CONCENTRATED OWNERSHIP STRUCTURES AND LONG TERM OPERATING PERFORMANCE OF ACQUIRING FIRMS: THE CASE OF ENGLISH-ORIGIN COUNTRIES

Tze-Yu YEN
University of Edinburgh
and
Paul ANDRÉ*
University of Edinburgh and HEC Montréal

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* **Address for correspondence:** Paul André School of Management, University of Edinburgh, William Robertson Building - WRB 311, 50 George Square, Edinburgh EH8 9JY, Tel: +44-(0)131-650-8351, fax: +44-(0)131-650-8337, email: paul.andre@ed.ac.uk

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Abstract

This paper provides empirical evidence on the relation between concentrated ownership and the long term operating performance of acquiring firms. Large shareholders are generally viewed has beneficial monitors of corporate performance but high levels of concentration can lead to potential expropriation from minority shareholders via tunneling or sub-optimal investment decisions. This problem is potentially greater in firms with separation of voting and ownership rights. We investigate the performance around takeovers in English-origin countries other than the US by following the classification of La Porta et al. (1998). While generally considered similar to the US, these countries vary with respect to ownership concentration and investor protection.

We present Healy et al. (1992) abnormal post cash flow return regression-based results and results of a change model. Our principal finding, after controlling for well documented governance mechanisms and deal characteristics, is that the relationship between concentrated ownership and the level and change in operating cash flow returns after takeovers is non-linear. Value creating deals are associated with higher levels of concentration consistent with decreasing agency costs as the large shareholder's wealth invested in the acquiring firm increases. Further, separation of ownership and voting rights leads to greater value destruction. We also find, although all acquiring firms are from English-origin countries, that greater investor protection, as measured by the updated anti-director rights index in Djankov et al (2006), has a positive impact on abnormal cash flow returns from acquisitions. We do not find a link between performance and the new anti-self-dealing index developed by Djankov et al. (2006).

1. INTRODUCTION

Stemming mostly from the agency model of Jensen and Meckling (1976) but also from much earlier work such as Berle and Means (1932), corporate governance research has generally emphasized the role of control mechanisms in dispersed ownership structures as found in the US. However, La Porta et al. (1999), among others, show that dispersed ownership is only common in larger firms and in countries with good shareholder protection. Since concentrated ownership has its own specific costs and benefits, a growing body of empirically work has started to investigate the unique characteristics of concentrated ownership firms (Claessens et al. 2000, Bebchuk et al. 2000, Faccio and Lang 2002). Following the investor protection classification scheme of La Porta et al. (1998), subsequent cross-country research has also focused on comparing corporate performance among countries with different legal characteristics (La Porta et al. 2000 and 2002, Fauver et al. 2003, Gugler et al. 2004). While English-origin countries[1] are often lumped together and viewed as examples of more dispersed ownership and greater investor protection, concentrated ownership is quite prevalent in many of these countries and investor protection does vary among the group as well as anti-self-dealing measures (Djankov et al. 2006).

One of the most important drivers of corporate performance over the last decade is without a doubt the level of merger and acquisitions (M&A). The most recent merger wave emerged in the mid 1990 and reached its peak in 2000 and this merger boom was not confined to the US market but was global (Gugler et al. 2003). One additional feature of the recent M&A wave is that takeovers have been larger than ever. Companies invest billions of dollars in making acquisitions but most empirical studies show that shareholders of acquiring firms experience wealth destruction on average, or at best break even (Jensen and Ruback 1983, Agrawal et al. 1992, Franks and Harris 1989, Goergen and Renneboog 2004).

A recent stream of research focuses on ownership structure, governance and the value creation of specific corporate decisions such as M&A. Concentrated ownership introduces new dimensions to the issue. In countries with low investor protection, some argue that M&A are a tool used by controlling shareholders to facilitate tunneling that benefit them at the

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[1] La Porta et al. (1998) include the following countries in the English-origin category: Australia, Canada, Hong Kong, India, Ireland, Israel, Kenya, Malaysia, New Zealand, Nigeria, Pakistan, Singapore, South Africa, Sri Lanka, Thailand, United Kingdom, United States and Zimbabwe.

expense of minority shareholders (Bae et al. 2002, Bigelli and Mengoli 2004). In countries with better corporate governance, dominant shareholders may not be in a position to benefit from tunneling but they may choose to reduce risk by making sub-optimal investment decision (Holmen and Knopf 2004, Ben Amar and André 2006, Faccio and Stolin 2006).

To date, most research examines the relationship between acquisition performance and expropriating problems by adopting traditional market based event study methodology since it assumes that stock prices immediately reflect the expectation of the benefits from the deal (Agrawal et al. 1992, Andrade et al. 2001, Franks and Harris 1989, Limmack 1991, Sudarsanam et al. 1996, Goergen and Renneboog 2004). However, Hitt et al. (1998) argue that the nature of the short term market performance methodology may not fully capture anticipated benefits from an acquisition. Following the work of Healy et al. (1992), financial researchers take a longer term perspective and examine the change in operating cash flow returns to better understand value creation and its drivers.

Our study adds to the ongoing debate about the benefits and costs of concentrated ownership and further examines the effects of governance, legal investor protection and anti-self-dealing measures on value creation following M&A. We extend the research of Ben Amar and André (2006) by doing a cross-country analysis. Our study is based on a sample of 287 deals over 1997 to 2001 in eleven English-origin countries: Australia, Canada, India, Republic of Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand, and the United Kingdom.

We find, after controlling for well documented governance mechanisms and deal characteristics, that the relationship between concentrated ownership and the level and change in operating cash flow returns after acquisitions is non-linear. Value creating deals are associated with higher level of concentration consistent with decreasing agency costs as the large shareholder's wealth invested in the acquiring firm increases. Further, separation of ownership and voting rights leads to greater value destruction. We also find, although all acquiring firms are from English-origin countries, that greater investor protection, as measured by the new updated anti-director-rights index in Djankov et al. (2006) has a positive impact on abnormal cash flow returns from acquisitions. We do not document any differential

performance with respect to the new anti-self-dealing index developed by Djankov et al. (2006).

The rest of this paper is organized as follows. Section 2 summarizes the literature on the issues surrounding concentrated ownership structures. Section 3 describes the sample and methodology. Section 4 reports the major results. Section 5 concludes.

2. LITERATURE REVIEW

A relatively large body of empirical research focuses on the agency problem between owners and managers in widely-held companies. This work suggests that large shareholders, block holders, are a good internal mechanism to reduce agency costs since these shareholders have greater incentives and resources to efficiently monitor and ensure decisions maximize firm value (Jensen and Meckling 1976, Schleifer and Vishny 1986).

However, an agency problem potentially exists between controlling shareholders and minority shareholders in concentrated ownership structures. Further, controlling shareholders often have greater control rights than their cash flow rights because of pyramidal structures, cross-holdings, dual class shares and various other control devices (La Porta et al. 1999, Claessens et al. 2000). This separation provides an opportunity for controlling shareholders to expropriate minority shareholders. Tunneling is one of the common problems cited (Johnson et al. 2000b). When dominant shareholders don't bear the full costs of their decisions, they may have incentives to act in their own interest at the expense of firm performance. There are many ways to achieve tunneling such as by special dividends, excessive perks, excess compensation, advantageous transfer prices, inter-company loans at non-market rates, guaranties of other entities borrowing or by enhancing the value of other firms in the group by sub-optimal investment decisions such as merger transactions. Further, Zhang (1998) provides empirical evidence that controlling shareholders may make sub-optimal decisions because they are more risk averse than other shareholders whose portfolios are better diversified.

Managerial entrenchment is another cost of concentrated ownership. Schulze et al. (2001) argue that concentrated ownership structures, especially family structures, may limit top management positions to affiliated members instead of hiring more qualified outside professional managers. Further, high ownership stakes by those that are also top managers,

such as in family firms, can reduce the effectiveness of outside monitoring since it lowers the probability of managerial turnover or of successful takeover bids when the firm is performing poorly. (Stulz 1988, Morck et al. 1988, Davies et al. 2005).

Based on the benefits and costs of concentrated ownership, our study investigates the following accentuating or mitigating factors:

Separation. Ownership and control rights can differ because corporations issue different classes of shares that provide different voting rights for given cash-flow rights (Faccio and Lang 2002). Separation of ownership and control rights means that controlling shareholders do not bear the full costs of their decisions. Separation has generally been shown to have a significantly negative effect on firm performance (Claessens et al. 2000, La Porta et al. 2002, Faccio and Lang 2002, Cronqvist and Nilsson 2003).

CEO Position. Whether an individual related to or himself the dominant shareholder should occupy the seat of CEO is still debatable. Anderson and Reeb (2003) suggest that with effective outside monitors, family CEO may provide essential firm-specific know-how and reduce agency problems. Many researchers, however, offer a different view: dominant CEOs may more easily entrench themselves and thus deviate from firm value maximization (Fama and Jensen 1983, Sharma and Ho 2002, Barth et al. 2005).

Board Structure. Board structure is central to the corporate governance system. Directors are assumed to provide professional advice, to hire and compensate the CEO and to replace the CEO if necessary (Jensen 1993). The board is generally composed of inside (related) and outside (unrelated) directors. Academics, regulators, as well as shareholder activists suggest that outside directors should enhance firm value through effective monitoring. They further suggest that the size of the board (not too large and not too small) and the separation of the CEO/COB position lead to better governance. Empirical studies on board characteristics have obtained mixed results. Several authors provide evidence that outside directors enhance board effectiveness (Rosenstein and Wyatt 1990, Weisbach 1988) while others find either a weak relation (Weir et al. 2002) or even a negative relationship (Agrawal and Knoeber 1996). Conyon and Peck (1998) investigate the effects of board size and find a negative association between measures of corporate performance and board size. André et al. (2006) document a

non-linear relationship. Similarly, the relationship between CEO-chairman duality and performance remains unclear (Vefeas and Theodorou 1998, Brickley et al. 1997).

Other Large Shareholders. Other large shareholders, or block holders, are recognized as an effective mitigating factor (André and Schiehll 2004). Large block holders such as institutional investors have the means of monitoring and influencing the controlling shareholder. Maury and Pajuste (2005) show that not only the presence but also the equal distribution of voting shares among block holders has positive effect on firm value.

Legal Institutions. Recent papers emphasize the importance of legal institutions in protecting investors and limiting self-dealing by controlling shareholders (Denis and McConnell 2003). La Porta et al. (1998) initially classify 49 countries around the world into four major families of law. Common-law has been adopted in the British colonies, including the United States, Canada, Australia, India, Malaysia, Thailand, and many other countries. They further show that these English-origin countries have the strongest investor protection rules. They measure the level of shareholder rights by an anti-director rights index. Recent papers provide evidence that companies in countries with an English-origin legal system have higher corporate performance due to the better corporate governance system and legal environment (Becht and Roell 1999, Mueller and Yurtoglu 2000, Johnson et al. 2000a, Gugler et al. 2004).

However, the anti-director rights index has been criticized for its ad-hoc nature and for coding errors. Djankov et al. (2006) revise their original anti-director rights index using more precise definitions of the proxies composing the index and correcting for coding errors. They further present a new measure of legal protection: the anti-self-dealing index. They design a questionnaire starting with a fixed self-dealing transaction and then attempt to measure the hurdles that controlling shareholders need to tackle in order to extract private benefit from this transaction. They then collect completed questionnaires from attorneys working in an international law firm. In summary, they show that common law countries have a higher average anti-self-dealing index since English-origin countries typically require extensive disclosure and the approval of the transaction by interested shareholders. However, as in the case of the index of anti-director rights, there remains a fair amount of variation across English-origin countries.

The impact of concentrated ownership on corporate performance is still an open question. Some studies show that firm value increases with the cash flow ownership of the largest shareholders (McConaughy et al. 1998, Claessens et al. 2002, La Porta et al. 2002, Anderson and Reeb 2003). In contrast, other studies suggest that without effective monitoring, controlling shareholders are likely to exploit minority shareholders and make sub-optimal decisions and even more so when control rights exceed the cash flow rights (Faccio et al. 2001, Cronqvist and Nilsson 2003). Also, many studies suggest that the relationship may not be linear (Anderson and Reeb 2003, Morck et al. 1988, McConnell and Servaes 1990).

Recent studies look at M&A to examine whether controlling shareholder create or destroy value. Ben Amar and André (2006) investigate Canadian deals and show that separation of ownership and control does not have the anticipated negative impact on value creation and that family ownership has a positive impact. European studies by Faccio and Stolin (2006) and Holmen and Knopf (2004) find no significant evidence to prove wealth transfer from minority shareholders to controlling shareholders through takeovers. They conclude that legal or extralegal institutions effectively mitigate the tunneling problem. However, Bigelli and Mengoli (2004) find a non-monotonic relationship between the participation of the dominant shareholder and the abnormal returns for bidder shareholders in Italy.

Bae et al. (2002) investigate mergers by Korean business groups also called chaebols. They argue that the owner-managers of chaebols have substantial discretionary power and that legal protection against expropriation of minority shareholders is weak in Korea. They find that when chaebol affiliated firms make acquisitions, their share price drops so that the minority shareholders of these firms lose out while controlling shareholders gain because of the increase in value of other firms in the group. They further argue that the implicit guarantee of a bailout for chaebols members still make these investment interesting for minority shareholders.[2]

Our study proposes to re-examine the relationship between ownership structure and the performance of bidding firms in the context of ownership concentration and separation between cash-flow and control rights for a broad sample of English-origin countries while

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[2] La Porta et al.(2000), Friedman et al. (2003) and Shleifer and Wolfenzon (2002) discuss this notion of negative tunneling or propping.

controlling for varying level of investor protection as measured by the updated anti-director rights index and new anti-self-dealing index of Djankov et al. (2006).

3. METHODOLOGY

3.1 Sample Selection

Our data set is obtained from the Thomson Financial Securities Data's SDC Platinum[TM] *Worldwide Mergers & Acquisitions Database*. Our sample meets the following criteria: 1) Observations are for 1997-2001; 2) Acquiring firms and targets are listed companies; 3) Deals are completed and are mergers, exchange offers, or acquisitions of majority interest; 4) Companies with several M&A during the period are included; 5) Only transactions greater than US$10 million are included; 6) Adopting the La Porta et al. (1998) classification, acquiring nation is an English-origin country except for the US[3]; 7) Companies have financial and accounting data for the seven-year window available in Datastream; and 8) Ownership data is available from proxies or annual reports of each company from Mergent database, Canadian SEDAR filing system, EDGAR SEC fillings, or company websites. Note that government, financial, and investment companies are excluded because of their specific accounting and regulatory requirements. Our final sample comprises 287 deals (227 acquiring firms) in eleven countries.

Table 1, panel A, reports the annual numbers, aggregate values, and mean values of deals. Our sample comprises 287 acquisitions with a total market value of over US$564 billion. Acquiring firms paid, on average (median), US$1,966.6 (239.3) million for the targets. Panel B presents acquisitions by primary SIC code. The largest proportion of deals is in the manufacturing sector. Panel C lists firms and deal values by country. Most deals are initiated in the UK (142 deals out of the 287 or 49.5%) followed by Canada (77 deals or 26.8%), and Australia (25 deals or 8.7%). The other 43(15%) deals are spread across the following countries: South Africa (14), Ireland (11), India (6), Singapore (6), New Zealand (3), Israel (1), Malaysia (1), and Thailand (1).

<<Insert Table 1>>

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[3] The US market is excluded since it has been extensively studied and most American firms are widely-held.

3.2 Variables

3.2.1 Dependent Variable

Performance Measure

Based on Healy et al. (1992), this study uses pre-tax operating cash flow (OCF) to measure the acquisition performance. We define operating cash flow as operating income after depreciation plus depreciation and goodwill amortization (in other words, EBITDA).[4] This definition ensures that the performance measure is unaffected by different merger accounting methods, tax policy, or the type of financing used to fund the acquisition. Operating cash flow return (OCFR) is calculated as operating cash flow divided by market value of asset. Formally,

Operating Cash Flow (OCF) = Operating income after depreciation

+ Depreciation, Depletion and Amortization Expense,

Market Value of Asset = Market Value of Equity at the beginning of acquisition year

+ Book Value of Net Debt,

Book Value of Net Debt = Total Debt - Cash, Marketable securities, and cash equivalents

+ Preferred Stock and, and

Operating Cash Flow Return (OCFR) = Operating Cash Flow / Market Value of Asset.

Operating cash flow returns are computed for each company up to three years before and after the acquisition event (*MEG* pre and post). Pre-acquisition performance is calculated as a weighted-average of the operating cash flow rate for the bidder and the target. The weights are based on the market values of assets of both companies at the year before acquisition. This measurement is consistent with that of Healy et al. (1992 and 1997) and Ghosh (2001).

Following Ghosh 's (2001) critic of Healy et al. (1992), we set criteria to select a list of matched firms based on size, industry, and pre-performance. After the list of matched firms is

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[4] We agree with Powell and Stark (2005) that the HPR methodology using EBITDA as a denominator is still accrual based and subject to manipulation (Erickson and Wang 1999 discuss earnings management around M&A). Data with respect to cash flows from operations varies across countries as the cash flow statement is the least standardized of statements across countries. Powell and Stark (2005) investigate the sensitivity of various definitions of cash flow returns and show that results can be sensitive to particular methodological definitions but also conclude that inferences drawn are relatively robust to methodological concerns raised.

set, the steps for calculating operating cash flows are repeated and we get operating cash flow rates for the pair of matched firms (a match for the bidder and a match for the target). Since the pair of matched firms forms the benchmark, both post and pre-acquisition performances is also measured as the weighted-average of the operating cash flow returns based on the market values of assets of the bidder and the target the year before acquisition. (*MAT* pre and post).

The industry, size, and pre-performance adjusted operating cash flow return (*ACFR*) is the operating cash flow return of the merging firm minus that of the matched pair of firm. Similar to Healy et al. (1992), the median of *ACFR* three years before and after acquisition (*ACFRpre* and *ACFRpost*) is used. Furthermore, while most studies focus on post-acquisition performance only (Healy et al. 1992, Loughran and Ritter 1997, Linn and Switzer 2001, Rahman and Limmack 2004, and Powell and Stark 2005), some papers also calculate the change in cash flow returns (*ΔACFR*) to examine the improvement in performance (Ghosh 2001, Carline et al. 2002, Rahman and Limmack 2004). *ΔACFR* is defined as *ACFRpost* minus *ACFRpre*. We examine both performance metrics (*ACFRpost* and *ΔACFR*).

Performance Benchmark

Following Barber and Lyon (1996), most researchers adopt industry, size, and pre-performance based matching. For example, Loughran and Ritter (1997) choose their matched firms by using the following criteria: 1) 2-digit SIC, assets within 25%-200%, closest EBITDA/assets and 2) if there is no match, assets within 90%-110%, closest but higher EBITDA/assets. In Ghosh (2001), firms are matched by the same 2-digit SIC code, total assets between 25% and 200%, and closest ratio of operating cash flow to market value of assets (sales). Powell and Stark (2005) select their matched firms with an initial size filter of between 25% and 200% within the bidders and targets industries. To make our results comparable with previous studies, our matching procedure is consistent with the recommendations of Barber and Lyon (1996) and similar to the approaches employed by Ghosh (2001) and Loughran and Ritter (1997). We construct our benchmarks with the following initial criteria:

1. Same 2-digit primary SIC code.

2. Similar size, measured as book value of assets within 70% and 130% one year before takeover.

3. Similar pre-performance, measured as return on asset (ROA) within 90% and 110% one year before takeover.

4. Same nation code as the bidder and the target.

From the list of potential matched firms, we select the firm with closest but highest ROA. If there is no match, the pre-performance restriction is extended by choosing a matching firm with ROA between 50% and 150%. If still no firm meets the criteria, the same country rule is replaced by a same legal origin country rule and the pre-performance limit is reset to 90%-110%. If the first run criteria are too strict to give a matching firm, we do a second run with larger bands. That is, same 2-digit primary SIC code, book value of assets within 25% and 200%, ROA between 90% and 110%, and the same country. After the second run, we obtain 92% matching for acquiring firms and 94% for target firms. For the few cases without a match at this point, we select the firm with the closest ROA within size band and industry.

Finally, statistical analysis shows that our original operating cash flow data of both merged and matched firms have heavy tailed distributions. We use Huber's M-estimator[5]

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[5] Numerous papers have examined the outlier problem (Hoaglin et al. 1986, Rousseeuw and Leroy 1987, Singh 1998). Two common approaches have been adopted. One is 'trimmed means'. The trimmed means is based on a given breakdown point. Higher breakdown point gives data more chances to avoid masking problem. But if the amount of trimming is too high (such as median with 50% breakdown point), power will be low when sampling from a light tailed distribution (Wilcox 2003). Rules of thumb for identifying extreme values are roughly 20% (i.e., 20% trimming each side) (Hoaglin et al. 1986, Wilcox 2001). However, since the proportion of observations is pre-determined and the trimming is applied in both tails, the method of trimmed means is criticized when sampling from a heavy one-tail skewed distribution. The other alternative, M-estimators, has been highly recommended to improve this deficiency. For the M-estimators, the idea of flexibility of trimming ratio is introduced by the equation (1) where any observed value X is declared an outlier based on the sample median, M and the median absolute deviation, MAD.

$$\frac{|X-M|}{MAD/0.6745} > K \tag{1}$$

M estimators are appealing due to the features of higher breakdown point than mean and more accurate variance than median from a normal distribution or trimmed means from a heavy tailed probability curve (Wilcox 2001). K determines the degree of trimming. Arguments for choosing K have been made in several quantitative papers (Staudte and Sheather 1990, Singh 1998, Wilcox 2003). A well-known M-estimator called one-step M-estimator has been broadly applied by using K=1.28 (Huber 1964). Wilcox (2001) develops an experiment to compare 20% trimmed means and Huber's one-step M-estimator. His conclusions suggest that there is little separating the two, especially when the samples are not too small (more than 20). The trimmed means might be better for small sample sizes and individual test but M-estimators play a more dominant role when dealing with regression.

with k=1.28 to estimate the measure of location and detect the outliers and then winsorize the data.[6]

3.2.2 Independent Variables

Independent variables are grouped into five categories: ownership variables; governance and legal variables as discussed above; typical deal variables found in event studies (see André et al. 2004 and Ben Amar and André 2006 for further discussions); and country control variables. All variables are defined in table 2. We discuss ownership variables below. Our coding approach is similar to Faccio and Lang (2002).

Ownership variables include five dummy variables reflecting different thresholds of voting shares held by the largest shareholder. We also have a continuous variable for the actual percentage of voting shares held. The information is obtained from the description of substantial/principal shareholders in each company's proxy circular or annual report the year prior to the deal.

Concentrated Ownership at 10% Threshold (*CONCEN10*)

This dummy variable is for companies having a large shareholder holding more than 10% of the voting shares. The 10% level has been broadly used as a cut point to test the difference between dispersed and concentrated ownership structures because it provides a significant stake and most countries mandate disclosure at this level or lower (La Porta et al. 1998, Faccio et al. 2001).[7]

Concentrated Ownership at 20% Threshold (*CONCEN20*)

Some researchers argue that 20% might be a better cut-off point to define ownership concentration (Demsetz and Lehn 1985, La Porta et al. 1999, Claessens et al. 2000, Faccio et al. 2001).[8] Therefore, we set another dummy variable for when companies have a large shareholder with more than 20% of voting shares.

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[6] The average level of winsorizing for right tails is 16.35%, 10.89% for left tails

[7] Australia, New Zealand, Singapore, and Thailand require the disclosure of top 20 large and substantial shareholders. Canada requires the disclosure of information with respect to the large shareholders who beneficially own 10% or more of outstanding common shares whereas the UK and South African thresholds are 3% and 5%, respectively.

[8] Also, most Anglo-Saxon based accounting standards recognize the 20% threshold as a sign of significant influence over a firm.

Concentrated Ownership at 50% Threshold (*CONCEN50*)

When a large shareholder holds more than 50% of the voting shares, it not only dominates but typically it legally controls the firm (Becht and Roell 1999, Faccio and Lang 2002). Therefore, we also set a dummy variable at the 50% threshold to examine this specific ownership structure.

Concentrated Ownership between 10-20% & 20-50% (*CONCEN1020 & CONCEN2050*)

These two dummy variables are created to allow three ownership categories: between 10% and 20%, between 20% and 50%, and more than 50% (*CONCEN50*).

Percentage of Voting Shares (*LSH1P, LSH1PSQ, LSH1PCUBE*)

A continuous variable measures the actual percentage of voting shares held by the largest shareholder (from 10% or more). The variable is squared and cubed to capture the potential non-linear relationship between controlling ownership and acquiring performance. Authors having examined non-linear relationships include Morck et al. (1988), McConnell and Servaes (1990), and Anderson and Reeb (2003).

<< Insert Table 2>>

4. RESULTS

4.1 Operating Cash Flows Returns

Table 3 presents the operating cash flow returns (pre, post, and change) for the merging and matching firms and the adjusted operating cash flow return. The results in panel A report a median operating cash flow return for merged firms (MEG_i) in the three years before acquisition ranging from 11.32% to 12.20%. The median pre-acquisition operating cash flow return for matched firms (MAT_i) is from 12.6% to 13.79%. The median measure of industry, size, and pre-performance adjusted return (MEG_i -MAT_i) for year -3, -2, and -1 is -0.17%, -0.88%, and -1.42%, respectively (all statistically different from zero). The median adjusted return over three-year pre-acquisition years is -1.24% and statistically different from zero. Similar conclusions are drawn from the measure of mean operating performance.

In contrast, we see the mean and median measures of adjusted returns in each of the three post-acquisition years are insignificant except for the mean adjusted return in year +1

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(0.81%). The median adjusted return over post-acquisition years (*ACFRpost*) is 0.79% and the mean is 0.57%. Although these results are not distinguishable from zero, most of them are positive and concurrently decrease from t +1 to t +3. Furthermore, the mean and the median measure of the change of operating cash flow rate (*ΔACFR*) are 2.43% and 2.20%, respectively. Both are significantly different from zero at the 1% level.

Summarily, the results demonstrate that merged firms in our sample under-perform the benchmark firms before M&A. This finding contrasts with some prior studies (Healy et al. 1992, Ghosh 2001). We do find that operating performance of merged firms improves after M&A events. This result is consistent with that reported by Healy et al. (1992). Powell and Stark (2005) find modest improvements for UK deals. Although the post-adjusted return is not statistically distinguishable from zero, the measures of change in adjusted returns are significant when combining the significantly poor pre-performance and positive post-performance.

In panel B, we present the regression results of the three-year post-acquisition median adjusted returns (*ACFRpost*) on the three-year pre-acquisition median adjusted returns (*ACFRpre*). The intercept α (0.015) is positive and significant at the 1% level, which indicates that adjusted operating performance a significant improvement of 1.5% in the post-acquisition period after controlling for the effects of pre-performance. The slope coefficient (0.475) is also positive and different from zero. The slope coefficient captures the persistence over time. Healy et al. (1992 and 1997) and Ghosh (2001) find similar results.

In Panel C and D, we test the sensitivity of results to various windows (year -1 compared to year +1, +2, and +3) similar to Denis and Denis (1995). Results are qualitatively similar to the change in pre and post three-year median adjusted performance. Further analysis is based on these measures.[9]

<< Insert Table 3>>

4.2 Descriptive Statistics

In table 4, we display summary statistics of all variables for the full sample and a breakdown for the three major countries (Australia, Canada, and the UK). Comparing

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[9] We also ran the regressions in table 6 using these alternative measures, not reported, and results where again quatitatively similar.

adjusted operating cash flows returns across countries, we see that Canadian firms have the best pre-performance and post-performance median measures (i.e., performance was not statistically different from matching firms) whereas our sample of firms from other English-origin countries experience poor pre-merger abnormal performance which improves in the post-merger period leading them to experience greater improvements in $\Delta ACFR$ (all statistically significantly different from zero).

For ownership variables, we see that concentrated ownership at the 10% threshold is dominant in all countries (72% in Australia, 64% in Canada, 51% in the UK, and 74% for 'others'). The median voting shares of the largest shareholder is 12% in the UK (below overall sample median of 21%), 26% in Australia, 47% in Canada, and 38% in other English-origin countries. While there are only 16 firms out 142 (11%) with a 20% or more large shareholder in the UK, this is the case in 40% of the Australian sample and in 53% of cases in Canada and 'others'. Canada has the largest number of controlling large shareholders (27% of firms have a shareholder with over 50% of voting shares) followed by the other English-origin countries (23%) but there is only one case in the UK and none in Australia. La Porta et al. (1999), using a 10% cut off and looking at medium-sized firms, find concentrated ownership in 90% of cases in Australia, 90% in the UK, 60% in Canada, and 82.5% on average for 'others'. At a 20% cut off, they find 70% concentration in Australia, 40% in the UK and Canada, and 57% for 'others'.

For governance variables, separation of voting and cash flow rights is present in 15% of the sample but mostly common in Australia and Canada but not in the UK or 'others'. CEOs are linked to the largest shareholder in 14% of cases but this is also most prevalent in Australia (20%) and Canada (29%). CEO is also COB in 26% of cases; Australia and the UK are below average whereas Canada and 'others' are above. There exists a second large shareholder in and around 20% of cases across all countries. Maury (2005), examining 1672 Western European non-financial firms, reports that 36% of the sample firms have multiple block holders. Median board size ranges between seven and ten members. Conyon and Peck (1998) show that UK board size is 8.56, on average.

Examining deal characteristics, we see that the quasi-totality of deals is with a target also from an English-origin country and that most deals are friendly. Cernat (2004) points out that

there are relatively few hostile deals in Europe. Between 16% and 19% of deals are entirely paid with stock, compared to 11.3% pure stock European deals in Faccio and Masulis (2005). Overall, 36% of deals are classified as being in the same industry (both target and acquirer having same 4-digit SIC code). Compared to the 13.29% level in Goergen and Renneboog (2004) for European takeovers, we have relatively fewer deals (7%) involving a second bidder and only 16% of deals are initiated by acquirers with a toehold. The median 1-day premium is 30.43% overall, highest in the UK (37.14%) and lowest in Canada (19.72%). The average size of acquirers is about 5.7, exp (1.74). times larger than that of targets and the average level of leverage is 16% (compared to 21.5% in Maury ,2005 for Western European firms).

Looking at the updated anti-director rights index of Djankov et al. (2006), five sample countries (59% of deals) including India, Malaysia, Singapore, South Africa, and the UK are classified as countries with top scores. As for their new anti-self-dealing index, the median score is 0.81 for all countries in our sample. We see that Canada and Australia have lower anti-director rights indexes and lower than median anti-self-dealing indexes (0.65 in Canada and 0.79 in Australia) whereas the UK has both a high anti-director rights index and a higher than median anti-self-dealing index (0.93).

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<< Insert Table 4>>

4.3 Univariate Analysis

Table 5, panel A, examines the relationship between performance and the ownership, governance, and deal variables on a univariate basis.[10] Looking at the ownership variables, we see that *LSH1P*, voting share % of the largest shareholder, is positively correlated with performance, but not significantly. Turning to *CONCEN10*, we find that the mean (median) post adjusted cash flow return, *ACFRpost*, for the 171 firms with a large shareholder (over 10%) is 0.49% (0.79%) whereas it is 0.68% (0.84%) for the 116 widely-held firms. The mean (median) change in *ACFR*, *ΔACFR*, is 2.36% (1.72%) for firms with a large shareholder and 2.53% (2.87%) for widely-held firms, both differences not being significant. We also analyze the performance for various sub-groups and find that the *CONCEN1020* group has the poorest

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[10] We further perform non-parametric Mann-Whitney test for all dummy variables. Results are consistent with t tests shown.

post-performance whereas the *CONCEN20* and *CONCEN2050* groups do better than other groups. Table 5, panel B, further investigates and confirms the above results and suggest a potential non-linear relationship between performance and ownership. These univariate results suggest that firms with lower levels of concentration make poorer M&A decisions.

Governance variables are weakly related to the change in adjusted cash flow returns (*ΔACFR*). Firms with controlling CEOs outperform their peers on post-adjusted performance (*ACFRpost*) at the 10% level of significance. This is consistent with Anderson and Reeb (2003) who suggest that family CEOs view themselves as the stewards of the firm. Further, board size has a significantly negative correlation with *ACFRpost*. Jensen (1993) argues that keeping boards small should improve firm performance. Yermack (1996) suggests that large boards are associated with problems such as communication and effective decision-making. Conyon and Peck (1998) also find empirical evidence of a negative relationship between board size and firm performance.

Among the deal variables, the *COMPETE* variable has a significantly negative relationship with *ΔACFR*. This evidence is consistent with Duggal and Millar (1999) that show multiple bidders benefiting targets but not bidders. The correlation between premium and both performance measures (*ACFRpost & ΔACFR*) is not significant. The correlation between the relative size and *ΔACFR* or *ACFRpost* is -0.109 and -0.217, both significant. Our results contrast with some studies which suggest that deal size is not related to post-merger returns (Frank and Harris 1989, Healy et al. 1992, Agrawal et al. 1992) but support the view that larger deviations in firm size leads to poorer acquisition performance (Loughran and Vijh 1997, Moeller et al. 2004). Our findings support the debt-monitoring hypothesis by documenting a significant relation between the leverage ratio, *LEV*, and post-adjusted performance at the 5% level.

For legal variables, the companies with high anti-director rights indexes *(NANTIDIR_high)* have a lower mean measure (0.49) but a higher median measure (0.95) of post-acquisition performance (*ACFRpost).* Companies with better investor protection have better mean and median measures (2.87 and 2.51) of the change in adjusted operating performance (*ΔACFR).* The correlation between the level of the anti-self-dealing index

(*ANTISDI_level*) and *ACFRpost* is negative (-0.08) while that with *ΔACFR* is positive (0.024). None of the relationships are significant.

<< Insert Table 5>>

4.4 Regression Results

Table 6 reports regression results for our two operating performance measures on ownership structure after controlling for governance mechanisms, transaction characteristics, and legal variables. Panel A presents results for the post performance measure, *ACFRpost*. We can see that all models are significant and that R^2 are between 31.5 and 34.1 percent. Panel B shows results for the change in performance, *ΔACFR*. Again, all models are significant and have R^2 between 11.9 and 15.7 percent. Looking at ownership, results further confirm the non-linear relationship between ownership of the largest shareholder and the two operating performance measures. The presence of a large shareholder (more than 10%) does not suggest over or under-performance in either measures (Models 1 in panel A and B). However, the presence of a large shareholder (more than 20%) improves the change in performance by 2.9% (panel B, model 2). When we separate firms with large shareholders between 10% and 20% ownership (*CONCEN1020*) and more (*CONCEN20*), we clearly see that the *CONCEN1020* group under-performs (-2.6% for *ACFRpost* and -3.0% for *ΔACFR,* both significant) whereas the *CONCEN20* group over-performs the widely-held group (but not significantly).

We further investigate the actual level of concentration with our continuous variable *LSH1P* (Models 5 to 7). Given the indications of a non-linear relationship, we introduce a quadratic and cubic relationship. Model 5, the linear model, suggests that post performance (change in performance) increases by 0.7% (1.4%) for a one percent change in concentration. However, the cubic model (Model 7) better fits the data and captures the relationship exposed in prior models and in the univariate tests. For the post-performance (Panel A, Model 7), we find a first inflection point at 15.13% where performance starts to increase with the level of concentration and a second inflection point at 61.62% where performance start to taper off. Further analysis shows that our curve remains below the level of widely-held firms (the

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intercept, 0.072) up to the 34.85% level of ownership, but is always greater than zero (*ACFRpost* at the first inflexion point is around 0.059). Also, performance remains above the level of widely-held firms up to the 80.3% level of ownership, dipping below zero at 97% (but the maximum level of ownership in our sample is 87%). We find similar results for the change in performance with inflection points at 15.5% and 63.85%.[11] Hence, similar to Ben Amar and André (2006) and others, firms with concentrated ownership structures make good M&A decisions, on average. However, at lower levels of concentration there is some evidence that these firms perform more poorly than widely-held firms or more concentrated ones. Anderson and Reeb (2003) show that US family firms outperform non family firms over the entire spectrum of ownership levels, peaking at around 30%.

When looking at governance variables, we confirm that the separation of cash flow rights and control rights is negatively related to performance similar to a number of studies (e.g., Claessens et al. 2000, La Porta et al. 2002, Faccio and Lang 2002, Cronqvist and Nilsson 2003, Bennedsen and Nielsen 2005). Perceived good governance or investor protection in these English-origin countries does not appear sufficient to mitigate the agency costs of separation. We also find that firms with smaller boards do better than those with larger boards, capturing the potential inefficiency of larger boards as suggested in the prior literature (e.g., Jensen 1993, Yermack 1996, and Conyon and Peck 1998). Other variables such as related CEO, duality or other block holders are not significant in explaining long-term M&A performance.

Among deal characteristics and consistent with our univariate results, the presence of multiple bidders and of larger relative acquirers has a significant negative impact on post-adjusted performance or the change in adjusted performance. Other variables such as hostility, payment method, relatedness, initial toehold, premium paid or leverage do not have a significant impact in explaining the change in performance.

For legal variables, we find that high anti-director rights based on the updated measures by Djankov et al. (2006) are positively associated with good M&A decisions for all model specifications. Investor protection, even in English-origin countries, has an impact on

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[11] For our change measure, the curve remains below the level of widely-held firms (the intercept, 0.036) up to the 35.2% level of ownership, but is also always greater than zero (change in ACFR at the first inflection point is around 0.022). Performance remains above the level of widely-held firms up to the 83.8% level of ownership, dipping below zero at 93.6% but again the maximum level of ownership in our sample is 87%.

performance. However, we do not find a link between long term acquisition performance and the new Djankov et al. (2006) anti-self-dealing index.

<< Insert Table 6>>

5.   CONCLUSION

This study investigates the relationship between concentrated ownership structure and long term operating performance of acquiring firms in English-origin countries other than the US, following the classification of La Porta et al. (1998). Our results confirm that after controlling for governance mechanisms, deal characteristics, and legal systems, a non-linear relationship exists between concentrated ownership and post-acquisition operating performance over three years after the transaction. The companies with large shareholders but with lower holding (between 10% and 20%) of voting shares significantly under perform their peers. Higher levels of ownership are associated with positive post-acquisition performance. Value creating deals are associated with higher level of concentration consistent with decreasing agency costs as large shareholder wealth invested in the acquiring firm increases. Further, separation of ownership and voting rights leads to greater value destruction.

We also find, although acquiring firms are all from English-origin countries, that investor protection has a varying influence on corporate performance. Our empirical results show that ownership structure, individual governance mechanisms and characteristics of the legal system are important determinants of performance in English-origin countries. Researchers need to exert some care when they lump all English-origin firms together as having high corporate governance and investor protection since firm and country differences remain important in explaining differences in performance.

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Table 1

Sample Description

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum[TM] Worldwide Mergers & Acquisitions Database.

Panel A   Number and Value of Transactions

Year	Number of Transaction	Average Value ($US million)	Median Value ($US million)	Total Value ($US million)
1997	11	373.9	198.0	4,112.8
1998	45	684.0	173.5	30,779.7
1999	74	1,909.2	211.4	141,283.1
2000	88	3,852.7	297.5	339,039.5
2001	69	713.1	205.5	49,201.2
Total	287	1,966.6	239.3	564,416.3

Panel B   Sample by Industry

By SIC code	1997	1998	1999	2000	2001	1997-2001
Agriculture and Natural Resources : 0000-1999	3	7	8	14	12	44
Manufacturing: 2000-3999	2	24	35	45	29	135
Transportation: 4000-4999	3	5	10	12	12	42
Consumer and 5000-5999	1	6	7	6	5	25
Services: 7000-8999	2	3	14	11	11	41
Total	11	45	74	88	69	287

Panel C   Sample by Acquirer Nation

	Number of Transaction	Number of Firms	Average Value ($US million)	Median Value ($US million)	Total Value ($US million)	Target Origin: English
Australia	25	20	917.5	177.6	22,937.2	25
Canada	77	57	895.6	300.1	68,962.1	71
India	6	6	155.1	155.1	930.6	6
Ireland-Rep	11	8	420.9	207.8	4,629.7	10
Israel	1	1	53.4	53.4	53.4	1
Malaysia	1	1	49.5	49.5	49.5	1
New Zealand	3	3	295.4	64.0	886.2	2
Singapore	6	6	1,601.8	229.5	9,610.6	6
South Africa	14	11	210.5	164.5	2,947.4	14
Thailand	1	1	124.1	124.1	124.1	1
United Kingdom	142	113	3,192.2	248.9	453,285.5	128
Total	287	227	1,966.6	239.3	564,416.3	265

Table 2

Variable Definitions

Variables		Definition
Independent Variables: Ownership Variables		
CONCEN10		One if a shareholder owns more than 10% of voting shares of the acquiring firm.
CONCEN20		One if a shareholder owns more than 20% of voting shares of the acquiring firm.
CONCEN50		One if a shareholder owns more than 50% of voting shares of the acquiring firm.
CONCEN1020		One if a shareholder owns 10% and 20% of voting shares in the acquiring firm.
CONCEN2050		One if a shareholder owns 20% and 50% of voting shares in the acquiring firm.
LSH1P		The percentage of voting shares held by the largest shareholder
LSH1PSQ		The square of the percentage of voting shares held by the largest shareholder
LSH1PCUBE		The cube of the percentage of voting shares held by the largest shareholder
Other Independent Variables		
Governance Variables	SEP	One if there exists separation of ownership and cash flow rights in the acquiring firm.
	CEOLSH	One if CEO is related to the largest shareholder.
	CEOdual	One if CEO and COB positions are held by the same individual
	OTHLSH	One if there is another shareholder with at least 10% of the voting shares of the acquiring firms.
	BSIZE	Numbers of directors on the board
Deal Variables	TGORI_English	One if the legal origin of target firm is English
	ATTI_Hostile	One if the management or board of target firm were initially opposed to the deal.
	PAY_Stock	One if the payment method of transaction was stock only.
	COMPETE	One if the acquiring firm had to compete with other possible acquirers.
	IND_rel	One if the acquiring and target firms had equivalent 4-digit primary SIC code.
	TOEHOLD	One if acquiring firm owns any target shares before transaction.
	PREM_1day	Premium of offer price to target trading price 1 day prior to the announcement date.
	SIZE_rel	Natural logarithm of the acquiring firm's market value of assets divided by target firm's market value of asset at the fiscal year end before the acquisition year.
	LEV	Natural logarithm of the acquiring firm's leverage (book value of debts divided by market value of assets) at the fiscal year end before the acquisition year.
Legal Variables	NANTIDIR_high	One if the acquiring firm is in a country with highest score (5) of updated anti-director rights index (Djankov et al. 2006)
	ANTISDI_level	Anti-self-dealing index (Djankov et al. 2006)
Country Variables	UK	One if acquiring firm nation is the United Kingdom.
	CAN	One if acquiring firm nation is Canada.
	AUS	One if acquiring firm nation is Australia.

Ownership and Governance variables are obtained from proxies or annual reports of each company. Proxies are obtained from Mergent database, Canadian SEDAR filing system, EDGAR SEC fillings, or company website. Deal variables are collected from Thomson Financial Securities Data's SDC Platinum[TM] Worldwide Mergers & Acquisitions Database. Legal variables are scores from of Djankov, La Porta, Lopez-de-Silanes and Shleifer (2006).

Table 3
Operating cash flows returns

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum[TM] Worldwide Mergers & Acquisitions Database. Operating cash flow return (OCFR) is calculated as operating cash flow divided by market value of asset. Operating cash flow is defined as operating income before depreciation. Post acquisition performance for each deal is measured by the operating cash flow return of the surviving acquirer after transaction. Pre acquisition performance is calculated as a weighted-average of the operating cash flow return for the bidder and the target included (MEGi pre and post). The weights are based on the market values of assets of both companies in the year before acquisition. Post and pre acquisition performances of the matched firms are measured as weighted-average of the operating cash flow rates (MATi pre Industry, Size, and Pre performance Adjusted Operating Cash Flow Rates (ACFR) is operating cash flow rates of merged firms minus those of matched firms. The change in industry, size, and pre performance adjusted cash flow rate ($\triangle$ACFR) is defined as 3-year median ACFRpost minus 3 year-median ACFRpre. Outliers have been winsorized using Huber's M estimator approach. *** denotes significance at the 1% level, ** significance at the 5% level, * significance at the 10% level.

Panel A   Operating Cash Flow Return

Year Relative to Acquisition	N	Merged Firms (MEG$_i$)		Matched Firms (MAT$_i$)		Industry, Size, and Pre-performance Adjusted (MEG$_i$-MAT$_i$)		
		Mean %	Median %	Mean %	Median %	Mean %	Median %	Positive %
-3	287	11.51	11.45	12.13	12.60	**-1.15 **	**-0.17 *	48.43
-2	287	11.79	12.20	13.37	13.79	**-1.59 ***	**-0.88 ***	46.34
-1	287	11.22	11.32	12.87	13.47	**-2.15 ***	**-1.42 ***	38.68
1	287	11.11	11.42	10.12	10.61	0.81 *	0.38	55.40
2	287	11.77	11.88	10.99	11.34	0.54	0.61	53.31
3	287	12.47	11.68	11.81	12.39	0.29	-0.09	49.83
ACFRpre: Median for years (-3 to -1)						**-1.86 ***	**-1.24 ***	42.86
ACFRpost: Median for years (+1 to +3)						0.57	0.79	54.01
$\triangle$ACFR: change in operating cash flow rate (ACFRpost -ACFR|						**2.43 ***	**2.20 ***	63.07

Panel B   Regression of ACFR$_{post}$ on ACFR$_{pre}$

ACFR$_{post}$ = **0.015*** + 0.475***ACFR$_{pre}$**
F=**74.792***
adj. R^2=0.205

Panel C   Robustness Test on Change in Operating Cash Flow Return:

Year	Adjusted (MEG$_i$ - MAT$_i$)	
	Mean %	Median %
$\triangle$ACFR$_{(+1)}$: (ACFR$_1$ - ACFR$_{-1}$)	**2.96 ***	**2.13 ***
$\triangle$ACFR$_{(+2)}$: (ACFR$_2$ - ACFR$_{-1}$)	**2.69 ***	**2.45 ***
$\triangle$ACFR$_{(+3)}$: (ACFR$_3$ - ACFR$_{-1}$)	**2.44 ***	**2.22 ***

Panel D   Robust test on Regression of ACFR$_{t=1,2,3}$ on ACFR$_{t-1}$

Regression	F	adj. R^2
ACFR$_{t+1}$= **0.018*** + 0.481***ACFR$_{t-1}$**	**70.291***	0.195
ACFR$_{t+2}$ = **0.017*** + 0.526***ACFR$_{t-1}$**	**74.371***	0.204
ACFR$_{t+3}$= **0.013*** + 0.451***ACFR$_{t-1}$**	**47.617***	0.140

Table 4

Descriptive Statistics (By country)

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum[TM] Worldwide Mergers & Acquisitions Database. ACFRpre and ACFRpost is the pre and post industry, size, and pre performance adjusted cash flow return. ΔACFR is for the change in industry, size, and pre performance adjusted cash flow return. Outliers have been winsorized using Huber's M estimator approach. *, **, *** indicate whether ACFR measures are statistically different from zero at 10%, %5 and 1% significance levels, respectively. See table 2 for variable definitions.

		Australia n=25				Canada n=77				United Kingdom n=142				Others n=43				All n=287			
Performance Variables																					
ACFRpre	mean	-2.24*				-0.40				-2.16***				-3.29**				-1.86***			
	median	-2.68				0.19				-1.57***				-2.04**				-1.24***			
ACFRpost	mean	0.55				1.25				-0.03				1.34				0.57			
	median	1.24				1.32				0.55				0.29				0.79			
△ACFR	mean	2.79**				1.64*				2.13***				4.63***				2.43***			
	median	3.05*				1.83**				2.00***				3.83***				2.20***			
Ownership Variables																					
CONCEN10	# (1,0)	18	72%	7	28%	49	64%	28	36%	72	51%	70	49%	32	74%	11	26%	171	60%	116	40%
CONCEN20	# (1,0)	10	40%	15	60%	41	53%	36	47%	16	11%	126	89%	23	53%	20	47%	90	31%	197	69%
CONCEN50	# (1,0)	0	0%	25	100%	21	27%	56	73%	1	1%	141	99%	10	23%	33	77%	32	11%	255	89%
CONCEN1020	# (1,0)	8	32%	17	68%	8	10%	69	90%	56	39%	86	61%	9	21%	34	79%	81	28%	206	72%
CONCEN2050	# (1,0)	10	40%	15	60%	20	26%	57	74%	15	11%	127	89%	13	30%	30	70%	58	20%	229	80%
LSH1P (%)	#	18	72%			49	64%			72	51%			32	74%			171	60%		
	mean	0.28				0.47				0.16				0.37				0.30			
	median	0.26				0.47				0.12				0.38				0.21			
Governance Variables																					
SEP	# (1,0)	16	64%	9	36%	24	31%	53	69%	3	2%	139	98%	1	2%	42	98%	44	15%	243	85%
CEOLSH	# (1,0)	5	20%	20	80%	22	29%	55	71%	8	6%	134	94%	5	12%	38	88%	40	14%	247	86%
CEOdual	# (1,0)	3	12%	22	88%	27	35%	50	65%	31	22%	111	78%	13	30%	30	70%	74	26%	213	74%
OTHLSH	# (1,0)	5	20%	20	80%	16	21%	61	79%	24	17%	118	83%	9	21%	34	79%	54	19%	233	81%
BSIZE	mean	8.56				10.27				9.13				10.63				9.61			
	median	7.00				10.00				9.00				10.00				9.00			
Transaction Variables																					
TGORI_English	# (1,0)	25	100%	0	0%	71	92%	6	8%	128	90%	14	10%	41	95%	2	5%	265	92%	22	8%
ATTI_Hostile	# (1,0)	3	12%	22	88%	1	1%	76	99%	4	3%	138	97%	2	5%	41	95%	10	3%	277	97%
PAY_Stock	# (1,0)	4	16%	21	84%	14	18%	63	82%	22	15%	120	85%	8	19%	35	81%	48	17%	239	83%
COMPETE	# (1,0)	3	12%	22	88%	6	8%	71	92%	9	6%	133	94%	1	2%	42	98%	19	7%	268	93%
IND_rel	# (1,0)	8	32%	17	68%	33	43%	44	57%	51	36%	91	64%	10	23%	33	77%	102	36%	185	64%
TOEHOLD	# (1,0)	6	24%	19	76%	10	13%	67	87%	23	16%	119	84%	8	19%	35	81%	47	16%	240	84%
Prem_1day	mean	22.91				31.19				37.05				23.83				32.66			
	median	21.55				19.72				37.14				23.24				30.43			
LN(SIZE_rel)	mean (LN, non-LN)	1.49	4.43			1.95	7.02			1.68	5.38			1.71	5.52			1.74	5.70		
	median (LN, non-LN)	0.97	2.64			1.75	5.75			1.48	4.37			1.92	6.82			1.66	5.23		
LN(LEV)	mean (LN, non-LN)	-1.59	0.20			-1.56	0.21			-1.94	0.14			-1.93	0.14			-1.81	0.16		
	median (LN, non-LN)	-1.48	0.23			-1.28	0.28			-1.78	0.17			-2.07	0.13			-1.66	0.19		
Legal Variables																					
NANTIDIR_high	# (1,0)	0	0%	25	100%	0	0%	77	100%	142	100%	0	0%	27	63%	16	37%	169	59%	118	41%
ANTISDI_level	mean	0.79				0.65				0.93				0.83				0.82			
	median	-				-				-				0.83				0.81			

Table 5

Table 5

Univariate Statistics

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum™ Worldwide Mergers & Acquisitions Database. ACFRpre and ACFRpost is the pre and post industry, size, and pre performance adjusted cash flow return. ΔACFR is for the change in industry, size, and pre performance adjusted cash flow return. Outliers have been winsorized using Huber's M estimator approach. T tests of differences are presented for dummy variables and Pearson correlations for continuous variables *** denotes significant at the 1% level, ** significant at the 5% level, * significant at the 10% level. See table 2 for variable definitions.

Panel A   All variables

Full Sample (N=287)		Count		ACFRpost				△ACFR			
				Mean %	Median %	SD %	T test/ Pearson	Mean %	Median %	SD %	T test/ Pearson
Ownership Variables											
CONCEN10	Y	171	60%	0.49	0.79	7.77	-0.212	2.36	1.72	7.51	-0.188
	N	116	40%	0.68	0.84	6.97		2.53	2.87	7.80	
CONCEN1020	Y	81	28%	-0.20	0.53	7.24	-1.099	0.81	-0.36	7.33	**-2.273 **
	N	206	72%	0.87	1.08	7.52		3.07	2.80	7.65	
CONCEN20	Y	90	31%	1.12	1.67	8.21	0.840	3.76	2.77	7.45	**2.019 **
	N	197	69%	0.32	0.56	7.08		1.83	1.88	7.64	
CONCEN2050	Y	58	20%	0.80	-0.60	8.18	0.260	4.06	2.75	7.80	**1.827 ***
	N	229	80%	0.51	1.16	7.27		2.02	2.07	7.53	
CONCEN50	Y	32	11%	1.70	3.35	8.38	0.907	3.21	2.77	6.85	0.612
	N	255	89%	0.43	0.53	7.33		2.33	2.06	7.72	
LSH1P (%)	-	171	60%	-	-	-	0.055	-	-	-	0.110
Governance Variables											
SEP	Y	44	15%	-0.70	-1.12	8.50	-1.104	1.09	1.80	6.34	-1.276
	N	243	85%	0.80	1.11	7.24		2.68	2.36	7.81	
CEOLSH	Y	40	14%	2.69	3.24	7.72	**1.950 ***	1.74	2.41	6.50	-0.619
	N	247	86%	0.23	0.34	7.36		2.54	2.09	7.79	
CEOdual	Y	74	26%	0.89	1.67	7.64	0.430	1.53	1.76	8.18	-1.187
	N	213	74%	0.46	0.68	7.40		2.75	2.36	7.41	
OTHLSH	Y	54	19%	1.08	0.85	8.55	0.499	3.74	2.39	8.34	1.401
	N	233	81%	0.45	0.79	7.18		2.13	2.07	7.43	
BSIZE (#)	-	287	100%	-	-	-	**-0.154 ****	-	-	-	-0.097
Transaction Variables											
TGORI_English	Y	265	92%	0.60	0.79	7.61	0.287	2.44	2.20	7.67	0.034
	N	22	8%	0.24	0.65	5.31		2.38	2.45	7.15	
ATTI_Hostile	Y	10	3%	2.64	2.77	7.93	0.895	4.91	4.78	7.34	1.046
	N	277	97%	0.50	0.68	7.43		2.34	2.09	7.63	
PAY_Stock	Y	48	17%	-1.01	0.02	6.81	-1.613	2.58	1.18	8.59	0.146
	N	239	83%	0.89	1.16	7.54		2.40	2.51	7.43	
COMPETE	Y	19	7%	-1.51	-1.83	7.36	-1.261	-2.31	-0.97	7.36	**-2.839 *****
	N	268	93%	0.72	1.00	7.45		2.77	2.55	7.54	
IND_rel	Y	102	36%	0.18	0.11	7.55	-0.66	2.66	1.85	8.02	0.375
	N	185	64%	0.79	1.23	7.40		2.31	2.62	7.41	
TOEHOLD	Y	47	16%	0.76	1.11	6.64	0.192	3.07	3.12	5.43	0.626
	N	240	84%	0.53	0.76	7.61		2.31	1.91	7.98	
PREM_1day (%)	-	287	100%	-	-	-	-0.028	-	-	-	0.033
SIZE_rel (#)	-	287	100%	-	-	-	**-0.217 ****	-	-	-	**-0.109 ***
LEV (#)	-	287	100%	-	-	-	**0.137 ***	-	-	-	-0.045
Legal Variable											
NANTIDIR_high	Y	169	59%	0.49	0.95	7.08	-0.209	2.87	2.51	8.03	1.158
	N	118	41%	0.68	0.61	7.98		1.81	1.85	6.98	
ANTISDI_level (#)	-	287	100%	-	-	-	-0.080	-	-	-	0.024

Table 5 (cont'd)

Univariate Statistics

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum^{TM} Worldwide Mergers & Acquisitions Database. ACFRpre and ACFRpost is the pre and post industry, size, and pre performance adjusted cash flow return. ΔACFR is for the change in industry, size, and pre performance adjusted cash flow rate. Outliers have been winsorized using Huber's M estimator approach. T tests of differences are presented. *** denotes significant at the 1% level, ** significant at the 5% level, * significant at the 10% level. See table 2 for variable definitions.

Panel B   Further look at ownership

Full Sample (N=287)	ACFRpost (% positive)			△ACFR (% positive)		
Widely held (N=116)	0.68 (52.6%)	0.68 (52.6%)	0.68 (52.6%)	2.53 (66.4%)	2.53 (66.4%)	2.53 (66.4%)
CONCEN1020 (N=81)	0.49 (55.0%)	-0.20 (54.3%)	-0.20 (54.3%)	2.36 (60.8%)	0.81 (49.4%)	0.81 (49.4%)
CONCEN2050 (N=58)		1.12 (55.6%)	0.80 (48.3%)		3.76 (71.1%)	4.06 (72.4%)
CONCEN50 (N=32)			1.70 (68.8%)			3.21 (68.8%)
Test of difference	-0.212	0.688	0.557	-0.188	**3.248****	**2.246***

Table 6

Ownership Structure and Acquiring Firm Performance

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US\$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum^{TM} Worldwide Mergers & Acquisitions Database. ACFRpre and ACFRpost is the pre and post industry, size, and pre performance adjusted cash flow return. ΔACFR is for the change in industry, size, and pre performance adjusted cash flow return. Outliers have been winsorized using Huber's M estimator approach. Clustered robust standard errors. Two tail tests *** denotes significant at the 1% level, ** significant at the 5% level, * significant at the 10% level. See table 2 for variable definitions.

(N=287)	Panel A ACFRpost						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Variables	B sig	B sig	B sig	B sig	B sig	B sig	B sig
Intercept	0.059	0.086	0.096	0.098	0.065	0.064	0.072
CONCEN10	-0.014						
CONCEN1020			**-0.026** ***	**-0.026** ***			
CONCEN20		0.208	0.009				
CONCEN2050				0.012			
CONCEN50				0.005			
LSH1P					0.007	-0.020	**-0.183** *
LSH1PSQ						0.038	**0.753** *
LSH1PCUBE							**-0.654** *
SEP	**-0.288** **	**-0.036** **	**-0.035** ***	**-0.034** **	**-0.032** **	**-0.324** **	**-0.035** **
CEOLSH	0.228	0.011	0.015	0.014	0.017	0.019	0.014
CEOdual	-0.113	-0.009	-0.009	-0.009	-0.011	-0.011	-0.009
OTHLSH	0.094	-0.002	0.003	0.002	0.004	0.005	0.005
BSIZE	**-0.024** **	**-0.003** **	**-0.004** ***	**-0.004** ***	**-0.002** *	**-0.002** *	**-0.003** **
TGORI_English	-0.049	-0.009	-0.009	-0.009	-0.006	-0.006	-0.004
ATTI_Hostile	0.027	0.026	0.024	0.023	0.028	0.028	0.026
PAY_stock	-0.134	-0.150	-0.015	-0.015	-0.014	-0.013	-0.014
COMPETE	**-0.037** **	**-0.034** **	**-0.037** **	**-0.037** **	**-0.035** **	**-0.036** **	**-0.036** **
IND_rel	-0.001	0.001	-0.001	0.000	0.000	0.000	0.000
TOEHOLD	0.009	0.008	0.008	0.008	0.009	0.009	0.008
PREM_1day	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SIZE_rel	**-0.007** ***	**-0.007** ***	**-0.007** ***	**-0.007** ***	**-0.007** ***	**-0.007** ***	**-0.007** ***
LEV	-0.002	-0.001	-0.001	-0.001	-0.002	-0.002	-0.002
NANTIDIR_high	**0.064** ***	**0.049** **	**0.050** **	**0.052** **	**0.057** ***	**0.058** ***	**0.048** **
ANTISDI_level	-0.032	-0.061	-0.052	-0.054	-0.046	-0.043	-0.041
UK	**-0.045** **	-0.264	-0.028	-0.030	**-0.037** *	**-0.038** *	-0.028
CAN	0.029	0.019	0.018	0.018	0.025	0.025	0.022
AUS	**0.035** *	0.031	0.032	0.031	**0.033** *	**0.034** *	**0.033** *
ACFRpre	**0.459** ***	**0.466** ***	**0.472** ***	**0.473** ***	**0.459** ***	**0.460** ***	**0.460** ***
R²	32.1	32.3	34.0	34.1	31.5	31.6	32.6
F	**5.75***	**5.67***	**5.94***	**5.77***	**5.56***	**5.43***	**4.92***

Table 6

Ownership Structure and Acquiring Firm Performance

Sample of 287 mergers and acquisitions by 227 acquiring firms in 11 English Origin countries (Australia, Canada, India, Ireland, Israel, Malaysia, New Zealand, Singapore, South Africa, Thailand and United Kingdom) between 1997 and 2001 for completed transactions over US$ 10 million obtained from the Thomson Financial Securities Data's SDC Platinum[TM] Worldwide Mergers & Acquisitions Database. ACFRpre and ACFRpost is the pre and post industry, size, and pre performance adjusted cash flow return. ΔACFR is for the change in industry, size, and pre performance adjusted cash flow return. Outliers have been winsorized using Huber's M estimator approach. Clustered robust standard errors. Two tail tests *** denotes significant at the 1% level, ** significant at the 5% level, * significant at the 10% level. See table 2 for variable definitions.

(N=287)	Panel B $\triangle$ ACFR						
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Variables	B sig	B sig	B sig	B sig	B sig	B sig	B sig
Intercept	0.020	0.057	0.069	0.073	0.029	0.028	0.036
CONCEN10	-0.015						
CONCEN1020			-0.030 ***	-0.030 ***			
CONCEN20		0.029 *	0.015				
CONCEN2050				0.020			
CONCEN50				0.006			
LSH1P					0.014	-0.030	-0.196
LSH1PSQ						0.064	**0.791** *
LSH1PCUBE							**-0.665** *
SEP	-0.020	**-0.029** **	**-0.028** **	-0.026 *	-0.025 *	-0.026 *	**-0.028** **
CEOLSH	0.007	-0.008	-0.003	-0.004	0.000	0.003	-0.002
CEOdual	-0.017	-0.014	-0.014	-0.014	-0.017	-0.017	-0.015
OTHLSH	0.019	0.005	0.010	0.009	0.012	0.015	0.015
BSIZE	-0.002	**-0.003** **	**-0.004** **	**-0.004** **	-0.002	-0.002	**-0.003** *
TGORI_English	-0.003	-0.009	-0.009	-0.010	-0.005	-0.005	-0.004
ATTI_Hostile	0.029	0.027	0.024	0.023	0.029	0.029	0.027
PAY_stock	-0.006	-0.008	-0.008	-0.008	-0.006	-0.005	-0.005
COMPETE	**-0.051** ***	**-0.047** ***	**-0.051** ***	**-0.051** ***	**-0.049** ***	**-0.050** ***	**-0.050** ***
IND_rel	0.006	0.009	0.006	0.007	0.008	0.007	0.007
TOEHOLD	**0.016** *	0.015	0.015	0.015	0.016	0.016	0.015
PREM_1day	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SIZE_rel	**-0.005** *	**-0.005** *	**-0.006** **	**-0.006** **	**-0.005** *	**-0.005** *	**-0.005** **
LEV	-0.007	-0.005	-0.005	-0.005	-0.006	-0.006	-0.006
NANTIDIR_high	**0.069** ***	**0.049** **	**0.051** **	**0.054** **	**0.060** **	**0.061** **	**0.050** **
ANTISDI_level	0.008	-0.029	-0.019	-0.023	-0.008	-0.005	-0.002
UK	**-0.059** **	-0.035	-0.037	-0.040	**-0.049** *	**-0.051** *	-0.040
CAN	0.024	0.011	0.009	0.011	0.018	0.018	0.015
AUS	0.031	0.026	0.027	0.026	0.029	0.031	0.030
R²	12.5	13.3	15.5	15.7	11.9	12.1	13.1
F	**2.03***	**1.92**	**2.42***	**2.33***	**1.80**	**1.86**	**1.78**