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Abstract

Cross-border mergers allow firms to alter the level of protection they provide to their investors, because target firms usually import the corporate governance system of the acquiring company. This article extends the existing literature by evaluating the effect of changes in corporate governance induced by cross–border mergers on industry value, instead of focusing on cross–country comparisons. We construct measures of the change in investor protection induced by cross–border mergers in a sample of $9,277$ industry–country–year observations. We find that the Tobin's Q of an industry increases when firms within the industry are acquired by foreign firms coming from countries with *better* corporate governance. In addition, we show that acquisitions of firms in countries with less protective regimes—French and German legal origin—have a negative impact on the acquiror's value. Conversely, target industries benefit from acquisitions by firms from countries with *better* corporate governance—English and Scandinavian legal origin. Ours is among the first studies to document in a panel–data framework that improving investor protection creates value.

Keywords: corporate governance, market regulation, cross-border acquisitions

JEL classification: F3, F4, G3

I think that for active investors like us, corporate governance is built into the analytic process of assessing deals and will figure ultimately in the decision as to whether or not premiums have to be paid for a company. I think this is a global investor issue. When global investors look at deals, particularly cross–border deals, they will often factor corporate governance issues into the equation, and these may have a practical effect on price and value.

—Peter Clapman, Senior Vice–president and Chief Counsel Investments, TIAA–CREF (from Alexander, 2000)

I Introduction

The political economy approach to corporate governance pioneered by La Porta et al. (1997, 1998, 2000, and 2002) has documented the importance of legal rules as determinants in the outcomes of corporate finance and corporate governance. Rules determine the extent to which countries differ in the degree of investor protection and, in turn, the impact of such differences on the size of capital markets, as well as firms' value, distribution policies, and ownership structures. This article extends the existing literature by evaluating the effect of changes in corporate governance induced by cross–border mergers on industry value, instead of focusing on cross–country comparisons.

The extant corporate governance literature provides strong evidence that countries with a common law system protect investors better than countries with civil law. Better protection translates into more valuable firms (La Porta et al., 2002), and more developed financial markets (La Porta et al., 1997), at least since the end of the Second World War (Rajan and Zingales, 2002). The natural question is then how countries converge towards a *better* corporate governance system. Gilson

(2000) identifies three kinds of corporate governance convergence: *functional convergence*, which occurs when institutions are flexible enough to respond to demands by market participants and no formal change in the rules is necessary; *formal convergence*, which occurs when a change in the law forces the adoption of best practices, and *contractual convergence*, which occurs when firms change their own corporate governance practices by committing to a better regime, possibly because the legal system lacks flexibility or laws cannot be changed.

The evidence on functional and formal convergence is mixed. An example of functional convergence is the creation of new exchanges in Europe,[1] which give investors the protection that the law does not provide. At the same time, Gilson (2000) also recognizes the limits of functional convergence by pointing out that these countries have started to make reforms at the formal level as well. In the matter of formal convergence, Johnson and Shleifer (1999) and Coffee (1999A) analyze the experience of Poland and the Czech Republic and show that the better protection provided by the Polish commercial code resulted in a more developed stock market. In this case, however, Pistor et al. (2001) conclude that, as in medicine, transplants are sometimes rejected and countries that have adopted U.S.–type corporate laws do not experience the expected corporate development.

Evaluating the impact of contractual convergence is equally complicated. Of this type of convergence the most noticeable example can be found in the case of the General Principles issued by CalPERs as a precondition for investing in foreign securities. Another example is the claim that dual listing of securities in the U.S. is a means for foreign issuers to commit to better governance (Coffee, 1999B). However, the choice of a U.S. market is not necessarily a signal of good governance since some companies list in a foreign market only because they cannot go public in their own (Coffee, 1999B). Additionally, non–U.S. companies are exempt from several disclosure requirements, so they do not fully adopt the U.S. system of corporate governance.[2] This objection notwithstanding,

there is some evidence that the announcement of an American Depositary Receipt (ADR) has a positive and significant effect (Miller, 1999), which becomes larger for firms from countries with weaker investor protection (Lins et al., 2001). These results would seem to indicate that contractual convergence to a better corporate governance system does create value. Unfortunately, Lins et al. (2000) do not find a significant relationship between the benefit of a dual listing in the U.S. and the legal origin of the issuer. Moreover, the positive effect of an ADR can also be explained by increases in liquidity, costly signalling, gains related to market segmentation, and differences in valuation for different groups of investors.[3]

We suggest that cross–border mergers provide an alternative mechanism for the contractual transfer of corporate governance. In a cross–border merger, the target usually adopts the accounting standards, disclosure practices, and governance structures of the acquiror. In the 1999 acquisition of Canadian Seagram by French Vivendi, the newly merged firm adopted the French accounting system. Similarly, Seita, a French Tobacco company, was acquired in October 1999 by Tabacalera, from Spain, to form a new entity called Altadis, which started to report under Spanish GAAP. DaimlerChrysler, result of the merger of a German and a U.S. company, is domiciled in Germany and, as such, has adopted a two–tier board structure, as required by German law. All these examples show that, intentionally or not, target firms change their corporate governance systems when acquired by foreigners, and that, unlike ADR listings, cross–border mergers can imply a complete transfer of the corporate governance mechanisms from one legal regime to another. Another benefit of focusing on cross–border mergers rather than on dually–listed firms is the use of a richer sample. With respect to ADRs, we have scarce evidence of U.S. firms going public in countries with weak investor protection (Cantale, 1996). In our setting, acquisitions of firms in poor corporate governance regimes by firms in more protective regimes are as common as the reverse situation.

This paper analyzes the valuation effects of corporate governance changes induced by cross–border mergers. Our sample includes more than 20,000 cross–border acquisitions in the period 1985–2000, corresponding to firms in 39 industries and 49 countries. In order to isolate the pure corporate governance effects of the merger from its price effects, we focus our study on the Tobin's Q of the industry where the merger takes place, as opposed to the firms themselves. We construct corporate governance indicators at the industry level that equal the weighted average of the investor protection indices in La Porta et al. (1998). If a cross–border merger has taken place in a given industry, its corporate governance indicators change. We subsequently compute the effect of the cross–border acquisitions *of* and *by* firms in such industry on the average corporate governance indicators. For instance, consider the merger between Seita and Tabacalera described above. The accounting standards index—reported in La Porta et al. (1998)—is 69 for France, and 64 for Spain. Since Seita was the only Tobacco company in France in 1999, the index of accounting standards for that industry fell five points in 1999.

We do similar calculations for a panel of approximately 9,200 industry–country–year observations, by using four indicators of investor protection: shareholder protection, creditor protection, accounting standards, and corruption. In particular, we argue that, while shareholder protection and accounting standards can be imported via cross–border mergers, creditor protection and corruption cannot. Indeed, La Porta et al. (2000) intuitively argue that importing creditor protection by acquiring a firm in another country is not possible, because corporate assets remain under the jurisdiction of the country where they are located and not under the jurisdiction where the firm is incorporated. Besides, the level of corruption that affects a corporation is arguably determined by the country where it operates, not by the country where it is domiciled.

The majority of the corporate governance literature provides cross–sectional results on the re-

lationship between investor protection and corporate finance variables in a given year, as per the measures provided by La Porta et al. (1998). Unfortunately, when one is arguing in favor of or against legal change, such static evidence is not particularly helpful. Indeed, one cannot conclude that improvements in investor protection within a country have positive effects, unless one has episodic evidence (Johnson and Shleifer, 1999, on the Poland–Czech Republic difference), or new indicators are constructed (as in Pistor, 2000, for transition economies, and Hyytinen et al., 2001, for Finland). Ours is the first paper to document the effect of changes in corporate governance by using a large sample, which spans a period of fifteen years, and includes both developed and emerging markets and countries from the four legal families.

As in the case of ADR listings, a positive effect of a cross–border merger on the target firm's value is consistent with several theoretical explanations. It could be that the market reaction to the acquisition reflects the premium paid by the acquiror, as in Shleifer and Vishny (1986). Also, if markets are inefficient, the acquisition of a relatively undervalued firm could benefit both the acquiror and the target in a stock–for–stock deal (Shleifer and Vishny, 2001). That is why our focus is not on the price reaction of the firms involved in the acquisition. Instead, we analyze the valuation effects of the merger on the industries of the target and the acquiror. Coffee (1999A) argues that firms whose legal regimes protect minority rights better will tend to be acquirors because their stock values will be higher.[4] Similarly, target firms will be the ones where investors are less protected. Irrespective of the characteristics of both firms, the *corporate governance hypothesis* predicts that the industry of the acquiror will suffer a loss in value by merging with a firm in a less protective regime. Conversely, the industry of the target will benefit from the acquisition, and these benefits will be higher the better the acquiror's corporate governance.

Alternatively, if the governance of the target firm improves as a consequence of the cross–border

acquisition, it is possible for rival firms in the same industry to suffer a loss in value. If better investor protection leads to more efficiency within the target firm, it could make it a formidable competitor with a negative effect on industry valuations. Expropriation of investors in the target firm would then be lower relative to the other industry participants, and investors in the competing firms will prefer to transfer funds to the newly merged firm. The average industry value can therefore decrease as a consequence of the merger. Akhigbe and Martin (2000) show, consistent with the *efficiency hypothesis*, that domestic competitors of cross–border acquisition targets in the U.S. experience a significant increase in stock price upon the announcement of the merger. These mergers are, at most, corporate governance preserving transactions, because acquirors come from less– or equally–protective regimes.[5] From the point of view of the acquiring industry, the rivals of an acquiring firm can perceive the capital investment undertaken by such firm as a positive signal about the value of the industry (Woolridge and Snow, 1990). Mitchell and Mulherin (1996) show that takeover activity has industry–driven factors, which is consistent with this hypothesis.

The implication of the above analysis is that cross–border mergers can have both positive or negative effects on industry value. Ultimately this is an empirical question. In order to be able to answer it we estimate panel regressions where the Tobin's Q of the corresponding industry is the endogenous variable. We also control for country–year and industry fixed effects, so that factors like changes in national laws, country–specific trends in the market for corporate control, and industry–wide characteristics do not affect our results. The key explanatory variables in the regressions are the various indicators of corporate governance change that we construct. We find that when firms in a given industry are acquired by foreign firms coming from countries that protect shareholders better than their own, there is a significant increase in the value of such industry—measured by the industry's Tobin's Q. We also confirm that the quality of creditor protection provided by the

acquiror is irrelevant. We also find that importing good accounting standards via acquisitions does not create value. Finally we find that target firms are harmed by cross–border acquisitions from countries with less corrupt practices than their own. This result is, however, insignificant once we control for the legal origin of the parties.

In the paper we classify acquisitions within an industry, depending on the legal origin of the acquiror and the target. We find that the most severe loss of value occurs in case of English–legal–origin firms acquisitions by French–legal–origin firms (as in the case of the Vivendi–Seagram deal). That is, within a given industry in an English–legal–origin country, we find that the larger the proportion of firms that are acquired by companies in French–legal–origin countries, the lower the value of the industry *ceteris paribus*. The reverse is also true: acquisitions of French legal origin by firms in common law countries increase the Tobin's Q of the target industry. However, we find the most profitable mergers to be those which take place between acquirors of English legal origin and targets of Scandinavian legal origin. Even after controlling for the level of investor protection and the accounting standards, the legal origin indicators remain significant.

A possible explanation for the previous results is that acquirors in more protective regimes, or in countries of English and Scandinavian legal origins, are better firms and therefore have a larger impact on the industries they target. We reject this explanation by analyzing the acquiring industry's Tobin's Q, depending on the corporate governance indices of the firms they acquire. We find that transferring good shareholder protection to less protective regimes harms acquiring firms. Results are similar for the quality of the accounting standards. We further find that there is a negative and significant impact of acquisitions of poor accounting standard firms by firms in countries with better accounting rules, on the value of the acquiring industry. Finally, we also put forth that the greatest benefits accrue when French–legal–origin firms acquire English–legal–origin

firms, and they do even more so than English acquirors themselves. Hence, there is no pattern in the relationship between legal origin and the acquiring skills of the merging firms.

Our results are not inconsistent with the literature on intra–industry valuation effects of mergers (Eckbo, 1982 and 1985; Akhigbe and Martin, 2000). Measuring the pure valuation effects of cross–border mergers is *not* the objective of our paper. Instead, we consider only the impact on the changes in protection provided to the average shareholder in the industry, that are induced by the cross–border merger. Despite our results, an acquisition of a U.S. firm by a U.K. acquiror can have a positive valuation effect, but not because of corporate governance considerations. As Andrade et al. (2001) point out, the empirical literature has had little to say on the more fundamental question surrounding merger activity: how—and not whether—mergers actually create or destroy value. Our paper posits an interface between mergers and value change: the transfer of corporate governance practices.

The positive relationship between corporate governance quality and value has been identified by La Porta et al. (2002) with country–level data, and by Gompers et al. (2003) with firm–specific corporate governance characteristics of U.S. firms. Both papers provide cross–sectional results, and indeed Gompers et al. (2003) argue that it is not possible to identify any casual relationship between governance and value in this setting. Our paper is also related to Rossi and Volpin (2001), who present a model of cross–border acquisitions in which corporate governance enhancements motivate firms to put themselves for sale to foreign buyers. They conduct an empirical study in which they show, using cross–sectional data, that the vast majority of targets in cross–border acquisitions come from countries with poor investor protection, whereas the vast majority of acquirors come from more protective regimes. Although we confirm that firms in countries that do not protect investors can opt into a more protective regime through a cross–border merger, our results suggest

that better corporate governance is not a motive for cross–border acquisitions. That is because, although *importing* investor protection creates value, *exporting* investor protection reduces it. Our paper does not claim that cross–border mergers create value. In fact Black et al. (2001) have shown that cross–border acquisitions display a negative long–run performance. Despite such a negative effect, we show that one way for cross–border mergers to create value is by being accompanied by a change in corporate governance. Daines (2001) shows that the market assigns a higher value to the assets of firms incorporated in Delaware. Our paper is in the same spirit, although Daines (2001) provides cross–sectional results only.

The next section describes the data and its sources. In section III we construct industry–level corporate governance indices from the original merger sample. Section IV analyzes the relationship between industry value and corporate governance. In section V we conclude.

II Data

A Industry data

We use all the available firms in CRSP + Compustat and Datastream to construct annual series of industry specific variables within each country for the years 1985 to 2000. We classify firms within each of the 39 industrial groups defined in Datastream.[6] Initially, firms in the U.S. are classified depending on their two–digit SICs. Since there is no mechanical correspondence between Datastream industries and SIC codes, we handmatch two–digit SIC codes with their corresponding four–digit Datastream Industrial Classification Codes. For each industry within a country we calculate the annual Tobin's Q. Another problem we face is that Datastream calculates the book value of the

assets net of intangible assets, so Tobin's Q calculated from both Compustat and Datastream are not exactly comparable. Besides, the resulting book–equity values from Datastream can occasionally be negative. To overcome the distorting effect of the negative values, we calculate the annual industry Tobin's Q by inverting the median of the inverted firm–specific Qs..[7] Additionally, in the econometric analysis, we use country fixed effects.

Individual firm Qs are calculated for U.S. firms, following Kaplan and Zingales (1997) and Gompers et al. (2003), as the market value of the firm's assets divided by its book value. The market value of the assets is computed as the book value of the assets plus the market value of common stock, minus the sum of the book value of common stock and deferred taxes. For non–U.S. firms, the market value of the firm is calculated as the market value of equity (number of shares outstanding times price per share) plus the book value of the firm's liabilities. The latter is computed by substracting the book value of equity (Datastream company account item # 307) from the book value of total assets (Datastream item # 392).

We are able to calculate industry Tobin's Qs for $9,290$ observations, which correspond to 39 industries from 49 different countries, for a period of 15 years. We consider only the countries for which we have merger data, as described in the next section.

B Merger and Acquisitions Data

The base mergers sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBOs, as well as spin–offs, recapitalizations, self–tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining

interest, and privatizations. We also exclude those countries without corporate governance data available in La Porta et al. (1998). Countries of socialist legal origin in La Porta et al. (1998) terminology are excluded. The base sample therefore includes 53,569 acquisitions of targets from 49 different countries. Cross–border mergers account for 38.40 percent of the sample (20,573 mergers).

For each observation, we obtain information on the industry classification of the bidder and the target, the dollar value of the transaction, the nationality of the parties involved, and the date of announcement of the deal.[8] Only for 28,727 acquisitions do we have data on the dollar value of the transaction (9,341 cross–border deals). Throughout the paper, we report results for the original sample, unless data on the dollar value of the deal is necessary, in which case we report results for the reduced sample.

We group acquisitions within an industry depending on the industry classification of either the bidder or the target, as outlined above. We calculate the number of listed firms in a given industry, country, and year, as the number of firms recorded by CRSP and Datastream for U.S. and non–U.S. industries, respectively. This allows us to construct measures of merger intensity by country, industry, and year, in the following way:

$$AV_{jit} = \frac{VA_{jit}}{MC_{jit}}, \tag{1}$$

$$AN_{jit} = \frac{NA_{jit}}{NC_{jit}}, \tag{2}$$

for each industry j, country i and year t, and where VA denotes the dollar value of all completed acquisitions *of* firms from industry j, and MC the dollar denominated market capitalization of industry j. Similarly, NA is the number of completed acquisitions and NC is the number of listed companies in the corresponding industry and country. Thus AV_{jit} is a measure of the relative acquisition value in a given industry–country and can be interpreted as the percentage of an industry's

market capitalization that changes ownership in a given year. Similarly, AN_{it} represents the percentage of the publicly listed companies in an industry that are acquired in a given year. Taken together, both measures indicate to what extent firms in an industry tend to be acquired (either by domestic or foreign firms).[9]

One concern in our analysis is the lack of observations in the early years of the sample. SDC officially starts reporting acquisition information in 1980. However, for some countries there is no evidence of actual acquisitions until as late as 1994. We have not been able to discern whether this is due to an actual absence of mergers, or to a lack of reporting by SDC. Therefore, in the analysis we are extremely cautious and always control for country and time effects. As a robustness check, we searched Lexis–Nexis for sources in English of any news in the business press regarding an impending merger for the 389 country–year observations where SDC does not report any merger. We were not able to identify any additional event.

[Insert Table 1]

In Table 1 we report the annual AV_{jit} and AN_{jit} series aggregated by geographic region. We distinguish between European–E.U. countries, and European–non E.U. countries. North America, Oceania, and Africa are the regions with the largest volume of acquisitions, relative to market capitalization. In general there is a significant increase in the merger volume during the second half of the 1990s, with a peak in 1998. There are significant differences across regions. The number and value of mergers is relatively higher in North America., Oceania, Central and South America, and Western Europe, compared to Africa and Asia. In North America for instance, 6.45% of the market capitalization was acquired in 1981; the ratio increased to 9.58% in 2000.

C Additional Ratios

Following the analysis in the previous section, we construct measures of acquisition intensity specifically for cross–border mergers. Equations (1) and (2) now become:

$$AV_{jit}^{CT} = \frac{VA_{jit}^{CT}}{MC_{jit}}, \tag{3}$$

$$AN_{jit}^{CT} = \frac{NA_{jit}^{CT}}{NC_{jit}}, \tag{4}$$

where VA^{CT} is the dollar value, and NA^{CT} is the number of cross–border acquisitions, where the target firm belongs to industry j and country i . Therefore, AV_{jit}^{CT} measures the portion of an industry's market capitalization that is sold to foreign firms in a given year, country, and industry. Table 1 reports these ratios aggregated by country and year, and shows that the percentage of cross–border mergers has increased from 3.12% (relative to the number of listed firms) in 1985 to 17.97% in 2000—a sixfold increase. In North America only, 5.50% of all firms in the region have been involved in a cross–border deal in 2000, representing 2.30% of the total market capitalization. In Latin America most of the acquisitions have been cross–border: in 2000 alone, 7.06% of the market capitalization changed ownership, and 5.18% was acquired by foreign entities.

III Corporate Governance Indices

In this section we assemble industry–specific corporate governance indices. Our starting point is the indices on shareholder rights, creditor rights, efficiency of the legal system, corruption, and accounting standards from La Porta et al. (1998). Shareholder and creditor protection indices are the product of shareholder rights multiplied by the efficiency of the judicial system index, and creditor rights multiplied by the efficiency of the judicial system index, respectively. They also

provide the legal origin for each of the 49 countries in our sample.

A Corporate Governance quality

Every acquisition in our sample is characterized by eight indices: shareholder protection, creditor protection, corruption, and accounting standards for both the country of the acquiring firm and the country of the target firm. The difference of the corresponding indices between the two countries provides an indication of the *corporate governance quality transfer* that results from the cross–border merger. To illustrate this point consider the acquisition of a firm in country A by a firm in country B. Suppose for instance that firm i from country A is acquired by firm j from country B. If the shareholder protection index in country A is 14 (as in Greece, for example), and the shareholder protection index in country B is 50 (as in the U.K., for example), we can intuitively conclude that the acquisition serves as a way of contractual transfer of corporate governance practices from country B to country A. The difference $50 - 14 = 36$ measures the quality of such a transfer.

We chose the indices of shareholder and creditor protection in order to be able to compare our results with those in La Porta et al. (2002). Note that shareholder protection practices can be transferred to a firm through a cross–border merger. However, as La Porta et al. (2000) recognize, creditor protection is not transferrable, since the assets of the target firm remain under the jurisdiction of the country of the target firm even in case of a cross–border acquisition. Additionally, we consider the indices of accounting standards and corruption. We argue that, while accounting standards at the firm level will be highly influenced by merger activity—as the anecdotal evidence presented in the introduction shows—, corruption is inherent to the country where a firm operates rather than to the country where its shareholders are located, and it is therefore invariant to changes

in control. We thus expect the results on corruption and creditor protection changes to be different from the effects of changes in shareholder protection and accounting standards.

Table 2 shows the shareholder protection, creditor protection, accounting standards, and corruption indices for the cross–border acquisitions in our sample. The numbers reported are simple year averages. Our results are similar to Volpin and Rossi (2000), who report that the corporate governance quality of acquirors in cross–border mergers is significantly higher than the quality of targets. In addition, we find more complex time–series patterns. For instance, examining the index of shareholder protection, we find evidence that in the late 1990s there was a flow of corporate assets from countries with better shareholder protection to countries with weaker shareholder protection. With respect to the other corporate governance indices, the difference between acquiring and target firms is consistently positive and significant. This indicates that acquiring firms generally belong in countries with better corporate governance.

[Insert Table 2]

In Table 3 we report the differences between acquirors and targets in terms of corporate governance quality. The corresponding columns present the percentage of the cross–border mergers for which the difference 'Acquiror minus Target' is negative, zero, and positive. It is first noteworthy that most of the cross–border acquisitions occur between countries with different corporate governance systems. For example, only in 15% of the cases do the target and acquiring firm belong to countries with equal levels of shareholder protection in 2000. Similar percentages of 19, 6, and 10 result for the indices of creditor protection, accounting standards, and corruption, respectively.

[Insert Table 3]

Except for the shareholder protection index, the transfer of corporate governance quality through mergers has declined over time. While in 1985 the percentage of cross–border mergers where the accounting standards of the acquiror were better than the target's is 58%, in 2000 it is only 48%. Similarly, we observe declines of 7% and 11% in creditor–protection–increasing and corruption–decreasing acquisitions during the same period, respectively. Yet the percentage of shareholder–protection–increasing acquisition doubles in fifteen years, from 18% in 1985 to 30% in 2000.

So far we have presented results from a firm–specific analysis. The next step is to average the previous indicators across firms in an industry, country and year. We calculate weighted averages where the weight is the dollar value of the acquisition. We consider all mergers—cross–border and domestic. This has three implications. When all mergers in an industry are domestic, the average corporate governance indices for both the acquiring and the target firms equal the index of the corresponding country. In this case the "*Acquiror minus Target*" index is zero. Similarly, there is no change in the indices when there are cross–border mergers, but the firms involved belong to countries with identical corporate governance indicators. Finally, in the case of no merger activity within a particular industry and year, we set the corresponding difference index to zero.

Weighting by the dollar value of the merger—whether it is cross–border or not—has one important advantage. The difference in corporate governance quality between the acquiring and target firms for a given industry will tend to zero as the number of cross–border mergers tends to zero. Therefore, our indices reflect both the importance of the cross–border market for corporate control, as well as the differential quality of the firms involved in the acquisition in terms of corporate governance practices.

[Insert Table 4]

In Table 4 we report the annual industry Tobin's Q, based on whether the difference in corporate governance indices between acquiring and target firms is negative, zero, or positive. We also report the difference in Tobin's Q between industries with positive and negative corporate governance change. The table shows no consistent pattern. We cannot conclude that acquisitions by firms in more protective countries benefit industries more than acquisitions by firms in less protective countries, at least in the aggregate.

The indices we construct—the difference between the corporate governance quality of acquiring and target firms in a given industry—have an intuitive, straightforward interpretation. Consider the following example. Seita was the only French tobacco company that was publicly listed in 1999. It was acquired by Spanish Tabacalera in October 1999 to form a new entity called Altadis, listed in both Paris and Madrid stock exchanges, but reporting under Spanish GAAP. The accounting standard indices are 69 for France and 64 for Spain.[10] Therefore, the quality of the accounting standards in the French tobacco industry dropped 5 points in 1999.

Our objective is to relate these changes in corporate governance to industry value. In fact, the Tobin's Q of the Tobacco industry in France changed by 10.21% in 1998, 24.73% in 1999, and -20.17% in 2000 relative to the previous year. Therefore, and after excluding any other possible effect, we want to know if there is significant evidence that the increase in the industry Tobin's Q in 1999 is associated with a reduction in the industry index of accounting standards. Similarly, we explore whether there is a relationship between the drop in Tobin's Q in 2000 and the accounting standards index changes in 1999.

B Legal Origin

Table 5 presents the frequency of acquisitions depending on the legal origin of both the acquiring and the target firms. We consider cross–border mergers only. The most frequent type of acquisition in every year in our sample involves an English–legal–origin acquiror and an English–legal–origin target.

[Insert Table 5]

In total, acquisitions where the target firm is of English legal origin account for 41% of all cross–border mergers. Similarly, acquisitions *by* firms of English legal origin represent 65% of the sample. Acquisitions *by* firms of French, German, and Scandinavian legal origins, account respectively for 34%, 17%, and 8% or the cases. Acquisitions *of* firms of French, German, and Scandinavian legal origin represent 17%, 11%, and 8% of the total sample, respectively. Over the 15–year period, English–legal–origin firms are net acquirors, while firms of French, Scandinavian, and German legal origin, are net targets.

We aggregate this case–specific information across industries in three ways—with respect to acquiring firms, and with respect to target firms, and with respect to both. First, given the legal origin of an industry–country, we calculate the number of acquisitions by firms in that industry of firms from countries of English, French, Scandinavian, and German legal origins. We divide these numbers by the total number of listed firms in that industry. Second, given the legal origin of an industry–country, we calculate the number of acquisitions by firms from countries of each one of the four legal families, of firms in that industry. We additionally control for the legal origin the country of nationality of the corresponding industry.

Moreover, there are sixteen possible acquiror–target legal origin combinations. For every industry–country–year, we calculate the number of acquisitions that fall in each of the sixteen possible combinations. Only four of these numbers can be different from zero: for acquiring industries, the ones where the legal origin of the acquiror coincides with the legal origin of the corresponding country; for target industries, the ones where the legal origin of the target firm coincides with the legal origin of the corresponding country. We similarly divide these numbers by the total number of listed firms in the industry.

IV The Value of Corporate Governance: Industry Evidence

In this section, we analyze the relationship between industry value measured by the Tobin's Q and the merger–specific corporate governance indicators. In the first part, we study the effects of changes in investor protection on industry value. In the second part, we look into the effect of the legal origin on industry value.

A Investor Protection and Industry Value

Let q_{jit} be the natural logarithm of the Tobin's Q in industry j, country i, and year t, calculated as described in II.A. For any set of corporate governance variables G_{jit}—be it the index corresponding to either the target or the acquiring firms, or the difference between them, or both—we estimate the following regression:

$$q_{jit+1} = D_{it} + I_j + \alpha q_{jit} + \beta \mathsf{G}_{jit} + \varepsilon_{jit} \tag{5}$$

We use a panel of 9,290 industry–country–year observations. D_{it} is a vector of (49 x 15) country–year fixed effects, which captures any specific event affecting country j in year t. I_j is vector of 39 industry fixed effects. The country–year fixed effects allow us to isolate idiosyncratic events. For instance, Pagano and Volpin (2000) predict that the frequency of mergers and acquisitions is negatively correlated with employment protection. Similarly, merger laws or their lack thereof, affect the number of mergers. In countries and periods without a merger law, SDC reports a limited number of acquisitions. The reason is that, absent a merger law, there are not notification requirements for the acquiror, and therefore mergers take place without public knowledge. This type of effects will be captured by our D_{it}.

As we outlined in section II.A, we aggregate Tobin's Qs across industries by calculating the median of the inverse of the Tobin's Q for all firms in industry j, country i, and year t. We then invert the resulting median back and take logarithms. The inversion reduces the impact of negative equity values caused by the reporting methodology in Datastream.[11] In order to make the coefficients easily comparable, we standardize the corporate governance measures G_{jit} with their total mean and standard deviation.

The dependent variable is dated at time $t+1$ to avoid endogeneity problems. Shleifer and Vishny (2001) argue that overvalued firms tend to acquire undervalued targets. It would then be possible that a higher Tobin's Q makes cross–border acquisitions more frequent. In addition we control for the current Tobin's Q. If many firms in an industry become takeover targets in a given period, the market value of the industry will increase. By controlling for the lagged Q, we isolate the effect of

past valuations. Finally, we estimate the fixed effect model with robust standard errors.

Our specification offers two advantages. Unlike La Porta et al. (2002), who have to estimate a random effect model because of the time invariance of the corporate governance measures, we specify the more natural country–year fixed effect model. Moreover, because of the availability of time–varying industry data, our results are interpretable in a time–series setting. That is, the β coefficients indicate to what extent a change in the corporate governance indices in industry j, country i, from time $t-1$ to t, determine the change in the Tobin's Q of the industry in the next period.

A.1 Target Industries

Table 6 reports the result of the estimation when the dependent variable is the Tobin's Q of the industry of the target firms. The independent variables in the estimation are the corresponding corporate governance indicators for the average acquiror in that industry, the average of the differences between the corporate governance quality of the acquiror minus the corporate governance quality of the target, and a decomposition of the previous variable between positive and negative values. We also control for: the shareholder protection index, the creditor protection index, the accounting standards index, and the corruption index of the country.

Our results show that adopting better shareholder protection increases industry value. We first document a negative relationship between the shareholder protection index of the country of nationality of the target industry and the Tobin's Q of this industry. This implies that poor corporate governance countries benefit more from cross–border mergers. However, we do not find that the quality of the protection to shareholders in the average acquiring country matters by itself.

[Insert Table 6]

The Tobin's Q of the target industry is higher the larger the difference in protection between the acquiring and the target firms. Therefore, adopting better corporate governance practices creates value. In fact, when we consider only the industries where the difference in shareholder protection between the acquiror and the target is positive, the estimated coefficient is 0.003, significant at the 1% level. The economic significance of such an effect can be substantial. To illustrate that, suppose we consider the 'Financial Services' industry in Argentina. Argentina has a shareholder protection index of 24. Suppose 20% of the firms in that industry are acquired in 1998 by Spanish firms. Spain has a shareholder protection index of 25. Therefore, the shareholder protection index of the financial services industry in 1998 in Argentina increases by 0.2 points, and, from the regression in Table 6, the Tobin's Q of the industry increases a 0.06%.[12] Suppose instead that the same 20% of the firms are acquired now by U.K. firms. The U.K. has a shareholder protection index of 50. The shareholder protection index of the financial services industry in Argentina thereby increases by 10 points, and the industry's Tobin's Q increases a significant 2%. Note that the result is independent of the quality of the firms involved and depends only on the quality of corporate governance in the country of nationality of both the acquiring and the target firms.

With respect to creditor protection, our coefficients are not significant. This result confirms the intuition provided be La Porta et al. (2000), that it is hard to realize convergence in terms of creditor protection by means of cross–border mergers.

We also find that while adopting good accounting standards does not create value, adopting bad accounting standards significantly reduces value. In model III, the coefficient of the 'Accounting Standards Difference for ≤ 0' is 0.0075, significant at the 1% level. Translated into economic terms, the coefficient means that a reduction in the accounting standard index by one point leads to a reduction in Tobin's Q of 0.64%. That is, in a case similar to the Seita–Telefónica case described in

III.A, where the Accounting Standards Index of the Tobacco industry in France dropped 5 points as a result of the acquisition, we estimate a significant reduction in Tobin's Q of 3.20% in a year.

Finally, we find that target firms are harmed by cross–border acquisitions from countries with less corrupted practices than their own. Corruption makes dealing with government officials less transparent and more costly, particularly for foreign investors. Therefore investors prefer domestic to foreign managers in more corrupted regimes. This result is consistent with Simonov and Gianetti (2002), who use data on investment choices by individual investors, and show that individuals who are more likely to have connections with the local financial community and have access to information prefer to invest in firms where there is more room for extraction of private benefits of control.

A.2 Acquiring Industries

The previous section shows that adopting better shareholder protection creates value. Therefore, opting into a more protective legal environment is beneficial for firms in weak–protection countries. The question is then to what extent contractual convergence benefits the acquiring industry as well. If cross–border mergers between firms with different levels of investor protection are Pareto optimal, the implied policy recommendation is that control of firms in countries with poor investor protection must be transferred to firms in more protective countries. Alternatively, if acquirors are harmed by poor–protection targets, there is no way for the latter firms to voluntarily opt into the better corporate governance system. Unless there are other reasons why acquirors buy firms in poor–protection countries, potential acquirors will always prefer to opt into a more rather than a less protective regime, wherever possible.

We repeat the previous exercise by using the Tobin's Q and the corporate governance indicators

of the acquiring industry. There are two main results from the regressions in Table 7. First, transferring better practices to less protective regimes harms the acquiring firms. Model III in Table 6 shows that, while acquiring firms in better corporate governance countries does not benefit acquirors (the coefficient of the variable 'Shareholder Protection Difference for >0' is negative but insignificant), industries that acquire in weaker regimes ('Shareholder Protection Difference for ≤ 0') lose value.

To illustrate the significance of the previous coefficient, suppose that firms representing 20% of the market capitalization in a U.K. industry buy firms in Spain. As we explained above, there is a reduction in the shareholder protection index of 5 points for the overall industry. This change results in a decrease of the industry's Q by 2.4%. If instead the industry invests in direct acquisitions of Argentinian firms, the shareholder protection index falls 5.2 points, and the Tobin's Q of the industry suffers a 2.49% decline.

We additionally find that the larger the difference in creditor protection between the acquiror and the target, the higher the value of the firm. If creditors in the target country are less protected, the ability for acquirors to expropriate creditors increases, and therefore the acquisition is more valuable. This intuition is confirmed in model III, where the creditor protection difference index is significant only for positive values, which means that only acquisitions of bad creditor protection by good creditor protection firms are value increasing for the acquiror, while they do not significantly affect target's value (see Table 6).

[Insert Table 7]

The interpretation for the results on accounting standards are similar: it harms acquirors to buy companies in countries with weaker accounting standards. The coefficient of the variable

'Accounting Standards Difference for $\leq$0' is negative and significant.

B Legal Origin and Industry Value

As we explained in the introduction, the corporate governance literature strongly suggests a hierarchy of legal regimes in terms of investor protection. More specifically, La Porta et al. (1998) show that the Scandinavian legal system, as well as legal systems based on common law—of English legal origin—provide better protection, while the German system, and especially the French system, provide poor protection to investors.

In this section we analyze the market response to mergers between firms from countries with different legal origins. We aggregate merger data by the legal origin of the acquiror and the target. For each industry, we have calculated the percentage of acquisitions from firms of English, French, Scandinavian, and German legal–origin countries, while taking into consideration the legal origin of the target company. For an industry–country of a given legal origin, the number of mergers of firms of its own legal origin will be different from zero when there has been merger activity over the period. The number of mergers where the target firm has a different legal origin will obviously be zero.

We estimate an econometric model similar to (5) with country–year and industry fixed effects, and differentiate between the Tobin's Q of the target and the acquiring industries. Table 8 shows the result of the estimation from the perspective of the target firms. In Panel I the legal origin of the target is differentiated from the legal origin of the acquiror. The main result in panel I of Table 8 is that cross–border mergers mostly benefit targets of French and Scandinavian legal origins. However, the interpretation of these results cannot be complete: 57% of the acquisitions of

French–legal–origin firms come from English–legal–origin acquirors (see Table 5). Therefore, it is possible that it is the characteristics of the acquiring firm that determine value increases.

[Insert Table 8]

When differentiating across both the legal origin of the target and the legal origin of the acquiror, we find as follows: (1) The largest value increase in a cross–border deal occurs between English–legal–origin acquirors and Scandinavian–legal–origin targets. In economic terms, the acquisition of 10% of the market capitalization of a single industry in a Scandinavian country by an English–legal–origin firm increases the industry's Tobin's Q by 0.72%.[13] Similarly, (2) the largest value reduction in a cross–border merger comes about when a firm of French legal origin acquires a firm of English legal origin. In this case, we find that acquisitions worth 10% of an industry's volume induce a Tobin's Q reduction of 0.4% for the whole industry. Additionally, (3) acquisitions of French–legal–origin targets always benefit the industry of the target. The four coefficients for which the target is of French legal origin display positive signs and significant values. Finally, (4) there is a positive valuation effect of mergers between firms of the same legal origin, be it English, French, German, or Scandinavian. From Table 5, this type of merger represents a large proportion of deals—44% of all cross–border acquisitions in the period 1985–2000.

[Insert Table 9]

The opposite side of the previous results is displayed in Table 9, where we look into the Tobin's Q of the acquiring industry. Acquisitions between firms of the same legal origin also yield positive valuation effects for the industry of the acquiring firm. In addition, we report a positive valuation effect on acquirors of French legal origin of acquisitions of firm of English legal origin. This finding

confirms the result in the previous section that adopting good shareholder protection increases value.

C Legal Origin or Investor Protection?

We want to make clear here that the results in the previous sections are not mutually exclusive. La Porta et al. (2000) show that there is a close relationship between legal origin and investor protection. Therefore, results in section IV.A could be simply because investor protection is a measure of legal origin. Alternatively, legal origin could be a proxy for investor protection in section IV.B. Multicollinearity is a common problem in econometric models in which several corporate governance indices are included (see Galindo et al. 2002).

We address this concern in two ways. First we compute the correlation matrix of the independent variables in our regressions. We also calculate the correlation of the Tobin's Q in the current year with the set of independent variables (Table A in the Appendix). Correlations among variables tend to be low. In particular, focusing on the last four rows in Table A, we find that the largest correlation between legal origin variables and corporate governance variables is 0.37 (between the shareholder protection difference and the ratio of acquisitions of English acquirors of French targets). Moreover, the correlations display the expected signs. Indeed, the variable 'Accounting Standards difference' has a negative correlation with the percentage of mergers of firms in the countries with weaker investor protection (French and German legal origins) by firms in strong–protection countries (English and Scandinavian legal origins). Similar patters are observed for the variable 'Shareholder Protection difference'. Therefore, we cannot conclude that at the industry level the corporate governance indices we calculate proxy for legal origin, or vice versa.

[Insert Table 10]

The second way how we address the joint effect of legal origin and investor protection is by regressing the Tobin's Q in year $t + 1$ to the corporate governance indices and the legal origin variables altogether. The results are presented in Table 10. The analysis above shows that the regression is multicollinearity–free. In fact the results do not vary from the separate regressions we perform in the previous section. Table 10 reports results from two regressions, using either the Tobin's Q of the acquiring industry or the Tobin's Q of the target industry as dependent variable. We can summarize our main findings as follows:

- Adopting better (worse) shareholder protection than the one in the domestic market creates (reduces) industry value, as measured by the industry Tobin's Q.

- Firms in countries of French, German, and Scandinavian legal origin benefit from acquisitions by English–legal origin firms. Such a result is not driven by the frequency of the acquisitions itself. In other words, it is possible that the percentage of English–legal–origin firms that acquire firms in other countries with the same legal origin has a positive relationship with the Tobin's Q of the industry of the target firms, solely because cross–border mergers have a positive impact on Q. Note that mergers among English–legal–origin firms have the highest frequency among English–legal–origin acquirors (see Table 5). However, we do find that the frequency of each type of merger is not related to the coefficient in the regressions in Table 10. For instance, while acquisitions of Scandinavian targets by Scandinavian acquirors are the least frequent among Scandinavian–legal–origin targets, the coefficient in panel II of Table 10 is the second largest. The opposite happens for German–legal–origin targets of Scandinavian–legal–origin firms: they are the most frequent but have the largest negative impact on firm

value.

- Acquiror's value is higher the weaker the creditor protection in the country of the target firm. In countries with weak creditor protection, it is easier to expropriate creditors of the target firm. Such expropriation is beneficial for the target firm´s shareholders, and therefore the acquisition becomes more valuable (Coffee, 1999B).

- Certification by acquiring in a more protective regime enhances the value of the acquiring firm. We find that the largest increase in Tobin's Q among acquirors takes place for French–legal–origin acquirors of English–legal–origin firms. Not surprisingly, these are the mergers that have increased the most in the last five years in our sample. Table 5 shows that, while acquisitions of French–legal–origin firms by English–legal–origin firms have increased 39% between 1995 and 2000, acquisitions of English targets by French–legal–origin firms have increased 233%.

- It is irrelevant how corrupted the corporate practices are in the country of origin of the parties involved in the merger. This is consistent with our assertion that cross–border mergers do not affect the level of corruption that affects a firm's operations.

V Conclusion

This article presents evidence showing that improvements in investor protection at the firm level are positively valued by the market. We consider the changes in corporate governance induced by cross–border mergers. For each of 39 industries in 49 different countries, and in the period 1985–2000, we construct measures of the corporate governance quality of the industry by considering the cross–border mergers *by* and *of* firms in that industry. Four corporate governance indicators are

considered: shareholder protection, creditor protection, accounting standards, and corruption. In the absence of cross–border mergers we assign no change in the quality of the investor protection at the firm level. However, for each cross–border acquisition, we calculate the difference in investor protection measured by each of the previously mentioned indicators, provided by the acquiring firm, and the investor protection in the country of the target firm. We weight such a difference by the dollar value of the acquisition and aggregate it across industries, countries, and years. We then investigate the relationship between corporate governance quality changes and Tobin's Q at the industry level.

We undertake a simple and intuitive experiment. By using a large panel of around nine thousand industry–country–year observations, we are able to isolate the direct relationship between corporate governance and value. Moreover, because we provide time–series evidence, the interpretation of our results is richer. Our study does not claim that countries or firms that better protect their shareholders are more valuable. Instead, we show that changes in corporate governance within an industry have value implications. Besides, unlike country–specific studies, ours provides a setting where corporate governance quality improves as often as it worsens. In fact, we find that opting into a more protective regime is sometimes not the opposite to opting into a less protective one. Finally, because we construct industry–level indicators, the power of our results is high.

Our main result is that acquisitions of firms in weaker shareholder protection countries by firms in stronger protective regimes significantly increase the Tobin's Q of the target industry. This result is robust to country, year, and industry characteristics. It is however not true that firms that are acquired by firms in worse corporate governance environments lose value.

We also find that the legal origin of the firms participating in a merger determines how much value is created. The largest case of value reduction by cross–border mergers is acquisitions of

English–legal–origin firms by French–legal–origin firms. The reverse is also true: acquisitions of French–legal–origin firms by firms in common law countries increase the Tobin's Q of the target industry. However, we find the most profitable mergers to be between English–legal–origin acquirors and Scandinavian–legal–origin targets.

One issue that we take for granted is the reliability of the corporate governance indices in La Porta et al. (1998). For instance, they report that the index of shareholder protection in Germany is lower than the one in the U.S. However, in the Daimler–Chrysler merger, and because the new company was going to be domiciled in Germany, the company had to be run by a two–tier board structure, as required by European regulation.[14] It is questionable that we consider this merger as corporate governance quality decreasing for Chrysler. We also ignore firm–level corporate governance agreements between the merging companies. When Astra AB of Sweden and Zeneca Group PLC of the U.K. merged in 1999, both companies agreed that, although the new company would be incorporated in the U.K., it would adopt some features of the Swedish corporate governance model. For instance, as in most Swedish firms, the board consists entirely of nonexecutive directors, apart from the CEO.[15]

Our results suggest that corporate governance is not a motive for cross–border acquisitions. Even if target firms could opt into the best corporate governance system, it is not clear that acquirors in such a system would be willing to take over a firm in an environment with worse investor protection. Quite the contrary, our study finds that acquiring firms lose value by merging with firms that provide weaker protection to investors and poorer accounting standards. The question is then why these mergers happen. As Alexander (2000) indicate, there can be several reasons why firms undertake cross–border mergers: intensive consolidation or preempting restructuring, battle for scale driven by structural pressures, response to technological changes, increases in scale to market, the need to

advertise globally, exhaustion of the domestic merger route, and the opportunity to gain a foothold in new markets. We do not explore these issues.

An area for future research is the effect of domestic and cross–border regulation on industry value. In our paper, the existence of a merger law is, via a country–year fixed effect, a control for the possibility that, because of the absence of merger disclosure requirements, our database ignores cross–border acquisitions of firms where no law exists. However, it would be interesting to analyze the effect of regulation—merger and antitrust laws—on the frequency and characteristics of mergers, and their effect on industry value. Another open question in our analysis is the effect of corporate governance variables in the long term success of cross–border acquisitions.

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Notes

1. The Investment Market of the London Stock Exchange, and the Euro.NM market, that includes: the French *Nouveau Marché*, the German *Neuer Markt*, the Belgian Euro.NM, the Euro.NM market in Amsterdam, and the *Nuovo Mercato* in Milan.

2. U.S. companies must file quarterly reports with the Securities and Exchange Commission that contain interim financial information. Non-U.S. companies are not required to file quarterly reports. Also, non-US companies and their officers, directors, and controlling shareholders are exempt from the insider trading rules that apply to U.S. companies.

3. Stulz (1981); Merton (1987); Hietala (1989); Errunza and Losq (1989); Chemmanur and Fulghieri (2000); Amihud and Mendelson (1986).

4. Rossi and Volpin (2001) formalize this argument.

5. The effects of corporate events of rival firms have been studied extensively: for stock repurchases, Hertzel (1991); for bankruptcy announcements, Lang and Stulz (1992); for dividend announcements, Laux et al. (1998); for corporate capital investment, Chen et al. (2002); for mergers and acquisitions, Eckbo (1985), among others.

6. Datastream Industrial classifications exist at six levels. Level four comprises 39 sectors based on the FTSE Actuaries System.

7. Shin and Stulz (1998), and Gertner et al. (2002) also calculate industry Tobin's Q using the median Q of the firms within each industry.

8. The dollar value of the transaction is the total value of consideration paid by the acquiror,

excluding fees and expenses. It includes the amount paid for all common stock, common stock equivalents, preferred stock, debt, options, assets, warrants, and stake purchases made within six months of the announcement date of the transaction. Assumed liabilities are included in the value if they are publicly disclosed. Preferred stock is included only if it is being acquired as part of a 100% acquisition. If a portion of the consideration paid by the acquiror is common stock, the stock is valued by using the closing price on the last full trading day before the announcement of the terms of the stock swap. If the exchange ratio of shares offered changes, the stock is valued based on its closing price on the last full trading date before the date of the exchange ratio change.

9. Datastream does not provide information on *all* the firms listed in a given industry. In that regard the merger ratios we calculate are an approximation. We have also reestimated the regressions in the paper using the market capitalization of a country, and the number of listed firms in the country, as denominators in the corresponding ratios of merger activity. Data on market capitalization and number of firms at the country level is obtained from the IFC manuals. There is no qualitative change in the results. In any case, the discrepancy between the IFC numbers and the by–country data in Datastream is negligible after 1985. That is, the total number of firms (in a country) that we obtain from Datastream, and the total market capitalization of the country, do not difer much from their IFC equivalents. We report results based on industry because their interpretation is more meaningful.

10. See La Porta et al. (1998).

11. We also estimated our model under the alternative approach or restricting the sample to only those observations for which the market value of the equity is nonnegative. We obtained qualitatively

similar results to the ones presented here.

12. We unravel the direct effect by taking into account the standardization of each corporate governance variable.

13. Interestingly, the intuition in La Porta et al. (2000) that an acquisition of a Swedish firm by a British firm enhances efficiency, is proven true here.

14. See Baums (1999).

15. In the U.K. there is a balance between executives and non-executives. See Alexander (2000).

		year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Sample	All Mergers	$ Value	4.28%	3.36%	3.17%	3.26%	3.17%	2.53%	1.39%	2.11%	2.20%	2.61%	3.44%	4.42%	5.11%	7.67%	8.25%	7.86%
		Number of Deals	3.12%	4.36%	5.72%	9.65%	10.38%	8.18%	9.33%	10.10%	12.41%	13.72%	13.72%	14.47%	19.03%	20.81%	16.28%	17.97%
	Cross-Border	$ Value	0.22%	0.55%	0.55%	0.83%	0.70%	0.78%	0.22%	0.29%	0.32%	0.53%	0.69%	0.71%	0.97%	1.73%	2.12%	2.33%
		Number of Deals	0.40%	0.70%	0.99%	2.18%	2.69%	2.43%	2.01%	2.00%	2.17%	2.62%	2.94%	2.92%	3.91%	4.60%	3.95%	4.92%
Africa	All Mergers	$ Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.43%	0.70%	1.10%	0.60%	0.56%	0.68%	3.21%	12.97%	2.42%	3.26%
		Number of Deals	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.76%	2.05%	5.10%	7.34%	11.25%	14.86%	19.47%	28.14%	15.72%	18.51%
	Cross-Border	$ Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.08%	0.02%	0.87%	0.05%	0.08%	0.25%	0.95%	1.36%	0.49%	0.60%
		Number of Deals	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.44%	0.73%	1.08%	1.56%	3.59%	4.79%	3.74%	3.74%	3.59%	4.22%
Asia	All Mergers	$ Value	0.01%	0.03%	0.01%	0.10%	0.56%	0.50%	0.25%	1.56%	0.38%	0.33%	0.45%	0.56%	1.18%	1.06%	3.30%	4.05%
		Number of Deals	0.07%	0.12%	0.04%	0.25%	0.44%	0.65%	2.15%	1.30%	1.67%	2.05%	2.48%	2.09%	2.67%	2.82%	3.80%	4.98%
	Cross-Border	$ Value	0.00%	0.02%	0.00%	0.04%	0.02%	0.02%	0.02%	0.09%	0.08%	0.07%	0.07%	0.14%	0.30%	0.35%	0.29%	0.83%
		Number of Deals	0.03%	0.08%	0.02%	0.15%	0.20%	0.15%	0.36%	0.44%	0.51%	0.70%	0.62%	0.47%	0.64%	0.97%	1.03%	1.28%
Latin America	All Mergers	$ Value	0.28%	0.04%	0.95%	0.24%	1.00%	1.12%	0.18%	1.00%	0.37%	0.90%	2.85%	1.82%	2.61%	3.56%	5.43%	7.06%
		Number of Deals	0.18%	0.09%	0.34%	0.36%	0.64%	0.83%	0.53%	1.68%	2.42%	4.17%	5.76%	7.80%	10.85%	12.60%	10.23%	15.27%
	Cross-Border	$ Value	0.28%	0.04%	0.71%	0.24%	0.37%	0.41%	0.16%	0.30%	0.13%	0.49%	1.08%	1.61%	1.78%	2.68%	4.34%	5.18%
		Number of Deals	0.18%	0.09%	0.25%	0.36%	0.59%	0.59%	0.41%	1.38%	1.69%	2.96%	4.00%	5.82%	8.60%	8.32%	7.84%	10.55%
North America	All Mergers	$ Value	6.45%	6.15%	6.19%	6.60%	5.73%	3.77%	1.74%	2.13%	3.72%	5.05%	5.23%	6.95%	6.32%	10.62%	8.75%	9.58%
		Number of Deals	6.77%	8.84%	9.68%	12.26%	16.56%	14.40%	14.74%	19.02%	23.49%	28.26%	29.05%	31.46%	40.08%	43.67%	26.03%	27.11%
	Cross-Border	$ Value	0.35%	0.97%	1.12%	1.77%	1.14%	1.12%	0.19%	0.19%	0.20%	0.83%	0.68%	0.68%	0.60%	2.05%	1.30%	2.30%
		Number of Deals	0.72%	1.20%	1.61%	2.82%	3.82%	3.39%	2.18%	2.18%	2.26%	3.21%	4.02%	3.52%	4.47%	5.72%	4.00%	5.50%
Oceania	All Mergers	$ Value	3.96%	3.80%	3.73%	6.07%	11.35%	9.42%	2.10%	1.67%	2.82%	2.41%	3.56%	3.11%	4.19%	4.65%	4.76%	11.17%
		Number of Deals	0.37%	0.53%	1.59%	5.00%	4.50%	6.69%	6.30%	4.42%	10.95%	9.64%	12.99%	13.20%	20.14%	29.31%	27.52%	26.46%
	Cross-Border	$ Value	0.00%	0.02%	0.88%	1.56%	1.51%	1.39%	1.05%	0.77%	1.02%	1.08%	1.24%	0.91%	2.43%	1.09%	2.12%	5.62%
		Number of Deals	0.00%	0.13%	0.37%	2.44%	2.16%	3.27%	2.19%	1.39%	3.73%	2.72%	3.79%	4.38%	7.05%	8.89%	7.01%	6.99%
European Union	All Mergers	$ Value	3.82%	2.67%	3.76%	4.84%	4.07%	3.24%	2.50%	3.07%	1.92%	2.08%	3.76%	2.74%	4.81%	5.34%	11.41%	6.95%
		Number of Deals	2.26%	4.60%	11.61%	25.34%	23.07%	15.26%	17.04%	15.42%	19.21%	19.57%	19.81%	20.05%	25.69%	27.75%	24.77%	29.05%
	Cross-Border	$ Value	0.13%	0.53%	0.40%	1.05%	1.33%	1.26%	0.47%	0.68%	0.85%	0.66%	1.39%	1.13%	2.02%	1.75%	4.80%	2.94%
		Number of Deals	0.45%	1.06%	1.93%	4.97%	5.94%	5.36%	5.19%	4.71%	5.45%	5.93%	6.61%	7.07%	9.57%	10.32%	9.21%	11.19%
Western Europe, no E.U.	All Mergers	$ Value	0.08%	0.00%	1.74%	0.67%	1.72%	2.19%	1.27%	1.20%	0.80%	1.01%	2.17%	7.85%	5.86%	3.59%	2.85%	1.47%
		Number of Deals	1.39%	0.00%	1.66%	3.52%	6.59%	3.71%	7.01%	6.14%	8.01%	9.54%	8.15%	7.83%	8.82%	8.31%	12.93%	13.19%
	Cross-Border	$ Value	0.05%	0.00%	1.65%	0.18%	1.08%	1.23%	0.87%	1.02%	0.15%	0.53%	0.49%	0.87%	0.59%	0.85%	1.60%	0.97%
		Number of Deals	1.05%	0.00%	1.38%	2.05%	4.58%	1.49%	4.21%	3.64%	3.90%	4.22%	3.40%	4.83%	4.63%	4.71%	7.37%	8.97%

Table 1. Merger Activity around the World

The table shows the Dollar Value and Number of Consumated Acquisitions of Domestic Firms, relative to the Total Market Capitalization, and Number of Listed firms, respectively, by geographical region and year. Value of Transaction ($ mil): Total value of consideration paid by the acquiror, excluding fees and expenses. The dollar value includes the amount paid for all common stock, common stock equivalents, preferred stock, debt, options, assets, warrants, and stake purchases made within six months of the announcement date of the transaction. Liabilities assumed are included in the value if they are publicly disclosed. Preferred stock is included only if it is being acquired as part of a 100% acquisition. If a portion of the consideration paid by the acquiror is common stock, the stock is valued by using the closing price on the last full trading day before the announcement of the terms of the stock swap. If the exchange ratio of shares offered changes, the stock is valued based on its closing price on the last full trading date before the date of the exchange ratio change. The number of listed firms is the number of firms with available stock price information in Datastream.

The sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBO deals, as well as spinoffs, recapitalizations, self-tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations.

Year	Shareholder Protection			Creditor Protection			Accounting Standards			Corruption Index		
	Acquiror	Target	Difference	Acquiror	Target	Difference	Acquiror	Target	Difference	Acquiror	Target	Difference
1985	35.53	43.27	-7.74 ***	19.77	14.20	5.57 ***	72.68	70.66	2.02 ***	5.43	5.17	0.26 ***
1986	36.44	43.82	-7.37 ***	21.12	13.21	7.91 ***	72.80	70.93	1.87 ***	5.42	5.15	0.27 ***
1987	36.20	40.72	-4.51 ***	20.97	14.54	6.42 ***	73.47	70.62	2.86 ***	5.39	5.16	0.23 ***
1988	36.42	37.90	-1.48 ***	23.19	15.03	8.16 ***	73.63	69.72	3.91 ***	5.35	5.13	0.23 ***
1989	36.36	36.71	-0.35	22.32	15.42	6.90 ***	72.99	69.15	3.84 ***	5.36	5.11	0.25 ***
1990	34.37	36.54	-2.17 ***	21.02	16.36	4.65 ***	71.80	69.51	2.29 ***	5.31	5.12	0.19 ***
1991	32.57	33.85	-1.28 **	19.83	16.57	3.26 ***	70.92	69.33	1.59 ***	5.38	5.10	0.28 ***
1992	33.84	32.92	0.92 *	19.33	16.00	3.34 ***	71.32	68.79	2.54 ***	5.42	5.11	0.31 ***
1993	34.56	32.92	1.65 ***	19.99	16.60	3.40 ***	71.93	68.43	3.51 ***	5.39	5.04	0.34 ***
1994	34.32	33.13	1.20 ***	20.27	16.49	3.78 ***	71.83	68.39	3.44 ***	5.35	5.03	0.31 ***
1995	33.38	31.78	1.60 ***	20.06	16.24	3.82 ***	71.45	68.12	3.33 ***	5.37	5.03	0.34 ***
1996	33.68	31.60	2.08 ***	19.53	16.36	3.17 ***	71.69	67.90	3.78 ***	5.38	5.00	0.39 ***
1997	34.22	32.93	1.29 ***	19.69	15.87	3.82 ***	71.82	68.23	3.59 ***	5.36	5.01	0.35 ***
1998	32.62	32.78	-0.17	19.11	15.88	3.23 ***	70.80	68.08	2.72 ***	5.40	4.97	0.42 ***
1999	30.75	33.23	-2.48 ***	19.85	15.64	4.22 ***	70.10	68.20	1.91 ***	5.38	5.03	0.35 ***
2000	30.18	33.45	-3.28 ***	19.18	15.58	3.60 ***	69.93	68.28	1.65 ***	5.33	5.05	0.29 ***

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 2. Cross-Border Mergers and Corporate Governance

For each merger, we obtain the corresponding country-specific corporate governance index for both the acquiring and the target firm, from La Porta et al. (1998). The table reports the weighted average of the indices, by year of announcement of the cross-border merger. The weight is the dollar value of the acquisition. It includes the amount paid for all common stock, common stock equivalents, preferred stock, debt, options, assets, warrants, and stake purchases made within six months of the announcement date of the transaction. Liabilities assumed are included in the value if they are publicly disclosed. Preferred stock is included only if it is being acquired as part of a 100% acquisition. If a portion of the consideration paid by the acquiror is common stock, the stock is valued by using the closing price on the last full trading day before the announcement of the terms of the stock swap. If the exchange ratio of shares offered changes, the stock is valued based on its closing price on the last full trading date before the date of the exchange ratio change. The sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBO deals, as well as spinoffs, recapitalizations, self-tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations. Test for differences are based on a two-tailed Wilcoxon test.

	Shareholder protection			Creditor Protection			Accounting standards			Corruption Index		
Year	% Negative	% Zero	% Positive	% Negative	% Zero	% Positive	% Negative	% Zero	% Positive	% Negative	% Zero	% Positive
1985	65.41%	16.98%	17.61%	22.01%	27.04%	50.94%	38.36%	3.14%	58.49%	28.93%	6.29%	64.78%
1986	66.18%	18.55%	15.27%	20.73%	22.91%	56.36%	32.36%	4.36%	63.27%	23.27%	5.82%	70.91%
1987	63.08%	13.69%	23.23%	25.18%	20.54%	54.28%	35.21%	4.65%	60.15%	31.30%	7.09%	61.61%
1988	55.17%	9.44%	35.39%	23.93%	13.03%	63.03%	34.94%	4.38%	60.67%	33.15%	7.08%	59.78%
1989	52.15%	10.96%	36.90%	26.47%	14.46%	59.07%	33.57%	4.56%	61.88%	33.92%	7.19%	58.90%
1990	56.84%	9.53%	33.63%	34.07%	12.53%	53.40%	41.84%	5.21%	52.96%	39.98%	7.33%	52.69%
1991	50.55%	14.90%	34.54%	35.65%	17.32%	47.03%	42.30%	7.75%	49.95%	33.43%	12.08%	54.48%
1992	44.70%	17.10%	38.20%	32.95%	20.30%	46.75%	36.60%	9.81%	53.59%	33.64%	14.03%	52.34%
1993	44.16%	19.37%	36.47%	35.39%	21.10%	43.51%	36.36%	8.87%	54.76%	35.71%	11.90%	52.38%
1994	44.74%	19.46%	35.81%	35.49%	20.49%	44.02%	37.40%	9.49%	53.11%	36.04%	12.76%	51.20%
1995	44.52%	19.37%	36.11%	34.97%	21.65%	43.38%	36.92%	10.15%	52.93%	34.84%	13.52%	51.65%
1996	43.20%	17.44%	39.36%	36.59%	19.77%	43.64%	37.53%	8.75%	53.72%	35.71%	12.47%	51.83%
1997	45.51%	17.68%	36.81%	36.22%	20.78%	43.00%	38.57%	7.43%	54.01%	35.31%	10.20%	54.49%
1998	48.04%	17.54%	34.42%	37.70%	20.68%	41.62%	41.14%	8.46%	50.39%	31.76%	11.87%	56.37%
1999	54.16%	14.67%	31.17%	34.70%	18.00%	47.30%	44.00%	6.83%	49.17%	33.83%	11.55%	54.61%
2000	54.30%	15.22%	30.48%	37.30%	19.28%	43.41%	46.00%	6.38%	47.62%	36.79%	9.99%	53.22%

Table 3. Cross-Border Mergers and Corporate Governance Quality

For each cross-border merger in the sample, we calculate indices of Shareholder Protection, Creditor Protection, Accounting Standards, and Corruption. We obtain the country index for the country of nationality of the acquiror and the target firm, from La Porta et al. (1998). The indices are constructed by differencing the corresponding corporate governance index of the acquiror and the target firms. The table reports the percentage of cross-border mergers for which the corresponding difference is negative, positive, or zero, by year of announcement of the cross-border merger. The sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBO deals, as well as spinoffs, recapitalizations, self-tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations.

	Shareholder Protection				Creditor Protection				Accounting Standards				Corruption			
Year	Negative	zero	Positive	Difference Positive minus Negative	Negative	zero	Positive	Difference Positive minus Negative	Negative	zero	Positive	Difference Positive minus Negative	Negative	zero	Positive	Difference Positive minus Negative
1985	0.34	0.15	0.17	-0.17	1.33	1.16	1.41	0.09	1.26	1.16	1.43	0.17 *	1.35	1.16	1.34	-0.01
1986	0.24	0.26	0.26	0.02	1.22	1.30	1.33	0.11	1.22	1.30	1.32	0.09	1.21	1.30	1.32	0.11
1987	0.29	0.32	0.33	0.04	1.68	1.38	1.23	-0.44 ***	1.57	1.38	1.24	-0.32 **	1.50	1.37	1.34	-0.16
1988	0.27	0.23	0.14	-0.13	1.41	1.25	1.19	-0.21	1.37	1.26	1.16	-0.21	1.26	1.25	1.21	-0.05
1989	0.25	0.21	0.37	0.12	1.40	1.23	1.37	-0.03	1.36	1.23	1.38	0.03	1.32	1.23	1.43	0.11
1990	0.18	0.28	0.31	0.13 ***	1.27	1.32	1.29	0.02	1.19	1.32	1.34	0.15 ***	1.27	1.32	1.29	0.03
1991	0.21	0.21	0.14	-0.07	1.16	1.23	1.20	0.04 *	1.19	1.23	1.20	0.01	1.17	1.22	1.23	0.06 *
1992	0.27	0.23	0.25	-0.02	1.21	1.26	1.34	0.13 *	1.34	1.26	1.26	-0.08	1.27	1.26	1.30	0.03
1993	0.30	0.28	0.20	-0.10 **	1.23	1.32	1.29	0.06	1.27	1.32	1.28	0.00	1.18	1.32	1.37	0.18 ***
1994	0.35	0.36	0.40	0.05	1.47	1.44	1.44	-0.03	1.45	1.45	1.44	-0.01	1.37	1.45	1.51	0.14 *
1995	0.26	0.28	0.30	0.04	1.35	1.33	1.32	-0.03	1.33	1.32	1.35	0.02	1.34	1.32	1.34	0.00
1996	0.33	0.25	0.30	-0.03	1.39	1.28	1.34	-0.05	1.45	1.27	1.34	-0.11	1.39	1.28	1.34	-0.05
1997	0.38	0.26	0.36	-0.02	1.46	1.30	1.42	-0.03	1.54	1.30	1.37	-0.17 ***	1.51	1.30	1.37	-0.13
1998	0.33	0.22	0.38	0.04	1.43	1.26	1.42	-0.01	1.44	1.25	1.43	-0.02	1.55	1.25	1.36	-0.18 ***
1999	0.35	0.12	0.28	-0.07 **	1.41	1.13	1.33	-0.08	1.40	1.13	1.35	-0.05 **	1.50	1.13	1.26	-0.24 ***
2000	0.43	0.22	0.50	0.07	1.76	1.25	1.55	-0.21	1.72	1.26	1.56	-0.16 **	1.73	1.25	1.54	-0.19 *
All years	0.31	0.24	0.33	0.02	1.41	1.28	1.36	-0.05	1.41	1.28	1.36	-0.05	1.40	1.28	1.36	-0.04

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 4. Cross-Border Mergers,Tobin's Q, and Corporate Governance

For each cross-border merger we calculate an index of Shareholder Protection, Creditor Protection, Accounting Standards, and Corruption, in the following way. We obtain the country index for the country of nationality of the acquiror and the target firm, from La Porta et al. (1998). We then calculate the difference between the corresponding corporate governance index of the acquiring and the target firm. We calculate the weighed average difference by country and industry of the target firm, and year, where the weight is the dollar value of the acquisition. The Table reports the average Tobin's Q across industries in each category. The dollar value includes the amount paid for all common stock, common stock equivalents, preferred stock, debt, options, assets, warrants, and stake purchases made within six months of the announcement date of the transaction. Liabilities assumed are included in the value if they are publicly disclosed. Preferred stock is included only if it is being acquired as part of a 100% acquisition. If a portion of the consideration paid by the acquiror is common stock, the stock is valued by using the closing price on the last full trading day before the announcement of the terms of the stock swap. If the exchange ratio of shares offered changes, the stock is valued based on its closing price on the last full trading date before the date of the exchange ratio change. The sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBO deals, as well as spinoffs, recapitalizations, self-tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations. Test for differences are based on a two-tailed Wilcoxon test.

Year	English Legal Origin Acquiror and Target of Legal Origin:				French Legal Origin Acquiror and Target of Legal Origin:				German Legal Origin Acquiror and Target of Legal Origin:				Scandinavian Legal Origin Acquiror and Target of Legal Origin:			
	English	French	German	Scandinavian	English	French	German	Scandinavian	English	French	German	Scandinavian	English	French	German	Scandinavian
1985	65	28	11	2	6	4	1	0	0	4	4	1	3	1	3	0
1986	62	30	17	4	10	7	3	1	4	2	2	6	2	8	5	2
1987	112	74	30	6	15	17	3	2	11	9	4	7	9	8	3	2
1988	202	198	47	15	29	40	11	6	12	21	5	10	22	22	8	1
1989	266	222	84	24	46	72	11	3	19	24	7	10	46	45	24	3
1990	263	180	81	20	50	73	31	5	25	14	11	21	56	43	26	4
1991	269	156	76	33	43	106	36	19	18	22	10	36	48	52	28	6
1992	265	199	79	33	29	81	28	12	11	15	8	40	30	59	30	7
1993	339	200	94	64	23	81	34	14	10	10	2	29	21	41	26	7
1994	475	281	100	55	27	90	46	17	12	16	15	34	17	65	32	7
1995	559	291	166	49	36	117	64	14	13	19	28	55	36	53	58	10
1996	648	350	228	54	46	131	90	7	13	28	16	44	42	47	49	13
1997	750	417	223	70	53	151	76	8	22	36	32	54	42	54	48	11
1998	928	476	225	77	102	206	87	21	29	39	40	83	59	73	57	17
1999	761	421	220	91	94	265	73	31	37	54	27	118	78	99	103	29
2000	866	405	190	106	120	355	120	38	56	74	47	127	93	142	124	33
All years	6830	3928	1871	703	729	1796	714	198	292	387	258	675	604	812	624	152

Table 5. Cross-Border Mergers and Legal Origin

The Table reports the number of cross-border mergers depending on the legal origin of the country of nationality of the acquiring and target firms. The sample includes all the acquisitions of public companies available in Securities Data Corporation, from January 1, 1985, through December 31, 2000. Only completed transactions are considered, and we exclude from the initial sample LBO deals, as well as spinoffs, recapitalizations, self-tender and exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, and privatizations.

Dependent Variable: Tobin's Q

Independent Variables:	Estimate	p-value	Estimate	p-value	Estimate	p-value
Tobin's Q previous year	0.6629 ***	(<0.0001)	0.6651 ***	(<0.0001)	0.6642 ***	(<0.0001)
Shareholder Protection Index - Acquiror	-0.0002	(0.7560)				
Shareholder Protection Index - Target	-0.0021 ***	(<0.0001)				
Creditor Protection Index - Acquiror	0.0001	(0.8196)				
Creditor Protection Index - Target	-0.0003	(0.6645)				
Accounting Standards - Acquiror	-0.0012 **	(0.0392)				
Accounting Standards - Target	0.0012 **	(0.0458)				
Corruption Index - Acquiror	0.0060	(0.4262)				
Corruption Index - Target	0.0164 **	(0.0202)				
Shareholder Protection Index Difference, Acquiror minus Target			0.0019 ***	(0.0016)		
Creditor Protection Index Difference, Acquiror minus Target			0.0004	(0.4757)		
Accounting Standards - Difference Acquiror minus Target			-0.0084	(0.9941)		
Corruption Index - Difference Acquiror minus Target			-0.0376 ***	(0.0004)		
Shareholder Protection Index Difference for > 0					0.0030 ***	(0.0001)
Shareholder Protection Index Difference for ≤ 0					0.0018	(0.2948)
Creditor Protection Index Difference for > 0					0.0009	(0.2325)
Creditor Protection Index Difference for ≤ 0					-0.0013 *	(0.0747)
Accounting Standards Difference for > 0					0.0010	(0.4757)
Accounting Standards Difference for ≤ 0					0.0075 ***	(0.0012)
Corruption Index Difference for > 0					-0.0580 ***	(0.0001)
Corruption Index Difference for ≤ 0					0.0249	(0.3340)
Number of Observations	9251		9251		9251	
Adjusted R-squared	60.09%		59.97%		60.05%	

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 6. Tobin's Q and Corporate Governance Quality of Target firms

Regression of Tobin's Q by industry, country, and year, on corporate governance indices. The model is estimated by using country-year and industry fixed effects. The observations are standardized by their by-group means. The adjusted R-square measures the incremental explanatory power of all the variables, except for the fixed effects. The sample includes 39 industries from 49 countries, in the period 1985-2000. The p-values are adjusted for heteroskedasticity and autocorrelation.

Dependent Variable: Tobin's Q

Independent Variables:	Estimate		p-value	Estimate		p-value	Estimate		p-value
Tobin's Q previous year	0.6649	***	(<0.0001)	0.6682	***	(0.0000)	0.6635	***	(0.0000)
Shareholder Protection Index - Acquiror	-0.0018	***	(0.0003)						
Shareholder Protection Index - Target	0.0002		(0.3931)						
Creditor Protection Index - Acquiror	0.0008	*	(0.0850)						
Creditor Protection Index - Target	-0.0013	**	(0.0387)						
Accounting Standards - Acquiror	-0.0002		(0.3741)						
Accounting Standards - Target	0.0002		(0.3854)						
Corruption Index - Acquiror	0.0057		(0.1872)						
Corruption Index - Target	0.0133	*	(0.0614)						
Shareholder Protection Index Difference, Acquiror minus Target				-0.0022	***	(0.0001)			
Creditor Protection Index Difference, Acquiror minus Target				0.0008	*	(0.0903)			
Accounting Standards - Difference Acquiror minus Target				0.0010		(0.1989)			
Corruption Index - Difference Acquiror minus Target				0.0130		(0.1039)			
Shareholder Protection Index Difference for > 0							-0.0007		(0.2911)
Shareholder Protection Index Difference for ≤ 0							-0.0046	***	(<0.0001)
Creditor Protection Index Difference for > 0							0.0039	***	(0.0001)
Creditor Protection Index Difference for ≤ 0							-0.0019	**	(0.0204)
Accounting Standards Difference for > 0							0.0016		(0.2139)
Accounting Standards Difference for ≤ 0							-0.0061	***	(0.0003)
Corruption Index Difference for > 0							0.0175		(0.1025)
Corruption Index Difference for ≤ 0							-0.0248		(0.1111)
Number of Observations	9277			9277			9277		
Adjusted R-squared	59.87%			59.76%			59.89%		

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 7. Tobin's Q and Corporate Governance Quality of Acquiring firms

Regression of Tobin's Q by industry, country, and year, on corporate governance indices. The model is estimated by using country-year and industry fixed effects. The observations are standardized by their by-group means. The adjusted R-square measures the incremental explanatory power of all the variables, except for the fixed effects. The sample includes 39 industries from 49 countries, in the period 1985-2000. P-values are adjusted for heteroskedasticity and autocorrelation.

Dependent Variable: Tobin's Q Independent Variables:	Estimate	p-value	Estimate	p-value
Tobin's Q previous year	0.6620 ***	(<0.0001)	0.7214 ***	(<0.0001)
English Legal Origin Acquiror	-0.0042	(0.8770)		
French Legal Origin Acquiror	-0.0164	(0.6284)		
Scandinavian Legal Origin Acquiror	-0.0840 *	(0.0831)		
German Legal Origin Acquiror	-0.0273	(0.5597)		
English Legal Origin Target	0.0378	(0.2325)		
French Legal Origin Target	0.0464 *	(0.0935)		
Scandinavian Legal Origin Target	0.1398 ***	(0.0002)		
German Legal Origin Target	0.0324	(0.2641)		
English Acquiror - English Target			0.0147 **	(0.0490)
English Acquiror - French Target			0.0252 **	(0.0136)
English Acquiror - Scandinavian Target			0.0612 ***	(0.0009)
English Acquiror - German Target			0.0169	(0.1199)
French Acquiror - English Target			-0.0225 *	(0.0962)
French Acquiror - French Target			0.0348 **	(0.0100)
French Acquiror - Scandinavian Target			0.0270	(0.6339)
French Acquiror - German Target			0.0225	(0.2522)
Scandinavian Acquiror - English Target			-0.0261	(0.4815)
Scandinavian Acquiror - French Target			0.0454 *	(0.0597)
Scandinavian Acquiror - Scandinavian Target			0.0508 ***	(0.0049)
Scandinavian Acquiror - German Target			-0.0324	(0.2826)
German Acquiror - English Target			0.0250 *	(0.0784)
German Acquiror - French Target			0.0324 **	(0.0266)
German Acquiror - Scandinavian Target			0.0603 **	(0.0361)
German Acquiror - German Target			0.0391 *	(0.0555)
Number of Observations	9,269		9,251	
Adjusted R-squared	60.09%		66.21%	

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 8. Tobin's Q and Legal Origin of Target firms

Regression of Tobin's Q by industry, country, and year, on corporate governance indices. The model is estimated by using country-year and industry fixed effects. The observations are standardized by their by-group means. The adjusted R-square measures the incremental explanatory power of all the variables, except for the fixed effects. The sample includes 39 industries from 49 countries, in the period 1985-2000. P-values are adjusted for heteroskedasticity and autocorrelation.

Dependent Variable: Tobin's Q Independent Variables:	Estimate	p-value	Estimate	p-value
Tobin's Q previous year	0.6605 ***	(<0.0001)	0.7093 ***	(<0.0001)
English Legal Origin Acquiror	0.0136 ***	(0.0039)		
French Legal Origin Acquiror	0.0539 ***	(<0.0001)		
Scandinavian Legal Origin Acquiror	0.0568 ***	(<0.0001)		
German Legal Origin Acquiror	0.0136	(0.3949)		
English Legal Origin Target	0.0000	(0.4967)		
French Legal Origin Target	0.0000	(0.1558)		
Scandinavian Legal Origin Target	0.0001	(0.6901)		
German Legal Origin Target	0.0001 ***	(<0.0001)		
English Acquiror - English Target			0.0204 ***	(0.0094)
English Acquiror - French Target			0.0511	(0.1995)
English Acquiror - Scandinavian Target			-0.0535	(0.5400)
English Acquiror - German Target			0.0288	(0.4062)
French Acquiror - English Target			0.0573 ***	(0.0002)
French Acquiror - French Target			0.0244 ***	(0.0093)
French Acquiror - Scandinavian Target			0.0132	(0.7141)
French Acquiror - German Target			0.0541 ***	(0.0045)
Scandinavian Acquiror - English Target			0.0415	(0.4577)
Scandinavian Acquiror - French Target			-0.0619	(0.1767)
Scandinavian Acquiror - Scandinavian Target			0.0610 ***	(<0.0001)
Scandinavian Acquiror - German Target			0.0412	(0.1299)
German Acquiror - English Target			0.0203	(0.1168)
German Acquiror - French Target			-0.0006	(0.9770)
German Acquiror - Scandinavian Target			-0.0064	(0.8661)
German Acquiror - German Target			0.0176 *	(0.0546)
Number of Observations	9,277		9,277	
Adjusted R-squared	60.06%		69.47%	

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively

Table 9. Tobin's Q and Legal Origin of Acquiring firms

Regression of Tobin's Q by industry, country, and year, on corporate governance indices. The model is estimated by using country-year and industry fixed effects. The observations are standardized by their by-group means. The adjusted R-square measures the incremental explanatory power of all the variables, except for the fixed effects. The sample includes 39 industries from 49 countries, in the period 1985-2000. P-values are adjusted for heteroskedasticity and autocorrelation.

	Acquiring Industry		Target Industry	
Dependent Variable: Tobin's Q				
Independent Variables:	Estimate	p-value	Estimate	p-value
Tobin's Q previous year	0.7072 ***	(<0.0001)	0.7185 ***	(<0.0001)
English Acquiror - English Target	0.0220 ***	(0.0053)	0.0193 **	(0.0120)
English Acquiror - French Target	0.0438	(0.2812)	0.0306 ***	(0.0032)
English Acquiror - Scandinavian Target	-0.0536	(0.5314)	0.0669 ***	(0.0003)
English Acquiror - German Target	0.0224	(0.5195)	0.0196 *	(0.0719)
French Acquiror - English Target	0.0642 ***	(<0.0001)	-0.0207 *	(0.8345)
French Acquiror - French Target	0.0240 **	(0.0120)	0.0308 **	(0.0256)
French Acquiror - Scandinavian Target	0.0087	(0.8055)	0.0222	(0.6922)
French Acquiror - German Target	0.0471 **	(0.0142)	0.0118	(0.5473)
Scandinavian Acquiror - English Target	0.0478	(0.3971)	-0.0211	(0.5713)
Scandinavian Acquiror - French Target	-0.0620	(0.1771)	0.0462 *	(0.0563)
Scandinavian Acquiror - Scandinavian Target	0.0614 ***	(<0.0001)	0.0503 ***	(0.0058)
Scandinavian Acquiror - German Target	0.0317	(0.2535)	-0.0306	(0.3027)
German Acquiror - English Target	0.0247 *	(0.0623)	0.0233	(0.1074)
German Acquiror - French Target	-0.0052	(0.8123)	0.0265 **	(0.0720)
German Acquiror - Scandinavian Target	-0.0065	(0.8682)	0.0674 **	(0.0386)
German Acquiror - German Target	0.0138	(0.1359)	0.0316	(0.1197)
Shareholder Protection Index Difference, Acquiror minus Target	-0.0012 *	(0.0819)	0.0010 **	(0.0349)
Creditor Protection Index Difference, Acquiror minus Target	0.0012 *	(0.0923)	-0.0006	(0.1885)
Accounting Standards - Difference Acquiror minus Target	-0.0008	(0.5768)	0.0011	(0.2917)
Corruption Index - Difference Acquiror minus Target	-0.0011	(0.9189)	-0.0035	(0.7535)
Number of Observations	9,277		9,277	
Adjusted R-squared	69.51%		66.26%	

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table 10. Tobin's Q and Corporate Governance Quality, and Legal Origin. Target and Acquiring firms

Regression of Tobin's Q by industry, country, and year, on corporate governance indices. The model is estimated by using country-year and industry fixed effects. The observations are standardized by their by-group means. The adjusted R-square measures the incremental explanatory power of all the variables, except for the fixed effects. The sample includes 39 industries from 49 countries, in the period 1985-2000. P-values are adjusted for heteroskedasticity and autocorrelation.

	Tobin's Q	English Acquiror - English Target	English Acquiror - French Target	English Acquiror - Scandinavian Target	English Acquiror - German Target	French Acquiror - English Target	French Acquiror - French Target	French Acquiror - Scandinavian Target	French Acquiror - German Target	Scandinavian Acquiror - English Target	Scandinavian Acquiror - French Target	Scandinavian Acquiror - Scandinavian Target	Scandinavian Acquiror - German Target	German Acquiror - English Target	German Acquiror - French Target	German Acquiror - Scandinavian Target	German Acquiror - German Target	Shareholder Protection Protection Difference, Acquiror minus Target	Creditor Protection Protection Difference, Acquiror minus Target	Accounting Standards - Difference Acquiror minus Target
English Acquiror - English Target	0.098 ***																			
English Acquiror - French Target	0.011	-0.082 ***																		
English Acquiror - Scandinavian Target	0.015	-0.037 ***	-0.027 ***																	
English Acquiror - German Target	0.038 ***	-0.047 ***	-0.035 ***	-0.016 **																
French Acquiror - English Target	0.078 ***	0.452 ***	-0.044 ***	-0.020 ***	-0.025 ***															
French Acquiror - French Target	0.006	-0.065 ***	0.423 ***	-0.022 ***	-0.028 ***	-0.035 ***														
French Acquiror - Scandinavian Target	0.024 **	-0.023 ***	-0.017 **	0.391 ***	-0.010	-0.012 *	-0.014 **													
French Acquiror - German Target	0.008	-0.035 ***	-0.025 ***	-0.011 *	0.454 ***	-0.019 ***	-0.020 ***	-0.007												
Scandinavian Acquiror - English Target	0.069 ***	0.335 ***	-0.031 ***	-0.014 **	-0.018 ***	0.417 ***	-0.024 ***	-0.009	-0.013 *											
Scandinavian Acquiror - French Target	0.020 **	-0.036 ***	0.332 ***	-0.012 *	-0.015 **	-0.019 ***	0.260 ***	-0.007	-0.011	-0.013 **										
Scandinavian Acquiror - Scandinavian Target	-0.006	-0.036 ***	-0.026 ***	0.425 ***	-0.015 **	-0.019 ***	-0.021 ***	0.335 ***	-0.011 *	-0.013 **	-0.012 *									
Scandinavian Acquiror - German Target	0.013	-0.022 ***	-0.016 **	-0.007	0.336 ***	-0.012 *	-0.013 *	-0.005	0.322 ***	-0.008	-0.007	-0.007								
German Acquiror - English Target	0.080 ***	0.437 ***	-0.043 ***	-0.019 ***	-0.025 ***	0.487 ***	-0.034 ***	-0.012 *	-0.018 ***	0.359 ***	-0.019 ***	-0.019 ***	-0.012 *							
German Acquiror - French Target	0.007	-0.049 ***	0.378 ***	-0.016 **	-0.021 ***	-0.026 ***	0.329 ***	-0.010	-0.015 **	-0.018 ***	0.307 ***	-0.016 **	-0.010	-0.026 ***						
German Acquiror - Scandinavian Target	0.021 **	-0.019 ***	-0.014 **	0.287 ***	-0.008	-0.010	-0.011 *	0.217 ***	-0.006	-0.007	-0.006	0.312 ***	-0.004	-0.010	-0.008					
German Acquiror - German Target	0.006	-0.035 ***	-0.026 ***	-0.012 *	0.424 ***	-0.019 ***	-0.021 ***	-0.007	0.357 ***	-0.013 *	-0.011 *	-0.011 *	0.324 ***	-0.018 ***	-0.015 **	-0.006				
Shareholder Protection Protection Difference, Acquiror minus Target	-0.005	-0.125 ***	0.370 ***	0.159 ***	0.218 ***	-0.277 ***	0.156 ***	0.027 ***	0.140 ***	-0.175 ***	0.142 ***	0.052 ***	0.121 ***	-0.230 ***	0.122 ***	0.040 ***	0.110 ***			
Creditor Protection Protection Difference, Acquiror minus Target	0.018	0.066 ***	0.221 ***	-0.040 ***	-0.005	-0.005	0.123 ***	-0.056 ***	-0.044 ***	0.028 ***	0.136 ***	-0.057 ***	-0.018 ***	0.047 ***	0.137 ***	-0.017 **	-0.004	0.001		
Accounting Standards - Difference Acquiror minus Target	-0.019 *	-0.086 ***	0.368 ***	-0.054 ***	0.204 ***	-0.156 ***	0.198 ***	-0.062 ***	0.118 ***	-0.053 ***	0.154 ***	-0.037 ***	0.108 ***	-0.123 ***	0.149 ***	-0.009	0.099 ***	0.439 ***	0.259 ***	
Corruption Index - Difference Acquiror minus Target	0.009	0.106 ***	0.183 ***	-0.201 ***	-0.110 ***	0.093 ***	0.123 ***	-0.101 ***	-0.107 ***	0.115 ***	0.073 ***	-0.092 ***	-0.062 ***	0.138 ***	0.073 ***	-0.080 ***	-0.078 ***	0.115 ***	0.172 ***	0.312 ***

*, **, and *** indicate that the coefficient is significantly different from zero at the .1, .05 and .01 levels or better, respectively.

Table A. Correlations among variables

Correlation matrix for the variables in the models in tables 6 to 10.