

Bidder's Shareholder Wealth Effects of Canadian cross-border and domestic acquisitions- the role of corporate governance differences

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Abstract: In this study, we raise the question of why bidders from high investor protection countries tend to make acquisitions in less protective countries. To answer this question, we use a sample of 462 cross-border and domestic acquisitions by Canadian bidders. Our results reveal that Canadian bidders making cross-border acquisitions overperform those making domestic acquisitions, which contrasts with the findings of studies conducted on US acquirers. This result is especially true when stock is involved in payment, and is robust to different target and deal characteristics. Another major result is that Canadian bidders exploit the high shareholder protection in Canada, to make the foreign target accept stock as a means of payment and avoid at the same time the signaling effect of stock as an overvaluation of the bidder, which is the usually observed effect in domestic acquisitions. This practice allows the bidder to enlarge its investors' base and enhance the market and investors awareness without being considered as overvalued, which drives a positive effect on the bidder's stock. Accordingly, we find that the probability of an all-stock payment is positively correlated with the difference in the shareholder protection between the bidder and target countries.

JEL classification: F30, G34, G38

Keywords: mergers and acquisitions, domestic and cross-border takeovers, bidder gain, corporate governance, investor protection.

1. Introduction

Over the past decades the world markets registered a remarkable growth of foreign direct investment (FDI). The most common form of FDI occurs via cross-border acquisitions. These transactions present opportunities that are different from domestic transactions and may affect bidders' wealth. The early studies that examined the wealth effect of the cross-border acquisitions considered mainly three groups of factors: product and factor market imperfections, asymmetries in capital markets, and deal variables used in domestic acquisitions studies (See Kuipers et al. (2003), p2 for more details).

More recently, LaPorta, Lopez-de-Silanes, Shleifer and Vishny (LLSV, 1997) assert that differences in investor protection along with the rigor of legal enforcement standards, affect the nature and effectiveness of capital markets around the globe. Following their work, the valuation impact of the legal and corporate governance started to be considered. Wurgler (2000) finds that better protection leads to more profitable investment programs initiated by firm management. If managers are properly incentivized by the legal environment, they will be more willing to identify profitable investments. LLSV (2002), Lins (2002) and Bris and Cabolis (2004) argue that better corporate governance leads to more valuable firms. Rossi and Volpin (2004) focus on merger activity and target premiums aggregated by countries. They conclude that targets are primarily acquired by firms from countries with better investor protection, resulting in improved investor protection for the target firms. Starks and Wei (2004) and Kuipers et al. (2003) argue that foreign bidding firms could benefit from complying more with US regulation and standards.

Bris and Cabolis (2004) provide evidence that when a target firm adopts the shareholder protection and accounting standards of a more protective acquirer, the market values this change positively on target shares. However, acquisitions of firms in weaker shareholder protection and

poorer accounting standards countries by firms in stronger protective regimes do not result in gain or loss of value for the acquiring firm. This result raises the question of why these mergers happen? For instance, Canadian investors benefit from one of the highest levels of investor protection and accounting standards (LLSV, 1988) and most cross-border M&As conducted by Canadian acquirers involve a target in a country with lower corporate governance standards.

Based on Canadian evidence, this paper's objective is to fill a void in the literature by exploring the motives of bidders from countries that benefit from high corporate governance, in acquiring firms in low corporate governance countries¹. In this case, bidders are not seeking an improvement in investor protection, as argued by Starks and Wei (2004), who study the case of foreign bidders acquiring US targets. Moreover, the difference in valuation arises from the target country.²

This study goes two folds. First, we study the differences in the stock performance between bidding firms engaging in domestic and cross-border acquisitions. We use a set of variables related to the deal characteristics, to explain the differences of the acquirers' performance. This is a further contribution of our paper, since very few evidence is presented on whether bidder gains for cross-border transactions differ from those of domestic transactions. Moreover, studies conducted on cross-border acquisitions investigated the issue through the target stock; the bidder has received less attention. In this paper, we focus on the case of Canadian bidders acquiring either domestic or foreign targets. Second, we focus on the cross-border transactions to explain wealth creation/destruction to the acquiring firm. We interact corporate governance variables with the means of payment and the relative value of the target to bidder, which prove to be

¹ Kuipers et al. (2003) and Starks (2004) focus on foreign bidders acquiring US targets having higher investor protection.

² In Kuipers et al. (2003) and Starks (2004), the differences in valuation arise from differences in the legal environment in the acquiring country (since the target country remains US)

important factors in the case of corporate governance differences between the target and the acquirer. We also analyze the determinants of the method of payment in these transactions. We introduce the corporate governance and legal environment variables of the target nation, documented by LaPorta, Lopez, Shleifer and Vishny (1998, 2002).

Our interest for Canadian bidders stems from the following figures. According to Crosbie and Co., 13% of the announced acquisitions by Canadian bidders in 1992 involve a foreign target compared to 25% in 2001. Moreover, in the year 2000 Canada ranked eighth in cross-border M&A with a total value close to 40 billion. Canada realized an annual compounded growth of 28.9% over the last decade, thus outstripping the world's growth of 22.55% and the 19.1% growth of the United States³. Moreover, Canada has one of the best accounting standards and corporate governance system (LLSV, 1998). This could in part explain the importance of the volume of M&A activity in Canada⁴. Moreover, the importance of the cross-border acquisitions of Canadian bidders makes the question we raise more relevant.

We use a sample of 462 acquisitions by Canadian firms that conducted an acquisition during the 1988 - 2002 period; among them we distinguish 297 domestic acquisitions and 165 cross-border acquisitions. As most of the M&A research concentrates on the US and UK markets, we believe that a study on cross-border M&As in Canada provides an opportunity to examine some puzzles on the issue.

³ World Investment Report (2004), United Nations Commission on Trade and Development (UNCTAD)

⁴ Rossi and Volpin (2004) find that the volume of M&A activity is significantly larger in countries with better accounting standards and stronger shareholders protection.

Our results show that cross-border bidders earn upon announcement, significantly higher abnormal returns than domestic bidders. This evidence is the opposite of the findings of studies conducted on US bidders (Moeller et al (2005) and Starks and Wei (2004)). Cross-border bidders overperformance holds whether the target is public or private, whether the bidder and target activities are related or not, and when the offer is made through a merger. Our evidence is consistent with the internalization arguments suggesting that bidders can realize a potential additional value by diversifying internationally. This result also holds for transactions paid with a proportion of stock, which confirms that the signaling hypothesis related to the means of payment does not hold in the case of cross-border M&As. Indeed, when a stock offer is made, the bidder firm announcement abnormal returns increased significantly with the differences in shareholder protection between the bidder and the target countries.

Our findings suggest that the Canadian bidders exploit the high shareholder protection in Canada, to make the target accept stock as a means of payment and avoid at the same time the signaling effect of stock as a sign of the overvaluation of the bidder, which is the usual effect in domestic acquisitions. This could be a considerable advantage of acquiring cross-border rather than domestic bidders. In fact, through this practice a Canadian bidder can exploit the high shareholder protection insured by the Canadian law to pay with stock and hence, enlarge its investors' base and the market and investors awareness without being considered as overvalued, which drives the positive effect we observe on the bidder's stock.

We find evidence that the difference between Canadian and target countries accounting standards is not a significant factor in determining the bidder announcement abnormal returns.

Our results with regard to the determinants of the financing decision are consistent with Rossi and Volpin (2004). We find that the probability of an all-stock payment is positively correlated with the difference in the shareholder protection between the bidder and target countries.

Even if cross-border bidders overperform domestic bidders, we do not find any evidence that cross-border acquisitions are motivated by market imperfections like differential taxes and exchange rates.

This paper is organized as follows: the next section reviews the existing empirical evidence on the differences in shareholders wealth effects between bidders of domestic and cross-border deals, and reports the theoretical background of the role of corporate governance structure and legal environment in cross-border mergers. In section 3, we develop our hypotheses. Section 4 describes the data, sample characteristics and methodology. Section 5 investigates the differences between cross-border and domestic acquisitions in terms of the announcement returns. In section 6, we further investigate the determinants of announcement returns and of the financing decisions of cross-border bidders. The last section concludes.

2. Theoretical background

2.1 Differences in shareholders' wealth effect between domestic and cross-border bidders

The literature on the domestic mergers and acquisitions is unanimous: shareholders of target firms invariably receive large premiums (on average between 20-40%) relative to the pre-announcement share price. In contrast, there is little consensus about the announcement wealth effects for the bidding firms. About half of the studies report small negative returns for the acquirers (see e.g.

Walker 2000, Mitchell and Stafford 2000, and Healy, Palepu and Ruback 1992) whereas the other half finds zero or small positive abnormal returns (see e.g. Eckbo and Thorburn 2000, Maquiera et al. 1998, Schwert 1996, and Loderer and Martin 1990). Considering that the average target is much smaller than the average acquirer, the combined net economic gain at announcement is only just positive.

Very few papers deal with the differences between domestic and cross-border M&As. Moeller and Schlingemann (2005) compare the stock price and operating performance for the US bidder firms across domestic and cross-border transactions. They find that cross-border transactions have economically and statistically significant lower bidder gains than domestic transactions (cross-border bidders have announcement returns of approximately hundred basis points less than domestic bidders). This study also uses deal and firm characteristic variables to explain these differences, but integrates diversification characteristics (global diversification and industry diversification) and characteristics related to target country degree of economic freedom (documented by Gwartney, Lawson and Block (1996) and O'Driscoll, Holmes and Kirkpatrick (2000)).

Concerning the Canadian market for mergers and acquisitions, Eckbo and Thorburn (2000) brought a new insight by presenting evidence on the performance of Canadian and foreign bidder firms acquiring Canadian targets from 1964 to 1982. Their results indicate that domestic bidders show superior earnings performance as well as superior stock price performance relative to foreign bidders in Canada. As documented by the authors, Canadian bidders earn significant positive average abnormal returns for the announcement period and superior accounting performance for the pre- and post acquisition period.

2.2. Corporate governance effects in cross-border mergers and acquisitions

La Porta, Lopez-de-Silanes, Shleifer and Vishny (LLSV, 1997) introduced the notion that the differences in investor protection along with the rigor of legal enforcement standards, affect the nature and effectiveness of capital markets around the globe. Starting with this pioneering work, the academic research circumvents this issue using cross-border mergers as a mechanism for corporate governance change. This literature examined the effects of this corporate governance change on shareholders wealth. Cross-border M&As induce a change in the laws adopted by the target, since usually the target adopts the governance structure and the accounting standards of the bidder. In principle, a contractual arrangement between the target and the bidder may change the legal rules and the corporate governance structure of the bidder, the target and the new merged firm. For instance, the merging firms can make a contractual arrangement so that the accounting standards of the target are adopted by the merged firm. However, in some cases the legal system prevents the transfer of corporate governance practices. In the case of foreign firms acquiring U.S. targets for stock, the bidders must comply to some extent with the U.S. legal rules since they must register their securities with the S.E.C. Moreover, when more than 10% of the shares of a U.S. acquired target are held by U.S. investors, the bidder has to comply with the Williams Act⁵. Hence, even though international law dictates that, in principle, the law applicable to a company is the law of nationality of the firm, U.S. targets make an exception. U.S. law prevails in cross-border M&As involving a U.S. target, notwithstanding the nationality of the parties involved.

⁵ A federal act, passed in 1968 that defines the rules in regards to acquisitions and tender offers. The Williams Act was created in order to protect investors from these occurrences. The bidders must include all details of their tender offer in their filing to the SEC and the target company. Their file must include the terms, cash source, their plans for the company after takeover, etc. There are also time constraints that stipulate the minimum period of time the offer may be open and the number of days after the offering in which shareholders have the right to change their minds.

In this work, we focus on the shareholder protection and accounting standards changes induced by the cross-border mergers. Shareholder protection is determined by the Corporate law and Commercial code prevailing in the country of nationality of a firm, which could be different from the nationality of the shareholders and therefore, independent of the location of these shareholders. In this sense, Horn (2001) argues that the location of the shareholders of the company is in principle irrelevant. The nationality principle depends among others, on the means of payment used in the transaction. In a cash-for-stock acquisition, the shareholders of the acquirer will also be the shareholders of the new firm. However, in a stock-for-stock merger, some shareholders of the new firm will be located in the target country; the law applicable to these new shareholders will be the law applicable to the acquirer. This change results in a change of nationality of the target firm and in the level of shareholders protection provided by the law to the shareholders of the target firm. An exception to this rule is driven by the principle of extraterritoriality, which dictates that a state can continue to assert its jurisdictions on its nationals abroad. Applied to cross-border M&As, this principle is relevant when the rights of minority shareholders are to be protected in a country different from the country of nationality of the firm. Concerning the accounting standards, a merged firm usually applies the accounting standards of the acquirer. However, as for the shareholders protection rights, by a contractual arrangement the two firms involved can adopt the accounting standards of the target or even of a third country.

Few studies examined the role of corporate governance structure and legal environment in cross-border mergers and acquisitions. Bris and Cabolis (2004) analyze the relationship between the announcement effects of acquisitions on the acquirer and target stock returns and the measures of investor protection in the two countries. They use a sample of 506 cross-border mergers where target firms are from 39 different countries and acquirers are from 25 different countries. Bris and Cabolis (2004) provide evidence that acquisitions of firms in weaker shareholder protection and

poorer accounting standards countries by firms in stronger protective regimes do not result in gain or loss of value for the acquiring firm. Starks and Wei (2004) and Kuipers et al. (2003) find that measures of the bidder's home country legal origin and shareholder protection are related to the acquirer's abnormal return at the announcement. These two studies focus on the case of foreign bidders acquiring US targets. They examine the relation between the merger announcement abnormal returns and the acquiring firm's home country legal environment. The two papers consider the case of acquisitions where the target firm (US firm) is better in terms of investor protection than the acquirer. In these papers the differences in valuation arise from differences in the legal environment in the acquiring country (since the target country remains US). Starks and Wei (2004) find that takeover premiums are decreasing in the quality of corporate governance in the acquiring country, and that acquirers from more protective countries are more likely to finance their acquisitions with stock. Starks and Wei (2004) argue that foreign bidding firms could benefit from complying more with US regulation and standards. Kuipers et al. (2003) show that measures of the bidder's home country legal origin and shareholder protection are related to the acquirer's abnormal returns at the announcement. They argue that corporate governance structure and legal environment create incentive mechanisms for managers to engage in value-increasing (or value decreasing) cross-border takeovers.

Rossi and Volpin (2004) use a sample of deals in 49 countries, and find that better investor protection is associated with more mergers and acquisitions, and a greater use of stock as method of payment. They argue that domestic investor protection is an important determinant of the competitiveness and effectiveness of the market for mergers and acquisitions within a country.

3. Hypotheses:

We aim to test several hypotheses to control for the impact of the difference in corporate governance practices between the target and the bidder, on the bidder announcement returns. Multiple factors can affect bidder's stock prices. A strand of literature emphasize the impact of the method of payment, and the relative size of the target to bidder. These factors are argued to have different implications in domestic and cross-border acquisitions.

The means of payment is documented to influence differently domestic and international bids. In domestic transactions, the form of payment is believed to have a strong signaling effect. In cross-border transactions, Gaughan (2002) argues that since foreign targets are more difficult to evaluate, the bidder would prefer an equity payment. This form of payment will however be hardly accepted by the foreign target, who would be unwilling to accept a foreign equity and would rather prefer cash. From this point of view, the positive sign associated with a cash payment might be diminished or might disappear for cross-border transactions. In these transactions, the use of equity by bidders may be due to the greater uncertainty, which comes from a greater information asymmetry between the acquirer and the target, rather than from the acquirer's overvaluation, as argued in the literature related to domestic acquisitions.

H1: The signaling effect of the means of payment should not necessarily be observed in cross-border transactions.

Horn (2001) argues that the location of the shareholders of a company is in principle irrelevant. The means of payment used in the transaction plays a major role in the transfert of the acquirer protection. In a cash-for-stock acquisition, the shareholders of the acquirer will also be the

shareholders of the new firm. However, in a stock-for-stock merger, some shareholders of the new firm will be located in the target country; the law applicable to these new shareholders will be the law applicable to the acquirer. This change results in a change of the level of shareholder protection provided by the law to the shareholders of the target firm. This argument means that corporate governance differences play a role only when stock is used in payment.

On the other hand, the legal protection of investors may also affect the means of payment used in M&As. In fact, when the bidder comes from a country with high shareholder protection they are more likely to make the target accept the bidder's equity as takeover currency, since they face low risk of expropriation that could result from being minority shareholders. Rossi and Volpin (2004) find evidence that the probability of an all-cash bid decreases with the degree of investor protection in the acquirer country and they conclude that acquisitions paid with stocks require an environment with high investor protection.

Since Canada has one of the best corporate governance systems, Canadian bidders should be comfortable using stock as a means of payment; thus, the means of payment should be an important explanatory factor.

H2: We expect that the use of stock as a means of payment be positively correlated with the degree of investor protection difference between the bidder and the target countries.

According to Merton's (1987) investor recognition hypothesis, the announcement of an acquisition, results in a larger investor base and greater investor awareness. This effect should be enhanced when the target is located in the United States. Doidge, Karolyi and Stulz (2003) argue that foreign firms that list their shares on United States are subject to greater scrutiny and monitoring from the

investment community and the press, which should enhance the investor recognition. Furthermore, a strand of literature⁶ argues that possible benefits such as greater breadth of ownership, more competitive market making, greater analyst coverage, result from becoming a larger firm with larger investor base. In this case, a stock payment should result in positive abnormal returns for the bidding firm resulting from the larger investor base.

If the signalling effect does not hold in cross-border mergers and acquisitions (i.e. if H1 holds), we expect a positive correlation between the difference in the investor protection in the bidder and target countries and bidder's announcement abnormal returns, when stock is offered. This effect will result from a combination of positive factors: (1) equity is used due to the greater information asymmetry between the bidder and the target, rather than from the acquirer's overvaluation, (2) a larger investor base and greater investor awareness

However, if the signaling effect holds in cross-border transactions (i.e. if H1 is rejected), the overall effect of a stock payment on bidder's abnormal return would be uncertain, given these offsetting positive and negative factors influencing the bidding firm's stock price at the merger announcement.

The size of the target as compared to the acquirer is an important factor that could alleviate the importance of the investor protection differences. In fact, the larger the relative value of the target to the bidder, the greater the investor scrutiny. The relative size of the target to the bidder should enhance the impact of the level of investor protection differences.

⁶ Amihud, Mendelson and Uno (1999), Krishnaswami and Subramaniam (1999), Gilson, Healy, Noe and Palepu (2001) among others, document that changes in the trading environment around events result from the change in firm characteristics.

H3: *The higher the relative value of the target to the bidder, the more important is the impact of corporate governance differences.*

4. Data and methodology

4.1. Data

We obtain our data set of mergers and acquisitions from the Securities Data Corporation Worldwide Mergers and Acquisitions database (SDC). The data meets the following criteria:

- 1- we consider only transactions made by Canadian firms;
- 2- the announcement date is from 1988 to 2002 inclusively;
- 3- the acquirer must be a public company traded on the Toronto Stock Exchange (TSE);
- 4- the percent of shares acquired in the transaction should be greater than 50% of the target;
- 5- the deal must be completed;

This selection gives us an initial sample of 3069 transactions. As a second step, only the transactions classified as: mergers or acquisitions of majority interest are kept. We exclude all the cases defined as an acquisition of assets, an acquisition of certain assets, a buyback, or a recapitalization. This results in a sample of 1111 transactions.

Financial information and daily stock returns are extracted from Compustat and the TSE Western Database respectively. We retain only the companies with data in both databases. The final sample comprises 462 transactions involving 253 acquirers. 297 transactions involve domestic target while there are 165 cross-border transactions, out of these, 96 involve a U.S. target.

Please insert Table 1

Panel A of table 1 reports the annual numbers of acquisitions completed during the 1988-2002 period.

Panel B gives the distribution by target nation. 58% of the cross-border transactions involve a US target, which is consistent with the aggregate data in Canada⁷.

Panel C presents acquisitions by primary SIC code. In Canada, over 23% of the 462 transactions are in the resources industry (SIC 1000). The rest of the transactions are distributed across several industries.

In Panel D, we classify the relatedness of bidder and target activities by their SIC codes. 40% of the cross-border transactions are conducted between related businesses (i.e. between firms having the same primary 3-digit or 4-digit SIC codes), compared to 45% for domestic transactions.

Panel E shows that the proportion of transactions made with tender offers is much higher when the target is foreign. 46% of cross-border transactions are tender offers compared to 15% of national transactions. These transactions are generally more hostile than mergers. The statistic we obtain is comparable to the findings of other studies (Kuipers et al. 2003, Moeller et al. 2005, and Starks 2004).

⁷ According to Statistics Canada (No 11-621-MIF2004013), between 1997 and 2002, 68% of the cross-border M&As conducted by Canadian firms involved US targets, 19% involved European targets and 13% were conducted with targets from other countries.

Panel F gives the statistical properties of the transactions. A higher proportion of shares is acquired in domestic transactions. The mean relative size of the transaction and the mean value of the transaction are not statistically different for domestic and cross-border mergers.

The proportion of stock used in payment is significantly lower in cross-border transactions, which is conform to the literature⁸. Domestic mergers use more stock than cross-border transactions (42.04% compared to 28.07% for cross-border transactions). The difference is statistically significant. Panel F also shows that in cross-border M&As an average of 28.07% is used in the payment, which is higher than the average of 13.78% reported in the study of Moeller et al. (2005) for cross-border M&As by American bidders. These figures confirm that since Canada has one of the best corporate governance system (LLSV, 1998), Canadian bidders are comfortable using stock as a means of payment in cross-border acquisitions.

We do not observe any statistical differences in the financial performance (proxied by the ratio of return on assets) and the level of overvaluation (proxied by the ratio of Tobin's Q) when they are distinguished between the acquirers involved in national or cross-border M&As.

4.2. Methodology

Table 2 presents the average cumulative daily abnormal returns for the total sample of acquirers engaging in domestic or cross-border M&As. We examine two event windows composed of the three and the eleven days around the announcement (-1 ; 1) and (-5 ; 5). We consider day t=0, as the announcement date. The abnormal returns are computed using the market model, which assumes a linear relationship between the return of any security to the return of the market:

⁸ Moeller et al. (2005)

$$R_{it} = \alpha_i + \beta_i R_{mt} + e_{it} \quad (1)$$

where t is the time index, $i=1, \dots, N$ stands for security, R_{it} , and R_{mt} are the returns on security i , and the market respectively during period t , and is e_{it} the error term for security i .

Equation (1) is estimated over a period, which runs between 126 and 366 days prior to the announcement day. With the estimates of α_i and β_i from equation (1), we can predict a "normal" return. Estimates of (1) are used to estimate the abnormal returns around two announcement windows $t=-1 \dots 1$ and $t=-5 \dots 5$. The prediction error referred to as the abnormal return (AR), is then calculated:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \quad (2)$$

In order to test for the persistence of the impact of the event during a period $T2 - T1$, the abnormal return is added to obtain the cumulated abnormal returns ($CAR_i(T2-T1)$) for security i over the period $T2-T1$:

$$CAR_{i(T1, T2)} = \sum_{t=T1}^{T2} AR_{it} \quad (3)$$

This calculation is followed by a calculation of the mean cumulative abnormal returns.

5. Comparing bidders announcement abnormal returns in cross-border and domestic deals

Panel A of table 2 compares the cumulative abnormal returns of cross-border and domestic Canadian bidders upon announcement. Cross-border bidders earn significantly higher abnormal returns compared to domestic bidders (2.19% for cross-border transactions compared to -0.48% for domestic transactions, on a three-day window). Our result is the opposite of the findings of studies conducted on US bidders⁹. On a window of (-1 ; 1), Moeller et al. (2005) find a CAR of 1.173% for domestic US bidders and of 0.307% for US bidders making cross-border acquisitions, this difference is significant at the 1% level. On the same window, Starks and Wei (2004) find a CAR of 0.91% for foreign bidders acquiring US targets and 1.35% for US bidders (domestic mergers), and 0.70% (cross-border) and 1.82% (domestic) on an eleven-days window.

We investigate whether other bid characteristics can explain the higher CARs in cross-border acquisitions. In panel B of table 2, we compare cross-border to domestic transactions, according to the means of payment. We distinguish between payments made with 100% stock, 100% cash and mixed payments (combination of stock and cash). Results show that when the payment is made with cash, the abnormal returns of cross-border and domestic bidders are not significantly different from zero. When the payment is made with stock, domestic bidders significantly underperform cross-border bidders. Investors do not seem to interpret the means of payment in cross-border transactions as a sign of overvaluation of the bidder's equity, which is the usual reaction observed for a stock payment in domestic acquisition. Our result also confirm the negative reaction to the use of stock in domestic acquisitions (this result is however not significant).

⁹ We re-estimate the abnormal returns after eliminating M&As announced during the stock market bubble years (1999, 2000) to have a comparable sample period used in other studies, the sign and level of abnormal return are not affected which suggests that the difference between our results and results on US studies are not due to sample period.

This result is consistent with the information asymmetry hypothesis. In fact, in cross-border transactions, firms are more likely to use equity as the form of payment in an acquisition to reduce the level of information asymmetry between the bidder and the target. Moreover, if the target is assumed to have proprietary information, its valuation becomes harder, which gives more incentive to the bidder, to pay with equity, making the payoff to the target contingent on the overall value creation from the acquisition. Since in cross-border M&As, foreign targets are more difficult to value, the acquirer would be more willing to pay with stock to lower its risk, while the target is not willing to accept a foreign equity (Gaughan, 2002). Our results are consistent with this theory. The market reacts more positively to an all-stock payment in the cross-border M&As, and seems to be aware of the valuation problems that could occur in cross-border transactions. Hypothesis 1 is then confirmed.

When the payment is made with a mix of cash and stock, cross-border bidders still outperform domestic bidders. This difference is significant in the three-day announcement window.

Bids for private firms are argued to drive better returns than those obtained in bids for public firms. In fact, if the target is a private firm, then the announcement of a merger will be less exposed to public awareness and thus to less investor scrutiny. On the contrary, public acquisitions are exposed to public gaze. This could result in managers' hubris or their fear of a loss of face. In both cases, higher premiums are paid, driving poor acquisitions. This attitude is less likely to occur in private bids. Hence, the payments of significant premiums, which characterize contested public acquisitions, are less likely and as a result bidder returns are more likely to be positive in private bids.

When we control for the market reactions according to the target public status, we find evidence that this theory holds for bidders of domestic targets. In domestic acquisitions, bidders of public targets significantly underperform bidders of private targets. This difference is not significant for cross-border targets. Moreover, cross-border bidders still overperform domestic bidders whatever the target public status.

We also analyze the market reactions to the different types of takeovers. We find that whether the transaction is classified as a merger or a tender offer, does not affect the domestic bidder gains. In cross-border M&As shareholders of bidding firms react positively to a merger announcement. However, the opposite reaction is obtained (non significant) in the case of tender offers, since these transactions are considered as less friendly than mergers. This is consistent with Huang and Walking (1989) and Dewenter (1995) who suggest that target managerial resistance can bring higher premiums to their companies, which is translated in lower gains to the bidders.

The literature reports that the benefits and costs of international acquisitions will depend on the activity relatedness of the bidder and the target. Fatemi and Furtado (1988), and Doukas and Travlos (1988) argue that related acquisitions are associated with higher benefits and lower integration costs than unrelated acquisitions. Travlos (1987) and Asquith, Bruner and Mullins (1987) find that bidder returns are positively and significantly associated with a deal between two related firms. However, another strand of literature reports the opposite effect. Markides and Ittner (1994) find that international industry diversification destroys value. In fact, industry-related acquisitions significantly outperform industry-diversified acquisitions. Kiyamaz and Mukherjee (2000) suggest that international diversification is beneficial to acquiring firms since individual shareholders have barriers to international investments for individual shareholders. They posit

that the higher the market integration between the bidder and the target countries, the lower the abnormal returns to bidders.

Our finding with respect to related versus unrelated transactions does not reveal significant differences in the performances of related and unrelated domestic and cross-border transactions. Cross-border acquirer performance is still positive and significant (in three cases out of four), whether the bidder and target activities are related or not.

Overall, our results reveal that cross-border acquisitions by Canadian bidders overperform domestic acquisitions. This evidence is different from the findings reported on the U.S. market and is robust when we control for the means of payment, the public target status, the type of transactions and the activity relatedness of the target and the bidder.¹⁰

Our evidence is consistent with the internalization arguments suggesting that bidders can realize a potential additional value by employing their intangible assets abroad (Helpman, 1984; Markides and Oyon, 2003). Intangible assets are commonly thought to include technological know-how, brand-building expertise, reputation, effective and dedicated management and prior international

¹⁰ We distinguish between five different regions (US, Europe (including and then excluding UK, and UK separately), Australia and New Zealand, Asia, and Latin America), and calculate the bidder's announcement cumulative abnormal returns for each region; we find that all acquisitions realize positive abnormal returns, significant for US, Europe and Australia. Moreover, transactions announced with American, European and Australian targets overperform those announced with companies from Asia and Latin America. This result contradicts the findings of Chari et al. (2004) who find that US acquirers realize positive abnormal returns only when the acquisitions are announced in emerging markets as compared to developed markets. Chari et al. (2004) argue that positive returns are delivered only when the transaction involves a transfer of majority control from emerging market targets to developed markets acquirers. In our sample, the change in control is a condition in the sample selection. We focus on these specific transactions because they are related to the corporate governance structure and the legal environment (LLSV, 1999).

The difference between Chari et al.'s results and ours may also be due to different estimation windows, since Chari et al. report abnormal returns for the month surrounding the announcement, and we focus on the eleven-days announcement effects.

Our results can be explained by a better market integration in acquisition between developed countries.

know-how. In cross-border mergers, the firm can expand through geographical diversification and acquisition of complementary assets in other countries. The expansion of the firm's operations in a global scale tends to accomplish the investors' diversification objectives while enhancing the acquiring firm's ability to benefit from systemic advantages inherent in a multinational network. Thus, this expansion permits the internalization of synergies, by realizing economies of scale through the intangible assets (Caves, 1986; Morck and Yeung, 2003; and UNCTAD, 2000).

6. Cross-border deals

6.1. Determinants of cross-border bidders' announcement abnormal returns

In this section, we examine if the cumulative announcement abnormal returns to cross-border bidders are related to factors expected to affect bidder's returns. The market-adjusted return for the (-5 , 5) event window surrounding the announcement day is the dependant variable in the regression model. We include variables, related to investor protection, deal, bidder and target characteristics. We use two different proxies to control for the role of corporate governance, based on the investor protection measures of LLSV (1998).

- The first proxy is for shareholder protection, and is measured as the product between the anti-director rights and the rule of law. A strong rule of law coupled with shareholders rights should result in a strengthened relation than the shareholders rights effect viewed in isolation. This variable measures the effective right that minority shareholders hold against managers and directors. With lower shareholder protection, the private benefits of control are high and the market for corporate control is relatively less effective. At the same time, minority shareholders have fewer rights and are more likely to be expropriated.

- The second proxy is the accounting standards, which measures the quality of the disclosure of accounting information. Rossi and Volpin (2004) argue that this variable affects the M&As activity, because good disclosure is a necessary condition for identifying potential targets. Accounting standards reduce the scope for expropriation by making corporate accounts more transparent; in this sense, accounting standards can be a measure of corporate governance.

Please insert table 3

Table 3 ranks the target countries by the two proxies that we use to control for investor protection. In the panel A of this table we present an additional classification of investor protection as controlled for by the legal origin of the home country. LLSV (1998) argue that English common law legal origins provide greater investor protection than do countries with civil law. Demirguc-Kunt and Maksimovic (1998) show that the legal systems can affect firm financing and growth.

Panel A shows that only 32 cross-border transactions involve a target in a civil law country, compared to 133 involving targets in common law countries, however, this figure is mainly driven by the transactions involving a US target. Panel B and C give the distribution according to the shareholder protection proxy and the accounting standards proxy. Only 6 transactions occur in more shareholders protective countries (United Kingdom), 15 transactions occur in countries with better accounting standards than Canada's.

We argue above that corporate governance differences play a role only when stock is used in payment and we hypothesized that the relative value of the target to bidder enhances the effects of these differences. For these reasons, we examine the effect of corporate governance by interacting

the corporate governance proxies with a dummy controlling for the means of payment and with the relative value of the transaction. The interaction variables are:

Stock: Dummy that equals one if the payment is made with 100% stock, zero otherwise.

Cash: Dummy that equals one if the payment is made with 100% cash, zero otherwise.

Relative value: The relative value of the transaction to the market capitalization of the bidder.

Table 4 summarizes all the factors that we use in our regressions.

Insert table 4

In each regression of table 5, we include one corporate governance proxy at a time, since our two proxies are highly correlated. The variable ΔIP used in our regression controls for the difference in the level of investor protection between the bidder and the target countries. Since our indices are highly correlated, we regress each index separately. ΔIP takes the values of respectively shareholder protection index, and the accounting standards index (LLSV, 1998).

In regressions (1) and (3), we interact the corporate governance proxy with the means of payment. Results show that when a stock offer is made, the higher the bidder protection compared to the target shareholder protection, the higher the bidder announcement abnormal returns.

Insert Table 5

This result confirms that the signaling effect does not hold in cross-border M&As. Further, our interpretation of the above result is based on Merton's (1987) investor recognition hypothesis,

which assumes that the announcement of an acquisition, results in a larger investor base and a greater investor awareness. This effect should be enhanced when the target is located in the United States. Doidge, Karolyi and Stulz (2003) argue that foreign firms that list their shares on US markets are subject to greater scrutiny and monitoring from the investment community and the press, which should enhance investor recognition. Moreover, in some high investor protection countries, acquirers have to conform to the regulation of the target country (for instance, the case of acquiring in the U.S.). This requirement causes the bidder to become subject to a greater scrutiny from the part of new investors and the investment community. In general, this leads to further increased protection of minority shareholders, and a lower risk of expropriation (Doidge, Karolyi and Stulz, 2003 and Lang, Lins and Miller, 2002). Since an important percentage of the transactions of our sample involve a U.S. target, we reconduct the same test after eliminating U.S. transactions (results are not reported). The sign and significance of our coefficients remain unchanged.

We do not find a significant correlation between the bidder and target accounting standards, and the bidder announcement returns. This is surprising. In fact, good disclosure is a necessary condition for identifying potential targets. If at the time of the announcement, the target applies low accounting standards, its valuation becomes harder, which gives more incentive to the bidder to pay with equity to lower its risk by making the payoff to the target contingent on the overall value creation from the acquisition.

Our results prove that investors put more weight on shareholder protection differences than on the accounting standards differences.

The effect of the difference in shareholder protection is enhanced by the importance of the relative value, which confirms hypothesis 3. The coefficient of the interaction when the deal is made with stock is highly significant and the R-squared is much higher, indicating that the larger the relative value of the target to the bidder, the greater the investor scrutiny.

Travlos (1987) finds a positive yet insignificant coefficient associated to the merger dummy. This is confirmed by our results since we find a negative and significant coefficient on the tender-offer dummy.

The overinvestment hypothesis predicts that the average announcement bidder return is smaller for overinvesting (i.e. poorly managed or low q ratio) firms than for value maximizing (i.e. well managed or high q ratio) firms. Our results regarding the Tobin's Q are different from other studies. Our results reveal that this factor is not significant¹¹. This is consistent with the findings of Kuipers al. (2003), who also find that acquiring firm's abnormal returns are insignificant with respect to Tobin's q.

Consistent with the literature¹², acquiring a public firm is associated with a negative coefficient. The coefficient is however significant in only one regression out of four. The lack of significance corroborates the results of table 3, which reveals insignificant difference in the cumulative abnormal returns of bidders acquiring private and those acquiring public cross-border firms.

¹¹ To separate the effect of the whole market overvaluation from the bidder overvaluation, we deduce the company tobin's q from the average sample tobin's q for the same year. The controlling variable is $(Q_i - Q_s)$. We re-run the regression, replacing the Tobin's q of the bidder by this new variable, the coefficient remains insignificant.

¹² Moeller et al. (2005) among others.

Theory of imperfect capital markets argues that differential tax systems between nations can have an impact on the marginal productivity of foreign direct investment through acquisitions (Scholes and Wolfson, 1990). The existing evidence on this variable is mixed. Whereas Servaes and Zenner (1994) provide strong evidence that taxes affect the abnormal returns earned by US targets of foreign acquisitions, Kang (1993) and Kuipers, Miller and Patel (2003) find that this variable is not informative. Our results do not provide any evidence on the effects of the tax differences.

Literature reports that imperfect capital markets also allow firms to exploit favorable exchange rate movements by moving operations into other countries or by acquiring foreign firms (Froot and Stein 1991, Cebenoyan et al. 1992, Kang 1993). We do not find any evidence on the role of exchange rate movements.

6.2. Financing decision and cross-border deals

The means of payment is documented to influence differently domestic and international bids. In this section, we consider the role of the means of payment, which is reported by the literature as a major factor of difference between these deals. Based on Gaughan (2002) and Rossi and Volpin (2004), we expect the method of payment to vary in cross-border compared to domestic bids.

Furthermore, the legal protection of investors may also affect the means of payment used in M&As. In fact, when the bidder comes from a country with high shareholder protection they are more likely to make the target accept the bidder's equity as a takeover currency, since they face low risk of expropriation that could result from being minority shareholders. Rossi and Volpin (2004) find evidence that the probability of an all-cash bid decreases with the degree of investor

protection in the acquirer country, and they conclude that acquisitions paid with stocks require an environment with high investor protection.

Since Canada has one of the best corporate governance systems, Canadian bidders should be comfortable using stock as a means of payment. To control for the choice of the means of payment, we estimate different probit models. The dependant variable is all-stock bid, a dummy variable that equals 1 if the acquisition is entirely paid in stock and zero otherwise.

In table 6, we test the factors that could influence managers' financing decision. We control for variables indicating whether the target company is public, whether the bid is a tender offer. Chang (1998) argues that acquiring a private target with equity will create blockholders from the target firm. For this reason, we expect private targets to be paid with cash. Further, because they are more contested, tender offers are more likely to receive cash offers.

Bidder overvaluation might be correlated with the use of stocks as a means of payment, as argued by Shleifer and Vishny (2003). To control for this effect we add the variable Tobin's Q.

Insert Table 6

Our results report that the level of difference in the shareholder protection between the bidder and the target countries is positively correlated with stock payment, which confirms our hypothesis 2. This result is consistent with the findings of Rossi and Volpin (2004) who find that the level of shareholder protection is negatively correlated with cash offers, over a sample of 49 acquirer and 48 target countries. This result is also consistent with Starks et al. (2004) who find evidence that foreign acquirers from counties with high corporate governance, acquiring in US, are more likely to make stock offers.

When we control for the accounting standards, we do not find any significant correlation between accounting standards differences and stock payment.

Among the control variables, tender offers have a negative and a significant coefficient. This result is also consistent with Rossi and Volpin (2004). Tobin's Q is not a significant variable, suggesting that stock payment have other motivations than bidder's overvaluation¹³. This result is consistent with the findings of Rossi and Volpin (2004).

We re-conduct the same test after eliminating all the US targets; the sign and significance of the coefficients remain the same.

7. Conclusion

Recent researches on the corporate governance differences between nations show that bidders from more-protective countries tend to acquire target from less-protective countries, and that these differences have a positive valuation effect on the target firm. The valuation effect of these transactions on the bidder firm has received less attention. In this paper we raise the question of why bidders from protective country tend to make cross-border acquisitions with less protective countries. To answer this question, we use a sample of bidders from one of the most investor protective countries. Our sample is composed of 165 cross-border and 297 domestic acquisitions made by Canadian bidders. Over the last decade Canada realized an annual compounded growth of 28.9%, outstripping the world growth of 22.55% and the 19.1% growth of the United States.

¹³ To separate the effect of the whole market overvaluation from the bidder overvaluation, we deduce the company tobin's q from the average sample tobin's q for the same year. The controlling variable is $(Q_i - Q_s)$. We re-run the regression, replacing the Tobin's q of the bidder by this new variable, the coefficient remains insignificant.

We compare the announcement abnormal returns of bidders making cross-border and those making domestic acquisitions. Our results show that cross-border bidders earn announcement abnormal returns that are significantly higher than domestic bidders. This evidence contrasts with the findings of studies conducted on US bidders (Moeller et al (2005) and Starks and Wei (2004)). Our result holds for transactions involving stock payments, which confirms that the signaling hypothesis related to the means of payment does not hold in the case of cross-border M&As. For transactions paid entirely with cash, there is no significant difference between cross-border and domestic bidders stock performance. Cross-border bidders overperformance is also robust to different deal and target characteristics. This evidence is consistent with the internalization theory.

Literature argues that foreign targets are usually reluctant to accept equities of a foreign bidder as a means of payment and rather prefer cash. Based on this idea, we analyze cross-border deals and find evidence that Canadian bidders exploit the high shareholder protection in Canada, to make the foreign targets accept stock as a means of payment and avoid at the same time the signaling effect of stock as an overvaluation of the bidder, which is the usual effect in domestic acquisitions. Indeed, we analyze the determinants of the method of payment decision in cross-border acquisitions and find that the probability of an all-stock payment is positively correlated with the difference in the shareholder protection between the bidder and target countries.

This practice allows the bidder to enlarge its investors' base and to enhance the market and investors' awareness without being considered as overvalued, which drives a positive effect on the bidder's stock.

We also find evidence that the investors put more weight on the shareholder protection differences than on the accounting standards differences.

Finally, even if cross-border bidders overperform domestic bidders, we do not find any evidence that cross-border acquisitions are motivated by market imperfections like differential taxes and exchange rates.

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Table 1
Sample Description

This table describes the 1988 to 2002 sample of cross-border and domestic acquisitions obtained from the Securities Data Corporation. The transaction needs to be completed by public Canadian bidders traded on the Toronto Stock Exchange. Only the transactions where majority is acquired are included in the sample. Panel A represents the distribution across announcement year. Panel B lists the distribution by target country. Panel C represents the distribution by industry. In panel D we represent the activity relatedness of the bidder and target according to the sic codes. We distinguish between related activities; i.e. companies have 4-digit or 3-digit or 2-digit in common; activities are unrelated otherwise. In panel E, we report the number of mergers and acquisitions. Panel F reports univariate statistics on the acquirer and transactions characteristics. We report respectively, the percentage of shares acquired; the relative value of the transaction measured by the value of the transaction to the bidder market capitalization; the value of the transaction; the percentage of stock offered in payment; the Tobin's Q of the bidder measured as the ratio of the sum of market value of equity, book value of debt and preferred stock, by total assets; the ROA is the bidder's return on assets.

Panel A: Distribution of local and cross-border acquisitions across announcement years

Breakdown by year	Number of cross-border acquisitions	Number of local acquisitions	Total number of acquisitions
1988	0	5	5
1989	2	12	14
1990	1	9	10
1991	1	9	10
1992	5	5	10
1993	2	13	15
1994	16	7	23
1995	15	14	29
1996	13	19	32
1997	16	23	39
1998	13	27	40
1999	16	40	56
2000	29	42	71
2001	21	43	64
2002	15	29	44
	165	297	462

Panel B: Distribution by Target Nation

Target country	Nb. of acquisitions	Percentage
Canada	297	64.29%
United States	96	20.78%
Argentina	7	1.52%
Chile	6	1.30%
South Africa	6	1.30%
United Kingdom	6	1.30%
Germany	4	0.87%
China	3	0.65%
France	3	0.65%
Sweden	3	0.65%
Others (1 or 2 acquisitions per country)	31	6.69%
	462	100%

Panel C: Distribution by industry

Industries	Cross-Border		Domestic		
	Acquirer	Target	Acquirer	Target	
10 Minerals		43	38	109	109
20-39 Manufacturing		48	51	64	57
40 Communications		10	12	36	35
50 Trade		12	7	9	13
60 Financial		14	16	39	36
70-89 Services		38	41	40	47
		165	165	297	297

Panel D: Activity relatedness

	Cross-Border		Domestic	
	4-digit	3-digit	4-digit	3-digit
Unrelated	51	16	115	19
	98		163	

Panel E: Transaction type

	Cross-Border	Domestic	
Mergers		109	251
Tender Offers		56	46

Panel F: Acquirer and transaction characteristics

	Cross-border		Domestic		t-test (cross-local)	z-test (cross-local)
	mean	median	mean	median		
Deal characteristics						
% Shares acquired	85.92%	100%	91.42%	100%	-3.10	-2.91
Relative value	25.33%	8.20%	24.79%	11.15%	0.12	-1.05
Value of transaction	233.01M	33.30M	701.01M	18.67M	-0.67	2.29
% Stock	28.07%	0.00%	42.04%	29.58%	-3.39	-3.58
Acquirer financial characteristics						
Tobin's Q	1.65	1.13	1.40	1.02	1.40	1.71
ROA	0.001	0.036	0.004	0.037	1.38	-0.60

Table 2

Cumulative announcement abnormal returns for cross-border and domestic acquisitions

The table shows the cumulative announcement abnormal returns (CAR) for the 1988 to 2002 sample of cross-border and domestic acquisitions. CAR is calculated as the market adjusted return over the (-1, 1) and (-5, 5) windows around the acquisition announcement (day 0). Panel A reports the differences between CAR for cross-border and domestic bidders. Panel B reports the difference between CAR for cross-border and domestic bidders by the means of payment. Panel C reports the difference according to the target Puget status. Panel D reports the difference according to the type of transaction (whether the transaction is a merger or a tender offer). Panel E reports the difference according to activity relatedness of the bidder and target. The transactions are related if the bidder and target have at least the first 2-digit sic codes in common, and unrelated otherwise. Figures in parentheses are the *t-statistics*. *, **, *** refer to 10%, 5% and 1% significance levels.

Panel A: Full Sample

	Cross-border		Domestic		t-test	z-test
	mean	median	mean	median	(cross- local)	(cross- local)
CAR(-1;1)	2.19*** (2.86)	0.73	-0.48 (-0.90)	-0.53	2.95***	2.68***
n	138		231			
CAR(-5;5)	2.06** (2.05)	0.99	-1.57** (-2.02)	-0.56	2.87***	2.16**
n	138		231			

Panel B: By means of Payment

	Cash				Stock				Mixed									
	Cross-border	Domestic	t-test	z-test	Cross-border	Domestic	t-test	z-test	Cross-border	Domestic	t-test	z-test						
	mean	median	(cross- local)	(cross- local)	mean	median	(cross- local)	(cross- local)	mean	median	(cross- local)	(cross- local)						
CAR(-1;1)	-0.29 (-0.21)	-0.18	0.67 (0.81)	0.00	-0.64	-0.60	1.87 (1.21)	2.75	-1.07 (-0.76)	-1.23	1.87* (1.95*)	1.95*	1.93** (2.52)	0.89	-0.35 (-0.86)	-0.27	2.80***	2.15**
n	17		27		39		64		96		125							
T-test (stock - cash)					1.04		-0.79											
Z-test (stock - cash)					0.64		-1.29											
CAR(-5;5)	1.54 (0.55)	0.07	1.37 (0.91)	1.28	0.06	0.00	0.92 (0.43)	2.84	-3.04 (-1.54)	-1.88	1.79* (1.69*)	1.69*	1.53 (1.33)	0.88	0.03 (0.04)	0.29	1.24	0.70
n	19		33		42		66		106		141							
T-test (stock - cash)					-0.18		-1.48											
Z-test (stock - cash)					-0.03		-1.78*											

Panel C: By target public status

	Private						Public					
	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)
CAR(-1;1)	mean	median	mean	median			mean	median	mean	median		
	2.18**	0.73	0.57	0.76	1.69*	0.58	2.21	0.90	-1.36*	-1.51	2.32**	2.68***
	(2.52)		(0.76)				(1.44)		(-1.83)			
n	92		105				46		126			
T-test (Private-Public)							-0.02		-1.82*			
Z-test (Private-Public)							-0.08		2.92***			
CAR(-5;5)	2.86**	1.50	-0.38	0.80	1.87*	1.33	0.50	0.93	-2.60**	-2.06	1.61	1.23
	(2.14)		(-0.33)				(0.35)		(-2.45)			
n	99		117				51		134			
T-test (Private-Public)							1.12		-1.44			
Z-test (Private-Public)							1.21		1.71*			

Panel D: By type of transaction

	Tender Offers (TO)						Mergers (M)					
	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)
CAR(-1;1)	mean	median	mean	median			mean	median	mean	median		
	-0.04	-1.33	-1.15	-1.32	0.76	-0.24	3.24***	1.86	-0.37	-0.38	3.21***	3.23***
	(-0.04)		(-1.12)				(3.12)		(-0.62)			
n	42		33				92		198			
T-test (TO – M)							-1.95*		-0.51			
Z-test (TO – M)							-2.42**		-0.66			
CAR(-5;5)	-0.27	-2.34	-1.38	-0.99	0.48	-0.02	3.37***	2.24	-1.60*	-0.32	3.20***	2.86***
	(-0.15)		(-0.97)				(2.68)		(-1.81)			
N	49		41				97		210			
T-test (TO – M)							-1.68*		0.10			
Z-test (TO – M)							-2.11**		-0.60			

Panel E: By activity relatedness

	Unrelated						Related					
	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)	Cross-border		Domestic		t-test (cross- local)	z-test (cross- local)
CAR(-1;1)	mean	median	mean	median			mean	median	mean	median		
	2.24**	0.60	0.13	-0.57	1.59	1.49	2.12*	1.19	-1.13*	-0.48	2.66***	2.25**
	(2.31)		(0.15)				(1.70)		(-1.87)			
N	79		118				59		113			
T-test (Unrelated - related)							0.08		1.19			
Z-test (Unrelated - related)								0.13		-0.74		
CAR(-5;5)	2.37**	0.98	-1.64	-0.60	2.35**	1.94*	1.58	1.04	-1.47	-0.16	1.62	1.03
	(2.06)		(-1.40)				(0.86)		(-1.50)			
N	90		134				60		117			
T-test (Unrelated - related)							0.39		-0.11			
Z-test (Unrelated - related)								-0.68		0.17		

Table 3

Measures of the investor protection in the target nation

The table presents a frequency distribution of the sample countries, ranked by their level of investor protection. The classification is based on La-Porta, Lopez-de-Silvanes, Shleifer and Vishny (1998). Panel A reports the distribution of the sample according to the legal origin of the target country. Panel B reports the proxy for the shareholder protection, measured as the product between the anti-director rights and the rule of law. Panel C reports the distribution according to the accounting standards index in the target country.

Panel A: Common versus civil law

Civil law	32
Common	133

Panel B: Shareholder protection index

Target Nation	Index	Frequency
United Kingdom	42,85	6
Canada	40	297
Australia	40	4
New Zealand	40	1
Hong Kong	32,88	1
Norway	30	1
United States	30	96
Singapore	25,71	2
Argentina	21,4	3
Chile	21,06	6
Sweden	20	3
France	17,96	3
South Africa	17,68	6
Spain	15,6	2
South Korea	10,7	2
Switzerland	10	2
Germany	9,23	4
India	8,34	1
Venezuela	6,37	1
Peru	5	2
Colombia	2,08	1

Shareholder Protection	Percentile
11,925	25%
30	75%
30	Median
27,164	Average

Panel C: Accounting standards index

Target Nation	Index	Frequency
Sweden	83	3
Singapore	78	2
United Kingdom	78	6
Australia	75	4
Canada	74	297
Norway	74	1
United States	71	96
New Zealand	70	1
South Africa	70	6
France	69	3
Hong Kong	69	1
Switzerland	68	2
Spain	64	2
Germany	62	4
South Korea	62	2
India	57	1
Chile	52	6
Colombia	50	1
Argentina	45	3
Venezuela	40	1
Peru	38	2

Accounting Standards	Percentile
57	25%
74	75%
69	Median
64.24	Average

Table 4
Summary of variables

This table describes the independent variables used in our regressions.

<u>Investor protection</u>	
Δ IP	Variable controlling for the difference between acquirer and target countries' investor protection. The classification is based on La-Porta, Lopez-de-Silvanes, Shleifer and Vishny (1998). Proxies for the investor protection are: - Shareholder protection, measured as the product between the anti-director rights and the rule of law - Accounting standards index.
<u>Deal characteristics</u>	
Stock	Dummy that equals one if the payment is made with 100% stock, zero otherwise.
Cash	Dummy that equals one if the payment is made with 100% cash, zero otherwise.
% Cash	Controls for the percentage of cash in the transaction.
Relative value	The relative value of the transaction value to the market capitalization of the bidder.
Related activities	Dummy variable that equals one if the target and the bidder have a 3-digit SIC code in common, zero otherwise.
Tender Offer	dummy that equals 1 if the transaction is defined as a tender offer, zero otherwise.
Tax ¹⁴	Dummy that equals one if the target's country tax rate exceeds the tax rate of the bidder's state.
Exchange ¹⁵	Controls for the exchange rate change, measured as the proportionate deviation of Canadian dollar in the merger year from its average relationship to the target currency for the sample period 1988-2002.
<u>Bidder characteristics</u>	
Tobin's Q	The ratio of the sum of market value of equity, book value of debt and preferred stock, by total assets.
<u>Target Characteristics</u>	
Public target	Dummy variable that equals one if the target is a public company and zero if it is private or subsidiary.
US	Dummy variable that equals one if the target is an American company, zero otherwise.

¹⁴ Data are obtained from 'Corporate taxes : worldwide summaries', PriceWaterhouseCoopers, 1987 -2002.

¹⁵ Data are extracted from World Development Indicators database.

Table 5

Determinants of the bidders' announcement abnormal returns

The table presents cross-sectional regression results where the dependant variable CAR is the cumulative announcement abnormal return on a window of (-5 , 5) days around the announcement. To control for investor protection we use Δ IP, the difference between acquirer and target countries' investor protection as measured alternatively by shareholder protection, a measure of the effective rights of minority shareholders, and by accounting standards, an index of the quality of accounting disclosure. We interact these proxies by dummy variables, stock and cash, that equals one respectively if the payment is made entirely with stock or entirely with cash, and zero otherwise. We also interact these composite variables with the relative value of the transaction to the bidder market capitalization. Control variables at the deal level: (1) the percentage of cash in payment; (2) related activities, a dummy variables that equals one is the target and bidder activities are related with at least 3-digit sic codes and zero otherwise; (3) tender offer, a dummy variable that equals one if the offer is made through a tender offer and zero otherwise; (4) marginal taxes measures the ratio of the marginal taxes of the target country to the bidder's; (5) exchange measures the proportionate deviation of Canadian dollar in the merger year from its average relationship to the target currency for the sample period 1988-2002. Control variable for bidder is tobin's q, a ratio of the sum of market value of equity, book value of debt and preferred stock, by total assets. Control variable at the target firm level: (1) public target, a dummy that equals one id the target is a public company and zero otherwise; (2) US, a dummy variables that equals one if the target is an American company, and zero otherwise. Figures in parentheses are the *t*-statistics. *, **, *** refer to 10%, 5% and 1% significance levels.

	Shareholder Protection		Accounting	
	(1)	(2)	(3)	(4)
Intercept	0.023 (0.51)	-0.004 (-0.10)	0.039 (0.96)	0.054 (1.28)
<i>Investors Protection</i>				
Stock * Δ IP	0.02* (1.68)		0.002 (0.32)	
Stock * Δ IP * relative value		0.01*** (4.67)		0.005 (0.40)
Cash * Δ IP	-0.001 (-0.49)		0.004 (1.37)	
Cash * Δ IP * relative value		-0.001 (-1.26)		-0.004 (-0.49)
<i>Deal Characteristics</i>				
% Cash	0.001 (0.88)	0.001 (1.05)	-0.001 (-0.78)	0.000 (0.01)
Related activities	-0.004 (-0.21)	-0.021 (-1.10)	0.004 (0.21)	0.000 (0.00)
Tender offer	-0.059** (-2.57)	-0.052** (-2.41)	-0.061*** (-2.69)	-0.061*** (-2.63)
Taxes	0.021 (0.74)	0.015 (0.59)	0.037 (1.33)	0.018 (0.64)
Exchange	-0.008 (-0.17)	-0.023 (-0.51)	0.051 (0.99)	0.004 (0.08)
<i>Bidder Characteristics</i>				
Tobin's Q	-0.009 (-1.58)	-0.005 (-0.86)	-0.011 (-1.07)	-0.011 (-1.59)
<i>Target Characteristics</i>				
Public Target	-0.045** (-2.10)	-0.019 (-0.75)	-0.029 (-1.39)	-0.038 (-1.55)
US	-0.003 (-0.11)	0.011 (0.47)	-0.003 (-0.14)	0.000 (0.00)
N	146	146	146	146
Adjusted R-squared (%)	2.99	15.77	5.32	1.27

Table 6
Means of payment motive in cross-border M&As

The table reports estimates of probit models, where the dependant variable stock is a dummy variable that equals one if the transaction is entirely paid in stock, and zero otherwise. To control for investor protection we use Δ IP, the difference between acquirer and target countries' investor protection as measured alternatively by shareholder protection, a measure of the effective rights of minority shareholders, and by accounting standards, an index of the quality of accounting disclosure. Control variables at the deal level: (1) relative value which is the relative value of the transaction to the bidder market capitalization; (2) tender offer, a dummy variable that equals one if the offer is made through a tender offer and zero otherwise. Control variable for bidder is tobin's q, a ratio of the sum of market value of equity, book value of debt and preferred stock, by total assets. Control variable at the target firm level: (1) public target, a dummy that equals one if the target is a public company and zero otherwise; (2) US, a dummy variables that equals one if the target is an American company, and zero otherwise; (3) turnover, a dummy variable that equals one if the turnover in the target country is higher than the turnover in Canada, and zero. Figures in parentheses are the *t*-statistics. *, **, *** refer to 10%, 5% and 1% significance levels.

	Shareholder Protection	Accounting
Intercept	-4.801** (-2.28)	0.232** (2.05)
<u><i>Investors Protection</i></u>		
Δ IP	0.134** (2.41)	0.003 (0.64)
<u><i>Deal Characteristics</i></u>		
Relative Value	-0.001 (-0.90)	-0.001 (-1.11)
Tender offer	-0.244*** (-2.80)	-0.223** (-2.52)
<u><i>Bidder Characteristics</i></u>		
Tobin's Q	0.012 (0.56)	0.006 (0.29)
<u><i>Target Characteristics</i></u>		
Public Target	0.087 (1.09)	0.067 (0.82)
US	0.184** (2.11)	0.114 (1.34)
N	146	146
Adjusted R-squared (%)	9.77	6.31