



Gains from Mergers and Acquisitions Around the World: New Evidence

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Using a global M&A data set, this paper provides evidence that the empirical observations relating public acquisitions to, at best, zero abnormal returns, and their stock-financed subset to negative abnormal returns for acquiring firms around the deal announcement are not unanimous across countries. Acquirers beyond the most competitive takeover markets (the United States, United Kingdom, and Canada) pay lower premia and realize gains, while share-for-share offers are at least non-value-destroying for their shareholders. In contrast, target shareholders within these markets gain significantly less, implying that the benefits generated are more evenly split between the involved parties.

The fundamental aim of mergers and acquisitions (M&As) is the generation of synergies that can, in turn, foster corporate growth, increase market power, boost profitability, and improve shareholders' wealth. Accordingly, M&As should constitute positive net present value projects. Nonetheless, the key result emerging from the majority of empirical studies, mainly concentrated in the United States and the United Kingdom, is that acquiring firms' shareholders experience either normal returns or significant losses around the announcement of acquisitions involving publicly listed targets.¹ A plausible explanation for this persistent puzzling phenomenon is that the market for corporate control of public companies is excessively competitive (Mandelker, 1974; Asquith, 1983). As a result, acquirers tend to bid more aggressively and offer hefty premiums to target firms that, in effect, capture most of the acquisition benefit and enjoy significant price appreciation. Along these lines, Billett and Qian (2008) argue that fierce competition for listed targets is likely to enhance managerial hubris-related effects that, due to the winner's curse, can

We would like to thank Yakov Amihud, Christos Cabolis, Ettore Croci, John Doukas, Mara Faccio, Jayant Kale, Aneel Keswani, Mezziane Lasfer, Spencer Martin, Krishna Paudyal, Ramesh Rao, and Frederik Schlingemann, as well as seminar participants at the ALBA Graduate Business School, Cass Business School, Sabanci University, and participants at the European Finance Association (EFA) Conference (2008), the European Financial Management Association (EFMA) Conference (2008), the Southwestern Finance Association (SWFA) Conference (2009), the Southern Finance Association (SFA) Conference (2009) and the Midwest Finance Association (MFA) Conference (2010) for useful comments and suggestions. We are also grateful for the insightful comments received from Bill Christie (editor) and two anonymous referees. Travlos acknowledges financial support received from the Kitty Kyriacopoulos Chair in Finance. All errors are our own.

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¹For US evidence, see Jensen and Ruback (1983), Travlos (1987), Jarrell, Brickley, and Netter (1988), Andrade, Mitchell, and Stafford (2001), and Fuller, Netter, and Stegemoller (2002). For UK evidence, see Firth (1980), Franks and Harris (1989), Faccio, McConnell, and Stolin (2006), and Draper and Paudyal (2006).

lead to reduced gains for acquirers.² In addition, the presence of competition can exacerbate the negative effects of agency problems discussed by Jensen (1986, 2005).

While acquiring a listed target should be, in general, a competitive task, progressively characterized by auction-style contests with a plethora of entrants (Jarrell and Poulsen, 1987; Jarrell, Brickley, and Netter, 1988; Schwert, 1996; Boone and Mulherin, 2007), some markets are still, to a large extent, more competitive than other markets for corporate control. Rossi and Volpin (2004), for instance, document that premiums are persistently higher in the United States and the United Kingdom, where the volume of transactions and the degree of competition are higher and the shareholder protection regime is stricter. Therefore, the potential for value creation for acquirers when buying a listed target within the most competitive markets is limited. Alternatively, settings in which competition for public targets is less intense should be characterized by relatively lower premiums and a more even split of the benefits between the involved parties. Given that the degree of competition in the market for corporate control differs across countries, the question that naturally arises is whether the well-documented failure of public acquisitions to create wealth for acquiring firm shareholders is a worldwide phenomenon.

Accordingly, this paper examines, using a global sample, whether public acquisitions can create value for acquiring firms' shareholders in countries beyond those with the most competitive acquisition markets. We also investigate whether gains to acquirers (premiums and gains to target firms) are negatively (positively) associated with the degree of competition for listed targets after controlling for firm and deal characteristics, variables that reflect differences in the legal and institutional environment across countries, and other country fixed effects.

We measure market competitiveness as the percentage of listed companies within a country targeted in completed deals in a specific year. Based on this measure, we find that the United States, United Kingdom, and Canada (hereinafter UUC) are the most competitive among all acquisition markets as they have, on average, the highest percentages of listed firms being acquired. Accordingly, the mean premiums paid in public acquisitions within these countries are 45.79%, 42.02%, and 37.01%, respectively, compared with only 31.91% in the rest of the world (hereinafter RoW). The mean (median) premium paid in the UUC is typically 41% (47%) higher than in the RoW. Contrary to previous studies in major acquisition markets, acquirers beyond the UUC are subject to statistically significant (at the 1% level) abnormal gains of 1.56% around the acquisition announcement. Moreover, mean acquirer abnormal returns are at least nonnegative within the rest of Europe, Japan, rest of Asia, Oceania, South Africa, and South America. The return difference between RoW acquirers and their counterparts in the three most competitive markets is 2.93%, statistically significant at the 1% level. Results on target returns reveal that the average RoW target experiences almost half the gains of a corresponding UUC target, implying that the benefits generated are more evenly split between acquirer and target firms within the RoW.

Moreover, we provide evidence with significant implications related to the payment mode effect on acquirer returns in public acquisitions. Previous studies, mainly covering the UK and US markets, document that transactions conducted solely with cash are at least nonvalue destructive, while acquirers offering equity to finance acquisitions suffer extensive losses (Travlos, 1987, and Walker, 2000, for the United States; Draper and Paudyal, 2006, for the United Kingdom). However, if competition for public targets and, as such, the premiums offered are inferior in some markets, the negative information effect of an equity offer can be subsided by the positive effect of the low premium paid. In this case, the net effect on the stock price of the acquirer around

²Heaton (2002) argues that optimistic managers may invest in negative net present value projects and Malmendier and Tate (2008) suggest that overconfident managers are more likely to engage in bad acquisition decisions that destroy value.

the announcement is ambiguous and not necessarily negative. According to this conjecture, we document that the equity payment effect is not as widespread a phenomenon as common stock payments within the RoW are associated with positive abnormal returns to acquirers. The abnormal return difference between RoW and UUC acquirers that opt to pay with stock is 3.9%, while the large return differentials between the two groups of acquirers hold irrespective of the method of payment used.

Although cross-country variations in the competitiveness of the market for corporate control can qualify as a potential explanation for the differentials in acquirer and target returns between the RoW and UUC, there are other differences among the countries examined that may affect the results that must be controlled for. We find that the level of competition across time and markets is, in general, negatively associated with acquirer returns and positively associated with takeover premiums and target returns after controlling for deal, firm, legal, and institutional characteristics across markets and other country fixed effects. The documented relationships also hold within the RoW and UUC subsets, confirming that our results for the entire sample are not merely due to differences in competition between the two groups.

Our work offers important contributions. First, we demonstrate that public acquisitions beyond the most competitive acquisition markets do not necessarily destroy value as documented in the prior literature. Along these lines, we document that even equity offers are at least non-value-destroying within less competitive markets, suggesting that the negative signaling effect of stock swaps is diluted when competition in the market for corporate control is less intense. Second, the existing literature has established a positive (negative) association between target returns or the offer premium (acquirer returns) and the degree of competition in M&As within the US market. For instance, Bradley, Desai, and Kim (1988) report a negative correlation between the occurrence of a competing bidder and acquirer returns while Servaes (1991) and Schwert (1996, 2000) report that multiple bidder contests increase target returns and takeover premia, respectively. Moreover, Moeller, Schlingemann, and Stulz (2004) report that industry liquidity and acquirer returns are inversely related. We complement this literature by providing evidence based on a less homogeneous sample, in terms of competition, that allows us to look more broadly into the magnitude of competition in determining acquisition gains and premia. As a result, we establish that premia, acquirer, and target firms' wealth effects in public acquisitions are related to variations in the competitiveness of the M&A market.

The rest of this paper is organized as follows. Section I describes the data and methodology used in our investigation and discusses sample statistics. Section II reports acquirer and target abnormal returns by country groups, and multivariate regression results. Section III provides our conclusions.

I. Data and Methodology

The sample of acquisition announcements is from the Thomson Financial SDC global M&As database and covers the period from 1990 to 2007. Transactions involve completed acquisitions of publicly listed targets by listed or unlisted bidders. The acquirer owns less than 10% of the target's shares preceding the announcement and ends up with more than 50% after the acquisition. The implementation of this criterion ensures that deals in which competition may be diluted by acquirers owning relatively large stakes in targets prior to the transaction, affording them a relative advantage, are excluded from the analysis. Spin-offs, recapitalizations, self-tenders, exchange offers, and repurchases, as well as deals involving Australian private target companies

classified by local legislation (and thus SDC) as public are also excluded. The initial sample obtained consists of 13,226 deals involving listed targets in 89 different countries.

Table I presents activity-, competition-, and premium-related information based on target origin for 47 countries that have 10 or more recorded transactions over the 18-year sample period. Approximately 52% of all listed targets acquired are in the United States, 11.7% in the United Kingdom, and 9% in Canada, while Australia ranks fourth with 3.9%. We construct a competition measure by taking the number of listed targets within each country, acquired in a specific year, as a percentage of the number of listed companies within the country in the same year.³ Information regarding the number of listed firms is obtained from the World Bank's WDI database for the countries covered. The competitiveness value reported for each country in the table is the sample period time series' average of the yearly competition index values. According to this value, the United States, United Kingdom, and Canada are the most competitive markets for publicly listed targets, followed by Sweden, Norway, and France. Premium is calculated using the ratio of offer value to the target's market equity value four weeks prior to the acquisition announcement. Median premiums are reported for countries with five or more premium observations available after winsorizing values beyond the range [0, 2] as in Officer (2003). The correlation between mean yearly competition and median premium in Table I for 32 mutual observations is 0.42 (statistically significant at the 5% level), which is an indication that the premium paid for listed targets around the globe increases with the level of competition.⁴

Since our focus is on public acquisitions, we subsequently further truncate our sample and exclude deals in which the bidder is not listed. We concentrate on domestic transactions, which constitute 82% of all public deals worldwide, since premia and gains to acquirers in cross-border acquisitions may reflect the value of shifts in investor protection (Bris and Cabolis, 2008). Further, interborder transactions may amplify the information asymmetry between the acquirer's managers and shareholders. This may temporarily introduce uncertainty regarding the prospects of the new entity and, in turn, distort any potential opportunity for short run value creation stemming from the relative illiquidity discount at which a target is purchased. We omit deals with incomplete payment method data and those in which the transaction relative size, defined as the transaction value over the acquirer's market value one month prior to the acquisition announcement, is less than 1% and the value paid for the target is less than \$1 million.⁵ We also exclude transactions in which the acquirer has multiple acquisition announcements within the window used for the calculation of abnormal returns. Finally, we require that the bidder and the corresponding stock exchange have data available in Thomson Financial Datastream. We obtain 4,577 transactions in 39 countries that satisfy these criteria. The five-day cumulative abnormal return (CAR) is calculated as in Faccio, McConnell, and Stolin (2006) by adding the market-adjusted return of each acquirer for days $t-2$ to $t+2$, where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's Datastream value-weighted market index return

³Rossi and Volpin (2004) use the frequency of completed listed targets' acquisitions among traded companies as a measure of merger activity. The inclusion of unsuccessful deals in the construction of the competition measure does not materially affect our results.

⁴Also, regressing the premium with the competition measure using the entire sample yields a positive and statistically significant coefficient at the 1% level. The relationship remains significant at the 1% level when excluding each of the UUC or all three countries simultaneously from the regression.

⁵We use the transaction value as a proxy for the target's market value as our sample decreases significantly when using the target's market value. Our results, however, are very similar when using the target's market value in the relative size calculation.

Table I. Summary Statistics

The table presents activity, competition, and premium information based on target origin. The sample includes all acquisitions of listed targets as reported in Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007, where the bidder owns less than 10% of the target's shares before the transaction and more than 50% upon completion of the transaction. Spin-offs, recapitalizations, self-tenders, exchange offers, repurchases, as well as deals involving Australian private target firms classified by local legislation (and thus SDC) as public are also excluded. n is the total number of acquired listed targets in each corresponding country for the entire sample period. Percentage mean competition is the sample period time series' average of a competition measure defined as the percentage of listed firms acquired each year. We obtain information on the number of listed firms from World Bank's WDI database. Percentage median premium is the median ratio of offer price to target's stock price four weeks prior to the acquisition announcement for observations with values between zero and two and is reported for countries with five or more observations available. Total represents the total sample size for n targets and the global mean competition and median premium among all observations.

Country	n Targets	Mean Competition (%)	Median Premium (%)
Argentina	26	1.193	—
Australia	509	2.106	30.43
Austria	11	0.651	26.34
Belgium	47	1.481	27.37
Brazil	68	0.819	—
Canada	1,169	3.579	29.37
Chile	23	0.491	—
China	21	0.104	—
Colombia	18	0.739	—
Czech Republic	18	1.479	—
Denmark	54	1.414	23.53
Egypt	11	0.080	—
Finland	34	1.444	31.58
France	362	2.812	27.12
Germany	169	1.371	24.08
Greece	28	0.532	11.66
Hong Kong	255	2.027	33.82
Hungary	10	1.134	—
India	81	0.086	27.96
Indonesia	38	0.775	27.78
Ireland-Rep	18	1.668	49.41
Israel	34	0.353	28.48
Italy	112	2.392	24.41
Japan	409	0.769	24.39
Malaysia	78	0.680	22.33
Mexico	40	1.254	34.16
Netherlands	89	2.159	32.68
New Zealand	74	2.701	26.15
Norway	102	3.385	37.93
Peru	25	0.639	—
Philippines	43	1.084	45.24
Poland	28	0.930	13.86
Portugal	18	0.980	—
Romania	12	0.208	—
Russian Fed	15	0.339	—
Singapore	112	1.852	27.47

(Continued)

Table I. Summary Statistics (Continued)

Country	<i>n</i> Targets	Mean Competition (%)	Median Premium (%)
South Africa	147	1.432	31.43
South Korea	55	0.213	25.58
Spain	71	0.560	30.51
Sweden	161	3.471	31.70
Switzerland	48	1.107	20.02
Thailand	52	0.681	16.67
Turkey	25	0.507	—
United Kingdom	1,532	4.051	37.90
United States	6,790	5.586	37.50
Venezuela	16	1.092	—
Total	13,058	4.157	35.36

is used.⁶ We follow the same procedure when calculating abnormal returns for target firms. Abnormal returns are winsorized at the 1% and 99% levels to remove outliers. Total acquisition gains are calculated using the market value-weighted average of the acquirer and target abnormal returns where market values are measured one month prior to the acquisition announcement.

Table II presents firm- and deal-related statistics for the above sample. Transactions are classified in groups according to transaction country or country group. We report statistics separately for the UUC and RoW groups as well as their major subsets: the United States, United Kingdom, Canada, rest of Europe (RofE), Oceania, Japan, rest of Asia (RofA), South Africa, and South America.⁷ Deals in the United States comprise 69.3% of the sample, followed by the United Kingdom with 7.7%, and Canada with 7.1%. RoW transactions altogether represent just below 16%, RofE 4.6%, Japan 4%, and Oceania 3.7%. The remaining 3.6% of the sample consists of transactions in RofA, South Africa, and South America. It appears that acquirers are larger in the United States, but also moderately large in RofE and South America. The target-to-bidder relative size is smaller in the United States compared to all other countries/regions. The mean dollar value paid for listed targets in RofE is 56% (256%) higher than in the United States (United Kingdom), implying that larger targets are acquired within RofE.

Premiums are typically higher in the UUC when compared with the RoW, RofE, Oceania, Japan, and South America. In RofA and South Africa, however, premiums are also large, but the sample of observations with premium data within these subgroups is particularly small. Overall, the mean (median) premium offered in UUC transactions is 45% (37%), while it is only 32% (25%) in the RoW. This reflects a percentage difference of 41% (47%) between the mean (median) premiums paid in the two regions indicating that targets within the RoW are purchased at a discount relative to UUC targets. Other interesting observations are that share-exchange is the prevailing method of payment for most subsets and that mixed payments are quite rare in the RoW. The prevalence of share swaps makes our task more interesting given that the existing literature documents extensive value destruction for acquiring firms around the announcement of these types of transactions. The table also reports the percentage of cases in which a competitive

⁶For instance, the TOTMKUS Datastream index is used for the United States. We also calculate abnormal returns for the United States using Center for Research in Security Prices (CRSP) data; we obtain qualitatively similar results, but for consistency, we report findings using data from TF Datastream.

⁷Oceania includes deals in Australia and New Zealand.

Table II. Summary Statistics for Returns' Analysis Sample

The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007 that meet the criteria described in Table I and that have complete method of payment data, are domestic, and are undertaken by public acquirers. The target-to-bidder relative market value and the value paid for the target are equal to or greater than 1% and \$1 million, respectively. The bidder and its corresponding stock exchange have data available in the Thomson Financial Datastream. Transactions where the acquirer has multiple acquisitions and announcements within a five-day window surrounding the acquisition announcement are excluded. Summary statistics are presented for all transactions and by country/country group for the following: UUC (US, UK, and Canada), RoW (all markets excluding the UUC), US, UK, Canada, RoF (all European markets excluding the UK), Japan, RoFA (all Asian markets excluding Japan), Oceania (Australia and New Zealand), South Africa, and South America. TV is the transaction value in millions of dollars. Acquirer (target) MV is the equity market value of the bidder (target) in millions of dollars one month prior to the acquisition announcement. Relative size is the target-to-bidder relative market value and acquirer (target) MTBV is the acquirer (target) market value divided by its net book value one month prior to the acquisition announcement. Premium is the offer price divided by the target's stock price four weeks prior to the acquisition announcement and is reported for observations with values between zero and two. Cash offers are transactions financed with pure cash, stock offers include pure stock transactions, and mixed/other offers comprise all remaining offers. Diversifying transactions involve targets with different two-digit SIC codes than that of the acquirer. Hostile deals is the percentage of deals reported in SDC as hostile and competing bids is the percentage of deals with at least one reported competing offer in SDC. % ACAR (% TCAR) is the acquirer's (target's) five-day cumulative abnormal return calculated by adding the market-adjusted return for each acquirer for days $t-2$ to $t+2$, where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's market index is used. Abnormal returns are winsorized at the top and bottom 1% level.

	All	UUC	RoW	US	UK	Canada	RoFE	Japan	RoFA	Oceania	South Africa	South America
<i>n</i>	4,577	3,850	727	3,171	354	325	212	182	99	171	36	27
% of population	1.000	0.841	0.159	0.693	0.077	0.071	0.046	0.040	0.022	0.037	0.008	0.006
TV (\$ mil)												
Mean	1,219.04	1,226.88	1,177.49	1,362.32	827.32	340.69	2,123.04	1,053.06	827.15	441.69	419.12	1,547.68
Median	146.65	149.24	129.03	169.41	71.95	69.60	258.53	88.92	140.49	83.56	80.41	356.94
Acquirer MV												
Mean	5,636.30	6,130.57	3,018.74	7,010.79	2,370.93	1,637.50	5,116.69	2,825.80	2,053.57	1,330.61	809.22	5,022.97
Median	768.13	830.66	514.26	1,077.49	242.90	295.59	859.34	444.78	511.28	254.55	465.17	1,240.35

(Continued)

Table II. Summary Statistics for Returns' Analysis Sample (Continued)

	All	UUC	RoW	US	UK	Canada	RofE	Japan	RofA	Oceania	South Africa	South America
Target MV												
Mean	1,064.55	1,072.04	1,033.08	1,209.14	749.76	283.05	2,005.03	885.91	684.20	415.81	259.92	1,503.49
Median	135.86	141.98	121.71	169.40	78.54	64.16	248.70	94.12	101.28	82.20	84.27	219.10
Relative Size												
Mean	0.46	0.45	0.56	0.41	0.68	0.58	0.60	0.46	0.52	0.65	0.46	0.73
Median	0.23	0.21	0.34	0.19	0.36	0.34	0.35	0.26	0.25	0.43	0.25	0.32
Acquirer MTBV												
Mean	2.78	2.91	2.13	2.99	2.94	2.06	2.23	1.97	2.19	2.14	1.89	2.56
Median	1.75	1.81	1.43	1.89	1.46	1.34	1.53	1.37	1.20	1.40	1.35	1.67
Target MTBV												
Mean	3.39	3.54	2.81	3.68	2.97	2.80	2.43	1.77	1.60	5.66	1.65	1.14
Median	1.78	1.90	1.36	1.94	1.63	1.81	1.69	0.96	1.18	1.60	1.18	1.00
% Premium												
Mean	43.32	44.94	31.91	45.79	42.02	37.01	31.43	26.20	45.50	32.06	40.91	23.11
Median	35.38	36.84	25.08	37.78	35.97	26.37	20.78	16.88	32.92	28.30	32.96	24.07
% All cash	23.01	21.45	31.22	21.29	28.53	15.38	36.32	29.67	38.38	20.47	25.00	51.85
% All stock	47.76	46.88	52.41	47.49	38.14	50.46	49.53	60.99	49.49	52.05	47.22	37.04
% Mixed/Other	29.23	31.66	16.37	31.22	33.33	34.15	14.15	9.34	12.12	27.49	27.78	11.11
% Diversifying	33.43	31.95	41.27	31.00	48.02	23.69	41.04	42.31	51.52	37.43	41.67	22.22
% Hostile	1.53	1.30	2.75	0.88	4.80	1.54	4.25	0.00	1.01	5.26	2.78	0.00
% Competing	3.56	3.43	4.26	3.03	6.50	4.00	6.13	1.65	1.01	8.19	0.00	0.00
% ACAR (-2,+2)												
Mean	-0.91***	-1.38***	1.56***	-1.34***	-1.58***	-1.54***	1.65***	2.45***	0.75	1.04	0.64	2.32*
Median	-0.80***	-1.15***	1.10***	-1.11***	-1.24***	-1.42***	1.11***	1.80***	0.49	0.64	0.75	1.68
%TCAR (-2,+2)												
Mean	17.60***	19.65***	9.04***	21.13***	14.70***	12.94***	9.51***	7.86***	4.21**	12.73***	9.64***	9.03***
Median	15.39***	17.42***	7.81***	18.90***	12.49***	11.20***	7.47***	6.78***	1.86*	12.26***	9.50***	9.05***

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

offer is reported for each country/country group. Competing bids are more common in the United Kingdom (6.5%), RoE (6.13%), and Oceania (8.19%) rather than the United States (3.03%), where our competition measure is higher. As argued by Moeller, Schlingemann, and Stulz (2004), however, the number of bidders that publicly attempt to acquire a target may be a problematic proxy for potential competition given the existence of unobserved private auctions and the fact that bidders can deter observable competition by offering higher premiums. Along these lines, Boone and Mulherin (2007) demonstrate that the number of bidders that publicly compete for a target can be a spurious indicator of the actual competitiveness of the market for corporate control.

Acquirer CARs are at least nonnegative beyond the UUC. Instead, they are positive and significant within markets that are also characterized by lower premiums. Target firms, on the other hand, gain sizably less in the RoW region relative to the UUC. Results on gains to acquisitions around the world are further analyzed below.

II. Empirical Results

A. Acquirer Gains by Transaction Country Group and Method of Payment

Table III presents abnormal returns to acquiring firms by transaction country or country group and method of payment.⁸ Overall, consistent with prior evidence, acquisitions of public targets do not create value for acquiring firms' shareholders around the announcement. In fact, they destroy value. In particular, the mean (median) abnormal return for the entire sample of acquirers is -0.91% (-0.80%), statistically significant at the 1% level. The average (median) US, UK, and Canadian acquirer is subject to statistically significant negative abnormal returns, at conventional levels, of -1.34% , -1.58% , and -1.54% (-1.11% , -1.24% , and -1.42%), respectively. Accordingly, the average acquirer among the three most competitive acquisition markets (UUC) experiences losses of -1.38% , statistically significant at the 1% level.

The picture however is clearly different for transactions beyond the UUC. Strikingly, abnormal returns for acquirers in the RoE, Japan, and South America are, on average, positive (1.65%, 2.45%, and 2.32%, respectively) and statistically significant at conventional levels, while they are nonnegative for the remaining subsets. Particularly compelling is the unreported finding that in 11 of 15 RoE markets, public acquisitions yield, on average, gains for the acquirer, while the three of those that yield losses comprise only 12 observations. The RoW subset includes all transactions beyond the UUC. Both the mean and median abnormal returns to bidding firms in the RoW are positive (1.56% and 1.10%, respectively) and statistically significant at the 1% level, reflecting that public acquisitions are, in general, value creative for acquirers beyond the most competitive takeover markets. The mean (median) return difference between RoW and UUC acquirers is 2.93% (2.25%), significant at the 1% level.

Regarding the method of payment, consistent with prior literature, US acquirers that exchange their stock experience losses (mean and median are -2.27% and -1.91% , respectively, both statistically significant at the 1% level), while cash transactions yield positive returns and outperform stock deals. The picture is similar in the United Kingdom where cash transactions result in insignificant abnormal returns. Further, Canadian acquirers exhibit statistically significant losses in stock offers, while such losses are insignificant for the remaining subsets. Mean (median)

⁸While abnormal returns here are calculated using a $(-2, +2)$ window, we also use a wider $(-10, +10)$ window in order to control for potential differences in information leakage or/and in the speed of adjustment of prices to news among countries, and our main conclusions remain unchanged.

Table III. Cumulative Abnormal Returns to Acquiring Firms by Transaction Country/Country Group and Payment Method

The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007 that meet the criteria described in Table I and that have complete method of payment data, are domestic, and involve public acquirers. The target-to-bidder relative market value and the value paid for the target are equal to or greater than 1% and \$1 million, respectively. The bidder and its corresponding stock exchange have data available in Thomson Financial Datastream. Transactions where the acquirer has multiple acquisition announcements within the five-day window surrounding the acquisition announcement are excluded. The five-day cumulative abnormal return (CAR) is calculated by adding the market-adjusted return for each acquirer for days $t-2$ to $t+2$, where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's market index is used. Abnormal returns are winsorized at the top and bottom 1% level. Mean and median (below means) abnormal returns for acquiring firms are reported according to transaction country group: All, US, UK, Canada, RofE (all European markets excluding the UK), Japan, RofA (all Asian markets excluding Japan), Oceania (Australia and New Zealand), South Africa, South America, UUC, and RoW (all markets excluding the UUC). The sample size, n , is reported below the median returns. Cash offers are transactions financed with pure cash, stock offers include pure stock transactions, and mixed/other offers comprise all remaining offers. The table also reports return differentials between RoW and UUC where the statistical significance is obtained using two-sample t -tests for means and Wilcoxon sign-rank tests for medians.

Transaction Region	Payment Method			
	All	Cash	Stock	Mixed/Other
(1) All	-0.91***	0.72***	-1.61***	-1.05***
	-0.80***	0.52***	-1.42***	-1.03***
	4,577	1,053	2,186	1,338
(2) US	-1.34***	0.62***	-2.27***	-1.24***
	-1.11***	0.49***	-1.91***	-1.18***
	3,171	675	1,506	990
(3) UK	-1.58***	-0.39	-2.73***	-1.29*
	-1.24***	-0.29	-2.10***	-1.37**
	354	101	135	118
(4) CAN	-1.54***	-0.32	-2.12***	-1.25
	-1.42***	-0.14	-2.31***	-0.83
	325	50	164	111
(5) RofE	1.65***	2.10**	1.61**	0.64
	1.11***	1.52**	1.08	0.08
	212	77	105	30
(6) Japan	2.45***	2.14**	2.54***	2.89
	1.80***	1.44*	1.99***	2.57
	182	54	111	17
(7) RofA	0.75	0.76	0.45	1.92
	0.49	0.60	0.62	0.09
	99	38	49	12
(8) Oceania	1.04	0.65	1.66	0.16
	0.64	0.33	1.06	0.13
	181	36	96	49
(9) S. Africa	0.64	5.02	-1.77	0.79
	0.75	2.84	-1.10	0.90
	36	9	17	10
(10) S. America	2.32*	1.21	3.14	4.72
	1.68	1.14	0.00	4.37
	27	14	10	3

(Continued)

Table III. Cumulative Abnormal Returns to Acquiring Firms by Transaction Country/Country Group and Payment Method (Continued)

Transaction Region	Payment Method			
	All	Cash	Stock	Mixed/Other
(11) UUC	−1.38***	0.44**	−2.29***	−1.25***
	−1.15***	0.35**	−1.96***	−1.17***
	3,850	826	1,805	1,219
(12) RoW	1.56***	1.72***	1.63***	1.01
	1.10***	1.19***	1.22***	0.49
	727	227	381	119
(12)-(11)	2.93***	1.28***	3.92***	2.26***
	2.25***	0.84**	3.18***	1.66**

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

abnormal returns for the UUC are 0.44%, −2.29%, and −1.25% (0.35%, −1.96%, and −1.17%) for cash, stock, and mixed/other payments, respectively, statistically significant at the 5% level or better. It is particularly interesting, however, that results for the RoW subset are inconsistent with our results for the UUC and previous findings reported in the literature. More specifically, both cash and stock transactions yield positive and statistically significant abnormal mean and median returns for acquirers. The average (median) acquirer paying with cash in the RoW experiences a 1.72% (1.19%) gain, statistically significant at the 1% level. Strikingly, stock swaps are also value creative for acquirers, with the corresponding average and median abnormal returns being 1.63% and 1.22%, respectively, statistically significant at the 1% level. Moreover, equity payments result in non-negative abnormal returns for all reported countries/regions within the RoW subset. Overall, the return differentials between the RoW and UUC acquirers are positive and statistically significant at conventional levels irrespective of the method of payment used.

B. Target and Combined Returns

We have established that in RoW acquisitions, bidders can benefit more than in UUC acquisitions. Given that RoW targets tend to share with bidders any potential benefits arising from the transaction, their shareholders should benefit less than in the UUC region. Table IV, Panel A reports market-adjusted returns to target firms by transaction region and method of payment. While the average abnormal return for all targets is 17.65%, RoW targets experience less than half the gains (9.04%) as compared with UUC targets (19.65%). This is consistent with higher premia being offered, on average, for listed targets within the UUC markets. Further, targets paid with cash outperform targets exchanging their stock for both groups. Overall, the UUC targets outperform RoW targets by a large margin irrespective of the method of payment used. It becomes obvious that gains from acquisitions are more evenly split between target and acquiring firms within the RoW.

If the differences in acquirer and target gains within those groups reflect only a redistribution of gains from target to acquiring firm shareholders, then we should not observe large differences between combined shareholder gains in the two regions. Panel B reports market value-weighted combined gains to shareholders. Combined gains within the UUC and RoW are positive and statistically significant at the 1% level for all except the UUC stock swap subset, which is

Table IV. Cumulative Abnormal Returns to Target and Combined Firms by Transaction Country/Country Group and Payment Method

The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007 that meet the criteria described in Table III and where the target and its corresponding stock exchange have return data available in Thomson Financial Datastream. The five-day cumulative abnormal return (CAR) for target firms is calculated by adding the market-adjusted return for each target for days $t-2$ to $t+2$, where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's market index is used. Combined returns are calculated using the market value-weighted average of the acquirer and target abnormal returns. Mean and median (below means) abnormal returns for target and combined returns are reported according to transaction country group: UUC (US, UK, and Canada) and RoW (all markets excluding the US, UK, and Canada). The sample size, n , is reported below median returns, and the mean and median value of each characteristic below n . Cash offers are transactions financed with pure cash, stock offers include pure stock transactions, and mixed/other offers comprise all remaining offers. The table also reports return differentials between RoW and UUC where the statistical significance is obtained using two-sample t -tests for means and Wilcoxon sign-rank tests for medians.

Transaction Region	Payment Method			
	All	Cash	Stock	Mixed/Other
<i>Panel A. Target CARs</i>				
(1) All	17.65***	24.41***	14.05***	17.22***
	15.39***	21.33***	12.33***	15.23***
	2,996	744	1,284	968
(2) UUC	19.65***	27.92***	16.24***	18.15***
	17.42***	24.89***	14.60***	16.11***
	2,430	568	990	872
(3) RoW	9.04***	13.09***	6.68***	8.85***
	7.81***	11.21***	5.86***	8.30***
	566	176	294	96
(3)-(2)	-10.61***	-14.83***	-9.56***	-9.30***
	-9.61***	-13.68***	-8.74***	-7.81***
<i>Panel B. Combined CARs</i>				
(1) All	1.45***	2.30***	0.61**	1.92***
	1.27***	1.93***	0.59***	1.55***
	2,995	744	1,283	968
(2) UUC	1.19***	2.18***	0.05	1.85***
	1.06***	1.84***	0.13	1.47***
	2,429	568	898	872
(3) RoW	2.57***	2.66***	2.50***	2.61***
	2.15***	2.23***	2.06***	2.22***
	566	176	294	96
(3)-(2)	1.38***	0.48	2.45***	0.76
	1.09***	0.39	1.93***	0.75

***Significant at the 0.01 level.

**Significant at the 0.05 level.

*Significant at the 0.10 level.

associated with normal returns. It appears that in this subset, the positive abnormal return that targets earn is fully offset by the extensive losses of their counterpart acquirers. Differences between the UUC and RoW samples are statistically insignificant at conventional levels for cash and mixed payments, but significant at the 1% level for equity offers (2.45%).

C. Are Return Differentials Due to Competition?

Results from the univariate analysis demonstrate that the well-documented losses experienced by acquirers are confined within the UUC segment, while RoW acquirers that exhibit gains largely outperform their UUC counterparts. Although the UUC markets have been characterized as the most competitive, it is still not clear whether the return differentials obtained in the previous sections are due to competition. If competition for listed targets is a key determinant of gains to acquisitions, then abnormal returns to acquiring (target) firms should systematically decrease (increase) with the time-varying competition measure, defined in Section II, and this relationship should also persist within the UUC and RoW subsets. Therefore, in this section, we perform multivariate tests to further examine the impact of competition for listed targets on acquisition gains and to also control for other deal- and firm-specific characteristics, cross-country variations in the legal and institutional environments, and other unobservable country differences.

Table V reports regression results in which the dependent variable is the five-day CAR to acquiring firms. The main explanatory variable is market competitiveness measured by the percentage of listed firms targeted in acquisition deals within a specific country-year. The coefficient of this variable is negative and statistically significant at the 1% level in Regression (1), demonstrating that acquirer gains vary inversely with the level of competition for listed targets. A one standard deviation increase in the time-varying competition measure decreases acquirer announcement returns by 1%, reflecting its strong economic significance.

We also employ various other controls as independent variables in Regression (1). Travlos (1987) reports that in public acquisitions, acquirers offering stock underperform by a larger margin than acquirers paying with cash. The author attributes this difference to the fact that, due to information asymmetry, shareholders perceive stock financed acquisition proposals as signals that managers believe their equity is overvalued. We also find that the coefficient of a dummy that takes a value of one when the acquirer offers its stock and zero otherwise is negative and significant at the 1% level. Moeller, Schlingemann, and Stulz (2004) show that small acquirers outperform larger ones in the United States and they offer several explanations for the prevalent role of acquirer size as a main determinant of gains to acquisitions. We also report a negative and significant coefficient, at the 1% level, for the natural logarithm of the acquirer's market value one month prior to the acquisition announcement. Moreover, the acquirer's value has been shown to decrease with the target-to-bidder relative size in public acquisitions (Asquith, Bruner, and Mullins, 1983; Jensen and Ruback, 1983; Travlos, 1987; Jarrell and Poulsen, 1989; Servaes, 1991). Fuller, Netter, and Stegemoller (2002) find that this relationship holds for all but cash-financed transactions. This variable takes a negative and significant coefficient at the 1% level, reflecting that, in general, larger public acquisitions are associated with lower returns.

It has also been shown that acquirers with high Tobin's Q are favored more by investors (Lang, Stulz, and Walkling, 1989; Servaes, 1991). In contrast, Moeller, Schlingemann, and Stulz (2004) report a negative, but trivial, correlation between Tobin's Q and acquirer returns, and Moeller, Schlingemann, and Stulz (2005) indicate that the massive wealth destruction during the 1998-2001 merger wave can be, to a great extent, attributed to high q acquirers. The market-to-book ratio, which is used as proxy for Tobin's Q, takes a negative but insignificant coefficient in our regression. Further, the coefficient of a dummy that takes a value of one if the two-digit

Table V. Multivariate Regressions of Acquirer Cumulative Abnormal Returns

The table reports cross-sectional regression estimates of the five-day cumulative abnormal return (CAR) to acquiring firms on competition and acquirer, legal, institutional, market, and deal characteristics. The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007 that meet the criteria described in Table III. The five-day CAR is calculated by adding the market-adjusted return for the bidder for days $t-2$ to $t+2$ where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's market index is used. In Regressions (1)-(5), estimates are reported for all deals, in Regressions (6)-(10) for RoW countries (all markets excluding the US, UK, and Canada), and in Regressions (11)-(14) for the UUC (US, UK, and Canada). The competition measure is based on the percentage of listed companies within a country targeted in completed deals in a specific year. The legal protection variable is a fixed cross-country legal protection index from Dalya, Dimitrov, and McConnell (2008). This is the product of an antidirector rights indicator from La Porta et al. (1998) and the law and order indicator from icrgonline.com. The percentage institutional ownership variable is from Ferreira and Matos (2008) and measures the total institutional ownership in each country as a percentage of its stock market capitalization as of December 2005. The percentage independent directors is from Dalya, Dimitrov, and McConnell (2008) where the percentage of independent directors for each country is calculated as the mean number of independent directors scaled by the board size as of 2002. Stock financed is a binary variable that takes a value of one for stock swaps and zero otherwise. Acquirer size is the natural logarithm of the acquirer's equity market value in dollars one month prior to the acquisition announcement. Relative size is the transaction value divided by the acquirer's market value, both in millions of dollars. Acquirer market-to-book value is the natural logarithm of the acquirer's market value divided by its net book value one month prior the acquisition announcement. Inter-industry is a dummy equal to one if the two-digit SIC codes of the acquirer and the target are different. Hostile is a dummy that takes a value of one if the offer is hostile and zero otherwise. Competing bidder is an indicator variable taking a value of one when a competing bid for the same target is reported, and zero otherwise. Market's past performance is the average, six-month preevent return of the corresponding market index. Regressions (2), (7), and (12) control for country fixed effects, the coefficients of which are not reported. The p -values are reported below regression coefficients.

	All										RoW				UUC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)				
Intercept	0.041 (0.000)	0.048 (0.555)	0.070 (0.000)	0.042 (0.000)	0.059 (0.000)	0.046 (0.002)	0.049 (0.567)	0.053 (0.007)	0.040 (0.011)	0.056 (0.010)	0.029 (0.000)	0.027 (0.000)	0.019 (0.011)	0.022 (0.261)				
Competition	-0.456 (0.000)	-0.305 (0.000)	-0.270 (0.000)	-0.431 (0.000)	-0.373 (0.000)	-0.615 (0.014)	-0.403 (0.330)	-0.684 (0.016)	-0.714 (0.013)	-0.648 (0.029)	-0.213 (0.005)	-0.302 (0.000)	-0.285 (0.000)	-0.277 (0.001)				
Legal protection			-0.001 (0.000)					-0.000 (0.681)										
% Institutional ownership				-0.004 (0.581)					0.035 (0.493)				0.029 (0.004)					
% Independent directors					-0.031 (0.052)					-0.019 (0.574)				0.078 (0.005)				

(Continued)

Table V. Multivariate Regressions of Acquirer Cumulative Abnormal Returns (*Continued*)

	All										RoW				UUC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(11)	(12)	(13)	(14)
Stock financed	-0.016 (0.000)	-0.017 (0.000)	-0.017 (0.000)	-0.017 (0.000)	-0.016 (0.000)	-0.002 (0.750)	-0.002 (0.812)	-0.001 (0.841)	-0.004 (0.604)	-0.002 (0.820)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)
Acquirer size	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.001)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.137)	-0.003 (0.127)	-0.003 (0.080)	-0.003 (0.125)	-0.003 (0.083)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)	-0.003 (0.000)
Relative size	-0.007 (0.000)	-0.007 (0.000)	-0.008 (0.000)	-0.007 (0.000)	-0.008 (0.000)	0.003 (0.534)	0.003 (0.551)	0.000 (0.923)	0.007 (0.183)	0.001 (0.898)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)	-0.009 (0.000)
Acquirer market-to-book	-0.000 (0.165)	-0.000 (0.202)	-0.000 (0.293)	-0.000 (0.272)	-0.000 (0.283)	-0.002 (0.072)	-0.002 (0.185)	-0.000 (0.939)	-0.000 (0.832)	-0.000 (0.938)	-0.000 (0.327)	-0.000 (0.356)	-0.000 (0.364)	-0.000 (0.365)	-0.000 (0.364)	-0.000 (0.356)	-0.000 (0.364)	-0.000 (0.365)
Interindustry	0.005 (0.075)	0.004 (0.099)	0.004 (0.131)	0.004 (0.097)	0.004 (0.114)	0.004 (0.539)	0.005 (0.445)	0.005 (0.492)	0.003 (0.615)	0.004 (0.525)	0.004 (0.132)	0.005 (0.100)	0.005 (0.083)	0.005 (0.081)	0.004 (0.132)	0.005 (0.100)	0.005 (0.083)	0.005 (0.081)
Hostile	0.007 (0.486)	0.009 (0.347)	0.007 (0.512)	0.006 (0.524)	0.006 (0.549)	0.003 (0.873)	0.006 (0.774)	0.002 (0.934)	0.001 (0.971)	0.002 (0.925)	0.011 (0.361)	0.013 (0.277)	0.013 (0.261)	0.013 (0.260)	0.011 (0.361)	0.013 (0.277)	0.013 (0.261)	0.013 (0.260)
Competing bidder	-0.015 (0.028)	-0.014 (0.034)	-0.014 (0.038)	-0.015 (0.025)	-0.014 (0.035)	-0.006 (0.720)	-0.007 (0.663)	-0.004 (0.790)	-0.008 (0.615)	-0.004 (0.809)	-0.015 (0.040)	-0.014 (0.050)	-0.014 (0.051)	-0.014 (0.051)	-0.015 (0.040)	-0.014 (0.050)	-0.014 (0.051)	-0.014 (0.051)
Market past performance	0.063 (0.000)	0.062 (0.000)	0.062 (0.000)	0.068 (0.000)	0.068 (0.000)	0.047 (0.115)	0.062 (0.048)	0.066 (0.040)	0.066 (0.043)	0.068 (0.033)	0.062 (0.001)	0.064 (0.001)	0.063 (0.001)	0.063 (0.001)	0.062 (0.001)	0.064 (0.001)	0.063 (0.001)	0.063 (0.001)
Country fixed effects	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No
<i>n</i>	4,513	4,513	4,432	4,435	4,432	724	724	643	646	643	3,789	3,789	3,789	3,789	2,94	3,789	3,789	3,789
Adj. <i>R</i> ² (%)	3.50	4.94	4.08	3.49	3.73	2.25	6.29	2.22	2.35	2.24	2.94	3.19	3.16	3.15	2.94	3.19	3.16	3.15

standard industrial classification (SIC) codes of the acquirer and the target are different is positive and significant at the 10% level, implying that diversifying deals create more value.⁹ We also find a positive, but insignificant relationship between hostile deals and acquirer returns. The presence of at least one competing bidder in the public acquisition process decreases acquirer abnormal returns. Finally, the six-month, preannouncement, market index return coefficient is positive and significant at the 1% level, indicating that acquirers perform better during market upturns. In Regression (2), we add country dummies to control for unobserved differences between countries, the coefficients of which we do not report. While the coefficient of the competition measure decreases, it remains negative and statistically significant at the 1% level when including country fixed effects.

In Regressions (3)-(5), we control for, along with the deal- and firm-specific variables, fixed legal and institutional characteristics among countries that may also affect the results.¹⁰ La Porta et al. (1998) report significant variation in regulations related to the legal protection of shareholders around the world, and Rossi and Volpin (2004) find that higher premiums are paid for targets within countries with stronger investor protection regulations, such as the United States and the United Kingdom. The authors also argue that stricter investor protection regimes are associated with lower costs of raising external financing and, therefore, higher transaction volume and competition for targets. Although it is not possible to attribute with certainty any potential differences in takeover premiums or gains to acquisitions to either competition or legal protection, we need to establish whether our results can be merely attributed to differences in the legal environment across countries. Thus, we include a fixed cross-country legal protection index from Dahya, Dimitrov, and McConnell (2008) in Regression (3). This is the product of an antidirector rights indicator from La Porta et al. (1998) and the law-and-order indicator from icrgonline.com. According to this index, from the countries covered in their study, the UUC offer the strongest legal protection to shareholders, while Mexico and Brazil provide the weakest. If acquirers in countries with weaker investor protection pay lower premiums, then acquirer gains are expected to be higher. Accordingly, the coefficient of the legal index is negative and significant at the 1% level.¹¹ Nonetheless, the impact of competition remains negative and significant at the same level when including the legal index.

In Regression (4), we include the institutional ownership (IO) index from Ferreira and Matos (2008), which measures the total IO in each country as a percentage of its stock market capitalization as of December 2005. The index takes its highest values for the United States and Canada and its lowest for Australia, Belgium, and Japan, from the countries covered in our study. *Ceteris paribus*, higher IO in acquiring firms implies better acquisition decisions (Chen, Harford, and Li, 2005) and greater acquirer gains. Nonetheless, this would imply that US acquirers experience superior returns, and we already know that the reverse is the case. The coefficient of the

⁹Morck, Shleifer, and Vishny (1990) find that diversifying acquisitions usually destroy shareholder value. However, recent research on the “diversification discount” (Campa and Kedia, 2002) indicates that diversification may be associated with higher firm value.

¹⁰As these variables are very highly correlated, we introduce them separately in Regressions (3)-(5). Including them simultaneously (or in different pair combinations) does not significantly impact the coefficient of the competition index, but multicollinearity is introduced in the regression. Caution needs to be exercised in interpreting their coefficients because, due to data limitations and given the number of countries involved, we use fixed country indexes available to proxy for these characteristics. It is likely, however, that these measures change through time and are more appropriate for the latter part of our sample. We therefore repeated regressions for the 1990-1999 and 2000-2007 subsets separately, and their coefficients, along with the coefficient of the competition measure, remain similar.

¹¹Using a dummy variable that takes a value of one if the transaction takes place in a country that belongs to the English legal family (as defined by La Porta et al., 1998), instead of using the index by Dahya, Dimitrov, and McConnell (2008), generates similar results.

index is negative and significant at the 1% level when introduced individually in an unreported regression, but it turns insignificant when the competition measure is also included in the regression. It remains insignificant when all other controls are also included in Regression (4).

In Regression (5), we control for cross-country corporate governance variations by using an index of the mean percentage of independent directors from Dahya, Dimitrov, and McConnell (2008), in which the value for each country is calculated as the mean number of independent directors scaled by the board size as of 2002. The figure ranges from 75% in the United States and 66.9% in Canada, to about 38% in Japan and Hong Kong. The presence of more independent directors is expected to lead to acquisition decisions that are more value creative for acquirer shareholders. Masulis, Wang, and Xie (2007), however, document a weak association between acquirer returns in US acquisitions and board independence. We find that the coefficient of the board independence index is negative and significant at the 10% level in Regression (5), although this is mainly driven by the United States and Canada.

In Regressions (6)–(10), we repeat the same procedure, but only for the RoW subset. The majority of control variables, except acquirer size and past market performance in some regressions, are statistically insignificant here at conventional levels. All other controls, with the exception of the acquirer's market-to-book value, are also statistically insignificant when introduced independently. Results confirm that stock offers are not perceived unfavorably when compared to other payment methods within this subset. The coefficient of competition is negative and statistically significant at the 5% level in all but one regression, indicating that our results for the entire sample are not merely driven by differences between the most competitive markets and the RoW. All other legal and institutional controls are statistically insignificant.¹² In Regressions (11)–(14), we regress acquirer returns on competition and other explanatory variables only for the UUC subset. We do not include legal protection here as this takes a value of 50 for all three countries according to the index of Dahya, Dimitrov, and McConnell (2008). The coefficient of the competition measure remains negative and significant at the 1% level, indicating that time-varying competition is a key determinant of acquirer returns even among the most competitive markets. Although the coefficients of aggregate IO and independent directors are statistically insignificant when introduced independently, they both become positive and significant at the 1% level when introduced along with other controls. The coefficients of the remaining control variables have, in general, the same sign and similar magnitude with the regressions in which the entire sample is used.

Table VI reports regression results in which the dependent variable is the five-day CAR to target firms. We use the same control variables but replace acquirer size and market-to-book value with target size and market-to-book value, respectively. In Regressions (1)–(5), both competition and legal protection are positive and statistically significant at the 1% level. This confirms that premiums and, accordingly, target returns increase with both competition and legal protection to the extent that these two effects are independent. In Regression (1), a one standard deviation increase in the competition measure increases target returns by 4.99%. If the IO and board independence indexes reflect the IO and board independence of the target firm, then, *ceteris paribus*, more institutional and independent director presence would maximize the benefit for target shareholders. The percentages of IO and board independence are positive and significant at the 1% level, but the results are driven by the UUC. The stock dummy has a negative and significant coefficient, suggesting that equity financing is associated with low returns for target firms as well as acquiring firms. The fact that lower premiums are normally observed in stock

¹²The coefficients of all legal and institutional controls are also statistically insignificant at conventional levels when regressing each with acquirer returns individually.

Table VI. Multivariate Regressions of Target Cumulative Abnormal Returns

The table reports cross-sectional regression estimates of the five-day cumulative abnormal return (CAR) to target firms on competition and acquirer, legal, institutional, market, and deal characteristics. The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990–2007 that meet the criteria described in Table III and where the target and its corresponding stock exchange have return data available in Thomson Financial Datastream. The five-day CAR is calculated by adding the market-adjusted return for the target for days $t-2$ to $t+2$ where t is the acquisition announcement day. To calculate the daily market return, the corresponding country's market index is used. In Regressions (1)–(5), estimates are reported for all deals, in Regressions (6)–(10) for RoW countries (all markets excluding the US, UK, and Canada), and in Regressions (11)–(14) for the UUC (US, UK, and Canada). The competition measure is based on the percentage of listed companies within a country targeted in completed deals in a specific year. Legal protection variable is a fixed cross-country legal protection index from Dahya, Dimitrov, and McConnell (2008). This is the product of an antirector rights indicator from La Porta et al. (1998) and the law and order indicator from *icrgonline.com*. The percentage institutional ownership variable is from Ferreira and Matos (2008) and measures the total institutional ownership in each country as a percentage of its stock market capitalization as of December 2005. The percentage independent directors is from Dahya, Dimitrov, and McConnell (2008) where the percentage of independent directors for each country is calculated as the mean number of independent directors scaled by the board size as of 2002. Stock financed is a binary variable that takes a value of one for stock swaps and zero otherwise. Target size is the natural logarithm of the target's equity market value in dollars one month prior to the acquisition announcement. Relative size is the transaction value divided by the acquirer's market value, both in millions of dollars. Target market-to-book value is the natural logarithm of the target's market value divided by its net book value one month prior to the acquisition announcement. Interindustry is a dummy equal to one if the two-digit SIC codes of the acquirer and the target are different. Hostile is a dummy that takes a value of one if the offer is hostile and zero otherwise. Competing bidder is an indicator variable taking a value of one when a competing bid for the same target is reported, and zero otherwise. Market's past performance is the average, six-month pre-event return of the corresponding market index. Regressions (2), (7), and (12) control for country fixed effects, the coefficients of which are not reported. The p -values are reported below regression coefficients.

	All					RoW					UUC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Intercept	0.189 (0.000)	0.196 (0.363)	0.142 (0.000)	0.182 (0.000)	0.069 (0.040)	0.092 (0.000)	0.256 (0.069)	0.035 (0.290)	0.083 (0.001)	0.076 (0.042)	0.237 (0.000)	0.251 (0.000)	0.193 (0.000)	0.034 (0.614)
Competition	2.273 (0.000)	0.998 (0.004)	1.758 (0.000)	1.136 (0.000)	1.316 (0.000)	2.498 (0.000)	2.585 (0.003)	2.101 (0.000)	2.538 (0.000)	2.339 (0.000)	1.822 (0.000)	1.039 (0.007)	1.084 (0.003)	1.138 (0.000)
Legal protection			0.002					0.002						

(Continued)

Table VI. Multivariate Regressions of Target Cumulative Abnormal Returns (Continued)

	All				RoW				UUC					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
% Institutional ownership			(0.009)	0.147 (0.000)				(0.003)	0.018 (0.866)				0.163 (0.000)	
% Independent directors					0.258 (0.000)					0.051 (0.438)				0.441 (0.000)
Stock financed	-0.054 (0.000)	-0.054 (0.000)	-0.054 (0.000)	-0.053 (0.000)	-0.054 (0.000)	-0.035 (0.008)	-0.039 (0.003)	-0.038 (0.005)	-0.037 (0.006)	-0.039 (0.004)	-0.056 (0.000)	-0.057 (0.000)	-0.057 (0.000)	-0.057 (0.000)
Target size	-0.015 (0.000)	-0.016 (0.000)	-0.016 (0.000)	-0.013 (0.000)	-0.016 (0.000)	-0.002 (0.618)	0.002 (0.625)	0.000 (0.955)	0.001 (0.697)	-0.002 (0.576)	-0.017 (0.000)	-0.019 (0.000)	-0.019 (0.000)	-0.019 (0.000)
Relative size	-0.033 (0.000)	-0.030 (0.000)	-0.030 (0.000)	-0.031 (0.000)	-0.031 (0.000)	-0.040 (0.000)	-0.043 (0.000)	-0.046 (0.000)	-0.043 (0.000)	-0.042 (0.000)	-0.033 (0.000)	-0.029 (0.000)	-0.029 (0.000)	-0.030 (0.000)
Target	-0.000 (0.448)	-0.000 (0.489)	-0.000 (0.442)	-0.000 (0.537)	-0.000 (0.455)	-0.000 (0.735)	-0.000 (0.639)	-0.000 (0.618)	-0.000 (0.720)	-0.000 (0.704)	-0.000 (0.599)	-0.000 (0.677)	-0.000 (0.676)	-0.000 (0.675)
market-to-book														
Interindustry	0.001 (0.943)	0.005 (0.562)	0.002 (0.837)	0.004 (0.651)	0.005 (0.615)	-0.008 (0.540)	-0.003 (0.822)	0.008 (0.547)	-0.010 (0.463)	0.008 (0.543)	0.008 (0.494)	0.011 (0.339)	0.011 (0.320)	0.011 (0.306)
Hostile	0.079 (0.020)	0.086 (0.013)	0.073 (0.035)	0.089 (0.010)	0.074 (0.033)	0.075 (0.047)	0.076 (0.082)	0.050 (0.200)	0.075 (0.057)	0.057 (0.143)	0.087 (0.058)	0.098 (0.033)	0.098 (0.032)	0.098 (0.031)
Competing bidder	-0.020 (0.377)	-0.022 (0.344)	-0.022 (0.337)	-0.018 (0.427)	-0.023 (0.329)	-0.029 (0.401)	-0.045 (0.199)	-0.033 (0.329)	-0.034 (0.330)	-0.031 (0.362)	-0.022 (0.429)	-0.018 (0.509)	-0.018 (0.517)	-0.017 (0.523)
Market past performance	-0.222 (0.000)	-0.186 (0.001)	-0.208 (0.000)	-0.197 (0.000)	-0.204 (0.000)	0.009 (0.877)	0.033 (0.186)	0.044 (0.484)	0.035 (0.589)	0.026 (0.674)	-0.319 (0.000)	-0.288 (0.000)	-0.291 (0.000)	-0.293 (0.000)
Country fixed effects	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes	No	No
<i>n</i>	2,502	2,502	2,452	2,454	2,452	511	511	461	463	461	1,991	1,991	1,991	1,991
Adj. <i>R</i> ² (%)	10.91	12.58	10.94	11.24	11.39	10.86	20.53	13.33	11.30	11.76	7.51	8.37	8.37	8.35

swaps may explain this result. The coefficients of target size and relative size are also both negative and significant at the 1% level, which may be associated with integration uncertainty and competition. The larger the target size, the more uncertain the success of its integration while there are also less potential buyers. Moreover, it appears that overvalued targets are acquired at a relative discount, pushing target returns lower as reflected in the negative and significant coefficient for the target's market-to-book value. Hostile acquisitions result in higher target returns, which can be explained by the higher premiums paid in this type of transaction (Bruner and Perella, 2004). Finally, target returns are negatively related to past market performance. This effect is mainly driven by the UUC samples and may reflect the fact that lower premiums are offered during market up-turns (Bouwman, Fuller, and Nain, 2009).

In Regressions (6)-(14), we repeat the same procedure for the RoW and UUC subsets. The coefficient of time-varying competition remains positive and significant within both samples, implying that our results for the entire sample are robust and not merely driven by systematically higher competition values for UUC countries. Legal protection is also positive and statistically significant at the 1% level for the RoW sample, although other institutional characteristics are insignificant.

D. Competition and Premia

If acquirer returns decrease and target returns increase with time-varying competition, as has been established in this section, then it must be the case that competition compels acquirers to bid more aggressively and pay higher premia, which is detrimental to their shareholders' wealth but beneficial for target shareholders. If this is correct, then we should also find a positive correlation between competition and premia within the different subsets examined and, after controlling for other firm and deal characteristics, differences in the legal and institutional frameworks across markets and other country fixed effects. Table VII reports the regression results. In Regression (1), a 1% increase in the standard deviation of the competition index increases the premium by 5.83%. The coefficient of the competition measure is, in general, similar to the case of target returns' regressions. Although its coefficient decreases when adding country fixed effects or legal and institutional market characteristics, it still remains positive and statistically significant at the 1% level for all subsets, reflecting a compelling role of competition in determining takeover premia, both within the most competitive markets and in the RoW. Legal protection is also a significant determinant of premiums. Its significance, however, is driven by differences between UUC and the RoW as the variable is insignificant within the RoW subset. The IO and independent directors' indexes are also positively related with the premium in Regressions (4), (5), (13), and (14), but this is mainly driven by the United States. Acquirer size, relative size, and market past performance (market-to-book) are (is) negatively (positively) associated with the premium for the entire sample and the UUC subset. For the RoW subset, most controls are statistically insignificant. The occurrence of a competing bidder and of an interindustry transaction are both positively related to premia for all subsets.

III. Conclusion

In this paper, we present new evidence regarding the gains from public M&As to acquiring and target firms using a worldwide sample covering 39 countries from all continents. The existing literature points to significant differences in investor protection regulations and takeover activity across various countries. These characteristics are likely to have material impacts on competition for public targets, the premia paid, and the way investors perceive deal financing-related

Table VII. Multivariate Regressions of Premiums

This table reports cross-sectional regression estimates of takeover premiums on competition and acquirer, legal, institutional, market, and deal characteristics. The sample includes all acquisitions of listed targets reported in the Thomson Financial SDC global mergers and acquisitions database from 1990 to 2007 that meet the criteria described in Table III. Premium is the offer price divided by the target's stock price four weeks prior to the acquisition announcement and is reported for observations with values between zero and two. In Regressions (1)–(5) estimates are reported for all deals, in Regressions (6)–(10) for RoW countries (all markets excluding the US, UK, and Canada), and in Regressions (11)–(14) for the UUC (US, UK, and Canada). The competition measure is based on the percentage of listed companies within a country targeted in completed deals in a specific year. The legal protection variable is a fixed cross-country legal protection index from Dahya, Dimitrov, and McConnell (2008). This is the product of an antirector rights indicator from La Porta et al. (1998) and the law and order indicator from icrgonline.com. The percentage institutional ownership variable is from Ferreira and Matos (2008) and measures the total institutional ownership in each country as a percentage of its stock market capitalization as of December 2005. The percentage independent directors is from Dahya, Dimitrov, and McConnell (2008) where the percentage of independent directors for each country is calculated as the mean number of independent directors scaled by the board size as of 2002. Stock financed is a binary variable that takes a value of one for stock swaps and zero otherwise. Acquirer size is the natural logarithm of the acquirer's equity market value in dollars one month prior to the acquisition announcement. Relative size is the transaction value divided by the acquirer's market value, both in millions of dollars. Acquirer market-to-book value is the natural logarithm of the acquirer's market value divided by its net book value one month prior to the acquisition announcement. Inter-Industry is a dummy equal to one if the two-digit SIC codes of the acquirer and the target are different. Hostile is a dummy that takes a value of one if the offer is hostile and zero otherwise. Competing bidder is an indicator variable taking a value of one when a competing bid for the same target is reported, and zero otherwise. Market's past performance is the average, six-month preevent return of the corresponding market index. Regressions (2), (7), and (12) control for country fixed effects, the coefficients of which are not reported. The *p*-values are reported below regression coefficients.

	All					RoW					UUC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Intercept	0.393 (0.000)	0.331 (0.301)	0.298 (0.000)	0.362 (0.000)	0.215 (0.000)	0.139 (0.020)	0.013 (0.959)	0.163 (0.044)	0.157 (0.011)	0.177 (0.033)	0.460 (0.000)	0.430 (0.000)	0.397 (0.000)	0.173 (0.057)
Competition	2.657 (0.000)	1.328 (0.001)	2.097 (0.000)	1.684 (0.000)	1.773 (0.000)	2.323 (0.000)	4.936 (0.004)	3.622 (0.001)	4.689 (0.000)	3.774 (0.002)	1.899 (0.000)	1.292 (0.000)	1.513 (0.000)	1.567 (0.000)
Legal protection			0.003 (0.005)					−0.000 (0.933)						
% Institutional ownership				0.174 (0.000)					−0.168 (0.416)				0.165 (0.000)	
% Independent directors					0.330 (0.000)					−0.040 (0.747)				0.437 (0.001)

(Continued)

Table VII. Multivariate Regressions of Premiums (Continued)

	All			RoW							UUC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Stock financed	0.011 (0.347)	0.010 (0.366)	0.011 (0.317)	0.009 (0.434)	0.009 (0.418)	-0.021 (0.411)	-0.014 (0.616)	-0.023 (0.388)	-0.010 (0.688)	-0.023 (0.385)	0.017 (0.173)	0.014 (0.259)	0.014 (0.274)	0.014 (0.272)
Acquirer size	-0.016 (0.000)	-0.017 (0.000)	-0.016 (0.000)	-0.018 (0.000)	-0.017 (0.000)	0.007 (0.284)	0.007 (0.338)	0.004 (0.555)	0.005 (0.506)	0.004 (0.533)	-0.018 (0.000)	-0.020 (0.000)	-0.020 (0.000)	-0.020 (0.000)
Relative size	-0.038 (0.000)	-0.035 (0.000)	-0.038 (0.000)	-0.036 (0.000)	-0.036 (0.000)	-0.019 (0.320)	-0.011 (0.577)	-0.014 (0.488)	-0.025 (0.202)	-0.013 (0.513)	-0.038 (0.000)	-0.036 (0.000)	-0.036 (0.000)	-0.036 (0.000)
Acquirer market-to-book	0.004 (0.002)	0.004 (0.001)	0.004 (0.001)	0.004 (0.001)	0.004 (0.001)	0.007 (0.192)	0.009 (0.122)	0.009 (0.105)	0.007 (0.192)	0.009 (0.105)	0.004 (0.002)	0.004 (0.001)	0.004 (0.001)	0.004 (0.001)
Interindustry	0.022 (0.071)	0.026 (0.032)	0.023 (0.051)	0.028 (0.020)	0.027 (0.027)	0.059 (0.021)	0.066 (0.013)	0.066 (0.013)	0.072 (0.006)	0.066 (0.014)	0.020 (0.136)	0.022 (0.099)	0.023 (0.076)	0.023 (0.076)
Hostile	0.122 (0.005)	0.133 (0.003)	0.126 (0.004)	0.138 (0.002)	0.127 (0.004)	0.001 (0.985)	0.003 (0.969)	0.004 (0.947)	0.006 (0.921)	0.006 (0.927)	0.159 (0.003)	0.166 (0.002)	0.169 (0.001)	0.169 (0.001)
Competing bidder	0.111 (0.000)	0.115 (0.000)	0.111 (0.000)	0.118 (0.000)	0.112 (0.000)	0.205 (0.000)	0.202 (0.000)	0.209 (0.000)	0.209 (0.000)	0.210 (0.000)	0.087 (0.008)	0.092 (0.005)	0.092 (0.005)	0.091 (0.005)
Market past performance	-0.251 (0.001)	-0.232 (0.004)	-0.226 (0.005)	-0.231 (0.004)	-0.229 (0.004)	-0.055 (0.682)	-0.105 (0.466)	-0.016 (0.913)	-0.013 (0.926)	-0.014 (0.923)	-0.276 (0.002)	-0.262 (0.002)	-0.273 (0.002)	-0.275 (0.002)
Country fixed effects	No	Yes	No	No	No	No	Yes	No	No	No	No	Yes	No	No
<i>n</i>	3198	3198	3164	3175	3164	385	385	351	362	351	2813	2813	2813	2813
Adj. <i>R</i> ² (%)	4.73	6.16	4.81	5.38	5.13	13.44	20.65	13.08	14.43	13.10	3.01	3.54	3.43	3.40

information and, effectively, their reaction at the acquisition announcement. Accordingly, we first demonstrate that public acquisition announcements, in general, enhance acquirers' value in countries beyond those with the most competitive takeover markets (the UUC). Acquirers within the latter markets significantly underperform those in the rest of the world. Second, we also provide evidence that deals financed with equity swaps do not overall destroy value for acquirers in countries beyond the UUC. One potential explanation for the nonnegative reaction in equity-financed public acquisitions within the RoW is that the negative information effect of an equity offer can, in practice, be subdued by the positive effect of lower premiums paid due to inferior competition. Third, we find that RoW acquisitions are subject to superior synergy gains only for stock swaps, implying merely a redistribution of gains from the acquirer to the target in other types of transactions. Fourth, we examine the relationship between competition in the market for corporate control across time and markets and acquisition gains and premiums paid within the entire sample, as well as in the RoW and UUC subsets. Our findings indicate that the level of competition is negatively associated with acquirer returns and positively associated with target returns and premia after controlling for other firm, deal, and market legal and institutional characteristics, as well as other country fixed effects. Overall, the paper provides evidence that public acquisitions do generate gains, but the distribution of gains between acquiring and target firms depends on the degree of competition in the market for corporate control. As a result, the empirical observations relating public acquisitions to, at best, zero abnormal returns, and their equity financed subset to negative abnormal returns for acquiring firms around the deal announcement are mainly limited to the most competitive acquisition markets. ■

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