Portable country governance and cross-border acquisitions

Jesse A Ellis[1], Sara B Moeller[2], Frederik P Schlingemann[2, 3] and René M. Stulz[4, 5]

[1]*Poole College of Management, North Carolina State University, Raleigh, NC, USA;* [2]*Katz Graduate School of Business, University of Pittsburgh, Pittsburgh, PA, USA;* [3]*Rotterdam School of Management, Erasmus University, Rotterdam, Netherlands;* [4]*Fisher College of Business, The Ohio State University, Columbus, OH, USA,* [5]*National Bureau of Economic Research, Cambridge, MA, USA*

Correspondence:
RM Stulz, Fisher College of Business, The Ohio State University, Columbus, OH 43210, USA. Tel: +1 614 292 1970.

Abstract

The agency theory and law and finance literatures show good country governance encourages financial development, mitigates agency problems, and increases firm value. Drawing on these literatures, we develop a theory that benefits from good country governance are portable by firms across countries through cross-border acquisitions. Using acquisitions from 56 countries from 1990-2007, we find that acquirers can transport the benefits from good country governance, so that they gain more from acquiring targets with worse country governance than their own. As predicted, the acquirer's stock-price reaction to acquisitions increases with the country governance distance between the acquirer and the target.

INTRODUCTION

In this paper, we address the research question of whether country governance affects firms' ability to gain from cross-border acquisitions and whether country governance is portable. As stated by Henisz and Swaminathan (2008), "International business research necessarily requires attention to the institutional characteristics that alter the costs of engaging in business activity of a given form in one nation as compared to another." We hypothesize that the costs of engaging in business activity in another country (the host country) will be affected by the institutional characteristics of the host country as well as by those of the firm's home country. To test these hypotheses, we consider the institutions that constitute a country's governance and one type of cross-border business activity by firms, namely cross-border acquisitions. By country governance, we mean country-level institutions, practices, and policies that determine how authority is exercised in a country (Kaufmann, Kraay, and Mastruzzi, 2010). Country governance affects the incentive structures and institutions that influence how firms are organized and make decisions.

Our main theoretical proposition is that acquirers who benefit from better country governance create more wealth for their shareholders through cross-border acquisitions. We theorize that this is in part because the benefits from better governance can be transported to improve the functioning of firms acquired through cross-border transactions and more so for targets from countries with worse governance. Our portability theory of country governance leads to the counter-intuitive result that acquisitions in countries with worse country governance create more wealth for the shareholders of the acquiring firms.

We expect country governance to be exactly the type of institution that "may facilitate both production and distribution of generated rents through better contractual assurance" (Hoskisson, Wright, Filatotchev, and Peng, 2013). There is a vast literature showing that characteristics of a country's financial markets as well as of its firms are related to how well the country is governed. In particular, better governed countries have more developed financial markets, more efficient firms, better firm-level

governance, more initial public offerings, less unmet financing requirements, greater valuation of cash held by investors, and so on.[1]

Our proposition that country governance is portable combined with our empirical analysis provides an important contribution to the IB and finance literature. Our main theoretical proposition is motivated from agency theory (Jensen and Meckling, 1976) and the theory on law and finance (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 1998). The core idea of agency theory is that agents pursue their own objectives rather than the objectives of the principal.[2] To align the objectives of the agents with those of the principal, the principal uses mechanisms such as contracts, incentives, and monitoring. In a firm, the problem of the principal – the owners of the firm – is made more complicated by the fact that there can be coordination problems among the owners and that there are multiple levels of agents. Empirical evidence shows that agency conflicts are exacerbated in countries with weak governance (Young, Peng, Ahlstrom, Bruton, and Jian, 2008). The effectiveness of the mechanisms employed by principals to reduce the costs associated with agency problems depends on country governance in numerous ways. For instance, contracts are less effective at limiting agency problems when court decisions cannot be enforced easily or when courts can be bribed. The law and finance theory explains how differences in country governance arise and show that there are large differences across countries in country governance. Neither theory addresses the issue of whether country governance is portable, in that a firm that benefits from good country governance in its own country can carry these benefits with it when it operates in a country with poor governance. In this paper, we address this theoretical gap by advancing a theory of portability of country governance and showing that it is supported empirically.

The benefit to firms of having country governance that enables shareholders to more effectively align the incentives of their agents with their interests is a benefit that carries through to all decisions made by

---

[1] See Olson (1996) and Acemoglu (2003) on the importance and implications of country governance. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002) review some of the literature from the perspective that the key determinant of country governance is a country's legal origin. See Bloom, Sadun, and van Reenen (2009) for the implications of country governance for firm organization, Doidge, Karolyi, and Stulz (2007) for firm-level governance, Pinkowitz et al. (2006) for the value of cash, and Weitzel and Berns (2006) for the role of corruption.

[2] Filatotchev and Wright (2011) provide a literature review on agency theory in international business research.

2

firms, including decisions concerning cross-border investments and decisions made within firms acquired through cross-border transactions. A firm where agency conflicts are better managed because of better country governance can create more value for shareholders in a host country than an acquirer from a country with worse country governance. For instance, we would expect a firm from a well governed country to be less likely to make poor acquisitions or to manage acquisitions poorly, so that the payoffs from acquisitions are higher for such a firm. In addition, if the host country has poor country governance, the portability of the acquirer's good country governance allows the acquirer to control agency conflicts better and will be especially valuable as it will enable the acquired firm to pursue strategies that would not be feasible for local firms.

The law and finance literature shows that countries with poor country governance have lower financial development. Therefore, we expect that access to non-local finance is more expensive and difficult for firms in a country with poor governance because financial institutions and investors outside the country require a higher expected return to compensate them for risks associated with poor governance. Firms in such countries also find it hard to raise funds because of greater risk of expropriation by insiders. This lack of financial development means that local firms cannot take advantage of investment opportunities that firms from countries with better country governance can fund. Further, local firms may be constrained in the funds they can raise because of local conditions, while non-local firms are not as they can invest from non-local earnings or funds raised outside the host country. Consequently, non-local firms investing in countries with poor governance benefit from a lower cost of capital and fewer financial constraints.

Taken together, firms that invest in countries with poorer governance than their country can create value for their shareholders because they allocate resources better than host country firms, have access to better contracting mechanisms, have assets that domestic firms do not have, and have better and cheaper access to funding. Consequently, we would expect firms from countries with better governance to make acquisitions that increase shareholder wealth more than firms from countries with weaker governance and would expect shareholder gains from cross-border acquisitions to be negatively related to the governance

3

of the country of the target. Part of this greater gain is explained by the portability of country governance, in that it makes it possible for a firm from a country with good governance to operate an acquired firm in a country with poor governance more efficiently. When a firm from a country with good governance makes an acquisition in a country with equally good or better governance, it does not have the advantage of good governance to enable it to create more value.

We use as our main measures of how well a country is governed the World Governance Indicators (WDI) published by the World Bank (see Kaufmann, Kraay, and Mastruzzi, 2009). These indices are time-varying and are obtained by averaging responses to a large number of surveys. They measure separately how well a country controls corruption, the respect for the rule of law, the degree of political stability, the effectiveness of government, regulatory quality, how well a country's citizens can participate in selecting the government and the extent to which they enjoy various freedoms. As our analysis shows, there is considerable cross-country variation in the quality of country governance.[3]

In our analysis, we investigate the relation between acquirer gains and country-level governance of the acquirer's country and of the target's country. As is typical in studies using the event study methodology, our estimate of the wealth created by an acquisition for the shareholders of the acquired firm is given by the abnormal return associated with the acquisition announcement. As expected from our theoretical development, we find that the shareholder wealth created by cross-border acquisitions increases with the quality of country governance of the acquirer's country and falls with the quality of country governance of the target's country, so that an acquirer from a country with better governance creates more wealth for its shareholders by making an acquisition in a country with worse governance. For the whole cross-border sample, the average acquirer abnormal return is 1.5%. A one standard deviation increase in the average country governance index of the acquirer increases the stock-price

---

[3] There is an ongoing debate about the sources of that variation. Acemoglu (2003) shows that cross-sectional variation in the type of institutions that country governance focuses on can be partly explained by whether European colonization of that country was such that institutions were designed to extract resources from that country (e.g., Congo) or were put in place to facilitate settlement (e.g., Canada). La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002) show that legal origins explain cross-country variation. In this study, we take the view that the sources of cross-country variation are not important for our conclusions as long as they do not affect shareholder gains from cross-country acquisitions separately from their impact on country governance in ways we do not control for.

reaction by 21 basis points, or 14%, while a one standard deviation increase in the country governance index of the host country reduces the acquirer's gain by 26 basis points, or 17.7%. These results confirm our prediction that the benefits of good country governance are portable: firms from better governed countries carry the benefits from good country governance when they go abroad as they create more shareholder wealth when they invest in countries with worse country governance. A further test of portability is that acquirer returns should be increasing in country governance distance. We find strong support for this prediction.

Though outside the scope of our formal analysis, we also examine how firm-level governance factors affect our main results. The literature shows that firms can act to reduce the adverse effects of poor country governance through firm-level governance mechanisms. Specifically, if poor country governance worsens agency conflicts, firms can choose to have more concentrated ownership to reduce agency conflicts (Shleifer and Wolfenzon, 2002; Stulz, 2005) or better firm-level governance (Doidge, Karolyi, and Stulz, 2007). We provide some preliminary evidence that acquirer returns strongly increase with insider ownership, a finding which stands in contrast to the mixed evidence in the existing literature. However, our country governance results remain robust when we control for insider ownership, as well as when we control for an index of firm-level governance mechanisms developed by Aggarwal, Erel, Ferreira, and Matos (2011). Thus, although we find that firm-level governance factors may play a role in acquisition returns, they do not seem to impact the portability of country-level governance.

EMPIRICAL LITERATURE REVIEW, THEORY, AND HYPOTHESES

Empirical Literature Review

In the literature review that follows, we focus on work in both the IB and finance disciplines that addresses the relation between country characteristics and shareholder gains from acquisitions. Our review is necessarily incomplete, but it shows that, while a number of studies have considered the relation between country characteristics and acquirer returns, these studies have not examined directly the role of

country governance and, more importantly, have not investigated whether country governance is portable, in that acquirers with better country governance gain more from acquisitions.

A large recent literature focuses on the role of investor protection in cross-border acquisitions. Most of that literature uses an index developed by La Porta, Lopez-de-Silanes, Shleifer and Vishny (LLSV, 1998) that measures legal rights of minority investors to proxy for investor rights. Rossi and Volpin (2004) examine the impact on the frequency of cross-border acquisitions and on the wealth effects of cross-border acquisitions of country characteristics related to investor protection. They focus on control acquisitions and include private firm targets in their sample. They find that firms in countries with weaker shareholder protection are less likely to be acquired through cross-border acquisitions. In their analysis of acquirer/target country pairs, they show that acquirers typically come from countries with better accounting standards and stronger shareholder protection than the targets. Bris and Cabolis (2008) focus on the premium paid to the target in cross-border acquisitions of public firms. They show that control acquisitions of target firms in weak shareholder protection countries made by acquiring firms from strong shareholder protection countries result in higher premiums than comparable domestic acquisitions in weak shareholder protection countries.

Several studies limit their sample to specific countries, but also find results supportive of a role of investor protection. For instance, Starks and Wei (2013) conclude that takeover premia received by U.S. targets in stock acquisitions by non-U.S. firms from 1980 to 1998 are higher when the protection of shareholder rights in the acquiring firm's country is lower because the acquirer has to compensate the target shareholders for the fact that they will receive shares that benefit from less protection. They also find that the gains of acquiring firms increase with the investor protection of their country when the acquisition is paid for with stock but not otherwise.

Firms in foreign countries can acquire some of the benefits of U.S. investor protection through ADR programs (Doidge, Karolyi, and Stulz, 2004). We would expect that, in light of Starks and Wei (2013), firms with ADR programs would have higher acquirer returns. Burns, Francis, and Iftekhar (2007) examine the role of ADR programs in cross-border acquisitions and find that foreign firms with ADR

6

programs pay less for U.S. targets. Kuipers, Miller, and Patel (2009) examine acquisitions of U.S. companies by foreign companies. They find that acquirer returns increase in the degree of shareholder protection in the acquirer's country, but fall in the product of the degree of shareholder protection and the respect of the rule of law. They conclude that shareholder protection does not seem to be related to acquirer returns in countries where the respect of the rule of law is high.

Other country characteristics have received attention recently in studies of cross-border acquisitions. For instance, Chari, Ouimet, and Tesar (2010) examine the role of economic development in cross-border acquisitions. They find that developed-market acquirers earn 1.16% on average when an emerging-market firm is acquired, but do not earn a significant positive abnormal return when acquiring targets in developed countries. They show that acquirer returns increase as respect for the rule of law in the acquirer's country increases relative to the target's country, but only for control acquisitions. While one component of the time-varying country governance indices we use takes into account respect for the rule of law, our results hold equally strongly for the other components.

A number of papers investigate the relation between a country's culture and cross-border acquisitions. For instance, Datta and Puia (1995) examine the shareholder wealth effects of cross-border acquisitions and find that acquisitions where the acquirer and the target are more culturally distant create less wealth for the acquirer. Ahern, Daminelli, and Fracassi (2015) investigate the combined return to the acquirer and the target of cross-border acquisitions. They conclude that the combined returns in acquisitions are lower when the countries of the acquirer and the target are more culturally distant. They also find that acquirers are more likely to acquire firms from countries that are culturally close. While some studies argue that cultural distance can hamper the long-run performance of cross-border mergers (e.g., Jemison & Sitkin, 1986; Datta & Puia, 1995; and Zhao, Luo, & Suh, 2004), others find that in the long-run mergers where the acquirer and the target are more culturally distant perform better (e.g., see Kogut & Singh, 1988; Morosini & Singh, 1994; Morosini, Shane, & Singh, 1998; Chakrabarti, Guptee-Mukherjee, and Jayaraman, 2009). Weitzel and Berns (2006) measure target premiums, focus on corruption and find that either corruption or low government effectiveness is related to poor target returns. The literature also

finds that managerial and board attributes operate differently depending on the quality of the legal system and on the degree of corruption. For instance, Brockman, Rui, and Zou (2013) find that politically connected bidders underperform unconnected bidders in countries with a high quality legal system and low corruption, but the opposite is true for countries with a low quality legal system and high corruption.

The literature reviewed considers the relation between acquirer returns and specific country characteristics. These country characteristics are measures of investor protection, financial and economic development, and culture. None of these country characteristics measures country governance. While the papers reviewed develop or refer to theories that make predictions about the relation between the country characteristics they consider and acquirer returns, they do not develop or refer to theories that make predictions about the relation between acquirer returns and country governance. We develop such a theory next and then test it empirically.

Theory and Hypotheses

In the introduction, we summarized how agency theory and the theories of the law and finance literature motivate our inquiry about the role of country governance in the gains made by acquiring firm shareholders from cross-border acquisitions. With these theories, better country governance implies that property rights are better enforced and agency problems are weaker. As a result, all else equal, firms in countries with better country governance are more efficient and invest more in assets that are easier to expropriate. Therefore, firms in better governed countries have a greater ability to create value through cross-border acquisitions as they can apply their greater efficiency and use their investments in assets that are easier to expropriate to exploit the assets and growth opportunities of the targets they acquire in foreign countries. These firms can improve the profitability of the targets and use the targets to extract additional rents from their scarce assets. Importantly, better country governance means that firms can be managed more efficiently, as they have access to contracting devices that are not available in countries with poorer governance. For instance, the literature shows that trust is more prevalent in countries with better governance and that trust makes it possible for firms to be more decentralized (Bloom, Sadun, and

8

van Reenen, 2009). Hence, firms that come from countries with better governance can better manage firms they acquire in countries with poorer governance.

The gains from a cross-border acquisition will be larger for the acquirer's shareholders if a target is in a country with poorer governance, as the target will be less efficient and will have underinvested more. In addition, from the law and finance literature (LLSV, 1998), firms in countries with better governance have better access to funding, so that they can finance themselves with better conditions. This enables them to create more value through cross-border investments and benefit more from acquisitions in countries with poor country governance as firms in these countries underinvest because of poorer access to funding. Compared to targets in countries with poor governance, targets in countries with good governance offer fewer opportunities for value creation.

Because of their greater efficiency, firms from countries with better country governance can create more wealth for their shareholders through cross-border acquisitions, obtaining gains that are not achievable for stand-alone firms from countries with poorer country governance. These potential gains fall as the quality of the country governance in the host country increases because firms in that country are more similar to the firms from countries with good governance. It follows from this that firms in countries with better governance create more wealth through cross-border acquisitions because they make better decisions – i.e., they are less likely to make cross-border acquisitions that destroy shareholder wealth. Further, they can create more wealth through acquisitions because of the portability of good governance. This reasoning leads to our first two hypotheses:

Hypothesis 1: *There is a positive relation between the quality of country governance in the acquirer country and the acquirer's stock-price reaction to a cross-border control acquisition.*

Hypothesis 2: *There is a negative relation between the quality of country governance in the target country and the acquirer's stock-price reaction to a cross-border control acquisition.*

If good governance is portable, then we expect the gains from acquisitions to be higher when the acquired firm is in a country with poor governance because of that portability. Good country governance is equivalent to a superior technology that the acquirer owns but the target does not. Using that technology increases the value of the target for the acquirer. This is because the acquirer controls the target's assets and the acquirer's actions are made more efficient by its better country governance, thereby enabling it to make better use of the assets acquired. An acquirer with that technology cannot benefit when it buys firms in countries with equally good governance because these firms already have that same technology. We define the difference between the country governance of the acquirer and the country governance of the target as the *country governance distance* between the acquirer and the target. This distance is positive when the acquirer has better country governance than the target and negative otherwise. Our discussion implies that the acquirer's gain from a cross-border acquisition increases with the country governance distance between the acquirer and the target.

Hypothesis 3a: *There is a positive relation between the country governance distance between the acquirer and the target and the acquirer's stock-price reaction to a cross-border control acquisition.*

We now turn to the case where the country governance distance between the acquirer and the target is negative. In this case, the acquirer's country governance does not help to manage the target's assets more efficiently. However, because the target has better country governance, it manages its assets better than the acquirer would be able to. We therefore expect that the acquirer gains less from the acquisition because the country governance distance is negative. At the same time, however, we would expect that the better country governance of the target would have some benefits for the acquirer. Specifically, the target will be able to use resources more efficiently than the acquirer absent intervention from the acquirer. Because it is in the acquirer's best interests to allow the target to continue operating more efficiently, we would expect that intervention from the acquirer will not eliminate all of that greater efficiency. This means that if the acquirer has worse country governance, some of the adverse aspects of

this country governance could be mitigated by the better country governance of the target. Hence, while overall poorer country governance means less efficiency, some of that effect might be offset by the better country governance of the target's country if the governance distance is negative. This implies that the effect of country governance distance on acquirer returns is asymmetric as the adverse effect of negative country governance distance is partly mitigated by the better governance of the target's country.

> **Hypothesis 3b:** *The relation between the country governance distance between the acquirer and the target and the acquirer's stock-price reaction to a cross-border control acquisition when the distance is negative is weaker than when the distance is positive.*

DATA AND METHODOLOGY

The Sample of Acquisitions

We collect data on all acquirers and targets in completed deals for control prior to the financial crisis from 1990-2007 from the Securities Data Company's (SDC) Global Mergers and Acquisition database. We end our sample before the credit crisis to avoid having a sample infected by the unique attributes of M&A transactions during the years of the credit crisis and the immediately following years, in particular the increase in acquisitions driven by financial distress. Including these years in our sample would force us to account for the financial crisis, but this means that effectively our sample would not increase much as transactions driven by the crisis would have to be treated differently. We consider only cross-border deals for control where the acquirer is public, owns less than 50% of the target before the acquisition and more than 50% afterwards, and where the target is public, private, or a subsidiary.[4] We delete deals where SDC classifies the target as private, yet the stock price information is available. The initial cross-border sample includes 24,463 acquisitions. We also eliminate deals where the value of the transaction reported

---

[4] A difficulty with subsidiary targets is that the subsidiary could be located in a foreign country but the parent could be located in the same country as the acquirer. We include in our sample only subsidiary targets where the ultimate parent's country is the same as the subsidiary's country.

by SDC is less than 1% of the acquiring firm's market value of equity two days before the announcement which reduces the sample to 9,036 cross-border deals.[5] Finally, we need stock returns to estimate abnormal returns and eliminate an acquirer (target) from the sample if the acquirer (target) is involved in multiple acquisitions within a five-day window surrounding the announcement of the deal. The final sample consists of 8,090 cross-border acquisitions.

Table I shows the distribution of the sample across acquirer nations. The U.K. and U.S. are the two largest acquirer nations making up 24.2% and 23.3% of the sample, respectively. The frequency of takeovers in Anglo-Saxon countries is much higher than in other countries. However, our results are not unique to these countries. For instance, our results hold if we exclude the U.S. from our sample. Rounding out the top ten countries in terms of sample representation are respectively Canada, Australia, France, Sweden, Ireland, Germany, the Netherlands, and Singapore. These ten countries, out of 56 countries in the sample, represent nearly 80% of our sample.

Abnormal Returns

Stock returns come from Datastream and all our analyses are based on dollar returns. We use the SEDOL from SDC as the firm identifier to merge with Datastream to obtain event returns for the acquirer.[6]

Estimating acquirer stock-price reactions across countries presents several challenges. A possible approach is to follow the traditional approach for U.S. acquisitions and estimate the market model at the country level to obtain abnormal returns over a three-day window. Some of the studies discussed in the literature review do exactly that (e.g., Ahern, Daminelli, and Fracassi, 2010; Chari, Ouimet, and Tesar, 2010).

There are two potential problems with such an approach. First, the number of firms differs sharply across countries, so that in some countries the acquirer might be an extremely large fraction of the market

---

[5] We are primarily interested in deals that are important investments from the acquirer's perspective.

[6] SDC reports a Primary SEDOL and an Ultimate Parent SEDOL as firm identifiers. If the primary SEDOL matches to Datastream we use the Primary SEDOL, otherwise we use the Ultimate Parent SEDOL.

portfolio. For instance, Statoil ASA of Norway acquires North American Oils Sands Corp. Statoil ASA's market capitalization represents 27.80% of the market portfolio of Norway. In such a case, the acquirer abnormal return would be pulled toward zero because of the weight of the firm in the country market portfolio. To account for this and make abnormal returns comparable across countries, we use a market model where the proxy for the market return is a proxy for the world market portfolio. Second, an acquisition announcement may take place first in the country of the target when the market is closed in the country of the acquirer or may take place in the country of the acquirer when the country of the target is closed for business. Further, stock market liquidity differs across countries and so do regulations for disclosure and stock trading. Differences in microstructure and disclosure could lead to a lag in the extent to which the market reacts to an acquisition in some countries. For instance, during our sample period, some countries stop trading in a stock for the day after it has moved by some percentage (e.g., South Korea). Consequently, the announcement effect may be spread over several days. To allow for enough time to incorporate the announcement information, we use a five-day announcement window instead of the more standard three-day window to estimate the cumulative abnormal return (CAR). The parameters for the estimation of the market model are estimated over the period starting 205 days to 6 days prior to the announcement. We use the world index from Datastream as the regressor in the market model. All event returns are winsorized at the 0.5% level and the 99.5% level.[7]

Country and Firm-level Data

To measure how a country is governed (country governance) we use the country-level indicators of Kaufman, Kraay, and Mastruzzi (2009). These indicators vary annually since 1997 and are obtained from combining several hundred individual variables measuring six attributes of country governance: political stability, government effectiveness, regulatory quality, enforcement of the rule of law, corruption, and the extent to which a country's citizens are able to participate in selecting their government. We use the indicators for the year of the acquisition announcement or 1997 if the acquisition takes place earlier. We

---

[7] We correct for Datastream return errors based on the recommendations in Ince and Porter (2006).

follow Kaufman et al. (2009) and consider the mean of the six variables for each country (WDI_GOV_AVG). We also use the individual scores for the control of corruption (CONTROL_CORR), government effectiveness (GOVT_EFFECT), political stability (POL_STAB), regulatory quality (REG_QUALITY), rule of law (RULELAW_WGI), and voice and accountability (VOICE_ACCT) in some of our analyses.[8] According to Hypotheses 1 and 2, we expect acquirer returns to increase (decrease) with the governance indices of the acquirer's (target's) country. Hypothesis 3 requires us to compute a measure of country governance distance and predicts that the acquirer CAR increases in the slope of the country governance distance when the distance is positive and that the slope is lower when the distance is negative. Our measure of country governance distance is simply the index of the country of the acquirer minus the index of the country of the target.

As seen in the literature review, there is already a literature that investigates the relation between country characteristics and bidder returns. In our study, we want to make sure that our country governance indices do not proxy for characteristics examined in the literature. Further, we want to compare the economic significance of the relation between country governance indices and acquirer returns to the economic significance of the relation between country characteristics used in the literature and acquirer returns in our sample. The first group of country-level variables contains indices of investor protection: the anti-self-dealing index (ANTI_SD) from Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2008), the anti-directors index (ANTI_DIR) from LLSV (1998) as revised in Djankov et al. (2008), and private and public enforcement indices of securities laws (SECLAW_PRIVATE; SECLAW_PUBLIC) from La Porta, Lopez and Shleifer (2006). The literature often uses the product of the anti-director rights index and the rule of law index (RULE_LAW), which measures the extent to which laws are enforced, from LLSV (1998). This product is interpreted in the literature as a measure of shareholder protection (SHARE_PROTECT), and we do the same. We use an index from LLSV (1998) measuring the quality of fiscal-year 1990 annual reports in their disclosure of accounting information

---

[8] Note that RULE_LAW used to create the variable SHARE_PROTECT is different from the RULELAW_WGI variable. See the Appendix for a detailed description of these variables.

(ACCOUNT) and an index of the quality of disclosure (JM_DISC) developed by Jin and Myers (2006). We also use the index of creditor rights (CREDITOR_RIGHTS) from Djankov, McLiesh and Shleifer (2007).

We follow Bhattacharya and Daouk (2002) and define indicator variables equal to one if, respectively, insider trading laws (IT_LAW) and enforcement actions of insider trading laws (IT_ENF) are in place at least one year prior to the acquisition announcement year and zero otherwise. We would expect less insider trading to be associated with higher stock-price reactions in absolute value since the element of surprise in acquisition announcements would be higher.

Other country-level variables measure economic and financial development as well as the performance of markets in a country. Specifically, we use the Gross Domestic Product (GDP_PCAP) per capita based on the World Development Indicators (WDI) dataset from the World Bank. GDP per capita is measured in 2007 dollars. Also, we construct a ratio of the aggregate market capitalization of the equity of publicly listed companies to the GDP of a country (MKTCAP_GDP) and a turnover ratio equal to the ratio of the annual dollar volume to the total market capitalization (CRTY_STK_TURNOVER). Trailing one-year stock returns per country (CTRY_RET_1YR) are collected from Datastream. Note that since we are considering dollar returns, a country's stock index could perform well because the country's stock market increased in value in local currency or because the local currency appreciated. Consequently, our stock returns measure subsumes the foreign exchange effect that some papers discussed earlier have shown to affect M&A returns.

Adler and Dumas (1975) focus on the role of cross-border acquisitions in arbitraging barriers to portfolio investment. We would expect acquirers to gain more from acquisitions in countries with barriers to international investment and acquirers to have an advantage if they come from a country that has no barriers. Our proxy for such barriers, LIB_INTENSITY_AVG, follows Bekaert and Harvey (1995) and Edison and Warnock (2003), defined as the ratio of the market capitalization of the constituent firms comprising the International Finance Corporate (IFC) Investable Index to those that comprise the IFC

Global index for each country. We update the index annually, but it does not vary over the sample period for developed countries.

Firm-level governance characteristics may reduce the importance of country-level governance, so we control for firm-level governance using three measures. First, we use insider ownership from Worldscope measured as the percentage of closely held shares relative to the total shares outstanding (INSIDE_PCT). Approximately 60% of the sample has INSIDE_PCT available together with firm and deal characteristics. The theoretical literature argues that insider ownership should be higher in countries with worse investor protection, so that insider ownership would mitigate the adverse impact of poor investor protection. La Porta *et al*. (2002) provide evidence in support of this prediction. Unfortunately, the data available does not make it possible to separate insider ownership into state ownership and family ownership, which would undoubtedly be useful to increase the power of our tests. Second, we use the firm-level governance index constructed in Aggarwal, Erel, Ferreira, and Matos (2011). This index is based on 41 governance attributes and incorporates measures of board structure, anti-takeover provisions, auditor selection, and compensation and ownership structure (GOV41). This index is comparable across countries, is available for the period 2004-2008 for 23 countries, and increases with the quality of governance. Given that the index is relatively time-invariant, we use the actual value of GOV41 if it is available in the same year as the deal year and use the first available value for GOV41 for all deals prior to the first year of data availability. Finally, we use indicator variables for whether non-U.S. acquirers have an ADR program (ADR).[9] The literature shows both theoretically and empirically that ADR programs are a way for foreign corporations to rent U.S. laws and institutions (Gagnon and Karolyi, 2011).

Table II provides statistics for our country-level and firm-level governance characteristics as well as for acquisition returns. The statistics are computed using country-year values for country characteristics of countries with acquirers. For all characteristics, we find substantial dispersion across our sample. The main country characteristic we focus on is the WDI country governance index (WDI_GOV_AVG). This index can take values from –2 to +2. We have a mean of 0.82. The 1st percentile of the distribution of the

---

[9] We thank Craig Doidge for providing us with his ADR dataset.

index in our sample is -0.53 and the 99th percentile is 1.89. A concern with the various country characteristics is that they can be highly correlated. To examine the validity of that concern for our sample, we show the correlation matrix for the country characteristics in Table III. The first column provides the correlation of the country governance index with all country characteristics. Not surprisingly, the index is highly correlated with its components. The correlation of the index with GDP per capita is 0.671. We control for GDP per capita in our multiple regressions.

It is noteworthy that the index of country governance has low correlation with the index from LLSV for investor protection, which as we discussed in our literature review is frequently used in studies of cross-border acquisitions. As evidence that country governance indices and investor protection indices measure different country attributes, the correlation between the country governance index and the anti-director index in our sample is –0.047. The highest value of the anti-director index is 5, while the country governance index ranges in value from –2 to +2. Strikingly, while both the UK and Brazil have an anti-director index with a value of 5, they have country governance indices of 1.59 and –0.04. Similarly, the Russian Federation has a higher anti-director index than the U.S. (4 versus 3) but has the worst country governance index in our sample (–0.78).

Finally, Table II reports the summary statistics for the cumulative abnormal acquirer returns (CAR) for the whole sample and for the following subsamples: Public targets paid for with cash, public targets paid for with stock, subsidiary targets paid for with cash, private targets paid for with cash, and private targets paid for with stock.[10] For the whole sample of cross-border acquisitions, the average stock-price reaction is 1.50%. For the sub-samples of acquisitions of public firms for cash and for equity, the mean CAR is 1.08% and –2.02%, which is similar to the results presented in the literature (e.g., Moeller et al., 2004). As previously documented in the M&A literature, acquisitions of subsidiaries and private firms have significant positive abnormal acquirer returns (see *e.g.*, Fuller, Netter, and Stegemoller, 2002; Moeller, Schlingemann, and Stulz, 2004, 2005). The average abnormal returns for these two types of

---

[10] The whole sample includes all acquisitions. For brevity, we do not consider separately the subsidiary acquisitions paid for with stock because there are too few of them and acquisitions where means of payment is unknown or mixed as the composition of this sample is too heterogeneous to be analyzed without looking at subsets.

acquisitions paid in cash are respectively 1.71% and 1.39%. The subsample of acquisitions of private firms paid for with stock has a mean CAR of 2.59%.

Relating Acquirer Gains to Country Characteristics: Methodological Issues

Before turning to our estimates of the relation between acquirer shareholder returns and measures of the acquirer's and the target's country-level governance, we have to address four important methodological issues. First, it is known that firm and deal characteristics, such as size and leverage are related to stock-price reactions to acquisitions (see *e.g.*, Moeller et al., 2004; Maloney, McCormick, and Mitchell, 1993). The problem, however, with controlling for firm and deal characteristics in regressions that attempt to explain the stock-price reaction to acquisitions across countries is that both firm and deal characteristics are endogenous to country characteristics. In a U.S. study, all firms have an equal opportunity to choose to proceed with a hostile offer or to proceed with a tender offer. However, in a cross-country study, firms in some countries will be limited in their ability to choose some deal characteristics. Similarly, firms are larger in some countries than others and differences in firm size across countries are often attributed to differences in institutions (see Kumar, Rajan, and Zingales, 2002). Controlling for size, for example, may lead to a different conclusion about the impact of institutions on the gains from acquisitions, but it would ignore the impact of institutions on firm size. To address this issue, we first focus on regressions that have purely exogenous variables. In these regressions, the variables are country characteristics and indicator variables for a firm's industry and its calendar year. We then discuss which results are affected when we control for firm and deal characteristics.[11] Specifically, at the deal level we control for relative size, whether the deal is classified as hostile, whether the deal is classified as a tender offer, and the worldwide liquidity of the market of the assets of the target (see *e.g.*, Schlingemann, Stulz, and Walkling, 2002). Our firm-level control variables include the natural logarithm of the market value of the acquirers' equity two days prior to the announcement, Tobin's Q (defined as

---

[11] We use Compustat Global for firm-level characteristics and SDC for deal-level characteristics. The Appendix of the paper provides a detailed description of the country-level and firm-level variables we use.

the market value of assets divided by the book value of assets, where the market value of assets is the book value of assets minus the book value of equity plus the market value of equity), total cash holdings divided by the book value of assets, the operating cash flow divided by the book value of assets, and the market value measure of leverage (debt divided by the market value of assets). It is important to note that the sample is larger if we do not use deal and firm characteristics, as we lose approximately 24% of the acquisitions if we do.

Second, as shown in Table III, some country characteristics tend to be highly correlated, so that multicollinearity may make it difficult to assess the effect of independent variables in multiple regressions. To address this issue we start by estimating regressions with one country characteristic at a time, while controlling for calendar year and the industry of the acquirer. Next, we present multiple regressions where we investigate the role of country governance in regressions that control for economic and financial development, as well as regressions that additionally control for insider ownership. In all regressions, we use the country characteristic for the acquiring firm as well as the same characteristic for the target. This approach allows us to assess how target country characteristics affect acquirer returns, but it also makes sure that *if* there is a strong correlation between target and acquirer country characteristics, our assessment of the relation between acquirer returns and acquirer country characteristics is not biased.

Third, the literature shows that stock-price reactions differ across acquisition types. For example, acquisition returns are positive for acquisitions of private companies and negative for acquisitions of public companies paid for with equity. Consequently, if a country's firms make relatively more cross-border acquisitions of public firms paid for with equity, the stock-price reaction to acquisitions, everything else equal, will be worse in that country. This outcome raises a concern. There is a large literature showing that firms which pay for acquisitions with equity reveal to the market that their equity is overvalued (see e.g., Moeller, Schlingemann, and Stulz, 2007). As a result, conditional on the market assessing the equity's value correctly, an acquisition might increase shareholder wealth even though the stock-price reaction is negative. This suggests looking at acquisition types separately. However, this approach is also imperfect because acquisition types are likely endogenous to country characteristics

19

since there is evidence (discussed in the literature review) that investors are reluctant to accept shares in payment for an acquisition when the shares trade in a country with poor investor protection. We return to the issue of sub-sample results in our multivariate regression analysis.

Fourth, since we focus on cross-border acquisitions across countries there may be a potential selection bias in our results due to the non-random nature of our sample. Specifically, the firm attributes that make it more likely that a firm is an acquirer could be correlated with country governance. We therefore provide results using the two-step regression specification following Heckman (1979).

RESULTS

Acquirer Gains: One Country Characteristic at a Time

Since the literature has already examined how acquirer returns relate to some country characteristics, we want to show how acquirer returns relate to country governance in comparison to how they relate to other country characteristics in our sample. We estimate regressions where we consider the relation between abnormal returns and country characteristics considering one characteristic at a time to gauge the strength of the relation between characteristics and acquirer returns. Admittedly, a characteristic could be significant because it proxies for some other characteristic. However, if a characteristic is not significant, one would have to be skeptical that it is important on its own. We expect these regressions to have limited explanatory power for two reasons. First, these regressions have just one country-level explanatory variable for the acquirer and target country, but no other deal characteristics. Second, similar cross-sectional regressions in the literature that attempt to explain acquirer returns in cross-border transactions as well as regressions which attempt to explain acquirer returns in domestic transactions generally have low adjusted R-squared values. For instance, Chari, Ouimet, and Tesar (2010) have a regression of acquirer returns for their sample of all acquirers making acquisitions in emerging markets and the adjusted R-squared is 1% even though they control for some deal characteristics and have target country fixed effects. Next, we will consider multi-characteristic regressions which account for correlations

among characteristics. We show estimates for these single characteristic regressions in Table IV. We cluster residuals by acquirer country and report significance based on heteroscedasticity-consistent standard errors. For each country characteristic, we show the coefficient and statistical significance on the country characteristic for the acquirer's country and for the target's country as well as the adjusted R-squared of the regression.

The first row of Table IV shows that the abnormal return of the acquirer increases with the country governance index (WDI_GOV_AVG) of the acquirer's country. This result supports Hypothesis 1. Moreover, the result is economically significant. The sample standard deviation of the country governance index across acquirer is 0.365. As a result, an increase of one standard deviation in the acquirer country governance index increases the stock-price reaction by 21 basis points, which is a 13.9% increase. As predicted by Hypothesis 2, we also find that the abnormal return of the acquirer falls as the country governance index of the country of the target increases. The standard deviation of the country governance index across host countries is 0.536. A one standard deviation increase in the country governance index of the target's country reduces the acquirer's gain by 26 basis points which is a 17.7% decrease. It follows that the economic significance of changes in country governance are roughly of the same magnitude but opposite in sign for the index of the country of the acquirer and the index of the country of the target. Since we find support for both Hypotheses 1 and 2, this is our first evidence consistent with the portability of country level governance.

Table IV also shows results for the sub-indices of the country governance index on acquirer returns. We find that the results for control of corruption (CONTROL_CORR), government effectiveness (GOVT_EFFECT), and rule of law (RULELAW_WGI) are similar to the results for the index which supports Hypothesis 1. In addition, the results for all of the sub-indices for the target country are significant and negative, which is similar to the overall index and supports Hypothesis 2. However, the acquirer country sub-indices for political stability (POLITICAL_STABILITY), regulatory quality (REG_QUALITY), and voice and accountability (VOICE_ACCT) are not significant.

We now turn to the indices measuring investor protection. Strikingly, we find that only one of the nine investor protection proxies for the acquirer country is significant. Only insider trading law enforcement (IT_ENF) for the acquirer country has a positive and significant relation with acquirer returns, so that protection from expropriation from insider trading increases acquirer returns. For the target country, we find that four of the nine proxies are significant and negative: Anti-director index (ANTI_DIR), accounting transparency (ACCOUNT), creditor rights (CREDITOR_RIGHTS), and insider trading law enforcement (IT_ENF).

The next five variables are related to the economic and financial situation of the country of the acquirer and target. We find no evidence that GDP per capita (GDP_PCAP) is related to acquirer gains in acquisitions, which is surprising in light of the findings of Chari, Ouimet, and Tesar (2010). Greater stock market capitalization of the acquiring country (MKTCAP_GDP) is unrelated to acquirer gains, but the stock market capitalization of the target country has a negative coefficient. Additionally, we find no significant coefficient for the acquirer or target country measures of stock market turnover of the acquirer's country (CTRY_TURNOVER), the country's stock return in the year preceding the acquisition (CTRY_RET_1YR), or the index of liberalization intensity (LIB_INT_AVG).

Finally, we consider regressions with firm-level governance characteristics. As expected, we find that acquirer abnormal returns increase significantly with insider ownership (INSIDE_PCT) for the whole sample. The standard deviation of insider ownership across our sample is 23.16%. As a result, a one standard deviation increase in insider ownership increases the stock-price reaction by 27 basis points, which is approximately the same as the impact of a one standard deviation increase in the average country governance index. In contrast to INSIDE_PCT, we find that acquirer abnormal returns decrease significantly with firm-level governance (GOV41). Finally, restricting the sample to non-U.S. firms only, we use an indicator variable for whether a firm has an ADR program (ADR). The existence of an ADR program is negatively associated with the acquirer return. This result is surprising and opposite to the results we would expect if the existence of an ADR program leads to better governance.

As expected, the adjusted R-squared values of the regressions are modest, as they range from 0.5% to 1%, but are consistent with the results in the literature. They are not an indication of low power of our tests because of properties of our sample. If the issue were one of low power, we would fail to find the significant effects we document.

Acquirer Gains: Regressions with Multiple Country Characteristics

The single characteristic regression analysis in Table IV provides evidence in support of Hypotheses 1 and 2: Acquirer returns increase with the country governance of the acquirer's country and fall with the country governance of the target's country. The results for country governance stand out compared to the results for the variables proxying for investor protection and for economic or financial development.

The concern with the regressions of Table IV is that country governance could derive its significance from its correlation with other country characteristics. Further, we know from our earlier discussion that there are good reasons for financial development and economic development, which are correlated with country governance, to affect abnormal returns. For instance, even though GDP per capita is not significant in Table IV, it could be that country governance is significant only because it partly proxies for GDP per capita. We therefore estimate in Table V regressions with various measures of acquirer and target country governance where we also control for economic and financial development.[12] Our proxy for economic development is GDP per capita and the one for financial development is the ratio of stock market capitalization to GDP.

The acquirer and target country governance measures we analyze in this table are the main country governance index (WDI_GOV_AVG) (model 1) and its six sub-indices (models 2–7). In Panel A, of Table V, we estimate multi-characteristic regression models where we control for economic and financial development of the acquirer and target countries as well as for country governance. The regression estimates of model (1) for the country governance index (WDI_GOV_AVG) show further support for

---

[12] We estimate the variance inflation factor (VIF) for each predictor in our regression models from Table V. The VIFs are consistently below 2.5 for the country governance variables and below 3 for the control variables, which mitigates multicollinearity concerns.

Hypotheses 1 and 2 and the portability of country level governance because acquirer (target) country governance remains positive (negative) and significant when we control for financial and economic development. We note that while GDP per capita of the acquirer country is not significant in Table IV, GDP per capita of the target country is positive and significant in model (1) of Table V. This is further evidence that acquisitions in emerging markets have higher acquirer returns not because these countries are poorer, but because they have poorer country governance. Note that if we estimate the regressions without country governance, the significance of the coefficients on GDP per capita of the target country becomes weaker in that the coefficient for model (1) in Panel A is no longer significant. However, there is no regression where GDP per capita of the target country has a significant negative coefficient and hence no evidence that lower economic development alone leads to higher acquirer returns in our sample. The economic significance of a one standard deviation change in the country governance indices of the acquirer and of the target is similar for the multiple characteristic regressions to what we showed for the single characteristics regressions.[13]

Models (2)–(7) with the sub-indices of the country governance index show similar results except the acquirer country measure is not significant for political stability, regulatory quality, and voice/accountability. It follows from the evidence presented so far on the sub-indices that the relation between acquirer returns and country governance is not driven by just one aspect of country governance. Instead, most aspects of the country governance of the acquirer and target appear to be related to acquirer returns.

The literature shows that firms can act to reduce the adverse effects of poor country governance. Specifically, if poor country governance worsens agency conflicts, firms can choose to have more concentrated ownership to reduce agency conflicts (Shleifer and Wolfenzon, 2002; Stulz, 2005). The single characteristic regression reported in Table IV shows that bidder insider ownership is positively

---

[13] In unreported analysis we estimate regressions where we use accounting transparency (ACCOUNT), the securities law index (SEC_LAW), and the anti-self-dealing index (ANTI_SD). In these regressions, accounting transparency of the acquirer has a positive significant coefficient and accounting transparency of the target country has a negative significant coefficient for the whole sample. The anti-self-dealing index of the acquirer's country has a significant negative coefficient and the coefficient on securities laws of the target is significantly positive.

related to bidder returns. In Panel B, of Table V, we re-estimate the multi-characteristic regressions and include insider ownership of the acquirer (INSIDE_PCT) as an explanatory variable to investigate whether the significance of country governance survives controlling for firm-level governance. Doing so reduces the size of the whole sample by approximately 20%. In model (1) the insider ownership variable has a coefficient of 0.0149 that is significant at the one-percent level and the coefficient on insider ownership is positive and significant for all the sub-indices. However, the coefficients on the country governance variables are still similarly significant plus the acquirer country sub-index of voice and accountability is now also significant. The significant, positive relation for insider ownership is in contrast to the mixed findings in the current literature.[14] The economic significance of a one standard deviation increase in insider ownership for the whole sample is a 21% increase in acquirer returns. In addition, better firm-level governance may reduce the adverse effects of poor country governance (Doidge, Karolyi, and Stulz, 2007). In untabulated regressions we also add the firm-level governance index (GOV41) as a second firm-level governance measure (Aggarwal, Erel, Ferreira, and Matos, 2011). While the sample reduces by 60% from the original sample, the coefficient on acquirer-country governance continues to be positive, but the coefficient on GOV41 never has the expected positive coefficient. The bottom line of this analysis is that controlling for firm-level governance does not change our inferences regarding the importance of country governance,

  We next estimate all the regressions discussed so far controlling for the firm and deal characteristics described earlier. We do not report these regressions in a table. We lose about one quarter of observations in the regressions that use these characteristics. For the whole sample, we find that the acquisition return increases in the relative size of the acquisition, falls in the size of the acquirer, and falls if the acquisition is a tender offer. The results are consistent with those for U.S. domestic acquisitions and therefore firm and deal characteristics do not appear to play a significantly different role for cross-border acquisitions. For the various acquisition types, the signs of the coefficients are generally consistent, but not always

---

[14] The U.S. evidence is inconclusive. Hubbard and Palia (1995) find a nonlinear relation between bidder returns and managerial ownership for the U.S., but Loderer and Martin (1997) find none.

significant. No other deal or firm characteristic is consistently significant. The estimates for the country characteristics are generally consistent with the estimates discussed earlier, but sometimes insignificant as firm characteristics are correlated with country characteristics for reasons discussed earlier. As expected, the adjusted R-squared values of these regression are substantially larger, typically close to 5%, than those of regressions without deal or firm characteristics, and comparable to the R-squared values shown in earlier studies.

The literature on M&A acquirer returns shows that stock-price reactions differ across acquisition types based on the organizational form of the target and the form of payment (e.g., Moeller et al., 2004). Since country level governance may be related to these deal type characteristics, we re-estimate model (1) from Table V for five different sub-samples of deal types: Public targets paid for with cash, public targets paid for with stock, subsidiary targets paid for with cash, private targets paid for with cash and private targets paid for with stock. These results are tabulated in Table VI. Similar to the previous results, Panel A shows the coefficient on country governance of the acquiring firm is significantly positive for acquisitions of public and private firms paid for with cash. The country governance of the target firm is significantly negative for acquisitions of public firms paid for with cash and of private firms paid for with equity. In Panel B, where we additionally control for the insider ownership of the acquirer (INSIDE_PCT), we find similar results to Panel A except now the acquirer country governance is positive and significant for private targets paid for with stock and target country governance is negative and significant for subsidiary targets paid for with cash. In model (2), we focus on the smaller sub-sample of deals with public targets paid for with stock and find that country level governance is never significant. In Panel B, we see strong evidence of portability in cash mergers of public targets and stock mergers of private targets, weak evidence in cash mergers of subsidiary and private targets and no evidence in stock mergers of public targets.

Given the attention paid in the literature to indices for investor protection, we re-estimate our multi-characteristic regressions of Panel A of Table V with investor protection indices and report the results in the internet appendix as Table IA-I. We find that the product of the rule-of-law index and the anti-director

26

index (SHARE-PROTECT) is significant neither for the country of the acquirer nor for the country of the target. In the next regression, we add the anti-director index. Surprisingly, the anti-director index of the acquirer's country has a significant negative coefficient while the index for the target's country is not significant. Finally, the anti-self-dealing index is insignificant. The country governance indices remain significant when we add the investor protection indices.

We now turn to Hypotheses 3a and 3b. Hypothesis 3a states that the acquirer's stock-price reaction increases with the country governance distance between the acquirer and the target. We define the variable Distance as the difference between the acquirer and target country levels of governance (i.e., acquirer WDI_GOV_AVG minus target WDI_GOV_AVG). To test Hypothesis 3a, we first re-estimate model (1) of Table V, but instead of having the country governance indices of the acquirer and target as separate variables, we now use the country governance distance. As predicted, the governance distance has a positive coefficient. Hypothesis 3b predicts that the coefficient on country governance distance is higher when the distance is positive than when it is negative. To test this hypothesis, we first estimate the regression model separately for when the distance is positive and when it is negative. Model (2) shows estimates when the distance is positive. The coefficient on the country governance distance is 0.156 and significant at the 1% level. The economic significance of this coefficient is large: it means, for instance, that an acquirer in a country with the best country governance in the sample that acquires a target in a country with median governance earns 1.5% more than an acquirer that acquires a firm in a country with same governance as the governance of its own country. Using specific countries as examples, a UK firm that acquires a firm in Brazil has a governance distance of 1.64 and therefore has a higher abnormal return of 2.56% relative to a mean stock-price reaction of 1.5% than if that firm made an acquisition in a country with similar country governance as the UK. Next, we estimate the model when the distance is negative. The estimates are given in model (3). The coefficient on Distance is positive but economically small and statistically insignificant. We test formally that the relation between the stock-price reaction and the country governance distance is asymmetric in model (4). The model shows that the slope is stronger when the distance is positive. The evidence supports Hypothesis 3b. These results are strongly supportive of

27

portability because there is no good reason for acquirer returns to be related to the country governance distance in the absence of portability. Absent portability, the country governance of the acquirer could be related to acquirer returns because the acquirer management would be more likely to make decisions in the interests of shareholders, but there would be no reason for the country governance of the target to be negatively related to acquirer returns and hence for distance to affect acquirer returns positively when controlling for economic and financial development. Though untabulated, the results of Table VII hold if we add firm and deal characteristics, if we control for investor rights, and if we control for insider ownership.

Robustness tests

In this section, we investigate the robustness of the multiple characteristic results for the country governance index (WDI_GOV_AVG). The results are reported in the internet appendix as Table IA-II. For brevity, we report results for the whole sample only and for the regressions where we test Hypotheses 1 and 2 only. All regressions include year fixed effects.

First, we address potential biases due to sample selection by following the approach suggested by Heckman (1979). Based on the full sample of firms in the Compustat Global database, we begin by specifying a first-stage probit regression model predicting whether a firm in a given year is a cross-border bidder. The explanatory variables in the first-stage probit model include firm characteristics and country-level characteristics. Our firm-level control variables include the natural logarithm of the market value of the acquirers' equity at the end of the fiscal year, Tobin's Q, total cash holdings divided by the book value of assets, the operating cash flow divided by the book value of assets, and the market value measure of leverage (debt divided by the market value of assets).[15] Our country-level controls include GDP_PCAP, LIB_INTENSITY_AVG, SECLAW, ANTI_SD, MKTCAP_GDP, and CTRY_RET_1YR. We also include the following two variables for identification purposes: The number of cross-border deals outside

---

[15] These firm-level controls are the same as those used in the unreported CAR regressions that include firm and deal characteristics with the exception of the market value of equity, which is measured in both stages at the fiscal year end (rather than 2 days before the acquisition) for both acquiring and non-acquiring firms.

the country over the past five years and the number of firms in the same 2-digit SIC code in the same year outside the firm's country. Both these variables appear to satisfy the relevance condition and the exclusion restriction and have the expected positive significant coefficient (p-values < 0.001) in the first stage probit regression. From the coefficients of the first-stage probit model, we define the inverse Mill's ratio (IMR), which we then include in the second stage OLS regression, where the bidder return (CAR) is the dependent variable. The coefficient on IMR is positive and significant. Adding IMR as a regressor does not change our conclusions about the role of country governance.

Next, we confirm with model (2) that our results hold when we use a matched sample where we match similar acquirers from countries with different quality of country governance based on year, size, Tobin's Q quartiles, and industry. Each variable in the regression is calculated as the difference between the bidder firm and matched control firm. Our regression results are similar.

We examine whether our results are sensitive to some of the sampling criteria we used in creating our primary sample of cross-border deals. First, we show in model (3) that our results hold if we exclude all U.S. acquirers and all U.S. targets. In fact, the adjusted R-squared of the regressions is higher and both country governance coefficients are significant at the 1% level and larger in absolute value when we exclude the U.S. Second, we exclude serial acquirers in model (4). We consider an acquirer to be a serial acquirer if the acquirer made 5 bids of any kind over the last three years (Fuller et al., 2002). Again, the country governance coefficients remain significant. Third, in model (5), we exclude cross-border serial acquirers only and find similar results. For that model, we define an acquirer to be a cross-border serial acquirer if the acquirer made two or more cross-border bids of any kind over the last three years. Fourth, we refine our definition of change in control by excluding bidders that have equity toeholds in the target prior to bidding. As shown in model (6), doing so does not change our conclusions about the role of country governance. Finally, in model (7) we require acquisitions to be at least 2% of the market value of the acquirer instead of 1% and show that the coefficients on the country governance remain significant.

DISCUSSION, LIMITATIONS, AND CONCLUSIONS

In this paper, we fill a gap in existing theory and test hypotheses resulting from our new theory. Existing theories predict that a country's governance affects agency problems within that country. Hence, firms in countries with better country governance have better practices and make better decisions. The literature also shows that country governance varies widely across countries. However, the literature has not addressed whether firms that come from countries with better governance are able to use that advantage so that they can manage acquisitions in countries with worse country governance better than firms that come from countries with similar country governance as the country governance of the target. We develop a theory of portability of country governance, which predicts that the acquirer's gain increases with the country governance of the acquirer (Hypothesis 1), falls with the country governance of the target (Hypothesis 2), increases with the country governance distance between the acquirer and the target when that distance is positive (Hypothesis 3a), and increases less with the country governance distance when it is negative than when it is positive (Hypothesis 3b).

As predicted by our theory, we find that firms from better governed countries make better cross-border acquisitions and that their shareholders gain more from their cross-border acquisitions when they are made in worse governed countries using a sample of cross-border acquisitions from 56 countries from 1990 to 2007. Further, the shareholders of the acquirer gain more as the country governance distance between the acquirer's country and the target's country increases. The magnitude of the effects we document, especially the effect on country governance distance, is large. An acquirer from the best governed countries acquiring a target from a country with median governance earns 1.5% more than if it had acquired a firm with the same country governance as its own country. These results are robust to other determinants for acquisition returns as well as to other estimation methods, including methods that account for a selection effect. We find also that our results are not due to country governance acting as a proxy for firm-level governance or for investor protection. When we control for firm-level governance or investor protection, our results on country governance still hold. Interestingly, we show that the results

30

hold even though there is a strong relation between acquirer inside ownership and abnormal returns. Whereas our country governance variables have an economically significant relation with acquirer returns showing that firms benefit from better country governance and that country governance is portable, we find no evidence that other country characteristics have a reliable systematic relation with acquirer returns across acquisition types. In contrast to the earlier literature that emphasizes the role of investor protection for cross-border acquisitions, we find no consistent impact of investor protection on acquirer returns. While we cannot exclude that these relations result from some correlation between country governance and unobservable country characteristics that are not related to country governance, we are not aware of theories that would point us towards such characteristics.

A further limitation of our study is that we do not consider how country-level governance affects the total gains and welfare associated with cross-border acquisitions. In order to study this we would need a sample of public to public acquisitions, which would severely limit the representativeness of our sample. In fact, in such a limited sample (14.6% of our current sample), we would have to be concerned that the sample composition would be systematically affected by country governance as countries with poorer country governance are expected to have smaller stock markets.

Our study opens important avenues for future work. Future work should investigate how the gains from acquisitions that accrue collectively to the bidder and the target shareholders are determined and are divided between the bidder and target shareholders as a function of country governance in a setting that would fully correct for the fact that there are more public companies and that these companies acquire more in countries with better governance. We have shown that country governance is portable, but we have not documented the ways country governance directly affects the value created in the acquisition. Further work should examine how country governance affects the success of acquisitions in the short run as well as in the long run and the extent to which acquirers are able to create value through acquisitions. We have not examined the role of country governance when potential bidders compete for acquisitions. We would expect that competition would decrease the gains of bidders, but that ultimately the bidders from better governed countries would prevail as they would be able to offer more for the target. The

existence of competition therefore could mean that we understate the benefit good country governance for acquirers. Lastly, we have focused on acquisitions for control. However, an investigation like the one we conducted could be conducted for joint ventures and for partial acquisitions. Theoretically, we would expect that portability has limits in that some cross-border investments will not benefit from portability of country governance. Further research should explore the limits to portability.

Our evidence supports our theory that the benefits to firms from good country governance are portable and demonstrates that acquirers can create more value by buying companies in worse governed countries. In fact, poorer country governance in the host country appears to be a source of value for cross-border acquisitions rather than an obstacle to value creation. We believe our proposition that country governance is portable provides important new insights for the intersection of IB and finance research as our proposition and results reject the commonplace notion that acquisitions in countries with worse country governance are more value destroying.

NOTE

REFERENCES

Acemoglu, D. 2003. Root causes: A historical approach to assessing the role of institutions in economic development. *Finance and Development*, 40(2): 27-30.

Adler, M. & Dumas, B. 1975. Optimal international acquisitions. *Journal of Finance*, 30(1): 1-19.

Aggarwal, R., Erel, I., Ferreira, M., & Matos P. 2011. Does governance travel around the world? Evidence from institutional investors. *Journal of Financial Economics*, 100(1): 154-182.

Ahern, K., Daminelli D., & Fracassi C. 2015. Lost in translation? The effect of cultural values on mergers around the world. *Journal of Financial Economics*, 117(1): 165-189.

Bekaert, G., & Harvey, C. 1995. Time-varying world market integration. *Journal of Finance*, 50(2): 403-444.

Bhattacharya, U., & Daouk, H. 2002. The world price of insider trading. *Journal of Finance*, 57(1): 75-108.

Bloom, N., Sadun R., & van Reenen, J. 2009. The organization of firms across countries. CEP discussion paper No. 937, The London School of Economics.

Bris, A., & Cabolis, C. 2008. The value of investor protection: Firm evidence from cross-border mergers. *Review of Financial Studies,* 21(2): 605-648.

Brockman, P., Rui, O. M., & Zou H. 2013. Institutions and the performance of politically connected M&As. *Journal of International Business Studies*, 44(8): 833-852.

Burns, N., Francis, B. B., & Iftekhar, H. 2007. Cross-listing and legal bonding: Evidence from mergers and acquisitions. *Journal of Banking and Finance*, 31(4): 1003-1031.

Chakrabarti, R., Gupta-Mukherjee, S., & Jayaraman, N. 2009. Mars-Venus Marriages: Culture and cross-border M&A. *Journal of International Business Studies*, 40(2): 216-236.

Chari, A., Ouimet, P. P., & Tesar, L. L. 2010. The value of control in emerging markets. *Review of Financial Studies*, 23(4): 1741-1770.

Datta, D. K., & Puia, G. 1995. Cross-border acquisitions: An examination of the influence of the relatedness and cultural fit on shareholder value creation in U.S. acquiring firms. *Management International Review*, 35(4): 325-336.

Djankov, S., McLiesh C., & Shleifer, A. 2007. Private credit in 129 countries. *Journal of Financial Economics*, 84(2): 299–329.

Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. 2008. The law and economics of self-dealing. *Journal of Financial Economics*, 88(3): 430-465.

Doidge, C., Karolyi, G. A., & Stulz, R. M. 2004. Why are foreign firms listed in the US worth more? *Journal of Financial Economics*, 71(2): 205-238.

Doidge, C., Karolyi, G. A., & Stulz, R. M. 2007. Why do countries matter so much for corporate governance? *Journal of Financial Economics*, 86(1): 1-39.

Edison, H. J., & Warnock, F. 2003. A simple measure of the intensity of capital controls. *Journal of Empirical Finance*, 10(1): 81-103.

Filatotchev, I., & Wright, M. 2011. Agency perspectives on corporate governance of multinational enterprises. *Journal of Management Studies*, 48(2): 471-486.

Fuller, K., Netter, J., & Stegemoller, M. 2002. What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions. *Journal of Finance*, 57(4): 1763-1794.

Gagnon, L., & Karolyi, G. A. 2011. Do international cross-listings still matter?, in Evidence on financial globalization and crises, Thorsten Beck, Sergio Schmukler, Stijn Claessens, editors, Elsevier North-Holland Publishers.

Heckman, J. J. 1979. Sample selection bias as a specification error. *Econometrica*, 47(1): 153-161.

Henisz, W., & Swaminathan, A. 2008. Introduction: Institutions and International Business. *Journal of International Business Studies*, 39 (4): 537–39.

Hoskison, R. E., Wright, M., Filatotchev, I., & Peng, M. W. 2013. Emerging multinationals from mid-range economies: The influence of institutions and factor markets. *Journal of Management Studies*, 50(7): 1295-1321.

Hubbard, R. G., & Palia, D. 1995. Executive pay and performance. Evidence from the U.S. banking industry. *Journal of Financial Economics*, 39(1): 105-130.

Ince, O. S., & Porter, R. B. 2006. Individual equity return data from Thomson Datastream: Handle with care! *The Journal of Financial Research*, 29(4): 463-479.

Jemison, D. B., & Sitkin, S. B. 1986. Corporate acquisitions: A process perspective. *Academy of Management Review*, 11(1): 145-163.

Jensen, M. C., & Meckling, W. 1976. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4): 305-360.

Jin, L., & Myers, S. C. 2006. R^2 around the world: New theory and new tests. *Journal of Financial Economics*, 79(2): 257-292.

Kahle, K., & Walkling, R. A. 1996. The impact of industry classification on financial research. *Journal of Financial and Quantitative Analysis*, 31(3): 309–335.

Kaufmann, D., Kraay, A., & Mastruzzi, M. 2009. Governance matters VIII: Aggregate and individual governance indicators 1996-2008. Policy Research Working Paper Series #4978, The World Bank.

Kaufmann, D., Kraay, A., & Mastruzzi, M. 2010. The worldwide governance indicators: Methodology and analytical issues. Policy Research Working Paper Series #5430, The World Bank.

Kogut, B., & Singh, H. 1988. The effect of national culture on the choice of entry mode, *Journal of International Business Studies*, 19(3): 411-432.

Kuipers, D. K., Miller, D., & Patel, A. 2009. The legal environment and corporate valuation: Evidence from cross-border takeovers. *International Review of Economics and Finance*, 18(4): 552-567.

Kumar, K., Rajan, R., & Zingales, L. 2002. What determines firm size? Unpublished working

Paper, University of Chicago, Chicago, IL.

La Porta, R., Lopez-De-Silanes, F., & Shleifer, A. 2006. What works in securities laws? *Journal of Finance*, 61(1): 1-32.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. 1998. Law and Finance. *Journal of Political Economy*, 106(6): 1113-1155.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. 2002. Investor protection and corporate valuation. *Journal of Finance*, 57(3): 1147-1170.

Loderer, C., & Martin, K. 1997. Executive stock ownership and performance: Tracking faint traces. *Journal of Financial Economics*, 45(2): 223-255.

Maloney, M. T., McCormick, R. E., & Mitchell, M. L. 1993. Managerial decision making and capital structure. *Journal of Business*, 66(2): 189-217.

Martynova, M., & Renneboog, L. 2008. Spillover of corporate governance standards in cross-border mergers and acquisitions. *Journal of Corporate Finance***,** 14(3)**:** 200–223.

Moeller, S. B., & Schlingemann, F. P. 2005. Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking and Finance*, 29(3): 533-564

Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. 2004. Firm size and the gains from acquisitions. *Journal of Financial Economics*, 73(2): 201-228.

Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. 2007. How do diversity of opinion and information asymmetry affect acquire returns? *Review of Financial Studies*, 20(6): 2047-2078.

Morosini, P., & Singh, H. 1994. Post-cross border acquisitions: Implementing "national culture-compatible" strategies to improve performance. *European Management Journal*, 12(4): 390-400.

Morosini, P., Shane, S., & Singh, H. 1998. National cultural distance and cross-border acquisition performance. *Journal of International Business Studies*, 29(1): 137–158.

Pinkowitz, L., Stulz, R. M., & Williamson, R. 2006. Does the contribution of corporate cash holdings and dividends to firm value depend on governance? A cross-country analysis. *Journal of Finance*, 61(6): 2725-2751.

Olson, M. 1996. Big bills left on the sidewalk: Why some nations are rich, and others poor. *Journal of Economic perspective*, 10(2): 3-24.

Rossi, S., & Volpin, P. 2004. Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics*, 74(2): 277-304.

Schlingemann, F. P., Stulz, R. M., & Walkling, R. A. 2002. Divestitures and the liquidity of the market for corporate assets. *Journal of Financial Economics*, 64(1): 117-144.

Shleifer, A., & Wolfenzon, D. 2002. Investor protection and equity markets. *Journal of Financial Economics*, 66(1): 3-27.

Starks, L. T., & Wei, K. D. 2013. Cross-border mergers and differences in corporate governance. *International Review of Finance*, 13(3): 265-297.

Stulz, R. M. 2005. The limits of financial globalization. *Journal of Finance*, 60(4): 1595-1638.

Weitzel, U., & Berns, S. 2006. Cross-border takeovers, corruption, and related aspects of governance. *Journal of International Business Studies*, 37(6): 786-806.

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D., & Jiang, Y. 2008. Corporate governance in emerging economies: A review of the principal-principal perspective. *Journal of Management Studies*, 45(1): 196-220.

Zhao, H., Luo, Y., & Suh, T. 2004. Transaction cost determinants and ownership-based entry mode choice: A meta analytical review. *Journal of International Business Studies*, 35(6): 524-544.

Appendix – Governance variable definitions and sources

Variable name	Definition and source	Time-varying	Country or firm	Data year
ACCOUNT	Index created by the Center for International Financial Analysis and Research to rate the quality of 1990 annual reports on their disclosure of accounting information. Source: La Porta et al. (1998).	No	Country	1990
ADR	Indicator variable equal to one if the firm has a "dscode" listed in Datastream and has an ADR and equal to zero if firm has a "dscode", but does not have an ADR. Value is set to missing if firm does not have a "dscode" (i.e. private). Source: Datastream.	Annual	Firm	1990-2007
ANTI_DIR	Revised version of the Anti-Directors Index from La Porta et al. (1998) with values from 0-6. The index is formed by adding one when (i) the country allows shareholders to mail their proxy vote to the firm, (ii) shareholders are not required to deposit their shares prior to the general shareholders' meeting, (iii) cumulative voting or proportional representation of minorities in the board of directors is allowed, (iv) an oppressed minorities mechanism is in place, (v) the minimum percentage of share capital that entitles a shareholder to call for an extraordinary shareholders' meeting is less than or equal to 10% (sample median), or (vi) shareholders have preemptive rights that can be waived only by a shareholders' vote. Source: Djankov et al. (2008).	No	Country	2003
ANTI_SD	Anti-self-dealing index. Source: La Porta et al. (2006).	No	Country	2003
CONTROL_CORR	Control of Corruption measures the extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. From Kauffman et al. World Governance Indicators Data (World Bank affiliated)	Annual	Country	1997-2007
CREDITOR_RIGHTS	Aggregate private credit score for 129 countries. Source: Djankov et al. (2007).	No	Country	2003
CTRY_RET_1YR	Trailing one-year country stock returns. Source: Datastream.	Annual	Country	1990-2007

Appendix – *Continued*

Variable name	Definition and source	Time-varying	Country or firm	Data year
CTRY_TURNOVER	Ratio of annual dollar volume to total market capitalization. Source: World Bank.	Annual	Country	1990-2007
GDP_PCAP	Gross domestic product per capita measured in 2007 US dollars. Source: World Development Indicators (World Bank).	Annual	Country	1990-2007
GOVT_EFFECT	Government Effectiveness measures the quality of public and civil services and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Source: Kauffman et al. (2009) and World Governance Indicators Data (World Bank).	Annual	Country	1997-2007
GOV41	Based on 41 governance attributes that incorporate measures of board structure, anti-takeover provisions, auditor selection, and compensation and ownership structure. This index is available for 23 countries. Source: Aggarwal et al. (2011).	Annual	Firm	2004-2008
INSIDE_PCT	The percentage of closely held shares as a percentage of total shares outstanding. Data at annual level from Worldscope.	Annual	Firm	1990-2007
IT_ENF	Indicator variable equal to one if the acquisition announcement year is after the first year that insider trading enforcement actions were put into place in the country. Source: Bhattacharya and Daouk (2002).	Annual	Country	2002
IT_LAW	Indicator variable equal to one if the acquisition announcement year is after the first year that insider trading laws were put into place in the country. Source: Bhattacharya and Daouk (2002).	Annual	Country	2002
JM_DISC	The disclosure index as defined in Jin and Myers (2006). The index is defined at the country level and updated for missing sample countries based on the same methodology as in Jin and Myers (2006) using the Global Competitiveness Reports for 1999 and 2000. Higher values for the index measure more transparency. The index is based on the average scoring on two survey questions regarding the level and effectiveness of financial disclosure across the sample years 1999 and 2000. Source: Jin and Myers (2006).	No	Country	1999-2000

Appendix – *Continued*

Variable name	Definition and source	Time-varying	Country or firm	Data year
LIB_INT_AVG	The intensity measure is based on the ratio of the market capitalization of the constituent firms comprising the IFC Investable index to those that comprise the IFC Global index for each country. The IFC Global index, subject to some exclusion restrictions, is designed to represent the overall market portfolio for each country, whereas the IFC Investable index is designed to represent a portfolio of domestic equities that are available to foreign investors. A ratio of one means that all of the stocks are available to foreign investors (see e.g., Bekaert and Harvey (1995); Edison and Warnock (2003)).	Annual	Country	1990-2003
MKTCAP_GDP	Ratio of market cap of listed domestic stocks in a country to that country's GDP. Source: World Governance Indicators Data (World Bank).	Annual	Country	1990-2007
POL_STAB	Political Stability and Absence of Violence/Terrorism measures the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism. From Kauffman *et al.* (2009).World Governance Indicators Data (World Bank affiliated)	Annual	Country	1997-2007
REG_QUALITY	Regulatory Quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Source: Kauffman *et al.* (2009) and World Governance Indicators Data (World Bank).	Annual	Country	1997-2007
RULELAW_WGI	Rule of Law measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. Source: Kauffman *et al.* (2009) and World Governance Indicators Data (World Bank).	Annual	Country	1997-2007
SHARE_PROTECT	Measure of the effective rights of minority shareholders. This variable is the product of ANTI_DIR and RULE_LAW divided by ten so that values range between zero and six.	No	Country	n.a.

Appendix – *Continued*

Variable name	Definition and source	Time-varying	Country or firm	Data year
SECLAW_PRIVATE	The private enforcement index is the arithmetic mean of the disclosure and burden of proof index. Measures of private enforcement are the most associated with the development of markets. Source: La Porta *et al*. (2006).	No	Country	2000
SECLAW_PUBLIC	The public enforcement index is the mean of supervisor characteristics index, investigative powers index, orders index and criminal index. Following La Porta et al. (2006), measures of public enforcement are at best modestly associated with market development. Source: La Porta *et al*. (2006).	No	Country	2000
SECLAW	Sum of SECLAW_PUBLIC and SECLAW_PRIVATE	No	Country	2000
VOICE_ACCT	Voice and Accountability measures the extent to which country's citizens can participate in selecting their government, as well as freedom of expression and association, and a free media. Source: Kauffman *et al*. (2009) and World Governance Indicators Data (World Bank).	Annual	Country	1997-2007
WDI_GOV_AVG	Country average of CONTROL_CORR, GOVT_EFFECT, RULE_LAW_WGI, POLITICAL_STAB, REG_QUALITY, and VOICE_ACCT. Source: Kauffman *et al*. (2009) and World Governance Indicators Data (World Bank).	Annual	Country	1997-2007

Table I
Sample Distribution by Acquirer Nation

Acquirer nation	N	% of Subsample	Acquirer nation (Continued)	N	% of Subsample
Argentina	1	0.01%	Israel	102	1.26%
Australia	393	4.86%	Italy	112	1.38%
Austria	43	0.53%	Japan	140	1.73%
Bahamas	5	0.06%	Jersey	5	0.06%
Belgium	65	0.80%	Liechtenstein	1	0.01%
Belize	4	0.05%	Luxembourg	8	0.10%
Bermuda	29	0.36%	Malaysia	82	1.01%
Brazil	10	0.12%	Mexico	23	0.28%
Canada	863	10.67%	Netherlands Antilles	3	0.04%
Cayman Islands	3	0.04%	Netherlands	198	2.45%
Chile	13	0.16%	New Zealand	36	0.44%
China	15	0.19%	Norway	114	1.41%
Colombia	2	0.02%	Philippines	9	0.11%
Czech Republic	2	0.02%	Poland	2	0.02%
Denmark	103	1.27%	Portugal	19	0.23%
Finland	116	1.43%	Puerto Rico	7	0.09%
France	263	3.25%	Singapore	167	2.06%
Germany	215	2.66%	South Africa	71	0.88%
Gibraltar	1	0.01%	South Korea	34	0.42%
Greece	15	0.19%	Spain	99	1.22%
Guernsey	1	0.01%	Sweden	257	3.18%
Hong Kong	113	1.40%	Switzerland	115	1.42%
Hungary	9	0.11%	Taiwan	29	0.36%
Iceland	1	0.01%	Thailand	10	0.12%
India	84	1.04%	Turkey	1	0.01%
Indonesia	1	0.01%	Ukraine	8	0.10%
Ireland-Rep	222	2.74%	United Kingdom	1955	24.17%
Isle of Man	7	0.09%	United States	1884	23.29%

Notes: This table reports the frequency distribution for the full sample of 8,090 cross border takeover deals, collected from the Securities Data Company's (SDC) Global Mergers and Acquisition database by acquirer nation.

Table II
Summary Statistics for Country and Firm Characteristics

	N	Mean	S.D.	P1	P99
Country governance proxies					
WDI_GOV_AVG	555	1.1286	0.6253	-0.5299	1.8929
CONTROL_CORR	554	1.3627	0.8652	-0.6131	2.4215
GOVT_EFFECT	555	1.4234	0.7126	-0.2986	2.4312
POLITICAL_STABILITY	555	0.6746	0.6886	-1.3790	1.5473
REG_QUALITY	555	1.1058	0.5382	-0.3541	1.9570
RULELAW_WGI	555	1.2442	0.7030	-0.5938	2.0804
VOICE_ACCT	553	0.9623	0.6324	-1.2853	1.7421
Investor protection proxies					
ANTI_SD	514	0.5471	0.2565	0.1785	1
ANTI_DIR	514	3.7617	0.9991	1	5
SECLAW_PRIVATE	501	0.6219	0.1957	0.1800	1
SECLAW_PUBLIC	501	0.5004	0.2634	0	0.9000
SHARE_PROTECT	501	2.6538	1.3032	0	5
ACCOUNT	482	66.9315	8.5571	36	83
CREDITOR_RIGHTS	514	2.0817	1.1087	0	4
IT_LAW	522	0.9444	0.2293	0	1
IT_ENF	522	0.6686	0.4712	0	1
Economic and financial development proxies					
GDP_PCAP (2007 $ million)	543	24293.43	14878.70	572.90	71423.49
MKTCAP_GDP	510	0.9224	0.7571	0.1019	3.6861
CTRY_RET_1YR	488	0.1667	0.3020	-0.4682	1.2621
CTRY_STK_TURNOVER	517	0.6901	0.5229	0.0182	2.4741
LIB_INTENSITY_AVG	452	0.9502	0.1607	0	1
Firm governance proxies					
INSIDEPCT	6413	0.2887	0.2316	0.0002	0.8870
GOV41	3486	0.5202	0.1216	0.2927	0.7805
ADR acquirer	8090	0.1827	0.3864	0	1
ADR target	1878	0.1906	0.3929	0	1

Table II – *Continued*

	N	Mean	S.D.	P1	P99
Acquirer CARs					
All Deals	8090	1.50%	8.91%	-21.62%	36.13%
Public Targets & Cash	752	1.08%	7.29%	-15.88%	23.19%
Public Targets & Stock	186	-2.02%	11.73%	-29.53%	42.35%
Subs. Targets & Cash	1715	1.71%	7.01%	-14.65%	26.97%
Private Targets & Cash	2661	1.39%	8.18%	-18.86%	34.92%
Private Targets & Stock	379	2.59%	13.73%	-29.53%	43.70%

Notes: The table reports summary statistics for the country and firm characteristics for the sample of cross-border acquisitions. N is the number of observations, S.D. is the standard deviation, and P1 and P99 represent the 1st and 99th percentile. Statistics are reported across country-years for the country characteristics and firm-years for the firm governance proxies. Acquirer CARs are reported for each deal type. CAR is the cumulative abnormal return and all variables are defined in the Appendix.

Table III
Correlations of Country Characteristics

		WDI_ GOV_AVG	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
CONTROL_CORR	(1)	0.967									
GOVT_EFFECT	(2)	0.953	0.948								
POLITICAL_STABILITY	(3)	0.860	0.765	0.781							
REG_QUALITY	(4)	0.854	0.832	0.788	0.675						
RULELAW_WGI	(5)	0.973	0.958	0.941	0.805	0.792					
VOICE_ACCT	(6)	0.792	0.703	0.665	0.621	0.573	0.744				
ANTI_SD	(7)	-0.012	0.084	0.052	-0.098	0.161	0.041	-0.316			
ANTI_DIR	(8)	-0.047	0.031	-0.001	-0.167	0.033	0.008	-0.171	0.605		
SECLAW_PRIVATE	(9)	-0.025	0.017	0.049	-0.095	0.048	0.020	-0.188	0.555	0.443	
SECLAW_PUBLIC	(10)	-0.120	-0.030	-0.055	-0.209	0.055	-0.078	-0.345	0.555	0.285	0.569
SHARE_PROTECT	(11)	0.438	0.480	0.411	0.356	0.421	0.467	0.207	0.505	0.372	0.559
ACCOUNT	(12)	0.380	0.443	0.455	0.301	0.319	0.394	0.079	0.423	0.360	0.412
CREDITOR_RIGHTS	(13)	0.123	0.194	0.136	0.005	0.250	0.168	-0.087	0.506	0.377	0.178
IT_LAW	(14)	0.028	0.024	0.047	-0.007	0.053	0.024	0.016	0.088	0.020	0.136
IT_ENF	(15)	0.189	0.174	0.202	0.131	0.200	0.207	0.120	0.028	0.095	0.195
GDP_PCAP	(16)	0.671	0.639	0.621	0.579	0.613	0.665	0.528	-0.106	-0.093	0.053
MKTCAP_GDP	(17)	0.138	0.173	0.161	0.109	0.334	0.118	-0.128	0.412	0.325	0.400
CTRY_RET_1YR	(18)	-0.074	-0.066	-0.063	-0.074	-0.063	-0.086	-0.055	-0.002	-0.013	-0.013
CTRY_STK_TURNOVER	(19)	0.012	-0.026	-0.003	-0.010	0.037	0.028	0.059	-0.129	-0.007	0.063
LIB_INTENSITY_AVG	(20)	0.498	0.459	0.480	0.521	0.445	0.423	0.382	-0.056	-0.182	-0.158

Table III - *Continued*

		(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
SHARE_PROTECT	(11)	0.475									
ACCOUNT	(12)	0.369	0.532								
CREDITOR_RIGHTS	(13)	0.099	0.098	0.121							
IT_LAW	(14)	0.062	0.082	0.066	-0.098						
IT_ENF	(15)	0.241	0.184	0.292	-0.015	0.344					
GDP_PCAP	(16)	-0.187	0.379	0.331	0.014	-0.174	0.157				
MKTCAP_GDP	(17)	0.307	0.308	0.356	0.265	0.160	0.185	0.233			
CTRY_RET_1YR	(18)	0.025	-0.008	0.018	-0.039	0.036	-0.042	-0.053	0.106		
CTRY_STK_TURNOVER	(19)	-0.050	-0.016	-0.006	0.006	0.167	0.329	0.013	-0.015	0.041	
LIB_INTENSITY_AVG	(20)	-0.228	0.242	0.215	-0.023	-0.059	0.016	0.426	0.132	-0.020	-0.072

Notes: Pearson correlation coefficients for the country characteristics for the sample of cross-border acquisitions (All Deals), calculated for country-year observations. All variables are defined in the Appendix.

Table IV
Single Characteristic Regression Analysis

Model	Regressor	Acquirer Coefficient	Target Coefficient	Adjusted R-squared
		Country governance proxies		
1	**WDI_GOV_AVG**	0.0057[c]	-0.0049[a]	0.006
2	CONTROL_CORR	0.0045[c]	-0.0037[a]	0.007
3	GOVT_EFFECT	0.0059[b]	-0.0038[a]	0.006
4	POLITICAL_STABILITY	0.0036	-0.0049[b]	0.006
5	REG_QUALITY	0.0010	-0.0045[a]	0.006
6	RULELAW_WGI	0.0044[c]	-0.0038[a]	0.007
7	VOICE_ACCT	0.0055	-0.0048[b]	0.006
		Investor Protection Proxies		
8	ANTI_SD	-0.0036	-0.0047	0.006
9	ANTI_DIR	-0.0013	-0.0027[b]	0.006
10	SECLAW_PRIVATE	0.0030	0.0008	0.006
11	SECLAW_PUBLIC	0.0048	0.0034	0.006
12	SHARE_PROTECT	0.0005	-0.0001	0.006
13	ACCOUNT	0.0002	-0.0003[b]	0.007
14	CREDITOR_RIGHTS	-0.0013	-0.0021[b]	0.007
15	IT_LAW	0.0044	-0.0069	0.006
16	IT_ENF	0.0053[b]	-0.0058[a]	0.006
		Economic and financial development proxies		
17	GDP_PCAP	-0.0001	0.0000	0.005
18	MKTCAP_GDP	0.0007	-0.0033[b]	0.006
19	CTRY_STK_TURNOVER	-0.0025	0.0014	0.006
20	CTRY_RET_1YR	-0.0005	0.0071	0.006
21	LIB_INTENSITY_AVG	-0.0234	-0.0150	0.006
		Firm governance proxies		
22	INSIDEPCT	0.0116[a]		0.007
23	GOV41	-0.0215[b]		0.009
24	ADR	-0.0087[a]	0.0105[b]	0.010

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table reports the coefficients for the acquirer and target and the adjusted R^2 for a separate regression for each country and governance characteristic listed (**X**) and defined in the Appendix, specified as $CAR_i = \alpha_i + \text{Acquirer Coefficient} \times \mathbf{X}_i^{\text{Acquirer}} + \text{Target Coefficient} \times \mathbf{X}_i^{\text{Target}} + \varepsilon_i$. The dependent variable in each model is the acquirer return. Each regression includes one country and governance characteristic at a time for both the acquirer and target, controls for calendar year and the main industry classifications from Kahle and Walkling (1996) of the acquirer (unreported). Regression residuals are robust to heteroskedasticity and clustered by acquirer country.

Table V
Multi-characteristic Regression: Country Governance Indices

Panel A

Governance Variable:	WDI_ GOV_AVG	CONTROL_ CORR	GOVT_ EFFECT	POLITICAL_ STABILITY	REG_ QUALITY	RULELAW_ WGI	VOICE_ ACCT
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GOVERNANCE acquirer	0.0076[b]	0.0053[b]	0.0093[a]	0.0037	0.0014	0.0070[c]	0.0069
	[0.038]	[0.046]	[0.001]	[0.188]	[0.664]	[0.061]	[0.125]
GOVERNANCE target	-0.0096[a]	-0.0058[a]	-0.0074[a]	-0.0070[a]	-0.0089[a]	-0.0082[a]	-0.0086[a]
	[0.000]	[0.003]	[0.001]	[0.006]	[0.000]	[0.000]	[0.001]
GDP_PCAP acquirer	-0.0002	-0.0002	-0.0003[b]	-0.0001	-0.0001	-0.0002	-0.0002
	[0.128]	[0.184]	[0.013]	[0.179]	[0.518]	[0.136]	[0.169]
GDP_PCAP target	0.0004[a]	0.0003[b]	0.0003[b]	0.0003[b]	0.0003[a]	0.0004[a]	0.0004[a]
	[0.007]	[0.030]	[0.021]	[0.044]	[0.009]	[0.003]	[0.007]
MKTCAP_GDP acquirer	0.0005	0.0002	0.0002	0.0013	0.0005	0.0008	0.0018
	[0.797]	[0.910]	[0.905]	[0.489]	[0.786]	[0.679]	[0.307]
MKTCAP_GDP target	-0.0038[b]	-0.0035[b]	-0.0036[b]	-0.0045[a]	-0.0027[c]	-0.0041[a]	-0.0052[a]
	[0.012]	[0.025]	[0.027]	[0.002]	[0.079]	[0.007]	[0.000]
Observations	7,787	7,786	7,786	7,787	7,787	7,787	7,787
Adjusted R-squared	0.008	0.007	0.008	0.007	0.007	0.007	0.008

Table V - *Continued*

Panel B

Governance Variable: VARIABLES	WDI_ GOV_AVG (1)	CONTROL_ CORR (2)	GOVT_ EFFECT (3)	POLITICAL_ STABILITY (4)	REG_ QUALITY (5)	RULELAW_ WGI (6)	VOICE_ ACCT (7)
GOVERNANCE acquirer	0.0088[b]	0.0052[b]	0.0093[a]	0.0053	0.0035	0.0080[b]	0.0076[c]
	[0.011]	[0.021]	[0.002]	[0.106]	[0.221]	[0.013]	[0.059]
GOVERNANCE target	-0.0090[a]	-0.0048[b]	-0.0070[a]	-0.0066[a]	-0.0090[a]	-0.0070[a]	-0.0089[a]
	[0.000]	[0.013]	[0.006]	[0.001]	[0.000]	[0.004]	[0.000]
GDP_PCAP acquirer	-0.0001	-0.0001	-0.0002	-0.0000	-0.0000	-0.0001	-0.0001
	[0.276]	[0.561]	[0.131]	[0.592]	[0.893]	[0.211]	[0.466]
GDP_PCAP target	0.0004[a]	0.0003[b]	0.0004[b]	0.0003[b]	0.0004[a]	0.0004[a]	0.0004[a]
	[0.003]	[0.020]	[0.012]	[0.011]	[0.004]	[0.003]	[0.002]
MKTCAP_GDP acquirer	0.0028[c]	0.0026[c]	0.0026[c]	0.0037[b]	0.0023	0.0031[c]	0.0043[b]
	[0.089]	[0.099]	[0.088]	[0.026]	[0.179]	[0.051]	[0.027]
MKTCAP_GDP target	-0.0051[b]	-0.0050[b]	-0.0050[b]	-0.0060[a]	-0.0040[b]	-0.0054[a]	-0.0066[a]
	[0.010]	[0.014]	[0.016]	[0.003]	[0.044]	[0.008]	[0.000]
INSIDEPCT acquirer	0.0149[a]	0.0148[a]	0.0150[a]	0.0141[a]	0.0143[a]	0.0150[a]	0.0149[a]
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
Observations	6,199	6,199	6,199	6,199	6,199	6,199	6,199
Adjusted R-squared	0.010	0.010	0.010	0.010	0.009	0.010	0.010

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table presents OLS regression coefficients. The dependent variable is the acquirer return. All variables are defined in the Appendix. Each regression uses a different country governance variable detailed in the column header. Each regression includes (not reported) industry indicator variables based on the main industry classifications from Kahle and Walkling (1996). Regression residuals are robust to heteroscedasticity and clustered by acquirer country.

Table VI
Multi-characteristic Regression: By Deal Types

Panel A

VARIABLES	All (1)	Public Targets & Cash (2)	Public Targets & Stock (3)	Subsidiary Targets & Cash (4)	Private Targets & Cash (5)	Private Targets & Stock (6)
WDI_GOV_AVG acquirer	0.0076[b]	0.0196[b]	0.0088	0.0022	0.0128[b]	0.0296
	[0.038]	[0.029]	[0.802]	[0.724]	[0.018]	[0.319]
WDI_GOV_AVG target	-0.0096[a]	-0.0141[b]	0.0057	-0.0059	-0.0016	-0.0700[a]
	[0.000]	[0.047]	[0.854]	[0.126]	[0.587]	[0.001]
GDP_PCAP acquirer	-0.0002	-0.0003	0.0012	-0.0003	-0.0006[a]	0.0002
	[0.128]	[0.281]	[0.343]	[0.202]	[0.004]	[0.810]
GDP_PCAP target	0.0004[a]	0.0005	-0.0011	0.0004[c]	0.0002[c]	0.0023[c]
	[0.007]	[0.323]	[0.409]	[0.086]	[0.051]	[0.062]
MKTCAP_GDP acquirer	0.0005	0.0069	-0.0118	0.0040	0.0022	-0.0369[b]
	[0.797]	[0.153]	[0.636]	[0.167]	[0.401]	[0.023]
MKTCAP_GDP target	-0.0038[b]	-0.0066	0.0421[c]	-0.0045	-0.0026	-0.0057
	[0.012]	[0.179]	[0.092]	[0.159]	[0.176]	[0.640]
Observations	7,787	718	176	1,656	2,562	362
Adjusted R-squared	0.008	0.016	0.019	0.009	0.008	0.044

Table VI – *Continued*

Panel B

VARIABLES	All (1)	Public Targets & Cash (2)	Public Targets & Stock (3)	Subsidiary Targets & Cash (4)	Private Targets & Cash (5)	Private Targets & Stock (6)
WDI_GOV_AVG acquirer	0.0088[b]	0.0198[b]	-0.0211	0.0011	0.0155[a]	0.1107[b]
	[0.011]	[0.039]	[0.516]	[0.885]	[0.002]	[0.042]
WDI_GOV_AVG target	-0.0090[a]	-0.0214[b]	0.0301	-0.0079[b]	-0.0033	-0.0610[b]
	[0.000]	[0.020]	[0.428]	[0.032]	[0.280]	[0.019]
GDP_PCAP acquirer	-0.0001	-0.0003	0.0023	-0.0001	-0.0005[a]	0.0001
	[0.276]	[0.402]	[0.106]	[0.836]	[0.001]	[0.946]
GDP_PCAP target	0.0004[a]	0.0008	-0.0002	0.0005[b]	0.0004[c]	0.0023
	[0.003]	[0.100]	[0.920]	[0.022]	[0.055]	[0.136]
MKTCAP_GDP acquirer	0.0028[c]	0.0077	0.0032	0.0049[c]	0.0057[b]	-0.0279
	[0.089]	[0.191]	[0.908]	[0.071]	[0.036]	[0.153]
MKTCAP_GDP target	-0.0051[b]	-0.0054	0.0305	-0.0051	-0.0053[b]	-0.0042
	[0.010]	[0.177]	[0.324]	[0.190]	[0.025]	[0.757]
INSIDEPCT acquirer	0.0149[a]	0.0277[b]	0.1230[a]	0.0157[b]	0.0083	-0.0182
	[0.000]	[0.048]	[0.000]	[0.014]	[0.253]	[0.701]
Observations	6,199	609	134	1,337	2,009	251
Adjusted R-squared	0.010	0.019	-0.032	0.019	0.006	0.065

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table presents for the sample of cross-border acquisitions the regression coefficients for OLS regression models where the dependent variable is the acquirer return and the independent variables are WDI_GOV_AVG, MKTCAP_GDP, and GDP_PCAP, which measure country governance, financial development, and economic development in Panel A and adding insider ownership (INSIDE_PCT) in Panel B. WDI_GOV_AVG is a country average of country governance measures from Kauffman et al. (2009) and the World Governance Indicators Data. MKTCAP_GDP is the ratio of the market capitalization of listed domestic stocks in a country to that country's GDP. GDP_PCAP is the gross domestic product per capita measured in 2007 US$. INSIDE_PCT is the annual percentage of closely held shares as a percentage of total shares outstanding. All variables are defined in more detail in the Appendix. Each regression includes industry indicator variables based on the main industry classifications from Kahle and Walkling (1996). Regression residuals are robust to heteroscedasticity and clustered by acquirer country.

Table VII
Multivariate Regression Analysis: Governance Distance

VARIABLES	All (1)	Distance ≥ 0 (2)	Distance ≤ 0 (3)	All (4)
Distance	0.0088[a]	0.0156[a]	0.0026	0.0012
	[0.001]	[0.001]	[0.532]	[0.782]
Distance ≥ 0				-0.0009
				[0.791]
Distance x Distance ≥ 0				0.0138[a]
				[0.005]
GDP_PCAP acquirer	-0.0002[c]	-0.0001	-0.0001	-0.0001
	[0.054]	[0.484]	[0.346]	[0.300]
GDP_PCAP target	0.0004[b]	0.0005[a]	0.0006[a]	0.0005[a]
	[0.012]	[0.006]	[0.004]	[0.000]
MKTCAP_GDP acquirer	0.0005	-0.0020	0.0040[c]	0.0003
	[0.797]	[0.353]	[0.054]	[0.853]
MKTCAP_GDP target	-0.0037[b]	-0.0027	-0.0043[b]	-0.0041[a]
	[0.013]	[0.144]	[0.016]	[0.003]
Observations	7,787	4,516	3,271	7,787
R-squared	0.012	0.016	0.013	0.012
Adjusted R-Squared	0.00777	0.00950	0.00403	0.00823

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table presents for the sample of cross-border acquisitions the regression coefficients for OLS regression models where the dependent variable is the acquirer return and the independent variables are Distance, defined as the difference between the acquirer and target country levels of governance (acquirer WDI_GOV_AVG minus target WDI_GOV_AVG), a dummy variable (Distance≥0) equal to one if Distance is non-negative and zero otherwise, an interaction term between Distance≥0 and Distance, and MKTCAP_GDP, and GDP_PCAP, which measure respectively country governance, financial development, and economic development (see Appendix for definitions) Each regression includes industry indicator variables based on the main industry classifications from Kahle and Walkling (1996). Regression residuals are robust to heteroscedasticity and clustered by acquirer country.

Internet Appendix – Robustness Tables

Table IA-I
Multi-characteristic Regression Controlling for Investor Protection

VARIABLES	Controlling for Investor Protection		
	(1)	(2)	(3)
WDI_GOV_AVG acquirer	0.0083[b]	0.0100[a]	0.0085[b]
	[0.015]	[0.003]	[0.018]
WDI_GOV_AVG target	-0.0065[b]	-0.0104[a]	-0.0100[a]
	[0.012]	[0.000]	[0.000]
GDP_PCAP acquirer	-0.0003	-0.0004[a]	-0.0002[c]
	[0.134]	[0.002]	[0.055]
GDP_PCAP target	0.0003[b]	0.0004[a]	0.0004[a]
	[0.029]	[0.004]	[0.007]
MKTCAP_GDP acquirer	-0.0002	0.0022	0.0020
	[0.935]	[0.190]	[0.285]
MKTCAP_GDP target	-0.0047[a]	-0.0037[b]	-0.0039[b]
	[0.003]	[0.022]	[0.013]
SHARE_PROTECT acquirer	0.0008		
	[0.621]		
SHARE_PROTECT target	0.0002		
	[0.624]		
ANTI_DIR acquirer		-0.0034[a]	
		[0.004]	
ANTI_DIR target		-0.0002	
		[0.907]	
ANTI_SD acquirer			-0.0084
			[0.128]
ANTI_SD target			0.0008
			[0.805]
Observations	7,402	7,745	7,745
Adjusted R-squared	0.007	0.009	0.008

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table presents for the full sample of cross-border acquisitions the OLS regression coefficients for models where the dependent variable is the acquirer return. All variables are defined in more detail in the Appendix. Each regression includes (not reported) industry indicator variables based on the main industry classifications from Kahle and Walkling (1996). Regression residuals are robust to heteroscedasticity and clustered by acquirer country.

Table IA-II
Regression Robustness Analysis

VARIABLES	Heckman 2nd stage (1)	Matched (2)	Without US firms (3)	No serial acquirers (4)	No serial CB acquirers (5)	No toeholds (6)	Relative size > 2% (7)
WDI_GOV_AVG acquirer	0.0228[a]	0.0056[b]	0.0124[a]	0.0077[c]	0.0096[c]	0.0068[c]	0.0066[c]
	[0.000]	[0.025]	[0.003]	[0.067]	[0.062]	[0.084]	[0.089]
WDI_GOV_AVG target	-0.0078[b]	-0.0105[a]	-0.0118[a]	-0.0087[b]	-0.0102[b]	-0.0097[a]	-0.0109[a]
	[0.016]	[0.001]	[0.000]	[0.013]	[0.016]	[0.000]	[0.000]
GDP_PCAP acquirer	-0.0008[a]	-0.0003[b]	-0.0002	-0.0002[c]	-0.0002	-0.0002	-0.0002
	[0.000]	[0.016]	[0.190]	[0.097]	[0.187]	[0.100]	[0.159]
GDP_PCAP target	0.0003[b]	0.0005[a]	0.0005[a]	0.0005[b]	0.0004[b]	0.0004[a]	0.0004[b]
	[0.026]	[0.000]	[0.006]	[0.019]	[0.046]	[0.006]	[0.012]
MKTCAP_GDP acquirer	0.0033	0.0022	0.0002	-0.0001	-0.0004	0.0007	0.0007
	[0.247]	[0.299]	[0.885]	[0.968]	[0.872]	[0.733]	[0.756]
MKTCAP_GDP target	-0.0013	-0.0058[a]	-0.0039[c]	-0.0054[a]	-0.0059[a]	-0.0046[a]	-0.0046[b]
	[0.596]	[0.006]	[0.058]	[0.003]	[0.008]	[0.003]	[0.023]
Inverse Mill's Ratio	0.0185[a]						
	[0.000]						
Observations	5,715	6,039	3,655	5,668	3,404	7,431	6,543
Adjusted R-squared		0.001	0.012	0.008	0.009	0.008	0.009

[a], [b], and [c] denote significance at 1%, 5%, and 10% level.

Notes: This table presents for the full sample of cross-border acquisitions the OLS (except Model (2)) regression coefficients for models where the dependent variable is the acquirer return. All variables are defined in more detail in the Appendix. The Predicted Frequency in Model (1) is estimated from Model (3) in Table IX. Model (2) is the second-stage Heckman correction, where the first stage (unreported) includes the number of cross-border deals outside the country over the past five years and the number of firms in the same 2-digit SIC code in the same year outside the firm's country as instrumental variables. Model (3) is a matching sample analysis where each covariate is defined as the difference between the value of the treatment bidder and its control bidder's variable value, where matching is based on year, size, Tobin's Q quartiles, and industry. Model (4) excludes all deals involving a U.S. bidder or target. Model (5) and (6), respectively, exclude serial acquirers defined as acquirer that make five deals or two cross-border deals, respectively, in a 3-year period prior to the acquisition. Model (7) excludes deals where the bidder holds a toehold in the target and Model (8) excludes deals with relative size smaller than or equal to 2%. Each regression includes (not reported) industry indicator variables based on the main industry classifications from Kahle and Walkling (1996). Regression residuals are robust to heteroscedasticity and clustered by acquirer country.