Cross-border Acquisitions, Corporate Governance and Bidders' Gains

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Abstract

We analyse the gains of firms engaged in domestic target acquisitions and cross-border acquisitions (CBAs) and examine the implications of differences in legal and corporate governance traditions of targets' nation on bidders' announcement period gains and long-term performance. The results suggest that once the implications of various determinants of acquirers' gains are controlled for, CBAs generate higher gains than domestic deals to acquirers. Investors react more favourably to the announcement of acquisitions of targets operating in countries with the civil law traditions than to acquisitions of targets based in countries that have common law systems. In contrast, in the long-run bidders of targets based in the countries with common law systems outperform the bidders that acquire targets based in countries that are following the civil law systems.

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I.   Introduction

Recent years have witnessed increased foreign direct investments, especially in the form of cross-border mergers and acquisitions (hereafter CBAs).[1] This development has accelerated a debate on whether bidders engaged in CBAs gain more than acquirers contained with domestic acquisitions. The balance of evidence from available studies favours CBAs against domestic acquisitions. However, there has been very limited research on possible reasons behind the differences, if any, in the gains from CBAs and domestic acquisitions in general and variations in the gains from acquiring targets operating in different foreign countries in particular. Some earlier studies that attempt in explaining the differences in the gains of bidders engaged in CBAs provide inconclusive evidence. For instance, Moeller and Schlingermann (2005) attribute the higher gains to business diversification while Gregory and McCorriston (2005) suggest that the gains from CBAs are dependent on target's geographical region. Doukas and Travlos (1988) show that acquiring targets in new markets (countries) enhances shareholders' wealth. However, the reasons behind the observed variations in bidders' gains by target's nation remain unexplored.

The literature on corporate governance offers extensive evidence on the importance of governance procedures and legal environment of the country on firm value. However, no prior study, to our knowledge, has examined the possible implications of varied legal and governance systems on the gains to bidders when they engage in cross-border acquisitions. Therefore, the central aim of this paper is to fill this void by examining the

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[1] Since mid-1980s, CBAs have become the most common method of entering into foreign markets. In real terms, CBAs accounts for over 80% of the entire foreign direct investments flows by industrialized countries (UNCTAD, 2000). UNCTAD (2004, World Investment Report) shows that total value of CBAs exceeded one trillion US$ in year 2000. The UK has become the largest acquiring country accounting for 31% of the total value of all CBAs (UNCTAD, 2000). Both the number and the value of domestic and CBAs by UK companies have increased dramatically in the late 1980s and the late 1990s; in value terms CBAs outperformed domestic acquisitions around 2000.

possible implications of the corporate governance and legal provisions on the gains to UK bidders engaged in CBAs.

In a series of studies La Porta, Lopez-de-Silanes, Schleifer, and Vishny (here after LLSV) (1997, 1998, 2000, and 2002) and La Porta, Lopez-de-Silanes and Schleifer (1999) show that country's corporate laws and investors' rights depend on the nation's legal origin and the quality of law enforcements. They show that investors receive stronger protection in common law countries than under civil law systems, Countries belonging to the Scandinavian civil law systems have the strongest law enforcement mechanisms followed by countries belonging to the German civil law and the common law systems respectively. On the other hand, countries following the French civil law systems are reported to have the weakest investor protection measured by both legal provisions and the quality of their enforcements. Studies (see, for example, Wurgler, 2000) show that the differences in investor protection against expropriation by insiders can affect the nature and effectiveness of capital markets and hence the value of the firm.

Studies further reveal that legal environment and corporate governance affect the severity of agency costs (LLSV, 2000); the type of ownership structure (La Porta et al., 1999); relevance of reported earnings to firm's performance (Ball et al., 2000); and the association between investor protection and takeover premiums (Rossi and Volpin, 2004). The legal origin of a particular country and the way in which her laws are enforced may play important roles with regard to firms' financial decisions and access to capital markets. As shown by LLSV (1997) countries with low investor protection are characterized with narrower and smaller capital markets. Investors' willingness to pay premium price for risky assets (i.e. to accept lower expected return) depends on the level of protection they receive. This premium stems from the fact that investors recognize the decreased probability of the expropriation of cash flows originally directed to shareholders by insiders, as enforced by the better legal/investor protection provisions. Therefore, it is possible that a CBAs announcement with targets operating in a country

with superior investor protection should generate a favourable stock market reaction. In spite of such importance of corporate governance traditions and legal provisions, their possible implications on acquirers' gains remain unexamined. In the pretext of the extensively reported importance of corporate governance systems on firm value and theoretical reasons articulated in next section, the paper investigates the possible implications of differences in legal environment on the gains to acquirers under which bidders and targets operate.

The paper contributes to M&A literature by assessing the implications of corporate governance traditions on the gains to UK acquirers. In the process, the paper addresses several issues pertinent to domestic and cross-border acquisitions. They are: (a) do shareholders benefit more from CBAs than from domestic acquisitions? (b) Do the gains from CBAs depend on targets' domiciles and vary with the legal tradition of the country? (c) What are the key determinants of announcement period and long-term share price performance of acquiring firms? We also control for acquirer specific features (such as value vs. growth bidders), target status (listed, unlisted and subsidiary), deal features (such as methods of payment, focused vs. diversifying deals, relative size of the deals).

The remainder of this paper is organized as follows. Section II explains how the legal and corporate governance traditions of target's country may affect the gains of acquirers based in the UK. Testable hypotheses are also developed in this section. In section III we describe the data and methods used. Section IV discusses empirical evidence and section V concludes the paper.

II.   Hypotheses Development

The central theme of the paper rests on the fact that firms that acquire foreign targets are embarking into a different financial, legal and corporate governance environment that may have implications on their value. Extant literature on corporate governance

confirms that differences in governance practices and legal provisions affect firm value. To achieve these objectives we examine several propositions summarized below.

2.1 Domestic versus foreign acquisitions:

In spite of extensive research on takeovers, the issue of whether CBAs are superior to domestic acquisitions remains inconclusive. Acquiring of foreign targets should benefit the acquirers in many ways. First, it offers better access to product market in the forms of new sources of demand and enhanced possibilities of receiving favourable treatment from consumers and regulators in foreign markets. Second, it leads to relatively stable cash flows owing to reduced exposure to macro-economic risk through geographical diversification as the business cycles of various countries are unlikely to move together. Third, it offers opportunities of using local resources and technology that may help reduce the cost of production. Fourth, the increased access to foreign capital markets helps in lowering the cost of capital of the firm. Finally, multinational firms enjoy more investment opportunities than domestic firms while maintaining the opportunities available in home market. Such enhanced business opportunities suggest that (a) acquisition of a foreign target should increase the value of bidder and (b) the gains CBAs should be higher than the gains from domestic target acquisitions. These should be reflected in both announcement period and long-term performance of acquirers.

On the other hand, foreign target acquisition increases the risk of the acquirer for several reasons. First, acquisition of a foreign target exposes the firm to wider range of transactions and translations risks. These may result in higher volatility in cash flows, earnings and net assets. Second, it exposes the acquirer to political risks such as threat of nationalization by host government, changes in host government's attitude towards foreign investment and amendments in financial regulations such as custom duties, taxes etc. that may affect bidder's cash-flow adversely. Finally, due to differences in legal and cultural factors the agency cost of managing a foreign subsidiary is likely to be higher than running a domestic subsidiary. These factors are likely to push the cost of capital

which in turn reduces the value of the bidder. This suggests that, *ceteris paribus*, bidders of domestic targets, which are not exposed to these risks, should perform better than bidders engaged in CBAs. Therefore, whether CBAs are superior to domestic acquisitions is an empirical issue as it addressed in the paper.

2.2 Investors' protection and foreign acquisitions:

LLSV (1997) show that countries following the Anglo-Saxon legal systems (also known as common law systems) have the highest level of investors' protection while the countries with the French civil law systems offer the least.[2] La Porta et al. (1999) also report that investors are prepared to offer higher premium (i.e. accept low returns) in countries with stronger investor protection than in nations with weaker protection. LLSV (2002) intimate that value creation from foreign investments should be closely associated to the degree of shareholder's rights, creditor's rights, and the legal environment in which the participating firms operate. In addition, Rossi and Volpin (2004) report a very strong positive association between takeover premiums and investor protection.[3] Because of the higher premium the net gain to bidder is expected to be low or none. On the other hand, when targets are based in countries with weaker investor protection, bidders are expected to pay lower premium which, in turn, should generate positive gains to acquirers. It is possible that target owners operating in countries with lower investor protection are prepared to sell their firms at a discount generating positive gains to bidders. Bidders are also likely to face lower competition to acquire targets in low investor protection nations than in countries with higher investor protection. This leads to a testable proposition that 'firms bidding for targets in low investor protection countries (such as the French systems) gain more than the bidders opting for targets in

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[2] See Appendix A for a list of sample countries belonging to 5 groups of countries categorized on the basis of their legal traditions.
[3] This is possible for two reasons. First, higher shareholder's protection reduces the cost of capital and therefore increases the competition among potential acquirers. Consequently, winning bidder ends-up paying more. Second, diffused ownership is more common in countries with higher shareholder's protection. In turn, it exacerbates the free-rider problem in takeovers by forcing the bidder to pay a higher takeover premium than otherwise (Grossman and Hart, 1980).

high investor protection nations (such as the Anglo-Saxon systems)'. This effect should prevail in both announcement period as well as long-term performance of bidders.

2.3 Legal systems and integration of target:

Integrating an acquired target into the existing business environment of acquirer is one of the major challenges in corporate takeovers and hence has implications on value creation through mergers. The problem, among others, arises from the differences in corporate governance traditions of two merger partners and the legal environment under which they operate. The process of integration becomes more costly and complex in the cases of CBAs than in the cases of domestic acquisitions. The difficulty becomes more severe if target operates in a country that has different legal and governance traditions from that of acquirer. This leads to another testable proposition that 'UK bidders acquiring targets from countries with Anglo-Saxon traditions should benefit more than the firms that acquire targets from countries with other legal traditions. This difference should prevail in both announcements period and long-term performance.

2.4 Legal systems and managerial incentives:

LLSV (1997) and La Porta et al. (1999) argue that companies operating in countries under weak investor protection systems (such as the French systems) are typically characterized with higher equity ownership concentration while the firms in countries with stronger investor protection (such as the Anglo-Saxon system) have scattered ownership.[4] Consequently, acquisitions involving targets based in weaker investor protection countries are likely to generate higher gains. This could be due to more effective monitoring of the merged firm's activities as the managers or the owners (possibly a

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[4] The implications of ownership structure on firm value have been studied most extensively in a number of countries across the world. In the UK, the distribution of equity ownership has been much like in the US. Both markets have a large number of publicly traded firms that are relatively widely held. On the other hand, studies show that equity ownership in Japan (for instance, Prowse, 1992 and Kang and Shivdasani, 1995) and Germany (Gorton and Schmid, 2000, and Franks and Mayer, 2001) are more concentrated than in the US. The importance of roles of banks in the governance of firms operating in Japan and Germany is also well documented in the literature. These distinctions led researchers to analysis of various aspects of corporate finance and governance in market-centered economies (the UK and the US) and bank-centered economies (Germany and Japan).

family or a small group of people) of target firms will hold a large amount of bidding firms' shares. It likely that owners and managers of targets that operate in countries with weak investor protection become more enthusiastic to be a part of a large company that is operating in a country with stronger investor protections. This may motivate the owners of target companies to accept relatively lower value for their firm. This leads to our next testable proposition that 'share deals involving targets in countries with weaker investor protection (such as those based in the French systems) should outperform the acquisitions of targets based in other countries'. The difference in their performance should sustain in both announcement period and long-term.

III. Data and the Methodology

3.1 The Sample:

The sample comprises of takeover bids announced by UK firms between 01/01/1986 and 31/12/2005 and recorded in Security Data Corporation (SDC). The choice of sample period is guided by the comprehensiveness of records in SDC and available at the time of data collection. SDC records 51,714 cases of M&A deals involving UK bidders within the sample period. For a deal to remain in the sample it should meet the following criteria:

- The acquirer is a UK company listed in the London Stock Exchange (LSE).
- The target is a public, private or subsidiary firm. Both domestic and foreign targets are included.
- The deal value is at least £1 million (excluding fees and expenses).
- The market value of the acquirer a month prior to the announcement of deal is at least £1 million.
- Acquisitions involving financial, utility, government agencies and healthcare firms, as either a bidder or a target, are excluded.
- Multiple deals announced within a 5 days period are excluded.
- Daily returns of acquirer are available from Datastream.

Finally, 6,634 (4,262 domestic and 2,372 cross-border) deals survive these criteria.

3.2 The sample features:

The annual distribution of sample deals (depicted in figure 1) shows that two major M&A waves occurred within the sample period - the first in the late 1980s and the next a decade after. This is consistent with the finding of Healy and Palepu (1993) that in the late 1980s the UK became the leading nation in cross-border acquisitions accounting for almost 30% of international corporate investments. Goergen and Reneboog (2004) suggest that the technological progress in biomechanics and electronics, as well as the development of new financial innovations and markets, was behind the merger wave between 1983 and 1989. Such financial innovations facilitated the financing of acquisitions and also produced an unparalleled high level of hostile bids. It also appears that since the mid 1990s CBAs have increased significantly (see figure 2). This rapid increase can be attributed to several factors, such as the liberalization of trade and investment, globalization, deregulation of services, privatization of state-owned enterprises, relaxation of controls and integration of markets. Goergen and Reneboog (2004) suggest that the period between 1993 and 2000 was fuelled by the sustained economic expansion, the development of new European stock exchanges (such as the European New Markets and EASDAQ), and the growth of the internet and telecommunications industries. In 2001, the collapse of consumer confidence in these industries, as well as the overcapacity in traditional sectors, caused an unexpected reduction in merger activity. This trend was reinforced by the fact that many analysts at that time had anticipated a bleak macroeconomic outlook owing to the previous un-sustained economic euphoria.

Insert figures 1 and 2 about here

Table 1 shows that more than one in three deals involve foreign targets. Among the CBAs about half of the targets are based in countries with the Anglo-Saxon systems. Deals involving the targets from the socialist nations are the least but increasing. In addition, acquisitions of targets based in the socialist countries started only in the mid-nineties.

Table 2 shows that the majority of acquisitions involve unlisted targets (54.3%) followed by subsidiaries (34.4%). This pattern holds for domestic as well as CBAs deals and all categories of legal systems. Cash payments are the most preferred medium of payment (58.2%) while stock transactions are the least favoured (5.4%). Among the CBAs only 2.82% of deals are settled in shares. The preferred method of payment in subsidiary acquisitions is cash irrespective of targets' domicile and the legal traditions.

Insert table 1 about here

Further analysis of sample reveals that companies engaged in CBAs are more mature than the firms contained with domestic acquisitions. In addition, mature bidders prefer targets from countries with the Anglo-Saxon and the German legal traditions. Bidders that are engaged in CBAs are much larger (about 4.6 times in their market capitalization) than bidders engaged in domestic deals. Similarly, the average deal value of CBAs (£78.40 million) is more than double of domestic deals (£35.21 million). Amongst the CBAs, the deals involving targets based in countries with the Anglo-Saxon (£87.40 million) legal systems are larger than the acquisitions involving targets based elsewhere. This may be a reflection of the fact that firms based in the Anglo-Saxon nations are relatively larger than the firms based elsewhere. In addition, bidders of domestic targets are usually value firms, while those engaged in CBAs are glamour. Finally, value bidders acquire more targets domiciled in countries with the socialist legal systems, while growth acquirers tend to engage in acquisitions of targets operating in the Anglo-Saxon and the French legal systems.

Insert table 2 about here

3.3 Methodology:

3.3.1   Measurement of excess returns

To examine whether corporate governance and legal traditions under which targets operate affect bidders' gains we analyze the announcement period as well as the long-term performance of acquirers. Given that the sample includes multiple bidders, the conventional method of event study, often attributed to Brown and Warner (1985), which requires a long time series of pre-event returns that is free from the influence of the event under investigation, cannot be applied. Therefore, we estimate the announcement period excess return with a modified market model (equation 1).[5]

(1) $AR_{i,t} = R_{i,t} - R_{m,t}$

Where $AR_{i,t}$ is excess return of bidder *i* on day *t*; $R_{i,t}$ is the return of bidder i on day t measured as the percentage change in return index (inclusive of dividends) of bidder *i*; $R_{m,t}$ is market return defined as the percentage changes in FT-All Share index (value weighted) on day *t*. The announcement period cumulative excess returns is the sum of excess returns of 5 days (-2 to +2) surrounding the day of bid announcement.

To assess the long-run performance of bidders we estimate one, three and five year holding period excess returns after controlling for known risk factors identified in Fama and French (1996). Average monthly post-merger excess returns for 12, 36 and 60-months are estimated under a calendar time portfolio regression (CTPR) framework. CTPR accounts for the cross-sectional dependence of stock returns, particularly due to the inclusion of frequent acquirers, caused by the lack of independence among observations, arising from overlapping returns, and the non-random timing of acquisitions.[6] For each calendar month in the period from January 1986 to December

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[5] For the same reasons Fuller et al. (2002) and Faccio et al (2006), among others, also use this approach.
[6] For a detailed explanation of CTPR method see Lyon et al. (1999).

2005, excess returns are calculated for all sample firms that announced a domestic bid and/or CBAs during the previous 12, 36 and 60 months. The calendar-time portfolio excess returns are estimated with equation (2):

$$(2) \quad R_{p,t} - R_{f,t} = \alpha_p + \beta_p \left(R_{m,t} - R_{f,t} \right) + s_p SMB_t + h_p HML_t + \varepsilon_t$$

In equation (2), the intercept (α_p) measures the monthly average excess return of bidders after controlling for the effects of 3 risk factors. The dependent variable $\left(R_{p,t}\text{-}R_{f,t} \right)$ is monthly excess return of the calendar-time portfolio of bidders over risk free rate; $\left(R_{m,t}\text{-}R_{f,t} \right)$ is the excess return of market portfolio; SMB (Small minus Big) is the excess return of portfolio of small firms (value weighted) over a portfolio of large firms; and HML (High minus Low) is the excess return of portfolio of value firms (value weighted) over glamour firms. SMB and HML estimated using the method outlined in Fama and French (1996). The standard errors are corrected for possible implication of heteroscedasticity induced by the variation in the number of firms in monthly portfolios. To check for the reliability of estimates and control for heteroscedasticity, weighted regression method is also applied.[7] The weights are the reciprocal of the square root of the number of sample firms in each month. Only portfolios composed of at least five firms are considered.

3.3.2 Control factors

In the analysis we also control for other potential determinants of bidders' gains as identified in the literature. They include bidders' age, size (market capitalization), relative size of the deals, market to book value (MTBV) ratio, and diversifying versus focused deals. Barry and Brown (1985) and Zhang (2006) show that firms with long history have more information in the market and are likely to belong to mature industries. Moeller et

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[7] The results based on weighted least squares regressions are qualitatively similar to those of the main model.

al. (2004) document a statistically significant abnormal return of acquirers that bid for small firms. Further, the evidence also shows that the abnormal returns are expected to be larger in larger deals. Sudarshanam and Mahate (2003) and Conn et al. (2005) show that value acquirers (with low MTBV) outperform glamour ones (with high MTBV) both in the short-run and the long-run. If target and bidder belong to the same industry sector the integration of firms should to be easier and synergy gains higher. Such deals should also benefit from the experience of bidder managers in managing the line of business and hence generate higher returns. On the other hand, firms acquiring targets that operate in an unrelated business may gain from diversification causing a reduction in the volatility of cash flow of the combined firm. Therefore, we also control for this feature deal while comparing the gains from bids involving targets from various nations.

IV.   The Results

This section discusses the evidence on whether there is any significant difference in the gains of acquirers of domestic targets from the gains of acquirers engaged in foreign target acquisitions and whether legal origin of targets' nation shapes the gains of acquirers. To address these issues both the announcement period gains and the long-run performance of bidders are analyzed.

4.1 Announcement period gains from domestic and cross-border acquisitions:

The estimates presented in table 3 (panel A) show that during 5-days surrounding the announcement of bids acquirers receive a significant positive excess return (1.23%). However, the gain is target status dependent. Acquirers of private and subsidiary targets earn significant positive returns while bidders of public targets break-even. The estimates further show that there is no significant difference in the gains of bidders engaged in domestic acquisitions (1.22%) and CBAs (1.24%). However, there are significant differences in the gains of foreign and domestic target bidders by their target status. Among bidders of domestic targets, acquirers of listed firms suffer a significant loss (-

0.72%) while acquirers of foreign targets breakeven. Similarly, acquisitions of domestic targets generate significantly higher return (1.61%) than CBAs (1.15%). The table also records the gains to acquirers of foreign targets by the legal origin of targets' nation. The estimates show that acquirers of targets based in countries with the socialist systems gain the most (2.77%) followed by the acquisitions of targets based in the German traditions (1.77%). On the other hand, acquiring targets from nations that have the French legal system is least profitable (1.05%). Such high gains from the acquisitions of targets based in countries with the socialist legal system may be a reflection of future growth opportunities in targets' nations such as China.[8]

Overall, the estimates confirm that although there is no significant difference in the average gains to acquirers of domestic and foreign targets, the legal origin of targets' domicile play significant roles in shaping the gains to acquirers. As argued earlier, it is possible that owners/investors of targets based in countries with lower investor protection (such as the socialist and the French systems) are prepared to accept relatively low premium and hence bidders earn more from such acquisitions. On the other hand, bidders attempting to acquire targets based in economies where disciplining management through corporate restructuring are common and shareholders enjoy extensive rights and protections (the Anglo-Saxon system) face more competition and require to pay higher premium. Consequently, the gains from acquiring targets in such markets are limited.

Insert table 3 about here

Literature on takeovers identifies the method of payment as one of the major determinants of acquirers' gains. Estimates reported in table 3 (panel B) show that although all methods of payment generate significant positive gains to acquirers there exists a substantial variation in announcement period gains by the method of payment

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[8] China is characterized as one of the faster growth countries within the last decade. See for example, among others, Bai et al. (2002).

used in deal settlement. Deals settled in mixed mode generate the highest (1.53%) returns to bidders while cash deals generate the lowest (1.06%). Further analysis (not reported in tables) confirms the findings of Draper and Paudyal (2006) that the method of payment interacts with target status in determining bidders' gains. Acquirers of listed target suffer a significant loss (-2.14%) in share deals (consistent with the prediction of information asymmetry hypothesis) while the share payment in the acquisitions of private and subsidiary targets generate positive gains (3.46% and 3.27% respectively) in share deals, possibly due to the creation of block holders. The estimates (table 3, panel B) further reveal a significant difference in bidders' gains from domestic and foreign target acquisitions when paid in shares. CBAs settled in shares generate significant announcement period returns (4.98%) while domestic share deals breakeven. There are also noticeable and economically meaningful differences in bidders' announcement period gains from CBAs by the legal origin of targets' nation. For instance, cash deals generate highest return (1.94%) if targets are based in countries with the Scandinavian legal systems but suffer highest loss (-1.10%) if such deals are settled in shares. Among the CBAs, share deals generate the most (5.58%) if targets are based in the Anglo-Saxon system.[9]

Overall, the findings suggest that investor protection and the law enforcements appear to be important determinants of the bidding company's announcement period returns. They also show better performance of acquirers bidding for targets in countries belonging to legal systems other than the Anglo-Saxon where investor protection is high. This is consistent with the view of Rossi and Volpin (2004) that higher investor protection leads to higher takeover premium, which in turn, reduces the gains to bidders. If the targets are based in countries with weaker investor protection, such as the French and the German legal systems, bidders are not required to pay high takeover premiums leaving the synergy gains to shareholders of acquirers.

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[9] Share acquisition in a socialist country seems to generate the highest return, but the estimate is not reliable due to only one deal in the sample.

4.2 Deal Features and gains from domestic and cross-border acquisitions:

In addition to target status and methods of payment, discussed above, other factors that are known to influence acquirers' gains include relative size of the deals, growth opportunities of bidders, and industry affiliation of bidders and targets. To examine the role of the relative size of the deals we split the sample deals into three categories. The estimates in table 4 show that the relative size of the deals (defined as the deal value divided by the market capitalization of bidder a month before the announcement of bid) significantly affect the gains of acquirers. Bidders' gains increase monotonically with the increase in relative size of the deals. Although, all three categories of deals generate significant positive gains to acquirers, high relative size deals generate significantly higher return (1.96%) than low relative size deals (0.58%). This is not surprising as the monetary value of synergy from larger deals is likely to be higher than the value of synergy gains from smaller deals. This evidence is consistent with the findings of Fuller et al. (2002) for the US and Draper and Paudyal (2006) for the UK. This pattern of returns holds for acquirers of both domestic and cross-border targets. Returns generated by CBAs involving targets operating in the Anglo-Saxon and the French systems display similar patterns. However, the gains from the acquisitions of targets operating in the German and the Scandinavian legal systems display a similar pattern, in economic terms, but the differences in gains across the relative size groups are not statistically significant.

Insert table 4 about here

The estimates (table 4) reveal that value bidders (measured by market to book value ratio) earn higher announcement period gains (1.69%) than glamour bidders (1.09%). This pattern holds for bidders of both domestic as well as cross-border targets. Amongst the CBAs deals, the reverse is the case for acquisitions of targets based in the Anglo-Saxon legal systems. However, the differences are not statistically significant. Therefore, there is no clear evidence of the effect of the legal origin of target's nation on bidders' gains once controlled for their growth opportunities. The estimates in table 4 further

show that bidders' gains do not depend on industry affiliation of bidder and target. Diversifying as well as focused deals generate similar gains to bidders of domestic targets. Among the CBAs, although bidders' gains from focused deals are economically higher (1.38%) than the gains from diversifying deals (1.08%), the difference is not statistically significant. This could be due to the cancelling-out effects of increased business opportunities and exposure to additional risks. It is also noteworthy that this pattern holds irrespective of legal origin of target's nation. Overall, the evidence from table 4 shows that the pattern of bidders' gains is not affected by deal features such as growth opportunities and industry affiliation of bidders and targets.

4.3 Cross-Sectional Regression Analysis

Although the results from univariate analysis are revealing, they cannot account for simultaneous effects of multiple factors and allow for interaction between various determinates of acquirers' gains. To overcome such limitations we regress announcement period (5-days) excess returns of bidders against a set of explanatory variables that are likely to be responsible in shaping the gains of acquirers from domestic and cross-border acquisitions (see equation 3).

$$(3) \quad R_i - R_m = \alpha + \sum_{i=1}^{N} X_i + \varepsilon_i$$

The intercept, (α) in equation (3), measures the excess return to bidders after accounting for the effects of all explanatory variables. The vector of explanatory variables, 'X', includes acquirer's age on the day of bid announcement (log), acquirer's market value one month prior to the announcement of deal (log), relative size of the deal measured as the deal value divided by acquirer's market value, bidder's growth opportunity (ratio of market to book value of equity of acquirer one month prior to the acquisition announcement), and deal value (log). Dummy variables, that take the value of one and zero otherwise, are included to represent cross-border deals, diversifying deals (i.e. target and acquirer do not have the same 2-digit SIC), target status, and cash only and

stock only deals. Further, dummies representing the legal origin of targets' nation are also included where appropriate. The model is estimated for the entire sample, domestic deals only and cross-border deals only. The model is estimated with various combinations of explanatory variables and results presented in table 5. Although the F-statistics confirm the significance of all models, the results should be viewed with caution as the explanatory power of the models, as indicated by adjusted R-Squared, are low.

The estimates for full sample (table 5, panel A) show that average bidder earns a significant positive return on the announcement of bid even after controlling for the implications of various determinants of acquirer's gain. The estimates reveal that larger acquirers and bidders acquiring public targets gain less while the acquisitions of unlisted targets have positive effect on returns to bidders. The positive and significant coefficient of the relative size of the deals confirms the suggestion of univariate analysis that bidders' gains increase with the deal size. The estimates also show a positive and significant role of CBAs dummy confirming that once the effects of other deal features are controlled for, acquirers of cross-border targets gain more than bidders of domestic targets. Similarly, the influence of the methods of payment suggested by univariate analysis is also confirmed by multivariate analysis. The estimates reported in panel B (table 5) show that the gains of bidders of domestic targets are positively affected by the relative size of the deals, and acquisition of unlisted and subsidiary targets. However, paying in shares adversely affects acquirers' gains.

Insert table 5 about here

The estimates reported in panel C (table 5) suggest that the gains to acquirers of cross-border targets increase with the age of the acquirer and bidders' growth opportunities. Unlike in the cases of domestic deals, paying in stocks for cross-border targets enhances shareholders' gains. The estimates further reveal that acquisitions of targets based in countries with the Anglo-Saxon and the French legal systems reduce acquirers' gains

while the acquisitions of targets based in the German and the Scandinavian legal systems add value to shareholders' wealth.

Overall, the results of multivariate model confirm that when the possible effects of other determinants of acquirers' gains are controlled, bidders engaged in CBAs gain more than bidders of domestic targets. The estimates also show that the announcement period gains of cross-border target bidders depend on the legal origin of the country in which the target operates.

4.4 Long-Run Performance

Evidence from the analysis of announcement period gains confirms that targets' domicile, status, and method of payment interacts with the legal origin of targets' nation in shaping the gains to acquirers; acquisition of unlisted targets based in countries with the Anglo-Saxon system generate the highest gains when paid in shares. In the absence of efficient stock market, it is possible that the observed announcement period gains will not sustain in the long-run. This section deals with an analysis of whether acquisitions of domestic targets are superior to acquisitions of cross-border targets in the long-run and an assessment of the influence of the legal origin of the country in which target is based on bidders' gains. Excess returns are measured by calendar-time regression intercepts. The estimates of excess returns that are controlled for 3-factors (table 6, panel A) show that bidders of domestic targets suffer a monthly loss of -0.23% (-0.27%) for 12 (60) months following acquisition announcements. This pattern holds for acquirers of private, public, and subsidiary targets. On the other hand, average acquirer of cross-border target break-evens. This evidence clearly indicates that acquirers engaged in CBAs outperform the bidders contained with acquisitions of domestic targets in the long-run.

Insert table 6 about here

Further analysis of acquisitions by the legal system of targets' nation (table 6, panel B) reveals that the acquiring firms break-even from the acquisitions of targets operating in the Anglo-Saxon legal system. However, bidders that acquire targets from countries that have the French, the German, the Scandinavian and the socialist legal and corporate governance systems suffer significant losses in the long-run (up to 5 years). Among them acquirers of targets from the countries that have the Scandinavian systems suffer the most. Their shareholders lose 0.62% per month for 5 years.

Overall, the evidence shows that the pattern of long-run performance of bidders differs from the pattern of announcement period gains. Specifically, UK acquirers bidding for targets located in the 'Civil law' countries (the French, the German, and the Scandinavian legal systems) appear to have significantly lower abnormal returns than acquiring of targets located in the 'Common law' countries. This supports the view that long-run performance of bidders engaged in acquisitions of targets located in countries with similar corporate governance mechanism and the legal systems gain the most and hence the legal origin of nations in which targets operate matter significantly for British acquirers.

V. Conclusions

The paper compares the gains of bidders of cross-border targets with the gains of bidders of domestic targets and examines whether the differences in corporate governance and legal systems of the nations in which targets are based have a significant impact on the gains to acquirers. To achieve these objectives short-run and long-run share price performance of UK bidders engaged in both CBAs and domestic deals are analyzed.

The evidence suggests that once the possible implications of various determinants of acquirers' gains are controlled, CBAs generate higher gains than domestic deals to acquirers. It also shows that the legal origin of target's nation also affects bidders' gains

significantly. In addition, bidder and deal specific characteristics such as target status, mode of payment, growth opportunities of acquirers interact with the domicile of targets in shaping the patterns of abnormal returns to bidders.

An analysis of announcement period gains suggest that, on average, the market reacts more favourably to the announcement of acquisitions of targets operating in countries with the civil law systems, than to acquisitions of targets in counties with the common law systems. In contrast, in the long-run firms acquiring targets in countries that have the common law traditions outperform bidders that acquire targets based in countries which follow the traditions of civil laws.

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Figure 1

Annual Distribution of M&A Activity

Figure 2

Distribution of Deals by Year and Legal Origin of Targets' Nation
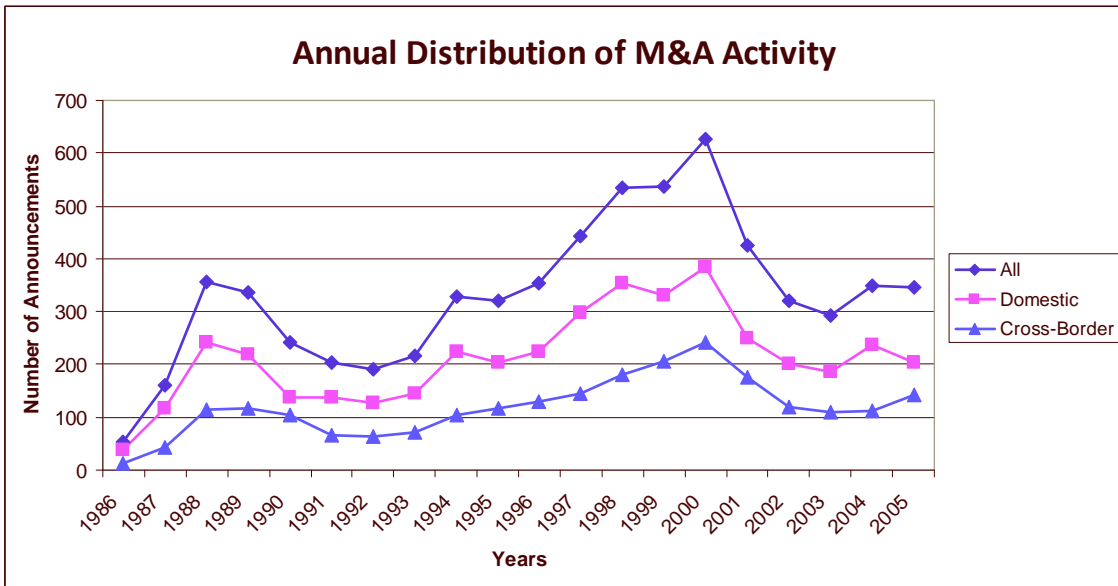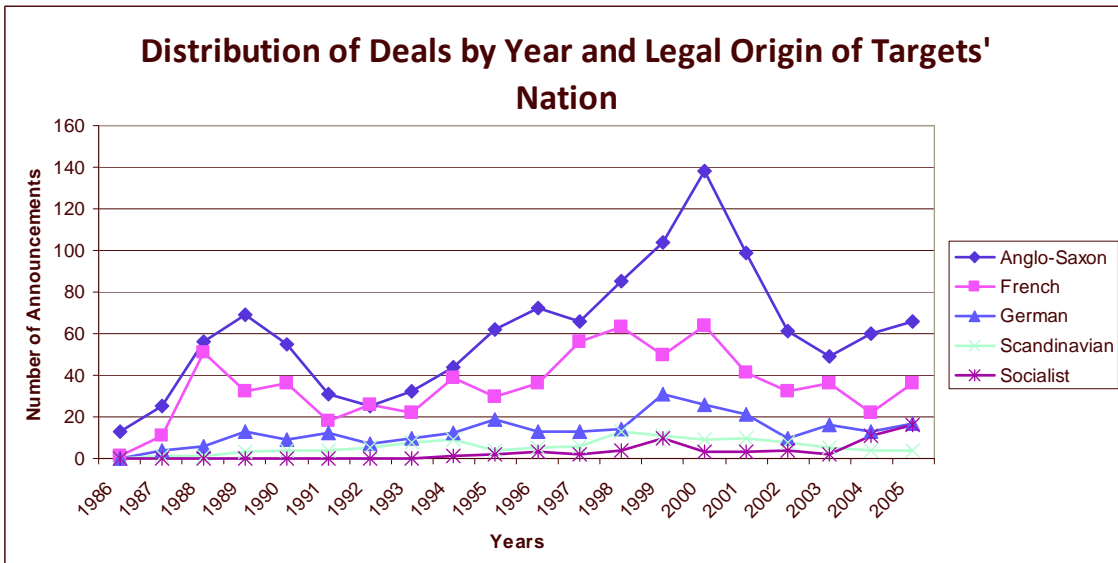
Table 1
Distribution of Sample Deals by Year and Legal Origin of Targets' Nation

Distribution of sample deals announced by UK bidders between 1986 and 2005 by year and legal origin of targets' nation is presented. Acquirers are UK firms listed on the London Stock Exchange. Targets are either private, listed or subsidiaries, both from home and foreign markets.

Years	All	Domestic	Cross Border	Cross-Border Deals				
				Anglo-Saxon	French	German	Scand.	Socialist
1986	53	39	14	13	1	0	0	0
1987	160	117	43	25	11	4	1	0
1988	357	243	114	56	51	6	1	0
1989	337	220	117	69	32	13	3	0
1990	242	138	104	55	36	9	4	0
1991	203	138	65	31	18	12	4	0
1992	190	127	63	25	26	7	5	0
1993	216	144	72	32	22	10	8	0
1994	329	224	105	44	39	12	9	1
1995	320	203	117	62	30	19	4	2
1996	354	225	129	72	36	13	5	3
1997	443	299	144	66	56	13	6	2
1998	534	354	180	85	63	14	13	4
1999	536	330	206	104	50	31	11	10
2000	626	384	242	138	64	26	9	3
2001	426	250	176	99	41	21	10	3
2002	320	201	119	61	32	10	8	4
2003	294	185	109	49	36	16	5	2
2004	348	237	111	60	22	13	4	11
2005	346	204	142	66	36	17	4	16
Total	6,634	4,262	2,372	1,212	702	266	114	61

Table 2
Summary Statistics

A summary of distribution of sample by target status (panel A) and methods of payment (panel B), bidder and deal features (panel C) are provided for all, domestic and cross-border (including by their legal origin) acquisitions. N represents the number of deals. 'Cash' and 'shares' indicate cash and share only deals. 'Mixed' includes all deals financed by a combination of cash and stock and/or methods classified as "other" in SDC. Panel C summarizes acquirer and deal features. The sample is restricted to deals over or equal to one million Pounds Sterling. Age measure the number of years between the announcement day and the date of acquirer's birth. Relative size is the ratio of deal value to market value of acquirer. MV is the market value of the acquirer one month prior to the acquisition and MTBV represents the market-to-book value of equity one month prior to the announcement of deal.

	All	Domestic	Cross-Border	Anglo-Saxon	French	German	Scandin-avian	Socialist
	N=6,634 (100%)	N=4,262 (64.24%)	N=2,372 (35.76%)	N=1,212 (18.27%)	N=702 (10.58%)	N=266 (4.01%)	N=114 (1.72%)	N=61 (0.92%)
Panel A: Distribution of deals by target Status								
Private	3,600	2,312	1,288	625	427	149	52	28
Public	755	494	261	169	56	19	11	6
Subsidiary	2,279	1,456	823	418	219	98	51	27
Panel B: Distribution of deals by methods of payment								
Cash	3,862	2,265	1,579	808	476	183	74	49
Stock	355	288	67	38	16	8	2	1
Mixed/Other	2,418	1,709	709	367	210	75	28	11
Panel C: Major features of bidder and deal characteristics								
Age (Years)	16.58	15.34	18.80	19.21	18.12	19.25	18.81	18.56
Deal Value (£ mill)	50.65	35.21	78.40	87.40	71.10	74.30	50.30	71.10
Relative Size	0.18	0.22	0.11	0.11	0.11	0.07	0.10	0.265
MV (£ mill)	1289	560	2601	2051	2791	4783	1639	4133
MTBV Ratio	4.662	4.187	5.515	5.557	6.370	3.917	4.507	3.429

Table 3
Announcement Period Excess Returns of bidders by Target Status, Payment Method and Legal Origin of Targets' Nation

5-day [-2, +2] announcement period cumulative abnormal returns, in percentage, of sample acquirers are presented. Abnormal returns (AR) are calculated using a modified market-adjusted model:

$$(1) \quad AR_{i,t} = r_{i,t} - r_{m,t}$$

Where $r_{i,t}$ is the return of bidder i at time t and $r_{m,t}$ is the market index (FT-All Share) at time t. Acquirers are publicly traded firms listed in the London Stock Exchange. Panel A shows the gains to acquirers of all targets, private targets, public targets and subsidiary targets from different groups of nations. Panel B shows acquirers' gains by methods of payment. 'Cash' indicates cash only deals and 'stock' refers to shares only deals. 'Mixed/Other' includes all other transactions financed with a combination of two or more means of payment. T-statistics testing for the mean equal to zero versus not equal to zero are reported in parentheses below the mean. The sample size, n, for each group is reported bellow T-statistic. The sample is also categorized by the legal origin of targets' domicile. a, b, and c denote significance level at 1%, 5%, and 10% respectively. The final column in the table shows the difference in the gains from acquisitions of domestic and cross-border targets. F-statistics test the null of all means are equal against the alternative of at least one is different.

		All	Domestic	Cross-Border	Anglo-Saxon	French	German	Scandin.	Socialist	Dom. Vs CBAs
Panel A – Targets status and legal origin of targets' nation										
All	Mean	1.23^a	1.22^a	1.24^a	1.11^a	1.05^a	1.77^a	1.67^a	2.77^b	-0.02%
	t-stat	(13.66)	(10.98)	(8.13)	(5.28)	(3.52)	(4.51)	(2.70)	(2.23)	(-0.12)
	n	6634	4262	2372	1212	702	266	114	61	
Private Targets	Mean	1.44^a	1.61^a	1.15^a	1.37^a	0.51^a	1.68^a	1.27	3.00	**0.46%^c**
	t-stat	(11.41)	(10.07)	(5.55)	(4.13)	(1.83)	(2.93)	(1.46)	(1.30)	**(1.77)**
	n	3600	2312	1288	625	427	149	52	28	
Public Targets	Mean	-0.34	-0.72^b	0.40	0.13	0.98	1.23	-0.45	1.53	**-1.12%^b**
	t-stat	(-1.32)	(-2.18)	(1.05)	(0.27)	(1.28)	(0.87)	(-0.19)	(0.82)	**(-2.22)**
	n	755	494	261	169	56	19	11	6	
Subsidiary Targets	Mean	1.41^a	1.27^a	1.67^a	1.13^a	2.13^a	2.03^a	2.53^a	2.80^c	-0.40%
	t-stat	(9.67)	(7.56)	(6.08)	(3.75)	(2.80)	(3.63)	(2.75)	(1.94)	(-1.24)
	n	2279	1456	823	418	219	98	51	27	
	F-Stat	19.54^a	21.21^a	3.13^b	1.90	3.04^b	0.16	1.10	0.06	
Panel B – Method of payment and legal origin of targets' nation										
All	Mean	1.23^a	1.22^a	1.24^a	1.11^a	1.05^a	1.77^a	1.67^a	2.77^b	-0.02%
	t-stat	(13.66)	(10.98)	(8.13)	(5.28)	(3.52)	(4.51)	(2.70)	(2.23)	(-0.12)
	N	6634	4262	2372	1212	702	266	114	61	
Cash	Mean	1.06^a	1.11^a	0.98^a	0.92^a	0.68^a	1.55^a	1.94^a	1.15^c	0.13%
	t-stat	(11.29)	(9.21)	(6.61)	(4.29)	(2.65)	(3.51)	(2.70)	(1.82)	(0.69)
	N	3862	2265	1597	808	476	183	74	49	
Stock	Mean	1.08^c	0.17	4.98^b	5.58^b	0.37	5.32^b	-1.10^b	62.13	**-4.82%^b**
	t-stat	(1.60)	(0.24)	(2.55)	(2.16)	(0.10)	(2.60)	(-20.95)	-	**(-2.33)**
	N	355	188	67	38	16	8	2	1	
Mixed/ /Other	Mean	1.53^a	1.55^a	1.49^a	1.06^a	1.95^a	1.94^b	1.28	4.57	0.06%
	t-stat	(8.99)	(7.92)	(4.38)	(2.47)	(2.56)	(2.27)	(1.04)	(1.52)	(0.15)
	n	2418	1709	709	367	201	75	38	11	
	F-Statistics	3.17^b	5.02^a	9.89^a	7.41^a	1.93	1.36	0.31	55.18^a	

Table 4
Announcement Period Gains of Bidders by Deal Features

The table presents 5-day [-2, +2] Cumulative Abnormal Returns (in percent) of sample bidders by relative size of the deals (panel A), growth opportunities of bidders (MTBV) (panel B) and industry affiliation of bidder and target (panel C). The gains are reported by the legal origin of targets' nation. Relative size of the deals is defined as the ratio of the deal value divided by the market value of acquirer one month prior to the announcement of deal. MTBV is the market value of acquirer divided by its book value one month prior to the deal announcement. Industry affiliation of bidders is checked using two-digit SIC codes of bidders and acquirers. Abnormal returns (AR) are calculated using a modified market-adjusted model (equation 1):

(1) $\quad AR_{i,t} = r_{i,t} - r_{m,t}$

Where $r_{i,t}$ is the return of bidder i at time t and $r_{m,t}$ is the market index (FT-All Share) at time t. a, b, c denote statistical significance at the 1, 5 and 10 percent levels respectively. The final column in the table shows the difference in the gains from acquisitions of domestic and cross-border targets. F-statistics test the null of all means are equal against the alternative of at least one is different.

	All	Dom	CBAs	CBAs					Dom. Vs CBAs (T-Stat)
				AS	French	German	Scandinavian	Socialist	
Panel A: Relative Size of the deal									
Low	0.58[a]	0.52[a]	0.47[a]	0.58[b]	-0.23	1.27[c]	0.34	1.39c	0.21
Medium	1.14[a]	1.27[a]	1.06[a]	1.04[a]	1.30[a]	1.26[b]	2.51[a]	0.66	0.72
High	1.96[a]	1.88[a]	2.20[a]	1.71[a]	2.09[a]	2.79[a]	2.15[c]	6.35c	-0.75
F-statistic	19.94[a]	12.48[a]	11.07[a]	2.45[c]	5.26[a]	1.68	1.18	2.14	
Panel B: MTBV of bidders									
Low	1.69[a]	1.57[a]	1.70[a]	1.25[a]	1.78[a]	1.84[a]	2.80[a]	6.13c	-0.36
Medium	0.90[a]	1.02[a]	0.92[a]	0.62[c]	0.86[a]	1.50[b]	1.92[C]	1.33	0.35
High	1.09[a]	1.07[a]	1.11[a]	1.46[a]	0.52	1.98[a]	0.25	0.91	-0.10
F-statistic	6.70[a]	2.48[c]	2.33[c]	1.39	1.57	0.28	1.51	1.86	
Panel C: Industry affiliation of bidder and target									
Focused (1)	1.27	1.21	1.38	1.29	1.10	1.98	1.92	2.28[b]	-0.66
Diversifying (2)	1.18	1.23	1.08	0.92	0.99	1.58	1.36	4.56	0.50
2 vs. 1 (T-Statistics)	-0.52	0.08	-0.96	-0.86	-0.17	-0.51	-0.45	0.75	

Table 5
Determinants of Announcement Period Gains of Bidders: A Cross Sectional Analysis

Estimates of cross-sectional determinants of announcement period gains of acquirers are reported. Announcement period (5-days) excess returns of bidders are regressed against a set of explanatory variables. Equation (3) is estimated using ordinary least square and standard errors are corrected for heteroscedasticity.

$$(3) \quad R_i - R_m = \alpha + \sum_{i=1}^{N} X_i + \varepsilon_i$$

The intercept (α) measures the excess return to bidders after accounting for the effects of all explanatory variables. The vector of explanatory variables 'X' includes acquirer's age on the day of bid announcement (log), acquirer's market value one month prior to the announcement of deal (log), relative size of the deal measured as the deal value divided by acquirer's market value, bidder's growth opportunity (ratio of market to book value of equity of acquirer one month prior to the acquisition announcement), and deal value (log). Dummy variables, that take the value of one and zero otherwise, are included to represent cross-border deals, diversifying deals (i.e. target and acquirer do not have the same 2-digit SIC) target status and cash only and stock only deals. Further, dummies representing the legal origin of targets' nation are also included where appropriate. The model is estimated for the entire sample (panel A), domestic deals only (panel B) and cross-border deals only (panel C). The levels of significance are given in brackets [ ] below the coefficients.

Panel A: All deals

Dependent Variable: excess returns of bidders	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Intercept	0.0179	0.0278	0.0310	0.0329	0.0134	0.0118
	[0.009]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Log (Age)	-0.0012	0.0012				
	[0.519]	[0.539]				
Log (Acquirer's Size)		-0.0115	-0.0104	-0.0111		
		[0.000]	[0.000]	[0.000]		
Relative Size (TV/MV)	0.0116				0.0107	0.0119
	[0.000]				[0.000]	[0.000]
Acquirer's MTBV	0.0000					
	[0.590]					
Log (Deal Value)		0.0076	0.0076	0.0045		
		[0.000]	[0.000]	[0.000]		
Dummy=1 if the deal involves cross-border target	0.0019	0.0044		0.0051		0.0014
	[0.330]	[0.026]		[0.010]		[0.456]
Dummy=1 if the target and the acquirer belong to the same industry	-0.0004	-0.0007	-0.0006	-0.0010	-0.0009	-0.0006
	[0.818]	[0.686]	[0.719]	[0.561]	[0.608]	[0.734]
Dummy=1 if the target is a private firm	-0.0002	-0.0002	-0.0001			0.0007
	[0.927]	[0.928]	[0.798]			[0.729]
Dummy=1 if the target is a listed company	-0.0194	-0.0188	-0.0191			-0.0192
	[0.000]	[0.000]	[0.000]			[0.000]
Dummy=1 if the deal is pure cash	-0.0028			-0.0015	-0.0038	
	[0.154]			[0.450]	[0.047]	
Dummy=1 if the deal is pure stock	-0.0009			-0.0060	-0.0076	
	[0.829]			[0.147]	[0.070]	
F-Statistics	10.82	15.35	20.40	11.66	12.70	18.86
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
R-Squared (in percent)	1.45	1.60	1.52	1.04	0.76	1.40
N	6,634	6,634	6,634	6,634	6,634	6,634

Panel B: Domestic deals

Dependent Variable: excess returns of bidders	Model (1)	Model (2)	Model (3	Model (4)	Model (5)
Intercept	0.0189	0.0242	0.0303	0.0121	0.0340
	[0.022]	[0.003]	[0.000]	[0.000]	[0.000]
Log (Age)	-0.0014	0.0017			
	[0.517]	[0.448]			
Log (Acquirer's Size)		-0.0114	-0.0083		-0.0096
		[0.000]	[0.000]		[0.000]
Relative Size (TV/MV)	0.0032			0.0033	
	[0.066]			[0.057]	
Acquirer's MTBV	-0.0001	0.0000	0.0000	-0.0001	0.0000
	[0.312]	[0.522]	[0.441]	[0.336]	[0.514]
Log (Deal Value)		0.0069			
		[0.002]			
Dummy=1 if the target and the acquirer belong to the same industry	0.0009	0.0007	0.0005		0.0000
	[0.704]	[0.770]	[0.834]		[0.995]
Dummy=1 if the target is a private firm	0.0028	0.0033	0.0021	0.0036	
	[0.267]	[0.193]	[0.396]	[0.133]	
Dummy=1 if the target is a listed company	-0.0198	-0.0208	-0.0187	-0.0206	
	[0.000]	[0.000]	[0.000]	[0.000]	
Dummy=1 if the deal is pure cash	-0.0025	0.0002			-0.0016
	[0.333]	[0.926]			[0.503]
Dummy=1 if the deal is pure stock	-0.0058	-0.0066			-0.0146
	[0.229]	[0.169]			[0.002]
F-Statistics	6.20	9.50	14.60	11.77	9.84
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
R-Squared (in percent)	1.15%	1.97%	1.69%	1.09%	1.14%
N	4,262	4,262	4,262	4,262	4,262

Panel C: Cross-border deals

Dependent Variable: excess returns of bidders	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Intercept	0.0064	0.0063	0.0353	0.0360	0.0049	0.0089
	[0.604]	[0.607]	[0.005]	[0.005]	[0.111]	[0.003]
Log (Age)	0.0013	0.0012	0.0020	0.0021		
	[0.689]	[0.706]	[0.578]	[0.557]		
Log (Acquirer's Size)			-0.0131	-0.0133		0.0609
			[0.000]	[0.000]		[0.000]
Relative Size (TV/MV)	0.0595	0.0595			0.0594	
	[0.000]	[0.000]			[0.000]	
Acquirer's MTBV	0.0002	0.0002	0.0002	0.0002	0.0002	0.0002
	[0.031]	0.029]	[0.031]	[0.031]	[0.023]	[0.021]
Log (Deal Value)			0.0087	0.0089		
			[0.002]	[0.001]		
Dummy=1 if the target is based in a country with the Anglo-Saxon legal system	-0.0023			-0.0033		
	[0.435]			[0.281]		
Dummy=1 if the target is based in a country with the French legal system		-0.0030	-0.0024			
		[0.354]	[0.481]			
Dummy=1 if the target is based in a country with the German legal system					0.0088	0.0087
					[0.056]	[0.060]
Dummy=1 if the target is based in a country With the Scandinavian legal system						0.0055
						[0.425]
Dummy=1 if the target and the acquirer belong to the same industry	-0.0028	-0.0031	-0.0027	-0.0024	-0.0030	-0.0032
	[0.349]	[0.299]	[0.374]	[0.435]	[0.308]	[0.280]
Dummy=1 if the target is a private firm	-0.0045	-0.0042	-0.0063	-0.0065		-0.0042
	[0.168]	[0.196]	[0.067]	[0.058]		[0.186]
Dummy=1 if the target is a listed company	-0.0146	-0.0151	-0.0121	-0.0116		-0.0138
	[0.000]	[0.003]	[0.025]	[0.032]		[0.006]
Dummy=1 if the deal is pure cash	-0.0002	-0.0001	-0.0010	-0.0011	-0.0001	
	[0.943]	[0.980]	[0.772]	[0.753]	[0.968]	
Dummy=1 if the deal is pure stock	0.0219	0.0217	0.0343	0.0345	0.0202	
	[0.017]	[0.018]	[0.000]	[0.000]	[0.0207]	
F-Statistics	27.71	27.74	6.12	6.18	40.53	35.22
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
R-Squared (in percent)	9.55	9.56	2.52	2.55	9.32	9.44
N	2,372	2,372	2,372	2,372	2,372	2,372

Table 6
Long-term performance of acquirers

This table reports OLS estimates of monthly abnormal returns (in percent), measured by alpha of equation (2), from portfolios comprising of all acquisitions for 1-year, 3-year and 5-year post event holding periods. Excess returns are estimated using calendar time regressions for each portfolio. Acquirers enter the portfolio on the month following the announcement and remain for 12, 36 or 60 months. This table contains two panels. Panel A represents acquisitions of targets (all, private, public, and subsidiary) operating within the domestic and in cross-border market. Panel B reports gains from acquisitions of targets operating in foreign markets by their legal origin (Anglo-Saxon, French, German, Scandinavian, and Socialist one). Panel A also reports differences in post-acquisition gains from domestic deals and CBAs. Portfolios are rebalanced each month to include firms that just announced a deal. The monthly abnormal returns are measured by intercepts in equation (2):

$$(2) \quad R_{p,t} - R_{f,t} = a_p + \beta_p(R_{m,t} - R_{f,t}) + s_p SMB_t + h_p HML_t + e_{p,t}$$

The monthly abnormal return differentials are intercepts in equation (2'):

$$(2') \quad R_{p(domestic),t} - R_{p(cross-border),t} = a_p + \beta_p(R_{m,t} - R_{f,t}) + s_p SMB_t + h_p HML_t + e_{p,t}$$

where $R_{p,t}$ is the calendar time portfolio return, $R_{f,t}$ is the return on a one month T-bill during month t, SMB is the difference in returns of value weighted portfolios of small firms and big firms during month t, HML is the return differential of value weighted portfolios of high and low book-to-market firms in month t, β_p, s_p and h_p are regression parameters specific to the portfolio and $e_{p,t}$ is the error term. Standard errors are corrected for heteroscedasticity. a, b, or c indicate significance at the 1, 5, 10 percent level respectively.

Panel A: Long-term performance of domestic and foreign target bidders by target status and holding period (in %)

	1 Year				3 Years				5 Years			
	All	**Dom.**	**CB**	**Dom. Vs CB**	**All**	**Dom.**	**CB**	**Dom. Vs CB**	**All**	**Dom.**	**CB**	**Dom. Vs CB**
All												
Constant	0.39%[b]	-0.23%[a]	-0.01%	-0.23%[c]	0.43%[a]	-0.26%[a]	0.06%	-0.35%[a]	0.40%[a]	-0.27%[a]	0.04%	-0.33%[a]
F-Stat	284.80[a]	247.20[a]	146.70[a]	19.75[a]	361.20[a]	264.60[a]	191.60[a]	27.70[a]	379.80[a]	287.90[a]	205.30[a]	28.26[a]
R-Sq	78.00%	75.47%	64.72%	19.80%	81.81%	76.71%	70.55%	25.72%	82.54%	78.19%	71.96%	26.10%
N	6,311	4,070	2,241		5,633	3,622	2,011		5,018	3,237	1,781	
	245	245	244		245	245	244		245	245	244	
Private												
Constant	-0.29%[a]	-0.46%[a]	-0.47%[a]	0.01%	-0.29%[a]	-0.47%[a]	-0.45%[a]	-0.02%	-0.25%[a]	-0.48%[a]	-0.40%[a]	-0.08%[c]
F-Stat	122.50[a]	78.97[a]	67.07[a]	4.11[a]	155.30[a]	75.45[a]	95.99[a]	6.70[a]	170.20[a]	76.07[a]	98.53[a]	9.31[a]
R-Sq	60.39%	49.57%	46.13%	4.98%	65.91%	48.43%	55.06%	7.88%	67.94%	48.64%	55.71%	10.62%
N	3,468	2,226	1,242		3,050	1,953	1,097		2,681	1,702	979	
	245	245	239		245	245	239		245	245	239	
Public												
Constant	-0.43%[a]	-0.55%[a]	-0.54%[a]	-0.01%	-0.40%[a]	-0.57%[a]	-0.48%[a]	-0.07%[c]	-0.44%[a]	-0.57%[a]	-0.52%[a]	-0.05%
F-Stat	105.70[a]	64.56[a]	47.49[a]	7.74[a]	151.50[a]	111.30[a]	57.64[a]	8.52[a]	188.00[a]	130.70[a]	72.36[a]	11.92[a]
R-Sq	57.23%	44.97%	37.84%	9.03%	65.73%	58.69%	42.18%	9.81%	70.41%	62.32%	47.91%	13.16%
N	648	423	225		583	380	203		533	356	177	
	241	241	238		241	239	241		241	241	240	
Subsidiary												
Constant	-0.15%[c]	-0.49%[a]	-0.29%[a]	-0.18%[b]	-0.14%[c]	-0.49%[a]	-0.28%[a]	-0.20%[a]	-0.18%[b]	-0.49%[a]	-0.32%[a]	-0.16%[a]
F-Stat	248.40[a]	201.30[a]	124.00[a]	21.75[a]	293.10[a]	226.80[a]	177.50[a]	47.52[a]	329.10[a]	248.60[a]	210.90[a]	52.16[a]
R-Sq	75.64%	72.25%	60.79%	21.95%	78.56%	74.57%	68.93%	38.06%	80.44%	76.27%	72.50%	40.28%
N	2,195	1,421	774		2,000	1,289	711		1,804	1,179	625	
	244	236	244		244	236	244		244	236	244	

Panel B: Long-term performance of bidders by legal origin of targets' nation

	1 Year	3 Years	5 Years
All Cross-border acquisitions			
Constant	-0.01%	0.06%	0.04%
F-Stat	146.70[a]	191.60[a]	205.30[a]
R-Sq	64.72%	70.55%	71.96%
N	2,241	2,011	1,781
	244	244	244
Targets based in countries with the Anglo-Saxon systems			
Constant	-0.38%[a]	-0.33%[a]	-0.29%[a]
F-Stat	192.00[a]	275.60[a]	326.80[a]
R-Sq	70.59%	77.50%	80.33%
N	1,156	1,034	920
	244	244	244
Targets based in countries with the French systems			
Constant	-0.44%[a]	-0.40%[a]	-0.46%[a]
F-Stat	67.74[a]	72.22[a]	108.40[a]
R-Sq	46.91%	48.51%	58.58%
N	670	620	548
	234	234	234
Targets based in countries with the German systems			
Constant	-0.52%[a]	-0.51%[a]	-0.50%[a]
F-Stat	17.61[a]	23.06[a]	22.74[a]
R-Sq	18.74%	23.20%	197
N	253	222	232
	233	233	
Targets based in countries with the Scandinavian systems			
Constant	-0.60%[a]	-0.61%[a]	-0.62%[a]
F-Stat	14.68[a]	8.33[a]	14.18[a]
R-Sq	16.49%	10.16%	89
N	111	102	230
	227	225	
Targets based in countries with the Socialist systems			
Constant	-0.39%[a]	-0.44%[a]	-0.44%[a]
F-Stat	2.76[b]	8.13[a]	8.38[a]
R-Sq	5.59%	15.10%	15.41%
N	51	33	27
	144	141	142

Appendix A
Distribution of number of deals by the legal origin of target's nation

Anglo-Saxon	
Australia	112
Bermuda	2
Canada	69
Gibraltar	2
Hong Kong	17
India	14
Ireland-Rep	71
Israel	7
Jamaica	2
Malaysia	7
New Zealand	12
Nigeria	2
Pakistan	1
Singapore	11
South Africa	36
United Kingdom	4,262
United States	842
Utd Arab Em	1
Thailand	4
Total	**5,474**

French	
Argentina	10
Belgium	49
Brazil	15
Chile	3
Colombia	2
Costa Rica	1
Egypt	3
France	241
Greece	11
Honduras	2
Indonesia	3
Iran	1
Italy	69
Luxembourg	3
Mexico	12
Monaco	6
Netherlands	166
Oman	1
Peru	2
Philippines	7
Portugal	13
Spain	66
Turkey	14
Venezuela	2
Total	**702**

German	
Austria	17
Germany	184
Japan	18
South Korea	10
Switzerland	31
Taiwan	6
Total	**266**

Scandinavian	
Denmark	30
Finland	12
Iceland	1
Norway	20
Sweden	51
Total	**114**

Socialist	
China	12
Croatia	2
Czech Republic	12
Kazakhstan	3
Poland	13
Romania	3
Russian Fed	7
Slovak Rep	2
Ukraine	2
Vietnam	1
Hungary	4
Total	**61**

Un-Specified	
Angola	1
Antigua	2
Bahamas	1
Guernsey	3
Isle of Man	1
Jersey	2
Kyrgyzstan	1
Liechtenstein	1
Mauritius	1
Tajikistan	2
Unknown	2
Total	**17**

Domestic	**4,262**
Cross-Border	**2,372**
Total	**6,634**