

**Cross-Border Block Share Purchases and Transfer of Corporate
Governance**

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A Thesis

In

The John Molson School of Business

Presented in Partial Fulfillment of the Requirements
for the Degree of Master of Science in Administration at
Concordia University
Montreal, Quebec, Canada

April 2005

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Your file *Votre référence*
ISBN: 0-494-04478-0
Our file *Notre référence*
ISBN: 0-494-04478-0

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ABSTRACT

Cross-Border Block Share Purchases and Transfer of Corporate Governance

Ying Lu

Cross-border block share purchases represent a unique form of corporate restructuring that allow firms to alter the level of shareholder protection, while leaving target firms continuing as a going concern. In this study, I empirically investigate the announcement effects in stock returns and long-term stock market performance for target firms that represent large share acquisitions by foreign companies. In addition, I test the governance transfer hypothesis which states that target firms usually import the higher quality of shareholder protection of foreign acquirers in a more-protective legal system.

This study documents the relationships between stock market performance and legal protection of shareholders' rights by employing a sample of cross-country block purchases, including 240 public target firms from 37 countries, spanning the period from January 1990 to December 2000. I find that the announcement returns for target firms are positive, and they are significantly higher for targets acquired by companies coming from countries with higher levels of shareholder protection. Interestingly, in the long run, target firms from countries with poor shareholder protection significantly underperform the benchmark, or the local market index. I do not find evidence of cross-border governance transfer in the long run. This study is the first attempt to document both the announcement effects and long-term stock market performance of cross-country block purchases, which are associated with different legal systems and shareholder protection in target and acquiring firms.

Acknowledgements

I would like to thank Dr. Seoungpil Ahn for his help, guidance and encouragement. I would also like to express my appreciation to Dr. Lawrence Kryzanowski and Dr. Ian Rakita for their valuable comments and suggestions.

I would also like to say thank-you to my family. Finally, I wish to extend my appreciation to my friends for their support.

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Cross-Border Block Share Purchases and Transfer of Corporate Governance

1. Introduction

The recent corporate governance literature has demonstrated the importance of a country's legal system and shareholder protection in determining corporate valuation and finance decisions. When foreign investors look at deals, especially cross-board purchases, one crucial element to consider is the attractiveness of the legal system in a particular country. Countries with a common law legal system provide a higher quality of shareholder protection and, in turn, lead to more developed financial markets (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997, 1998), higher corporate valuation (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2002) and faster firm growth by using greater long-term external financing (Demirguc-Kunt and Maksimovic, 1998). However, most of the academic literature relies on a static analysis of the effects of the legal system and does not evaluate legal changes. Bris and Cabolis (2004b) first examine the firm valuation effects of changes - both improvements and deteriorations - in shareholder protection induced by cross-border mergers, and they conclude that the transfer of better corporate governance practices through cross-border mergers is only positively valued by markets with poorer governance systems. Since their study is based on the observations of mergers and the involved target firms are fully absorbed by the acquirers, they cannot investigate the long-term consequences of changes in legal system and shareholder protection.

This thesis extends the existing literature by evaluating the announcement effects

in targets' stock returns and also the subsequent influences on targets' long run performance associated with the changes in shareholder protection resulting from cross-border block share purchases. Compared with mergers and full acquisitions, in which targets are no longer publicly traded after transactions, block share purchases represent a unique form of corporate restructuring that result in corporate governance changes, while leaving the target firms continuing as a going concern. Thus, the target firms can be observed and evaluated over time to analyze the long-term implications of the applied legal system and the consequences of changes in shareholder protection as well.

The purpose of this thesis is to empirically examine the announcement effects and long-term influences of the legal system and shareholder protection changes through cross-border block share purchases, and hence the interpretations of the link between legal protection of shareholders' rights and corporate performance are richer. I also test the governance transfer hypothesis modeled by Bris and Cabolis (2004b) at the firm level by employing a sample of 240 public target firms from 37 countries, spanning the period from January 1990 to December 2000. By using the legal regime classification and several proxies for the quality of corporate governance for each country, I investigate whether the improvement in legal protection of target firms' shareholders by means of a cross-border block purchases is positively valued by the market and related to the superior long-term post-acquisition performance.

In this thesis, I document the relationships between a country's legal system and the changes of target firms' long run operating performance, financial characteristics,

and investment policy resulting from the cross-border block share purchases. I expect that target firms' long run operating performance is detectable in published accounting data, and the changes of financial ratios are related to stock market performance.

The empirical results suggest that common-law-legal-origin target firms (with high levels of shareholder protection) have significantly higher announcement returns than civil-law-legal-origin targets (with low levels of shareholder protection), which is consistent with the findings by La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2002). Secondly, I find evidence of higher announcement effects of adopting better corporate governance practices for target firms, in support of Bris and Cabolis (2004b). Finally, I show that in the long run, common-law-legal-origin target firms still perform better than civil-law-legal-origin targets up to 3 years after the announcement month. This result suggests that a host country's legal system is not only important in determining firm valuation, but also affects corporate long-term post-acquisition performance. However, I do not find evidence of significant effects of a cross-border governance transfer in the long run. Therefore, civil-law-legal-origin target firms "improve" their shareholder protection by opting for a more protective legal regime in cross-border block purchases, which only has short-term and not long-term market valuation effects. In fact, civil-law-legal-origin targets significantly reduce capital expenditures after block purchases, which may partially explain their observed negative long-term post-acquisition stock performance.

The remainder of this thesis is organized as follows. Section 2 provides a review of existing related literature. Section 3 summarizes the hypotheses relating to the

effects of the legal system and shareholder protection, and introduces the empirical methodology used herein. Section 4 describes the sample construction and variables selection process, and presents descriptive statistics. Section 5 reports and analyzes the empirical results. Section 6 concludes the thesis.

2. Literature review

In this section, I review the related literature on corporate governance, block share purchases, and international corporate governance convergence. I focus on the importance of a country's legal system and shareholder protection as an external channel of improving corporate governance quality, and its fundamental relationship with corporate performance. I also discuss the major results and conclusions from the literature on block share purchases.

2.1. Corporate governance

Corporate governance deals with the ways of ensuring that investors in corporations get a return on their investment (Shleifer and Vishny, 1997). Empirical research on corporate governance has recently documented a positive relationship between the quality of governance mechanisms and firm value. For example, La Porta, Lopez-de-Silanes, Shleifer and Vishny (2002), using country-level data, find evidence of higher valuations for firms in countries with better investor protection and in firms with larger cash flow rights by the controlling shareholders. Gompers, Ishii and

Metrick (2003) combine a large set of corporate governance provisions into a “Governance Index” to proxy for the balance of power between managers and shareholders in each firm, and find that firms with stronger shareholder rights have higher firm value, higher profits, and higher sales growth. They further point out that a trading strategy by purchasing shares in firms with strong shareholder rights and selling shares in firms with weak shareholder rights earns abnormal returns of 8.5 percent per year during the sample period.

Therefore, a wide range of approaches is suggested to improve corporate governance quality and to control manager-shareholder agency problems. One strain of academic work looks at governance mechanisms including the outside market for corporate control (Manne, 1965; Jensen, 1988), internal board composition (Rosenstein and Wyatt, 1990), management compensation (Bhagat, Brickley and Lease, 1985), and ownership structure (Morck, Shleifer and Vishny, 1988). Distinguished from other papers utilizing separate OLS regressions to examine relationships between firm performance and a single governance mechanism, Agrawal and Knoeber (1996) further provide evidence of the combined performance effects of seven governance mechanisms, including shareholdings of insiders, institutions and large blockholders, use of outside directors, debt policy, managerial labor market and the market for corporate control, to control agency problems between managers and shareholders in a simultaneous system framework. Their empirical results are consistent with optimal use of each control mechanism except for the use of outsiders in board composition.

Another strain, the focus of this thesis, examines the legal protection of investors' rights from expropriation by managers as a kind of external governance mechanism, and explores the fundamental link between the legal system and corporate performance. As Shleifer and Vishny (1997) point out, legal protection of investors' rights is one essential element of corporate governance, and significant law protects at least some investors' rights and distinguishes successful governance systems, like the system in the United States, from poor systems of most other countries in the world. Berglöf (1997) looks at corporate governance arrangements in Europe and concludes that the real corporate governance reform requires fundamental changes in both legal and economic systems. In the United Kingdom, the Cadbury committee issued the *Code of Best Practice* which requires that at least three outside directors be included in the board composition and that the positions of chairman and CEO be held by different individuals. Against this background, Dahya, McConnell and Travlos (2002) empirically investigate the impact of the key Cadbury recommendations on the quality of board oversight in U.K. firms, and find increased sensitivity of CEO turnover to firm performance in firms that adopted the *Code*. In fact, recent research has put a lot of attention on this "law and finance" area: 1) at the economy-wide level, countries with a common law legal system generally protect investors better than countries with a civil law legal system. And investor protection, which can be measured by both the character of legal rules and quality of law enforcement, determines the opportunities for external finance, the development of capital markets and further economic growth (La Porta, Lopez-de-Silanes, Shleifer

and Vishny, 1997, 2000); 2) at the micro level, investor protection matters for the kinds of corporate ownership pattern (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1998), affects the liquidity cost of information asymmetry (Brockman and Chung, 2003), and determines the announcement effects in targets' stock returns of cross-border acquisitions of U.S. companies (Kuipers, Miller and Patel, 2003). This thesis is related to the work of Kuipers, Miller and Patel (2003). However, I employ a sample of cross-border block share purchases including targets from 37 countries, and investigate both the announcement effects and long-term stock market performance for target firms.

2.2. Block share purchases and corporate control

In theory, the market for corporate control, often referred to as the takeover market, serves as an external governance mechanism for aligning the interests of shareholders and managers. This “disciplinary” role of active takeover markets has been well documented (Manne, 1965; Jensen and Ruback, 1983; Morck, Shleifer and Vishny, 1989; Martin and McConnell, 1991). The empirical results also show that, on average, takeover activity is followed by improvement of firm performance and creation of shareholder wealth (Bradley, Desai and Kim, 1988; Healy, Palepu and Ruback, 1992). However, most studies focus on the valuation effects and performance impacts of mergers and acquisitions in the United States.

Block share purchases represent an alternative governance mechanism to

mergers and acquisitions to “discipline” poor managers by significantly changing the ownership structure. Large shareholders, or the block acquirers, are assumed to play an active role in correcting management inefficiency with a higher level of supervision and partial corporate control over the targets. Furthermore, compared with mergers and acquisitions where the involved targets are completely absorbed by the acquirers and their long-term post-acquisition performance is inaccessible, block purchases allow the evaluation of long-term impacts on the targets’ shareholder value and profitability resulting from a shift in control.

Bethel, Liebeskind and Opler (1998) provide evidence in support of the view that the market for partial corporate control is efficient in limiting agency costs in U.S. companies during the 1980s. They find that block purchases by activist investors are followed with abnormal share price appreciation and improvements in long-term profitability. Dyck and Zingales (2004) provide an international comparison of the private benefits of control covering 393 controlling block transactions in 39 countries. In their study, many institutional variables including better accounting standards, better legal protection of minority shareholders and better law enforcement seem to be useful in curbing private benefits of control, and hence enhancing financial market development. This thesis also provides an international look at the stock market effects of block share purchases associated with different legal systems and governance practices in target and acquiring firms.

2.3. International corporate governance convergence

International corporate governance convergence has been discussed at great length due to globalization, deregulation, and stringent competition. Gilson (2001) recognizes that corporate governance systems vary widely across countries and across firms, and identifies three kinds of corporate governance convergence towards the most efficient governance practices: formal convergence, functional convergence and contractual convergence. Formal convergence predicts a convergence of legal rules and requires altering the basic structure of existing governance institutions, while functional convergence predicts adaptations within different existing institutions to adopt better governance practices. Contractual convergence occurs in the form of contract arrangements when existing governance institutions lack the sufficient flexibility to perform the function of good governance. Proponents of the convergence hypothesis emphasize the role of ongoing integration of global capital markets in eliminating inefficient corporate governance patterns, while others take the opposite views that either cast doubt on an “optimal” corporate governance system or suggest the kinds of immovable obstacles to complete convergence (Aoki, 1994; Bebchuk and Roe, 1999).

Even though these theoretical arguments propose a model of governance structure and identify the very kinds of sources of path-dependence in corporate governance convergence, there is still little empirical evidence on whether international corporate governance converges and how it usually happens. Khanna, Kogan and Palepu (2002) analyze new data on corporate governance practices

covering 24 developing countries as well as data on laws protecting shareholders and creditors in 49 developed and developing countries. They search for evidence of cross-country similarities in corporate governance and test for its relationship with globalization. They conclude that globalization may have induced the formal adoption of some common governance standards, but it is not strong enough to overcome local vested interests, and there is no evidence on actual international governance convergence. Bris and Cabolis (2004a) first address this issue in the context of cross-border mergers, and analyze industry effects of mergers that are determined by differences in shareholder protection. They show that acquisitions of firms in weaker shareholder protection countries by firms in more protective regimes increase the value of target industries. Furthermore, Bris and Cabolis (2004b) present evidence on firm valuation effects of such contractual transfer of corporate governance practices through cross-border mergers. Again, they find that target firms benefit from improving shareholder protection and importing better governance practices, while they do not worse off by reducing investor protection or exporting better governance practices. However, like other studies of mergers, they cannot provide long-term evidence in support of the corporate governance transfer hypothesis, since the takeover targets in their sample are 100 percent acquired and get delisted afterwards.

This thesis contributes to existing corporate governance literature by empirically examining how the target firms' market value and long-term performance are affected by a country's legal system and changes in shareholder protection induced by block share purchases. To the best of my knowledge, this thesis is the first attempt to

document both short-term market effects and long-term performance implications of corporate governance practices with regard to country legal protection of shareholders and creditors as well as the enforcement of the legal system.

3. Hypotheses and Methodology

3.1. Hypotheses

The above reviewed literature leads to the formulation of the following testable hypotheses:

Hypothesis 1: The block targets with better corporate governance, as measured by the legal origin and the level of shareholder protection, will result in positive abnormal returns at the announcement period, indicative of positive market valuation of high quality of corporate governance. Therefore, common law targets with higher levels of shareholder protection are expected to experience greater abnormal returns at the date of announcement than civil law targets with lower levels of shareholder protection.

Hypothesis 2: The block targets, improving the level of shareholder protection in blocks purchased by foreign companies under a better legal system and investor protection environment, will experience favorable market valuation effects.

Consistent with hypothesis 2, I predict a realized benefit to the block targets in civil law countries or with lower levels of shareholder protection due to improved monitoring from common law acquirers in more protective legal regimes.

Furthermore, I examine the long-term stock performance of target firms following block share purchases conditional on changes in the legal system and changes in corporate governance. Specifically, I develop the following hypotheses related to long run evaluations of block targets:

Hypothesis 3: The long run stock performance of block targets with better corporate governance, as measured by the legal origin and the level of shareholder protection, is more favorable following the acquisition. In other words, positive market valuation of high quality of a corporate governance system leads to expected future management efficiency gains.

Hypothesis 4: The block targets, improving the level of shareholder protection in blocks purchased by foreign companies under a better legal system and investor protection environment, are expected to have better long-term post-acquisition stock performance because of the increased discipline that the block acquirers are expected to impose on target firms.

Consistent with hypothesis 3 and hypothesis 4, I expect that higher quality corporate governance systems can have a long-term impact on shareholder value, and the improved shareholder protection practices may be implemented within target firms over time. In other words, I can empirically answer the question of what factor makes some acquisitions successful in the long run while others are not successful.

3.2. Methodology

The goal of this thesis is to examine announcement effects and long-term stock market performance impacts of changes in corporate governance practices through cross-border block share purchases. In other words, I hypothesize that there is a positive relationship between governance quality and firm performance.

The markets' reactions to the announcements of block purchases, or short-term valuation effects, are assumed to be reflected in the pattern of abnormal returns observed around the event date on which the acquisition is announced. Therefore, I follow Brown and Warner (1985) and calculate the announcement period cumulative abnormal returns (CARs) as $\sum_{t=t_1}^{t_2} AR_{it}$ for the 7-day interval (-3, 3) and the 11-day interval (-5, 5), where AR_{it} are the market-adjusted returns, or the differences between actual returns and local market index returns. Both stock returns and local market index returns are computed in local currencies and adjusted for dividends, stock splits and stock repurchases, etc. Under the null hypothesis of no effect, the mean and median cumulative abnormal returns for the alternative event windows should not be significantly different from zero.¹

In the long run, I use monthly abnormal returns to calculate both cumulative abnormal returns (CARs) and buy-and-hold abnormal returns (BHARs) over 1-year and 3-year periods following the acquisition date. I also examine the subsequent

¹ In this thesis, I use the market-adjusted model instead of market-model for assessing the announcement effects of cross-border block purchases, because the requirement of estimation period in applying the market model will reduce the sample size. In addition, for a short-term analysis, there is little difference in the power of these two procedures.

effects on firm performance as reflected in financial ratios, representing the pre- and post-event changes in profitability, financial leverage, asset utilization and investment policy of target firms. These financial ratios are calculated from the fiscal year-end accounting data at 3-year (-1, 1), 5-year (-2, 2) and 7-year (-3, 3) intervals surrounding the acquisition date. In order to measure the effects of the legal system on firm financial characteristics, I empirically test the pre- and post-event changing values of financial ratios conditional on the different legal origin categories.

Finally, I construct the empirical regression models as follows, in order to relate the legal system and governance quality to firm stock performance in the short-term and long-term by controlling other variables.

$$CAR_{ijt} = \alpha + \beta Legal_{ij} + \gamma Governance_{ij} + \sum \delta Control + \varepsilon_{ijt} \quad (1)$$

$$BHAR_{ijt} = \alpha + \beta Legal_{ij} + \gamma Governance_{ij} + \sum \delta Control + \varepsilon_{ijt} \quad (2)$$

In above models, CAR_{ijt} and $BHAR_{ijt}$ calculate the abnormal returns of firm i in country j during the period t . $Legal_{ij}$ are the legal origins of target and acquiring firms as well as their interaction effects. $Governance_{ij}$ include all the corporate governance indices utilized in this thesis such as the anti-director rights, investor protection, creditor rights, accounting, and political corruption. I consider the anti-director rights and investor protection for target and acquiring firms as well as their interaction term, and creditor rights, accounting, and political corruption for target firms only. Both legal origins and governance indices are country-level variables. Other control variables include two firm-specific variables: the percent of shares acquired in transactions and industry relationship between target and acquiring firms, and two

country-level variables: the access to target equity market and logged GDP per capita.

4. Sample Description

4.1. Sample selection

To identify cross-border transactions that involve the transfers of block shares, I use the SDC international mergers and acquisitions database. I begin with the complete set of cross-border block share purchases in publicly traded companies during the period from January 1990 to December 2000. Then, I restrict my attention to the completed transactions with 20 percent to 80 percent of shares acquired.² I further exclude all bankruptcies and the transactions that are identified by SDC as LBO, tender offers, spin-offs, re-capitalizations, self-tenders, exchange offers, repurchases, minority stake purchases, acquisitions of remaining interests and privatizations. This leaves a sample of 576 cross-border block share purchases.

The sample is also screened for data availability. Since my study utilizes both capital market data and corporate governance index data in order to determine the short-term and long-term effects of corporate governance changes, I require that:

1. Complete stock price data for target firms are available from the Datastream International and/or Bloomberg databases at least one year after the initial acquisition announcement date; and,

² In this thesis, I define a block transfer as the 20 percent to 80 percent of block shares acquired in transactions and assume it represents a substantial percent of shares acquired to permit a group to significantly influence a company's decision making.

2. Both the targets and acquirers in block share purchases are from the 49 countries covered by La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998),³ where the country classifications by legal origin and governance index data are available.

After eliminating those transactions that do not meet the above criteria, a final sample of 240 cross-border block share purchases covering 37 countries is obtained. Of this sample, 222 block targets are examined for short-term market valuation effects, and 198 block targets are studied for the long-term impact beyond initial announcement effects.

In order to assess sample quality, I cross-reference the data set with Bloomberg and Lexis-Nexis by reading multiple financial news items concerning the details of the transactions collected from SDC, including the announcement date, the percent of shares acquired in transactions, the target countries and the acquiring countries. I also collect the published financial data including sales, net income, total debts, total assets and capital expenditure from Worldscope International database for the targets in my final sample, and I investigate the consequent changes in financial characteristics and long-term operating performance.

4.2. Corporate governance index

In this section, I identify the country-specific corporate governance indices

³ Countries of socialist legal origin and “transaction” economies are also excluded in La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) terminology.

utilized in this thesis and provide the data sources as well as the descriptive information in Appendix A.

4.2.1. Legal system

The starting point for considering governance quality is to recognize the legal families or traditions that apply to different countries. La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) identify two broad traditions that modern commercial laws originate from: common law, which is English in origin, and civil law, which derives from Roman law. Within the civil legal tradition, they further divide into three major families, including French, German and Scandinavian. They find that common-law countries generally have stronger legal protection of investors than do civil-law countries.

I adopt the legal regime classification for each country by La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) and use it as my first proxy of the external corporate governance quality. Table 1 presents the frequency of block purchases by country and by legal origins of both target and acquiring firms. In total, transactions where targets come from common-law countries account for 50 percent of all the deals in the sample. Additionally, there are four possible target-acquirer legal origin combinations, and the most frequent transaction type has a common-law-legal-origin target and a common-law-legal-origin acquirer. This combination accounts for 31.25 percent of all the block purchases in the sample.

In the later part of this thesis, I utilize the legal origin indicators in univariate tests and multivariate regressions to examine the relationship between firm performance and corporate governance with regard to legal systems. I expect to find higher abnormal returns for the targets in common-law countries and lower abnormal returns for the targets in civil-law countries. Also, I assume that target firms from civil-law countries increase their legal protection of investors through large share acquisitions by foreign companies in common-law countries. Thus, I expect to observe higher abnormal returns for the civil-law-legal-origin targets acquired by the common-law-legal-origin companies.

4.2.2. Corporate governance variables

I select two alternative country-level measurements of shareholder protection: the anti-director rights taken from La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) and investor protection taken from La Porta, Lopez-de-Silanes, Shleifer and Vishny (2003). Anti-director rights is an index that aggregates six different shareholder rights and ranges in value from 0 to 6 with 6 as the highest level of protection for minority shareholders. I classify the target firms into the high levels of shareholder protection group when they have this index at or greater than 4.0 out of 6.0, and otherwise the targets are categorized into the low levels of shareholder protection group. Similarly, investor protection, the principal component of private enforcement and anti-director rights, alternatively measures the ease with which

shareholders can exercise their powers against “poor” management, and ranges from 0 to 10. Then, I classify the target firms into the high levels of investor protection group when they have this index at or above 5.0 out of 10.0, and otherwise the targets are categorized into the low levels of investor protection group.

Anti-director rights and investor protection are two highly correlated variables to proxy for shareholder protection, and hence I need to use them separately in regressions for examining the effects of shareholder protection on firm performance. I expect to observe a positive relationship between the degree of shareholder protection and firm performance.

The other measurements of legal environment and governance quality employed in this thesis include creditor rights, accounting standards and political corruption. I obtain the indices on creditor rights and accounting practices from La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) and the index on political corruption from La Porta, Lopez-de-Silanes, Shleifer and Vishny (2003). Creditor rights is an index that aggregates four different creditor rights and ranges in value from 0 to 4 with 4 being the highest level of protection for creditors. However, the prediction of the creditor right index is difficult to determine, since there may be different kinds of creditors with very different interests, and the index from La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) only takes the perspective of senior secured creditors.

Another governance indicator, the accounting standards, assesses the quality and information availability in corporate annual reports. It is created by examining and rating companies' 1990 annual reports on their inclusion or omission of 90 items and

ranges from 0 to 100. Higher score indicates more disclosure. I expect that better disclosure practices and reporting standards promote higher quality of corporate governance and lead to more positive announcement effects as well as better long-term stock performance.

The third proxy of governance quality I utilize in this thesis is the corruption perception index, which assesses the corruption level in government. The scale is from 0 to 10, with a lower score indicating a higher level of corruption. Giannetti and Simonov (2004) show that foreign investors prefer to invest in firms where there is more room for extraction of private benefits of control, or the level of political corruption is higher. In this sense, I expect to have a negative relationship between the corruption index and firm performance.

4.3. Descriptive statistics

The final block purchases sample includes 240 cross-border transactions completed during the period from January 1990 to December 2000, involving 20 percent to 80 percent of shares purchased in publicly traded companies. Table 2 summarizes the basic characteristics of block share purchases and foreign acquirers. From Panel A I find that on average over 50 percent of shares in targets are transferred in transactions, large enough to change corporate control.⁴ Additionally, the civil-law-legal-origin targets generally have a larger percent of shares acquired in

⁴ The 50% of shares transfer may represent a control test, where the majority block acquisitions (percentage purchased >50%) mean that the control over corporations is traded.

transactions than the common-law-legal-origin targets, and the group with the weakest legal system, in which the civil law targets are acquired by civil law companies, involves the highest percent of shares transferred. These results are consistent with the hypothesis that there is a strong correlation between legal origins and ownership concentration; in other words, common law countries tend to have a much more dispersed ownership structure than civil law countries. And legal systems and ownership concentration are complementary approaches to corporate governance.

In panel B I detect that most foreign acquirers are public companies, and up to 97.5 percent of foreign investors in sample are of the corporate type, which means that this study will focus on corporate block share purchases, and foreign investors acquire large shares of target firms mostly for strategic reasons. Therefore, I control for the effects of industry relatedness between target and acquiring firms in subsequent cross-sectional regressions.

5. Empirical Results

5.1. Univariate comparisons

In this section, I first conduct univariate tests to compare the abnormal returns to block targets by legal origins and shareholder protection indices. I evaluate both the short-term effects and long-term influences of the changes in governance quality induced by cross-border acquisitions.

5.1.1. Announcement period returns to target firms

Table 3 presents the univariate tests of mean and median announcement period cumulative abnormal returns or CARs to targets categorized by legal origins, anti-director rights and investor protection. Specifically, Panels A, B and C provide one-way classification by target legal origins, anti-director rights and investor protection, respectively. Panels D, E and F present two-way classification by combining target and acquirer legal origins, anti-director rights and investor protection. This table also shows the statistical significance of differences in abnormal returns between groups using a two-tailed t-test for the equality of means and a Wilcoxon test for the equality of medians.

Table 3 indicates that in general block target firms receive a positive market response on the announcement of cross-border large share acquisitions. When considering the legal origins involved in transactions, I find that common-law-legal-origin target firms have significantly larger abnormal returns than civil-law-legal-origin targets both over the 7-day event window (-3, 3) and 11-day event window (-5, 5) for the acquisition announcement. Additionally, the CARs for target firms with higher levels of shareholder protection, as reflected in the anti-director rights and investor protection indices, are significantly larger in value than those for targets with lower levels of shareholder protection over the same two event windows. These results are in support of my first hypothesis and consistent with La Porta, Lopez-de-Silanes, Shleifer and Vishny (2002) in terms that the firms with higher levels of investor protection receive higher market valuations.

The second hypothesis is related to the governance transfer in block share purchases and their announcement effects. I predict that target firms with poor governance quality will experience a favorable market response when they are acquired by firms with good governance practices. It reflects the positive market expectation of governance improving in cross-border block purchases. Panel D in Table 3 shows that, for civil-law-legal-origin target firms, they have average CARs of 10.95% over the 7-day event window (-3, 3) and 12.56% over the 11-day event window (-5, 5) when blocks are purchased by common-law-legal-origin firms, compared to 3.43% and 6.05% over the same two event windows when being acquired by civil-law-legal-origin firms. The differences of abnormal returns between the civil law targets-common law acquirers and the civil law targets-civil law acquirers are statistically significant. However, for common-law-legal-origin target firms, they have very close average CARs over the same event windows no matter what countries the acquiring firms come from, and the differences in abnormal returns between the common law targets-common law acquirers and the common law targets-civil law acquirers are statistically insignificant. Furthermore, if the acquiring firms are from civil law countries, it really makes a difference whether the targets are in common law countries or in civil law countries. The group of civil law targets-civil law acquirers consistently has the lowest CARs in both 7-day and 11-day event windows around the acquisition announcement.

Above results from two-way univariate analysis of mean and median CARs over two event windows upon the target and acquiring firms' legal origins also hold for the

comparisons with the alternative classifications by anti-director rights and investor protection indices. Specifically, the Panels E and F in Table 3 show that the block targets, if acquired by firms with better shareholder protection, have significantly larger abnormal returns, while on the other hand, if acquired by firms with worse shareholder protection, do not necessarily have significantly lower CARs. The group, where both the target and acquiring firms are in low levels of shareholder protection, has the lowest abnormal returns.

In summary, these results are consistent with Bris and Cabolis (2004b) in that the target firms import good governance practices in cross-border acquisitions and hence increase market values, while they do not import bad corporate governance or destroy values if acquired by firms with poor governance quality. I observe similar governance transfer patterns in the cross-border block share purchases sample, and support for the second hypothesis.

5.1.2. Long-term stock performance of target firms

Table 4 compares mean and median long run abnormal returns to target firms by legal origins, anti-director rights and investor protection indices. The classifications are the same as those in earlier univariate tests of announcement period returns. I measure the long-term stock performance by calculating both the cumulative abnormal returns (CARs) and buy-and-hold abnormal returns (BHARs) using monthly abnormal returns over 1-year and 3-year periods following the acquisition

date. I require that the target firms exist at least 1 year after the acquisition month. If they are delisted within the 3-year period, the long run abnormal stock returns are computed up to the delisting date. Barber and Lyon (1997) document that CARs are biased predictors of BHARs, and hence researchers who restrict their analysis to cumulative abnormal returns only could conceivably conclude that the sample in question earned long-run abnormal returns when in fact it did not. Therefore, to address this measurement bias, I use both CARs and BHARs to detect long-run (one- to three-year) abnormal stock returns. However, these results may still be distorted by introducing a survivorship bias with long-term studies, because some block targets that were fully acquired within 1-year period following the acquisition date are excluded from long-term sample.

From Panel A in Table 4, I observe that common-law-legal-origin target firms have consistently larger abnormal stock returns than civil-law-legal-origin targets through 1-year and 3-year periods following the acquisition date, and the differences of long-run abnormal returns are strongly significant at the 1% level. These results are robust based on both CARs and BHARs measurements, although the mean CARs and associated test statistics are generally larger than those using BHARs.

Additionally, the long-run performances of block targets and reference portfolios (local market indices) at one-, two- and three-year horizons are plotted in figures 1, 2, 3 and 4. Both the CARs and BHARs in Figures 1 and 2 show that common-law-legal-origin target firms consistently earn large and positive abnormal returns, while civil-law-legal-origin targets have negative long-run abnormal returns.

Figures 3 and 4 provide the long-run cumulative actual returns of block targets and local market indices, respectively. I conclude that the documented significant differences in abnormal returns of block targets upon legal systems are not driven by the different market returns. In fact, the common-law-legal-origin target firms outperform civil-law-legal-origin targets both in absolute and relative to market index, and common law countries exhibit a very close pattern of market returns with civil law countries.

Furthermore, I compare long-term performance of block targets categorized by target anti-director rights and investor protection indices. Similarly, the target firms with higher levels of shareholder protection generally have larger long-run abnormal stock returns than the targets with lower levels of shareholder protection. In general, these results from long-term analysis of stock performance of targets based on a one-way classification preliminarily support the third hypothesis in the sense that block targets with better corporate governance, not only experience more favorable market valuation effects at the time of acquisition announcement, but also have better long run stock performance beyond the initial announcement effects.

Finally, I conduct univariate tests to compare long-term performance of targets upon a two-way classification and investigate the subsequent impact of governance transfer in cross-border block share purchases. Based on the Panel D in Table 4, there is no evidence that civil-law-legal-origin target firms experience more favorable long-term stock performance when being acquired by common-law-legal-origin firms. The differences in long-run abnormal returns between civil law targets-common law

acquirers and civil law targets-civil law acquirers are generally insignificant. These results are inconsistent with the last hypothesis that better acquiring firms' country legal system predicts more favorable long-term post-acquisition stock performance of targets. In fact, civil-law-legal-origin targets "improve" their corporate governance through large share acquired by common-law-legal-origin firms, which is only limited to short-term announcement effects and has no long-term evidence. Again, I find no evidence of good governance export or worse long-run performance due to block shares purchased by civil-law-legal-origin firms. On the other hand, I find that common-law-legal-origin target firms outperform civil-law-legal-origin targets no matter whether the acquiring firms are from common law countries or civil law countries. In Panels E and F, the anti-director rights and investor protection indices are used instead of legal origins as the alternative proxies for corporate governance to check for the robustness of previous results, and I find similar evidence. Therefore, I preliminarily conclude that block targets' country legal system and their original legal protection of investors determine the cross-sectional variations in performance levels among target firms following the acquisition date, and there is no long-term evidence of governance transfer induced by cross-border block purchases.

5.2. Regression results

5.2.1. Multivariate analysis of announcement period returns to target firms

Table 6 presents cross-sectional regression results that explain the announcement

period abnormal returns to block targets by controlling other variables. Panel A reports estimation results of six model specifications for 7-day (-3, 3) cumulative abnormal returns (CARs), and Panel B reports estimation results of same model specifications for 11-day (-5, 5) CARs. A description of the independent variables used in regression analysis, as well as their sources, is provided in Appendix A. Model 1 only includes the target legal origin. Models 2 to 4 consider the legal origins of both target and acquiring firms as well as the interaction effect. Additionally, Models 3 and 4 further include alternative indices of target shareholder protection: the anti-director rights and investor protection, respectively. As Table 5 shows, the legal origins, anti-director rights and investor protection are three highly correlated variables and the correlation coefficients are greater than 0.7, which suggest the possibility of multicollinearity. Therefore, I further present regression results excluding the legal origins in Models 5 and 6. Specifically, Model 5 considers target and acquiring firms' anti-director rights as well as their interaction effect, and Model 6 is similar to Model 5, but I use investor protection to check for the robustness of previous results. In all regression models, I assemble additional proxies of legal environment including creditor rights, accounting standards and political corruption, and I control for the percent of shares acquired in transactions, industry relatedness between target and acquiring firms, and target countries' stock markets openness and their economies.

Consistent with the univariate results, the civil-law-target dummy has the negative coefficients in various cross-sectional regressions, indicating that target firms from civil law countries with poorer legal settings experience significantly lower

abnormal returns over the announcement periods. In Models 5 and 6, larger abnormal returns are observed for targets with better shareholder protection. The estimated coefficients of target anti-director rights and investor protection are significantly positive. These results are consistent with the first hypothesis and the models of La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) that predict higher valuations of firms with superior legal protection of shareholders.

I also find that both 7-day (-3, 3) and 11-day (-5, 5) CARs are positively related to the interaction term between civil-law-targets and common-law-acquirers, implying that civil-law-legal-origin target firms benefit from increased monitoring and shareholder protection through block shares purchased by common-law-legal-origin firms even after controlling for several variables. Furthermore, in Models 5 and 6, I observe significant positive relationships between CARs and acquirer anti-director rights as well as investor protection. These findings are consistent with the notion that shareholders of targets earn larger abnormal returns when the acquiring firms come from more protective legal regimes and provide better shareholder protection. It is in line with the second hypothesis and supports Bris and Cabolis (2004b) in terms of the positive effects of improving governance in cross-border acquisitions.

With respect to creditor rights, the coefficients are mostly negative and insignificant. These results are not surprising. As La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) point out, creditor rights are more complex than shareholder rights, since there may be different kinds of creditors with different interests, and hence protecting rights of some creditors has the effect of reducing the rights of others. In

this thesis, I use the index on creditor rights from La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998), which takes the perspective of senior secured creditors. On the other hand, the conflict between creditors and shareholders is also recognized as an important source of agency cost, and some common-law countries like the United States favor shareholders over creditors and display weak creditor protection.

The results for other governance indices and control variables in Table 6 are generally consistent with prior literature. As Bris and Cabolis (2004a) find, better accounting disclosure leads to significantly larger abnormal returns; however, lower corruption index indicating higher level of political corruption may lead to larger abnormal returns because of more room for extraction of private benefits of control. The variable of percent of shares acquired in transactions is positively related to abnormal returns, and in some model specifications this variable is statistically significant. In this sense, the amount of corporate control may partially explain the announcement period abnormal returns to targets in cross-border acquisitions.

5.2.2. Multivariate analysis of long-term stock performance of target firms

Table 7 discloses cross-sectional regression results that explain long-run post-acquisition stock performance of targets by controlling other variables. All model specifications are the same as in Table 6. The dependent variables are the monthly cumulative abnormal returns to block targets over 1-year and 3-year periods following the acquisition announcement date. Panel A reports regression results for 1-year

period monthly CARs, and Panel B reports regression results for 3-year period monthly CARs.

The civil-law-target dummy is again negative and significant, suggesting that target firms from civil law countries with poorer legal protections of shareholders not only experience more unfavorable market effects at the time of announcement, but also consistently have lower level of long-term post-acquisition performance. In Models 5 and 6, the target anti-director rights and investor protection variables are again positive. However, they are statistically insignificant except that the variable of target investor protection in Model 6 at 3-year post-acquisition horizon is weakly significant at 10 percent. Thus, the evidence from multivariate analyses does not fully support the third hypothesis. Specifically, I find that the long-term post-acquisition performance is consistently more favorable for common-law-legal-origin targets, but I do not detect unusual long-term abnormal returns for targets with better shareholder protection measured by the anti-director rights and investor protection indices.

The interaction term between civil-law-targets and common-law-acquires is negative and insignificant. Also, the coefficients of acquirer anti-director rights and investor protection are all insignificant. These findings are consistent with the long-term univariate results but do not support the last hypothesis. In other words, target firms benefit from “improving” governance through large shares acquired by firms in more protective legal regimes or with higher levels of shareholder protection, which only limits to short-term valuation effects and lacks long-run evidence.

The estimation results for other variables are generally consistent with those in

Table 6, but there are some small exceptions. The creditor rights variable is significantly negative in the long run, while it is insignificant for announcement periods. The positive effect of more accounting disclosures is significant in short-term regressions, while it is statistically insignificant in the long run. Also, the effect of corruption becomes insignificant at long-term horizon after acquisition announcement. With regard to the percent of shares acquired in transactions, I still find it positively related to long-term abnormal returns and statistically significant in some model specifications.

5.2.3. Robustness check for long-term stock performance of target firms

As Barber and Lyon (1997) recognize, long-term CARs ignore compounding and are subject to measurement bias, which at worst can lead to incorrect inferences. Therefore, to ensure the robustness of long-term regression results, I additionally use buy-and-hold abnormal returns (or BHARs) to detect long-run abnormal stock returns and re-perform the earlier multivariate analyses in Table 8. Panel A reports regression results for 1-year period monthly BHARs and Panel B reports regression results for 3-year period monthly BHARs.

In Table 8, the negative sign in estimated coefficients of civil-law-target dummy is consistent with the observations in Table 7. Similarly, the variables of target anti-director rights and investor protection are statistically insignificant. I confirm that the long-term post-acquisition performance is more favorable for

common-law-legal-origin targets, while it is not detectable in the variables of anti-director rights and investor protection as the measurements of shareholder protection.

Contrary to what the last hypothesis predicts, the interaction term between civil-law-targets and common-law-acquirers is significantly negative. The coefficients of acquirer anti-director rights and investor protection are still insignificant in Models 5 and 6. Again, these results indicate that the inferences drawn from Table 6 are robust, and I do not obtain the evidence in support of the last hypothesis or the governance transfer hypothesis in the long run.

5.3. Tests of pre- and post-event changes in long run firm performance

To obtain some reasonable explanations of the negative long-term post-acquisition stock performance of civil-law-legal-origin targets, I further examine the corresponding effects on target firms' operating performance, financial characteristics and investment induced by cross-border block purchases. I construct four financial ratios including the ratios of net income to net sales, total debt to total assets, net sales to total assets, and capital expenditure to sales, as the measurements of targets' pre- and post-event profitability, leverage, assets utilization and investment policy, respectively. Table 9 reports the pre- and post-event changes in these ratios for three time intervals of 3-year (-1, 1), 5-year (-2, 2) and 7-year (-3, 3) around the year of block purchase announcement. Panel A reports full sample mean differences of pre-

and post-purchase financial ratios of targets, and Panel B reports the financial ratio changes of targets categorized by target legal origins.

In Panel A, I observe that only the mean difference in the ratio of net income to net sales over a 7-year (-3, 3) interval is significantly different from zero at the 5 percent level, and it is negative, indicating the decreasing profitability of block targets. The other results are all statistically insignificant.

After classifying by target legal origins, as Panel B discloses, I find that civil-law-legal-origin target firms significantly decrease profitability and use less debt over 7-year (-3, 3) interval, and they consistently reduce capital expenditure all through three time intervals. Compared with common-law-legal-origin targets, the target firms with poorer legal protections of shareholders have less investment opportunities after transactions, and the differences are significant. In this sense, civil-law-legal-origin targets have less investment opportunities due to poorer shareholder protection, which can limit the benefits from improving governance in block share purchases and hence partially explain their observed negative long-term post-acquisition stock performance.

6. Conclusion

This thesis presents empirical evidence showing that common-law-legal-origin target firms are positively valued by capital markets in the short term and consistently experience more favorable long-run post-acquisition performance than

civil-law-legal-origin targets.⁵ However, the positive effects of corporate governance improvements (as reflected in legal systems and country-level measures of shareholder protection) only limit to announcement period observations and lack long-term evidence. I consider the effects of corporate governance and governance changes induced by cross-border block share purchases, where target firms continue as a going concern, providing a unique opportunity to evaluate the long run performance. In this thesis, I employ a sample of 240 public target firms from 37 countries, spanning the period from January 1990 to December 2000.

This study is the first attempt to document both the short-term market effects and long-term performance influences of corporate governance practices with regard to country legal systems and the degree of shareholder protection. I conduct various univariate tests and a series of cross-sectional regression analyses to investigate whether legal systems and shareholder protection are positively valued by the market and relate to the long-term stock performance, and whether target firms benefit from increasing monitoring and improving governance quality through large share acquisitions by firms in better legal systems. Consistent with La Porta, Lopez-de-Silanes, Shleifer and Vishny (2002), I find higher market valuations of firms in countries with better shareholder protection. Also, the results show the positive announcement effects of governance improvements in cross-country acquisitions in support of the governance transfer hypothesis modeled by Bris and

⁵ The figures 1 and 2 show that, even though the first three months after the acquisition announcement date are eliminated for long-term study in order to exclude the announcement effects of acquisitions, common-law target firms consistently perform better than civil-law targets.

Cabolis (2004b).

In the long run, I find that civil-law-legal-origin target firms consistently underperform local market indices at one- to three-year horizons following the acquisition announcement. However, there is no evidence that they import higher quality of shareholder protection of foreign acquirers in more protective legal regimes. To obtain a reasonable explanation of the negative long-term post-acquisition stock performance of civil-law-legal-origin targets, I additionally test the pre- and post-event changes in targets' operating performance, financial characteristics and investment (as reflected in financial ratios) for three time intervals around the year of block share purchases. I conclude that civil-law-legal-origin targets have few investment opportunities due to poorer shareholder protection and significantly reduce capital expenditure after acquisitions, which can limit the benefits from improving governance quality through block purchased by common-law-legal-origin firms, and hence it may partially explain their observed negative long-term post-acquisition stock performance.

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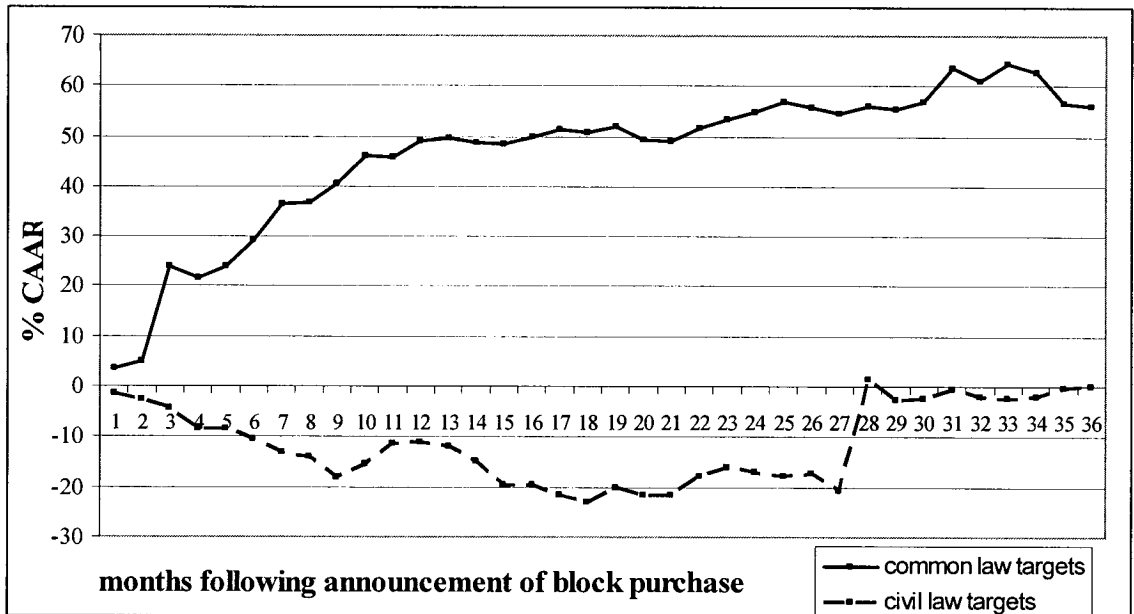


Figure 1. Monthly cumulative average abnormal returns or CAAR for common law targets and civil law targets in block purchases following the acquisition announcement date for the period, 1990 – 2000

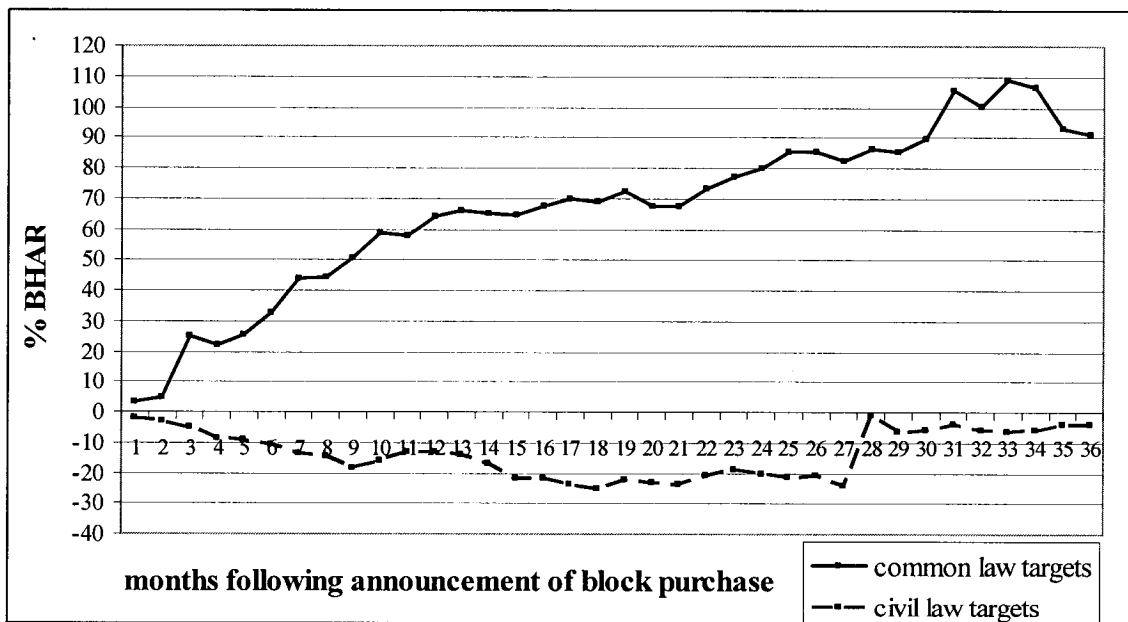


Figure 2. Monthly compounding average abnormal returns or BHAR for common law targets and civil law targets in block purchases following the acquisition announcement date for the period, 1990 - 2000

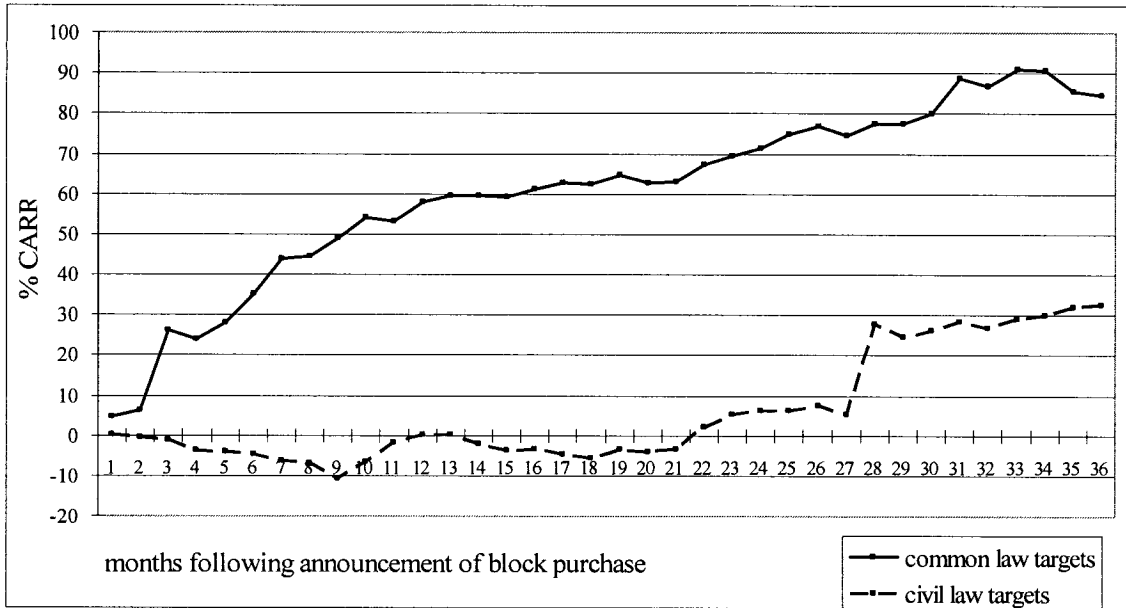


Figure 3. Monthly cumulative average raw returns or CARR for common law targets and civil law targets in block purchases following the acquisition announcement date for the period, 1990 – 2000

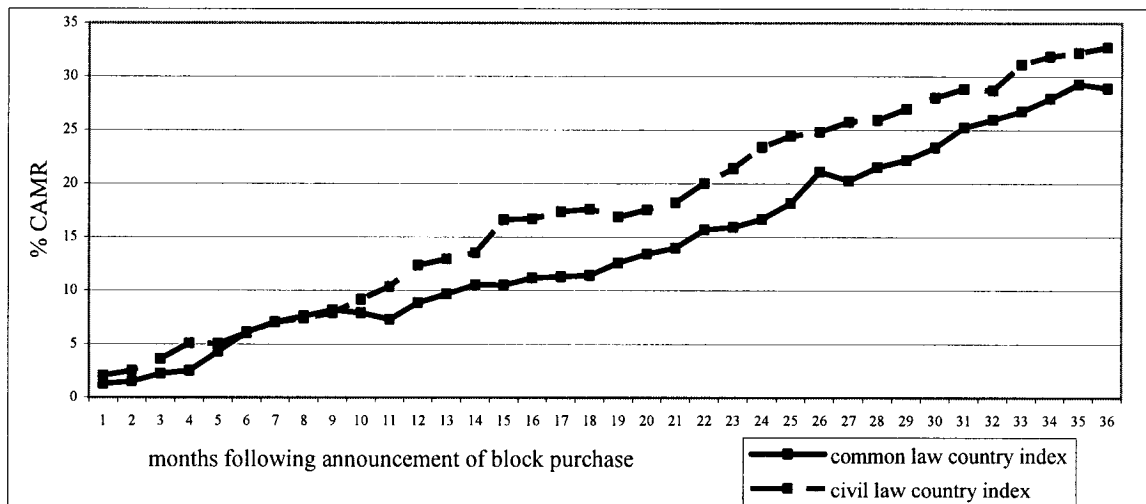


Figure 4. Monthly cumulative average market index returns or CAMR for common law countries and civil law countries for the matching time period

Appendix A. Descriptive information of variables and proxies used in the univariate tests and multivariate analyses

Variable	Sources	Description
Legal origin Common law	Reynolds and Flores (1989), LLSV (1998)	Identifies the legal origin of each country. Value 1 for common-law legal origin countries and 0 otherwise
<i>Measure of shareholder protection</i>		
Anti-director rights	LLSV (1998)	Index that aggregates six different shareholder's rights. It ranges from 0 to 6 with 6 as the highest level of protection for minority shareholders
Investor protection	LLSV (2003)	Principal component of Private enforcement and Anti-director rights. Scale from 0 to 10
<i>Other legal environment measurement</i>		
Creditor rights	Bankruptcy and reorganization laws, LLSV (1998)	Index that aggregates four different creditor rights. It ranges from 0 to 4
Accounting	LLSV (1998), International accounting and auditing trends, Center for International Financial Analysis and Research	Index that assesses the quality and information availability in annual reports. It is created by examining and rating companies' 1990 annual reports on their inclusion or omission of 90 items and ranges from 0 to 100. High scores indicate more disclosure
Political corruption	Transparency 2000, LLSV (2003)	Corruption perception index that assesses the corruption level in government. Scale from 0 to 10, with lower scores for higher levels of corruption
<i>Control variables</i>		
Percent of shares acquired	SDC	Percent of shares acquired in the block purchase
Industry relatedness	SDC	Industry relatedness of the block purchase acquirer and target. Block purchase acquirer and target are related if they share the same 2-digit SIC code
Access to equity	Schwab et al. (1999), LLSV (2003)	Index of the extent to which business executives in a country agree with the statement "stock markets are open to new firms and medium-sized firms". Scale from 1 (strongly agree) through 7 (strongly disagree)
Log GDP per capita	World Development Indicators, LLSV (2003)	Logarithm of per capita Gross Domestic Product (in US dollars) in 2000 for each country

Appendix A. Descriptive information of variables and proxies used in the univariate tests and multivariate analyses (*continued*)

Variable	Sources	Description
<i>Outcome variables</i>		
CAR	Datastream, Bloomberg	Short term and long run market-adjusted cumulative abnormal returns to targets in response to block purchase announcement for the period, 1990 - 2000
BHAR	Datastream, Bloomberg	Long run buy-and-hold abnormal returns to targets in response to block purchase announcement for the period, 1990 -2000. It is computed by compounding monthly abnormal returns over the 3-year period following the acquisition. If the targets are delisted one year after block transactions and within the 3-year period, the BHAR is computed up to the delisting date

Table 1. Sample Description

The sample consists of 240 target firms from 37 countries that completed block share purchases during the period from January 1990 to December 2000. I restrict my attention to completed purchases of blocks between 20 to 80 percent of the stock. All the transactions are from the Securities Data Company (SDC) database. The target firms are publicly traded companies and have stock price data available from Datastream International as well as Bloomberg database. Panel A shows the frequency of block purchases by country, and Panel B provides a breakdown by country legal origins. Common law and civil law are two broad legal families or traditions. Common law is English in origin, and civil law that derives from Roman law further includes three major families of French, German and Scandinavian. I consider the legal regime classifications for each country from LLSV (1998).

Panel A: Distribution of block purchases by country

Country	Number of observations	Country	Number of observations	Country	Number of observations
Argentina	4	Greece	1	Philippines	5
Australia	8	Hong Kong	5	Portugal	1
Austria	5	India	14	Singapore	6
Belgium	3	Indonesia	3	South Africa	10
Brazil	5	Israel	2	South Korea	1
Canada	18	Italy	7	Spain	3
Chile	1	Japan	7	Sri Lanka	1
Colombia	2	Malaysia	3	Sweden	5
Denmark	1	Netherlands	3	Switzerland	4
Finland	2	New Zealand	7	Thailand	9
France	23	Norway	4	Turkey	4
Germany	24	Peru	2	United Kingdom	8
				United States	29
All countries	240				

Panel B: Distribution of block purchase by legal origin

Target legal origin	Number of observations	Acquirer legal origin	Number of observations
		Common law	75
Common law	120	Civil law	45
		Common law	46
Civil law	120	Civil law	74
All countries	240		

Table 2. Summary of characteristics of block share purchases and foreign acquirers

This table presents a summary of characteristics of block share purchases and foreign acquirers in the sample of 240 completed acquisitions during 1990 to 2000 from Securities Data Company (SDC) database. The target firms are publicly traded companies and have stock price data available from Datastream International and Bloomberg databases. Panel A presents the univariate tests of mean and median percent of shares acquired in transactions categorized by legal origins following the classifications of LLSV (1998), and ***, **, and * indicate significance levels at 1%, 5%, and 10%, respectively. The t-statistics are from t-tests for the equality of means and chi-squares are from Wilcoxon tests for the equality of medians between groups. In Panel B, I report the number of foreign acquirers in sample, classified by public status and type.

<i>Panel A: Percent of shares acquired in transactions and legal origin</i>			
Acquirer	Target		t-stat
	Common Law	Civil Law	$[\chi^2]$
Common Law	52.83%*** [52.00%]*** (N=75)	53.25%*** [51.76%]*** (N=46)	0.15 [0.04]
	49.39%*** [51.00%]*** (N=45)	57.32%*** [58.72%]*** (N=74)	2.91*** [8.47]***
t-stat $[\chi^2]$	1.31 [3.05]*	1.42 [2.34]	

Panel B: Characteristics of foreign acquirer

Foreign acquirer public status	Number of observations
Public companies	138
Private companies	51
Joint ventures	4
Subsidiaries	47
	240
Foreign acquirer type	
Corporates	234
Financial buyers	5
Individuals	1
	240

Table 3. Short-term announcement period returns to targets by legal origin, anti-director rights, and investor protection

This table presents the univariate tests of mean and median announcement period cumulative abnormal returns or CARs to targets categorized by legal origin, anti-director rights, and investor protection. The announcement period cumulative abnormal returns are calculated as $\sum_{t=t_1}^{t_2} AR_{it}$, where AR_{it} are the market-adjusted returns or the differences between the actual returns and the market index returns. The actual returns are calculated using closing price data from Datastream International and Bloomberg databases, and the market returns are on the Datastream local market index. Both actual returns and local market index returns are computed in local currencies and adjusted for dividends, stock splits and stock repurchases, etc. I report two alternative event windows' abnormal returns to targets. Panels A, B and C provide one-way classification by target legal origin, anti-director rights, and investor protection, respectively. Panels D, E, and F present two-way classification by combining target and acquirer legal origins, anti-director rights, and investor protection, respectively. Common law and civil law are two broad legal families or traditions. Common law is English in origin, and civil law that derives from Roman law further includes three major families of French, German, and Scandinavian. High levels of anti-director rights group has the index at or greater than 4.0 out of 6.0, and otherwise the firms are categorized into the low levels of anti-director rights group. Similarly, the group with high levels of investor protection has the index at or above 5.0 out of 10.0, and otherwise the firms are categorized into the low levels of investor protection group. I consider the legal regime classification and anti-director rights index for each country from LLSV (1998) and the investor protection index from LLSV (2003). The mean and median CARs for each group are reported, and ***, **, and * indicate significance of abnormal returns at the 1%, 5%, and 10% levels, respectively. In addition, the t-statistics are from t-test for the equality of means and chi-squares are from Wilcoxon test for the equality of medians between groups.

		From $t - 3$ to $t + 3$		from $t - 5$ to $t + 5$	
		<i>Panel A: CARs categorized by target legal origin</i>			
		Common Law	Civil Law	t-stat [χ^2]	t-stat [χ^2]
Target		11.04%*** [3.78%]*** (N=107)	6.31%*** [1.81%]*** (N=115)	1.96** [3.22]*	2.04** [2.56]*
	Target				
		Common Law (N=107)	Civil Law (N=115)	14.31%*** [7.97%]***	8.54%*** [3.66%]*** (N=115)

Table 3. Short-term announcement period returns to targets by legal origin, anti-director rights, and investor protection (continued)

<i>Panel B: CARs categorized by target anti-director rights</i>							
	High	Low	t-stat [χ^2]		High	Low	t-stat [χ^2]
Target	11.26%*** [3.80%]*** (N=116)	5.66%*** [1.32%]*** (N=106)	2.37** [4.27]**	Target	14.33%*** [7.92%]*** (N=116)	8.03%*** [3.24%]*** (N=106)	2.27** [3.97]**
<i>Panel C: CARs categorized by target investor protection</i>							
	High	Low	t-stat [χ^2]		High	Low	t-stat [χ^2]
Target	11.30%*** [3.78%]*** (N=119)	5.45%*** [1.75%]*** (N=103)	2.50*** [3.77]**	Target	14.15%*** [6.85%]*** (N=119)	8.06%*** [3.97%]*** (N=103)	2.21** [2.74]*
<i>Panel D: CARs categorized by target legal origin and acquirer legal origin</i>							
Acquirer	Target		t-stat [χ^2]	Acquirer	Target		t-stat [χ^2]
	Common Law	Civil Law			Common Law	Civil Law	
Common Law	9.89%*** [3.78%]*** (N=65)	10.95%*** [3.40%]*** (N=44)	0.29 [0.08]	Common Law	12.76%*** [6.67%]*** (N=65)	12.56%*** [5.75%]*** (N=44)	0.05 [0.08]
	12.81%*** [4.34%]*** (N=42)	3.43%** [0.16%] (N=71)	2.70*** [5.99]***		Civil Law	16.70%*** [9.38%]*** (N=42)	6.05%*** [1.15%]** (N=71)
t-stat [χ^2]	0.75 [0.34]	2.33** [4.36]**		t-stat [χ^2]	0.86 [1.02]	1.76* [3.02]*	

Table 3. Short-term announcement period returns to targets by legal origin, anti-director rights, and investor protection (continued)

<i>Panel E: CARs categorized by target anti-director rights and acquirer anti-director rights</i>										
Acquirer	Target		Acquirer	t-stat [χ^2]	Target		t-stat [χ^2]	Target		t-stat [χ^2]
	High	Low			High	Low		High	Low	
High	11.22%*** [4.26%]*** (N=80)	9.82%*** [4.27%]*** (N=43)	High	0.42 [0.00]	13.70%*** [7.36%]*** (N=80)	11.77%*** [5.33%]*** (N=43)	0.49 [0.04]	15.74%*** [8.64%]*** (N=36)	5.47%*** [1.07%]* (N=63)	2.36** [5.42]**
Low	11.34%*** [2.94%]*** (N=36)	2.83% [-0.93%] (N=63)	Low	2.30** [5.07]**	0.45 [0.30]	1.69* [3.28]*				
t-stat [χ^2]	0.03 [0.00]	2.33** [6.36]***	t-stat [χ^2]							
<i>Panel F: CARs categorized by target investor protection and acquirer investor protection</i>										
Acquirer	Target		Acquirer	t-stat [χ^2]	Target		t-stat [χ^2]	Target		t-stat [χ^2]
	High	Low			High	Low		High	Low	
High	11.31%*** [4.61%]*** (N=83)	9.00%*** [3.40%]*** (N=42)	High	0.72 [0.00]	13.37%*** [6.67%]*** (N=83)	11.43%*** [6.38%]*** (N=42)	0.51 [0.01]	15.94%*** [8.64%]*** (N=36)	5.74%*** [1.15%]* (N=61)	2.34** [5.43]**
Low	11.29%*** [2.94%]*** (N=36)	3.01% [-0.73%] (N=61)	Low	2.22** [4.55]**	0.57 [0.69]	1.58 [3.53]*				
t-stat [χ^2]	0.01 [0.01]	2.05** [5.82]**	t-stat [χ^2]							

Table 4. Long-term monthly cumulative abnormal returns (CAR) and buy-and-hold abnormal returns (BHAR) to targets by legal origin, anti-director rights, and investor protection

This table presents the univariate tests of mean and median long run abnormal returns to targets categorized by legal origin, anti-director rights, and investor protection. The long-term monthly cumulative abnormal returns or CARs are calculated as in Table 3, using monthly stock price. The long-run buy-and-hold abnormal returns are computed by compounding monthly abnormal returns over the 1-year and 3-year periods following the acquisition date as $BHAR_{it} = \prod_{t=1}^T [1 + R_{it}] - \prod_{t=1}^T [1 + R_{mt}]$. Panels A, B and C provide one-way classification by target legal origin, anti-director rights, and investor protection, respectively. Panels D, E, and F present two-way classifications combining target and acquirer legal origins, anti-director rights, and investor protection, respectively. Common law and civil law are two broad legal families or traditions. Common law is English in origin, and civil law that derives from Roman law further includes three major families of French, German, and Scandinavian. High levels of anti-director rights group has the index at or greater than 4.0 out of 6.0, and otherwise the firms are categorized into the low levels of anti-director rights group. Similarly, the group of high levels of investor protection has the index at or above 5.0 out of 10.0, and otherwise the firms are categorized into the low levels of investor protection group. I consider the legal regime classification and anti-director rights index for each country from LLSV (1998) and the investor protection index from LLSV (2003). The mean and median monthly CARs and BHARs for each group are reported, and ***, **, and * indicate significance of abnormal returns at the 1%, 5%, and 10% levels, respectively. In addition, the t-statistics are from t-test for the equality of means and chi-squares are from Wilcoxon test for the equality of medians between groups.

	1-year				3-year			
	Targets		t-stat [χ^2]	Targets		t-stat [χ^2]		
	Common Law	Civil Law		Common Law	Civil Law			
CAR	26.56%*** [18.70%]*** (N=101)	-10.22%** [-18.60%]*** (N=97)	4.45*** [19.11]***	35.67%*** [26.45%]*** (N=101)	-13.97%* [-15.71%]*** (N=97)	3.47*** [10.32]***		
BHAR	17.04%** [-4.98%] (N=101)	-13.62%*** [-22.66%]*** (N=97)	3.45*** [6.58]***	4.19%*** [-25.66%]* (N=101)	-32.29%*** [-42.92%]*** (N=97)	2.50*** [1.87]		

Panel A: CARs and BHARs categorized by target legal origin

Table 4. Long-term monthly cumulative abnormal returns (CAR) and buy-and-hold abnormal returns (BHAR) to targets by legal origin, anti-director rights, and investor protection (*continued*)

		1-year		3-year			
		Targets		t-stat	Targets		t-stat
		High	Low	$[\chi^2]$	High	Low	$[\chi^2]$
Panel B: CARs and BHARs categorized by target anti-director rights							
CAR		19.59%*** [10.39%]** (N=107)	-4.45% [-12.17%]** (N=91)	2.83*** [8.16]***	24.74%** [9.57%] (N=107)	-4.40% [-8.00%] (N=91)	2.01** [3.20]*
BHAR		11.00% [-10.37%] (N=107)	-8.54% [-16.86%]*** (N=91)	2.19** [2.14]	-6.22% [-36.94%]*** (N=107)	-22.46%** [-28.81%]*** (N=91)	1.11 [0.00]
Panel C: CARs and BHARs categorized by target investor protection							
CAR		19.62%*** [8.88%]** (N=110)	-5.30% [-10.88%]** (N=88)	2.96*** [7.67]***	25.05%** [9.10%] (N=110)	-5.77% [-4.14%] (N=88)	2.14** [3.08]*
BHAR		9.99% [-11.45%] (N=110)	-7.93% [-16.77%]*** (N=88)	2.01** [1.75]	-6.99% [-36.89%]*** (N=110)	-22.05%** [-31.81%]*** (N=88)	1.03 [0.08]

Table 4. Long-term monthly cumulative abnormal returns (CAR) and buy-and-hold abnormal returns (BHAR) to targets by legal origin, anti-director rights, and investor protection (continued)

		1-year		3-year			
		Target		Target		t-stat	
Acquirer		Common Law	Civil Law	Common Law	Civil Law	$[\chi^2]$	
CAR	Common Law	31.42%*** [23.84%]*** (N=64)	-16.56%* [-25.20%]*** (N=34)	38.56%** [26.89%]* (N=64)	-12.66% [-21.10%]* (N=34)	3.75*** [12.71]***	2.28*** [4.17]**
	Civil Law	18.15%* [16.73%]* (N=37)	-6.80% [-11.08%]** (N=63)	30.66%* [18.58%]* (N=37)	-14.68% [-15.71%]** (N=63)	2.18** [6.07]***	2.38*** [5.93]**
	t-stat	1.03 [0.69]	0.86 [1.64]	0.35 [0.00]	0.11 [0.22]		
	$[\chi^2]$	27.05%*** [-1.61%] (N=64)	-23.13%*** [-32.79%]*** (N=34)	17.54% [-23.14%] (N=64)	-51.11%*** [-60.46%]*** (N=34)	4.07*** [9.55]***	3.57*** [3.51]*
BHAR	Common Law	-0.28% [-12.53%] (N=37)	-8.49% [-16.68%]*** (N=63)	-18.91% [-28.16%]** (N=37)	-22.13%*** [-35.90%]*** (N=63)	0.68 [0.14]	0.18 [0.01]
	Civil Law	1.90* [2.13]	1.54 [2.89]*	1.60 [0.45]	2.12** [2.06]		

Table 4. Long-term monthly cumulative abnormal returns (CAR) and buy-and-hold abnormal returns (BHAR) to targets by legal origin, anti-director rights, and investor protection (continued)

		1-year		3-year			
		Target		Target		t-stat	
Acquirer		High	Low	High	Low	High	Low
CAR		21.33%*** [9.18%]** (N=73)	-7.48% [-20.67%]* (N=35)	23.68%* [9.57%] (N=73)	5.67% [-0.33%] (N=35)	2.15** [5.36]**	0.79 [0.47]
	High	15.85%* [12.76%] (N=34)	-2.55% [-9.79%] (N=56)	27.01% [13.45%] (N=34)	-10.69% [-13.20%] (N=56)	1.57 [3.17]*	1.92* [3.52]*
	Low	0.45 [0.01]	0.38 [1.02]	0.15 [0.22]	0.78 [0.09]		
	t-stat [χ^2]	17.65%** [-8.75%] (N=73)	-14.88% [-22.89%]*** (N=35)	1.59% [-41.96%]* (N=73)	-27.17%* [-41.50%]*** (N=35)	2.49*** [4.02]**	1.34 [0.28]
BHAR	High	-3.27% [-14.08%] (N=34)	-4.58% [-15.29%]** (N=56)	-22.98% [-35.98%]*** (N=34)	-19.52%* [-26.14%]*** (N=56)	0.11 [0.00]	0.17 [0.32]
	Low	1.56 [0.77]	0.87 [1.78]	1.13 [0.23]	0.39 [0.36]		
	t-stat [χ^2]						

Table 4. Long-term monthly cumulative abnormal returns (CAR) and buy-and-hold abnormal returns (BHAR) to targets by legal origin, anti-director rights, and investor protection (*continued*)

		1-year		3-year			
		Target		Target		t-stat	
Acquirer		High	Low	High	Low	High	Low
CAR							
High		22.02%*** [8.88%]** (N=76)	-8.49% [-16.23%]* (N=34)	27.09%* [9.80%] (N=76)	6.13% [5.21%] (N=34)	2.41** [4.84]**	0.94 [0.49]
Low		14.25% [8.00%] (N=34)	-3.30% [-10.38%] (N=54)	20.50% [5.77%] (N=34)	-13.27% [-13.20%] (N=54)	1.49 [3.09]*	1.78* [3.04]*
t-stat [χ^2]		0.64 [0.06]	0.42 [0.34]	0.31 [0.02]	0.95 [0.48]		
BHAR							
High		16.28%* [-6.83%] (N=76)	-13.76% [-22.77%]*** (N=34)	0.01% [-37.56%**] (N=76)	-26.34% [-42.21%]*** (N=34)	2.32** [3.45]*	1.23 [0.30]
Low		-4.08% [-14.08%] (N=34)	-4.27% [-15.29%]** (N=54)	-22.66% [-32.33%]*** (N=34)	-19.34% [-27.59%]*** (N=54)	0.02 [0.00]	0.16 [0.23]
t-stat [χ^2]		1.54 [0.73]	0.79 [1.43]	1.06 [0.25]	0.35 [0.32]		

Table 5. Correlation Matrix

This table reports correlation coefficients between all governance variables used in the paper. P-values are shown in parentheses. Each variable is described as in Table 1.

	Common law	Anti-director rights	Investor protection	Creditor rights	Accounting	Political corruption
Common law	1.000	0.734 (<0.001)	0.786 (<0.001)	0.305 (<0.001)	0.414 (<0.001)	0.100 (0.140)
Anti-director rights		1.000	0.948 (<0.001)	-0.039 (0.566)	0.371 (<0.001)	0.113 (0.094)
Investor protection			1.000	-0.079 (0.243)	0.446 (<0.001)	0.119 (0.077)
Creditor rights				1.000	-0.049 (0.471)	-0.122 (0.070)
Accounting					1.000	0.639 (<0.001)
Political corruption						1.000

Table 6. Multivariate analysis of announcement period returns to targets

This table presents cross-sectional regression results that explain the announcement period abnormal returns to targets in cross-border block purchases during 1990 to 2000. The dependent variables are seven-day (-3, 3) and eleven-day (-5, 5) announcement period abnormal returns of the block purchase targets. Panel A reports regression results for seven-day (-3, 3) CARs, and Panel B reports regression results for eleven-day (-5, 5) CARs. The independent variables reflect the level of shareholder protection for both targets and acquirers, and other legal environment measurements of targets. I consider the legal origin, indices of shareholder protection, creditor protection, accounting standards, and political corruption, as explained in Table 1. They are country level variables and have captured the country fixed effect. The other control variables are the percent of shares acquired in transactions, industry relatedness between targets and acquirers, the access to equity, and the logarithmic of GDP per capita. In model 1, I only include target legal origin. Model 2 adds the interaction effect between target legal origin and acquirer legal origin. Model 3 and Model 4 further include two alternative indices of shareholder protection: the anti-director rights and investor protection, respectively. Model 5 considers the interaction effect between target anti-director rights and acquirer anti-director rights. And Model 6 is similar to Model 5, but I use the investor protection to check for the robustness of previous results. Note that the legal origin, anti-director rights, and investor protection are three highly correlated variables. (t-statistics are shown in parentheses.)

Panel A: Dependent variable CAR(-3, 3)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.3524 (-1.82)*	-0.3149 (-1.58)	-0.4418 (-1.94)**	-0.4042 (-1.87)*	-0.7121 (-3.56)***	-0.5661 (-2.97)***
Legal origin	-0.0653	-0.1050	-0.0655	-0.0592		
Civil law – target	(-2.00)**	(-2.48)***	(-1.21)	(-0.99)		
Legal origin		-0.0195	-0.0177	-0.0171		
Common law - acquirer		(-0.54)	(-0.49)	(-0.47)		
Target legal origin*acquirer legal origin		0.0846	0.0750	0.0746		
Civil law target & common law acquirer		(1.67)*	(1.46)	(1.45)		

Table 6. Multivariate analysis of announcement period returns to targets (continued)

Independent variable	<i>Panel A: Dependent variable CAR(-3, 3)(continued)</i>					
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Anti-director rights – target			0.0159 (1.16)		0.0492 (2.51)***	
Anti-director rights – acquirer					0.0415 (2.27)**	
Target anti-director rights * acquirer anti-director rights					-0.0086 (-1.69)*	
Investor protection – target				0.0081 (1.08)		0.0158 (2.01)**
Investor protection – acquirer						0.0123 (1.79)*
Target investor protection * acquirer investor protection						-0.0010 (-0.96)
Creditor rights – target	-0.0075 (-0.73)	-0.0064 (-0.63)	-0.0005 (-0.05)	0.0007 (0.05)	0.0037 (0.37)	0.0036 (0.36)
Accounting – target	0.0046 (2.14)**	0.0037 (1.71)*	0.0037 (1.69)*	0.0034 (1.54)	0.0040 (1.95)**	0.0036 (1.67)*
Corruption – target	-0.0271 (-2.06)**	-0.0230 (-1.70)*	-0.0257 (-1.87)*	-0.0233 (-1.72)*	-0.0308 (-2.33)**	-0.0283 (-2.14)**
Percent of shares acquired	0.0011 (1.37)	0.0012 (1.59)	0.0014 (1.77)*	0.0014 (1.78)*	0.0013 (1.71)*	0.0013 (1.60)
Industry relatedness	0.0121 (0.49)	0.0126 (0.51)	0.0119 (0.48)	0.0124 (0.51)	0.0096 (0.40)	0.0095 (0.39)
Access to equity	-0.0149 (-0.62)	-0.0137 (-0.57)	-0.0127 (-0.52)	-0.0153 (-0.63)	-0.0030 (-0.13)	-0.0072 (-0.30)

Table 6. Multivariate analysis of announcement period returns to targets (*continued*)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Panel A: Dependent variable CAR(-3, 3)(continued)</i>						
Independent variable						
Log GDP per capita	0.0411 (2.06)**	0.0396 (1.97)**	0.0447 (2.18)**	0.0427 (2.10)**	0.0493 (2.45)**	0.0464 (2.33)**
R-squared (unadjusted)	7.83%	9.45%	10.03%	9.95%	11.28%	10.59%
Observations	222	222	222	222	222	222

Table 6. Multivariate analysis of announcement period returns to targets (*continued*)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	-0.3364 (-1.47)	-0.2999 (-1.27)	-0.4257 (-1.58)	-0.3670 (-1.44)	-0.7285 (-3.08)***	-0.5629 (-2.49)***
Legal origin	-0.0766 (-1.99)**	-0.1112 (-2.22)**	-0.0720 (-1.12)	-0.0768 (-1.08)		
Civil law – target						
Legal origin		-0.0207 (-0.48)	-0.0189 (-0.44)	-0.0189 (-0.44)		
Common law - acquirer						
Target legal origin*acquirer legal origin		0.0720 (1.20)	0.0624 (1.03)	0.0645 (1.06)		
Civil law target & common law acquirer						
Anti-director rights – target			0.0157 (0.97)		0.0576 (2.49)***	
Anti-director rights – acquirer					0.0462 (2.13)**	
Target anti-director rights * acquirer anti-director rights					-0.0104 (-1.74)*	
Investor protection – target				0.0061 (0.68)		0.0179 (1.92)*
Investor protection – acquirer						0.0129 (1.58)
Target investor protection* acquirer investor protection						-0.0013 (-1.03)
Creditor rights – target	-0.0072 (-0.60)	-0.0065 (-0.54)	-0.0006 (-0.05)	-0.0012 (-0.08)	0.0054 (0.45)	0.0048 (0.40)
Accounting – target	0.0042 (1.67)*	0.0035 (1.37)	0.0035 (1.36)	0.0033 (1.26)	0.0038 (1.54)	0.0035 (1.35)

Table 6. Multivariate analysis of announcement period returns to targets (*continued*)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Panel B: Dependent variable CAR(-5, 5)</i>						
Independent variable						
Corruption – target	-0.0369 (-2.38)*	-0.0333 (-2.07)**	-0.0359 (-2.21)**	-0.0335 (-2.08)**	-0.0400 (-2.55)**	-0.0373 (-2.39)**
Percent of shares acquired	0.0623 (0.68)	0.0008 (0.84)	0.0009 (0.99)	0.0009 (0.96)	0.0009 (0.99)	0.0008 (0.87)
Industry relatedness	0.0185 (0.64)	0.0188 (0.65)	0.0181 (0.62)	0.0187 (0.64)	0.0154 (0.54)	0.0148 (0.51)
Access to equity	-0.0024 (-0.08)	-0.0020 (-0.07)	-0.0009 (-0.03)	-0.0031 (-0.11)	0.0103 (0.37)	0.0065 (0.23)
Log GDP per capita	0.0472 (2.01)**	0.0456 (1.92)*	0.0507 (2.08)**	0.0479 (1.99)**	0.0539 (2.26)**	0.0499 (2.11)**
R-squared (unadjusted)	6.68%	7.46%	7.88%	7.67%	9.21%	8.17%
Observations	222	222	222	222	222	222

Table 7. Multivariate analysis of long run monthly cumulative abnormal returns to targets

This table presents cross-sectional regression results that explain long run stock performance of targets in cross-border block purchases during 1990 to 2000. The dependent variables are the monthly cumulative abnormal returns to block purchase targets over the 1-year and 3-year periods following the acquisition announcement date. Panel A reports regression results for 1-year period monthly CARs, and Panel B reports regression results for 3-year period monthly CARs. The independent variables reflect the level of shareholder protection for both targets and acquirers, and other legal environment measurements of targets. I consider the legal origin, indices of shareholder protection, creditor protection, accounting standards, and political corruption, as explained in Table 1. They are country level variables and have captured the country fixed effect. The other control variables are the percent of shares acquired in transactions, industry relatedness between targets and acquirers, the access to equity, and the logarithmic of GDP per capita. In model 1, I only include target legal origin. Model 2 adds the interaction effect between target legal origin and acquirer legal origin. Model 3 and Model 4 further include two alternative indices of shareholder protection: the anti-director rights and investor protection, respectively. Model 5 considers the interaction effect between target anti-director rights and acquirer anti-director rights. And Model 6 is similar to Model 5, but I use the investor protection to check for the robustness of previous results. Note that the legal origin, anti-director rights, and investor protection are three highly correlated variables. (t-statistics are shown in parentheses.)

Panel A: Dependent variable monthly CAR(0, 12)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.3034 (0.47)	0.1582 (0.24)	0.4792 (0.62)	0.2876 (0.40)	-0.5215 (-0.76)	-0.3599 (-0.55)
Legal origin	-0.4410	-0.3322	-0.4415	-0.4075		
Civil law – target	(-3.83)***	(-2.28)**	(-2.26)**	(-1.95)**		
Legal origin		0.1097	0.1004	0.1024		
Common law - acquirer		(0.90)	(0.82)	(0.83)		
Target legal origin*acquirer legal origin		-0.2175	-0.1816	-0.1955		
Civil law target & common law acquirer		(-1.23)	(-1.00)	(-1.07)		

Table 7. Multivariate analysis of long run monthly cumulative abnormal returns to targets (continued)

<i>Panel A: Dependent variable monthly CAR(0, 12)(continued)</i>	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Independent variable						
Anti-director rights – target			-0.0392 (-0.84)		0.0262 (0.39)	
Anti-director rights – acquirer					-0.0415 (-0.63)	
Target anti-director rights * acquirer anti-director rights					0.0110 (0.60)	
Investor protection – target				-0.0127 (-0.50)		0.0259 (0.95)
Investor protection – acquirer						-0.0190 (-0.79)
Target investor protection * acquirer investor protection						0.0025 (0.65)
Creditor rights – target	-0.1143 (-3.36)***	-0.1139 (-3.32)***	-0.1277 (-3.36)***	-0.1248 (-3.08)***	-0.0778 (-2.19)**	-0.0680 (-1.89)*
Accounting – target	0.0014 (0.18)	0.0025 (0.32)	0.0019 (0.24)	0.0029 (0.37)	0.0108 (1.45)	0.0074 (0.95)
Corruption – target	0.0124 (0.28)	0.0011 (0.02)	0.0068 (0.15)	0.0003 (0.01)	0.0135 (0.29)	0.0252 (0.54)
Percent of shares acquired	0.0040 (1.48)	0.0037 (1.36)	0.0033 (1.16)	0.0034 (1.22)	0.0047 (1.64)*	0.0050 (1.75)*
Industry relatedness	0.0239 (0.28)	0.0290 (0.34)	0.0327 (0.38)	0.0312 (0.37)	-0.0065 (-0.07)	0.0024 (0.03)
Access to equity	-0.0043 (-0.05)	-0.0021 (-0.03)	-0.0018 (-0.02)	0.0023 (0.03)	0.0468 (0.57)	0.0200 (0.24)

Table 7. Multivariate analysis of long run monthly cumulative abnormal returns to targets (*continued*)

<i>Panel A: Dependent variable monthly CAR(0, 12)(continued)</i>						
Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Log GDP per capita	-0.0142 (-0.21)	-0.0063 (-0.09)	-0.0149 (-0.21)	-0.0093 (-0.13)	-0.0660 (-0.93)	-0.0604 (-0.87)
R-squared (unadjusted)	16.13%	16.80%	17.12%	16.92%	11.25%	12.21%
Observations	198	198	198	198	198	198

Table 7. Multivariate analysis of long run monthly cumulative abnormal returns to targets (*continued*)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	1.0549 (0.92)	0.9530 (0.81)	1.7504 (1.29)	1.1955 (0.95)	-0.6589 (-0.55)	-0.1308 (-0.11)
Legal origin	-0.6502 (-3.20)**	-0.5962 (-2.31)**	-0.8676 (-2.51)**	-0.7371 (-1.99)**		
Civil law – target						
Legal origin		0.0836 (0.39)	0.0606 (0.28)	0.0700 (0.32)		
Common law - acquirer						
Target legal origin*acquirer legal origin		-0.0939 (-0.30)	-0.0045 (-0.01)	-0.0526 (-0.16)		
Civil law target & common law acquirer						
Anti-director rights – target			-0.0974 (-1.18)		0.1511 (1.27)	
Anti-director rights – acquirer					0.1062 (0.92)	
Target anti-director rights *						
acquirer anti-director rights					-0.0254 (-0.79)	
Investor protection – target				-0.0238 (-0.53)		0.0783 (1.64)*
Investor protection – acquirer						0.0206 (0.48)
Target investor protection*						-0.0039 (-0.58)
acquirer investor protection						-0.0769 (-1.22)
Creditor rights – target	-0.1445 (-2.40)**	-0.1428 (-2.35)**	-0.1770 (-2.63)**	-0.1632 (-2.27)**	-0.0902 (-1.45)	
Accounting – target	-0.0011 (-0.08)	-0.0013 (-0.09)	-0.0028 (-0.20)	-0.0005 (-0.04)	0.0108 (0.83)	0.0058 (0.43)

Table 7. Multivariate analysis of long run monthly cumulative abnormal returns to targets (*continued*)

<i>Panel B: Dependent variable monthly CAR(0,36)(continued)</i>						
Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Corruption – target	-0.0104 (-0.13)	-0.0176 (-0.22)	-0.0035 (-0.04)	-0.0191 (-0.23)	-0.0016 (-0.02)	0.0132 (0.16)
Percent of shares acquired	0.0060 (1.24)	0.0059 (1.21)	0.0048 (0.96)	0.0054 (1.07)	0.0069 (1.38)	0.0073 (1.46)
Industry relatedness	0.0645 (0.43)	0.0662 (0.44)	0.0753 (0.50)	0.0703 (0.46)	0.0209 (0.14)	0.0194 (0.13)
Access to equity	-0.0228 (-0.16)	-0.0154 (-0.11)	-0.0148 (-0.10)	-0.0071 (-0.05)	0.0800 (0.55)	0.0242 (0.16)
Log GDP per capita	-0.0426 (-0.35)	-0.0353 (-0.29)	-0.0565 (-0.45)	-0.0408 (-0.33)	-0.1202 (-0.97)	-0.1093 (-0.89)
R-squared (unadjusted)	9.87%	9.94%	10.61%	10.08%	6.23%	6.98%
Observations	198	198	198	198	198	198

Table 8. Robustness check: multivariate analysis of long run buy-and-hold abnormal returns to targets

This table presents cross-sectional regression results that explain long run stock performance of targets in cross-border block purchases during 1990 to 2000. The dependent variables, BHARs are measured as the buy-and-hold abnormal returns of block purchase targets over the 1-year and 3-year periods following the acquisition announcement date. Panel A reports regression results for 1-year period BHAR, and Panel B reports regression results for 3-year period BHAR. The independent variables reflect the level of shareholder protection for both targets and acquirers, and other legal environment measurements of targets. I consider the legal origin, indices of shareholder protection, creditor protection, accounting standards, and political corruption, as explained in Table 1. They are country level variables and have captured the country fixed effect. The other control variables are the percent of shares acquired in transactions, industry relatedness between targets and acquirers, the access to equity, and the logarithmic of GDP per capita. In model 1, I only include target legal origin. Model 2 adds the interaction effect between target legal origin and acquirer legal origin. Model 3 and Model 4 further include two alternative indices of shareholder protection: the anti-director rights and investor protection, respectively. Model 5 considers the interaction effect between target anti-director rights and acquirer anti-director rights. And Model 6 is similar to Model 5, but I use the investor protection to check for the robustness of previous results. Note that the legal origin, anti-director rights, and investor protection are three highly correlated variables. (t-statistics are shown in parentheses.)

Panel A: Dependent variable BHAR(0, 12)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.5759 (0.82)	0.2866 (0.40)	0.7274 (0.88)	0.5868 (0.76)	0.1499 (0.20)	0.1019 (0.15)
Legal origin	-0.3339 (-2.66)***	-0.1399 (-0.85)	-0.2839 (-1.34)	-0.3083 (-1.37)		
Civil law – target			0.2108 (1.59)	0.2066 (1.55)		
Legal origin						
Common law - acquirer						
Target legal origin*acquirer legal origin		-0.3894 (-2.04)**	-0.3400 (-1.73)*	-0.3383 (-1.72)*		
Civil law target & common law acquirer						

Table 8. Robustness check: multivariate analysis of long run buy-and-hold abnormal returns to targets (continued)
Panel A: Dependent variable BHAR(0, 12)(continued)

Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Anti-director rights – target			-0.0539 (-1.06)		-0.0641 (-0.88)	
Anti-director rights – acquirer					-0.0823 (-1.16)	
Target anti-director rights * acquirer anti-director rights					0.0277 (1.42)	
Investor protection – target				-0.0295 (-1.08)		-0.0127 (-0.43)
Investor protection – acquirer						-0.0280 (-1.07)
Target investor protection* acquirer investor protection						0.0053 (1.30)
Creditor rights – target	-0.0965 (-2.60)***	-0.0948 (-2.55)***	-0.1137 (-2.76)***	-0.1200 (-2.74)***	-0.0745 (-1.95)**	-0.0677 (-1.75)*
Accounting – target	0.0041 (0.49)	0.0056 (0.66)	0.0047 (0.56)	0.0065 (0.77)	0.0126 (1.58)	0.0109 (1.30)
Corruption – target	0.0686 (1.40)	0.0467 (0.93)	0.0545 (1.08)	0.0449 (0.90)	0.0654 (1.29)	0.0723 (1.44)
Percent of shares acquired	0.0043 (1.45)	0.0038 (1.29)	0.0032 (1.05)	0.0032 (1.03)	0.0045 (1.45)	0.0048 (1.55)
Industry relatedness	0.0370 (0.40)	0.0458 (0.50)	0.0508 (0.55)	0.0509 (0.55)	0.0097 (0.10)	0.0222 (0.24)
Access to equity	-0.0664 (-0.76)	-0.0576 (-0.65)	-0.0573 (-0.65)	-0.0474 (-0.53)	-0.0133 (-0.15)	-0.0268 (-0.30)

Table 8. Robustness check: multivariate analysis of long run buy-and-hold abnormal returns to targets (continued)

<i>Panel A: Dependent variable BHAR(0, 12)(continued)</i>						
Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Log GDP per capita	-0.0838 (-1.12)	-0.0667 (-0.89)	-0.0784 (-1.03)	-0.0735 (-0.97)	-0.1325 (-1.74)*	-0.1289 (-1.71)*
R-squared (unadjusted)	10.79%	12.79%	13.32%	13.34%	8.73%	8.69%
Observations	198	198	198	198	198	198

Table 8. Robustness check: multivariate analysis of long run buy-and-hold abnormal returns to targets (continued)

<i>Panel B: Dependent variable BHAR(0,36)</i>						
Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept	0.9183 (0.78)	0.4657 (0.39)	0.9318 (0.68)	0.7464 (0.58)	0.4161 (0.34)	0.3617 (0.31)
Legal origin	-0.4198 (-2.01)**	-0.0790 (-0.30)	-0.2377 (-0.68)	-0.2421 (-0.65)		
Civil law – target		0.3412 (1.55)	0.3277 (1.48)	0.3254 (1.47)		
Common law - acquirer		-0.6827 (-2.15)**	-0.6304 (-1.93)*	-0.6349 (-1.94)**		
Target legal origin*acquirer legal origin						
Civil law target & common law acquirer						
Anti-director rights – target			-0.0570 (-0.68)		-0.0770 (-0.64)	
Anti-director rights – acquirer					-0.1079 (-0.92)	
Target anti-director rights *					0.0339 (1.05)	
acquirer anti-director rights						
Investor protection – target				-0.0276 (-0.61)		-0.0176 (-0.36)
Investor protection – acquirer						-0.0419 (-0.97)
Target investor protection*						0.0074 (1.09)
acquirer investor protection						
Creditor rights – target	-0.0900 (-1.46)	-0.0891 (-1.45)	-0.1091 (-1.59)	-0.1127 (-1.55)	-0.0627 (-0.99)	-0.0531 (-0.83)

Table 8. Robustness check: multivariate analysis of long run buy-and-hold abnormal returns to targets (continued)

<i>Panel B: Dependent variable BHAR(0,36)(continued)</i>						
Independent variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Accounting – target	0.0047 (0.34)	0.0084 (0.60)	0.0075 (0.53)	0.0092 (0.65)	0.0158 (1.19)	0.0135 (0.97)
Corruption – target	0.0477 (0.59)	0.0126 (0.15)	0.0209 (0.25)	0.0110 (0.13)	0.0457 (0.55)	0.0531 (0.64)
Percent of shares acquired	0.0083 (1.67)*	0.0073 (1.48)	0.0066 (1.31)	0.0067 (1.32)	0.0085 (1.66)*	0.0089 (1.74)*
Industry relatedness	-0.0377 (-0.24)	-0.0214 (-0.14)	-0.0162 (-0.11)	-0.0167 (-0.11)	-0.0713 (-0.46)	-0.0541 (-0.35)
Access to equity	-0.1064 (-0.74)	-0.1001 (-0.68)	-0.0997 (-0.68)	-0.0905 (-0.61)	-0.0439 (-0.30)	-0.0625 (-0.42)
Log GDP per capita	-0.1187 (-0.96)	-0.0944 (-0.76)	-0.1068 (-0.84)	-0.1007 (-0.80)	-0.1832 (-1.46)	-0.1756 (-1.41)
R-squared (unadjusted)	6.11%	8.38%	8.61%	8.57%	4.80%	4.98%
Observations	198	198	198	198	198	198

Table 9. Tests of pre-event/post-event differences in long run operating performance, financial characteristics, and investment of targets

This table reports the pre- and post-event differences in long run operating performance, financial characteristics, and investment of targets for three time interval around the year of block purchase announcement. I utilize four financial ratios including the ratios of net income to net sales, total debts to total assets, net sales to total assets, and capital expenditure to sales, as the measurements of targets' pre- and post- event profitability, leverage, assets utilization and investment policy, respectively. Panel A reports full sample mean differences of pre- and post-purchase financial ratios of targets, along with the associated t-statistics. Panel B reports the financial ratio changes of targets categorized by target legal origin. In addition, the t-statistics are from t-test for the equality of mean differences and chi-squares are from Wilcoxon test for the equality of median differences between groups. The targets are represented in the sample of 240 completed block share purchases during 1990 to 2000 from Securities Data Company (SDC) database and targets' price data are available in Datastream International and Bloomberg databases. Financial ratios are calculated using fiscal year-end accounting data from Worldscope and Datastream databases.

		Years		Years		
		(-1, +1)	t	(-2, +2)	t	
Ratio				Years		
		(-1, +1)	t	(-2, +2)	(-3, +3)	
				t		
<i>Profitability</i>						
Net Income/Net Sales		-0.0333	0.25	0.0267	0.28	2.30**
Leverage						
Total Debt/Total Assets		-0.0114	0.48	0.0289	0.70	0.03
<i>Asset Utilization</i>						
Net Sales/Total Assets		0.0013	0.02	-0.0159	0.19	0.31
<i>Investment Policy</i>						
Capital Expenditure/Sales		-0.0409	1.34	-0.1044	1.49	0.52

Panel A: full sample

Table 9. Tests of pre-event/post-event differences in long run operating performance, financial characteristics, and investment of targets (continued)

<i>Panel B: sub-samples categorized by targets legal origin</i>									
Ratio	Legal Origin	Years (-1, +1)	t-stat [χ^2]	Years (-2, +2)	t-stat [χ^2]	Years (-3, +3)	t-stat [χ^2]		
Profitability Net Income/Net Sales	Common Law	0.2233 (-0.0019)	1.51 [0.89]	0.0705 (-0.0054)	0.38 [0.03]	-0.2595 (-0.0120)*	0.09 [1.47]		
	Civil Law	-0.2160 (-0.0073)		-0.0052 (-0.0040)		-0.2412* (-0.0060)			
Leverage Total Debt/Total Assets	Common Law	0.0117 (0.0018)	0.83 [1.95]	0.1033 (0.0001)	1.44 [1.03]	0.1012 (0.0113)	1.36 [1.98]		
	Civil Law	-0.0290 (-0.0098)		-0.0273 (-0.0110)		-0.0603* (-0.0312)			
Asset Utilization Net Sales/Total Assets	Common Law	0.0007 (0.0072)	0.01 [0.44]	0.0432 (-0.0146)	0.62 [0.30]	-0.0037 (0.0363)	0.30 [0.10]		
	Civil Law	0.0017 (-0.0077)		-0.0616 (-0.0191)		0.0355 (0.0360)			
Investment Policy Capital Expenditure/Sales	Common Law	0.0079 (0.0032)	1.54 [4.05]**	-0.1286 (-0.0009)	0.31 [1.03]	-0.0399 (0.0000)	0.75 [3.88]**		
	Civil Law	-0.0820* (-0.0080)***		-0.0831** (-0.0042)**		0.1853 (-0.0118)***			