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The influence of anti-takeover provisions on acquirer returns in Continental Europe and the UK

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February, 2013

Abstract

General consensus in literature is that anti-takeover provisions (ATPs) have a negative influence on shareholder value and firm performance as they limit the effect of the market of corporate control as a governance mechanism. This paper however shows that the influence of ATPs on shareholder value differs across institutional environments. Using a new hand collected data set, consisting of 269 European firms making 517 acquisitions over the period 2007-2011, I find that firms with more ATPs in place are less likely to indulge in value-destroying acquisitions. This result indicates that ATPs have a positive influence on shareholder value in Europe. The results hold for several robustness checks.

Key words: *Anti-takeover provisions, market for corporate control, cumulative abnormal return*

JEL Codes: *G32, G34*

* The author would like to thank Citi for access to their databases and support.

1. Introduction

Ever since anti-takeover provisions (ATPs) have appeared on the corporate landscape during the hostile takeover market of 1980s, they have been a topic of interest among researchers and practitioners. Designed to limit shareholder rights or empower managers in the event of a corporate takeover attempt, the general consensus in literature (Gompers, Ishii, and Metrick, 2003; Bebchuk and Cohen, 2005; Bebchuk, Cohen, and Ferrell, 2009; and Masulis, Wang and Xie (2007) is that, as they limit the effect of the market of corporate control as a governance mechanism, ATPs have a negative influence on shareholder value and firm performance. Most of the studies looking at ATPs use a sample of US based companies (Straska and Waller, 2012) but their results are generalized all over the world. Differences in ownership and control structures between Europe and the United States however indicate that corporate governance mechanisms and the influence of ATPs on shareholder value should work differently across these institutional environments (Lubatkin, Lane, Collin and Very, 2005).

In Anglo-Saxon countries (the US, the UK and Canada) firms often have strong managers and weak owners, but in Europe (with the exception of the UK) public firms often have weak managers and strong owners (La Porta, Lopez-de-Silanes and Shleifer, 1998). As a result Anglo-Saxon governance mechanisms are more market orientated, whereas in Continental Europe the governance system is more orientated towards large shareholders (Shleifer and Vishny, 1997 and Franks and Mayer, 1997). Because these large shareholders in Continental Europe have the ability to monitor the behavior of management there is therefore less need to use the market of corporate control as a governance mechanism (Al-Kuwari, 2010). In the Continental European governance system commonly used and criticized ATPs can therefore actually be in line with the interest of large shareholders. When the market for corporate control is not used as a governance mechanism, the reduction of takeover threat can protect large shareholders from managers with a myopic view who choose short term profits over long term objectives and potential bidders who, attracted by a low share price due to a long term investment, want to acquire the company, including any takeover premium paid, far below its true value (Stein, 1988).

In this paper I contribute to existing literature by looking at the relation between ATPs and shareholder value in Europe. Acquisitions are the largest and most clear observable forms of corporate investment and they tend to intensify the conflicts of interest between managers and shareholders in large public corporations (Berle and Means, 1933 & Jensen and Meckling, 1976). Using a new, hand collected, dataset containing 517 acquisitions made both 269 firms from Continental European and the United

Kingdom I find that in Europe firms with more ATPs in place are less likely to indulge in value-destroying acquisitions. The results indicate that ATPs have a positive influence on shareholder value. When I look at both Continental Europe and the UK I find that the positive relation between ATPs and shareholder value is the strongest for Continental Europe. For the UK, an Anglo-Saxon governance system, the relation appears to be similar but it is not statistically significant.

The remaining of this paper is organized as following: in the second section review existing literature and in the third section I will describe the methodology and data set I collected for 517 acquisitions made by European firms between 2007 and 2011. In the fourth part I look at the results and perform several robustness checks. In the fifth section I will conclude the paper.

2. Literature Review

The influence of anti-takeover provisions on shareholder value

It has been well recognized that managers do not always make shareholder value maximizing acquisitions. Morck, Shleifer, and Vishny (1990) show how different types of acquisitions bring managers several substantial benefits and perks, while at the same time hurt shareholders. A large number of corporate governance mechanisms are used to mitigate the manager–shareholder conflict of interest. The market for corporate control is one of the mechanisms that can discourage corporate empire building. Mitchell and Lehn (1990) show that when firms make bad, value destroying, acquisitions they have a higher likelihood of being acquired themselves. The risk of being acquired thereby reduces the manager–shareholder conflict of interest. In light of this conflict of interest, management can install provisions to offset the risk of being acquired. These ATPs are designed to limit shareholder rights and empower managers in the event of a corporate takeover attempt. By substantially delaying the acquisition process and raising the expected costs of a (hostile) takeover, ATPs reduce the probability of a successful takeover and the incentives of potential acquirers to launch a bid (Bebchuk, Coates, and Subramanian, 2002 & 2007 and Field and Karpoff, 2002).

DeAngelo and Rice (1983) were among the first to argue that ATPs can influence shareholder wealth. In their managerial entrenchment hypothesis, they argue that ATPs serve to protect managerial positions at the expense of shareholders and thus reduce shareholder wealth. According to this hypothesis, ATPs increase the agency conflict that exists between managers and shareholders.

The managerial entrenchment hypothesis of DeAngelo and Rice (1983) relies on four key assumptions. First they assume that managers value control over assets, and that this desire for control drives a wedge between the interests of managers and that of the shareholders. The second assumption is that the market for corporate control is one of the governance mechanisms that helps reduce the agency costs of outside equity (Manne, 1965). In the market for corporate control managers compete for the right to control corporate resources (Jensen and Ruback, 1983) and the threat of managerial displacement in the case of a hostile takeover ensures that managers will aim to maximize the wealth of the firm's shareholders or risk getting displaced. The third assumption is that the market for corporate control the best governance mechanism to cope with managerial inefficiency. For this to be true, DeAngelo and Rice (1983) assume that other governance mechanisms such as shareholder monitoring or incentive based compensation do not cope with agency conflicts as efficient as the market for corporate control. The last necessary assumption is that ATPs effectively protect managers and this protection comes at the expense of shareholders by reducing the likelihood of a takeover aimed to correct managerial inefficiency and thereby increasing shareholder wealth. When all four assumptions hold, ATPs weaken the disciplining role of the market for corporate control and allow for non-value maximizing behavior, shareholders are left to bear the costs (Jensen and Meckling, 1976).

More recent studies focusing on the relation between ATPs and long-term firm performance or shareholder value seem to largely support DeAngelo and Rice (1983) in their argument that ATPs decrease shareholder value. Gompers, Ishii, and Metrick (2003) look at the influence of ATPs on firm value and shareholder returns. In their study, Gompers, Ishii, and Metrick (GIM) select 24 governance provisions tracked by the Investor Responsibility Research Center (IRRC) and use these to create an index for the level of shareholder rights by adding one point for every provision that restricts shareholder rights. The provisions in the GIM index have effects other than takeover protection but most of the provisions in the index, such as supermajority voting requirements, poison pills, or classified boards are ATPs.

Using this index GIM find a strong and significant negative relation between firm performance and the number of ATPs. Using Tobin's Q as a measure of firm value, GIM estimate that in 1999 a one-point increase in the GIM index is associated with an 11.4 percentage point lower value for Tobin's Q. They also show that in the 1990s, firms with a low GIM index score outperform firms with a high GIM index score by an abnormal stock return of 8.5% per year which indicates that ATPs hurt shareholders. In their paper they give two possible explanations for the negative relation between their ATP index and stock

returns. First they argue that weak shareholder rights caused agency problems and that as investors gained new information about the true costs that are associated with agency problems, share prices dropped to compensate for this new information. The second explanation they give is the classical missing variable explanation in corporate governance studies; some other variable correlated with the GIM index, rather than the GIM index itself, causes poorer performance. The GIM study has been followed by a many studies that aim to explain the way ATPs can impact shareholder wealth, and many have tested the robustness of results found by GIM.

Core, Guay, and Rusticus (2006), one of the first to follow on to GIM, try to determine whether investors underestimated the agency costs associated with weak shareholder rights. They find that firms with high GIM index scores do not only have worse stock returns but also a worse operating performance than firms with low GIM index scores and conclude that weak shareholder rights are unlikely to cause lower abnormal stock returns. Instead, they argue that the difference in abnormal returns between high and low GIM index firms can be explained by a market model misspecification or something unique to the time period studied. A similar conclusion is reached by Johnson, Moorman, and Sorescu (2009) who show that firms with high and low GIM index differ from the population of firms and from each other in how they cluster across industries. Adjusting for this industry clustering, they find no significant long-term abnormal returns for portfolios sorted on GIM index.

Bebchuk and Cohen (2005) who also look at the influence of ATPs on firm value look at one specific ATP from GIM index. They focus strictly on staggered boards as a key anti-takeover provision and find that even a just a staggered board leads to significantly lower firm value. Bebchuk, Cohen, and Ferrell (2009), extend the GIM results further by looking at a smaller ATP index based on the six provisions that they argue to be most important from a legal point of view. They create a subset of six of the 24 GIM index which they call the "E index" and show that the strong negative relation between firm performance measures and GIM index is predominantly driven by the provisions in the E index. In their paper they show that an index consisting of staggered boards, limits to shareholder bylaw amendments, limits to shareholder charter amendments, supermajority requirements for mergers, poison pills, and golden parachutes have a stronger association with long-run stock returns and firm value than the GIM index does and that an index of the remaining 18 provisions has no significant relation to firm value.

Bebchuk, Cohen, and Wang (2012) examine the "new information" explanation noted by GIM. They show that the attention to governance by the media, institutional investors, and academics increased through the 1990s until 2001 and has remained at a similar level since. Bebchuk, Cohen, and Wang

(2012) further show that the abnormal returns to long-short portfolios of firms with few and many ATPs exists only in the period 1990-2001 but diminish and are insignificant in the period 2002-2008. Their results hold even after adjusting for industry clustering as suggested by Johnson, Moorman, and Sorescu (2009) or after adding the “takeover factor” to the asset pricing model as suggested by Cremers, Nair and John (2009). Unlike Core, Guay, and Rusticus (2006), Bebchuk, Cohen, and Wang (2012) find that investors and analysts were surprised by the poor performance of firms with many anti-takeover provisions but only in the period 1990-2001 and not in the period 2002-2008.

Masulis, Wang and Xie (2007) are the first that look at the effect of corporate governance mechanisms, especially the market for corporate control, on the profitability of firm acquisitions. They argue that managers at firms protected by more ATPs are less affected by the market for corporate control and are more likely to indulge in acquisitions that destroy shareholder value. Using the GIM, BCF and BC indices they find that acquirers with more ATPs experience significantly lower announcement period abnormal stock returns. Humphery-Jenner and Powell (2008) find similar results running an initial regression using an extended sample, but argue that if more ATPs insulate managers from the discipline of the market for corporate control, then this may encourage hubris and overpayment. In their paper they show that the ‘ATP effect’ found by Masulis, Wang and Xie (2007) can be explained by an omitted variable, takeover premium, which captures overconfidence or managerial hubris in acquiring firms. Their results suggest that it is not ATPs and the protection from the market of corporate control that causes managers to seek out value destroying takeovers but that managerial hubris causes them to indulge in bad acquisitions. In a related study done by Harford, Humphery-Jenner, and Powell (2012), the authors also find that that a significant portion of value destruction in acquisitions comes from entrenched managers their attempts to preserve their position of entrenchment.

The use of Anti-takeover provisions in different institutional environments

All of the studies discussed so far use an US based sample to examine how having more or less ATPs relates to firm value. On average they show significant losses to acquirers with a higher number of ATPs and argue that ATPs used by US firms offer protection from disciplinary actions from the market of corporate control which results in value-reducing behavior. Mayer (1996) however argues that corporate governance systems also vary across institutional environments. Shleifer and Vishny (1997) identify two key institutional environments. A large shareholder oriented system, commonly used in Continental Europe and a market oriented system mostly used in Anglo-Saxon countries such as the US, the UK and Canada. The large-shareholder or Continental European system is characterized by the

following features (Baums, 1993 and Kester, 1997): (1) concentrated ownership; (2) control is exercised by large shareholders; (3) management consists of internal directors or external directors linked to large shareholders; (4) capital markets are relatively illiquid and have limited control ability; (5) there is close personal trust relationships among managers; (6) there are long-term lender–borrower relationships; (7) there is a less active market for control; (8) using equity stakes banks play a important role in corporate governance. The market orientated or Anglo-Saxon system is however characterized by the following features: (1) ownership is diffuse except for institutional investors; (2) external directors play an important management role; (3) capital markets are liquid and there is a developed market for corporate control; and (4) there is more defense of the ownership rights of shareholders over the rights of debt holders than in the Continental European model, legal protection acts as a substitute for ownership structure (La Porta, Lopez-de-Silanes, Shleifer and Vishny, 1997). These characteristics differentiate the Anglo-Saxon from the Continental European corporate governance system and due to these differences, governance systems used in the US cannot be simply copied to continental Europe. The characteristics of the Continental European governance system contradict with the key assumptions made by DeAngelo and Rice (1983) on which their managerial entrenchment hypothesis relies. As a result, due to the governance system, ATPs does not increase the principal agent conflict in Continental Europe.

As governance mechanisms differ from one country to another, so does the principal agent problem. In Anglo-Saxon countries, the conflicts of interest occur primarily between a powerful management and shareholders. In Continental Europe however, shareholders are large enough to monitor management (Gugler and Yurtoglu, 2003). As a result the manager-shareholder conflict does not occur, but instead a conflict of interest problem arises between majority and minority shareholders. Shleifer and Vishny (1986) describe in their study that as large shareholders gain full control over a firm, they tend to act for their own benefit and provide private benefits to themselves, which may come at the expense of small shareholders. Even though Straska and Waller (2010) find that ATPs are more common in firms with low shareholder concentration, Jarrell and Poulsen (1987) suggest controlling shareholders can use these ATPs to protect their private interests, rather than to serve the interests of shareholders. Instead of a managerial entrenchment, this effect can be best described as an entrenchment effect of large shareholders.

Al-Kuwari (2010) argues that in Continental Europe, where the conflict of interest between owners and managers does not exist, companies may actively adopt defensive measures that protect not only

management, but also large shareholders. As large shareholders have the ability to monitor the behavior of management there is less need to use the market of corporate control as a governance mechanism. Commonly used and criticized ATPs such as: staggered boards, limits to shareholder bylaw amendments, limits to shareholder charter amendments, supermajority requirements for mergers, poison pills, and golden parachutes can in this case actually be in line with the interest of large shareholder.

Stein (1988) describes this effect in his managerial myopia argument where he states that takeover pressure, and the fear of being bought at an undervalued price, leads managers to focus more heavily on short-term profits rather than on long-term objectives. Because of information asymmetries, managers can be unable to accurately communicate the true value of investments with long-term payoffs. For large shareholders managerial myopia can therefore lead to two problems. First, managers choosing short term profits over long term objectives hurt shareholders in the long run. Second, a temporarily depressed stock price might attract a potential bidder who can acquire the stock at a price, including any takeover premium paid, which is below the stock's fair value. Managers, acting in the interest of shareholders, face a dilemma. They can either avoid the risk of a takeover by taking a myopic view and by not investing in long-term, value-enhancing projects that causes a temporary drop in accounting performance or they can choose to prefer short over long term. ATPs can reduce this problem and facilitate more efficient long-term investment which is in line with the interest of large shareholders. Due to the strong monitoring ability of large shareholders in Continental European countries there is no need for the market of corporate control to work as a governance mechanism and ATPs should actually have a positive influence on bidder returns as they protect the interest of shareholders.

In summary, the majority of the studies on the relation between ATPs and shareholder value look at the Anglo-Saxon governance system and suggest that ATPs harm shareholders by offering firms protection from the disciplinary actions of the market of corporate control. Literature however also indicates that corporate governance systems vary across institutional environments. Due to large shareholders Continental Europe there is less need for the market of corporate control as a governance mechanism and ATPs can actually protect the interest of large shareholders. This leads to my hypothesis: *In Continental Europe firms with more ATPs in place are less likely to indulge in value-destroying acquisitions.*

3. Methodology and Data

As stated, the purpose of this paper is to determine the influence of ATPs on bidder returns. Following literature (Masulis, Wang and Xie, 2007 and Humphrey and Powell (2008)), I use different ATP indices to evaluate this relationship and control for the possible endogeneity problem. I estimate a model in which bidder returns are regressed on company-level ATP indices. In particular, I run the following regression (1) using ordinary least squares:

$$CAR_i = \alpha_i + \beta_1 ATP + \beta_2 Deal + \beta_3 Bidder \quad (1)$$

In this model CAR_i represents the acquirer returns, ATP represents different measures of governance indexes and Deal and Bidder represent control variables that may affect acquirer returns. To look at the effect of ATPs in Europe as a whole and to test the differences between Continental Europe and the UK, I run the regressions separate for all three institutional environments.

Sample

I get my sample of acquisitions by European-based firms from the Zephyr database. Zephyr, maintained by the Bureau van Dijk Electronic Publishing, is a relatively new database that includes data on mergers and acquisitions (M&As), initial public offerings, private equity and venture capital deals, and links to detailed financial company. Previous studies, mostly based on Gompers, Ishii, and Metrick (2003), have used the RiskMetrics database (formerly the IRR database) to collect information on ATPs, but this dataset only includes firms from the S&P 500. As there is no dataset available for European firms, I use Thomson One Investment Banking to look up ATPs the European firms in my sample have in place year by year. For the original sample of 1,296 acquisitions which I got for Zephyr, I find information for 517 acquisitions made by 269 firms between 1 January 2007 and 31 December 2011 that meet the following criteria:

1. The acquisition is completed.
2. The acquirer controls less than 50% of the target's shares prior to the announcement and owns 100% of the target's shares after the transaction.
3. The deal value disclosed in Zephyr is more than EUR 1 million.
4. The acquirer has annual financial statement information and stock return data (210 trading days prior to acquisition announcements) available from Reuters DataStream.

5. The acquirer has information available in the Thomson One Investment Banking on anti-takeover provisions.

The average firm in my sample makes two acquisitions in the period of five years, Masilus Wang and Xie (2007), who use a dataset containing 3,333 acquisitions, find an average number of acquisitions of three over a period of 13 years. If for a certain year an ATP is not reported and no other information is available I assume the provision not to be in place.

Table 1 shows the summary statistics of our sample acquisitions by announcement year and country. Beginning in 2007, the number of acquisitions in each year decreases annually until it reaches its lowest level in 2009. From there it marginally increases until 2011 but not yet reaching volumes as in 2007. In line with Doukas, Gonenc and Plantinga (2013) who look at private acquisition gains for firms in Europe, the number of acquisitions by country indicates a concentration of the acquisition market in the United Kingdom, since it harbors approximately 50% of the observations. Table I also reports annual mean and median bidder market value of equity (measured 11 trading days before the announcement), deal value, and relative deal size, defined as the ratio of deal value to bidder market value of equity. Bidder market value of equity appears to dip around the 2008 to 2009, when there is a large decline in the number of acquisitions. The average deal value appears to decline over time whereas the median deal value appears to be more stable. This indicates that during the financial crises, the number of exorbitant deal vales declined.

Variables

In the next three subsections, I discuss the measurement and construction of the three categories of variables: acquirer return as dependent variable, an ATP index as the key explanatory variable and bidder- and deal-specific characteristics as control variables.

Table 1: Sample Distribution by Announcement Year and Country

The sample consists of 517 completed European mergers and acquisitions (listed in Zephyr between 2007 and 2011 made by firms with information on ATPs available in Thomson One Investment Banker. Variable definitions are in the Appendix.

Year	Number of acquisitions	Percentage of sample	Mean acquirer market value of equity (EUR mm) (Median)	Mean deal value (EUR mm) (Median)	Mean relative size (EUR mm) (Median)
2007	148	28.6	3,410 (330)	446 (46)	0.131 (0.138)
2008	112	21.7	1,640 (176)	208 (24)	0.127 (0.137)
2009	69	13.3	2,179 (254)	172 (28)	0.079 (0.110)
2010	91	17.6	3,847 (756)	133 (37)	0.034 (0.050)
2011	97	18.8	3,319 (875)	194 (72)	0.058 (0.082)
Country					
Austria	4	0.8	79 (73)	169 (135)	2.128 (1.859)
Belgium	13	2.5	121 (51)	142 (61)	1.172 (1.197)
Germany	14	2.7	228 (189)	1425 (525)	6.260 (2.772)
Denmark	8	1.5	365 (240)	156 (73)	0.427 (0.306)
Spain	26	5.0	263 (106)	662 (45)	2.520 (0.423)
Finland	10	1.9	30 (25)	302 (64)	10.030 (2.520)
France	55	10.6	934 (66)	687 (217)	0.736 (3.272)
UK	259	50.1	5,335 (1,472)	104 (27)	0.019 (0.018)
Greece	11	2.1	207 (24)	107 (29)	0.515 (1.232)
Hungary	1	0.2	7,080 (7,080)	23 (23)	0.003 (0.003)
Ireland	20	3.9	509 (28)	142 (30)	0.278 (1.071)
Italy	15	2.9	111 (41)	865 (49)	7.796 (1.216)
Luxembourg	1	0.2	103 (103)	362 (362)	3.528 (3.528)
Netherlands	39	7.5	83 (34)	188 (20)	2.273 (0.594)
Portugal	2	0.4	106 (106)	748 (748)	7.067 (7.067)
Sweden	39	7.5	705 (288)	276 (76)	0.391 (0.266)
Total	517	100.0	2,902 (408)	281 (40)	0.097 (0.098)

Acquirer Return

I use a 5-day period around the acquisition date to calculate the announcement returns of the European bidders. The announcement return is the cumulative abnormal return (CAR) of an acquirer from day -2 to day +2, where day 0 is the announcement date. The CAR for each bidder is formed by summing individual excess returns over time as in equation (2) where $CAR_{i,k,l}$ is for the period from $t = k$ days until $t = l$ days.

$$CAR_{i,k,l} = \sum_{t=k}^l AR_{it} \quad (2)$$

Consistent with Masulis, Wang and Xie (2007) I estimate abnormal returns using the market model. As shown equation (3) I take the difference between the acquirer's stock return (R_{it}) and the expected stock return ($\alpha_i + \beta_i R_{im}$), with the acquirer's home country as market index. (R_{im}).

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{im} \quad (3)$$

Table 2 shows the average 5-day CAR for the whole sample, which is 0.793%. For transactions financed exclusively with cash, the mean CAR is about 1.093%. For deals financed with stock, the average CAR is extremely high at 1.968%. This finding contradicts with literature (Moeller, Schlingemann, and Stulz, 2004) but can be caused by the small number of observations ($n=16$). Acquisitions of public targets appear to have higher CARs than private targets. This finding too, contradicts with literature but can also be due to the small number of observations of public targets ($n=34$) or the current economic crises. Firms with block holders also appear to have a higher CAR.

Anti-Takeover Provisions

In this study I use the indices created by Bebchuk, Cohen, and Ferrell (BCF) (2009) and Bebchuk and Cohen (BC) (2005) and test their effects of acquirer returns. The BCF index consists of: *staggered boards*, *limits to shareholder bylaw amendments*, *limits to shareholder charter amendments*, *supermajority requirements for mergers*, *poison pills*, and *golden parachutes*. Since Thomson One Investment Banker, the information source I use to gather information on ATPs defines *limits to shareholder bylaw amendments* and *limits to shareholder charter amendments* as one combined ATP, in this study I use a BCF index consisting of 5 ATPs instead of 6. Although this will decrease the variance in the of the ATP

index in the sample, consistent with Masulis, Wang and Xie (2007) results show that only very few companies are in the highest percentile of ATPs in place at a certain period in time. The effect of the decrease in variance should therefore be limited. The BC index consists of a dummy variable that indicates whether a company uses a staggered board construction. For convenience I refer to the BC staggered board dummy as an index as well.

Following Gompers, Ishii and Metrick (2003) and Masulis, Wang and Xie (2007), I form two portfolios based on the BCF index. Using an index-based classification, I assign bidders with a BCF index below the sample median to a "Democracy" portfolio and bidders with a BCF above the sample median to the "Dictatorship" portfolio. I construct the same portfolios for the BC index where I define democracy as firms without a staggered board and dictatorship as firms with a staggered board. For the BCF index, most firms have either one or two ATPs installed. As a robustness check I therefore also create two more extreme portfolios. I assign firms without ATPs to the "Democracy" portfolio and bidders with three or more ATPs to the "Dictatorship" portfolio.

Part A of Table 2 shows that bidder returns in the UK Europe are significantly higher than in the UK. This result contrasts from Martynova and Renneboog (2011) who look at bidder returns during the fifth takeover wave (1993–2001) and find that for a (-1,+1) and a (-5,+5) announcement window continental European firms have significant higher CARs UK firms, but as this was in a very different period these numbers are difficult to compare. The means of the ATP indices as shown in part B are similar to what BCF, BC and Masulis, Wang and Xie (2007) find even though the BCF index I use combines two of the ATPs into one and therefore uses a scale of 1-5 instead of 1-6. Both indices have a positive correlation with CARs. In the final part of Table 2, I conduct univariate analyses of my hypothesis. For both the BCF as the BC index the difference between the democracy and the dictatorship show opposite results. Where the median differences shows results in line with Masulis, Wang and Xie (2007), indicating a negative relation between ATPs and bidder returns, the mean shows an opposite result. In line with my hypothesis the robustness check with the more extreme portfolios also shows a positive relation for the number of ATPs and CAR. This result is underlined by the positive correlation between both ATP indexes with the CAR. Where for the BCF index the difference in CAR is larger for Continental Europe, the BC index shows a larger difference for the BC index.

Table 2: Announcement Abnormal Returns and Governance Indices

The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. Variable definitions are in the Appendix. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

		Announcement Abnormal Returns											
		Whole Sample	Continental Europe	UK	All Cash	All Stock	Public Target	Private Target	Block holder				
CAR (+2,-2)	Mean	0.793	0.555	1.030	1.093	1.968	1.073	0.773	0.861				
	Median	0.597	0.345	0.739	0.839	0.990	1.539	0.550	0.555				
Number of Obs.		517	258	259	242	16	34	483	455				
		Anti-takeover Provision Indices											
		Whole sample			Continental Europe			UK					
BCF	Mean	1.691			1.578			1.803					
	Median	2			2			2					
	Correlation with CAR	0.068			0.079			0.036					
BC	Mean	0.725			0.562			0.888					
	Median	1			1			1					
	Correlation with CAR	0.073*			0.089			0.010					
		Differences in CARs											
		Whole sample				Continental Europe				UK			
		Democracy	Dictatorship	Difference	t/z statistic	Democracy	Dictatorship	Difference	t/z statistic	Democracy	Dictatorship	Difference	t/z statistic
		(1)	(2)	(1)-(2)		(1)	(2)	(1)-(2)		(1)	(2)	(1)-(2)	
BCF (Democracy: index ≤1; Dictatorship: index ≥2)	Mean	0.567	0.930	-0.362	-0.8147	0.366	0.717	-0.351	-0.541	0.882	1.091	-0.209	-0.333
	Median	0.649	0.553	0.096	0.178	0.419	0.279	0.141	0.023	0.832	0.699	0.133	0.001
Number of Obs.		195	322			119	139			76	183		
BCF (Democracy: index = 0; Dictatorship: index ≥3)	Mean	0.229	1.456	-1.227	1.281	0.030	1.325	-1.295	1.077	1.244	1.633	-0.388	0.213
	Median	0.406	0.885	-0.479	0.517	0.262	0.516	-0.254	0.418	3.000	1.599	1.401	0.403
Number of Obs.		55	80			46	46			9	34		
BC (Democracy: dummy = 0; Dictatorship: dummy = 1)	Mean	0.210	1.014	-0.803*	1.667	0.033	0.962	-0.930	-1.431	0.901	1.046	-0.145	-0.160
	Median	0.603	0.555	0.048	0.691	0.406	0.283	0.123	0.434	1.069	0.695	0.375	0.017
Number of Obs.		142	375			113	145			29	230		

Even though the relation between ATP indices and bidder returns that is shown in Table 2 is somewhat ambiguous, it appears to be consistent with my hypothesis that ATPs increase acquirer returns in Continental Europe. The results also indicate that the positive effect ATPs appear to have on acquirer returns is stronger in Continental Europe than it is in the UK. The results from Table 2 however, do not allow drawing reliable conclusions since neither the simple correlation nor the univariate analysis takes into account the correlations between ATP indices and other determinants of bidder returns. Previous studies (Masulis, Wang and Xie, 2007 and Humphrey and Powell, 2008) argue that the different announcement returns of dictatorship and democracy portfolios are influenced by the two portfolios having different bidder and acquisition characteristics. As shown in part A of Table 2, acquisition characteristics are associated with substantially different announcement effects. Before being able to draw any conclusions for these results I need to control for all important variables shown in prior research to affect acquirer announcement returns.

Bidder- and deal-specific characteristics:

Consistent Masulis, Wang and Xie (2007) and Humphrey and Powell (2008), I look at two factors relating to acquirer returns: bidder characteristics and deal characteristics.

Bidder characteristics

The bidder characteristics that I control for are: firm size, Tobin's q, leverage, free cash flow (FCF) block holders, all measured at the year-end prior to the acquisition announcement, and pre-announcement stock price run-up, which is measured over the same 200-day window (-210,-11) as the market model used for the CARs.

Moeller, Schlingemann, and Stulz (2004) show that bidder size is negatively correlated with the acquirer return. They find that on average larger acquirers pay higher premiums and make acquisitions that generate negative synergies and just as Roll (1986) they interpret the size effect as evidence supporting the managerial hubris hypothesis. In the econometric model I define firm size as the natural logarithm of the acquirer's total assets which are obtained from Reuters DataStream.

The effect that Tobin's q has on CAR has been debated in literature. Lang, Stulz, and Walking (1991) and Servaes (1991) document a positive relation for acquisitions and argue that bidder returns are larger if the bidder is performing well and has a higher q ratio. Moeller, Schlingemann, and Stulz (2004) however, document a negative relation and argue the opposite. In my regression I use Tobin's q as a measure of firm performance and define it as a company's market value of assets divided by its book value of assets.

Leverage is often seen as an important governance mechanism. A higher debt to equity ratio reduces future FCFs due to interest obligations and it limits managerial discretion. Secondly, leverage increases the risk of bankruptcy and provides management with an incentive to improve company performance and together with debt covenants managers risk losing control to creditors and might lose their jobs when the firms fall into default. Garvey and Hanka (1999) even argue that leverage is related to a firm's takeover protection making it even more relevant as a control variable. Leverage is defined as total debt divided by a firm's market value of total assets.

Jensen's (1986) free cash flow hypothesis argues that FCFs have a negative effect on bidder returns. As managers have more resources available it becomes easier to engage in empire building. It can however also be argued that higher FCFs are an indication of better firm performance. The performances could be correlated with higher quality managers and they tend to make better acquisition decisions. FCF is defined as operating income before depreciation and amortization (EBITDA) minus interest expense minus income taxes minus capital expenditures and I scale it by book value of total assets.

I also control for bidder's stock price run-up before the acquisition announcement in order to isolate the effect of ATPs from that of prior stock performance. Gompers, Ishii and Metrick (2003) show that firms with more ATPs realize worse stock return performance and argue that stock price run-up has a negative influence on bidder returns. I measure the bidder's pre-announcement stock price run-up by the bidder's buy-and-hold abnormal return over the 200-day window (-210,-11) with using the country index the company trades on as the benchmark.

Even though Edmans (2009) argues that block holders in the U.S. rarely intervene because they are typically small and face significant legal and institutional barriers, Chang (1998) investigates a sample of 281 US acquisitions during the period 1981–1992 and documents that block holders explain positive announcement returns, since they can facilitate the increased monitoring of managerial activity and thus reduce agency costs. As European companies (with the exception of UK firms) have even stronger owners than US based firms (La Porta, Lopez-de-Silanes and Shleifer, 1998), the last variable I control for is the effect of block owners. I get information on historical block holders from Capital IQ and create a dummy variable for companies which, during the year of the acquisitions, have a beneficial owner. In line with Becht and Röell (1999) I define a beneficial owner as a single shareholder who owns 5 percent or greater of the common shares outstanding.

Deal characteristics:

The deal characteristics that I control for are: target ownership status, method of payment, relative deal size, cross border effects, industry relatedness of the acquisition, and whether the bidder and the target are both from high tech industries.

Looking at US based companies that make multiple acquisitions, Fuller, Netter, and Stegemoller (2002) and Moeller, Schlingemann, and Stulz (2004) both find that acquirers experience significantly positive abnormal returns when targets are private. They argue that bidders in the relatively illiquid market for private firms do not pay as high a price for a firm as a public target firms and that positive announcement returns are associated with information asymmetry and are larger for difficult to value targets paid with stock. Doukas, Gonenc and Plantinga (2013) who look at Western European bidders, find similar results. To control for public and private targets I create two dummy variables, indicating public and private companies.

The method of payment is also related to the market's response to acquisition announcements. Travalos (1987) argues that bidding firms suffer significant losses in pure stock exchange acquisitions. Amihud, Lev, and Travlos (1990), Servaes (1991), and Brown and Ryngaert (1991) find similar results and associate these findings with the adverse selection problem in equity issuance as discussed by Myers and Majluf (1984). To control for the effect of all-cash and all-stock deals on CARs I create two indicator variables, namely all stock-deal and all-cash deal. All-stock deal equals one for acquisitions financed fully with stock and zero otherwise, the opposite is true for the all-cash deal indicator.

In line with Fuller, Netter, and Stegemoller (2002), I interact the two target status indicators with the two method-of-payment indicators to fully capture the effects of target ownership and deal payment method. I create four deals categories: public all-cash deal, public all-stock deal, private all-cash deal and private all-stock deal. In order to avoid perfect multicollinearity I only include private all-cash and private all-stock as controlling variables.

Asquith, Bruner, and Mullins (1983) and Moeller, Schlingemann, and Stulz (2004) find that bidder announcement returns increase in relative deal size, but the reverse is true for a subsample of large bidders in Moeller, Schlingemann, and Stulz (2004). I define relative deal size as the transaction value divided by market value of equity.

According to the internationalization theory (Baldwin and Caves, 1991 and Morck and Yeung, 1991) cross-border acquisitions have positive returns which are associated with gains from geographic diversification when firms seek synergies from their intangible assets. Feito-Ruiz and Menéndez-Requejo (2011) underline these findings and show that shareholders of bidder firms place greater value on cross-

border M&A announcements than on domestic ones. Denis, Denis and Yost (2002) and Moeller and Schlingemann, (2005) however argue that due to more asymmetric information problems valuing foreign target cross-border acquisitions have a negative effect on announcement returns. To control for this effect I create a dummy variable that equals one for bidder that make an acquisition outside their home country.

Acquirers in high tech transactions are more likely to underestimate the costs and overestimate the synergies generated by the combination (Meier, Saulquin and Schier, 2012). Tech companies are difficult to value and due to the importance of human capital and intellectual property they are hard to integrate smoothly. Kohers and Hohers (2000) however show in their study that acquirers of high-tech targets experience significant positive returns. They also show that these results are significant regardless of whether the merger is financed with cash or stock. I therefore also create a dummy variable denoted by high tech that equals one if a deal is between two companies in high tech industries defined by Loughran and Ritter (2004) and zero otherwise which I interact with ownership status I let it interact it with relative deal size.

Morck, Shleifer, and Vishny (1990) find that diversifying acquisitions on average destroy shareholder value, but benefit self-interested managers as diversification can increase the expected utility of poorly diversified risk-averse managers by reducing firm risk (Amihud and Lev, 1981). Managers can also acquire unrelated assets that fit their own strengths so that it is more costly for shareholders to replace them (Morck, Shleifer and Vishny, 1989). Campa and Kedia (2002) however show that diversification does not necessarily lead to lower firm value and sometimes is associated with higher firm value. The effect of diversifying acquisitions on bidder returns is therefore ambiguous. I classify an acquisition as diversifying if the target and the bidder do not share a Fama-French industry, and create a dummy variable that is equal to one for diversifying acquisitions and zero otherwise.

Malatesta and Thompson (1985) test a model of stock price reaction to partially anticipated events. They find significant bidder returns at the acquisition announcement even by firms that had previously announced an acquisition program. Fuller, Netter, and Stegemoller (2002) however, argue that a firm making multiple acquisitions, can suffer from over-confidence. By paying higher premiums they reduce shareholder value. To control for these effects I create a dummy variable for firms in the sample that have made five or more acquisitions.

Table 3: Summary Statistics

The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. Variable definitions are in the Appendix. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

CAR and Anti-takeover Provision Indices					
	Mean	Median	Max	Min	Jarque Bera
CAR (+2,-2)	0.794	0.597	30.221	-20.783	613.923
BCF Index	1.687	2.000	5.000	0.000	5.848*
BC Index	0.726	1.000	1.000	0.000	108.576
Bidder Characteristics					
	Mean	Median	Max	Min	Jarque Bera
Firm size	15.346	14.876	22.361	10.235	41.376
Market value of equity	2,909.296	403.634	105,475.000	0.434	56,728.410
Tobin's <i>q</i>	3.000	2.415	59.717	-32.543	55,313.760
Leverage	0.798	0.282	18.625	0.000	20,145.080
Free cash flow	0.085	0.092	2.214	-7.083	588,274.000
Stock price run-up	0.081	0.075	1.289	-0.905	151.206
Blockholder	0.880	1.000	1.000	0.000	721.637
Deal Characteristics					
	Mean	Median	Max	Min	Jarque Bera
Public target Dummy variable	0.066	0.000	1.000	0.000	3,288.989
Private target Dummy variable	0.934	1.000	1.000	0.000	3,288.989
All-cash deal Dummy variable	0.468	0.000	1.000	0.000	85.839
Stock deal Dummy variable	0.031	0.000	1.000	0.000	18,406.590
Diversifying acquisition Dummy variable	0.581	1.000	1.000	0.000	86.077
Relative deal size	0.026	0.001	1.364	0.000	164,383.500
High tech Dummy variable	0.068	0.000	1.000	0.000	3,067.214
Cross border Dummy	0.617	1.000	1.000	0.000	87.005
Serial Dummy	0.202	0.000	1.000	0.000	190.161

Table 3 shows the summary statistics for the depended and independent variables as well as for the control variables. As the Jarque Bera statistics show most of the variables are not normally distributed. The largest outliers can be found in Tobin's *q*, leverage and free cash flow. I winsorize these variables at 5%, this leads to Jarque Bera values of respectively 152.789, 139.652 and 248.635.

Table 4 shows the correlation matrix. Overall, the correlation between the variables seems low. The BCF and the BC index however, have a correlation of 0.598 and I consider them to be to correlated to be put in to one regression. I will therefore estimate two separate regressions to look at the influence of both indices on CARs.

Table 4: Correlation matrix

The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. Variable definitions are in the Appendix. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

	CAR	BCF	BC	Firm size	Tobin's q	Leverage	FCF	S P run-up	B holder	Trans. value	Public target	Private target	cash deal	Stock deal	Div acq	R D size	H tech	Cross b	Serial	
CAR	1.000																			
BCF	0.067	1.000																		
BC	0.070	0.598	1.000																	
Firm size	-0.078	0.037	-0.218	1.000																
Tobin's q	-0.004	-0.016	0.037	-0.121	1.000															
Leverage	-0.024	0.029	-0.022	0.520	-0.120	1.000														
FCF	0.040	-0.033	0.020	-0.121	-0.014	-0.215	1.000													
S P run-up	-0.076	0.070	0.079	-0.136	0.025	-0.062	-0.128	1.000												
B holder	0.038	-0.068	-0.040	-0.158	0.023	-0.161	0.147	0.060	1.000											
Trans. value	0.042	0.032	0.002	0.219	-0.037	0.092	-0.024	-0.033	0.030	1.000										
Public target	0.015	-0.020	-0.030	0.128	-0.034	0.129	-0.004	-0.035	-0.046	0.192	1.000									
Private target	-0.015	0.020	0.030	-0.128	0.034	-0.129	0.004	0.035	0.046	-0.192	-1.000	1.000								
cash deal	0.063	0.143	0.148	-0.218	-0.036	-0.111	0.040	0.049	-0.024	-0.059	0.127	-0.127	1.000							
Stock deal	0.043	0.025	-0.016	0.000	-0.040	0.024	-0.164	0.005	-0.003	0.006	0.088	-0.088	-0.168	1.000						
Div acq	0.027	0.063	0.052	0.041	0.044	0.040	-0.061	0.019	-0.097	-0.078	-0.091	0.091	0.024	-0.007	1.000					
R D size	-0.030	-0.014	-0.019	0.121	-0.041	0.109	0.008	0.008	0.033	0.804	0.211	-0.211	-0.100	-0.012	-0.082	1.000				
H tech	-0.040	-0.119	-0.128	-0.099	-0.003	-0.086	0.009	0.021	0.052	0.013	0.021	-0.021	0.087	0.041	-0.318	-0.036	1.000			
Cross b	0.088	0.085	-0.044	0.149	0.011	-0.018	-0.040	0.113	0.126	0.031	-0.032	0.032	0.018	-0.089	-0.086	-0.002	0.022	1.000		
Serial	-0.039	0.024	0.103	-0.212	0.090	-0.157	0.007	0.070	0.037	-0.122	-0.095	0.095	0.178	-0.062	-0.014	-0.123	0.037	0.048	1.000	

FCF: Free Cash Flow, S P run-up: StockPrice run-up, B holder: Block holder, Trans. Value: transaction value, Div acq : diversifing acquisition, R D size: relative deal size, H tech: High tech acquisition, Cross b: Cross border acquisition, Serial: Serial acquisition.

4. Results

Firm level regression

Table 5 shows the results from the regression which includes all the controlling variables. The results show a positive influence of both indices on 5 day-bidder announcement returns, which is in line with my findings from the univariate analyses and my hypothesis. The results indicate that European companies with more ATPs are less likely to indulge in value destroying acquisitions and earn higher announcement returns. Although the findings are not significant, both the BCF as the BC index come close with a statistical significance of 12%. The influence of both indices on acquirer returns is approximately the same for UK as European firms which indicates that the difference in corporate governance systems might not make a large difference.

Table 5 shows that most of the control variables are in line with results from previous literature. Except for the block holder dummy variable all bidder characteristics that are controlled for have a negative influence on bidder returns. For the deal characteristics deal size and serial acquisitions have a significant negative influence on bidder returns and cross border acquisitions a positive significant positive relation with CAR.

Industry level regression

As the results from Table 5 can be subjected to the endogeneity issue, an issue particularly troublesome for corporate governance studies (Larcker and Rusticus, 2005), and as they are not conclusive enough to draw any conclusions I run a regression where I try to eliminate the influence of endogenous determined variables. In my initial regression I control for all known determinants of bidder returns but some these bidder and deal characteristics could be endogenously determined. I therefore also run a regression where I try to exclude all possibly endogenously determined variables by replacing them for industry averages.

Smith and Watts (1992) show that, at industry level, a company's investment opportunity set is related to cross-sectional variation in corporate financing, compensation, and dividend policies. They argue that their findings indicate that different aspects of governance and the market for corporate control appear to be influenced by industry considerations. Bizjak, Lemmon, and Naveen (2008) look at these industry considerations and report that when firms change their corporate governance mechanisms, they move toward the industry average.

Table 5: Initial Regression of Bidder Returns

The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. The dependent variable is the bidder's 5-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

	Whole Sample		Continental Europe		UK	
	(1)	(2)	(1)	(2)	(1)	(2)
<i>Anti-takeover Provisions:</i>						
BCF Index	0.003 (1.428)		0.004 (1.300)		0.004 (0.795)	
BC Index		0.008 1.530		0.009 1.338		0.007 0.771
<i>Bidder Characteristics:</i>						
Firm size	-0.002 (-1.719)	-0.002 (-1.292)	-0.005** (-2.063)	-0.004 (-1.781)	-0.003 (-1.540)	-0.003 (-1.396)
Tobin's q	-0.002 (-1.355)	-0.002 (-1.363)	-0.006*** (-2.615)	-0.006 (-2.589)	0.000 (-0.087)	0.000 (-0.046)
Leverage	-0.003 (-1.077)	-0.003 (-1.240)	-0.002 (-0.530)	-0.002 (-0.698)	-0.002 (-0.256)	-0.002 (-0.298)
Free cash flow	-0.019 (-0.505)	-0.018 (-0.491)	-0.033 (-0.708)	-0.037 (-0.788)	-0.003 (-0.049)	0.004 (0.059)
Stock price run-up	-0.023 (-2.542)	-0.023** (-2.536)	-0.022 (-1.615)	-0.021 (-1.609)	-0.024 (-1.860)	-0.024 (-1.856)
Blockholder Dummy	0.003 (0.495)	0.003 (0.491)	0.009 (0.813)	0.008 (0.786)	-0.003 (-0.266)	-0.002 (-0.261)
<i>Deal Characteristics:</i>						
Relative deal size	-0.007 (-0.289)	-0.007 (-0.315)	-0.020 (-0.815)	-0.022 (-0.884)	-0.337 (-0.778)	-0.362 (-0.836)
Diversifying acquisition	0.003 (0.769)	0.003 (0.771)	-0.008 (-1.156)	-0.008 (-1.160)	0.014** (2.235)	0.014** (2.230)
Cross border acquisition	0.011** (2.290)	0.011** (2.404)	0.012 (1.527)	0.012 (1.465)	0.010 (1.607)	0.011* (1.742)
Serial	-0.008 (-1.381)	-0.008 (-1.450)	-0.025** (-2.237)	-0.025 (-2.193)	-0.008 (-1.174)	-0.008 (-1.244)
High tech * Relative deal size	-0.152 (-0.557)	-0.130 (-0.477)	-0.327 (-1.104)	-0.307 (-1.034)	7.507 (1.292)	7.688 (1.315)
Public target* All-cash deal	0.004 (0.812)	0.004 (0.870)	0.014 (1.708)	0.014 (1.746)	-0.002 (-0.292)	-0.001 (-0.178)
Private target* All-stock deal	0.011 (0.772)	0.012 (0.869)	0.005 (0.256)	0.007 (0.365)	0.020 (1.037)	0.021 (1.070)
Intercept	0.036 (1.607)	0.028 (1.194)	0.085** (2.200)	0.078 (1.988)	0.045 (1.375)	0.039 (1.139)
Number of obs	517	517	259	259	258	258
R ²	4.651%	4.708%	8.146%	8.184%	6.702%	6.687%

While these results suggest that industry may play an important role in the choices firms make regarding their governance structures, there is no direct evidence of the extent to which a firm's industry drives a company's use of ATPs. Running the regression at industry level gives two advantages. First, as there are well-known endogeneity issues prevalent in firm-level analyses, the industry approach mitigates these problems to some degree (Coles, Lemmon, and Meschke, 2012). In order to obtain consistent estimates,

the explanatory variables need to be exogenous or at least pre-determined with respect to the dependent variable. Industry-level characteristics are more likely to meet this requirement than firm-level characteristics, which are often determined jointly with governance. Second, by pooling the data I eliminate firm idiosyncrasies and outliers that could influence the results.

The most likely endogenous variables in my initial regression are: Tobin's q, free cash flow, and pre-announcement stock price run-up, which all can be seen as an indication for firm performance; leverage, which can limit management investment decisions; and finally the method of payment, which Faccio and Masulis (2005) find is related to bidder financial condition and ownership structure. To run my regression at industry level I first divide the sample in the 12 Fama and French industries. I then calculate the median using the un-winsorized data for Tobin's q, leverage, and free cash flow following Gillan, Hartzell and Starks (2003), and substitute the firm level values of these variables with the industry medians. As there are no industry averages for pre-announcement stock price-run up and the M&A currency-related variables I follow the approach of Masilus, Wang and Xie (2007) and remove them from the regression. The results of this of the industry level regression are shown in Table 6.

Table 6 shows the results of the regression at an industry level. I find similar results as in the firm level regression for the whole sample, they are however more significant. In Europe both the BCF as the BC index show a positive relation of 0.004 and 0.009 with CAR at a 10% significance level. In Continental Europe the results, significant at 5%, show a similar relation as in Europe only of 0.006 and 0.016. For the UK I also find positive coefficients both of 0.004 but they are not significant. The results, even though small, are in line with my hypothesis that Continental European firms with more ATPs are less likely to indulge in value destroying acquisitions. The BC index, or the staggered dummy, appears to have more influence on bidder returns than the BCF index.

Comparing Continental Europe to the UK I find that even though both show positive results the impact of the respectively the BCF and BC index is 0.002 and 0.012 larger in Continental Europe which indicates that the influence of ATPs on acquirer returns is indeed larger for Continental Europe. Even though the results for the UK are not significant they might indicate that the UK is not as different from Continental Europe as one would have thought. Similar to the firm level regression most of the control variable seems to be in line with literature but insignificant. Remarkable is that just as in the firm level regression, the diversifying acquisition dummy variable is positive for the UK but negative for Continental Europe. In both cases the result is significant. Although there is not a general consensus in

literature, a possible explanation might be that in the current economic crises, UK shareholders value the re-focusing of companies (Campa and Kedia, 2002) whereas European shareholders do not share this view.

Table 6: Regression of Bidder Returns with industry averages

The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. The dependent variable is the bidder's 5-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

	Whole Sample		Continental Europe		UK	
	(1)	(2)	(1)	(2)	(1)	(2)
<i>Anti-takeover Provisions:</i>						
BCF Index	0.004*		0.006**		0.004	
	(1.816)		(1.968)		(0.957)	
BC Index		0.009*		0.016**		0.004
		(1.668)		(2.326)		(0.375)
<i>Bidder & Industry Characteristics:</i>						
Firm size	-0.001	-0.001	-0.001	0.000	-0.003	-0.003
	(-1.297)	(-0.788)	(-0.564)	(-0.216)	(-1.493)	(-1.315)
Industry Tobin's q	0.012	0.013	0.010	0.010	0.006	0.005
	(1.456)	(1.462)	(0.749)	(0.790)	(0.495)	(0.432)
Industry Leverage	-0.015	-0.013	-0.012	-0.009	-0.005	-0.004
	(-0.383)	(-0.337)	(-0.216)	(-0.156)	(-0.092)	(-0.075)
Industry Free cash flow	-0.096	-0.130	-0.591	-0.674**	0.093	0.072
	(-0.603)	(-0.808)	(-1.932)	(-2.175)	(0.511)	(0.397)
<i>Deal Characteristics:</i>						
Private target	-0.006	-0.006	0.004	0.004	-0.020	-0.020
	(-0.724)	(-0.685)	(0.339)	(0.318)	(-1.606)	(-1.612)
Diversifying acquisition	0.001	0.001	-0.015	-0.016**	0.016**	0.015**
	(0.230)	(0.206)	(-2.140)	(-2.238)	(2.443)	(2.387)
Relative deal size	-0.010	-0.011	-0.009	-0.014	-0.329	-0.360
	(-0.426)	(-0.465)	(-0.370)	(-0.535)	(-0.768)	(-0.841)
High tech	-0.007	-0.007	-0.036	-0.036**	0.001	0.000
	(-0.686)	(-0.711)	(-2.054)	(-2.087)	(0.085)	(-0.002)
High-tech x Relative deal size	0.022	0.044	0.208	0.232	7.302	7.260
	(0.072)	(0.148)	(0.593)	(0.663)	(1.055)	(1.044)
Intercept	0.010	0.006	0.052	0.049	0.032	0.035
	(0.260)	(0.140)	(0.780)	(0.738)	(0.579)	(0.622)
Number of obs.	517	517	258	258	259	259
R ²	2.430%	2.331%	7.625%	7.625%	4.525%	4.227%

Sensitivity Tests

Dummy variable approach

So far I have treated the BCF index as a continuous variable. As a first robustness check, I take an alternative approach and classify bidders as dictatorship versus democracy firms based BCF index. Similar to my univariate analysis, I define the dummy variable Dictatorship-BCF to be equal to one for bidders with an above-median BCF index and zero otherwise. I re-estimate the industry level regressions in Table 6 after replacing the BCF index with a dummy variable. The results of this regression are shown in Table 7.

Table 7: BCF dummy variable approach			
The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. The dependent variable is the bidder's 5-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.			
	Whole Sample	Continental Europe	UK
<i>Anti-takeover Provisions:</i>			
Dictator BCF	0.004 (0.972)	0.010 (1.539)	0.003 (0.400)
<i>Bidder & Industry Characteristics:</i>			
Firm size	-0.001 -1.280 (0.011)	-0.001 -0.539 (0.009)	-0.003 -1.389 (0.005)
Industry Tobin's q	1.308 (-0.014)	0.655 (-0.014)	0.398 (-0.004)
Industry Leverage	-0.368 (-0.099)	-0.247 (-0.603)	-0.069 (0.080)
Industry Free cash flow	-0.621	-1.949	0.438
<i>Deal Characteristics:</i>			
Private target	-0.006 (-0.622)	0.007 (0.547)	-0.020 (-1.605)
Diversifying acquisition	0.001 (0.237)	-0.015** (-2.113)	0.015** (2.383)
Relative deal size	-0.010 -0.425	-0.008 -0.316	-0.344 -0.801
High tech	-0.009 (-0.828)	-0.038 (-2.187)	0.000 (-0.011)
High-tech x Relative deal size	0.027 (0.089)	0.227 (0.645)	7.028 (1.015)
Intercept	0.017 (0.438)	0.058 (0.858)	0.038 (0.710)
Number of obs.	517	259	258
R ²	1.976%	6.494%	4.234%

The results from Table 7 show that the dummy variable has a positive coefficient, suggesting that bidders in the dictatorship portfolio based on the BCF index experience higher abnormal returns upon

acquisition announcements. Although overall these results are not significant the coefficient for continental Europe comes close with significance at 12%. The results therefore further support the hypothesis and earlier evidence obtained when the index is treated as continuous variable.

Multiple acquisitions

Malatesta and Thomson (1985) argue that firms that have previously announced an acquisition program have significant higher announcement returns.

Table 8: Regression of Bidder Returns with industry averages

The sample consists of 269 completed European mergers and acquisitions between 2007 and 2011, excluding additional acquisitions made by firms in the same time period. The dependent variable is the bidder's 5-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.

	Whole Sample		Continental Europe		UK	
	(1)	(2)	(1)	(2)	(1)	(2)
<i>Anti-takeover Provisions:</i>						
BCF Index	0.010*** (2.930)		0.010** (2.291)		0.011 (1.568)	
BC Index		0.016** (2.151)		0.016* (1.646)		0.017 (1.131)
<i>Bidder & Industry Characteristics:</i>						
Firm size	-0.002 (-0.998)	-0.001 (-0.449)	0.001 (0.412)	0.002 (0.631)	-0.004 (-1.430)	-0.004 (-1.188)
Industry Tobin's q	0.015 (1.279)	0.016 (1.293)	0.016 (0.876)	0.016 (0.836)	0.000 (-0.029)	0.001 (0.049)
Industry Leverage	-0.074 (-1.258)	-0.071 (-1.200)	-0.034 (-0.466)	-0.027 (-0.373)	-0.063 (-0.615)	-0.073 (-0.710)
Industry Free cash flow	-0.027 (-0.128)	-0.073 (-0.343)	-0.653 (-1.521)	-0.713 (-1.630)	0.085 (0.339)	0.062 (0.247)
<i>Deal Characteristics:</i>						
Private target	-0.003 (-0.301)	-0.004 (-0.317)	0.008 (0.560)	0.008 (0.571)	-0.022 (-1.210)	-0.023 (-1.306)
Diversifying acquisition	-0.005 (-0.718)	-0.004 (-0.578)	-0.027 (-2.772)	-0.027 (-2.723)	0.024** (2.133)	0.026** (2.286)
Relative deal size	-0.021 (-0.795)	-0.022 (-0.838)	-0.011 (-0.374)	-0.013 (-0.455)	-0.359 (-0.599)	-0.485 (-0.808)
High tech	-0.008 (-0.513)	-0.008 (-0.468)	-0.039 (-1.610)	-0.040 (-1.651)	-0.007 (-0.253)	-0.003 (-0.104)
High-tech x Relative deal size	-0.021 (-0.061)	0.015 (0.041)	0.186 (0.463)	0.222 (0.551)	10.647 (1.143)	10.091 (1.078)
Intercept	0.012 (0.209)	0.006 (0.106)	0.013 (0.134)	0.015 (0.156)	0.079 (0.988)	0.074 (0.910)
Number of obs.	269	269	154	154	115	115
R ²	6.374%	4.959%	12.402%	10.866%	9.811%	8.801%

Even though I control for this effect in my previous regressions, I reduce my sample by removing additional acquisitions made by firms in the 5 year period as a robustness check and re-estimate the industry level regressions in Table 6. The results are shown in Table 8.

Table 8 shows a significant positive relation for both indices in Europe as well as in Continental Europe. The results strongly support earlier findings indicating that bidders with more ATPs experience significantly higher announcement returns in their acquisitions. The BCF index is significant at 1% for Europe and 5% for Continental Europe, the BC at respectively 5% and 10%. For the UK the positive coefficient also indicates a positive relation to CAR but the result is still not significant.

Table 9: 3-day CAR regression of bidder returns with industry averages						
The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. The dependent variable is the bidder's 3-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.						
	Whole Sample		Continental Europe		UK	
	(1)	(2)	(1)	(2)	(1)	(2)
<i>Anti-takeover Provisions:</i>						
BCF Index	0.004 (1.583)		0.004 (1.330)		0.007* (1.664)	
BC Index		0.008* (1.720)		0.014* (2.182)		0.008 (0.883)
<i>Bidder & Industry Characteristics:</i>						
Firm size	-0.001 (-1.254)	-0.001 (-0.730)	-0.001 (-0.551)	0.000 (-0.231)	-0.004 (-1.946)	-0.003 (-1.608)
Industry Tobin's q	0.014* (1.766)	0.014 (1.806)	0.012 (1.024)	0.013 (1.097)	0.011 (0.972)	0.010 (0.887)
Industry Leverage	-0.005 (-0.146)	-0.004 (-0.108)	0.007 (0.141)	0.009 (0.183)	-0.012 (-0.233)	-0.011 (-0.213)
Industry Free cash flow	-0.072 (-0.492)	-0.105 (-0.711)	-0.393 (-1.403)	-0.480 (-1.696)	0.080 (0.469)	0.043 (0.253)
<i>Deal Characteristics:</i>						
Private target	-0.007 (-0.786)	-0.006 (-0.751)	0.003 (0.268)	0.003 (0.214)	-0.020* (-1.733)	-0.021 (-1.727)
Diversifying acquisition	0.000 (0.016)	0.000 (-0.014)	-0.014** (-2.131)	-0.015** (-2.275)	0.015** (2.431)	0.014** (2.347)
Relative deal size	0.000 (0.020)	0.000 (-0.012)	-0.002 (-0.105)	-0.006 (-0.275)	-0.038 (-0.094)	-0.090 (-0.223)
High tech	-0.003 (-0.287)	-0.003 (-0.283)	-0.026 (-1.616)	-0.026 (-1.634)	0.011 (0.758)	0.009 (0.637)
High-tech x Relative deal size	-0.130 (-0.473)	-0.110 (-0.398)	0.004 (0.013)	0.022 (0.069)	2.190 (0.337)	2.256 (0.345)
Intercept	0.000 (-0.004)	-0.006 (-0.166)	0.025 (0.399)	0.021 (0.346)	0.024 (0.474)	0.026 (0.500)
Number of obs.	517	517	258	258	259	259
R ²	2.273%	2.360%	5.249%	6.380%	5.149%	4.391%

Different announcement windows

So far I have tested all relations using a 5-day period around the acquisition date (+2,-2) to calculate the announcement returns of the bidders. As a robustness check I also measure the bidder's cumulative abnormal return for a 3-day period (+2,-1) and a 7-day period (3,+3). I re-estimate the industry level regressions in Table 6 using the different dependent variables. The results are shown in tables 9 and 10.

Table 10: 7-day CAR regression of bidder returns with industry averages						
The sample consists of 517 completed European mergers and acquisitions between 2007 and 2011. The dependent variable is the bidder's 7-day cumulative abnormal return in percentage points. Variable definitions are in the Appendix. T-statistics are shown in parentheses. ***, **, and * stand for statistical significance at a 1%, 5%, and 10% level, respectively.						
	Whole Sample		Continental Europe		UK	
	(1)	(2)	(1)	(2)	(1)	(2)
<i>Anti-takeover Provisions:</i>						
BCF Index	0.004*		0.006*		0.003	
	(1.667)		(1.892)		(0.579)	
BC Index		0.007		0.014**		-0.002
		(1.274)		(1.996)		(-0.179)
<i>Bidder & Industry Characteristics:</i>						
Firm size	-0.001	-0.001	0.000	0.000	-0.003	-0.002
	(-0.976)	(-0.592)	(-0.189)	(0.110)	(-1.266)	(-1.197)
Industry Tobin's q	0.007	0.007	0.000	0.001	0.011	0.010
	(0.746)	(0.719)	(0.032)	(0.055)	(0.845)	(0.757)
Industry Leverage	-0.006	-0.004	-0.020	-0.017	0.039	0.041
	(-0.141)	(-0.097)	(-0.357)	(-0.299)	(0.648)	(0.679)
Industry Free cash flow	-0.207	-0.233	-0.543	-0.610*	-0.134	-0.142
	(-1.233)	(-1.375)	(-1.712)	(-1.895)	(-0.679)	(-0.722)
<i>Deal Characteristics:</i>						
Private target	-0.012	-0.012	0.002	0.002	-0.026*	-0.027
	(-1.247)	(-1.213)	(0.130)	(0.125)	(-1.932)	(-1.960)
Diversifying acquisition	0.000	0.000	-0.014**	-0.015**	0.013	0.013
	(-0.082)	(-0.094)	(-1.974)	(-2.036)	(1.916)	(1.852)
Relative deal size	-0.017	-0.018	-0.017	-0.021	-0.264	-0.282
	(-0.696)	(-0.733)	(-0.655)	(-0.789)	(-0.568)	(-0.609)
High tech	-0.005	-0.006	-0.040**	-0.041**	0.005	0.003
	(-0.483)	(-0.531)	(-2.225)	(-2.257)	(0.283)	(0.174)
High-tech x Relative deal size	0.079	0.099	0.397	0.419	9.980	9.680
	(0.252)	(0.312)	(1.089)	(1.152)	(1.330)	(1.285)
Intercept	0.035	0.033	0.066	0.064	0.034	0.042
	(0.818)	(0.757)	(0.955)	(0.922)	(0.577)	(0.698)
Number of obs.	517	517	258	258	259	259
R ²	1.944%	1.720%	5.300%	5.453%	5.277%	5.161%

Table 9 shows the industry level regression with a 3-day abnormal return period as dependent variable. The positive coefficients are in line with previous findings. For Europe and Continental Europe not all results are significant. The stronger and significant relation of 0.007 of the BCF index in the UK

somewhat contradicts previous findings where the coefficients of the ATP indices for the UK were lower and not significant.

Table 10 shows the results for the industry level regression with a 7-day abnormal return period as dependent variable. The results for the extended announcement window are very similar to the results from the (-2,+2) window. The coefficients for both indices are nearly equal. The main difference is that, in line with literature, the BC index for the UK now shows a small, insignificant, negative relation of -0.002 with the CAR. Overall these results support my initial findings.

5. Conclusion

Even though the general consensus in literature is that ATPs, as they limit the effect of the market of corporate control as a governance mechanism, have a negative influence on shareholder value and firm performance, this paper shows that the influence of ATPs on shareholder value is different for European firms.

Using a new hand collected European data set I look at the influence of ATPs on bidder returns. I find that in Europe, and especially Continental Europe, firms with more ATPs in place are less likely to indulge in value-destroying acquisitions. This result indicates that in Europe ATPs have a positive influence on shareholder value. The results hold for several robustness checks. A possible explanation for this newly found effect is that due to the monitoring abilities of large shareholders in Europe, the market for corporate control is not an important governance mechanism and ATPs therefore do not reduce the efficiency of governance. When ATPs do not increase the principal agent conflict, as assumed by DeAngelo and Rice (1983), they can actually be in line with the interest of large shareholders. The reduction of a takeover threat can in this case protect large shareholder from managers with a myopic view who choose short term profits over long term objectives. The reduced takeover threat also protects shareholders from potential bidders who, attracted by a low share price due to a long term investment, want to acquire the company including any takeover premium paid far below its true value.

Comparing Continental Europe with the UK, an Anglo-Saxon governance system, I find that overall the relation between ATPs and bidder returns is similar, but not significant. The influence of ATPs on CARs appears to be smaller than in the UK than in Continental Europe but comparing it with Europe as a whole, results are quite equal. A possible explanation could be that looking at the sample of UK firms it shows that, even though literature describes differently, the number of large shareholders in UK Firms is

not much different compared to firms in Continental Europe. In this paper I see large shareholders as one of the main differences between European and the US governance systems and the UK therefore might not be as different from Continental Europe as people might have thought.

This paper knows some limitations. The first, endogeneity, is a well know issue in corporate governance studies. I try to control for this in my study as much as possible by looking at industry instead of firm level characteristics. It is however difficult to say that the regressions are free of endogeneity. With 517 acquisitions over a 5 year time period this study also uses a relatively small database compared to previous studies. A follow up study could therefore try to collect more data and look at a period different than the current economic crises we are in today. The economic situation has strongly reduced confidence in the market and can therefore have influenced the results. As this paper shows that the influence of ATPs on acquirer returns differentiates across institutional environments, and that the presence of large monitoring shareholders might be key, a follow up study could further look in to the relation between the presence of large shareholders and the use of ATPs.

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Appendix A Variables

Abnormal Returns and Anti-takeover Provision Indices	
CAR	Five-day (-2, +2) cumulative abnormal returns (in percentage points) calculated using the market model. The market model parameters are estimated over the period (-210, -11) with the local stock index return as the market index.
BCF index	Based on 5 anti-takeover provisions. Higher index levels correspond to more managerial power.
BC index	1 if the bidder has a staggered board, 0 otherwise.
Bidder Characteristics	
Firm size	Log of book value of total assets.
Market value of equity	Number of shares outstanding multiplied by the stock price at the 11th trading day prior to announcement date.
Tobin's q	Market value of assets over book value of assets.
Leverage	Net debt over market value of total assets.
Free cash flow	Operating income before depreciation – interest expenses - income taxes – capital expenditures.
Stock price run-up	Bidder's buy-and-hold abnormal return during the period (-210, -11) with the local stock index return as the market index.
Block holder	1 for companies which, during the year of the acquisitions, have a beneficial owner who owns 5 percent or greater of the outstanding shares, 0 otherwise.
Deal Characteristics	
Deal value	Euro value of deal reported by Reuters DataStream.
Public target Dummy variable	1 for public targets, 0 otherwise
Private target Dummy variable	1 for private targets, 0 otherwise.
All-cash deal Dummy variable	1 for purely cash-financed deals, 0 otherwise.
Stock deal Dummy variable	1 for deals stock-financed, 0 otherwise.
Diversifying acquisition Dummy variable	1 for bidder and target who do not share a Fama–French industry, 0 otherwise.
Relative deal size	Deal value (from BvD) over bidder market value of equity defined above.
High tech dummy variable	1 for bidder and target are both from high tech industries defined by Loughran and Ritter (2004), 0 otherwise.
Cross border dummy	1 for bidder and target who are not located in the same country, 0 otherwise.
Serial dummy	Dummy: 1 for acquirers involved in 5 or more deals, 0 otherwise.