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VALUE CREATION IN INTERNATIONAL ACQUISITIONS: EVIDENCE FROM U.S. FIRMS BUYING INTO CANADA

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ABSTRACT

VALUE CREATION IN INTERNATIONAL ACQUISITIONS: EVIDENCE FROM U.S. FIRMS BUYING INTO CANADA

Taline Beshlian

This study attempts to investigate two main issues: (1) Whether international acquisitions, in contrast to their domestic counterparts, create value for the shareholders of acquiring firms, and (2) What explains the variation in the abnormal returns generated by international takeover announcements. Using a dummy-variable approach and a sample of 187 transactions between Canada and the U.S., we examine the stock behavior of American companies that have purchased Canadian firms in the period 1982-1995, in order to determine whether the market reacts differently to domestic and foreign takeover announcements, and more specifically, to transactions between these two countries. Characteristics of the bidding firm and its industry, as well as of the acquisition and the economical environment were examined to identify the variables enhancing wealth creation.

Consistent with prior research, significant positive abnormal returns to American firms announcing the acquisition of Canadian companies are reported. Moreover, evidence shows that the wealth created by international acquisitions is a function of the bidding firm's prior level of international exposure, the degree of the firms' relatedness, the foreign exchange rate, and the Tax Reform Act of 1986. Furthermore, the method of payment, the ownership status of the target firm, whether the firm was purchased by a

Canadian subsidiary, and the bidder's stock exchange seem to also play a role in explaining the abnormal returns generated by diversification to the acquiring firms.

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I - Introduction

Since the merger "boom" of the 1980's, the topic of mergers and acquisitions has been the focus of many studies. Research concentrated on determining whether takeovers actually created gains, as predicted by synergistic theory, and if so, how the gains were distributed between the bidding and target firms. However, these studies took for the most part, a domestic outlook, and results were obtained only according to national data. It was not until the late 1980's that attention has really been given to the international takeover activity. Foreign acquisitions have grown with the emergence of global market development and events such as the birth of the European Community. For example, data compiled by *Mergers and Acquisitions* shows that in 1985, foreign firms spent almost $20 billion buying U.S. companies, a 25% increase since 1981 (Shaked, Michel & McClain, [1991]), while U.S. acquisitions of foreign firms increased from $1.5 billion in 1979 to more than $14 billion in 1989 (Markides & Ittner [1994]). Moreover, the value of transactions involving a foreign acquirer of a Canadian company increased to $11.5 billion in the first half of 1997 from $6.3 billion in the same period in 1996. (The Globe and Mail, July 8 1997). This is due partly to governments gaining control of deficits and to developing more business-friendly environments. Acquisitions are seen as necessary strategic investments permitting firms to take their place in today's global environment.

The literature on foreign direct investment and the market for corporate control suggests that foreign mergers and acquisitions are motivated by several factors including imperfections and asymmetries in capital markets, differences in tax codes

(Scholes & Wolfson [1990]), differences in currency strength, and incumbent management acting in self-interest at the expense of shareholders (Jensen [1986]).

Many studies have attempted to discover the effects of international diversification through acquisitions, more specifically to determine if these foreign acquisitions, in contrast to their domestic counterparts, create value for the acquiring firms as well as for the target firms. However, most of these studies focus on the American market, while very few have explored the Canadian market. This will be the objective of this study.

Using a dummy-variable alternative approach to the standard event-study methodology, and a sample of 187 transactions between Canada and the U.S. obtained from the Foreign Acquisitions Roster of *Mergers and Acquisitions*, we examine the stock behavior of American companies that have purchased Canadian firms in the period 1982-1995, in order to determine whether the market reacts differently to domestic and foreign takeover announcements, and more specifically, to transactions between these two countries. We also use cross-sectional regressions to verify if the industry, the bidder's level of international experience and tax reforms affect the size of the market reaction generated by these acquisitions.

Consistent with prior research, we report significant positive abnormal returns to American firms announcing the acquisition of Canadian companies. Moreover, the evidence from our analysis finds that the wealth created by international acquisitions is a

function of the bidding firm's prior level of international exposure (with firms going abroad or in the target country for the first time benefiting the most), the degree of the firms' relatedness (with firms buying into different industries generating the greatest returns), the foreign exchange rate, and the Tax Reform Act of 1986. Finally, using the method of payment, the ownership status of the target firm, whether the firm was purchased by a Canadian subsidiary of the parent firm, the bidder's stock exchange, and the relative size of the target compared to the bidder as control variables, we discover that these variables shed some more light on the abnormal returns generated by diversification to the acquiring firms.

The remainder of the paper is organized as follows: Section II presents a review of the literature on international acquisitions. Section III describes the data and provides summary statistics of the sample. Section IV details the methodology, and provides an explanation of the variables used in the cross-sectional regression analysis. Finally, Section V presents and interprets the results, while Section VI contains a brief summary and concluding remarks.

II - Related Work and Hypothesis Development

2.1 Value Creation in International Acquisitions

Direct investments in general, and acquisitions in particular, have long been regarded as vehicles for bridging capital market imperfections and asymmetries. Finance theory suggests that international acquisitions allow firms to diversify abroad and to be motivated by market imperfections. If international capital markets are perfectly integrated, if transaction costs are low, and if investors are risk-averse and rational, there should be no diversification benefits in foreign investment that could not be replicated by an investor in the company's home country. However, control of capital flow, different trading costs and tax structures and, foreign exchange rate fluctuations and disparities, make markets imperfectly integrated, thus creating an opportunity for an international investor (Shaked, Michel & McClain [1991]). Other elements that have been documented to motivate foreign diversification include informational externalities captured by the firm in the conduct of international business (e.g.: learning cost externalities), cost savings gained by joint production in marketing and manufacturing (Doukas & Travlos [1988]), and finally, market entry. Many foreign firms believe that it is cheaper to buy established consumer products than to develop a new line. This way, the firms can also acquire advanced technology and a skilled labor force already in place.

One of the principal goals of research on international diversification is to determine how the value created by foreign mergers and acquisitions compares with the

value creation of domestic acquisitions. Studies have shown that, on average, wealth gains generated by international acquisitions are positive and significant. (Harris & Ravenscraft [1991], Markides & Oyon [1991], Shaked, Michel & McClain [1991], Morck & Yeung [1992], and Markides & Ittner [1994]). While the evidence on domestic acquisitions also shows that corporate takeovers generate positive gains, all the benefits seem to be going to the target firms, leaving the acquirers with zero, or even negative significant returns, whereas bidding firms involved in foreign transactions are found to benefit from positive abnormal returns. For example, Markides & Ittner [1994] report a significant two-day cumulative abnormal return of 0.32% for bidders acquiring foreign firms, comparable to 0.50% for Markides & Oyon [1991], and to 0.29% for Morck & Yeung [1992], for the same event window. Targets have also been found to profit from significantly higher gains. (see Harris & Ravenscraft [1991], and Shaked, Michel & McClain [1991]).

What factors then, could explain the positive abnormal returns created by foreign takeovers and more specifically to the bidding firms? In their study, Markides & Ittner [1994] classify the variables that significantly affect the value generated by an international acquisition into five groups: The nature of the bidding firm's industry, the nature of the acquisition, the macroeconomic environment, the nature of the acquiring firm, and the nature of the target's home country. These are discussed below.

2.1.1 The Nature of the Bidding Firm's Industry

Characteristics of the acquiring firm's industry could explain a part of value creation. For instance, theory suggests that benefits from international diversification will be higher for firms possessing intangible firm-specific assets, such as research and development technology, that they wish to exploit in another market. Harris & Ravenscraft [1991], and Morck & Yeung [1992] provide evidence supporting this theory. When comparing returns generated by foreign acquisitions to firms of different industries, they find that both target and acquirer wealth gains are higher for companies in the research and development, and advertising-intensive sectors. Furthermore, in examining the relationship between a firm's degree of multinationality and its market value, Morck & Yeung [1991] find a positive correlation between these two variables. They maintain that a multinational firm has an advantage due to firm-specific intangible assets that allows it to overcome the adversity of doing business in a foreign location.

2.1.2 The Nature of the Acquisition

Specific characteristics of the acquisition process between two firms could also play an important role in explaining the value generated by an international takeover. The bidding and target firms' degree of relatedness (whether they operate in the same industry or not), the relative size of the target to the acquiring firm, the method of payment used for the transaction, and the presence of competition for the target firm are characteristics which have been documented in the literature.

Many studies, such as Fatemi & Futado [1988], and Markides & Ittner [1994], have supported the prediction that related acquisitions are expected to have higher benefits and lower integration costs than unrelated acquisitions, consequently engendering a significant and positive relationship with wealth creation. This is because it is assumed that the bidding firm is going into an area with which it is already familiar, and hence the costs of integrating both businesses are reduced. On the other hand however, Doukas & Travlos [1988] find that this factor is insignificant for firms already operating in the target firm's country, but is positively significant for firms that expand into new territories. They argue that international diversification that takes the expanding firm into a new market is expected to enhance the firm's international network and thus result in positive valuation effects.

Evidence from both domestic and foreign acquisitions suggests that the relative size of the target firm to the bidding firm should play a large role in explaining abnormal returns. The larger the target company, the larger should be the returns to the acquirer, as the acquisition of a small target should have little impact on the bidding firm's stock. Jarrell & Poulsen [1989], and Markides & Ittner [1994] support this evidence and find that the relative size is positively correlated with returns to the bidder.

The form of payment (cash versus equity issue) has been found in the domestic acquisition literature to have explanatory power. Wansley, Lane & Yang [1983], Huang & Walkling [1987], and others, have found that acquisitions financed with cash and/or debt generate higher excess returns for target firms than stock-financed acquisitions.

Similarly, Travlos [1987], and Franks & Harris [1989] found cash offers to be positively related with the acquirer's returns. This is due to the negative signaling effect of stock, which implies that an equity issue signals an overvaluation of stock, while a cash issue signals an undervaluation of stock. On the other hand, the international acquisitions studies of Morck & Yeung [1992], and Markides & Ittner [1994] reported insignificant results for the method of payment reasoning that stock financing was not significantly related to abnormal returns.

Finally, competition for the target has been found by Bradley, Desai & Kim [1988], and Jarrell & Poulsen [1989] to have a strong negative correlation with returns to acquirers. Cebenoyan, Papaioannou & Travlos [1992] conclude that returns from international takeovers are only higher than returns in domestic takeovers when there is presence of competition in the market. Synergistic theory implies that the total takeover gain is made up of the gains stemming from the target's and the bidder's separate contribution to the synergistic benefits. If a foreign acquirer can produce superior takeover gains, the excess return will be reflected in the target firm's excess gain only when the degree of competition is so strong as to force the foreign bidder to share the excess economic benefits of the acquisition with the target firm.

2.1.3 The Macroeconomic Environment

Two economic variables have surfaced in almost all of the studies on international diversification. They are the differences in tax structures and foreign exchange rates.

Parrino, Boebel & Harris [1994] maintain that tax differences between foreign and domestic firms have a significant effect on investments across national boundaries and on the pricing of assets on the acquisition market. The 1981 Economic Recovery Tax Act (ERTA) increased tax incentives for domestic takeovers in the U.S., while the Tax Reform Act of 1986 (TRA) reduced the country's marginal corporate tax rate, making it a tax haven for many European and Japanese firms that face higher corporate tax rates in their home countries (Scholes & Wolfson [1990]). However, the Canadian tax system does not offer foreign investors as many incentives. As a matter of fact, foreign investors suffer from non-resident tax preventing them to receive any credits. Thus, they must pay taxes at the highest possible rate (approximately 38%). Another disadvantage is that they lose the Refundable Dividend Tax On Hand (RDTOH). This might therefore discourage foreign companies to invest in Canada. Cebenoyan et al. [1992] studied the effects of both tax regimes (1981 and 1986). They found, like Scholes & Wolfson [1990] and Harris & Ravenscraft [1991], that the tax reform of 1981 favored domestic acquirers relative to foreign acquirers with regards to tax–induced acquisitions benefits. However, along with Markides & Ittner [1994], they report that the tax reform of 1986 did not have any significant explanatory power.

Differences in and movements of exchange rates have also been identified in explaining the value created by international acquisitions. According to Frost and Stein [1991], acquirers will have purchasing advantages when their currency is strong relatively to the target country's currency since they have more funds to finance the transaction, thus giving them a competitive edge. Consistent with this theoretical model,

Harris and Ravenscraft [1991], Cebenoyan et al. [1992], Kang [1993], and Markides & Ittner [1994] all find that acquirer wealth gains are positively related to the strength of the acquirer's currency vis-a-vis that of the target.

2.1.4 The Nature of the Acquiring Firm

Specific aspects of the acquiring firm are described in the literature as having important explanatory powers. These are the (acquiring) firm's performance, its level of international exposure, and the degree of capital market integration. For instance, a firm's performance can signal its degree of effectiveness and efficiency. Accordingly, Morck, Schleifer & Vishny [1990], and Lang, Stultz & Walkling [1991] report that the acquiring firm's performance has a positive effect on its wealth creation.

The acquirer's prior international experience may also affect the foreign acquisition's value. Fatemi [1984] has found positive abnormal returns for firms investing across-the-border for the first time in a specific country. Doukas & Travlos [1988] also find positive abnormal returns for diversification in a new country (daily average abnormal return of 0.31%, significant at the 5% level on the announcement day), but find no abnormal returns for first-time international expansion. They also report that shareholders of internationally expanding domestic firms experience insignificant positive abnormal returns at the announcement of the acquisition. Takeover announcements for multinationals already operating in the target firm's country have insignificant negative effects on the firm's stock prices while those not already operating in the target firm's country, on average, have a significant positive effect. Moreover, they

find evidence that the market recognizes the potential of excess takeover gains for U.S. multinationals that expand into new industries. Additionally, Marr, Mohta & Spivey [1992] find that foreign acquired targets are affected by whether the foreign bidder has operations in related lines of business.

2.1.5 The Nature of the Target's Home Country

Fatemi & Futado [1988] and Markides & Oyon [1991] demonstrate that international acquisitions will create value when the market for corporate control in the target's home country is not perfectly competitive. This will prevent the real net benefits to acquiring firms created by foreign takeovers from being, on average, wiped out in a bidding "auction". Moreover, integrated markets allow individual investors to potentially acquire most of the benefits of international diversification through optimal international portfolio diversification. On the other hand, if capital markets are fragmented, negative or zero NPV international takeovers may look attractive to investors for portfolio diversification reasons.

This implies that the nature of the target's home country will affect the value generated by an acquisition in two ways. First, the benefits of international diversification through acquisition will vary across countries depending on the competitiveness of each country's market for corporate control – which varies from country to country. For example, the British market is considered a much more active and competitive market than any of the continental European markets, but still less than the U.S. market (e.g., Conn & Connell [1990]). Second, gains will depend on the degree of capital market

integration, which also differs across countries. For example, in a multi-country comparison of capital markets, Adler & Dumas [1983] found that there is a much higher degree of integration between the U.S. and Canadian markets, than between the U.S. market and the European one. When markets are perfectly integrated, there will be little possibility for extra gains. If they are not perfectly integrated however, an investor will be able to take advantage of information asymmetries, and of disparities in foreign exchange rates and tax systems.

The five categories just described identify variables that significantly affect the value generated by an international acquisition, and more specifically, how they have been found to influence the acquiring firm's gains. However, the acquired firm also has a clear potential for profits, because the greater the expected net benefit from the acquirer's perspective, the larger the affordable premium to be paid. It has been found in several studies (e.g., Harris & Ravenscraft [1991] and Cebenoyan et al. [1992]) that the mean takeover premia paid by foreign investors are significantly higher than those paid by domestic investors. Evidence to explain part of the difference has been found in exchange rates (Harris & Ravenscraft [1991] and Swenson [1993]), the level of foreign investment (Cebenoyan et al. [1992]), bidder and transaction characteristics (Kang (1993]), and target relatedness (Marr et al. [1991]). Aliber [1970] suggested that differences in the two firms' cost of capital could account for differences in the purchase price. Moreover, the foreign acquirer could make a higher bid for the target than a domestic acquirer because it has a different stream of cash flows. Another possible explanation is that the

foreign acquirer is not fully informed about the target's market and as a result becomes a victim of the "winner's curse", making it overpay for the target.

Conversely, Dewenter [1995], using transactions from two specific industries, chemical and retail, finds no evidence that foreign mean takeover premia are higher than domestic takeover premia. She also finds that the sensitivity of takeover premia levels to standard transaction characteristics does differ across buyers: Foreign investors do pay more than domestic investors in hostile transactions, but pay less when there are rival bidders. These factors will then influence the acquirer's gains.

In summary, the variables which have been reported by the existing literature to affect the creation of benefits generated by foreign acquisitions, as well as the size of these benefits, can be classified into five general categories (according to Markides & Ittner [1994]): The nature of the bidding firm's industry, the nature of the acquisition, the macroeconomic environment, the nature of the acquiring firm, and the nature of the target's home country. These variables are: The bidder's possession of intangible assets, its degree of multinationality, the degree of relatedness between the acquiring and target firm, the relative size of the target to the bidding firm, the method of payment, the degree of competition for the target firm, differences in tax structures and in foreign exchange rates between countries, the acquiring firm's performance, its degree of international exposure, and finally, the degree of capital market competition and integration.

TABLE I

Summary of Results from Previous Studies on International Acquisitions

Abnormal Returns	Conclusion	Study
Returns to Bidder	Significant positive abnormal returns	Markides & Oyon [1991] CAR = 0.50% t=1.73 Morck & Yeung [1992] CAR = 0.29% t=1.86 Markides & Ittner [1994] CAR = 0.32% t=1.89
Returns to Target	Significant positive abnormal returns	Harris & Ravenscraft [1991] Shaked, Michel & McClain [1991]

Differences in Takeover Premia	Conclusion	Study
Domestic vs Foreign Buyer	On average,foreign buyers pay more for targets than domestic buyers	Aliber [1970] Harris & Ravenscraft [1991] Marr et al. [1991] Cebenoyan et al. [1992] Kang [1993] Swenson [1993]

Explanatory Variables	Conclusion	Study
The Nature of the Bidding Firm's Industry		
Presence of Intangible Assets	Wealth gains higher in R&D and advertising intensive industries	Harris & Ravenscraft [1991] Morck & Yeung [1991]
	Positive correlation between firm's market value and multinationalism	Morck & Yeung [1991]
The Nature of the Acquisition		
Relatedness	Positive correlation between degree of relatedness of firms and gains	Doukas & Travlos [1988] Fatemi & Futado [1988] Marr, Mohta & Spivey [1992]
Relative Size (target/bidder)	Positive correlation with returns to bidder	Jarrell & Poulsen [1989]
Form of Payment (cash vs stock)	Cash positively correlated to acquirer's returns, stock negatively correlated to acquirer's returns	Travlos [1987] Frank & Harris [1989]
Competition for Target Firm	Gains from international takeovers higher than gains from domestic takeovers when competition exists	Cebenoyan et al. [1992]
	Strong negative correlation with returns to acquirer	Bradley, Desai & Kim [1988] Jarrell & Poulsen [1989]

Explanatory Variables	Conclusion	Study
The Macroeconomic Environment		
Differences in Tax Systems	Tax reform of 1981 favored domestic acquirers over foreign acquirers Tax reform of 1986 neutralized this effect	Scholes & Wolfson [1990] Harris & Ravenscraft [1991] Parrino, Boebel & Harris [1994]
Foreign Exchange	Positive correlation between bidder's gains and the strength of its currency vis-a-vis the target's	Harris and Ravenscraft [1991] Cebenoyan et al. [1992] Kang [1993] Markides & Ittner [1994]
The Nature of the Acquiring Firm		
Acquiring Firm's Performance	Positive correlation with bidder's returns.	Morck,Schleifer & Vishny [1990]
Bidder's International Experience		
*Going abroad for 1st time	Positive abnormal returns No abnormal returns	Fatemi [1984] Doukas & Travlos [1988]
*Diversification in new country	Positive abnormal returns	Doukas & Travlos [1988]
*Multinationals Already Operating in Target's Country	Insignificant negative effect	Doukas & Travlos [1988]
*Multinationals Not Already Operating in Target's Country	Significant positive effect	Doukas & Travlos [1988]
The Nature of the Target's Home Country		
Degree of Market Competition	Value creation enhanced when the target's market is not perfectly competitive	Fatemi & Futado [1988] Markides & Oyon [1991]
Capital Market Integration	Positive correlation with acquirer gains	Adler & Dumas [1983]

2.2 Hypotheses and Predictions

Most of the studies that have been done on international diversification have focused mainly on the American market, by looking at either foreign firms buying into the U.S. or U.S. firms buying into other countries. However, none have specifically explored the Canadian market. Based on the fact that Canada is one of the most active countries involved in cross-border acquisitions with the United States, and since there exists many similarities as well as a high degree of market integration between the two neighboring countries, it would be interesting to examine how bidding firms benefit from these similarities in the acquisition process, and to also explore what differences could exist. Moreover, all of the studies have samples covering the seventies and the eighties time period. It would be interesting to explore the issue at hand with a more recent sample.

Using a sample of 187 transactions, this study examines the stock behavior of American companies that have purchased Canadian firms in the period 1982-1995, in order to determine whether the market reacts differently to domestic and foreign takeover announcements between these two countries. Applying a dummy variable alternative approach to the standard event study methodology, abnormal and cumulative abnormal returns associated to the bidding company are calculated. Finally, using a set of explanatory variables taken from the existing literature, which are the industry, the acquirer's level of international exposure, foreign exchange, and taxes, we perform a series of cross-sectional regressions on the abnormal returns to determine if these factors

create value for the international acquisitions. We furthermore control for the method of payment, the bidder's exchange, whether the target firm is publicly or privately owned, the percentage of the target acquired by the bidding firm, whether a Canadian subsidiary of the parent firm performed the takeover, and the relative size to see if these variables affect the results.

Hypotheses and predictions about the four major variables and about the possible results can now be formulated. First, based on the existing literature, American bidding firms acquiring Canadian target firms should benefit from significantly positive abnormal returns. Second, the size of these positive returns should be influenced by the degree of relatedness of the target and bidding firms, the acquiring firm's level of international exposure, the foreign exchange rate, and tax reforms. These have been the most commonly tested variables, as well as those which have been documented to hold explanatory power. These four variables should therefore provide an explanation for the size of the abnormal returns generated to the bidding firm. It can be stated then that firms acquiring companies in the same industry, firms going across, or establishing operations in Canada for the first time, and firms investing in a country with a weaker currency than their own, should benefit from higher returns than their counterparts. As previous studies have shown, we expect the degree of relatedness, and the foreign exchange rate to have a positive correlation with wealth creation. The tax reform variable (more specifically the Tax Reform Act of 1986) should show a positive relationship with the returns, while the degree of the acquirer's international exposure should be significant and positive for firms investing abroad or in Canada for the first time.

III – Data and Sample Description

3.1 Data Collection

The sample analyzed in this study contains U.S. firms that have bought Canadian firms during the fourteen-year period from 1982 through 1995. A search of the Foreign Acquisitions Roster of *Mergers and Acquisitions* identified 450 transactions between the U.S. and Canada. The event date of each foreign acquisition is the date of the offer's initial public announcement found through Canadian and American newswires (Reuters) obtained from the *Lexis-Nexis* libraries. To be included in the final sample, each acquisition announcement had to meet the following criteria:

1. No major confounding announcements (i.e. earnings, dividends, share repurchase) were made within +/- 4 days of the announcement day.
2. The acquiring firm's stock price returns were available on the CRSP (Centre for Research on Stock Prices) tapes.

For each acquisition, additional data was collected in order to run the cross-sectional regressions. The method of payment variable, the percentage of the target firm acquired by the bidding firm, and information on whether a Canadian subsidiary had performed the takeover, were obtained from SEC reports, found on *Lexis-Nexis*, and from *Mergers and Acquisitions*. The bidder's exchange, the industry's 2-digit and 4-digit SIC codes for both the bidder and the target firms, and the ownership status of the target were also determined from SEC reports. The relative size had two components: First, the dollar

value of the acquisition, taken as a proxy for the target firm's size, was obtained from *Mergers and Acquisitions* and from SEC reports and newswires found on *Lexis-Nexis.* The bidding firm's size was determined by the value of its equity taken from the *Compustat* database. Finally, the Canadian/U.S. exchange rates for the sample period were obtained from *Ernst & Young*'s archives, while information on the acquirer's international experience was gathered by consulting Moody's *Industrial Manuals.*

Due to missing stock prices, announcement dates, or to unclear information about the transactions, the sample was reduced in size, leaving us with a clean sample of 187 reported foreign acquisitions made by 162 American firms. It is evident that 25 of the companies made more than one Canadian acquisition over the fourteen-year period. In order to eliminate any kind of bias due to confounding events when some of these transactions occurred in a period interval of less than 6 months, we formed a different sample excluding these problem transactions. This did not materially affect the results of our study. Therefore, we report results pertaining to the whole sample.

3.2 Sample Statistics

Table II represents the distribution of the sample's foreign transactions across years. The majority of the acquisitions seem to have taken place at the end of the 1980's, and in the 1990's. Fifty-four percent of the acquisitions occurred between 1990 and 1995, while 25% occurred between 1987 after the stock market crash, and 1989, year of the U.S.-Canada Free Trade Agreement. This distinguishes our sample from those in other

studies in that it incorporates a great deal of recent data, which allows us to determine if recent economic conditions have influenced the abnormal returns surrounding the announcement of a foreign acquisition.

Table III presents summary statistics of all the explanatory variables used in our analysis. Most acquisitions (80%) were performed after the 1986 Tax Reform Act was established, suggesting that this reform may have enhanced incentives for U.S. firms to invest abroad. Furthermore, most transactions were made in cash, whereas only 17% were paid with stock. A possible explanation for cash being the more popular method of payment is that many of the acquiring firms did not have securities traded on the Canadian market, making cash an easier option to pay for the acquisitions. Twenty percent involved another form of payment, which consisted of any combination of cash, stock or debt. These figures are consistent with Markides & Ittner 's (1994) figures.

Most acquirers (65%) were traded on either the New York or the American Stock Exchange. Moreover, an overwhelming majority had already engaged in international operations, and more specifically, 76% had prior experience in Canada. These firms therefore had an advantage, in that they were not venturing into an unknown territory. They were already familiar with the Canadian market and its characteristics.

As expected, most acquisitions (65%) were related in nature (when comparing 2-digit SIC codes) suggesting that U.S. acquirers used the acquisitions to transfer some of their expertise abroad. Only 13% of the takeovers were performed by Canadian subsidiaries.

The majority of the target firms were privately held, making it harder for the market, as well as for the bidding firms, to obtain information about the Canadian firms and to approximate their value. In addition, the target firms were all much smaller in size than

their American partners. Finally, the average foreign exchange rate between Canada and the U.S. for the sample period is a negative 0.75%, as the Canadian dollar was cheaper than its American counterpart.

TABLE II

Frequency Distribution by Year of 187 Announcement Dates of U.S. Corporate Takeovers of Canadian Firms, Period 1982-1995

Year	Frequency	%
1982	4	2.1
1983	5	2.7
1984	7	3.7
1985	12	6.4
1986	11	5.9
1987	17	9.1
1988	15	8.0
1989	15	8.0
1990	14	7.5
1991	8	4.3
1992	20	10.7
1993	18	9.6
1994	21	11.2
1995	20	10.7
total	187	100.0

TABLE III

Summary Statistics of Explanatory Variables

Sample of 187 American Acquisitions of Canadian Firms Between 1982-1995

Panel A: Sample Size

	Total Known	Total Unknown	Total Size
INDUSTRY[a]	93	94	187
INTERNATIONAL EXPERIENCE	119	68	187
FOREIGN EXCHANGE	187	0	187
TAX	187	0	187
RELATIVE SIZE	44	143	187
METHOD OF PAYMENT	87	100	187
BIDDER'S STOCK EXCHANGE	184	3	187
ACQUISTION BY SUBSIDIARY	187	0	187
PERCENTAGE ACQUIRED	187	1	187
TARGET OWNERSHIP	70	117	187

Panel B: Descriptive Statistics

	Mean (%)	Standard Deviation(%)
INDUSTRY		
2-Digit	64.52	48.11
4-Digit	49.46	50.27
INTERNATIONAL EXPERIENCE		
Foreign Experience	84.87	35.98
Experience in Canada	75.63	43.11
FOREIGN EXCHANGE	-0.75	6.33
TAX	79.68	40.35
RELATIVE SIZE	10.22	12.53
METHOD OF PAYMENT		
Cash	59.77	49.32
Stock	17.24	37.99
BIDDER'S STOCK EXCHANGE	67.39	47.01
ACQUISTION BY SUBSIDIARY	13.37	34.12
PERCENTAGE ACQUIRED	91.62	21.81
TARGET OWNERSHIP	35.71	48.26

Panel C: Additional Information

	Total	%
Firms with Matching 2-digit SIC Codes	60	65
No Match	33	35
Firms with Matching 4-digit SIC Codes	46	49
No Match	47	51
Firms with International Experience	101	85
Firms without International Experience	18	15
Firms with Experience in Canada	90	76
Firms without Experience in Canada	29	24
Acquisitions Performed before TRA[b] '86	38	20
Acquisitions Performed after TRA '86	149	80
Cash Transactions	52	60
Stock Transactions	15	17
Other Alternatives[c]	20	23
Firms Listed on NYSE or AMEX	124	67
Firms Traded on NASDAQ or OTC	60	33
Firms Acquired by Canadian Subsidiary	25	13
Public Target Firms	25	36
Private Target Firms	45	64

a. Method of Payment, Bidder's Exchange, Industry, International Experience, Ownership, Subsidiary and Tax are dummy variables.
b. TRA of 1986 is the Tax Reform Act of 1986
c. Alternative methods of payment include any combination of cash, stock, or debt.

IV – Empirical Methods

4.1 Model Calculating Abnormal Returns

Standard event-study methodology is used to assess the effect of acquisition announcements on shareholder wealth. The most crucial assumption of this methodology is that markets are efficient (at the semi-strong-form level), which implies that the price of any security embodies all currently available public information and reflects new public release of information instantaneously. The most commonly used event-study methodology is based on a market model described by Fama [1976]. However, we measure the stock market's reaction to announcement of foreign acquisitions using a dummy variable technique. According to Karafiath [1988], this approach is equivalent and more convenient to use than the traditional two-step approach. The latter must first estimate the market model regression parameters from the pre-event data only, and then the abnormal returns (or forecast errors) and their respective t-statistics are calculated for the "event window" using regression parameters from the pre-event data and market data from the "event window". The dummy variable technique provides both prediction errors and correct test statistics in one step, and renders the same results as the standard method.

This dummy variable technique is based on the standard market model regression, with a vector of (0,1) dummy variables set on its right hand-side. For each observation in the forecast interval [-250,50], where t=0 is the announcement day, there is a dummy variable that has a value of one for the days that constitute the desired event period, and of zero elsewhere. For example, to calculate the returns on the announcement day, the

dummy variable would take on a value of 1 for day t=0, and of zero for the other three hundred days.

Thus, for each transaction in the period [-250,50], the following model is estimated:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \sum_{j=1}^{n} \tau_{jt} D_{nt} + \varepsilon_{jt}$$

Where:

R_{jt} = Return on stock j on day t.

R_{mt} = Return on the market on day t.

α_j = OLS estimate of the intercept for stock j.

β_j = OLS estimate of the measure of systematic risk for stock j.

τ_{jt} = Measure of abnormal returns for day n in the event window for stock j.

D_{nt} = Dummy variable with one on days consisting of the desired event window and zero elsewhere.

ε_{jt} = Estimated error term for stock j on day t.

This procedure provides results identical to the traditional method. Each τ_{jt} coefficient is equal to the actual minus the forecasted value PE_{jt}. Since the N observations in the "forecast" interval are "dummied out", these observations do not affect the estimated slope intercept; only the observations without dummies determine the estimated slope and intercept. The τ coefficients are then aggregated to provide the traditional cumulative prediction error (abnormal return) over the desired interval.

The advantage of this technique is that it provides the same results as the traditional method, but in only one step instead of two. Moreover, both prediction errors and test statistics may be obtained from any standard regression package.

Non-Parametric tests and parametric t-tests are used to analyze the significance of the abnormal returns. As with other international studies, we expect to find that acquirers of international takeovers benefit from positive significant abnormal returns.

4.2 Model Examining the Determinants of Value Creation

Cross-sectional regressions are conducted to determine the factors that affect the size of the abnormal returns for the American bidding firms following the announcement of a foreign (Canadian) acquisition. The estimated cumulative returns over six found-significant event windows are used as the dependent variables. The six event windows are: [-5,5], [-1,5], [-1,2], [-1,1], [-1,0], and [0,5]. The independent variables include the factors hypothesized.

4.2.1 Major Variables

1. INDUSTRY We controlled for the industry effect by matching target and bidding firms according to their 2-digit SIC codes[1]. This is a dummy variable taking on a value of 1 if the bidding and target firms' 2-digit SIC codes match, and a value of 0 if not. A positive coefficient is expected.

[1]The firms were also matched according to the 4-digit SIC codes. However, since this matching process was too narrow, we obtained insignificant results. Thus, we only report effects of the 2-digit SIC codes.

2. EXPERIENCE The fact that the acquiring firm has international experience, more specifically in the target's country, has been found to have explanatory power for wealth creation. Therefore, variables indicating that the bidding firm has operations in other countries, or more specifically in Canada the target country, were constructed to measure this effect. EXPERIENCE is a dummy variable which takes on a value of 1 if the bidding firm has prior international experience, and 0 otherwise, while EXPERIENCE(T) takes a value of one only if the acquirer already has operations in Canada.

3. FOREX It can be argued that a cheap dollar (Canadian) makes the purchase of Canadian firms less expensive to foreign bidders and thus enables them to outbid domestic bidders. A significant and positive relationship between the foreign exchange factor and the abnormal returns generated when the bidder's currency is stronger than the target's has been found (Harris & Ravenscraft [1991], Cebenoyan et al. [1992], Kang [1993] and Markides & Ittner [1994]). Following this, we construct a foreign exchange variable which measures the strength of the U.S. dollar in relation to the Canadian dollar. It is calculated as the deviation of the real exchange rate (Cdn $/U.S.$) for the year of the bid announcement from the average real exchange rate for the 1982-1995 sample period. FOREX is this difference divided by the average real exchange rate.

4. TAX The Tax Reform Act of 1986 has been found to have explanatory power in connection to abnormal returns (Parrino, Boebel & Harris [1994]). Thus a dummy variable was created taking a value of 1 if the acquisition occurred between 1987-1995 (after the tax regime), and of 0 if it occurred before 1986.

4.2.2 Control Variables

1. METHOD of PAYMENT This variable has been widely documented, especially for domestic acquisitions. Based on the existing domestic literature, it should hold significant explanatory power with cash having a positive influence on the abnormal returns, and stock generating a negative correlation (Travlos [1987] and Frank & Harris [1989]). We set CASH as a dummy variable taking a value of 1 if the transaction is 100% cash, 0 otherwise, and STOCK, holding a value of 1 if the transaction is 100% stock, and 0 otherwise.

2. EXCHANGE Finance theory suggests that the New York Stock Exchange is more efficient than NASDAQ, implying that it takes NYSE less time to assimilate new information than it takes NASDAQ. Thus the exchange on which the bidding firm is trading could affect its abnormal returns generated by the announcement of an international acquisition. It is expected that firms listed on NYSE benefit from higher returns than firms listed on NASDAQ or trading over the counter. The acquiring firms in the sample were classified according to which exchange they trade on. A dummy variable takes a value of 1 if the bidder is listed on NYSE or AMEX, and 0 if it is listed on NASDAQ or trading over the counter.

3. PUBLIC. We examine if the status of ownership of the target firm (whether it is a public or private firm) has an influence on the bidder's returns. If the firm is publicly held, more information about its true value and its performance is available to the bidding firm, thus reducing the risk of the latter overpaying for

the target and, by such, increasing its potential for greater returns. Thus, firms acquiring public companies should benefit from higher returns. A positive coefficient is hence expected. PUBLIC takes a value of 1 if the firm is public, and 0 if it is private.

4. %ACQUIRED The percentage of the target firm being acquired could imply that the more the bidding firm buys, the greater the returns, as it owns a greater share, if not all, of the target firm, which is seen as a beneficial investment by the acquirer. This variable represents the percentage that was acquired by the bidding firm.

5. SUBSIDIARY As some of the American firms already have operations in the target country, it is also interesting to determine whether there exists a difference in the abnormal returns generated by an international takeover, when a subsidiary of the parent firm actually performs the acquisition. Based on the literature, which depicts firms investing abroad or in the target country for the first time as benefiting from greater returns than those already operating there, it can be hypothesized that firms which have a subsidiary perform the acquisition, profit from smaller returns. A negative correlation should therefore be expected. Thus, SUBSIDIARY takes a value of 1 if the target was acquired by a Canadian subsidiary, and 0 otherwise.

6. SIZE Evidence from both domestic and foreign acquisitions suggests that this variable should play a large role in explaining abnormal returns (Jarrell & Poulsen [1989]). We calculated the relative size of the target vis-à-vis the bidder's by comparing the dollar value of the transaction, taken as a proxy for the target firm's size, to the market value of the acquiring firm's equity, proxy for the acquirer's size. In

addition, we also use the natural logarithm of the relative size ratio, (LOGSIZE), in our analysis. A positive correlation is expected because the larger the size of the target, the greater should be the returns.

The cross-sectional regressions are based on the following model:

$$CAR_{jt} = \alpha_j + \beta_1 INDUSTRY_j + \beta_2 EXPERIENCE_j + \beta_3 EXPERIENCE(T)_j + \beta_4 FOREX_j + \beta_5 TAX_j + \beta_6 CASH_j + \beta_7 STOCK_j + \beta_8 EXCHANGE_j + \beta_9 PUBLIC_j + \beta_{10} \%ACQUIRED_j + \beta_{11} SUBSIDIARY_j + \beta_{12} SIZE_j + \varepsilon_j$$

Where:

CAR_{jt} = Cumulative abnormal returns for event window j, i.e., [-5,5], [-1,5], [-1,2], [-1,1], [-1,0], and [0.5].

$INDUSTRY_j$ = Variable measuring the effect of the target and bidding firms' relatedness on abnormal returns. It takes a value of 1 if the bidder and target firms' 2-digit SIC codes match, and 0 if they don't,

$EXPERIENCE_j$ = Variable controlling for the bidder's degree of international exposure. It takes a value of 1 if the acquirer has operations in other countries, and 0 otherwise.

$EXPERIENCE(T)_j$ = Variable controlling for the bidder's degree of exposure in the target country. It takes a value of 1 if the acquirer has operations in Canada, and 0 otherwise.

$FOREX_j$ = Foreign exchange ratio, comparing the strength of the $U.S. to the Canadian.

TAX_j = Tax dummy variable, taking a value of 1 if the acquisition occurred between 1987-1995, and of 0 if it occurred between 1982-1986.

$CASH_j$ = Variable measuring the effect of cash payments on returns. It takes a value of 1 if the transaction is 100% cash, and 0 otherwise.

$STOCK_j$ = Variable measuring the effect of stock payments on returns. It takes a value of 1 if the transaction is 100% stock, and 0 otherwise.

$INDEX_j$ = Dummy variable controlling for the bidder's stock exchange, taking a value of 1 if the bidder is listed on NYSE or AMEX, and 0 if it is listed on NASDAQ or trading OTC.

$PUBLIC_j$ = Dummy variable indicating the target ownership status, taking a value of 1 if the firm is public, and 0 if it is private.

$\%ACQUIRED_j$ = Percentage of the target acquired by the bidder.

$SUBSIDIARY_j$ = Dummy variable taking a value of 1 if the target was acquired by a Canadian subsidiary of the American firm, and 0 otherwise.

$SIZE_j$ = Relative size of the target to the bidder.

We use both the univariate and multivariate regressions to determine the effect of these variables on the abnormal returns earned at the time of the acquisitions announcements.

V - Empirical Results

5.1 Market Reaction To Foreign Acquisition Announcements

Table IV reports the mean, standard deviation, minimum and maximum, and number of positive and negative values, as well as the distribution patterns of the abnormal returns for six event windows. The distributions of firms for each of the six event windows exhibit similar patterns, with a concentration of observations at the –5% to –1% and the 1% to 5% levels. There are very few observations at the extremities, i.e. at less than –20% and at more than 20%. The largest mean value for the abnormal returns occurs in the seven-day period of [-1,5] with 1.36%. This is also where the highest number of positive returns is found, with 113 values versus 74 negative values. The three-day period of [-1,0] exhibits the lowest mean value for abnormal returns, with 0.71%. Meanwhile, the event window with the highest number of negative returns is the eleven-day period [-5,5], with 84 reported negative values.

Table V shows the average abnormal returns along with their respective t-statistics, for the whole sample of 187 foreign acquisition announcements, for several event windows. Choice of these windows is consistent with those used in other studies. The announcement day (t=0) abnormal return is 0.30 percent with an insignificant t-statistic of 1.2. This is consistent with Doukas & Travlos [1988] who find an abnormal return of 0.08 % with an insignificant z-value of 0.84 on the announcement day. The two-day event window [0,1] is also insignificant with a t-value of 1.36. This implies that stock prices do not react on the announcement day. However, this does not eliminate

significant stock market reaction before and after day 0. For instance, the event window [0,5] reports a cumulative abnormal return of 0.95% significant at the 5% level with a t-value of 2.02. Significance is also found on the following periods: [-5,5], [-1,5], [-1,2], [-1,1], and [-1,0]. This implies that there is a market reaction in the time interval of five days before the announcement day to five days after the announcement. The pre-announcement reaction could indicate a leakage of information, while firms not listed on NYSE or AMEX could be responsible for the post-announcement effect. It has been suggested that NASDAQ takes a longer time to absorb information than the NYSE market. This is consistent with the NASDAQ market not being as efficient as the NYSE.

These results are consistent with other studies. For example, Markides & Ittner [1994] report a mean two-day 10% significant abnormal return for days [-1,0] of 0.32%, while Markides & Oyon [1991] and Morck & Yeung [1992] obtained CARs of 0.50% (t-value of 1.73) and of 0.29% (t-value of 1.86) respectively. These numbers are comparable to our CAR of 0.71%, also significant at the 10% level with a t-statistic of 1.948 for the period [-1,0]. What is interesting however, is that when comparing our abnormal returns with those of Markides & Ittner [1994] for similar event windows, our returns are generally larger and more significant. This could suggest that transactions between American and Canadian firms are seen as attractive by the market.

Table VI reports the abnormal returns by distinguishing firms according to their level of international experience. As can be seen, only firms with no prior international exposure generate significant positive returns, which are in general, higher than those of

the other two categories (prior international exposure and, experience in target country). The highest significant return is 3.02% in event window [-1,5], with a t-value of 2.75 (significant at the 1% level). Firms with prior operations in Canada seem to produce the smallest benefits. This suggests that American companies venturing abroad for the first time are the ones that benefit the most.

Finally, in table VII, the abnormal returns are classified according to the different methods of payments. In general, cash payments are the ones generating the most significant positive returns. Stock and combinations of cash and stock are not associated with any significant values. This is consistent with Morck & Yeung [1992] and Markides & Ittner [1994], who reported that stock financing was not significantly related to abnormal returns. The alternative methods of payment also create high returns. These methods include the use of cash and stock with any form of debt. Since stock itself is not related to value creation, it is most probably the combination of cash and debt which generate these high values. The highest is found again in event window [-1,5] with 5.19%, significant at 5%. These results are consistent with Wansley, Lane & Yang [1983], Huang & Walkling [1987], and others, who have found that acquisitions financed with cash and/or debt generate higher excess returns for target firms than stock-financed acquisitions. Similarly, Travlos [1987], and Franks & Harris [1989] found cash offers to be positively related with the acquirer's returns.

TABLE IV

Summary of Cumulative Abnormal Returns for Acquiring Firms Reaction to Acquisition Announcement of Canadian Firms Period 1982-1995

	Distribution of Observations for Event Windows:					
CAR % Range	[-5,5]	[-1,0]	[-1,1]	[-1,2]	[-1,5]	[0,5]
> 20%	4	2	1	1	5	2
10% < 20%	9	3	7	6	10	11
5% < 10%	23	12	17	22	24	22
1% < 5%	51	49	54	56	56	44
0% < 1%	16	40	33	21	18	30
-1% < 0%	16	31	21	26	19	15
-5% < -1%	45	43	39	37	31	43
-10% < -5%	18	4	10	12	18	14
-20% < -10%	4	3	5	6	5	5
< -20%	1	0	0	0	1	1
Total Sample	187	187	187	187	187	187
Mean	1.00%	0.71%	0.81%	0.99%	1.36%	0.95%
Standard Deviation	6.78%	5.00%	5.58%	5.76%	6.95%	6.41%
Minimum	-29%	-15.48%	-17.19%	-18.32%	-27.37%	-26.70%
Maximum	27.57%	42.80%	41.70%	40.80%	22.81%	24.10%
Positive:Negative	103:84	106:81	112:75	106:81	113:74	109:78

The model parameters are estimated over 300 trading days, from t=-250 to 50 with the acquisition announcement at day t=0.

TABLE V

Summary of Cumulative Abnormal Returns for Different Event Windows

Sample of 187 Transactions of American Firms Announcing Acquisition of Canadian Firms for Period 1982-1995

Event Window	CAR (%)	CAR t-stat
[-10,0]	0.86	1.311
[-5,5]	1.00	2.01*
[-5,-1]	0.13	0.341
[-5,0]	0.41	0.913
[-5,1]	0.53	1.08
[-1,0]	0.71	1.948$
[-1,1]	0.81	1.984*
[-1,2]	0.99	2.351*
[-1,5]	1.36	2.665**
[0]	0.30	1.20
[0,1]	1.31	1.36
[0,5]	0.95	2.021*
[0,10]	0.86	1.56

$ Significant at 10% level
* Significant at 5% level
** Significant at 1% level

The model parameters are estimated over 300 trading days from t=-250 to 50 with the acquisition announcement at day t=0

TABLE VI

Percentage Cumulative Abnormal Returns to Bidding Firms According to the Bidder's International Exposure.

Sample of 187 Acquisition Announcements by U.S. Firms of Canadian Firms
Period 1982-1995

Event Window	Bidder's International Experience		
	No Prior Experience	Prior Experience	Experience in Canada
[-5,5]	0.15	2.07	0.72
	(0.113)	(1.319)	(1.342)
[-1,0]	1.42	3.42	0.02
	(1.726)$	(1.604)	(0.078)
[-1,1]	2.16	2.16	0.19
	(2.431)*	(0.952)	(0.518)
[-1,2]	2.82	1.79	0.33
	(2.87)**	(0.869)	(0.801)
[-1,5]	3.02	2.35	0.7
	(2.750)**	(1.496)	(1.347)
[0,5]	2.91	0.07	0.47
	(2.931)**	(0.05)	(0.995)
N	17	11	90

note: There were 69 cases were the bidder's international exposure was not known

$, *, **, *** refer to 10%, 5%, 1% and 0.1% levels of significance of the t-statistics (in parentheses)

TABLE VII

Percentage Cumulative Abnormal Returns to Bidding Firms According to the Method of Payment.

Sample of 187 Acquisition Announcements by U.S. Firms of Canadian Firms
Period 1982-1995

Event Window	Method of Payment				
	Cash	Stock	Cash and Stock	Other[a]	Undisclosed
[-5,5]	2.06 (2.504)*	-0.94 (-0.46)	7.38 (1.453)	4.37 (2.149)*	-0.18 (-0.321)
[-1,0]	0.15 (0.487)	3.93 (1.186)	-0.81 (-0.578)	1.72 (2.119)*	0.53 (1.266)
[-1,1]	0.51 (1.092)	3.75 (1.18)	2.58 (0.978)	2.21 (3.45)***	0.21 (0.43)
[-1,2]	1.09 (2.024)*	2.57 (0.807)	4.01 (1.522)	1.27 (1.378)	0.43 (0.828)
[-1,5]	2.16 (2.634)**	1.48 (0.517)	2.64 (0.621)	5.19 (2.448)*	0.36 (0.593)
[0,5]	2.28 (2.855)**	-0.32 (-0.116)	1.74 (0.471)	5.35 (2.519)*	-0.15 (-0.291)
N	52	15	8	12	100

a. Other methods of payment include the use of cash or stock with any form of debt like notes payable and debentures

$, *, **, *** refer to 10%, 5%, 1% and 0.1% levels of significance of the t-statistics (in parentheses)

Thus, according to our results, we can conclude that, on average, foreign acquisitions, specifically acquisitions of Canadian firms, create shareholder value for American bidding firms, a result that is consistent with the proposition that international acquisitions are associated with net benefits. These findings also support the view that cross-border acquisitions enable firms to exploit imperfections in product, factor, and capital markets. This conclusion is in direct contrast to the results for domestic acquisitions, which show zero or negative abnormal returns for acquiring firms (e.g., Jarrell, Brickley & Netter [1988]). In our sample, the largest and most significant cumulative abnormal return (1.36%, t-value of 2.665, significant at the 1% level) occurs in a relatively short time window [-1,5]. Returns are also found to be higher for firms going abroad for the first time and for transactions paid in cash or in a combination of cash and debt.

5.2 The Determinants of Value Creation

Tables VIII and IX A-F show results of cross-sectional univariate and multivariate regressions for the six event windows. We ran regressions on the estimated cumulative abnormal returns of these six event windows, which are: [-5,5], [-1,5], [-1,2], [-1,1], [-1,0], and [0,5]. The major independent variables were the industry, the acquiring firm's foreign experience and experience in Canada, the foreign exchange rate, and taxes. We also controlled for the method of payment, the bidder's exchange, the ownership status of the target firm, the percentage acquired, subsidiary acquisition, and the relative size to see if these factors influenced the results. Due to this large number of variables,

only a few of the regressions performed have been reported in the tables. Moreover, because most target firms in our sample are private firms, the dollar value of the acquisition was undisclosed, thus leading us to have only 44 cases for which we could calculate the relative size variable. We have therefore not reported regressions in which this variable was included, in order to eliminate any possibility of bias resulting from the small size of this subsample. However, based on this small subsample, the SIZE variable has come up significantly negative in all of the six event windows. This is not consistent with Asquith, Bruner & Mullins [1983], and with Jarrell & Poulsen [1989] who found a positive correlation with the abnormal returns. Evidence from domestic acquisitions suggests that this variable should play a large role in explaining the returns: if the target is small relative to the bidder, its acquisition should have little impact on the acquirer's stock price. On the other hand, Markides & Ittner [1994] find negative significance for the LOGSIZE variable just as we do. A possible explanation for our result could be that, in general, a small firm would be cheaper to buy than a large firm, especially for American firms due to the strength of their currency vis-a-vis the Canadian dollar. Thus, the benefits to the bidder would be greater if the relative size was small. This would be a different approach in explaining the role of the size variable. However, we cannot confirm these results as the size sample was too small to render any solid conclusion.

5.2.1 Results of Univariate Regressions

Univariate regressions on the CARs were run for all the major variables. The regressions for the INDUSTRY, FOREX and TAX variables do not bring any significance. INDUSTRY seems to explain at the most, only 1.3% of the returns to

bidders of Canadian firms. This is presented in event period [-1,0]. In all other windows, it explains an average of 0.01%. Similarly, the foreign exchange variable exhibits R^2 statistics ranging from a minimum of 0% to a maximum of 0.96% in window [0,5]. Finally, the highest R^2 for TAX is displayed in event period [0,5] with 1.22%. Thus, these factors by themselves do not appear to explain much of the variation in the abnormal returns generated to American bidding firms.

Univariate results for the EXPERIENCE variable, i.e., whether the acquirer has operations in other countries, present a significantly negative relationship with the abnormal returns in windows [-1,5], [-1,2], and [0,5]. The highest coefficient is –2.4%, significant at 5% in window [0,5]. The intercept is also positively significant, at the 1% level. Moreover, the F-statistic of the univariate model in this event period is a 5% significant 4.537, while the R^2 is 3.73%. This implies that the market reacts negatively to firms that already have international experience. Thus, the significant negative values found for this variable suggest that firms going abroad for the first time benefit from greater returns than firms which already have foreign operations. These results are consistent with theory and the studies of Fatemi [1984] and Doukas & Travlos [1988], and with our predictions.

Similarly, a significantly negative correlation exists between returns to acquiring firms and companies investing in Canada for the first time. The EXPERIENCE(T) variable provides the most explanatory power of all univariate regressions performed. The R^2 range from a low of 0.01% in event window [-5,5] to a high of 6.25% in period

[-1,0], with a 1% significant F-statistic of 7.803. This variable is significant in all event windows except [-5,5] and [0,5]. The highest coefficient is found in the two-day period [-1,0] with -1.97%, significant at the 1% level. The negative sign means that firms already operating in Canada benefit from smaller returns than those having no prior experience in the target country.

These results are consistent with Fatemi [1984] who has found that firms going abroad for the first time experience positive abnormal returns, and with Doukas & Travlos [1988] who concluded that multinationals not already operating in the target's country also benefit from significant positive returns. This is furthermore confirmed by the figures in Table VI which showed that only firms with no prior international exposure generate significant positive returns, which are in general, higher than those of the other two categories. Firms with prior operations in Canada seem to produce the smallest benefits. These results suggest that a bidding firm's prior foreign experience plays a role in explaining the value of cross-borders acquisitions, and that American companies venturing abroad for the first time are the ones that benefit the most.

5.2.2 Results of Multivariate Regressions

Multivariate regressions were run with the major variables, by including either the EXPERIENCE variable or the EXPERIENCE(T) variable in the regressions. Other combinations of both major and controlling variables were also included. Finally, regressions including all variables were run. Because most of the target firms were private firms, many of the details about the acquisitions were undisclosed, thus reducing

the number of transactions for which we had information. This is why, when the regressions on all major and controlling variables were run, only 20 transactions were used in the process (see tables IX A-F, regressions (3) and (4)). This is because, there were only 20 transactions for which the information on all the variables was available.

While the univariate regressions on INDUSTRY did not bring much, this variable becomes significant when it is set in regressions with all the other variables, in period [-1,0]. Regression (3) shows a coefficient of –4.6%, significant at the 5% level, while a coefficient of –3.78%, significant at the 10% level is found in regression (4). However, the sign of the coefficients is opposite to what had been predicted. Indeed, contradicting theory and previous studies, our results show a negative relationship between the firms' relatedness and returns to bidders. This would confirm the results of Doukas & Travlos [1988] who stated that international diversification that takes the expanding firm into a new market (i.e., new industry) enhances the firm's international network and thus results in positive valuation effects. In other words, a negative relationship between relatedness of the target and acquiring firms, and wealth creation could be expected according to this statement, if the two companies are in the same industry. Moreover, these results are different from other studies due to the high degree of market integration present between Canada and the United States, which is not as strong with other countries.

The EXPERIENCE variable seems to loose its effect in the multivariate regressions. It is not significant in any of the regressions with the other major variables (industry, experience in Canada, forex and taxes) or when the control variables are added.

One possible explanation could be that because 85% of the firms in our sample have international experience, its statistical influence is diminished when other variables are present.

On the other hand, EXPERIENCE(T) presents a negative 2.56% coefficient, significant at the 10% level in window [0,5] and of –3%, significant at 5% in period [-1,5], but only in the regression with the major variables. This confirms our previous results that companies which already have operations in Canada benefit from smaller returns than firms which have no prior experience in Canada.

Similarly, FOREX shows significance in regressions with the major variables in windows [-1,1] and [-1,0]. In the latter, FOREX is significant at the 5% level in both regressions (1) and (2). However, the coefficients are negative, opposite to what had been predicted. This implies a negative relationship between the strength of the bidder's currency vis-a-vis the target's, and wealth creation. A possible explanation for this unexpected sign is that there may not be enough difference between the Canadian and the American currencies to create any kind of variation. Foreign exchange disparities make markets imperfect when these markets are not fully integrated. However, this is not characteristic of Canada and the United States as these two markets are highly integrated. Additionally, the Canadian dollar is not a major currency. This is the difference between our sample and that of other studies in that the latter have dealt with many target countries, instead of one specific, which, for the most part held major currencies, such as the German Deutchmark and the British Pound. Thus, our results can suggest that the

foreign exchange factor, although having an influence on the bidder's abnormal returns, does not benefit the American acquirer vis-à-vis the Canadian target.

The TAX variable reports significance at the 5% and 10% levels in the multivariate regressions for the [-1,0] and the [-1,1] windows respectively. As expected, and consistent with other studies, the coefficient is positive, indicating that the Tax Reform Act of 1986 has facilitated cross-border acquisitions for American firms.

In the multivariate regressions reported, the method of payment does not bring any significant explanation to the variation in the abnormal returns. However, based on other regressions not shown here, this variable seems to play an important role. More specifically, STOCK comes out consistently negative and of significance ranging from 0.1% to 10%, depending on the regressions. This implies that the market reacts negatively to payments made in stock, which is consistent with theory. As it is often the only variable significant in the sets of regressions, we can reason that it has an important influence on the abnormal returns. As for the CASH variable, it is significant only at the 10% level, but of the opposite expected sign: negative. This contrasts with other studies as Markides & Ittner [1994], who found a positive but insignificant correlation with returns to bidder. This also goes against domestic evidence, where Travlos [1987], and Frank & Harris [1989] have found a significant and positive relation between benefits and cash payments. However, as explained previously from the results in table VII, cash payments generate higher returns than stock. Moreover, these results can not be interpreted as wrong, since they reflect the high market integration factor present between

the two neighboring countries. Thus, we can conclude that the method of payment variable plays a role in explaining benefits created by international acquisitions, with stock being the least preferred payment method of the market, as well as the one generating the smallest returns, in general.

The PUBLIC variable is significantly positive only in a few regressions, which are not shown in tables IX A-F. This implies, as we had predicted, that the market reacts favorably to the acquisition of public firms, since there is more information available for a public firm than a private one, and thus more chances of knowing the target's true value and less chances to overpay. The SUBSIDIARY variable produces a negative coefficient in tables IX A-F, and shows a 10% significantly negative relationship with abnormal returns in event windows [-1,2] and [-1,1] (not reported here). This suggests that the market does not favor acquisitions by Canadian subsidiaries, which could be tied in to insignificant abnormal returns generated by firms already operating in Canada. Finally, the EXCHANGE variable came out consistently significant in different regressions (not shown here), with a negative sign however, indicating that firms trading on NYSE or AMEX generate smaller returns. This goes against our predictions

In summary, our results confirm, in most cases, what had been predicted and what has been found in other studies. The results show that the wealth created by international acquisitions is a function of a bidding firm's international exposure with, as shown by this study as well as others in the literature, greater returns going to firms which are investing abroad, and more specifically in the target country, for the first time. The Tax

Reform Act of 1986 has also been shown to facilitate cross-border acquisitions for American firms. The degree of relatedness between the acquiring and the target companies also plays an important role in explaining abnormal returns, however, contrary to what had been predicted, it seems that greater benefits go to firms which explore a new market. This was also concluded by Doukas & Travlos [1988]. The foreign exchange factor was also found to hold explanatory power, however the coefficients were of the opposite sign from what we had predicted in our hypotheses. This could possibly be explained by the closeness of the American and the Canadian currencies, and by the fact that the Canadian dollar is not a major currency, or by the high degree of market integration that exists between the two countries. Our study reveals that the method of payment does have a significant influence on abnormal stock returns to the acquirers, with cash being the preferred method of payment, and stock generating much smaller returns. Other variables in our study also showed to have some influence on the returns to bidders, notably, the subsidiary and the acquirer's exchange, which demonstrated a negative relationship to benefits. The target's ownership status and the percentage acquired variables demonstrated a positive correlation with the abnormal returns. At last, although not very robust due to the small number of observations, the relative size showed up negatively significant, as opposed to other studies.

TABLE VIII

OLS Univariate Regression Results for U.S. Bidding Firms at the Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995

$$CAR_{jt} = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Event Window					
Variables	[-5,5]	[-1,5]	[-1,2]	[-1,1]	[-1,0]	[0,5]
INDUSTRY	-0.0022	-0.0027	0.0013	-0.0009	-0.008	0.0089
	(-0.129)	(-0.168)	(0.117)	(-0.079)	(-1.021)	(0.640)
r^2	0.0002	0.0003	0.0001	0.0001	0.0113	0.0045
EXPERIENCE	0.008	-0.0207	-0.0201	-0.0115	-0.0072	-0.024
	(0.605)	(-1.660)$	(-1.836)$	(-1.074)	(-0.828)	(-2.130)*
r^2	0.0031	0.023	0.028	0.0098	0.0058	0.0373
EXPERIENCE(T)	-0.0011	-0.0202	-0.019	-0.0159	-0.0197	-0.0131
	(-0.098)	(-1.96)$	(-2.083)*	(-1.799)$	(-2.793)**	(-1.377)
r^2	0.0001	0.0316	0.0357	0.0269	0.0625	0.0159
FOREX	-0.0407	-0.0719	-0.0108	-0.016	-0.0054	-0.0995
	(-0.517)	(-0.892)	(-0.161)	(-0.246)	(-0.093)	(-1.343)
r^2	0.0014	0.0043	0.0001	0.0003	0	0.0096
TAX	-0.0077	-0.0176	-0.008	-0.0037	0.004	-0.0176
	(-0.626)	(-1.400)	(-0.767)	(-0.368)	(0.444)	(-1.512)
r^2	0.0021	0.0105	0.0032	0.0007	0.0011	0.0122

Note:T-Statistic in Parentheses $,*,** shows significance at the 10%, 5%, and 1% levels respectively

INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise.

TABLE IX-A

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [-5,5]

$$CAR_{it} = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	-0.0029	-0.0015	0.1198	0.0388
	(-0.094)	(-0.060)	(0.927)	(0.299)
INDUSTRY	-0.0084	-0.0064	-0.0424	-0.0353
	(-0.562)	(-0.433)	(-1.022)	(-0.971)
EXPERIENCE	-0.0097		-0.0403	
	(-0.439)		(-0.568)	
EXPERIENCE(T)		-0.0181		-0.0419
		(-1.023)		(-0.892)
FOREX	-0.076	-0.0821	-0.3025	-0.3423
	(-0.569)	(-0.625)	(-0.837)	(-0.969)
TAX	0.0342	0.0383	0.0136	0.0359
	(1.457)	(1.613)	(0.260)	(0.617)
CASH			-0.0243	-0.0093
			(0.667)	(-0.248)
STOCK			-0.0819	-0.0785
			(1.502)	(-1.473)
EXCHANGE			-0.02	0.0233
			(-0.230)	(0.225)
PUBLIC			0.0089	0.0119
			(0.231)	(0.318)
%ACQUIRED			-0.0124	-0.0152
			(-0.253)	(-0.316)
SUBSIDIARY			-0.0143	-0.0109
			(-0.344)	(-0.269)
F-Stat	0.745	0.969	0.817	0.904
R^2	0.0505	0.0647	0.4759	0.5012
N	61	61	20	20

Note.T-Statistic in Parentheses S,*,** shows significance at the 10%, 5%, and 1% levels respectively
INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

TABLE IX-B

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [-1,5]

$$CAR_j = a_j+b_1INDUSTRY_j+b_2EXPERIENCE_j+b_3EXPERIENCE(T)_j+b_4FOREX_j+b_5TAX_j+b_6CASH_j+ b_7STOCK_j+b_8EXCHANGE_j+b_9PUBLIC_j+b_{10}\%ACQUIRED_j+b_{11}SUBSIDIARY_j+b_{12}SIZE+e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	0.0127	0.0085	0.0546	-0.026
	(0.489)	(0.394)	(0.322)	(-0.152)
INDUSTRY	-0.0049	-0.0014	-0.0369	-0.0296
	(-0.382)	(-0.111)	(-0.679)	(-0.616)
EXPERIENCE	-0.0236		-0.0407	
	(-1.247)		(-0.438)	
EXPERIENCE(T)		-0.03		-0.0413
		(-2.005)*		(-0.665)
FOREX	-0.0731	-0.0752	-0.4033	-0.4409
	(-0.639)	(-0.677)	(-0.852)	(-0.943)
TAX	0.0215	0.0276	0.0384	0.0603
	(1.067)	(1.373)	(0.560)	(0.783)
CASH			-0.0179	-0.003
			(-0.375)	(-0.06)
STOCK			-0.0577	-0.0544
			(-0.809)	(-0.771)
EXCHANGE			0.0048	0.0472
			(0.042)	(0.344)
PUBLIC			0.0107	0.0135
			(0.213)	(0.274)
%ACQUIRED			-0.005	-0.0077
			(-0.078)	(-0.121)
SUBSIDIARY			-0.0253	-0.0219
			(-0.464)	(-0.407)
F-Stat	0.685	1.314	0.323	0.357
R^2	0.0467	0.0858	0.2642	0.2837
N	61	61	20	20

Note:T-Statistic in Parentheses S.*,** shows significance at the 10%, 5%, and 1% levels respectively
INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

TABLE IX-C

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [-1,2]

$$CAR_k = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	-0.0062	-0.0101	-0.0277	-0.0749
	(-0.275)	(-0.529)	(-0.218)	(-0.568)
INDUSTRY	-0.007	-0.0061	-0.039	-0.0307
	(-0.632)	(-0.546)	(-0.953)	(-0.832)
EXPERIENCE	-0.0089		-0.0364	
	(-0.543)		(-0.522)	
EXPERIENCE(T)		-0.007		-0.0169
		(-0.527)		(-0.353)
FOREX	-0.1334	-0.1302	-0.389	-0.3689
	(-1.349)	(-1.328)	(-1.093)	(-1.027)
TAX	0.0247	0.0258	0.0719	0.0793
	(1.419)	(1.457)	(1.395)	(1.341)
CASH			0.0015	0.0093
			(0.043)	(0.244)
STOCK			-0.0415	-0.0402
			(-0.774)	(-0.741)
EXCHANGE			0.0355	0.0456
			(0.416)	(0.434)
PUBLIC			0.0157	0.0138
			(0.415)	(0.363)
%ACQUIRED			-0.0023	-0.0032
			(-0.047)	(-0.066)
SUBSIDIARY			-0.0496	-0.0477
			(-1.211)	(-1.154)
F-Stat	0.793	0.789	0.67	0.645
R^2	0.0536	0.0533	0.4267	0.4174
N	61	61	20	20

Note:T-Statistic in Parentheses S.*.** shows significance at the 10%. 5%, and 1% levels respectively
INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

TABLE IX-D

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [-1,1]

$$CAR_{it} = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	-0.0224	-0.0185	0.0028	-0.0309
	(-0.975)	(-0.955)	(0.025)	(-0.263)
INDUSTRY	-0.0003	-0.00004	-0.0169	-0.0095
	(-0.029)	(-0.004)	(-0.465)	(-0.290)
EXPERIENCE	0.002		-0.0307	
	(0.122)		(0.494)	
EXPERIENCE(T)		-0.004		-0.0094
		(-0.299)		(-0.220)
FOREX	-0.1699	-0.1758	-0.224	-0.1941
	(-1.683)$	(-1.758)$	(-0.708)	(-0.607)
TAX	0.0261	0.0273	0.0897	0.093
	(1.467)	(1.513)	(1.959)$	(1.764)$
CASH			-0.0207	-0.0156
			(-0.651)	(-0.459)
STOCK			-0.023	-0.0223
			(-0.482)	(-0.461)
EXCHANGE			-0.026	-0.024
			(-0.343)	(-0.257)
PUBLIC			0.0314	0.0287
			(0.933)	(0.847)
%ACQUIRED			-0.0087	-0.0091
			(-0.203)	(-0.210)
SUBSIDIARY			-0.031	-0.0296
			(-0.850)	(-0.803)
F-Stat	0.872	0.892	0.845	0.808
R^2	0.0586	0.0599	0.4842	0.4731
N	61	61	20	20

Note:T-Statistic in Parentheses $,*,** shows significance at the 10%, 5%, and 1% levels respectively
INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

TABLE IX-E

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [-1,0]

$$CAR_j = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	0.0017	0.005	0.0226	-0.0419
	(0.113)	(0.385)	(0.318)	(-0.576)
INDUSTRY	-0.0093	-0.0082	-0.046	-0.0378
	(-1.223)	(-1.090)	(-2.009)*	(-1.854)$
EXPERIENCE	-0.0031		-0.0401	
	(-0.275)		(-1.024)	
EXPERIENCE(T)		-0.0111		-0.0288
		(-1.237)		(-1.092)
FOREX	-0.1408	-0.1476	-0.2576	-0.2628
	(-2.076)*	(-2.223)*	(-1.292)	(-1.325)
TAX	0.01	0.0131	0.059	0.0734
	(0.872)	(1.096)	(2.044)*	(2.247)*
CASH			-0.0345	-0.0232
			(-1.716)$	(-1.101)
STOCK			-0.0357	-0.0334
			(-1.189)	(-1.117)
EXCHANGE			0.0113	0.0365
			(0.236)	(0.629)
PUBLIC			0.0256	0.0257
			(1.206)	(1.225)
%ACQUIRED			0.0092	0.0074
			(0.340)	(0.276)
SUBSIDIARY			-0.0335	-0.0308
			(-1.460)	(-1.352)
F-Stat	1.405	1.805	1.479	1.513
R^2	0.0912	0.1142	0.6217	0.6271
N	61	61	20	20

Note:T-Statistic in Parentheses S,*,** shows significance at the 10%, 5%, and 1% levels respectively
INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

TABLE IX-F

OLS Regression Results for U.S. Bidding Firms at Announcement of 187 International Acquisitions of Canadian Targets, Period 1982-1995, Dependent Variable: Window [0,5]

$$CAR_{jt} = a_j + b_1 INDUSTRY_j + b_2 EXPERIENCE_j + b_3 EXPERIENCE(T)_j + b_4 FOREX_j + b_5 TAX_j + b_6 CASH_j + b_7 STOCK_j + b_8 EXCHANGE_j + b_9 PUBLIC_j + b_{10} \%ACQUIRED_j + b_{11} SUBSIDIARY_j + b_{12} SIZE + e_j$$

	Regressions			
Variables	(1)	(2)	(3)	(4)
Intercept	0.0047	-0.0001	0.0004	-0.0457
	(0.188)	(-0.005)	(0.002)	(-0.279)
INDUSTRY	0.0037	0.0067	-0.0108	-0.0129
	(0.301)	(0.555)	(-0.207)	(-0.281)
EXPERIENCE	-0.0215		-0.0034	
	(-1.192)		(-0.038)	
EXPERIENCE(T)		-0.0256		-0.0352
		(-1.782)$		(-0.593)
FOREX	-0.0426	-0.0429	-0.2778	-0.3659
	(-0.392)	(-0.403)	(-0.612)	(-0.820)
TAX	0.0203	0.0253	0.0236	0.0446
	(1.059)	(1.319)	(0.358)	(0.607)
CASH			-0.0133	-0.0032
			(-0.291)	(-0.068)
STOCK			-0.0664	-0.0635
			(-0.969)	(-0.943)
EXCHANGE			0.008	0.0553
			(0.074)	(0.423)
PUBLIC			0.0001	0.0073
			(0.001)	(0.154)
%ACQUIRED			0.011	0.0085
			(0.179)	(0.140)
SUBSIDIARY			-0.0117	-0.0097
			(-0.224)	(-0.190)
F-Stat	0.631	1.078	0.247	0.291
R^2	0.0431	0.0715	0.2152	0.2446
N	61	61	20	20

Note: T-Statistic in Parentheses $, *, ** shows significance at the 10%, 5%, and 1% levels respectively

INDUSTRY controls for the relatedness of both firms. It takes a value of 1 if the 2-digit SIC codes of the firms match, 0 otherwise. EXPERIENCE controls for the bidder's international experience with 1 if bidder has foreign operations, 0 otherwise. EXPERIENCE (T) takes 1 if bidder has operations in Canada, 0 otherwise. FOREX is the strength of the U.S. $ compared to the Canadian $. TAX controls for the Tax Reform of 1986, with 1 if acquisition occurred after 1986, 0 otherwise. CASH takes 1 if the transaction is 100% cash, 0 otherwise. STOCK takes 1 if the transaction is 100% stock, 0 otherwise. EXCHANGE takes 1 if bidder is listed on NYSE or AMEX, 0 if it trades on NASDAQ or OTC. PUBLIC takes 1 if target firm is a public firm, 0 if it is private. %ACQUIRED is the percentage of the target acquired by the bidder. SUBSIDIARY takes 1 if the target was acquired by a Canadian subsidiary of the parent company, 0 otherwise.

VI – Conclusion

This study attempts to investigate two main issues: (1) Whether international acquisitions, in contrast to their domestic counterparts, create value for the shareholders of acquiring firms, and (2) What can explain the variation in the abnormal returns generated by international acquisitions announcements. Many studies have attempted to discover the effects of international diversification through acquisitions, however, most of these studies focused on the American market, while very few have explored the Canadian market. This was the objective of our study. Using a dummy-variable alternative approach to the standard event-study methodology, and a sample of 187 transactions between Canada and the U.S., we examine the stock behavior of American companies that have purchased Canadian firms in the period 1982-1995, in order to determine whether the market reacts differently to domestic and foreign takeover announcements, and more specifically, to transactions between these two countries. We also use cross-sectional regressions to identify which variables affect the size of the market reaction generated by these acquisitions by examining the role of the industry, the bidding and the target firms, and characteristics of the acquisition and of the economical environment.

Results showed that, on average, international acquisitions create value for acquiring firms. The sample generated significant positive returns, with the seven-day event window [-1,5] exhibiting the largest value with 1.36%. Our figures were found to be slightly higher than those of other studies. These results contrast with evidence from

domestic acquisitions which show zero or negative abnormal returns for acquiring firms, and are consistent with the hypothesis that foreign takeovers are associated with net benefits.

Moreover, the evidence from our analysis finds that the wealth created by international acquisitions is a function of the bidding firm's prior level of international exposure (with firms going abroad or in the target country for the first time benefiting the most), the degree of the firms' relatedness (with firms buying into different industries generating the greatest returns), the foreign exchange rate, and the Tax Reform Act of 1986. Finally, variables such as the method of payment used, the ownership status of the target firm, whether the firm was purchased by a Canadian subsidiary of the parent firm, and the bidder's stock exchange seem to also play a role in explaining the abnormal returns generated by diversification to the acquiring firms.

Some limitations of this study are that we have examined only the stock behavior of the bidding firms. It would be interesting to analyze the target firms' reaction as well. Furthermore, due to the fact that most of the target firms were private, it made it hard to obtain information pertaining to the transactions. Additionally, most of the bidding firms had already ventured into foreign operations. These attributes make it difficult to confirm any of the results. But the sample's characteristics also differentiate our sample from those of other studies, in that it is specifically descriptive of the American-Canadian relationship, whereas other papers concentrated on a more general sample. Finally, although this paper emphasizes some of the variables that may explain bidders'

performance, it does not investigate other potentially relevant factors. For example, acquisitions of Canadian targets by U.S. firms might have the primary effect of conveying to the stock market information about the bidder's future investment strategy. It is also possible that such factors as Canada's political stability provide substantial incentives for the transactions in question, and contribute to the abnormal returns earned by American bidders. All of these issues represent valuable areas for future research.

VII - Bibliography

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VIII- APPENDIX

List of Acquiring and Target Firms, and Announcement Dates

ACQUIRING FIRM	TARGET FIRM	EVENT DATE
Matrix Corp	Imapro Inc	April 12, 1982
Cambridge Royalty Co.	Orion Petroleum ltd	May 19, 1982
Scientific-Atlanta Inc	Digital Video Systems Inc	August 20, 1982
Oceaneering International Inc	Marinov Corp	August 25, 1982
Oil-Dri Corp of America	Favorite Products Co. ltd	June 27, 1983
Nike Inc	Pacific Athletic Supplies ltd	July 29, 1983
Cox Communications Inc	Toronto Auto Auction	August 23, 1983
Butler Manufacturing Co.	Multitrol Inc	September 9, 1983
Norton Co.	Vec-Tel Petroleum Services ltd	December 7, 1983
Marsh & McLennan Cos. Inc	Hickling-Johnston ltd	January 26, 1984
Arrow Electronics Inc	Cesco Electronics ltd	April 12, 1984
Color Tile Inc	Color Your World Inc	April 25, 1984
Stanadyne Inc	Aqualine Group of Companies	May 8, 1984
Heldor Industries Inc	Hinsperger ltd	August 16, 1984
Wendy's International Inc	Wendy's Restaurants of Canada Inc	November 16, 1984
Alexander & Alexander Services Inc	Reed Stenhouse Cos. ltd	December 4, 1984
Automatic Data Processing Inc	Commodity Communication Corp (Cda) ltd	February 4, 1985
Reichhold Chemicals Inc	Reichhold ltd	February 5, 1985
Great Atlantic & Pacific Tea Co. Inc	Dominion Stores ltd	February 8, 1985
Transamerica Corp	Tomenson Inc	March 26, 1985
Data Card Corp	Laser Data Systems Inc	May 28, 1985
Allied Products Corp	White Farm Manufacturing Canada ltd	June 26, 1985
United Artists Communications	Futurtek Communications Inc	July 25, 1985
Barry Wright Corp	Datafile ltd	August 6, 1985
Ply-Gem Industries Inc	Norman Marcus Inc	September 9, 1985
Data Card Corp	Data Conversion systems	October 15, 1985
Oil-Dri Corp of America	Favorite Products Co. ltd	October 17, 1985
Boeing Co.	de Havilland Aircraft of Canada ltd	November 6, 1985
Thomas Industries Inc	North American Decorative Products Inc	January 4, 1986
MCA Inc	Cineplex Odeon Corp	January 15, 1986
Ropak Corp	Can-Am Containers ltd	March 27, 1986
Computer Entry Systems Corp	Laser Data Systems	April 2, 1986
Modine Manufacturing Co.	Octagon Cooling System Distributors Inc	July 3, 1986
Marsh & McLennan Cos. Inc	ENCON Holdings Inc	July 30, 1986
Munsingwear Inc	Shirtmate (Canada) Inc	August 1, 1986
Federal Express Corp	Cansica Inc	August 11, 1986
Willcox & Gibbs Inc	Rubyco Inc	August 13, 1986
Outboard Marine Corp	Brouwer Turf Equipment ltd	September 5, 1986
Computer Task Group Inc	Maxima Computer Mgmt Consultants ltd	September 19, 1986
Knape & Vogt Manufacturing Co.	Roll It Inc	January 15, 1987
Rubbermaid Inc	Viking Brush ltd	January 21, 1987
Safety-Kleen Corp	Breslube Enterprises	March 16, 1987
Amoco Corp	Dome Petroleum ltd	April 14, 1987
Security Pacific Corp	Burns Fry Corp	May 21, 1987
Champion Parts Rebuilders Inc	Advance Automotive Industries Inc	June 11, 1987
Pereni Corp	Monenco ltd	July 6, 1987
Waxman Industries Inc	H. Belanger Plumbing Accessories ltd	July 22, 1987
Hinderliter Industries Inc	CAN-ENG Metal Treating ltd	August 17, 1987
Laser Photonics Inc	PRA International Inc	August 24, 1987
United Technologies Corp	Airco Refrigeration Inc	October 6, 1987

Thomas Industries Inc	Lumec Inc	October 9, 1987
DowJones & Co. Inc	CMQ Communications Inc	October 30, 1987
Facet Enterprises Inc	Canadian Filter Manufacturing Co. ltd	November 2, 1987
Mead Corp	Dataline Inc	November 6, 1987
DRX Inc	McFinley Red Lake Mines ltd	December 2, 1987
Recognition Equipment Inc	Mohawk Data Sciences Canada ltd	December 21, 1987
Alco Standard Corp	Benndorf Verster ltd	March 1, 1988
Micro D Inc	Frantek Computer Products Inc	March 15, 1988
Motorola Inc	MDI Mobile Data	May 10, 1988
Valley Forge Corp	Force 10 Marine ltd	June 17, 1988
Intermec Corp	Intermec Systems Corp	June 28, 1988
Guardsman Products Inc	Iroquois Chemicals Corp	July 5, 1988
Ryder System Inc	ATG Automotive Transport Group ltd	July 9, 1988
Homestake Mining Co.	Galactic Resources ltd	July 21, 1988
Merrill Lynch & Co. Inc	IPSCO Inc	July 28, 1988
Borden Inc	Highliner	August 5, 1988
Interpublic Group of Cos. Inc	Intermart Inc	August 10, 1988
North Star Universal Inc	CVA Electronics Inc	August 15, 1988
Bowne & Co. Inc	Infocorp Group	September 13, 1988
IVAX Corp	Sackrison & Associates Inc	October 10, 1988
Alco Standard Corp	Halifax Office Products	November 25, 1988
Conquest Exploration Co.	Universal Explorations ltd	January 25, 1989
Parker Drilling Co.	Westburne Worldwide Drilling ltd	January 27, 1989
Universal Foods Corp	Flavorshades ltd	March 22, 1989
Columbia Pictures Entertainment Inc	Nelson Holding International ltd	March 27, 1989
Tigera Group Inc	Cinexus Capital Corp	April 5, 1989
Campbell Soup Co	Quadelco ltd	April 14, 1989
Computer Power Inc	Electro Charge Power Products Inc	May 30, 1989
Sun Distributors LP	A&H Bolt & Nut Co. ltd	June 1, 1989
Sterling Software Inc	Zanthe Information Inc	June 8, 1989
Federal Signal Corp	Electro Diecraft	July 19, 1989
Square Industries Inc	United Parking Services Inc	August 8, 1989
Gibson CR Co.	Dawn Distributors	August 16, 1989
Tenneco	CM Brake	December 12, 1989
Whirlpool Corp	Inglis ltd	December 14, 1989
Enterra Corp	Canadian Ultra Pressure Services	December 27, 1989
McKesson Corp	Medis Health & Pharmaceutical Services Inc	January 19, 1990
Safety-Kleen Corp	Breslube Holding Corp	February 26, 1990
C-COR Electronics Inc	Acunet Data Systems Inc	March 5, 1990
Alco Standard Corp	Smith Paper ltd	March 7, 1990
CONSTAR International	Montplas Inc	March 26, 1990
Intl Business Machines Corp	Delrina Corp	March 29, 1990
Castle AM & Co.	Norton Steel Co. ltd	June 5, 1990
Outboard Marine Corp	Altra Marine Products Inc	June 26, 1990
Hewlett-Packard Co.	IDACOM Electronics ltd	July 10, 1990
Johnson Worldwide Associates	Whites Diving Equipment ltd	July 19, 1990
Sterling Software Inc	ASYST CASE Technologies Inc	July 20, 1990
Galveston-Houston Co.	Erichsen Industries ltd	July 24, 1990
Pioneer Hi-Bred International Inc	Allelix Crop Technologies	November 1, 1990
Raytheon Co.	Seis-Pro & Consultants ltd	November 8, 1990
United Stationers Inc	Wolfson Sales ltd	April 8, 1991
Everex Systems Inc	Servex Computer Inc	April 26, 1991
Electronic Arts	Distinctive Software Inc	June 17, 1991
Electromagnetic Oil Recovery Inc	Electromagnetic Oil Recovery ltd	August 6, 1991
Valmont Industries Inc	Lampadaires Feralux Inc	August 15, 1991
Invacare Corp	Canadian Wheelchair Manufacturing ltd	October 10, 1991
Invacare Corp	Canadian Posture & Seating Centre Inc	November 4, 1991

Federal Signal Corp	Superior Emergency Equipment ltd	December 18, 1991
Office Depot Inc	HQ Office International Inc	January 20, 1992
Robbins & Myers Inc	Prochem Mixing Equipment ltd	February 18, 1992
Brand Cos. Inc	JLG Scaffolding ltd	February 29, 1992
Homestake Mining Co.	International Corona Corp	March 11, 1992
Crane Co.	Jenkins Canada Inc	April 1, 1992
Invacare Corp	Hovis Medical ltd	April 1, 1992
Merrimac Industries	BTI Inc	April 20, 1992
Unisys Corp	Cemcorp International Inc	June 9, 1992
Honeywell Inc	SACDA	June 25, 1992
Pepsi Co.	Hostess Frito-Lay Co.	June 25, 1992
Recoton Corp	Proturn ltd	July 16, 1992
Lotus Development Corp	Soma Inc	August 21, 1992
Alco Standard Corp	Peace River Photocopy ltd	August 28, 1992
Holopak Technologies	Alubec Industries Inc	September 17, 1992
ACC Corp	One Plus Long DistanceTelecommunications	October 19, 1992
United States Shoe Corp	Eye Masters ltd	October 27, 1992
Checkpoint Systems Inc	Checkpoint Canada	November 9, 1992
Scientific-Atlanta Inc	Nexus Engineering Corp	December 2, 1992
Angelica Corp	Sally Fourmy & Associates	December 10, 1992
Omnicorp ltd	North American Tire Recycling	December 16, 1992
Philip Morris Companies Inc	Molson Companies ltd	January 14, 1993
Dun & Bradstreet Corp	Ad-Scan	March 17, 1993
Stage II Apparel Corp	Woody's Sports	April 16, 1993
Matrix Service Co.	Heath Engineering ltd	May 5, 1993
Paramount Communications Inc	Canada's Wonderland ltd	May 18, 1993
McDermott International Inc	Delta Catalytic Corp	May 20, 1993
Control Data Systems Inc	Antares Electronics Inc	June 28, 1993
Honeywell Inc	Aeronox ltd	July 8, 1993
Watts Industries Inc	LeHage Industries	July 8, 1993
Echlin Inc	Frictiontech Inc	July 12, 1993
ADESA Corp	Montreal Auto-Auction	July 21, 1993
Patterson Dental Co.	Healthco Canada Inc	August 6, 1993
Honeywell Inc	Total Refrigeration Services	August 24, 1993
Alco Standard Corp	Bayco Business Products	August 24, 1993
Philip Morris Companies Inc	Nabob Foods ltd	September 30, 1993
Vallen Corp	Safety World Inc	November 1, 1993
Hecla Mining Co.	Equinox Resources ltd	November 3, 1993
Varian Associates	Quality Hermetics Co. Inc	December 6, 1993
Catalina Lighting Inc	Catalina Lighting Canada Inc	January 3, 1994
Rainbow Technologies Inc	AND Group Inc	January 24, 1994
Staples Inc	Business Depot ltd	January 24, 1994
Sports Supply Group Inc	Gold Eagle	February 9, 1994
ACX Technologies Inc	Gravure International Capital	February 10, 1994
Stuart Entertainment Inc	Len Stuart & Associates ltd	March 14, 1994
Kaman Corp	Hornberger Music ltd	March 31, 1994
Equitrac Corp	Delstar Technical Services Inc	April 13, 1994
Fritz Cos Inc	Starber International Inc	May 2, 1994
Crawford & Co.	Finnamore & Partners ltd	May 3, 1994
Alco Standard Corp	Cypress Business Equipment ltd	May 31, 1994
Wiser Oil Co.	Eagle Resources ltd	June 27, 1994
Portec Inc	Innovator Manufacturing Inc	July 21, 1994
Thomas & Betts ltd Corp	Commander Electric Materials	August 12, 1994
IBP Inc	Lakeside Farm Industries ltd	September 16, 1994
National Data Corp	Zadall Systems Group	November 2, 1994
Alco Standard Corp	Interpac Packaging System	November 3, 1994
LSI Logic Corp	LSI Logic Corp of Canada Inc	November 29, 1994

Norstan Inc	Renaissance Investments ltd	December 1, 1994
CR Bard Inc	Vas-Cath Inc	December 5, 1994
Culp Inc	Rayonese Textile Inc	December 23, 1994
Clorox Co	Brita International Holdings	February 6, 1995
Dana Corp	Hayes-Dana Inc	February 14, 1995
Loews Corp	Hotel Vogue	March 27, 1995
Valassis Communications Inc	McIntyre & Dodd	March 29, 1995
McGraw-Hill Inc	UCB Canada Inc	April 4, 1995
CMS Energy Corp	Secure Wood Chips LP	May 11, 1995
Vallen Corp	Century Sales & Service ltd	May 17, 1995
Service Corp International	Service Corp International (Canada)	May 18, 1995
EDITEK Inc	Bioman Products	June 9, 1995
Symantec Corp	Delrina Corp	July 6, 1995
Orbital Sciences Corp	MacDonald Dettwiler & Associates	July 31, 1995
Tech-Sym Corp	Photon Systems ltd	August 7, 1995
Wendy's International Inc	TDL Group ltd	August 8, 1995
Katy Industries Inc	Gemtex Co. ltd	August 10, 1995
ACC Corp	Metrowide Communications	August 14, 1995
Aluminium Co. of America Inc	DBM ltd	August 17, 1995
Amdahl Corp	DMR Group Inc	September 14, 1995
Reynolds Metals Co.	Aluminerie de Becancour Inc	September 15, 1995
MCI Communications Corp	SHL Systemhouse Inc	September 18, 1995
Fritz Cos Inc	Robinson & Heath ltd	September 26, 1995