that TCAR is concavely related to G Index, while ACAR is close to linearly related. For TCAR in particular, the graph seems to peak between 10 and 12 for all horizons.

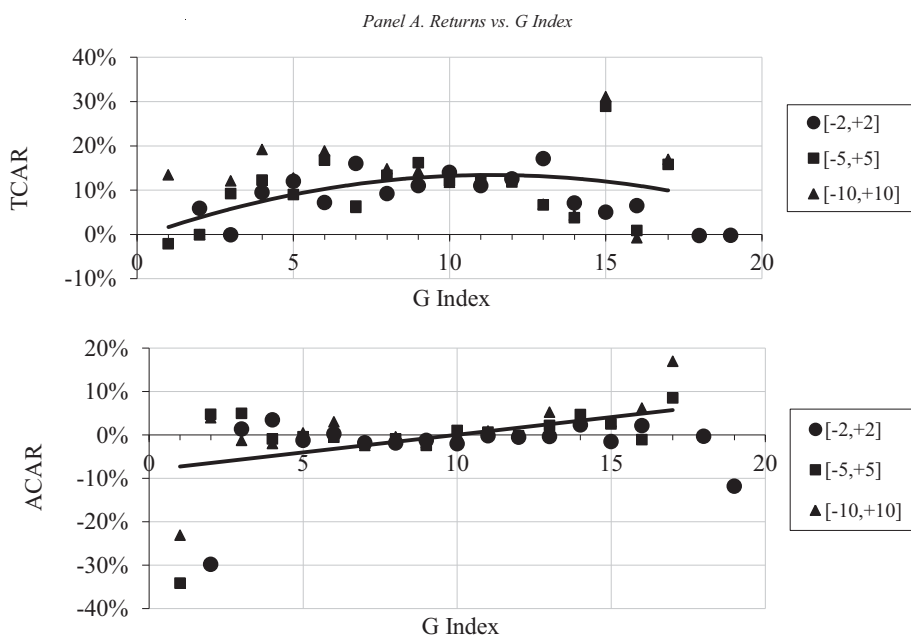
In Table V, Panel B, we provide both the linear and quadratic fitted results where the dependent variable is first TCAR as follows:

$$TCAR = \text{Intercept} + \beta_1 \cdot G \text{ Index} + \beta_2 \cdot (G \text{ Index})^2 + \text{error term.} \quad (6)$$

We find that the linear model is never significant, either in the F -statistic or in the t -statistic on the coefficient of the G index. The quadratic model performs better at all three horizons. The G index coefficient is positive in all three cases and the quadratic element is native in all three cases. These findings are statistically significant for the 5-day and 11-day models and for all relevant

Table V. Cumulative Abnormal Returns versus ATP for Cross-Border Deals

G Index is the acquirer's number of ATPs. Panel A graphs the target's (TCAR) and the acquirer's (ACAR) cumulative abnormal return for 5-, 11-, and 21-day event windows versus *G Index* for the 616 completed cross-border deals from October 1984 to December 2011. In Panel B, the regression dependent variable is TCAR or ACAR and the independent variables are the *G Index* and the square of the same. Standard errors are corrected for heteroskedasticity and autocorrelation following Newey and West (1987, 1994).

*Panel B. Regressions Testing the Relation between Return and G-Index*

	[-2,+2]		[-5,+5]		[-10,+10]	
	Linear	>Quadratic	Linear	Quadratic	Linear	Quadratic
<i>y</i> = TCAR						
<i>G Index</i>	-0.003	0.032***	0.001	0.006***	0.001	0.006
$(G\ Index)^2$		-0.002***		-0.003**		0.000
F-statistic	0.015	8.900***	1.500	5.012**	0.115	1.300
Adj. R^2	0.061	0.657	0.002	0.390	0.003	0.110
<i>y</i> = ACAR						
<i>G Index</i>	0.003**	0.037***	0.008**	0.026***	0.010***	0.010**
$(G\ Index)^2$		-0.002***		-0.001***		0.000
F-statistic	1.510	3.510*	3.600**	2.900	10.010***	9.240***
Adj. R^2	0.041	0.326	0.205	0.261	0.428	0.428

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

t-statistics and *F*-statistics. In essence, for targets of relatively well governed firms, the marginal benefit of being overpaid outweighs the cost of absorbing the risk associated with a more poorly governed acquirer. For targets of poorly governed firms, the transfer of poor governance and the associated costs may outweigh any potential overpayment. As a result, the highest TCAR may lie in the middle of the G index for cross-border deals. However, what are missing from this discussion are controls for country-level governance and deal characteristics. In multivariate regressions presented later, we include both a quadratic term and a number of control variables that seek to address this relation and find that the concave correlation illustrated here is eliminated once these controls are included.

When the dependent variable is ACAR, the linear model is found to generate a reasonable fit. The quadratic specification only dominates in the shortest horizon and exhibits a weaker *F*-statistic in both of the longer term horizons. Indeed, the linear model coefficient is positive and significant for all horizons, with significance increasing as the horizon lengthens.

Puzzlingly, while in the previous sections we conclude that acquirers generally transfer wealth to targets, it appears to be the best governed of these that transfer the most (or expect to benefit the least from the acquisition).⁷ The developing literature has yet to come to a consensus as to whether and how foreign acquisitions generate value for the acquirer, but our study suggests that the most poorly governed acquirers extract the most value. This may be because investors expect the least scrupulous acquirers to extract the largest rents from unwitting foreign targets.⁸ Masulis et al. (2007) find the opposite to be true for domestic deals. Poorly governed acquirers perform worse than their well governed counterparts due to overpayment, perhaps because they are unable to benefit from the additional information asymmetry provided through cross-border deals. This, though, is just conjecture as our domestic dataset differs from that of Masulis et al. (2007) in two important ways: (1) our dataset does not include private targets, and (2) the sample period in that paper includes potential valuation bubbles in the late 1990s that might complicate valuations, especially those of private firms.

B. Sovereign versus Corporate Governance Impact

We now turn our attention to separating the impact of corporate governance differences from that of country-level legal systems. As previously mentioned, in cross-border deals, both the governance of the firm itself and the impact of the legal systems involved may have an influence on the ability to transfer wealth and the resulting shareholder response. Specifically, we employ La Porta et al.'s (1998) and Djankov et al.'s (2008) measures for country-level legal systems as a control in our tests. Table VI, Panel A presents TCARs for dictatorship and democracy acquirers separated by AD, accounting standards (AS), and the stock market cap to GDP ratio (SMCTG) measures. High and low indicate values higher or lower than the median for all nations, where higher values are better governed. Note that we compare only the target's country-level governance since all of the acquirers are from the United States and the United States is in the highest categorization for all three classifications.

While most TCARs are significantly greater than zero, very few ACARs are. That is, targets earn positive abnormal returns and acquirers generally do not. Moreover, returns for targets from relatively well governed nations (the "high" group) are always higher than those of their counterparts from more poorly governed nations. In contrast, ACAR for the high group are nearly

⁷ We also test total CAR (i.e., acquirer plus target) and find that the relation continues to be concave. Full tables are available upon request.

⁸ Dennis, Dennis, and Yost (2002) argue that US acquirers, at the aggregate level, trade at a discount, while Doukas and Lang (2003) disagree, although both find that cross-border deals are less value destroying than domestic ones.

Table VI. Return and Sovereign Corporate Governance

Acquirers with a *G Index* greater than or equal to 10 are considered poorly governed (dict), while those that are less than or equal to 9 are well governed (demo). In Panel A, mean target (TCAR) and acquirer (ACAR) cumulative abnormal returns for 5-, 11-, and 21-day windows are calculated depending upon whether the target is from a country with high (compared to the median of all nations) or low governance scores for each of the three categories: (1) Accounting Standards (AS) from La Porta et al. (1998) and (2) Antidirector Rights (AD) and Stock Market Capitalization to GDP (SMCTG) as suggested by Djankov et al. (2008).

<i>Panel A. TCARs and ACARS vs. Sovereign Governance Measures</i>						
	AD		AS		SMCTG	
	Low	High	Low	High	Low	High
TCAR[±2] _{dict}	0.042**	0.163***	0.010	0.170***	0.012**	0.179***
TCAR[±2] _{demo}	0.047**	0.128**	0.025	0.141**	0.018	0.135***
TCAR[±5] _{dict}	0.049***	0.156***	0.008	0.151***	0.010	0.164***
TCAR[±5] _{demo}	0.054*	0.132**	0.041	0.135**	0.022	0.141***
TCAR[±10] _{dict}	0.040**	0.241**	-0.008	0.225**	0.001	0.254**
TCAR[±10] _{demo}	0.101***	0.161***	0.091**	0.145***	0.032	0.167***
ACAR[±2] _{dict}	0.006	-0.010*	-0.002	-0.009*	0.001	-0.008*
ACAR[±2] _{demo}	0.004	-0.007	0.002	-0.006	0.002	-0.008
ACAR[±5] _{dict}	-0.007	-0.009	-0.005	-0.011	-0.013	-0.007
ACAR[±5] _{demo}	0.020	-0.006	0.002	-0.006	0.006	-0.005
ACAR[±10] _{dict}	-0.009	-0.003	-0.005	-0.002	0.006	-0.006
ACAR[±10] _{demo}	-0.003	-0.009	-0.005	-0.008	-0.003	-0.011

<i>Panel B. Wilcoxon p values for $H_1 : TCAR_{High} > TCAR_{Low}$</i>			
	AD	AS	SMCTG
TCAR[±2] _{dict}	0.043	0.000	0.000
TCAR[±2] _{demo}	0.061	0.007	0.002
TCAR[±5] _{dict}	0.080	0.000	0.001
TCAR[±5] _{demo}	0.140	0.035	0.000
TCAR[±10] _{dict}	0.010	0.000	0.000
TCAR[±10] _{demo}	0.380	0.065	0.010

<i>Panel C. Wilcoxon p values for $H_1 : TCAR_{dict} > TCAR_{demo}$</i>						
	AD		AS		SMCTG	
	Low	High	Low	High	Low	High
TCAR[±2]	0.400	0.105	0.730	0.090	0.190	0.093
TCAR[±5]	0.256	0.085	0.580	0.061	0.210	0.080
TCAR[±10]	0.555	0.034	0.492	0.049	0.105	0.070

***Significant at the 0.01 level.
**Significant at the 0.05 level.
*Significant at the 0.10 level.

always lower than ACARs for the low group. This is consistent with the conjecture that targets benefit from being in a stronger country-level governance environment, while acquirers seem to “pay” for it (i.e., there is a premium paid for better country-level governance). Note also that for both AS and SMCTG, TCARs for the low designation are nearly never significantly greater than zero indicating that it is difficult for targets to receive acquisition premia if they are from a strong country-level governance environment.

Exploring TCARs more fully, Panel B exhibits Wilcoxon p values for tests of whether TCARs associated with high ratings exceed those of low ratings. We find that, in most cases, a country-level governance premium is evident as p values are lower than 10% in most cases. In the case of AS and SMTG, the high minus low gap is always significant at least at the 10% level, and often at the 1% level. Intuitively, when the acquirer’s country-level governance is relatively weak (or that of the target is particularly strong), the acquirer is more likely to pay more or overpay, a finding consistent with our general conclusions and with the notion that the target receives little or no additional governance protection because of the US legal system. AD seems to be least related to TCAR, especially for firms with strong firm-specific governance (i.e., democracies). There are no such relations to report for ACARs. As such, those tests are omitted from this table.

Panel C investigates whether firm-specific governance plays a role after controlling for country effects. Specifically, it tests whether the dictatorship premium, that is the difference between TCAR for dictators versus democracies, is significant. In all but one case, we find that dictatorship premium exists, but only for targets from well governed countries. In contrast, when the target comes from a country with weak country-level governance, the dictator premium is never statistically significant. This finding supports the qualitative conclusion that the dictator premium is not explained by the poor governance of the country itself, but is determined by the firm’s own governance, especially in countries that are themselves well governed. In contrast, when the target is from a poorly governed country, that effect seems to override firm-specific concerns. Once again, ACARs exhibit no meaningful relations and, as such, the results are omitted.

C. Multivariate Regressions for Cross-Border Deals

The final set of tests mirrors the domestic deal tests as we rerun multivariate regressions for cross-border deals with additional control variables following the spirit of Bris and Cabolis (2008), Eckbo, Giammarino, and Heinkel (1990), and others. This set of cross-border specific controls includes considerations for country-level corporate governance and macroeconomic variables. Specifically, for each cross-border acquisition, we posit:⁹

$$\begin{aligned}
 CAR = & \text{Full Acquire} \cdot \beta_1 \cdot G \text{ Index} + \beta_1 \cdot (G \text{ Index})^2 + \beta_3 \cdot \text{Deal Characteristics} \\
 & + \beta_4 \cdot \text{Acquirer \& Target Characteristics} + \beta_5 \cdot \text{M \& A Market Condition} \\
 & + \beta_6 \cdot \text{Macro economic Factors} + \text{Full Acquire} \times \beta_7 \cdot \text{Sovereign Governance Factors} \\
 & + \text{error term.}
 \end{aligned}
 \tag{7}$$

⁹ Bris and Cabolis (2008) construct a wholesomeness index that reflects antitrust laws and merger controls, citing the White & Case survey “Worldwide Antitrust Merger Notification Requirements.” Similarly, Dyck and Zingales (2004) gather data concerning the statutes requiring additional share purchases at certain thresholds.

The key explanatory variable is the *G* index of the acquirer, although we continue to include the relevant control variables as in the case of domestic deals. Since cross-border deals are additionally affected by macroeconomic parameters and country-level differences in the aggregate level of corporate governance, we augment these tests with the per US dollar exchange rate (*ForEx*) and the log-difference in per capita GDP between the United States and the target country (*GDP*). The differences in *AS* and *AD* indices for the United States and the target country, the *IFRS-GAAP* difference score, and consideration of 100% of the acquisitions using the dummy *Full* are also included as we test and interact each. *SMCTG* is not included as the difference in per capita GDP is already used. Finally, we also include a control for the quadratic effects.

The results are presented in Table VII. Note that the *G Index* itself is not consistently related to TCAR, although it appears to be positively related when at all significantly related, primarily in the longest horizon tests. The positive correlation is consistent with the other findings in this study. This result is slightly stronger and is more substantial in the 11-day horizon, rather than the 21-day when we include the consideration of the full acquisitions. In a full acquisition, target shareholders benefit more as acquirers take full control and have total autonomy in the running of the combined entity, again consistent with our general intuition. However, when the acquisition is full, the target seems to benefit from being in a strong accounting environment (*AS*), perhaps related to the lower costs of search and due diligence on the part of the acquirers. In contrast, strong *AD* reflect poorly on TCAR as the acquirer must then fight with the remaining shareholders to establish a high level of entrenchment for the future.

More importantly, in Model 3, when all of the controls are included, the dictator premium is evident as the *G Index* is significantly positively related to TCAR in all but the shortest horizon. That is, weaker governed firms pay more for targets, after controlling for deal and environmental characteristics. In fact, stronger markets (*MMC*), more profitable acquirers (*Acq FCF*), and more leveraged acquirers (*Acq Lev*) lead to higher TCARs. The level of competition in an industry is expected to improve investor protection at the corporate-level extent, having a positive impact on corporate governance. Accordingly, the Herfindahl-Hirshman Index of the target firm's industry in a foreign country (*Tgt HHI*) is found to reduce the cross-border event study return over the 5- and 11-day windows.¹⁰ Each of these findings is consistent with the primary conclusions of this study. In cross-border deals, more poorly governed acquirers overpay for targets even after controlling for differences in the country-level environment and deal characteristics. As such, firms with more resources tend to overpay the most.

Addressing the issue of concavity in TCAR, we include the square of the *G* index as a final variable in Model 4. Doing so eliminates the impact of the linear *G* index term, but increases the role of the *Full* × *G Index* interaction term, which remains significantly positive. However, note that other variable relations are not changed and that the quadratic term is not itself significant. In other words, the concave relation appears to be the result of full acquisitions and country-level governance characteristics. As a result, we believe these factors account for the concave relation (i.e., country-level governance factors override idiosyncratic governance considerations).

Finally, to control for the possibility that our accounting standards may be biased due to age and details of the *AS* measure, we include the *IFRS* score of Bae et al. (2008) in Model 5. Since not all countries that adopted *IFRS* through the sample period were indexed by La Porta et al. (1998), the number of observations is reduced to 421. However, replacing the existing *AS* index with the *IFRS* score leaves the implications of Model 4 qualitatively unaffected.

¹⁰ We use the Herfindahl-Hirshman indices compiled from 1980 to 2010 for 26 countries. As we match these with the target countries, the sample firms are reduced to 432. We thank Joung Hwa Choi (Seoul National University) for sharing her data.

Table VII. Panel Regression Analyses of Cross-Border Target Returns

The dependent variable is the target's 5-day (± 2), 11-day (± 5), and 21-day (± 10) cumulative abnormal event study return (TCAR). *G Index* is the acquirer's number of ATPs. *Full* is equal to one when 100% of the target is acquired. *Size* is log transaction value. *Cash* is equal to one if the deal is executed in cash. *Tgt Acq* denotes a target (acquirer) variable. *HT* is equal to one if the firm is from a high-tech industry as per Loughran and Ritter (2004). *Lev* is debt over total assets. *Q* is Tobin's Q. *FCF* is EBITDA less capex scaled by total assets. *Asset* is log book value of total assets. *HHI* is the Herfindahl and Hirschman Index of the industry and country of the target firm. *Diversify* is equal to one if the acquirer and the target do not share a Fama-French industry. *Low Price* is equal to one if the target trades below \$10. *MMC* is the average premium paid for all deals that year. *ForEx* is the annual average foreign exchange rate per US\$ that year. *GDP* is the log-difference in per-capita GDP between the United States and the target country. *AS* is from La Porta et al. (1998), *AD* is from Djankov et al. (2008) and *IFRS* is from Bae et al. (2008). The panel dataset is constructed following Dempster et al. (1977) and van Dyk and Meng (2001). Standard errors are corrected for heteroskedasticity and autocorrelation following Newey and West (1987). All regressions control for year fixed-effects.

Variable	Model 1			Model 2			Model 3			Model 4			Model 5		
	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]	[±2]	[±5]	[±10]
<i>G Index</i>	-0.006	0.005	0.031	0.000	0.008	0.023*	-0.002	0.021*	0.051***	-0.031	-0.159	-0.172	-0.011	-0.011	-0.011
<i>Full</i>	0.310	-0.410	0.021	-0.170	-0.648	-0.226	0.130	-0.190	0.037	0.037	-0.763	-0.687	-0.538	-0.538	-0.538
<i>Full</i> × <i>G Index</i>	-0.020	0.061	0.039	-0.011	0.043**	0.032	0.061*	0.028	0.044	0.055	0.068**	0.093**	0.035	0.035	0.035***
<i>Full</i> × <i>AD</i>					-1.630***	-2.581**	-0.810	-1.925**	-3.412***	-0.879	-2.349**	-3.935***	-0.798	-2.019**	-3.471**
<i>Full</i> × <i>AS</i>					0.380***	0.602***	0.110	0.550***	1.027***	0.125	0.639**	1.137***	0.024**	0.024**	0.024**
<i>Full</i> × <i>IFRS</i>															
<i>Size</i>															
<i>Cash</i>															
<i>Acq HT</i>															
<i>Acq Lev</i>															
<i>Acq Q</i>															
<i>Acq FCF</i>															
<i>Acq Asset</i>															
<i>Size</i> × <i>Tgt HT</i>															
<i>Tgt HHI</i>															
<i>Diversify</i>															
<i>Low Price</i>															
<i>MMC</i>															
<i>ForEx</i>															
<i>GDP</i>															
(<i>G Index</i>) ²															
No. of Obs.	599	599	599	578	578	578	432	432	432	432	432	432	421	421	421
Multiple R ²	0.021	0.183	0.390	0.115	0.357	0.449	0.475	0.650	0.832	0.485	0.691	0.857	0.431	0.614	0.761

***Significant at the 0.01 level.
 **Significant at the 0.05 level.
 *Significant at the 0.10 level.

Table VIII. Logistic Regression Analyses of All Cash Acquisitions

The sample consists of 2,466 completed domestic and cross-border deals from 1990 to 2011. The dependent variable is equal to one for a 100% cash-financed acquisition, or zero otherwise. *Cross-border* is equal to one for a cross-border deal or zero for a US domestic deal. *G Index* is the acquirer's number of ATPs. *Size* is the log transaction value. *Tgt (Acq)* denotes a target (acquirer) variable. *HT* is equal to one if the firm is from a high-tech industry as per Loughran and Ritter 2004. *Lev* is debt over total assets. *Q* is Tobin's Q. *FCF* is EBITDA less Capex scaled by total assets. *Asset* is the log book value of total assets. *Diversify* is equal to one if the acquirer and target do not share a Fama-French (1997) industry. *Low Price* is equal to one if the target stock trades below \$10, while *MMC* is the average premium paid for all deals in a given year. The panel dataset is constructed following Dempster et al. (1977) and van Dyk and Meng (2001).

Variable	Model 1		Model 2		Model 3		Model 4	
	A	B	A	B	A	B	A	B
Intercept	1.718***	1.227*	1.561**	1.110	1.176**	0.659	1.742***	-0.141
<i>Cross-Border</i>	-1.871***	-2.097***	-1.712***	-1.937***	-1.780***	-2.019***	-1.723***	-1.939***
<i>G Index</i>	-0.051	-0.053*	-0.061	-0.065	-0.056	-0.058	-0.062	-0.061
<i>G Index</i> × <i>Cross-border</i>	0.125**	0.146**	0.101**	0.122***	0.098**	0.118**	0.102*	0.124**
<i>Size</i>	-0.153***	-0.186***	-0.257***	-0.296**	-0.224***	-0.259***	-0.261***	-0.299***
<i>Tgt HT</i>	0.417**	0.394**	-0.647	-0.686	-0.677	-0.723*	-0.638	-0.703
<i>Acq HT</i>	0.009	0.001	-0.081	-0.080	-0.096	-0.096	-0.078	-0.082
<i>Acq Lev</i>			-1.691***	-1.787***	-1.622***	-1.712***	-1.668***	-1.831***
<i>Acq Q</i>			0.051	0.041	0.046	0.036	0.053	0.041
<i>Acq FCF</i>			1.315	1.156	1.340	1.173	1.261	1.099
<i>Acq Asset</i>			0.015	0.018	0.020	0.023	0.014	0.020
<i>Size</i> × <i>Tgt HT</i>			0.201***	0.202***	0.204***	0.205***	0.198***	0.205***
<i>Diversify</i>			0.136	0.135	0.145	0.146	0.138	0.128
<i>Low price</i>					0.311**	0.329**		
<i>MMC</i>							-0.006	0.035
Year effect	No	Yes	No	Yes	No	Yes	No	Yes
No. of obs.	1,487	1,487	1,487	1,487	1,487	1,487	1,487	1,487
Pseudo-R ²	0.006	0.007	0.008	0.009	0.006	0.009	0.008	0.011

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

D. Additional Considerations and Robustness Tests

To address which factors induce acquirers to seek cross-border deals in the first place, we run a logit regression measuring the variables that affect the propensity of acquirers to choose cross-border targets. We find no correlation between the *G* index and this likelihood as coefficients are insignificant in virtually all specifications. However, smaller deals, wealthier acquirers, and lower priced targets do significantly increase the chances of a cross-border acquisition. Tabulated results are available upon request.

When acquiring a foreign target, the US acquirer may prefer stocks to cash in financing its purchase since: (1) cross-border target shareholders can value ownership of their US acquirer more than cash compensation, and (2) the acquirer can minimize its foreign exchange risk exposure. Thus, it is noteworthy to evaluate the likelihood of a cash-financed foreign acquisition that may be affected by the aforementioned risk factors and control variables. In Table VIII, we logit regress the 100% cash-financed acquisition dummy variable onto the cross-border deal dummy (*Cross-Border*), *G Index* and its interaction with the cross-border dummy, and controlled for various target, acquirer, deal and market characteristics. As predicted, in all model specifications, an average US acquirer is likely to finance its foreign acquisition (*Cross-Border*) in stocks rather than in cash. Yet, poorly governed firms, high in the *G Index*, appear more likely to be paying all in cash for their overseas targets ($G\ Index \times Cross-Border$) which is consistent with our dictator premium hypothesis. These two findings are robust to all model specifications with cumulative control variables where Submodel B reflects year effects.

Additionally, a key factor not controlled for in our main tests is the corporate governance of foreign target firms for which reliable data is scarce.¹¹ However, we do apply the governance index from the Report on Business for Canadian firms presented in McFarland (2002) and used by Foerster and Huen (2004) and Klein, Shapiro, and Young (2005).¹² For the 259 Canadian deals in our dataset, we identify only 19 deals with target companies whose governance scores are available. Regression results are qualitatively identical to those in Table VII, but are generally statistically insignificant due to the small sample size. We leave a better, more general control for target governance to future study.

IV. Conclusion

We examine domestic US deals and cross-border deals with US acquirers and seek to address the role of corporate governance in value transfers, but do so by looking at target returns, an important departure from the extant literature. We choose a well understood measure of governance that has yet to be applied in the cross-border context, ATPs. Consistent with the literature, we find that in domestic deals, the more poorly governed the acquirer (more ATPs), the higher the cumulative abnormal returns to target shareholders. Combined with the findings of Masulis et al. (2007), we conclude that these deals act as de facto wealth transfers, especially for the poorly governed acquirers. This finding is robust to controls for time fixed-effects and deal characteristics. It is worth noting that while the target of a poorly governed acquirer may be more likely to be overpaid, this target is also more likely to be mismanaged or subject to governance concerns in the future. The expectations of the latter would tend to reduce future returns. We determine that

¹¹ Although different from the ATP measure we use here, Pistor (2000), Black, Jan, and Kim (2006), and Hyytinen, Kuosa, and Takalo (2001) each develop corporate governance scores for a handful of different economies.

¹² We appreciate Stephen Foerster (Ivey School of Business) and Michael King (Ivey School of Business) for sharing this data.

the immediate benefit of overpayment seems to dominate the potential for future issues arising from poor governance. However, we do not investigate that dynamic here.

Our main tests focus on cross-border deals and find similar results. More ATPs are associated with higher target returns, with generally zero or slightly negative acquirer returns. In contrast to Masulis et al. (2007) for US domestic deals, we show that poorly governed acquirers earn the highest returns when engaging in cross-border deals, a puzzle we surmise that relates to the ability of these firms to funnel value away from the target or to the governance of the targets selected by these acquirers. Although not available in our dataset, we suggest, that in future work, the ATPs of extensive foreign target firms, as they become available, also be included as a control factor, but leave the verification of this hypothesis to future study. Because of the additional sophistication of cross-border deals, we include controls for country-level differences in corporate governance, as well as several macroeconomic variables. Our results are robust to these inclusions. To the best of our knowledge, we are the first to document a dictator premium received by the targets of poorly governed acquirers, regardless of geographic location.

Appendix

Variable Definitions

Abnormal Returns

N-Day Return. *N*-day cumulative abnormal return (in percentage points) calculated using the market model with the CRSP equally weighted return as the market index.

Antitakeover Provision Index

G Index. Provided by Gompers et al. (2003), based on 24 ATPs.

Deal, Acquirer, and Target Characteristics

Size is the log transaction value recorded on SDC.

Acq HT is equal to one if the acquirer is from a high tech industry as defined by Loughran and Ritter (2004).

Tgt HT is equal to one if the target is from a high tech industry as defined by Loughran and Ritter (2004).

Acq Assets is the log of the book value of total assets.

Q is Tobin's Q; that is, the market value over the book value of the acquirer's assets.

Lev is the book value of debt over the market value of total assets.

FCF is operating income before depreciation – interest expenses – taxes – capex, scaled by acquirer assets.

Tgt HHI is the Herfindahl-Hirshman Index that measures the level of competition in the industry of the target firm.

Diversify is equal to one if the acquirer and the target do not share a Fama-French (1997) industry.

MMC is the average premium for all deals each year, based on the target price four weeks before the announcement.

Sovereign Governance Indices

AS are Accounting Standards from La Porta et al. (1998) and are measured at the country level.

AD are Antidirector Rights from Djankov et al. (2008) and proxy for the degree of shareholder protection.

IFRS is the difference score for the IFRS of each country from US GAAP taken from Bae et al. (2008). It measures the distance between accounting standards.

Macroeconomic Factors

ForEx is the average exchange rate of the domestic currency per US dollar in the year of the announcement.

GDP is the log-difference in per-capita GDP between the United States and the target country.

SMCTG is the stock market capitalization to the GDP ratio suggested by Djankov et al. (2008).

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