LARGE SHAREHOLDERS AND BIDDER ANNOUNCEMENT RETURNS:

EVIDENCE FROM WESTERN EUROPE AND EAST ASIA

A Thesis Submitted to the College of

Graduate Studies and Research

In Partial Fulfillment of the Requirements

For the Degree of Master of Science in Finance

In the Department of Finance and Management Science

Edwards School of Business

University of Saskatchewan

Saskatoon, Saskatchewan, Canada

By

WEITING ZHOU

PERMISSION TO USE

In presenting this thesis in partial fulfillment of the requirements for a Postgraduate degree from the University of Saskatchewan, I agree that the Libraries of this University may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by the professor or professors who supervised my thesis work or, in their absence, by the Head of the Department or the Dean of the College in which my thesis work was done. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the University of Saskatchewan in any scholarly use which may be made of any material in my thesis.

Requests for permission to copy or to make other use of material in this thesis in whole or part should be addressed to:

Head of the Department of Finance and Management Science

Edwards School of Business

University of Saskatchewan

25 Campus Drive

Saskatoon, Saskatchewan S7N 5A7

ABSTRACT

We investigate whether multiple large shareholders (MLS) play an internal corporate governance role in mitigating agency problems between the controlling shareholder and minority shareholders in a cross-country sample of public firms. We draw our conclusion by examining the market reaction (in terms of bidder announcement period abnormal returns) to acquisition announcements made by firms with and without MLS in their ownership structure. Using an international sample of acquisition announcements made by firms with at least one large shareholder from 10 Western European and 5 East Asian countries between 1996 and 2000, we find the presence of MLS, their voting rights, relative voting power, the number of blockholders and the relative voting power of these blockholders have a positive and significant impact on bidder announcement period abnormal returns. We also find that the legal institutions such as disclosure requirement, investor protection, common-law legal origin and anti-self-dealing have positive effects on bidder announcement period abnormal returns.

ACKNOWLEDGMENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

1. INTRODUCTION

With the collapse of a series of global giant companies, such as Enron and WorldCom, the world calls the increasing attention to the importance of corporate governance. Existing literature suggests that poor governance mechanisms (consequently high agency problems) are negatively associated with firm valuation (Gompers et al., 2003; Bebchuk et al., 2009), profitability (Gompers et al., 2003) and bidder announcement period abnormal returns (Masulis et al., 2007). These studies primarily focus on agency problems between managers and shareholders, assuming ownership is dispersed among a large number of small shareholders. Only around the last two decades, empirical studies examine ultimate ownership and find that majority of the firms around the world have concentrated ownership (La Porta et al. 1999; Claessens et al., 2000; Faccio and Lang, 2002; Holderness, 2009). These concentrated ownership firms are usually controlled by a dominant shareholder, who typically holds voting rights in excess of dividend rights. The dominant shareholder obtains control through various control enhancing mechanisms, such as pyramid structures, cross-shareholdings and dual class share structures. Some dominant shareholders also have related acquaintances serve in important positions of the management (Claessens et al., 2000). These firms thus have managerial incentives directly link with that of the dominant shareholder (La Porta et al., 1999). Hence, the dominant shareholder has the incentives to monitor managers (Shleifer and Vishny, 1986; Agrawal and Mandelker, 1990; Admati et al., 1994; Burkart et al., 1997). Therefore, agency problems between managers and shareholders are largely mitigated in such firms. However, it is arguable that the controlling shareholder's interest may not represent the general interests of all shareholders. In particular, if the dividend rights of the controlling shareholder are not large enough or if there is a substantial gap between dividend rights and voting rights of the controlling shareholder, s/he may have incentives to extract private benefits at the cost of other shareholders (Claessens et al., 2002; Guedhami and Mishra, 2009). This creates another form of agency problems, which is the one between the controlling shareholder and minority shareholders.

There are many ways for the controlling shareholder to expropriate minority shareholders. The controlling shareholder may divert corporate resource to her/him or

consume perquisites (Jensen and Meckling, 1976). For example, s/he may buy corporate jets using the money from the firm for so-called business purpose. S/He may also sell the output/assets from the firm s/he controls to the firm s/he owns at below market prices. In that case, the cost of selling output/assets at low prices is shared by all shareholders while the benefit from this transaction is enjoyed by the controlling shareholder alone (Shleifer and Vishny, 1997; La Porta et al., 2000). In still other ways, s/he may assign unqualified relatives to serve in important managerial positions and pay them higher than expected remunerations (La Porta et al., 2000). Such agency problems are more severe in countries with poor legal institutions. On the contrary, strong legal institutions provide protections to investors by making the expropriation mechanism less efficient (La Porta et al., 2000). Hence, legal protection can alleviate such agency problems. Existing empirical studies confirm this argument by showing better investor protection is associated with higher firm values (La Porta et al., 2002), lower cost of equity capital (Hail and Leuz, 2006; Guedhami and Mishra, 2009; Chen et al., 2009), lower debt costs (Ellul et al., 2007) and better quality of financial reporting (Fan and Wong, 2005). One possible way for firms to compensate for the shortcomings of poor legal institutions is with the help of good internal governance mechanisms.

On the other hand, empirical studies also show a large percentage of firms around the world, not only have single large shareholder (SLS), but also have other large shareholder(s) beyond the largest one (i.e. multiple large shareholders) (Claessens et al., 2000; Faccio and Lang, 2002; Maury and Pajuste, 2005; Laeven and Levine, 2008). This adds complexity to the agency problems between the controlling shareholder and minority shareholders as it is theoretically unclear what kind of role multiple large shareholders (MLS) play in the corporate governance of firms. They may have incentives similar to those of the controlling shareholder and thus collude with the controlling shareholder to expropriate minority shareholders together (Winton, 1993; Zwiebel, 1995; Kahn and Winton, 1998). On the contrary, in order to safeguard their own wealth, they may have the desire to monitor the activities of the controlling shareholder or compete with her/him for corporate control (Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001). In order to do so, they may align

their interests with those of minority shareholders and gather enough votes to veto any value-destroying decisions at shareholder meetings. This shifts the voting outcome more towards the dispersed shareholders (Dhillon and Rossetto, 2009). Or they may form coalitions with other shareholders to obtain corporate control instead. Moreover, if they cannot stop the expropriation as they wish, they may turn to the market and trade aggressively on firm's shares and this drives down the stock price (Edmans and Manso, 2011). The drop of the stock price, in turn, penalizes the behaviour of the controlling shareholder. In order to avoid such punishments, in firms with MLS, the dominant shareholder tends to behave and make decisions that represent general interests of majority shareholders. In that case, MLS can effectively play a corporate governance role to mitigate the agency problems between the controlling shareholder and minority shareholders. Current empirical studies favour the later argument that MLS are instrumental in alleviating agency problems using evidence from higher corporate valuation (Laeven and Levine, 2008; Attig et al., 2009), lower cost of equity capital (Attig et al., 2008), reduced audit fees (Adelopo et al., 2009) and higher risk taking (Mishra, 2011) with the presence of MLS. In this paper, using announcement period abnormal returns (*CAR2*) estimated following Masulis et al. (2007) for bidders from fifteen Western European and East Asian countries in acquisitions announced between 1996 and 2000, we examine whether the presence and the power of MLS are associated with bidder *CAR2* to uncover the impact of MLS as perceived by the market. We choose to examine the valuation effect of the merger and acquisition decision as it is one of the most important decisions that a firm needs to make. It generally requires the active participation of all decision makers, including shareholder approvals (Moeller, 2005). The shareholders have rights to vote for or against the acquisition proposal. In addition, the effect of the corporate governance structure on shareholder wealth can be detected through bidder announcement period abnormal returns within a short time period. This facilitates us to explore the role of MLS in an observable manner.

In comparing the bidder *CAR2* between firms with MLS and firms with SLS, we find market reacts positively to acquisition announcements made by the MLS bidders. This suggests that the presence of MLS may be associated with an effective corporate governance

role in mitigating the agency problems that prevail in SLS firms. Indeed, we find that the positive impact of the presence of MLS, their power and relative power on bidder *CAR2* continue to prevail after we control for proxies for bidder characteristics, deal characteristics, industry characteristics, external governance mechanisms, year fixed effects and country fixed effects. Our evidence is also robust to accounting for industry fixed effects, different proxies for control variables, country, industry and bidder clustering, different event windows, degree of investor protection for the target's country, different estimation windows and methods for estimating announcement abnormal returns and potential endogeneity problems. Hence, we conclude that MLS play a corporate governance role in mitigating agency problems between the controlling shareholder and minority shareholders as evident from announcement period abnormal returns for bidders.

Our study relates to Masulis et al. (2007) as we also examine the market reaction to investment decisions by firms with different corporate governance mechanisms using merger and acquisitions. Masulis et al. (2007) use the number of anti-takeover provisions (ATPs) as a proxy for internal corporate governance. They argue that the presence of more ATPs is associated with higher agency problems. Thus, ATPs are proxies for poor internal corporate governance mechanisms (Gompers et al., 2003; Bebchuk et al., 2009). By studying the domestic takeovers in the United States, they find that a larger number of ATPs has a negative impact on bidder announcement period abnormal returns. That is, market reacts negatively to acquisition announcements made by firms with poor corporate governance mechanisms. Our study differs from Masulis et al. (2007) as we examine market reaction to acquisition announcements made by the firms with a different proxy for internal corporate governance --- the presence of MLS in the bidder's ownership structure and their power. We show that the presence of MLS, their power and their relative power have a positive and significant impact on bidder announcement period abnormal returns. This essentially implies MLS play a positive governance role, and therefore mitigate the agency problems between the controlling shareholder and minority shareholders. This allows us to contribute to the existing merger and acquisition literature by introducing a different proxy for internal corporate governance. The study of MLS in the ownership structure also allows us to

complement to the existing ownership structure literature, especially the literature related to MLS ownership structures. In addition, to the best of our knowledge, this is the first international study that investigates the role of MLS using merger and acquisition activities. Some studies also examine acquisitions that have an international focus. They mainly concentrate on cross-border deals (Bris et al., 2008) and emerging–market multinationals (Aybar and Ficici, 2009). They examine the relationship of cross-border mergers and firm value as well as the effects of external governance transfers. By having our study on a cross-country (Western Europe and East Asia in our case) setting, we further explore the effect of country-level determinants of merger gains, such as the degree of investor protection. Our study thus makes contribution to the existing investor protection literature as well.

The rest of the thesis is organized in seven different sections. Section 2 reviews prior literature related to bidder announcement returns, corporate governance mechanisms and ownership structure. Section 3 presents the development of our main hypotheses with regards to proxies for the presence and the power of MLS. Section 4 describes our sample, bidder announcement returns estimation, test variables and control variables. Section 5 discusses the properties of our variables, univariate tests as well as the results of multivariate tests. Section 6 presents robustness tests and section 7 concludes the thesis.

2. LITERATURE REVIEW

2.1 Corporate Governance and Bidder Announcement Returns

Current empirical studies regarding corporate governance mechanisms mainly focus on their impact on firm valuation, profitability and stock performance. There are some recent studies that examine their effects on mergers and acquisitions. Gompers et al. (2003) construct a governance index (G-index) based on the 24 antitakeover provisions (ATPs) published by the Investor Responsibility Research Center (IRRC) and examine the impact of their use on corporate performance in the United States. They form a "Dictatorship Portfolio" with weakest shareholder rights (more ATPs) firms and a "Democracy Portfolio" with strongest shareholder rights (fewer ATPs) firms and find that an investment strategy of longing the "Democracy Portfolio" and shorting the "Dictatorship Portfolio" generates

substantial long-term abnormal returns. Their results also show firms with more ATPs (hence poorer corporate governance) are associated with lower firm value, profitability and sales growth. Similar to Gompers et al. (2003), Bebchuk et al. (2009) further select the 6 most important ATPs out of the 24 ATPs and construct the entrenchment index (E-Index). They also discover a negative relationship between the use of the E-index and firm value as well as long-term stock abnormal returns. According to Gompers et al. (2003), ATPs cause higher agency costs *"through some combination of inefficient investment, reduced operational efficiency, or self-dealing"* (p. 131). Masulis et al. (2007) thus examine the impact of the use of ATPs on a firm's investment efficiency, and particularly, shareholder wealth effects of firms' new acquisitions. They propose ATP value destruction hypothesis, claiming that *"managers protected by more ATPs are more likely to indulge in value-destroying acquisitions since they are less likely to be disciplined for taking such actions by the market for corporate control"* (Masulis et al., 2007, p. 1853). Their finding shows acquirers with more ATPs generate lower acquirer announcement returns than acquirers with fewer ATPs. This lends support to their ATP value destruction hypothesis, implying market reacts negatively to acquisition announcements made by the firms with poor internal corporate governance mechanisms. Moeller et al. (2004) suggest that bidder abnormal returns are also affected by the size of the bidder. Large bidders have lower bidder abnormal returns than small bidders. This is in accordance with the hubris hypothesis proposed by Roll (1986), who finds generally larger acquirers tend to pay higher takeover premium and generate negative dollar synergies during acquisitions. An alternative rationale to this negative relation between bidder size and bidder abnormal returns is that large firms are less likely to be takeover targets later (as it will require more resources to acquire them). Therefore, large bidder size serves as a takeover defence, which is similar to the function of ATPs. Using a sample of acquisition announcements made by U.S. banks, Piskula (2011) also finds evidence that market reacts negatively to acquisition announcements made by the bidders with weaker firm-level corporate governance. In addition, Wang and Xie (2009) argue that an acquisition is usually accompanied by a change in corporate control, which results in the replacement of the target's corporate governance by acquirer's corporate governance. *"When the acquirer has stronger shareholders rights than the target, the change in control will result in an*

improvement in corporate governance at the target. Such an acquisition leads to a better use of target assets and creates more value" (Wang and Xie, 2009, p. 830). More shareholder rights are associated with better corporate governance as they better protect shareholders against any actions that may hurt latter's benefits. When poorly managed targets are acquired by well-managed (good corporate governance) bidders, targets enjoy the benefits from the change in control. This synergistic effect of acquisitions is perceived positively by the market, leading to higher abnormal returns of a value-weighted portfolio of the acquirer and the target (Wang and Xie, 2009). Besides, their results show the synergistic gain is also shared by both the bidder shareholders and the target shareholders as both the bidder's and the target's abnormal returns increase with the increase in the difference in shareholder rights of the two firms. Similarly, Leverty and Qian (2010), who also study the synergistic effect, illustrate the importance of the efficiency difference of the acquirer and the target to shareholder wealth of both firms. As the efficiency difference increases, both the bidder and the target benefit from the acquisition as the bidder enjoys higher announcement period abnormal returns while the target gets higher takeover premium.

Apart from the corporate governance studies that cover the U.S. mergers only, some studies examine bidder returns and corporate governance on an international setting. A majority of these studies often examine cross-border mergers and acquisitions. That is, the bidder and the target are from two difference nations. In addition to the traditional benefits provided by domestic mergers, one important factor that motivates cross-border mergers is the benefit from governance-related differences across countries (Erel et al., 2011). A merger may happen if the combined firm has better protection for shareholders of the target firm because of the higher governance standards in the country of the bidder. Hence, the role of legal system plays a crucial part in shaping cross-border mergers (Bris and Cabolis, 2008; Bris et al., 2008). The target becomes a national of the country of the bidder in a cross-border merger, which implies a change in investor protection as the law from the acquirer's country applies to the newly merged firm after the merger (Bris et al., 2008). Bris et al. (2008) thus test whether the change in investor protection affects value, with industry Tobin's Q as the proxy. When investors are better protected by the legal system, they are more willing to get

involved in financing firms, which leads to broader financial markets (La Porta et al., 2002). Empirically, better shareholder protection is also associated with higher corporate valuation (La Porta et al., 2002). On the other hand, if the legal protection for investors is poor, corporate insiders enjoy greater freedom to make decisions that may not maximize firm value (Wurgler, 2000) such as making value-destroying acquisitions.[1] This results in higher agency problems. Thus, poor shareholder protection is usually associated with high cost of equity capital (Hail and Leuz, 2006; Guedhami and Mishra, 2009), poor quality of financial reporting (Fan and Wong, 2005) and low corporate risk taking (John et al., 2008; Mishra, 2011). With cross-border mergers, Bris et al. (2008) find when a firm from a country with good investor protection acquires a firm from a country with poor investor protection, the industry Tobin's Q of the bidder is not affected while the industry Tobin's Q of target increases. In fact, Rossi and Volpin (2004) show target firms enjoy better degree of investor protection after being acquired by firms from stronger investor protection regions. Therefore, targets are typically from countries with poorer investor protection than the bidders in cross-border mergers. Similarly, Erel et al. (2011) also show firms in countries with higher stock market valuations tend to be the bidders while firms from weaker-performing countries tend to be the targets. By restricting the targets from U.S. only, Kuipers et al. (2009) examine the incentive mechanisms created by legal environment and corporate governance structure from foreign acquirers. Their results show both the bidder and portfolio returns (combined returns for the bidder and the target) are positively related to the degree of investor protection and legal environment of the bidder. All these studies suggest better investor protection (better external governance) brings in values for cross-border mergers.

2.2 Corporate Governance and Ownership Structure

Berle and Means (1932) point out that the stock ownership is widely dispersed among different stockholders in many large companies in the United States. Control over the corporate wealth thus lies less in the same hands and can be exercised with or without any stock ownership. *"Ownership of wealth without appreciable control and control of wealth without appreciable ownership appear to be the logical outcome of corporate development"*

---

[1] Corporate insiders here refer to managers, controlling shareholders or anyone that controls the firm.

(Berle and Means, 1932, p. 69). This outlines an image of widely held corporations where dividend rights are dispersed among small shareholders while control rights are rested in the hands of professional managers, who do not have substantial dividend benefits from the corporations. This image has been well received by many scholars. Jensen and Meckling (1976) develop their theory of ownership structure of the firm based on widely held corporations. Jensen and Meckling are also among the first ones to define the concept of agency costs, implying there are always costs in solving the conflicts between principals (shareholders) and agents (managers). Agency problems arise because corporate decisions are made by managers on behalf of the shareholders and these two parties may not have the same perspectives. Thus, managers do not always act in the best interests of the shareholders. In particular, managers have the incentives to expropriate shareholders without incurring substantial costs by themselves (as they do not have substantial residual claims over the firm's assets). For instance, the manager may decide to buy raw materials from a supplier who charges a price that is higher than the market price. This supplier, for example, could be a friend of the manager or may give certain portion of the transaction value as commission back to the manager. In this way, the manger enjoys all the benefits from directing the transaction to this supplier while shareholders end up bearing most of the costs of paying a high price to the supplier. One way to mitigate these agency problems between shareholders and managers is to *"grant a manager a highly contingent, long term incentive contract ex ante to align his interests with those of investors"* (Shleifer and Vishny, 1997, p. 744). When managers have larger residual claims over the firm's assets, they have larger incentives to make decisions that are for the sake of the firm as they are now also the major beneficiaries. The managers with higher equity stake (larger residual claims) bear higher costs than those with trivial equity stake if the firm does not perform well. Jensen and Meckling (1976) suggest such management ownership is a good way to reduce agency costs arising from the principal-agent conflicts discussed above. They also recognize the important role of the legal system as *"statutory laws sets bounds on the kinds of contracts into which individuals and organizations may enter without risking criminal prosecution"* (Jensen and Meckling, 1976, p. 311). La Porta et al. (2000) advise legal system protects shareholders by making the expropriation technology less efficient. When there is no investor protection, managers have

unrestricted power to extract private benefits. As investor protection improves, managers intending to expropriate have to divert some of their attention to set up extraction channels so as to make the diversion less observable by shareholders. With very good investor protection, the most they can do is just to overpay themselves and put their acquaintances in managerial positions etc. (La Porta et al., 2000).

About three decades ago, scholars began to question the validity of the image of the widely held corporations. In particular, Demsetz (1983) argues ownership is not necessarily separated from control. In addition, even managers, especially top executives, may share firm's profits by receiving stock-based compensations. Shliefer and Vishny (1986) study a sample of 456 Fortune 500 firms and find 354 of them have at least one shareholder owning at least 5% of the dividend rights and the largest shareholder, on average, owns 15.4% of the dividend rights of the firm. A good number of these large shareholders are families and financial firms. Morck et al. (1988) uncover a significant management ownership using a similar sample of Fortune 500 firms in 1980. Board members own more than 10% of the equity stake for 31% of the firms in the sample and own more than 20% of the equity stake for 20% of the firms in the sample. Several recent empirical studies on ultimate ownership further show strong evidences in contrast to the dispersed ownership theory. [2] An examination of the 20 largest public firms in each of the 27 wealthy countries around the world, La Porta et al. (1999) show a large percentage (two-thirds in the full sample) of the corporations nowadays are not widely held, except in the countries with strong investor protections.[3] Most of these firms are controlled either by families or the state, while family control is more prominent. These controlling shareholders typically hold voting rights in excess of dividend rights. Controls are obtained mainly through the use of pyramid

---

[2] We follow the definition of "ultimate ownership" from La Porta et al. (1999) that it relies on "voting rights rather than cash-flow rights" (p.467). In the case of indirect ownership, cash-flow (dividend) rights are calculated as the product of the ownership stakes along the chain while voting rights are obtained through the weakest link along the control chain.

[3] They suggest the likelihood of widely dispersed ownership is the greatest at largest firms in the richest economies. We follow the definition of "widely held" from La Porta et al. (1999) that a firm is widely held if "there is no controlling shareholder" (p.478). A firm is said to have a controlling shareholder "if the sum of a shareholder's direct and indirect voting rights exceeds an arbitrary cut-off value, which, alternatively, is 20 percent or 10 percent" (p.478).

structures.[4] The deviation from one-share one-vote tends to be small. This means the use of dual class share structure to enhance control is not substantial. Very few of the firms (except those in Austria and Germany) use cross-shareholdings to enhance control. In the case of family controlled firms, controls are also enhanced through the participation in management. Family members hold important positions of management in at least 69% of the family controlled firms. The presence of concentration of ownership with voting rights in excess of dividend rights is also confirmed by two studies covering 9 East Asian countries (Claessens et al., 2000) and 13 Western European countries (Faccio and Lang, 2002).[5] Specifically, Claessens et al. (2000) study the public corporations in 9 East Asian countries and report two-thirds of the sample firms are controlled by single shareholder. More than half of the sample firms are family controlled while state control is significant in Indonesia, Korea, Malaysia, Singapore and Thailand. The control is enhanced typically through the use of pyramid structures and cross-shareholdings in all these East Asian countries in the sample. Again, controlling families typically participate in management of the firm. Faccio and Lang (2002) study a sample of corporations in 13 Western European countries and report that a large proportion of the firms (63.07%) feature a dominant large shareholder, which is mostly controlled by family (44.29%). Most firms in Western Europe use dual class share structures and pyramid structures to enhance the voting power of the largest shareholder. Furthermore, Morck et al. (2005) analyze large firms outside the United States and the United Kingdom and find they normally have controlling owners who are usually very wealthy families. Pyramid structures, cross-shareholdings and dual class share structures allow these families to obtain and enhance controls without making comparable capital investments to the firms.

More recent empirical evidence suggests controlling families participate in management in more than half of the family controlled firms (La Porta et al., 1999; Claessens et al., 2000). This suggests a lack of separation of ownership and management in these firms as controlling families often serve in important positions in the management of the firms they

---

[4] There are different ways to obtain or enhance controls of a firm. Commonly-known methods are the use of pyramid structures, cross-shareholdings, dual class share structures (use of shares with superior voting rights, which is represented by the deviation of one-share one-vote) and participation in management.

[5] Although the East Asian study covers regions that are not exactly a country (i.e. Hong Kong), we still refer it as a country (and thereafter) for expositional convenience.

control. Even when controlling shareholders do not participate in management, controlling shareholders have the incentives to monitor managers' activities as they suffer the most if managers make sub-optimal or value destroying decisions. Thus, these controlling shareholders can play an effective monitoring role or they can facilitate third party takeovers to replace the incumbent management if they think the managers are incompetent (Shliefer and Vishny, 1986). This role of the large shareholder helps mitigate the agency problems between managers and shareholders to a large extent as the controlling shareholder essentially controls the management. However, notice that the interests of the controlling shareholder may not represent the general interests of minority shareholders and more so because the controlling shareholder typically holds voting rights in excess of dividend rights (La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002). Separation of ownership and control thus takes a different form from the type of firms described in Berle and Means (1932).[6] The deviation of control rights from dividend rights gives the controlling shareholder incentives to extract private benefits at the expense of minority shareholders. For instance, law may permit the controlling shareholder to sell assets from the firm s/he controls to another firm s/he owns at a price that is much lower than the market price. In this way, the controlling shareholder enjoys the full benefits from the transaction (through the firm that s/he owns) while the costs of transfer pricing are shared by all the shareholders of the firm s/he controls. Moreover, the controlling shareholder can place incapable acquaintances in managerial positions or overpay the executives that s/he knows well (La Porta et al., 2000). As argued by Shleifer and Vishny (1997), the fundamental agency problems are not between shareholders and managers any more, but rather, are between the controlling shareholder and minority shareholders in firms with a controlling shareholder. La Porta et al. (2000) point out investor protection is crucial because of the existence of potential expropriation of minority shareholders by the controlling shareholder. When laws better protect the rights of shareholders, they are willing to pay more to finance the firm as they know "*more of the*

---

[6] In the type of firms described by Berle and Means (1932), stock ownership is rested in the hands of shareholders while controls are rested in the hands of professional managers, who do not have substantial equity ownership from the corporation. However, in the type of firms described by La Porta et al. (1999), Classenes et al. (2000) and Faccio and Lang (2002), stock ownership is dispersed among different shareholders while controls are rested in the hands of the controlling shareholder, who often has control rights in excess of his/her dividend rights.

firm's profits would come back to them as interest or dividends as opposed to being expropriated by the entrepreneur who controls the firm" (La Porta et al., 2002, p. 1147). Improving shareholder rights can thus lead to the higher valuation of the firm (La Porta et al., 2002) through the improved corporate governance. On the other hand, in economies with poor investor protection, the controlling shareholder has the opportunities to expropriate efficiently (La Porta et al., 2000). This is also why poor investor protection is usually associated with higher cost of equity capital (Hail and Leuz, 2006; Guedhami and Mishra, 2009), poorer quality of financial reporting (Fan and Wong, 2005) and lower corporate risk taking (John et al., 2008; Mishra, 2011). Nevertheless, Grossman and Hart (1988) and Harris and Raviv (1988) both suggest when the controlling shareholder retains substantial dividend rights in addition to control rights, s/he faces stronger incentives to monitor managers to have the firm run properly. Likewise, when the controlling shareholder has higher dividend rights, expropriation becomes more costly as doing so will lower her/his wealth eventually. This is exactly the incentive effect of managerial ownership proposed by Jensen and Meckling (1976). Indeed, Claessens et al. (2002) separate the effects of increasing control rights (leads to entrenchment effect) and dividend rights (leads to incentive effect) on firm value in 8 East Asian countries and find firm value increases with dividend rights while decreases with control rights. Additionally, La Porta et al. (2002) show although poor investor protection is penalized with lower firm valuation, higher equity ownership by the controlling shareholder helps to improve firm valuation.

While taking a closer look at the pattern of the ownership structure of the firms with a controlling shareholder, it is not hard to uncover the existence of other large shareholders, who also have significant dividend and voting rights in the firms besides the controlling shareholder and we call this MLS structure.[7] Particularly, Faccio and Lang (2002) show the controlling shareholder of 53.99% of the non-widely held firms is "alone".[8] In other words, about 44% of the firms featuring a dominant shareholder have at least two large shareholders.

---

[7] Follow La Porta et al. (2002), we refer a shareholder as "large" if the sum of its voting rights, both direct and indirect, is equal to or larger than 10%.

[8] According to Faccio and Lang (2002), "a controlling shareholder is said to be 'alone' if no other owner controls at least 10% of the voting rights" (p. 388).

Similarly, Attig et al. (2008) study listed corporations with at least one large shareholder from East Asia and Western Europe and record MLS ownership structures exist in 44% of the sample firms. Laeven and Levine (2008) show one-third of the publicly listed firms (both widely held and non-widely held) in Europe have MLS.

The presence of MLS in ownership structure adds complexity to the classical agency problems between the controlling shareholder and minority shareholders as it is theoretically not clear how these MLS behave. On one hand, the alignment of interest hypothesis suggests MLS may collude with the dominant shareholder for corporate control and extract private benefits together (Winton, 1993; Zwiebel, 1995; Kahn and Winton, 1998). Winton (1993) shows when the largest shareholder has sufficient incentives (large equity stake) to monitor managers' activities, it is always most efficient to have only one shareholder monitor. Increase in the number of shareholders reduces the effectiveness of monitoring because of the free rider problem. Zwiebel (1995) develops a theoretical model using game theory to show the dynamics of shareholder structure across firms. In particular, the model shows the presence of a large controlling shareholder tends to discourage other large shareholders to invest in the firm. In cases when firms do not have such a large controlling shareholder, they are more likely to have a number of moderate-sized shareholders, who tend to join together to form controlling coalitions and receive divisible private benefits from partial control. Likewise, MLS, who may have similar incentives as those of the dominant shareholder, tend to lean to the dominant shareholder in order to enjoy benefits from partial control. For instance, they can easily appoint their relatives to managerial positions by exercising their control. This collusion is more likely when the deviation of voting rights from dividend rights of the alliance is large as such an alliance has *"the incentives (small cash-flow rights) and ability (sufficient voting rights) to divert corporate resources for private gain"* (Laeven and Levine, 2008, p. 580). Kahn and Winton (1998) analyze the behaviour of institutional investors who have insider information (informed investors) and argue it is possible for these institutional investors to form coalition to obtain a large position of the firm's shares. When they see the firm's stock does poorly and not reflect existing information, they can buy additional shares, thus attracting uninformed investors to invest in the firm and boosting the

share prices. In that case, they benefit from the increase of share prices with both their existing and new shares. When they foresee the firm is going to perform poorly, these institutional investors may also short sell the shares in order to profit from selling at a relatively high price. In our case, MLS may behave as these institutional investors to collude together to obtain a large position of the firm's share and profit from different intervention mechanisms. The efficient monitoring hypothesis, on the other hand, suggests MLS may help limit expropriation by the dominant shareholder through the creation of valuable internal monitoring (Noe, 2002; Oded and Wang, 2010). One way to perform efficient monitoring is to form different coalitions to compete for corporate control (Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001). Bennedsen and Wolfenzon (2000) argue *"the founder of the firm can optimally choose an ownership structure with several large shareholders to force them to form coalitions to obtain control"* (p.113). The alignment effect indicates the controlling coalition should have greater dividend rights to reduce the incentives to extract private benefits (Gutierrez and Tribo, 2004) while the coalition formation effect implies the winning coalition is more likely to be formed with minimized dividend rights as such a coalition has higher incentives to extract private benefits. The conflict between these two effects (alignment effect and coalition formation effect) suggests the best ownership structure is the one with large shareholders of roughly the same size and smaller gap between voting and dividend rights so as to avoid the situation that the winning coalition has relatively small dividend benefits. Bloch and Hege (2001) examine a model with two large shareholders and a group of small shareholders. They argue such an ownership structure can limit rent extraction. Since both large shareholders want to attract votes from minority shareholders to support their proposed strategies, they may pledge to limit the private benefit they take. When the control power of the two large shareholders is more equal, they are more likely to sacrifice more rents (private benefits) to obtain the support from minority shareholders. Hence, the rent extraction is more likely to be minimized. In our case, MLS may align their interests with those of minority shareholders to compete with the dominant shareholder in order to safeguard their own wealth and avoid it being expropriated by the dominant shareholder. So as to attract more voting rights, MLS may even sacrifice some of their own private benefits, such as paying a positive price for votes from minority shareholders (Nenova, 2003). Facing

the pressure from MLS, the dominant shareholder may do the same in order to remain in the controlling position. Such control contests effectively restrict the power of the dominant shareholder to extract private benefits arbitrarily. In theory, Bennedsen and Wolfenzon (2000) suggest an ownership structure with shareholders of roughly the same size is optimal. Bloch and Hege (2001) show two large shareholders do not extract private benefits because they compete for effective corporate control. Moreover, even if a large shareholder is not competing for corporate control, s/he may have one or more positions in the board. Thus, s/he is more likely to use such position(s) to monitor the behaviour of the controlling shareholder and vote for corporate decisions that are of her/his best interests (Mishra, 2011). In the event that MLS fail to prevent the expropriation from the controlling shareholder, they can turn to the market and trade aggressively to compete for profit, which drives down the stock price (Edmans and Manso, 2011). Edmans and Manso (2011) demonstrate MLS structure can be efficient through the trading mechanism. When large shareholders feel managers are making decisions that do not enhance firm value (shareholders are being expropriated by these decisions), they trade aggressively to profit from selling their shares at a relatively high price instead of waiting their shares to go down with the decrease of firm value because of the mangers' decisions. Such action drives down the stock price and penalizes managers' behaviour by injecting negative information into stock prices. In firms with large shareholders, managers understand those large shareholders will take advantage of trading to profit if managers make decisions that hurt shareholders' interests. Therefore, managers try to make best decisions possible to avoid being penalized through the trading mechanism. Large shareholders in these firms thus indirectly monitor managers' behaviour. We argue the dominant shareholder acts like those managers. In order to prevent from being punished for her/his self-fulfilling decisions, s/he tends to make decisions that are of the interests of majority shareholders. Other studies, such as Pagano and Röell (1998), argue MLS reduce expropriation through cross-monitoring. Furthermore, Gomes and Novaes (1999) and Dhillon and Rossetto (2009) provide alternative explanations, other than efficient monitoring, to support the corporate governance role played by MLS. Gomes and Novaes (1999) argue sharing control among MLS prevents the dominant shareholder from taking unilateral actions that might hurt the others. MLS can have disagreements on major corporate decisions,

creating bargaining problems. Although these ex-post bargaining problems may block some efficient decisions, they can also avoid harmful corporate decisions, especially in firms with significant overinvestment problems and large financing requirements (Gomes and Novaes, 2006). Dhillon and Rossetto (2009) relax the assumption that the founder of the firm has the discretion in deciding the ownership structure and argue the establishment of different ownership structures depends on the entrepreneur's needs to raise additional capital. Shareholders have endogenous preferences towards certain investment choices depending on the size of their stake. The initial owner, who has large stake of the firm, holds an undiversified portfolio and hence favours investment choices that are less risky. Minority shareholders, however, have small stakes in the firms and prefer higher returns. This creates endogenous conflicts of interests between the large shareholder and minority shareholders. In order to guarantee that the firm invests in projects that have higher risk/returns, some investors may continue buying more stake and thus become second largest (or more) shareholders. Although their risk/return preference will decrease along with the amount of stake they own, their actions shift the voting outcome more towards higher risk/returns projects. This, in turn, benefits minority shareholders. Empirically, Maury and Pajuste (2005), Laeven and Levine (2008) and Attig et al. (2009) show MLS have a positive effect on firm value in Finland, Western Europe and East Asia, respectively. Attig et al. (2008) reveal a decreased implied cost of equity capital with the presence of MLS and the effectiveness of MLS monitoring reduces with the presence of uneven distribution of control rights among large shareholders. Mishra (2011) finds that higher corporate risk taking, usually indicating value-enhancing investment choice, is associated with the presence of the MLS structure. Nagar et al. (2010) find better firm performance with the presence of MLS using data from closely-held corporations. Bharath et al. (2010) find support that blockholders' ability to exit can be a powerful governance mechanism, supporting the arguments in Edmans and Manso (2011). All these lend support to the argument that MLS play an efficient corporate governance role in mitigating the agency problems between the controlling shareholder and minority shareholders. However, Faccio et al. (2001) test the effect of MLS on dividends and find MLS mitigate expropriation in Europe (due to monitoring) while exacerbate it in Asia (due to collusion).

3. HYPOTHESES DEVELOPMENT

Recent literature suggests a large percentage of corporations around the world have a controlling shareholder in the ownership structures. In such corporations, the controlling shareholder typically holds voting rights in excess of dividend rights (La Porta et al., 1999; Claessens et al., 2000; Faccio et Lang, 2002). The excess voting rights in relation to the dividend rights give the controlling shareholder the power (significant voting rights) and incentives to extract private benefits at the expense of other shareholders, especially when these incentives are substantial (deviation of the voting rights from dividend rights is large). Therefore, the fundamental type of agency problems is not the one between shareholders and managers in many of these firms. Instead, it is between the controlling shareholder and minority shareholders (Shliefer and Vishny, 1997). Nevertheless, prior studies reveal that besides the controlling shareholder, there are also other large shareholders, who have significant dividend and voting rights (Faccio and Lang, 2002; Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008). This makes the classical agency problems between the controlling shareholder and minority shareholders complicated as it is theoretically unclear how these MLS behave. The alignment of interest hypothesis suggests MLS may have similar incentives to the dominant shareholder. In order to extract private benefits together, MLS may collude with the dominant shareholder and expropriate minority shareholders (Winton, 1993; Zwiebel, 1995; Kahn and Winton, 1998). Previous studies show market reacts negatively to acquisition announcements made by the firms with poor internal corporate governance (Masulis et al., 2007; Piskula, 2011), yet positively to acquisition announcements that create synergistic gains through governance transfer (Wang and Xie, 2009). In our case, we can examine the effect of the presence of MLS through the market reactions to acquisition announcements made by firms. When MLS collude with the dominant shareholder, they do not help to alleviate the original agency problems between the controlling shareholder and minority shareholders. In other words, the presence of MLS ownership structure does not result in an improvement in the corporate governance. Hence, when these firms make acquisitions, market views it as a means for these large shareholders to remain in control and maximize private benefits at the cost of minority shareholders.

Therefore, market does not react positively to these acquisition announcements, or even, reacts negatively as these acquisitions will not create value for all shareholders (including minority shareholders). On the other hand, the efficient monitoring hypothesis suggests MLS may enhance internal monitoring by forming coalitions to monitor or compete for corporate control (Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001). Even if the large shareholders do not intend to compete for control, they may have one or more positions in the board. This also allows them to disagree on any value-destroying decisions, such as by avoiding poor quality lower risk projects, to protect themselves from being expropriated by the dominant shareholder (Mishra, 2011). Moreover, they may exert indirect monitoring through trading mechanism (Edmans and Manso, 2011) or shift the voting outcomes more towards minority shareholders (Dhillon and Rossetto, 2009). These MLS can thus effectively play a corporate governance role and market perceives bidders with such MLS in the ownership structure have strong corporate governance. When these bidders make acquisition announcements, market perceives that these acquisitions will create synergistic gain, leading a positive effect on the bidder announcement returns. Empirical studies generally support this corporate governance role played by MLS (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008; 2009; Mishra, 2011).

In order to test how MLS behave, we create different ownership structure variables in relation to the presence of MLS (*Presence1, Presence2* and *Presence2345*) as well as their power in shaping corporate decisions (*Vote2, Vote2/1, Vote2345, Vote2345/1* and *High_diff*) following Attig et al. (2008; 2009) and Mishra (2011). We refer a shareholder as "large" if the sum of her/his voting rights, both direct and indirect, is equal to or larger than 10% (La Porta et al., 2002). If no shareholder has voting rights of at least 10%, the firm is then classified as widely-held. We extract ownership structure information for East Asian countries from Claessens et al. (2000), who provide the dividend rights of the ultimate largest shareholder, voting rights of up to the fifth ultimate largest shareholders, methods of gaining control and information related to participation in management obtained in 1996. However, there is no information regarding dividend rights of other large shareholders beyond the largest one. According to Claessens et al. (2000), control of the firm is enhanced through

pyramid structures and cross-holdings among firms in all East Asian countries. Therefore, the other control method, namely dual class share structure is not applicable for the East Asian sample. We extract ownership structure information for Western European countries from Faccio and Lang (2002), which provides dividend rights and voting rights of up to the fifth ultimate largest shareholders, methods of gaining control, incomplete information related to participation in management and so forth obtained for the period from 1996 to the end of 1999. According to La Porta et al. (1999), ownership patterns tend to be relatively stable. Therefore, using ownership data from different years will not be an issue in our study. Based on this ownership structure information, we create the following two sets of variables (as well as associated hypotheses) that are of our interest following Attig et al. (2008; 2009) and Mishra (2011):

i) Presence1, Presence2 & Presence2345

This set of variables identifies the pattern of the bidder's ownership structure.

Presence1 takes the value of "1" for firms with a dominant shareholder with at least 10% voting rights and "0" for firms that are widely held. It identifies firms with a controlling shareholder in the ownership structure. Whether the market reacts positively or negatively to acquisition announcements made by the firms with the presence of a dominant shareholder is debatable. On one hand, the dominant shareholder has the incentive to monitor the activity of the manager and make sure that the decisions that the managers make will not hurt the dominant shareholder's interest. This helps to reduce the agency problems between shareholders and managers, which leads to positive reactions from the market (Shliefer and Vishny, 1997). On the other hand, minority shareholders are subject to expropriations from the dominant shareholder (Shliefer and Vishny, 1997). The dominant shareholder has incentives to expropriate other shareholders, especially when the separation of dividend rights and voting rights is substantial. This creates the agency problems between the dominant shareholder and minority shareholders and leads to negative reactions from the market. The situation is even worst in weak investor protection environments as the dominant shareholder enjoys greater flexibility and freedom to extract private benefits. This is also why firms with a dominant shareholder are often associated with lower firm value, especially in poor investor

protection economies (La Porta et al., 2000; 2002). However, it is theoretically unclear whether the impact of the dominant shareholder on mitigating agency problems between managers and shareholders is larger than the consequential agency problems between the dominant shareholder and minority shareholders. If the extent of agency problems mitigated is higher than the agency problems created by the presence of the dominant shareholder, we expect *Presence1* to be positively associated with bidder *CAR2*. However, if it turns out otherwise, we expect *Presence1* to be negatively associated with bidder *CAR2*. In summary, we make no prediction about the market reactions to acquisition announcements made by the bidders featuring *Presence1*.

Presence2 takes the value of "1" for firms that have a second largest shareholder with at least 10% voting rights and "0", otherwise. This is our main test variable as it identifies a MLS structure in the firm. The two competing arguments of the role of MLS suggest either sign (positive or negative) is possible. If large shareholders intend to compete for control, they will help restrict the ability of the dominant shareholder to extract private benefit. MLS will also vote against any potential value-destroying decisions in order to protect their own wealth from being expropriated by the dominant shareholder. In this case, the presence of the second largest shareholder (regardless whether there are more than two or just exactly two large shareholders) is associated with an effective corporate governance role (Gomes and Novaes, 1999; Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001). When firms featuring MLS in ownership structure make acquisitions, market may perceive these as strategic moves for potential synergetic gains for the combined firms, which in turns creates value for all shareholders. Therefore, market is likely to react positively to these acquisition announcements. Conversely, instead of competing for control or monitoring the behaviour of the dominant shareholder, if MLS collude together and share whatever benefits they extract, these MLS do not play a corporate governance role. The presence of a second largest shareholder (or more) will not effectively protect the interests of minority shareholders. When they make acquisitions, market perceives that these acquisitions will not be value-enhancing as they may be ways for large shareholders to extract private benefits collectively at the expense of minority shareholders. Therefore, market will not react

positively, or may even react negatively to these acquisition announcements. In order to identify whether MLS play an effective corporate governance role, we test in the sample of firms with at least one large shareholder (i.e. *Presence1* equals to 1) where the agency problems between the dominant shareholder and minority shareholders are most probable.[9] Existing empirical findings show MLS play an effective governance role in mitigating such agency problems (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008; 2009; Mishra, 2011). Favouring these findings, we also expect the market to react positively to acquisition announcements made by the firms with at least two large shareholders in the ownership structure. Therefore, we state our hypothesis 1 as:

H_1: In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Presence2.

Presence2345 is the total number of large shareholders beyond the largest one (up to four) in a firm. The analytical literature does not provide a conclusive argument of whether the market reacts positively or negatively to acquisition announcements made by the firms with the presence of many large shareholders. Bennedsen and Wolfenzon (2000) suggest the efficiency in decision making decreases with the increase of the number of relevant shareholders. In firms with the presence of MLS, many different coalitions with sufficient power to control the firms can be formed. The winning coalition is usually the one with the least cash flow stake because it is more beneficial to extract private benefits when the cash flow stake is small. This winning coalition thus has a larger incentive to expropriate other shareholders. The tendency that the winning coalition obtains control with a very small cash flow stake increases with the increase of the number of MLS or when cash flow rights are distributed more unevenly. The small cash flow stake held by the winning coalition, in turn, increases the tendency that the winning coalition extracts benefits to be shared among coalition members at the cost of other shareholders instead of performing monitoring (Bloch and Hege, 2001). In this case, market will react negatively to acquisition announcements made by the firms with many large shareholders. However, the bargaining effects hypothesis

---

[9] The same logic applies to remaining ownership structure variables (MLS proxies). We will test the effect of all these proxies for the presence and the power of MLS in the firms with at least one large shareholder.

of Gomes and Novaes (1999) suggests that the presence of many large shareholders can protect the benefits of minority shareholders. With the presence of many large shareholders, the disagreements among large shareholders become more likely. This makes the approval of any proposals more difficult unless most large shareholders think the proposals are helpful in maximizing their wealth. Although it may result in some value-enhancing merger proposals being passed away, value-destroying merger proposals can easily be identified and vetoed. In addition, more large shareholders increase the likelihood that they "vote with their feet" (through aggressive trading for profits) when they suspect they are being expropriated (Edmans and Manso, 2011). In this case, market views the presence of many large shareholders as a defence for minority shareholders' benefits and reacts positively when these firms make acquisition announcements. Moreover, the existence of many blockholders helps shift the voting outcome more towards the interests of minority shareholders (Dhillon and Rossetto, 2009). Current empirical studies support the presence of many blockholders is beneficial and has larger impact on corporate policies and firm performance (Attig et al., 2008; Cronqvist and Fahlenbrach, 2009; Mishra, 2011). In relation to these findings, we also expect that the presence of many large shareholders can protect the interests of minority shareholders. Therefore, we state hypothesis 2 as:

H_2: In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Presence2345.

ii) Vote2, Vote2/1 Ratio, Vote2345, Vote2345/1 Ratio & High_Diff

This set of variables identifies the absolute power of MLS and power of MLS in relation to the largest shareholder.

Vote2 is the size of voting rights of the second largest shareholder. It measures the votes of the second largest shareholder as a percentage of total votes outstanding. The impact of *Vote2* depends on the role that MLS play. If the second largest shareholder, indeed, performs an efficient monitoring role, we expect this to be positively related to the bidder announcement period abnormal returns as market values the voting rights of the second largest shareholder. The larger the voting rights, the more competitive the second largest

shareholder is. It will be easier for the second largest shareholder to successfully veto any proposals that potentially destroy shareholder values. Contrary is true if MLS collude to extract mutual private benefits. Existing empirical findings suggest MLS play a corporate governance role and their power has a positive impact on lowering cost of equity capital (Attig et al., 2008) and increasing corporate risk taking (Mishra, 2011). Thus, we anticipate that market reacts positively to acquisition announcements made by the firms with larger *Vote2*. Likewise, if MLS play a corporate governance role, we should also expect market to react positively to acquisition announcements made by firms with higher *Vote2/1 Ratio* as it measures the relative voting power of the second largest shareholder vs. the largest shareholder. The higher the value of *Vote2/1 Ratio,* the more comparable is the second largest shareholder to the largest shareholder. The power of the largest shareholder will be more restricted as the second largest shareholder will be in a better position to replace her/him to control the firm with the help of other shareholders. The larger power of the second largest shareholder facilitates her/him to monitor the largest shareholder more effectively. Therefore, firms with larger power of the second largest shareholder are more likely to be associated with better corporate governance. Therefore, we expect the following hypotheses to hold in relation to the power of the second largest shareholder:

H_{3a}: *In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Vote2;*

H_{3b}: *In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Vote2/1 Ratio.*

Vote2345 is the sum of voting rights of all large shareholders other than the largest one. If the presence of many large shareholders beyond the largest shareholder indeed is effective in mitigating the agency problems between the controlling shareholder and minority shareholders, the higher voting rights of these large shareholders can help them better perform their monitoring role (Pergola and Verreault, 2009), which in turn, better protect the interests of minority shareholders. Otherwise, higher voting power of these blockholders will not help protect the interests of minority shareholders. Current empirical findings suggest the voting power of the blockholders is beneficial for them to perform the corporate governance

role (Attig et al., 2008; 2009; Mishra, 2011). Thus, we expect *Vote2345* to be positively related to the bidder announcement period abnormal returns and market assigns a positive value to the power of these blockholders. Similarly, we should expect *Vote2345/1 Ratio*, which measures the voting power of other large shareholders relative to that of the largest shareholder, to be positively related to the bidder announcement period abnormal returns as well. When other large shareholders have comparable or higher voting rights relative to the largest shareholder, coalitions with sufficient voting rights can be formed more easily. If the dominant shareholder does not make acquisitions that are of the best interests of majority shareholders, other large shareholders can easily gather their votes and control the firm instead. This helps ensure other large shareholders to perform the corporate governance role more smoothly. Therefore, we state the following hypotheses in relation to the power of blockholders:

H$_{4a}$: In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Vote2345;

H$_{4b}$: In firms featuring Presence1, bidder announcement period abnormal returns are positively associated with Vote2345/1 Ratio.

High_Diff is the sum of squares of the voting rights differences of the five largest shareholders. The value of *High_Diff* will be large if voting rights are substantially unevenly distributed among these large shareholders. For example, if the largest shareholder holds exceptionally large voting power than other large shareholders, it will be harder for other large shareholders to monitor and restrict the activity of the largest shareholder. In this case, the largest shareholder can make acquisition decisions that benefit her/him without fearing other shareholders to have enough voting power to control. Hence, other shareholders cannot perform an effective governance role as they are not strong enough (in terms of voting power) to compete with the largest shareholder. Large dispersion of voting power of large shareholders thus indicates lower contestability of other large shareholders with the controlling shareholder, which leads to higher tendency of expropriation by the controlling shareholder. We expect market to react negatively to acquisition announcements made by firms with large *High_Diff*. Therefore, we state hypothesis 5 as:

H_5: In firms featuring Presence1, bidder announcement period abnormal returns are negatively associated with High_Diff.

4. DATA AND METHODOLOGY

4.1 Sample Construction

To study the impact of ownership structure with MLS on bidder returns, we first extract our acquisition sample from the Securities Data Company's *SDC Platinum - Global Merger and Acquisition* database, where detailed information such as announcement date, bidder information, target information, deal characteristics are available for the mergers and acquisitions around the world. We then hand match the acquisition sample with the ownership data compiled from a sample of firms from 9 East Asian countries (Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand) used by Claessens et al. (2000) and 13 Western European countries (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom) used by Faccio and Lang (2002). The ownership data provides information about the voting rights and shareholder type of up to the fifth largest shareholders computed in 1996 for East Asia and between 1996 and 1999 for Western Europe. Third, we extract the bidder's total return index from the *Datastream* database for firms in the matched sample using Datastream code obtained from *SDC's Global Merger and Acquisition* database. From the same database, we also extract Datastream country market return index for each country of the bidders, which we use to estimate bidder abnormal returns. Both the bidder stock and the country market index returns are measured in U.S. dollar. Fourth, we estimate the announcement period abnormal returns (*CAR2*) for a five-day (-2, +2) event window (two days before and after the event day) for the bidders in this sample using standard event study methodology following Brown and Warner (1985) and Masulis et al. (2007) with a 200-day (-220, -21) estimation window.[10] Finally, we extract annual financial data from the *Worldscope* in order to calculate some of our control variables (*Firm Size, Tobin's Q, Leverage, Free Cash Flow*). We merge our hand matched acquisition sample with the

---

[10] For both windows (event window and estimation window), day 0 is the acquisition announcement date.

Worldscope data by Datastream code, country and announcement year and obtain our final sample of 782 acquisition announcements made by 539 firms over the period of 1996 to 2000 that meet the following criteria:[11]

a. The acquisition is completed.

b. The form of deal is either merger or acquisition as identified by letter "M" and "A" in *SDC Platinum*.

c. The acquirer is seeking to own 100% of the target's shares after the transaction.

d. The acquirer nation cannot be unknown.

e. Information about deal value must be available.

f. The type of acquisitions cannot be one of the following: exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, privatization, self-tenders, recapitalizations and spinoffs.

g. The acquiring firm must be covered in either Claessens et al. (2000) or Faccio et al. (2002).

h. The total return index of the acquiring firm must be available in the *Datastream* database.

i. At least 100 observations with non-missing value for total return in the estimation period must be available to estimate market model parameters that we use in generating bidder *CAR2*.

j. The data used in calculating some of our control variables for the acquiring firm must be available for the fiscal year ending before the acquisition announcement date from the *Worldscope* Database.

k. Firms must be from countries that have both types of ownership structure: single large shareholder (SLS) and multiple large shareholders (MLS).[12]

---

[11] We choose 1996 as the threshold of our study period because the ownership structure data are systematically recorded since 1996 and *SDC's Global Merger and Acquisition* data on acquisitions outside U.S. become more reliable as of that year. We choose a study period from 1996 to 2000 in order to be consistent with the ownership data, which helps avoid potential survivorship bias.

[12] Our sample has 19 countries in total that meet the sample construction criteria from (a) to (j). However, among these 19 countries, Belgium and Korea only have firms with SLS while Austria and Thailand only have firms with MLS. If we include these countries, we may introduce large variations and bias to our results. Thus, we exclude them for our main analysis.

4.2 Variable Specifications

A brief description of our key variables is included in the Appendix A.1.

4.2.1 Bidder Cumulative Abnormal Returns

We estimate our dependent variable, the cumulative abnormal returns surrounding the announcement of the acquisition, using standard event study methodology. We obtain the announcement date from *SDC's Global Merger and Acquisition database*. According to the single factor market model of Brown and Warner (1985), the abnormal return for a firm on a given trading day is its market-model adjusted return on that day and is calculated as:

$$AR_{i,t} = R_{i,t} - \hat{a}_i - \hat{u}_i. R_{m,t} \tag{1}$$

where $AR_{i,t}$ is the abnormal return for firm i on day t, $R_{i,t}$ is the return for firm i on day t, $R_{m,t}$ is the proxy for the return on the market portfolio (we use Datastream country market total return index for each country from *Datastream* as our market return proxy in this case), and $\hat{a}_i$ and $\hat{u}_i$ are market model parameters from the following equation *(2)*:

$$R_{i,t} = \hat{a}_i + \hat{u}_i R_{m,t} + \hat{e}_{i,t} \tag{2}$$

The equation *(2)* uses a 200-day estimation period including days -220 to -21 where day 0 is the acquisition announcement date and day -1 is the trading day before the announcement date. We compute the cumulative abnormal returns for the five-day *(CAR2)* event window (-2, +2) as follows:[13]

$$CAR_i (-2,+2) = \sum_{t=-2}^{+2} AR_{i,t} \tag{3}$$

While testing the null hypothesis that the *CAR2* is equal to zero, we estimate the test statistic proposed by Brown and Warner (1985) instead of the regular t-test:

$$t = \frac{\sum_{t=-2}^{+2} \overline{AR_t}}{\sqrt{\sum_{t=-2}^{+2} \hat{S}^2 (\overline{AR_t})}} \tag{4}$$

---

[13] We use a multi-day event window in order to capture the possible information leakages that may occur before the announcement date as well as the market reaction lags after the announcement date. We believe an event window covers two days before and after the announcement date should be able to capture substantial market reactions related to the announcement. Other event windows are also tested for robustness and are included in the robustness tests section.

where $\overline{AR}_t = \frac{1}{N_t} * \sum_{i=1}^{N_t} AR_{i,t}$ and $\hat{S}^2(\overline{AR}_t) = \sqrt{\sum_{t=-220}^{-21}(\overline{AR}_t - \frac{1}{200} * \sum_{t=-220}^{-21} \overline{AR}_t)^2/198}$.

$\overline{AR}_t$ is the mean abnormal returns of all the firms on day t and $\hat{S}^2(\overline{AR}_t)$ is the variance of the mean abnormal returns of all the firms calculated in the 200-day estimation period.

Table 1A presents summary statistics of the bidder announcement period abnormal returns *(CAR2)* of our sample acquisition announcements by country.

[Insert Table 1A]

The average five-day bidder announcement period abnormal returns *(CAR2)* for the whole sample is -1.14%. This indicates merger and acquisition transactions, on average, are value-decreasing for the bidder's shareholders in our sample. The range of the mean bidder *CAR2* expands from -5.98% in Sweden to 4.85% in Germany. Notice that 68.67% of the acquisition announcements in our sample are made by firms from United Kingdom (U.K.). This result is actually not surprising as U.K. always represents a substantial amount of observations in many studies related to ownership structure in the international context, such as Faccio et al. (2006) and Laeven and Levine (2008). U.K. also has a large number of public firms represented in our ownership data obtained from Faccio and Lang (2002). We will address this issue in a separate section (section 6.1). On the other hand, the acquisitions are more uniformly distributed over time, as indicated in Table 1B. It presents summary statistics of the bidder announcement period abnormal returns *(CAR2)* of our sample acquisitions by year.

[Insert Table 1B]

It is likely that due to the influence of Asian financial crisis, the number of acquisitions in our sample drops substantially in 1997. Yet, it rebound in 1998 and reaches its peak in 1999. Regardless of the impact of Asian financial crisis, Masulis et al. (2007) document the similar pattern with their domestic sample from United States. The mean bidder *CAR2* for each year is negative, except for year 2000. The standard deviation of mean bidder *CAR2* is larger for year 2000 than other years because the most positive and negative bidder *CAR2s* are concentrated in this year.

4.2.2 Ownership Structure

Our explanatory variables are the proxies for the presence and the power of the MLS in the bidder's ownership structure. We develop two main sets of proxies representing the number of large shareholders and the power of these large shareholders, respectively. *Presence1, Presence2* and *Presence2345* are proxies that capture the pattern of ownership structure while *Vote2, Vote2/1 Ratio, Vote2345, Vote2345/1 Ratio* and *High_Diff* capture the voting power in relation to these large shareholders. The main task of this thesis is to investigate the relationship between these MLS proxies and the bidder announcement period abnormal returns in order to reveal whether MLS play an effective corporate governance role in alleviating the agency problems between the controlling shareholder and minority shareholders.

4.2.3 Control Variables

We consider two main categories of control variables suggested by previous studies that are related to bidder announcement period abnormal returns: bidder characteristics and deal characteristics.

The characteristics of the bidder that we control for are *Firm Size, Tobin's Q, Leverage, Free Cash Flow* and *Price Runup*. We use log of market capitalization of the bidder as the proxy for the bidder's size following Wang and Xie (2009). Existing empirical studies show that the size of the bidder is negatively related to the bidder *CAR2* (Moeller et al., 2004; Masulis et al., 2007; Wang and Xie, 2009). This is in line with the managerial hubris hypothesis that larger bidders, on average, pay higher premiums and get negative dollar synergies from the acquisitions (Roll, 1986). Following this, we expect the bidder *CAR2* to be negatively associated with the bidder size. We calculate the bidder's *Tobin's Q* as the ratio of market value of assets over book value of assets of the bidder. It can be proxy for managerial ability (Lang et al., 1989), investment opportunities of the firm (Servaes, 1991) and firm's growth opportunities (Hail and Leuz, 2006). There is no conclusive evidence for the sign of *Tobin's Q* from prior literature. In domestic acquisition studies (U.S. studies), Lang et al. (1989; 1991) and Servaes (1991) record a positive relationship between *Tobin's Q* and bidder *CAR2* while Moeller et al. (2004) and Bhagat et al. (2005) document a negative relationship.

Both Masulis et al. (2007) and Wang and Xie (2009) show no significant relationship. Faccio et al. (2006) find no significant relationship in the full sample based on the international context. Therefore, we make no predication regarding the sign of *Tobin's Q*. *Leverage* is the book value of debts over the market value of total assets. A high leverage level can help reduce future free cash flow that is disposal at corporate insiders' discretion (Masulis et al., 2007). Higher leverage and regular commitment to debt repayment suggest that the firm is left with less cash flow that can be diverted to corporate insiders' personal benefits. Moreover, failure to repay debt on time will result in potential bankruptcy and liquidation of the firm. In order to avoid this from happening and remain in control of the firm, managers or the controlling shareholder has the incentive to make acquisitions that can help improve firm performance when leverage is high (Masulis et al., 2007). On the other hand, higher debt level may prevent firms from making value-enhancing acquisitions that are not affordable (Stulz, 1990). It may also give a signal to investors that the firm is experiencing operating difficulty. Thus, either sign of the coefficient of *Leverage* is possible. Maloney et al. (1993) record bidders with higher leverage have higher bidder *CAR2* while Moeller et al. (2004) and Masulis et al. (2007) find insignificant relationship between leverage and bidder *CAR2*. With regards to *Free Cash Flow*, when firms have abundant cash flow, corporate insiders tend to extract private benefits from it instead of giving it back to investors (Jensen, 1986). They may make use of it to acquire value-destroying targets that may benefit themselves. They may also divert it to themselves through perquisite consumption. In this case, a high level of free cash flow will generate a negative market reaction. Large free cash flows, on the other hand, may reflect the high quality of managers, which lead to better recent firm performance (Masulis et al., 2007). Yet, both Moeller et al. (2004) and Masulis et al. (2007) do not document any significant relationship between free cash flow and bidder *CAR2*. Hence, we do not have a conclusive prediction regarding the sign of *Free Cash Flow*. All variables of bidder characteristics are calculated using the annual fiscal year end data before the acquisition announcement year obtained from *Worldscope* according to the definitions in Appendix A.1. Using prior year data ensures characteristics of the bidder will not be affected by the acquisition announcement. In addition, Masulis et al. (2007) argue firm with poor corporate governance, in terms of having more ATPs, experience worse prior stock return performance.

31

In order to control for the impact of other corporate governance mechanism and isolate the impact of ownership structure from that of prior stock performance, we also control for *Price Runup*, which is the sum of the bidder returns over the 200-day estimation period from event day -220 to event day -21.

The characteristics of deals that we control for are the relative deal size, ownership status of the target, method of payment and whether the deals are cross-border deals, diversifying deals or deals from the high-tech industry. We use *Deal Value to ACQ Value* as a proxy for relative deal size. It measures the deal value relative to the market value of equity of the bidder. Existing empirical findings extensively support a positive impact of large acquisitions on bidder *CAR2* (Asquith et al., 1983; Moeller et al., 2004). Some other studies, yet, do not find any significant relationship between the two (Masulis et al., 2007; Kuipers et al., 2009). With regards to the ownership status of the target, past studies examining domestic mergers for U.S. firms show bidders experience significantly positive *CAR2* while buying private or subsidiary targets (Fuller et al., 2002; Moeller et al., 2003; Capron and Shen, 2007). Using evidence from 17 Western European countries, Faccio et al. (2006) document the consistent result, suggesting that shareholders from the bidder are better off when the target firm is not traded on an exchange. The rationale behind this is bidders usually get a better price while buying private targets as non-public targets are less liquid (Fuller et al., 2002). While acquiring public targets, the transaction price may increase in order to satisfy the interests of a large group of shareholders (Choi and Russell, 2004). Market thus reacts positively to acquisitions of private targets since bidders benefit from liquidity discounts. In our sample, we create three indicator variables to represent *public, privat*e and *subsidiary* targets, respectively. For the impact of the method of payment on bidder *CAR2*, we identify *Stock* deals with a value of "1" if the deal is paid either partially or purely by stock and "0", otherwise. According to pecking order theory, equity financing is the least ideal financing method as it sends a negative signal to the market that the firm's stock is overvalued, which drives down the stock price of the bidder (Myers and Majluf, 1984). Thus, market is likely to react negatively if the acquisition is paid by stock only, especially when managerial ownership is low (Amihud et al., 1990). However, Fuller et al. (2002) find acquirer returns

are significantly positive while acquiring private or subsidiary targets regardless of the method of payment. Purchase of the private target with stock may lead to the creation of new blockholders. The bidder's shareholders benefit from the increased monitoring of the firm's activities from these newly created blockholders. Thus, market may react positively even when the acquisition is paid with stock. In order to fully capture the effects of the ownership status of the target and the method of payment, we interact the three indicator variables (*Public*, *Private* and *Subsidiary*) with *Stock*. With the benefits of globalization, the number of mergers involving firms from different countries is also growing (Gugler et al., 2004; Moeller and Schlingemann, 2005). These cross-border mergers occur to seek for comparative advantages and explore more business opportunities (Neary, 2007; Aybar and Ficici, 2009). Cross-border mergers create values when the bidder is from a country that has better external governance in terms of better shareholder protection (Bris et al., 2008; Kuipers et al., 2009). However, Gugler et al. (2004) show cross-border mergers actually generate negative post-merger efficiency. Moeller and Schlingemann (2005) also record lower acquirer returns with cross-border mergers, suggesting potential benefits from cross-border expansions are offset by various costs associated with these expansions. For instance, cross-borders mergers may encounter costs in dealing with cultural differences (Erel et al., 2011) and associated agency problems (Moeller and Schlingemann, 2005). It may be difficult to smoothly integrate two firms with different cultures, legal systems or languages and thus results in no synergistic gain for the bidder through the acquisitions. On the other hand, past evidence also show bidders' shareholder value is higher when bidders acquire cross-border targets than domestic targets (Chang et al., 2009). Thus, we do not have a conclusive prediction about the effect of *Cross-border* on bidder *CAR2*. When the bidder and the target do not share the same Fama-French industry, they are classified as diversifying acquisitions. Previous studies report mixed results for the relation between *Diversifying* and bidder *CAR2*. On one hand, diversifying acquisitions may result from the pursuit of potential self-interest by the corporate insiders. In order to avoid bankruptcy and remain in the control position as long as possible, corporate insiders tend to make acquisitions that may reduce the risk of the firm (Amihud and Lev, 1981; Shleifer and Vishny, 1989), especially when they do not hold a diversified portfolio of firms (Paligorova 2010; Faccio et al., 2010). Acquiring firms from unrelated

industry reduce the volatility of expected earnings and the possibility of financial distress in the future, although these acquisitions may not contribute to increasing shareholder values. Morck et al. (1990) show bidders of public firms have lower *CAR2* when they acquirer diversifying targets. On the other hand, Campa and Kedia (2002) show diversification may be an outcome of self-selection determined by firm characteristics. These firms choose to diversify because the benefits from diversification outweigh the costs of doing so. In this case, diversification will actually lead to higher firm value. Other studies do not record any positive association between *Diversifying* and bidder *CAR2* (Masulis et al., 2007; Wang and Xie, 2009). Hence, we do not reach any conclusion related to the sign of the coefficient of *Diversifying*. We assign value "1" to *High_tech* if both the bidder and the target are both high tech firms and "0", otherwise. Combinations of high tech firms are believed to be value-destroying as it is difficult for them to integrate smoothly due to the compatibility of specialized human capital and intellectual property (Masulis et al., 2007; Wang and Xie, 2009; Aybar and Ficici, 2009), especially when two high tech firms of comparable size try to integrate together. Hence, following Masulis et al. (2007), we also interact the *High_tech* indicator variable with the relative deal size. We expect a negative association between *High_tech,* the interaction term and the bidder *CAR2*. The control variables for these deal characteristics are mainly constructed using data from our original acquisition sample that is extracted from the *SDC's Global Merger and Acquisition* database.

4.2.4 Industry Characteristics

We use *Industry M&A, Competitiveness* and *Uniqueness* to control for industry characteristics of the targets and the bidders. Moeller et al. (2004) argue bidder abnormal returns are negatively related to the competition for the target. If the competition for getting the target is fierce, the target can be sold very quickly without any substantial discounts. Since the successful bidder does not benefit from considerable discounts, its announcement period abnormal returns tend to be lower than its counterpart who buys a target without much competition. One way to examine the competition for the target is to investigate the liquidity of the market that the target is in. If the target can be sold very fast, the market for the target is said to be very liquid. Schlingemann et al. (2002) show different industries have very

different level of liquidity. Therefore, we construct *Industry M&A*, which measures the total value of acquisition for each prior year Fama-French industry scaled by the total book value of asset of all the firms in the corresponding industry for the same year as a proxy for the competition of the target's industry following Masulis et al. (2007). Larger number, indicating stronger competition of the target's industry, should lead to lower bidder abnormal returns.[14] Leibenstein (1966) and Shleifer and Vishny (1997) argue product market competition can effectively discipline the behaviour of the managers. It is harder for a firm to survive in an industry that is highly competitive. This requires corporate insiders to be more cautious about their decisions. Any unremarkable mistakes or sub-optimal decisions may threaten the survival of the firm. That means managers can lose their jobs and the controlling shareholder will not be able to control the firm any more if the firm fails. These corporate insiders thus have higher costs in making value-destroying decisions. When comes to making acquisition choice, they tend to make better acquisitions instead. Hence, product market competition can act as a governance mechanism to limit the inefficient behaviour of managers and the controlling shareholder. We use *Competitiveness* and *Uniqueness* to measure the product market competition of the bidder's industry following Masulis et al. (2007). *Competitiveness* is equal to "1" if the Herfindahl index of the bidder's industry is in the bottom quartile of all 48 Fama-French industries. The lower the value of the Herfindahl index, the more competitive the bidder's industry is. Thus, we should expect a positive relationship between *Competitiveness* and bidder *CAR2*. Titman and Wessels (1988) argue firms are likely to spend more on advertizing and selling their products if they sell relative unique or specialized products. Hence, selling expense scaled by sales can be used as a proxy for product uniqueness. Following Masulis et al. (2007), *Uniqueness* is equal to "1" if the selling expense to sales ratio of the bidder's industry is in the top quartile of all 48 Fama-French industries.[15] High selling expenses may create barrier-to-entry (Williamson, 1963). Firms operating in industries with such entry barriers thus face less threat of new

---

[14] Following Masulis et al. (2007), we use prior year data in order to avoid any potential look-ahead bias. Our main results remain the same if we use current year data following Moeller et al. (2004).

[15] Due to data availability for certain countries, we use industry *Competitiveness* and *Uniqueness* created based on U.S.data as proxies for the competitiveness and uniqueness of the corresponding industry for our sample. We presume that the industry characteristics are less likely to vary substantially around the world.

competitors. In other words, the industry is less competitive if firms within the same industry sell more unique (less similar) products and mistakes are thus less critical (Gillan et al., 2003). Therefore, we expect *Uniqueness* to have a negative impact on bidder *CAR2*.

4.2.5 Country Legal Institutions

As early as 1970's, Jensen and Meckling (1976) identify the importance of legal system in shaping market activities. La Porta et al. (2000) argue legal system can protect shareholders and help mitigate agency problems. This investor protection as ensured by the legal system has significant valuation effect and poor investor protection is usually penalized by lower firm value (La Porta et al., 2002), higher cost of equity capital (Hail and Leuz, 2006; Guedhami and Mishra, 2009; Chen et al., 2009) and higher control premium (Dyck and Zingales, 2004). An improvement in investor protection can thus be accompanied with positive valuations. One way to realize this improvement is through acquisitions by firms from a country that has stronger investor protection. Bris et al. (2008) document an increased industry Tobin's Q when firms are acquired by bidders from countries with better shareholder protection and accounting standards and Kuipers et al. (2009) show bidder returns are positively related to the degree of shareholder protection and legal environment of the bidder. As a cross-country study, we have firms operating in countries with different juridical systems and corporate governance environments. This allows us to examine the effects of the variation in external governance environments. As a result, we employ five different proxies to capture the protection levels that investors have in each country. We use *Disclosure Requirement, Investor Protection* and *Commom-Law Legal Origin* extracted from La Porta et al. (1998) and *Anti-self-dealing Index* and *Revised Anti-director Rights Index* extracted from Djankov et al. (2008). *Disclosure Requirement* is the mean of the six important items (such as compensations, inside ownership) a firm is required to disclose. Investors can use this information and combine it with other information to evaluate whether they are potentially expropriated by the controlling shareholder or managers. *Investor Protection* is a more comprehensive proxy for the quality of a country's external governance as it is estimated as the principal component of disclosure, liability standards and anti-director rights. *Common-Law Legal Origin* is a dummy variable that identifies the

bidders from common-law legal origin countries. La Porta et al. (1998) show common-law countries protect investors the best. Hence, we expect market to react positively to acquisition announcements made by bidders that are from common-law legal origin countries. *Anti-self-dealing Index* is a more newly-constructed governance index that is based on legal rules applicable in May 2003. It takes into account both the ex-ante and ex-post private control of self-dealing by investors, covering approval of disinterested shareholders, ex-ante disclosure, ex-post disclosure and the ease of proving wrongdoing by corporate insiders. Djankov et al. (2008) show higher degree of anti-self-dealing can effectively reduce the private benefits control enjoyed by the controlling party. Since our focus is the agency problems between the controlling shareholder and minority shareholders, self-dealing (or tunnelling) is the fundamental component of these problems. *Anti-self-dealing Index*, which measures the effectiveness of the law in regulating self-dealing problems, thus is a better proxy for shareholder protection related to corporate governance context and is preferable in cross-country empirical work (Djankov et al., 2008). *Revised Anti-director Rights Index* covers six areas of rights that shareholders can use to protect themselves from being expropriated. It provides a more precise and clearer measure than the original anti-director rights index of La Porta et al. (1998).[16] A higher value for all these proxies for investor protection (except for *Common-Law Legal Origin*) indicates better external governance structure. Therefore, we expect them to be associated with higher bidder *CAR2*.

Apart from the above control variables, we include both year dummies and country dummies to account for any potential year or country effects for most of our models.

5. MODEL AND RESULTS

5.1 Data Properties

Table 2A presents the summary statistics of our key variables in the full sample.

---

[16] For instance, the original anti-director rights index does not distinguish enabling provisions from mandatory or default rules. The revised index only takes into account the rules that are explicitly mandate or default in protecting investors. It does not count the ones that firms have freedom to decide whether to comply or not.

[Insert Table 2A]

Panel A outlines the properties of our ownership structure variables (proxies for the presence and the power of MLS). About 71% of the acquisition announcements in our sample are made by bidders featuring a dominant shareholder and about 31% are made by bidders that have at least two large shareholders.[17] This suggests that the MLS structure exists in a significant percentage of firms in these two continents and this is consistent with prior studies (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008; 2009; Mishra, 2011). The average voting power is 4.84% for the second largest shareholder and 6.64 for all large shareholders beyond the largest one. However, it is worth noting that these numbers include firms that do not have a second largest shareholder. Since around 69% of our sample do not feature MLS in ownership structure, it is not surprising that these two numbers are relatively small. Similarly, the power of the second largest shareholder and other large shareholders are small relative to the largest shareholder in our full sample. Panel B of Table 2A summarizes the characteristics of the bidders in our sample. The average firm size of the bidders as measured by natural log of market capitalization in million dollars (*Log Market Cap*) is 5.90. The mean market value of the bidders is roughly 2.48 times larger than their book value of assets as measured by *Tobin's Q*. The bidders in our sample, on average, have a fair amount of free cash flow and enjoy a low level of leverage. The average value of the stock performance as measured by *Price Runup* is 9%. Panel C outlines the characteristics of the merger deals. The general deal value is about 41% of the market value of the bidder (*Deal Value to ACQ Value*). This indicates targets are roughly half as large as the bidders. About half of the acquisitions in our sample involve paying by stock and acquiring a target that is from a different industry than the bidder. 48% of the targets are private companies, 32% are public and 19% are subsidiary. Cross-border mergers make up a significant percentage, around 37%, of the merger transactions in our sample, which reinforce the findings that cross-border mergers have been growing worldwide (Gugler et al., 2004; Erel et al., 2011). There is relatively a small number of acquisitions in our sample involves the combination of

---

[17] In a sample with firms that have at least one large shareholder, 44% of them have MLS in the ownership structure.

two high-tech firms. Panel D reports statistical properties of the three proxies for industry characteristics.

Table 2B presents the pairwise correlations between variables.

[Insert Table 2B]

The different proxies for the presence and the power MLS, while exhibiting high correlation with each other, will enter into our regressions separately. *Firm Size* appears to be relatively more correlated with some control variables, such as cross-border deals, public target and private target. These correlations may result from the possibility that large bidders tend to indulge in cross-border mergers to seek for competitive advantages (Neary, 2007) and have a preference in acquiring specific targets, such as listed (non-private) firms (Faccio et al., 2006). Besides, *Tobin's Q* also tends to be relatively correlated with *Free Cash Flow, High_tech* and *Industry M&A*. While these correlations are not extreme, we will perform robustness tests to address any concerns associated with these variables. The correlations among the rest of the variables are not too large to raise concerns for multicollinearity.

5.2 Univariate Tests

Table 3 presents results of our univariate tests of the bidder *CAR2* by the type of the ownership structure of the firm. The tests divide our full sample into three sub-samples with the first one indicating acquisition announcements made by widely-held firms (i.e., firms with no large shareholder with at least 10% voting rights), second one indicating acquisition announcements made by SLS firms (i.e., only one large shareholder with at least 10% voting rights) and the last one indicating acquisition announcements made by firms featuring MLS structure (i.e. firms with least two large shareholders with at least 10% voting rights).

[Insert Table 3]

Acquisitions made by widely-held firms represent 29.16% of our full sample while acquisitions made by firms with at least one large shareholder (total number of acquisitions made by SLS firms and MLS firms) represent 70.84%. In particular, 44.04% of firms with at least one large shareholder have MLS structure in our sample. This percentage is comparable

to that of Attig et al. (2008), who report 44% MLS firms among the firms with dominant shareholders. On average, widely-held bidders have *CAR2* of -0.92%, bidders with SLS have *CAR2* of -1.99% and bidders with MLS have *CAR2* of -0.27%. All these mean *CAR2* are significantly different from zero.[18] However, MLS bidders experience much higher *CAR2*, on average, than the other two types of bidders.

When we compare the bidder *CAR2* of SLS bidders with that of widely-held bidders, we do not find significant different market reactions to their acquisition announcements. Although SLS bidders on average have *CAR2* that are 1.07% lower than that of widely-held bidders, this mean difference is not significant. This indicates that with SLS bidders, the benefits of having a large shareholder are offset by the potential agency problems between the largest shareholder and dispersed small shareholders. Market may perceive there is simply a shift of agency problems from one type (managers vs. shareholders) to another (the dominant shareholder vs. dispersed small shareholders). We then compare the average *CAR2* between bidders with MLS and SLS. Bidders with MLS in their ownership structure generate substantially positive *CAR2* compared to their counterparts with SLS structure. The mean difference in *CAR2* is 1.72%, which is significant at 5% level. This suggests that market generally reacts more favourably to acquisition announcements made by the firms with MLS. One possible explanation to this favourable reaction is that the presence of MLS helps alleviate the agency problems between the dominant shareholder and minority shareholders, which are likely to be present in SLS firms. In other words, these MLS play an effective corporate governance role by monitoring the behaviour of the dominant shareholder or competing for corporate control (Attig et al., 2008; 2009; Mishra, 2011). When these firms make acquisition announcements, market perceives them as opportunities for the firms to grow and create value for shareholders. It puts a positive value on these acquisitions as evident from positive market reactions to their announcements. This preliminary evidence is consistent with our main prediction of the impact of MLS structure. However, the mere fact that MLS firms generally perform better (in terms of mean bidder *CAR2*) than SLS firms

---

[18] The computation of the test statistics of the mean bidder *CAR2* is described in the data and methodology section (4.2.1) following Brown and Warner (1985). The mean *CAR2* of widely-held and SLS bidders are significant at 1% while that of MLS bidders is significant at 5%.

does not allow us to draw a convincing conclusion that the better performance is the outcome of the MLS structure without controlling for other factors that may also influence the bidder *CAR2*. Therefore, we further test our predictions in a multivariate framework using ordinary least squares regressions. Since the agency problems of interest are most probable in firms with a dominant shareholder, we focus our tests on the sample of firms with at least one large shareholder in the ownership structure.

5.3 Regression Model

In order to examine whether the MLS ownership structure has any impact on bidder returns and how this market reaction will be, we specify our basic model as follows:

CAR2 = α + β*Ownership Structure + γ*Control Variables + δ*Fixed Effects + ε   *(5)*

where *CAR2* = bidder announcement period abnormal returns;

Ownership structure = proxies for the presence and the power of MLS;

Control Variables = a set of variables related to bidder, deal, and industry characteristics;

Fixed Effects = dummy variables controlling for the fixed effects of years and countries;

ε = the error term.

5.4 MLS Ownership Structure and Bidder CAR2

We report our multivariate regression results from equation *(5)* in Table 4A and 4B.

[Insert Table 4A]

While our focus is the effect of large shareholder(s) beyond the dominant shareholder, we start by verifying our univariate results of the effect of a dominant shareholder in Model (1) of Table 4A. We regress bidder *CAR2* on *Presence1* and *Presence2*, controlling for year effects for the full sample. Our results show *Presence1* has a negative significant loading while *Presence2* has a positive significant loading vs. bidder *CAR2*. The significance of the coefficient of *Presence1* disappears after we further control for country effects in Model (2).

The sign of the coefficient of *Presence2* is still positive and significant. This suggests that the market, in general, reacts positively to acquisition announcements made by the firms with MLS. In order to further examine the association between the pattern of ownership structure and *CAR2*, we separately investigate the impact of *Presence1* and *Presence2* on *CAR2*. We start by regressing *CAR2* on *Presence1* for a sample of firms without a MLS structure and control for year effects in Model (3). The coefficient is negative, yet, not significant. This relationship continues to remain insignificant after controlling for country effects in Model (4) and including a set of control variables related to bidder characteristics, deal characteristics and industry characteristics in Model (5). In firms with a dominant shareholder, the dominant shareholder has the incentive to monitor the activity of the manager and thus help mitigate agency problems between shareholders and managers (Shleifer and Vishny, 1997). However, such benefits may be offset by the costs of potential agency problems between the dominant shareholder and minority shareholders. The weak negative relationship between *Presence1* and bidder *CAR2* suggests the decrease in agency problems between the manager and shareholders due to the presence of the dominant shareholder is about to be equal to the increase in the agency problems between the dominant shareholder and minority shareholders. Market perceives the presence of a dominant shareholder shifting the agency problems from the former to the latter. Hence, market does not have significant different reactions to acquisition announcements made by firms with single large shareholder compared to those by the firms with no large shareholder. In Model (6), we regress *CAR2* on *Presence2* for a sample of firms with at least one large shareholder in the ownership structure, controlling for year effects and country effects. Literature suggests that the agency problems between the controlling shareholder and minority shareholder are more probable in firms featuring *Presence1* (Volpin, 2002). By limiting our sample to firms with at least one large shareholder, we are essentially comparing the *CAR2* of SLS bidders and MLS bidders, leaving out widely-held firms.[19] The result shows the presence of a second largest shareholder is significantly positively associated with bidder *CAR2*. Since our interest is the agency

---

[19] Since there is no large shareholder in widely-held firms, our main focus---the agency problems between the dominant shareholder and other large shareholders do not exist in these firms. Therefore, we leave them out of our main focus.

problems in firms with a dominant shareholder, in Table 4B, we test the impact of MLS and their power on *CAR2* with a full set of control variables for a sample of firms with at least one large shareholder and these constitute our baseline regressions.[20]

[Insert Table 4B]

In Model (1) of Table 4B, we regress bidder *CAR2* on *Presence2* and a full set of control variables. We find that *Presence2* continues to load with a positive and significant sign, suggesting market, indeed, reacts positively to acquisition announcements made by the firms with the presence of MLS in the ownership structure, after taking into account the effect of other factors, such as firm size, bidder's Tobin's Q, bidder's free cash flow, leverage and price runup, target's ownership status and several other deal characteristics and industry characteristics on *CAR2*. One possible explanation of this finding is that MLS help reduce the agency problems in firms with a dominant shareholder (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008; 2009; Mishra, 2011), which leads to a positive market reaction to merger announcements. They possibly perform the effective corporate governance role by efficiently monitoring the activities of the dominant shareholder and managers or competing with the dominant shareholder for corporate control (Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2001). With the presence of a second largest shareholder, bidder *CAR2* increase by approximately 1.89%. This increase is quite substantial considering the mean bidder *CAR2* of our full sample is about -1.14%. In order to test whether the power of the second largest shareholder entitled by her/his voting rights has any impact on bidder *CAR2*, we regress bidder *CAR2* on *Vote2* and the full set of control variables in Model (2). The coefficient of *Vote2* is positive and significant at 10% level. This suggests the power of the second largest shareholder, although the effect is not as strong as that of *Presence2*, also has a positive effect on bidder announcement returns. The second largest shareholder may effectively use the power embedded in her/his voting rights to protect the interests of herself/himself and minority shareholders. For instance, if s/he feels the dominant shareholder is making corporate decisions that will not create value for majority shareholders,

---

[20] The p-value of the F-statistic for all models are 0.0000, indicating all models are significant (not all variables are equal to zero). All models are assumed to be highly significant for the remaining paper, unless indicated otherwise.

s/he can vote against such decisions in cases where shareholder voting is required or by electing directors who would follow his/her directives. With one standard deviation (7.81) increase in the voting power of the second largest shareholder, bidder *CAR2* increase by about 0.7% (=0.09%*7.81). Similarly, in Model (3), we test whether market also values the relative power of the second largest shareholder (*Vote2/1 Ratio*). Consistent with our expectation, the coefficient of *Vote2/1 Ratio* is also positive and significant. This suggests relative power of the second largest shareholder to the largest shareholder also has a positive valuation effect. Larger relative power facilitates the second largest shareholder to protect other shareholders as it will be easier for her/him to veto any value-destroying proposals from the largest shareholder. Market puts a similar value of the increase in the relative power of the second largest shareholder (*Vtoe2/1 Ratio*) to *Vote2* as one standard deviation (0.34) increase in the power of the second largest shareholder in relation to the largest shareholder translates into about 0.69% (=2.03%*0.34) increase in bidder *CAR2*.

So far, we have seen the presence of a second largest shareholder as well as the associated attributes have positive impacts on bidder *CAR2*. Yet, what if there are many large shareholders? Bennedsen and Wolfenzon (2000) argue when there are many large shareholders, the efficiency in decision making actually declines. Apart from this, the presence of many large shareholders allows the winning coalition to have very little cash flow rights, which motivates the winning coalition to extract private benefits instead of making decision that benefit all shareholders. This is especially true if the cash flow stake is more unevenly distributed (Bloch and Hege, 2001). The bargaining effects hypothesis of Gomes and Novaes (1999), however, suggests that the presence of many large shareholders may actually better protect the benefits of minority shareholders due to the increased disagreements among shareholders. These disagreements effectively create an environment rejecting any decisions that are not value-enhancing. The presence of many large shareholders also increases the chances that large shareholders mitigate expropriation through aggressive trading (Edmans and Manso, 2011). Such an aggressive trading will inject negative information to the market that may lead to a decrease in stock prices. In order to discourage other large shareholders from doing so, the dominant shareholder has incentives

to make better corporate decisions. Moreover, Dhillon and Rossetto (2009) argue that the size of equity stakes determines the risk/return preference of the shareholders. The larger the equity stakes, the lower the risk/return they prefer. The presence of many blockholders helps shift the voting outcome towards higher risk/return projects, which is more towards the interests of minority shareholders. We, thus, test for the impact of many large shareholders on bidder *CAR2*. In Model (4), we regress bidder *CAR2* on the total number of large shareholders beyond the largest one (*Presence2345*) and a full set of control variables. The result shows the presence of many large shareholders is positively associated with bidder *CAR2*, which lends support to the bargaining effects hypothesis of Gomes and Novaes (1999), the trading mechanism hypothesis of Edmans and Manso (2011) and Dhillon and Rossetto (2009). With the presence of blockholders, bidder *CAR2* will increase by approximately 0.87%. In Model (5), we test the impact of the power of large shareholders beyond the largest shareholder (*Vote2345*) on bidder *CAR2*. As expected, *Vote2345* has a positive impact on bidder *CAR2*. However, the coefficient is not significant. In Model (6), the relative power of these large shareholders, as indicated by *Vote2345/1 Ratio*, loads with a positive and significant coefficient. Bidder *CAR2* increases by about 0.74%(=1.37%*0.54) with one standard deviation (0.54) increase in the power of all large shareholders beyond the largest one in relation to that of the largest shareholder. Similar to the argument with the relative power of the second largest shareholder, if the total power of other large shareholder are more comparable or greater than that of the largest shareholder, other large shareholders can better protect minority shareholder with a veto on any sub-optimal decisions. On the contrary, if the relative power of the largest shareholder is larger, it is harder for MLS to accumulate enough votes to compete against the largest shareholder. Particularly, if the voting rights are substantially unevenly distributed, it will be harder for good shareholders to gather enough votes to vote against decisions favoured by bad shareholder(s). This is why we expect a negative sign for *High_diff* in Model (7). However, although the sign of the coefficient of *High_diff* is consistent with our expectation, it is not significant.

Among the control variables of bidder characteristics, *Free Cash Flow* is negative and significant for all models, which lends support to the free cash flow hypothesis of Jensen

(1986). The sign of *Leverage* is consistent with the finding of Wang and Xie (2009), although their result is not significant. Consistent with the finding of Masulis et al. (2007), we also have a negative and significant coefficient of *Price Runup.* In Models (4), (6) and (7), *Tobin's Q* loads with a negative coefficient and is significant at 10% level. This reinforces the findings of Moeller et al. (2004) and Bhagat et al. (2005). Regarding the control variables for deal characteristics, the interaction term of public target and stock is positive and significant. The rationale behind this is that paying acquisitions by stock may create new blockholders or increase the power of existing blockholders (if they continue to buy more shares in cases where acquisitions are financed by issuing more stocks). Shareholders of the bidder may thus benefit from the active monitoring of the firm's activities by these blockholders. The finding of *Uniqueness* of the bidder's industry is consistent with that of Masulis et al. (2007) and Gillan et al. (2003). Firms operating in industries that are more unique require higher selling expenses, which create barrier-to-entry (Williamson, 1963). Market perceives these firms may have higher agency problems as they are less likely to fail due to less fierce competition from new entrants. For rest of the control variables, although insignificant, controlling for them help us to be more confidence with our findings instead of being concerned that the findings may be bias due to these factors.

To summarize, our findings in Table 4A and 4B reinforce the importance of MLS in mitigating agency problems between the controlling shareholder and minority shareholders, which are consistent with the findings of Maury and Pajuste (2005), Laeven and Levine (2008), Attig et al. (2008; 2009), Bharath et al. (2010) and Mishra (2011). They play an effective corporate governance role possibly by participating in the competition for corporate control or efficiently monitoring the activities of the management and controlling shareholder (Gomes and Novaes, 1999; Bennedsen and Wolfenzon, 2000; Noe, 2002; Bloch and Hege, 2001; Edmans and Manso, 2011; Dhillon and Rossetto, 2009). Market puts a positive value to MLS ownership structures by reacting positively when these firms make acquisition announcements. In other words, it perceives these acquisitions are more likely to represent most shareholders' interests in maximizing firm value. In addition, market also gives a positive value to the voting power associated with the second largest shareholder. Similarly,

if the voting power of the second largest shareholder and other shareholders are more comparable with that of the largest shareholder, market recognize them as useful in protecting the interests of a majority number of shareholders.

5.5 MLS Ownership Structure, Investor Protection and Bidder CAR2

While examining merger and acquisition transactions on an international context, it is crucial to recognize that different countries may have different legal and institutional settings. This is also a key advantage of a cross-country study as it allows us to examine the effects of the variation in external governance environments. Differences in legal institutions may have an impact on market reactions to merger activities. For instance, domestic takeovers consistently record positive mean abnormal returns in Germany (Boehmer, 2000) while other countries do not have such a consistency. Besides, with the benefits of global market penetration, more and more cross-border acquisitions have been taking place. An important factor in shaping market reactions (investor perception) to all these acquisitions is the legal institutions of jurisdictions (external governance mechanism) in which firms operate. Existing literature suggests better legal institutions can provide protection to a firm's outside investors. The minority shareholders are less subject to expropriation in countries with better investor protection (La Porta et al., 2000). Current empirical studies lend great support to this argument as better investor protection is associated with higher firm valuation (La Porta et al., 2002), lower cost of equity capital (Hail and Leuz, 2006; Guedhami and Mishra, 2009). In addition, Kuipers et al. (2009) show both the bidder returns and the portfolio returns of the bidder and the target are positively related to the degree of shareholder rights of the bidder's country. In order to account for the degree of investor protection across countries, we separately include in our regressions five different proxies for investor protection, namely *Disclosure Requirement, Investor Protection and Common-Law Legal Origin* from La Porta et al. (1998) and *Anti-self-dealing Index* and *Revised Anti-director Rights* from Djankov et al. (2008). We replicate Model (1) of Table 4B by further including the proxies for country level investor protection. As these proxies largely pick up the differences among countries, we do not control for country effects in these regressions. We report the results from Model (1) to Model (5) in Table 5.

[Insert Table 5]

In Table 5, the coefficient for *Presence2* is consistently positive and highly significant across the five models. This suggests, after controlling for the quality of a country's legal institution that protect investors, the presence of MLS in the ownership structure continues to have a positive impact on bidder *CAR2*. Among the deal characteristics, apart from the significant ones in Table 4B, *High-tech* is also significant for all models in this analysis. The sign of the coefficient is consistent with that of Masulis et al. (2007), although their result is not significant. With regards to the country legal institutions, the sign of all proxies is consistent with the literature and our expectation. In particular, *Disclosure Requirement* and *Investor Protection* are positive and significant at 10% while *Common-Law Legal Origin* and *Anti-self-dealing Index* are positive and significant at 5%. These results support the existing investor protection literature that better investor protection is valuable as market reacts positively if acquisition announcements are made by the firms from the strong investor protection countries. Except for *Common-Law Legal Origin*, the stronger effect (in terms of significance level) of *Anti-self-dealing Index* than other proxies further confirms that this index is preferable to other investor protection proxies as it directly measures the central problem of corporate governance in most countries (Djankov et al., 2008). Market puts a larger positive value for bidders from a country that has rules that better protect investors in terms of corporate self-dealing problems. More importantly, the highly significant coefficient of our proxy for MLS suggests MLS are effective in reducing agency problems between the controlling shareholder and minority shareholders. This conclusion is not dependent on the effect of the quality of investor protection that is embedded in the country corporate governance. To summarize Table 5, our prediction that MLS play an effective corporate governance role in mitigating agency problems continues to hold after we control for the quality of external governance mechanism. Besides, our findings of country legal institutions suggest market values the degree of investor protection of the bidder's country.

6. ROBUSTNESS TESTS

We test the sensitivity of our results, using a series of robustness tests. Specifically, we examine the sensitivity of our outcomes regarding the impact of different regions, industry fixed effects, different control variable proxies, clustering effects, different event windows, alternative abnormal returns measures, investor protection of the target's country and potential endogeneity issues.

6.1 Regional Analysis of MLS Ownership Structure and Bidder CAR2

Recall from Table 1A, United Kingdom is disproportionately represented in our full sample. To mitigate the concern of such a disproportionate representation, we use country level controls or control for country fixed effects throughout our analyses in section 5 and rest of the section 6. In this sub-section, we aim to re-examine this issue in more details. Specifically, we start by replicating our baseline regression related to *Presence2* for acquisition announcements made by firms from United Kingdom only in Model (1) of Table 6A. We then add firms from Western Europe that have both types of ownership structures (SLS and MLS) in Model (2). After adding firms from Western Europe, we add firms from East Asian regions that have both type of ownership structure in Model (3). This is essentially our baseline model of *Presenc2* − Model (1) in Table 4B. Finally, in Model (4), we add back firms from the four countries that have only one type of the ownership structures (either SLS or MLS), which are excluded from our main analyses based on the sample construction criteria.[21] We report these results in Table 6A.

[Insert Table 6A]

The results in Tale 6A show the coefficient of *Presence2* is significant and positive for all models. In other words, market reacts positively to acquisition announcements made by firms with MLS ownership structure for firms from United Kingdom. Such positive market reaction continues to hold when we further include other Western European and East Asian firms in the sample. Even when we increase the variation of the sample by adding back acquisition announcements made by firms from countries featuring bidders with only one

---

[21] See footnote 12.

type of the ownership structures (SLS or MLS), the result is robust. These findings suggest although our results are heavily influenced by United Kingdom as it has the largest number of observations, they do remain robust when we add a large number of firms from other countries into the sample, which allows us to make a more general prediction on the value of MLS in mitigating agency problems.

To further examine the impact of ownership structure on bidder *CAR2* between Western Europe and East Asia, we conduct univariate tests for these two regions and report our results in Table 6B.

[Insert Table 6B]

SLS bidders from East Asia, on average, experience negative *CAR2* of -3.89% while MLS bidders from the same region have a positive mean *CAR2* of 1.43%. This represents a mean bidder *CAR2* difference of 5.32% and this difference is significant at 10%. Although both SLS and MLS bidders from Western Europe have negative mean bidder *CAR2*, MLS bidders experience less negative average bidder *CAR2* than SLS bidders. MLS bidders from Western Europe, on average, have bidder *CAR2* that are 1.32% higher than SLS bidders from the same region and this difference is significant at 10% as well. The substantial bidder *CAR2* difference of the two types of bidders in East Asia suggests the role of MLS may be more effective in East Asia than Western Europe. The small number of observations from East Asia prevents us from conducting more thorough multivariate tests to confirm this result. However, the multivariate tests for Western European bidders (Model (2) in Table 6A) show our ownership structure proxy – *Presence2* – loads with a positive and significant coefficient, suggesting MLS do play a corporate governance role in reducing agency problems between the controlling shareholder and minority shareholders in general.

6.2 Industry Fixed Effects

In all our analyses thus far, we include known industry controls, i.e. the liquidity of the target's industry (*Industry M&A*) and product market competition of the bidder's industry (*Competitiveness* and *Uniqueness*) following Masulis et al. (2007). In order to address any

potential unknown industry effects, we further control for industry fixed effects and replicate our baseline regressions. We report these results in Table 7.

[Insert Table 7]

Results in Table 7 show our findings remain robust when we further control for industry fixed effects.[22] The coefficients of our proxies for the presence and the power of MLS are positive and significant as in our main tests. In addition, the coefficient of voting power of all large shareholders beyond the largest one (*Vote2345*) also becomes significant at 5% level. These findings suggest the presence of MLS, their voting power and relative power all have a positive impact on bidder *CAR2*.

6.3 Different Control Variable Proxies

Recall from the pairwise correlation table (Table 2B), we notice our proxy for firm size as measured by log of market capitalization of the bidder has relatively higher correlations with three other control variables: 0.36 with *Cross-border,* -0.39 with *Private Target* and 0.41 with *Public Target*. In order to mitigate the concern that these correlations may affect the outcomes of our regression models, we use two other proxies for firm size: the log of book assets and the log of net sales. We replicate our baseline model of *Presence2* using these proxies and report the results in Models (1) and (2) of Table 8. Similarly, *Tobin's Q* also has relatively higher correlations with *Free Cash Flow* (-0.52), *High_tech* (0.31) and *Industry M&A* (0.37). When we look into the data property of *Tobin's Q*, we realize it has substantial outliers. In order to mitigate bias from these outliers, we winsorize *Tobin's Q* at 0.5% in both ends. We notice the original higher correlations with those three variables thus drop considerably. Model (3) reports the regression result with the winsorized *Tobin's Q*. To further mitigate the concern of high correlations, we employ *Market-to-book Value* as a proxy for *Tobin's Q* in Model (4). In model (5) and (6), we use two different proxies for *Free Cash Flow*: *ROA* and *Cash & Cash Equivalent*. These also help to reduce the correlation between the original *Tobin's Q* and *Free Cash Flow* to a large extent. Recall from the summary

---

[22] In "*Other Unreported Robustness Tests*" section (section 6.9), we remove all industry level controls and control for industry fixed effect only to further test the sensitivity of our results, and we find our proxies of MLS remain positive and significant.

statistics of key variables in Table 2A, we also notice there may be outliers for the relative deal size (*Deal Value to ACQ Value*). Similar to *Tobin's Q*, we winsorize this variable at 0.5% and change the interaction term of relative deal size and *High_tech* accordingly. We report this regression result in Model (7).

[Insert Table 8]

The results show regardless which proxies for the above control variables we use, the significance of our main test variable – *Presence2* - remain unaffected. The economic impact on bidder *CAR2* for all these models ranges from 1.79% to 2.09%, which does not vary substantially across different models. The robust results suggest our findings are not significantly affected by the relatively high correlations between control variables or outliers. These results also help reinforce our main finding that MLS perform a corporate governance role and market reacts positively to acquisition announcements made by the firms with the presence of MLS in the ownership structure.

6.4 Country, Industry and Bidder Clustering

For our main analyses, we control for any known (country legal institutions) in Table 5 and unknown country fixed effects in Table 4A and 4B using country dummies. Apart from these, to address any concerns regarding the potential cross-sectional correlation within countries, we correct the standard errors of regression coefficients for country clustering. Likewise, we control for known industry effects (*Industry M&A*, *Competitiveness* and *Uniqueness*) in Table 4A, 4B and Table 5 and further control for unknown industry effects in Table 7. Empirical evidence show merger activities tend to cluster in specific industries (Mulherin and Boone, 2000; Kiymaz and Baker, 2008). Therefore, to account for any clustering in particular industries, we correct the standard errors of regression coefficients for industry clustering. Finally, we also correct the standard errors of regression coefficients for bidder clustering to account for potential cross-sectional correlation within bidders following Masulis et al. (2007) and Wang and Xie (2009). We report these results from Model (1) to Model (3) in Table 9.

[Insert Table 9]

Although different control variables show up to have a significant impact on bidder *CAR2* as standard errors of regression coefficients vary when we correct them for different types of clustering, the significance of our main test variable – *Presence2* – remain strong. When we correct the standard errors of regression coefficients for industry clustering of bidders, the positive impact of the presence of MLS on bidder *CAR2* becomes highly significant (at 1% level).

6.5 Event Windows

So far, we use a 5-day event window (-2, +2) for all our analyses where date 0 is the acquisition announcement date. In order to address the concern that our results may be dependent on the choice of event window, we repeat Model (1) of Table 4B for different event windows. Specifically, we test event windows that cover a longer time period before and after the announcement, such as (-5, +5), (-4, +4) and (-3, +3). We also test an event window with shorter time period (-1, +1). Moreover, we test post announcement event windows covering two days (0, +2) and one day (0, +1) after the announcement, respectively. We report these results in Table 10.

[Insert Table 10]

From Table 10, we can see no matter which event window we choose, *Presence2* continuously to have a positive and significant effect on bidder *CAR2* with some variation in the magnitude and significance level. These results confirm that our findings do not depend on specifically chosen event window.

6.6 Investor Protection of the Target's Country

In our tests thus far, we control for the investor protection proxies for the bidder's country in Table 5 and country fixed effects in other tables. However, there may be concern that the degree of investor protection of the target's countries is an omitted variable from our regressions. Wang and Xie (2009) test whether there is any operating performance change of the combined company in a merger activity. Their result shows the shareholder rights difference has a positive and significant impact on the operating performance change of the combined company. This implies the improvement of governance mechanism may have

post-merger valuation effect and the governance transfer could be from either side. That is, it is possible that good bidders may acquire firms from a country that has strong degree of investor protection and market reacts positively to these acquisitions. Bris et al. (2008) show weak evidence that the industry Tobin's Q still increases if a bidder from a country with poor corporate governance acquires the target from a country with good corporate governance. In order to mitigate the concern that the choice of the target from a good investor protection country may have an impact on *CAR2*, we replicate our baseline regression model of *Presence2* by including investor protection proxies for the target's country. We use the five country legal institutions proxies from Table 5 (*Disclosure Requirement, Investor Protection, Common-Law Legal Origin, Anti-self-dealing Index* and *Revised Anti-director Rights Index)* and report the results in Table 11.

[Insert Table 11]

Although the proxies for the target's country legal institutions are not significant, our proxy for MLS structure, *Presence2,* continues to load with a positive and significant coefficient after controlling for the quality of investor protection of the target's country. This reinforces our conclusion that MLS reduce the agency problems between the controlling shareholder and minority shareholders and this conclusion is not affected by the potential effect of the degree of investor protection in the target's country.[23]

6.7 Alternative Measures of Abnormal Returns

Our dependent variable, *CAR2*, is 5-day cumulative abnormal returns surrounding the announcement of the acquisition. The daily abnormal returns are estimated using market model as described in section 4.2.1, which is also given by equation *(1)* below:

$$AR_{i,t} = R_{i,t} - \hat{a}_i - \hat{u}_i R_{m,t} \qquad (1)$$

where market-model parameters $\hat{a}_i$ and $\hat{u}_i$ are estimated over a 200-day estimation period (-220, -21). We choose market-model adjusted return as it is both well-specified and

---

[23] Information of *Disclosure Requirement, Investor Protection* and *Common-Law Legal Origin* is missing for five countries and information of *Anti-self-dealing Index* and *Revised Anti-director Rights Index* is missing for two countries.

relatively powerful under a variety of conditions according to Brown and Warner (1985). To test the sensitivity of our dependent variable, in this section, we use alternative measures of abnormal returns. In particular, we use: i) mean adjusted returns estimated as the difference between daily stock returns and the average stock returns over the estimation period (-220, -21); ii) market adjusted returns estimated as daily stock returns less daily market returns, where market returns is the Datastream country market total return index for each country; iii) two-factor model where the two indices used are the Datastream country market total return index for each country and the Datastream global market total return index (See Appendix A.2. for details of these models). We report the results for these different abnormal returns measures from Model (1) to (3) in Table 12. Again, our proxy for MLS remains positive and significant for all these three measures of bidder abnormal returns. That is, our findings are not affected by the choice of abnormal returns measures. In addition, we use an estimation period that covers 220 days to 20 days before the announcement date (-220, -20). To mitigate the concern that our results may be the outcome of the choice of this estimation window, we test our predictions using the cumulative abnormal returns that based on the estimation period used in Masulis et al. (2007), which covers 210 days to 11 days prior to the announcement date (-210, -11). We report the results of this test in Model (4) of Table 12. The result while using (-210, -11) estimation period is practically similar to that in our baseline test, suggesting our finding regarding the role of MLS is robust. To conclude, the choice of different abnormal returns measures or estimation window does not alter our conclusion that MLS play an effective corporate governance role in mitigating the agency problems between controlling shareholder and minority shareholders.

[Insert Table 12]

6.8 Endogeneity Concerns

Although our focus of this section is the endogeneity concern of ownership structure, we start by addressing the endogeneity concern of our control variables as discussed in Masulis et al. (2007) and Wang and Xie (2009). Some of our control variables for bidder and deal characteristics may be endogenously determined. Variables that are potentially endogenous are *Tobin's Q* and *Price Runup*, which can be proxies for firm performance (Masulis et al.,

2007; Wang and Xie, 2009); *Leverage*, which may be determined by investment opportunities and availability of investment projects; *Free Cash Flow*, which is highly correlated with firm operating performance; *Cross-border,* which may be influenced by the size of the bidder (Neary, 2007), *Diversifying*, which may be affected by some corporate governance mechanisms (Masulis et al., 2007) and method of payment, which is related to the financial status and ownership structure of the bidder (Faccio and Masulis, 2005). We re-estimate our baseline regressions by using control variables that are most likely free of endogeneity. That is, we substitute the industry average for *Tobin's Q, Leverage* and *Free Cash Flow* and exclude variables related to *Price Runup, Cross-border, Diversifying* and method of payment (we keep two variables for the status of target: *Public Target* and *Private Target*). Using industry average helps reduce that possibility that these variables are determined by the choice or status of a particular firm. We report these results in Table 13A and we find our previous findings are robust.

[Insert Table 13A]

Turing to the endogeneity concern of ownership structure, prior literature suggests that a firm's ownership structure may be endogenously determined by the contracting environment it is operating in (Demsetz and Lehn, 1985; Himmelberg et al., 1999). For instance, ownership structure with a large shareholder (high concentration of ownership) is more likely associated with poor investor protection environments (La Porta et al., 1999). Himmelberg et al. (1999) also argue spurious relationship or reverse causality may be formed due to the unobservable factors in the contracting environment. That is, the MLS ownership structure of the bidder may be endogenously determined by some unobservable variables and these unobservable variables may have positive impacts on bidder *CAR2*. In addition, bidder's ownership structure may change if the acquisition is paid by stock. In particular, when the acquisition is financed by issuing new stocks, it may create new blockholder(s) or the equity stake of the existing shareholders may alter. These may lead to a change of ownership structure soon after the acquisition, which we are unable to control for.

While the lack of time series data on ownership structures prevents us from conducting more dynamic tests such as panel data fixed effects to better address the potential

endogeneity issues, we include year dummies and country dummies in most of our models to control for any year or country fixed effects. We also perform robustness tests by including industry fixed effects in Table 7 and investor protection proxies for the target's country in Table 11. We believe these tests address the possible omitted variable problem to a large extent. In addition, wealthy investors may self-select a good quality firm and stay as passive blockholders. Managers of the good quality firm make corporate decisions that are of the best interest of majority shareholders. Evidence can be seen if the firm made good mergers and acquisitions or investment decisions in the past. This attracts wealthy individuals and institutions to buy in shares. These investors believe managers will continue making good corporate decisions and thus may not monitor managers' activities or participate in corporate decisions actively.[24] Hence, any market reactions towards the acquisition announcements may have nothing to do with the existence of these blockholders. In that case, we may falsely attribute market reactions to the presence of MLS. To address such reverse causality problems, we use instrumental variable (IV) approach following Laeven and Levine (2009) and Paligorova (2010). Under the IV approach, it is crucial to identify instruments that are exogenous. To qualify for exogenous instruments, variables have to be highly correlated with our MLS proxies but not bidder *CAR2*. We use the industry average value of the proxies for the presence and the power of MLS as instruments for our firm level MLS proxies. While it is possible that wealthy investors self-select one good quality firm, it is unlikely that all firms in the whole industry are good quality firms and wealthy investors just buy in shares and stay passive. In unreported results, we find our instruments are indeed highly correlated with our MLS proxies but not bidder *CAR2*. We use 2SLS (two-stage least squares) regressions for this IV approach and test for endogeneity in the first stage. If the variables are not endogenous, OLS regressions provide more efficient estimators. Thus, we should perform our analysis using OLS regressions. Otherwise, 2SLS regressions should be used. We report the specifications of our baseline regressions using the IV approach in Table 13B.

[Insert Table 13B]

---

[24] Our use of event study methodology largely mitigates the possibility of this reverse causality, as such decisions would largely be made prior to merger events.

We use the Wu-Hausman test to test for endogeneity of our variables. The p-values of the Wu-Hausman test of all models are larger than 5%, suggesting that we fail to reject the null hypothesis that variables are exogenous. This means our original proxies for the presence and the power of MLS are not endogenous. In other words, serious endogeneity problems may not be a concern for all our baseline models. OLS regressions are more appropriate than 2SLS regressions in our case.

6.9 Other Unreported Robustness Tests

Apart from the above robustness tests, we also perform following robustness tests that are not reported here for brevity: [25]

First, we replicate our baseline regressions by removing all known industry effects and control for unknown industry fixed effects only. Our proxies for the presence and the power of MLS remain positive and significant.

Second, if there is insider trading activity, market may start to react prior to the announcement of the acquisition. We test event windows that cover a longer time period prior to the announcement to capture potential insider trading activities in section 6.5. To better address this issue, we use two different country-level proxies: *Insider Ownership* and *Insider Prevalence Index* (indicates the prevalence of insider trading) from La Porta et al. (1998) to control for the possibility of insider trading activities. We find that neither of these two variables is significant, yet, our core findings regarding the impact of MLS on announcement abnormal returns remain unchanged.

Third, we also replicate our baseline regressions by including interactions of different deal characteristics, such as cross-border deals with high-tech industry, cross-border deals with target's ownership status (public, private and subsidiary) and diversifying acquisition

---

[25] Although it is not the focus of our study, we test the voting power of different types of the second largest shareholder in family controlled and non-family controlled firms following Attig et al. (2008). Our results show the voting power has a significant positive impact on bidder *CAR2* when the second largest shareholder is state. This result is consistent with Attig et al. (2008), who record a negative relation between the cost of equity capital and the voting power of state as a second largest shareholder. In addition, we replicate our baseline regression by further controlling for the impact of excess control (deviation voting rights from dividend rights of the largest shareholder) following (Attig et al., 2008; Guedhami and Mishra, 2008). Although we do not find significant impact of excess control on bidder *CAR2*, our core findings remain unaffected.

with target's ownership status. Our core findings – the positive and significant effect of our MLS proxies - remain unchanged.

Fourth, we use the deal value relative to the market value of the bidder as the proxy for relative deal size in our main tests. Here, we use alternative proxies for relative deal size, such as: i) deal value scaled by book value of assets; ii) log of (1+ deal value scaled by market capitalization of the bidder) and iii) winsorized *Deal Value to ACQ Value* (at 1%) that winsorize the upper and lower five values of this variable. Results show our findings are not dependent on specific measure of the relative deal size.

Fifth, Servaes (1991) find that hostile takeovers are associated with lower bidder returns. Therefore, we include an indicator variable for hostile takeovers. Although we do not find hostile takeovers have significant impacts on bidder returns, our findings regarding the effect of MLS are robust. To address this issue alternatively, we exclude acquisition announcements that are hostile in attitude. Our main results remain qualitatively unchanged in using this sub-sample of firms.

Sixth, we interact the method of payment with the ownership status of the target following Masulis et al. (2007) in our main tests. To mitigate the concern that these two controls themselves may have impacts on bidder returns respectively, we keep them separately. That is, we replace *Public Target*Stock*, *Private Target*Stock* and *Subsidiary Target*Stock* with *Public Target*, *Subsidiary Target* and *Stock*. Our main findings do not alter when we use these different controls.

Finally, different countries have different number of observations in our sample. To better balance the country representation, we replicate our baseline regressions by excluding countries with: i) only 1 observation; ii) less than 3 observations; iii) less than 5 observations; iv) less than 7 observations and v) less than 9 observations. Results show our findings are robust to the increasing balance country representation of the sample.

The results from these robustness tests reinforce our conclusion that MLS play an effective corporate governance role in mitigating agency problems between the controlling shareholder and minority shareholders.

7. CONCLUSION

In this thesis, we aim to explore whether multiple large shareholders (MLS) play a corporate governance role in mitigating agency problems between the controlling shareholder and minority shareholders using market reactions to acquisition announcements made by the firms featuring large shareholder(s) in the ownership structure. In a sample of acquisition announcements made by firms with at least one large shareholder in the ownership structure, we find the presence of MLS, their voting power, their relative voting power, the number of blockholders and the relative voting power of these blockholders have a positive impact on bidder announcement period abnormal returns. This result continues to prevail after controlling for a set of effects, including bidder characteristics, deal characteristics, industry characteristics, legal institution proxies, year fixed effects and countries fixed effects. These findings are also robust after a series of robustness tests, addressing industry fixed effects, correlations between control variables, country, industry and bidder clustering, sensitivity to the choice of event windows, controls for investor protection of the target's country, alternative bidder returns measures and potential endogeneity issues. In addition, we also find evidence that disclosure requirement, the quality of investor protection, common-law legal origin and anti-self-dealing are important in protecting the rights of minority shareholders and market values the quality of these external institution environments.

We contribute to the existing mergers and acquisitions literature by examining a different corporate governance device other than the one (number of ATPs used) discussed by Masulis et al. (2007). We also complement to the extant ownership structure literature, especially the literature related to MLS ownership structure. Moreover, to the best of our knowledge, this is the first international study that investigates the role of MLS using merger and acquisition activities. Our findings regarding investor protection also provide references to the future investor protection studies.

Last but not least, our database limits us to focus on Western European and East Asian countries only. When data become available in the future, later research may continue to be done with a more extensive international focus. Although we uphold the hypothesis that MLS

structure does help reduce the agency problems between the controlling shareholder and minority shareholders, we do not examine exactly how many large shareholders is most beneficial. This gives opportunities for future studies to examine the governance role of MLS in more detail. Besides, for the most important concern regarding ownership structure --- endogeneity, lack of enough time series data prevents us from conducting more dynamic models, such as panel tests to reach a more conclusive conclusion. Further research may consider tackling this issue more comprehensively. However, as we include a widespread of controls covering different potential effects and a battery of robustness tests to test the sensitivity of our findings, we are comfortable to confirm that MLS play an effective corporate governance role in mitigating agency problems based on our findings. Thus, corporate may consider promote such an ownership structure to better protect minority shareholders and benefit from good corporate governance. We also believe we make valuable contribution to the line of research related to MLS structure by highlighting this importance of MLS structure.

Variable Definitions

Variable	Definition	Source
Bidder Returns *CAR2* (-2,+2)	The accumulated market-model adjusted returns for the 5-day event window (-2, +2) where market model parameters are estimated over the 200-day estimation period (-220, -21).	Datastream, Author's Estimation
Ownership Structure Variables		
Presence1	Dummy variable: 1 for firms with a dominant shareholder of at least 10% voting rights, 0 otherwise.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Presence2	Dummy variable: 1 for firms with at least two large shareholders of at least 10% voting rights, 0 otherwise.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Presence2345	Number of large shareholders beyond the largest one that have at least 10% voting rights, up to 4.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Vote2	Size of voting rights of the second largest shareholder measured as the percentage of total votes outstanding.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Vote2345	Sum of the size of voting rights of all large shareholders other than the largest one: Vote2+Vote3+Vote4+Vote5.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Vote2/1 Ratio	The voting rights of the second largest shareholder relative to that of the dominant one: Vote2/Vote1.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
Vote2345/1 Ratio	The sum of voting rights of all large shareholders other than the largest one relative to that of the dominant shareholder: (Vote2+Vote3+Vote4+Vote5)/Vote1.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation
High_Diff	Herfindahl index of the difference between the voting rights estimated as the maximum of $\ln[(\text{Vote1-Vote2})^2 +(\text{Vote2-Vote3})^2+(\text{Vote3-Vote4})^2+(\text{Vote4-Vote5})^2]$ or 0.	Claessens et al. (2000), Faccio and Lang (2002), Author's Estimation

Bidder Characteristic Variables

Firm Size	Log of market capitalization.	Worldscope, Author's Estimation
Tobin's Q	Market value of assets over book value of assets: (book value of assets – total common equity + market capitalization)/book value of assets.	Worldscope, Author's Estimation
Leverage	Book value of debts (debts in current liability + long-term debts) over market value of total assets.	Worldscope, Author's Estimation
Free Cash Flow	Operating income before depreciation– interest expenses – income taxes– capital expenditures, scaled by book value of total assets.	Worldscope, Author's Estimation
Price Runup	Bidder's cumulative daily returns during the period (-220, -20).	Datastream, Author's Estimation

Deal Characteristic Variables

Deal Value to ACQ Value	The deal size (value offer) relative to the market value of the bidder.	Worldscope, SDC Platinum, Author's Estimation
Stock	Dummy variable: 1 for deals that are paid stock (either purely or partially).	SDC Platinum, Author's Estimation
Cross-border	Dummy variable: 1 if the target and the bidder are from different countries, 0 otherwise.	SDC Platinum, Author's Estimation
Private Target	Dummy variable: 1 for private targets, 0 otherwise.	SDC Platinum, Author's Estimation
Public Target	Dummy variable: 1 for public targets, 0 otherwise.	SDC Platinum, Author's Estimation
Subsidiary Target	Dummy variable: 1 for subsidiary targets, 0 otherwise.	SDC Platinum, Author's Estimation
Diversifying	Dummy variable: 1 if the target and the bidder do not share the same Fama-French industry, 0 otherwise.	SDC Platinum, Author's Estimation
High_tech	Indicator variables: 1 if both target and bidder are both from high tech industries defined by Loughran and Ritter (2004), 0 otherwise.	SDC Platinum, Author's Estimation

Industry Characteristic Variables

Industry M&A	Transaction value of all industry mergers based on Fama-French 48 industry groups divided by the total book value of total assets of all Global Vantage firms in the same Fama-French industry and year.	Global Vantage, SDC Platinum, Author's Estimation
Competitiveness	Dummy variable: 1 if the bidder's industry is in the bottom quartile of all Fama-French 48 industries annually sorted according to Herfindahl index (sum of the square of the market share of the firm in Fama-French 48 industries by year), 0 otherwise.	Compustat, Author's Estimation
Uniqueness	Dummy variable: 1 if the bidder's industry is in the top quartile of all Fama-French 48 industries annually sorted by industry-median product uniqueness (selling expenses scaled by sales), 0 otherwise.	Compustat, Author's Estimation

Country Legal Institution Variables

Disclosure Requirement	Disclosure requirements index. It equals the arithmetic mean of: (1) Prospect; (2) Compensation; (3) Shareholders; (4) Inside ownership; (5) Contracts Irregular; (6) and Transactions.	La Porta et al. (1998)
Investor Protection	Principal component of disclosure, liability standards, and Anti-director rights. Scale from 0 to 10.	La Porta et al. (1998)
Common-Law Legal Origin	Dummy Variable: 0 if the country is a common law country, 0 otherwise.	La Porta et al. (1998)
Anti-self-dealing Index	Average of ex-ante (average of approval by disinterested shareholders and ex-ante disclosure) and ex-post (average of disclosure in periodic filings and ease of proving wrongdoing) private control of self-dealing.	Djankov et al. (2008)
Revised Anti-director Rights Index	Aggregate index of shareholder rights. The index is the sum of: (1) vote by mail; (2) shares not deposited; (3) cumulative voting; (4) oppressed minority; (5) pre-emptive rights; and (6) capital to call a meeting.	Djankov et al. (2008)

APPENDIX A.2

Abnormal Returns Models

i. Mean adjusted returns: $AR_{i,t} = R_{i,t} - \bar{R}_i$

where $\bar{R}_i$ is the simple average of bidder's daily returns during the (-220, -21) estimation period.

ii. Market adjusted returns: $AR_{i,t} = R_{i,t} - R_{m,t}$

where $R_{m,t}$ is returns on the country market portfolio for day t, which we use Datastream country market total return index for each country as the proxy.

iii. Two-factor market model returns (multi-index model): $AR_{i,t} = R_{i,t} - \hat{a}_i - \hat{u}_i R_{m,t} - \hat{g} R_{w,t}$

where $R_{m,t}$ is returns on country market portfolio for day t (we use Datastream country market total return index for each country as the proxy for their respective market portfolio), $R_{w,t}$ is returns on global market portfolio for day t (we use Datastream global market total return index as the proxy for global market portfolio) and $\hat{a}_i$, $\hat{u}_i$ and $\hat{g}$ are two-factor market model parameters from the following equation over the estimation period (-220, -21):

$$R_{i,t} = \hat{a}_i + \hat{u}_i R_{m,t} + \hat{g} R_{w,t} + \hat{s}_{i,t}$$

REFERENCES

Adelopo, I., K. Jallow, and P. Scott, 2009. Multiple large shareholders, audit committee activity and audit fees. W*orking Paper, available at SSRN: http://ssrn.com/abstract=1501806.*

Admati, A., P. Pfleiderer, and J. Zechner, 1994. Large shareholder activism, risk sharing, and financial market equilibrium. *Journal of Political Economy* 102, 1097-1130.

Agrawal, A., and G. Mandelker, 1990. Large shareholders and monitoring of managers: The case of antitakeover charter amendments. *Journal of Financial and Quantitative Analysis* 25, 143-161.

Amihud, Y., and B. Lev, 1981. Risk reduction as a managerial motive for conglomerate mergers. *Bell Journal of Economics* 12, 605–617.

Amihud, Y., B. Lev, and N. Travlos, 1990. Corporate control and the choice of investment financing: The case of corporate acquisitions. *Journal of Finance* 45, 603–616.

Asquith, P., R. Bruner, and D. Mullins, 1983. The gains to bidding firms from merger. *Journal of Financial Economics* 11, 121–139.

Attig, N., O. Guedhami, and D. Mishra, 2008. Multiple large shareholders, control contests and implied cost of equity. *Journal of Corporate Finance* 14, 721-737.

Attig, N., S. El Ghoul, and O. Guedhami, 2009. Do multiple large shareholders play a corporate governance role? Evidence from East Asia. *Journal of Financial Research* 32, 395-422.

Aybar, B., and A. Ficici, 2009. Cross-border acquisitions and firm value: An analysis of emerging-marking multinationals. *Journal of International Business Studies* 40, 1317-1338.

Bebchuk, L., A. Cohen, and A. Ferrell, 2009. What Matters in Corporate Governance? *Review of Financial Studies* 22, 783-827.

Bennedsen, M., and D. Wolfenzon, 2000. The balance of power in closely held corporations. *Journal of Financial Economics* 58, 113-139.

Berle, A., and G. Means, 1932. The Modern Corporation and Private Property. *Macmillan, New York.*

Bhagat, S., M. Dong, D. Hirshleifer, and R. Noah, 2005. Do tender offers create value? New method and evidence. *Journal of Financial Economics* 76, 3–60.

Bharath, S., S. Jayaraman, and V. Nagar, 2010. Exit as governance: An empirical analysis. *Working Paper, available at SSRN: http://ssrn.com/abstract=1572940.*

Bloch, F., and U. Hege, 2001. Multiple large shareholders and control contests. *Mimeo*, *HEC*.

Boehmer, E., 2000. Business groups, bank control, and large shareholders: An analysis of German takeovers. *Journal of Financial Intermediation* 9, 117-148.

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

Bris, A., N. Brisley, and C. Cabolis, 2008. Adopting better corporate governance: Evidence from cross-border mergers. *Journal of Corporate Finance* 14, 224-240.

Brown, S., and J. Warner, 1985. Using daily stock returns: The case of event studies. *Journal of Financial Economics* 14, 3-31.

Burkart, M., D. Gromb, and F. Panunzi, 1997. Large shareholders, monitoring, and the value of the firm. *Quarterly Journal of Economics* 112, 693-728.

Campa, J., and S. Kedia, 2002. Explaining the diversification discount. *Journal of Finance* 57, 1731-1762.

Capron, L., and J. Shen, 2007. Acquisitions of private vs. public firms: Private information, target selection, and acquirer returns. *Strategic Management Journal* 28, 891-911.

Chang, C., M. Choi, and S. Huang, 2009. Corporate governance and cross-border acquiree returns. *Working Paper, available at http://ssrn.com/abstract=1318175*.

Chen, K., Z. Chen, and K. Wei, 2009. Legal protection of investors, corporate governance, and the cost of equity capital. *Journal of Corporate Finance* 15, 273–289.

Choi, J., and J. Russell, 2004. Economic gains around mergers and acquisitions in the construction industry of the United States of America. *Journal of Civil Engineering* 31, 513-525.

Claessens, S., S. Djankov, and L. Lang, 2000. The separation of ownership and control in East Asian corporations. *Journal of Financial Economics* 58, 81-112.

Claessens, S., S. Djankov, J. Fan, and L. Lang, 2002. Disentangling the incentive and entrenchment effects of large shareholdings. *Journal of Finance* 57, 2741-2771.

Cronqvist, H., and R. Fahlenbrach, 2009. Large shareholders and corporate policies. *Review of Financial Studies* 22, 3941-3976.

Demsetz, H., 1983. The structure of ownership and the theory of the firm. *Journal of Law and Economics* 26, 375-390.

Demsetz, H., and K. Lehn, 1985. The structure of corporate ownership: causes and consequences. *Journal of Political Economy* 93, 1155-1177.

Dhillon, A., and S. Rossetto, 2009. Corporate control and multiple large shareholders. *Working Paper, University of Warwick.*

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

Dyck, A., and L. Zingales, 2004. Control premiums and the effectiveness of corporate governance systems. *Journal of Applied Corporate Finance* 16, 51-72.

Edmans, A., and G. Manso, 2011. Governance through trading and intervention: A theory of multiple blockholders. *Review of Financial Studies* 24, 2395-2428.

Ellul, A., L. Guntay, and U. Lel, 2007. External governance and debt agency costs of family firms. *Working Paper, Indiana University.*

Erel, I., R. Liao, and M. Weisbach, 2011. Determinants of cross-border mergers and acquisitions. *Journal of Finance, Forthcoming.*

Faccio, M., and L. Lang 2002. The ultimate ownership of Western European corporations. *Journal of Financial Economics* 65, 365-395.

Faccio, M., and R. Masulis, 2005. The choice of payment method in European mergers and acquisition. *Journal of Finance* 60, 1345-1388.

Faccio, M., J. McConnell, and D. Stolin, 2006. Returns to acquirers of listed and unlisted targets. *Journal of Financial and Quantitative Analysis* 41, 197-220.

Faccio, M., L. Lang, and L. Young, 2001. Dividends and expropriation. *American Economics Review* 91, 54-78.

Faccio, M., L. Lang, and L. Young, 2010. Large shareholder diversification and corporate risk-taking. *Working Paper, available at SSRN: http://ssrn.com/abstract=1572667.*

Fan, J., and T. Wong, 2005. Do external auditors perform a corporate governance role in emerging markets? Evidence from East Asia. *Journal of Accounting Research* 43, 35-72.

Fuller, K., J. Netter, and M. Stegemoller, 2002. What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions. *Journal of Finance* 57, 1763–1793.

Gillan, S., J. Hartzell, and L. Starks, 2003. Explaining corporate governance: Boards, bylaws, and charter provisions. *Working Paper, available at http://ssrn.com/abstract=442740.*

Gomes, A., and W. Novaes, 1999. Multiple large shareholders in corporate governance. *Working Paper, University of Pennsylvania.*

Gomes, A., and W. Novaes. 2006. Sharing of control versus monitoring as corporate governance mechanisms. *Working Paper, University of Pennsylvania.*

Gompers, P., J. Ishii, and A. Metrick, 2003. Corporate governance and equity prices, *Quarterly Journal of Economics* 118, 107-155.

Grossman, S., and O. Hart, 1988. One share-one vote and the market for corporate control. *Journal of Financial Economics* 20. 175-202.

Guedhami, O., and D. Mishra, 2009. Excess control, corporate governance, and implied cost of equity: International evidence. *Financial Review* 44, 489-524.

Gugler, K., D. Mueller, and B. Yurtoglu, 2004. Corporate governance and the returns on investment. *Journal of Law and Economics* 47, 589-633.

Gutierrez, M., and J. Tribo, 2004. Private benefits extraction in closely-held corporations: The case for multiple large shareholders. *Working Paper, Universidad Carlos III de Madrid.*

Hail, L., and C. Leuz, 2006. International differences in the cost of equity capital: Do legal institutions and securities regulations matter? *Journal of Accounting Research* 44, 485-531.

Harris, M., and A. Raviv, 1988. Corporate governance: Voting rights and majority rules. *Journal of Financial Economics* 20, 203–235.

Himmelberg, C., R. Hubbard, and D. Palia, 1999. Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics* 53, 353-384.

Holderness, C., 2009. The myth of diffuse ownership in the United States. *Review of Financial Studies* 22, 1377-1408.

Jensen, M., 1986. Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review* 76, 323-329.

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

John, K., L. Litov, and B. Yeung, 2008. Corporate governance and risk-taking. *Journal of Finance* 63, 1679-1728.

Kahn, C., and A. Winton, 1998. Ownership structure, speculation, and shareholder intervention. *Journal of Finance* 53, 99-129.

Kiymaz, H., and H. Baker, 2008. Short-term performance, industry effects and motives: Evidence from large M&As. *Quarterly Journal of Finance and Accounting* 47, 17-44.

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

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, 1998. Law and finance. *Journal of Political Economy* 106, 1113-1155.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny, 2000. Investor protection and corporate governance. *Journal of Financial Economics* 58, 3-27.

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

La Porta, R., F. Lopez-de-Silanes, and A. Shleifer, 1999. Corporate ownership around the world. *Journal of Finance* 54, 471-517.

Laeven, L., and R. Levine, 2008. Complex ownership structures and corporate valuations. *Review of Financial Studies* 21, 579-604.

Laeven, L., and R. Levine, 2009. Bank governance, regulation and risk taking. *Journal of Financial Economics* 93, 259-275.

Lang, L., R. Stulz, and R. Walkling, 1989. Managerial performance, Tobin's Q and the gains from successful tender offers. *Journal of Financial Economics* 24, 137-154.

Lang, L., R. Stulz, and R. Walkling, 1991. A test of the free cash flow hypothesis: The case of bidder returns. *Journal of Financial Economics* 29, 315–336.

Leibenstein, H., 1966. Allocative efficiency vs. "X-efficiency". *American Economic Review* 56, 392–415.

Leverty, J., and Y. Qian, 2010. Do efficient firms make better acquisitions? *Working Paper, available at SSRN: http://ssrn.com/abstract=1348830.*

Loughran, T., and J. Ritter, 2004. Why has IPO underpricing changed over time? *Financial Management* 33, 5-37.

Maloney, M., R. McCormick, and M. Mitchell, 1993. Managerial decision making and capital structure. *Journal of Business* 66, 189-217.

Masulis, R., C. Wang, and F. Xie, 2007. Corporate governance and acquirer returns. *Journal of Finance* 62, 1851- 1889.

Maury, B., and A. Pajuste, 2005. Multiple large shareholders and firm value. *Journal of Banking and Finance* 29, 1813-1834.

Mishra, D., 2011. Multiple large shareholders and corporate risk taking: Evidence from East Asia. *Corporate Governance: An International Review, Forthcoming.*

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

Moeller, S., F. Schlingemann, and R. Stulz, 2004. Firm size and the gains from acquisitions. *Journal of Financial Economics* 73, 201–228.

Moeller, T., 2005. Let's make a deal! How shareholder control impacts merger payoffs. *Journal of Financial Economics* 76, 167-190.

Morck, R., A. Shleifer, and R. Vishny, 1990. Do managerial objectives drive bad acquisitions? *Journal of Finance* 45, 31-48.

Morck, R., A. Shleifer, and R. Vishny, 1988. Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics* 20, 293-315

Morck, R., D. Wolfenzon, and B. Yeung, 2005. Corporate governance, economic entrenchment, and growth. *Journal of Economic Literature* 43, 655–720.

Mulherin, J., and A. Boone, 2000. Comparing acquisitions and divestitures. *Journal of Corporate Finance* 6, 117-139

Myers, S., and N. Majluf, 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics* 13, 187–221.

Nagar, V., K. Petroni, and D. Wolfenzon, 2010. Governance problems in closely-held corporations. *Journal of Financial and Quantitative Analysis, Forthcoming.*

Neary, J., 2007. Cross-border mergers as instruments of comparative advantage. *Review of Economic Studies* 74, 1229-1257.

Nenova, T., 2003. The value of corporate voting rights and control: A cross-country analysis. *Journal of Financial Economics* 68, 325-351.

Noe, T., 2002. Investor activism and financial market structure. *Review of Financial Studies* 15, 289-318.

Oded, J., and Y. Wang, 2010. On the different styles of large shareholders' activism. *Economics of Governance* 11, 229-267.

Pagano, M., and A. Röell, 1998. The choice of stock ownership structure: Agency costs, monitoring, and the decision to go public. *Quarterly Journal of Economics* 113, 187-225.

Paligorova, T., 2010. Corporate risk-taking and ownership structure. *Working Paper, Bank of Canada.*

Pergola, T., and D. Verreault, 2009. Motivations and potential monitoring effects of large shareholders. *Corporate Governance* 9, 551-563.

Piskula, T., 2011. Governance and merger activity in banking. *Journal of Business and Economic Studies* 17, 1-15, 81.

Roll, R., 1986. The hubris hypothesis of corporate takeovers. *Journal of Business* 59, 197–216.

Rossi, S., and P. Volpin, 2004. Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics* 74, 277–304.

Schlingemann, F., R. Stulz, and R. Walkling, 2002. Divestitures and the liquidity of the market for corporate assets. *Journal of Financial Economics* 64, 117-144.

Servaes, H., 1991. Tobin's *q* and the gains from takeover. *Journal of Finance* 46, 409–419.

Shleifer, A., and R. Vishny, 1986. Large shareholders and corporate control. *Journal of Political Economy* 94, 461-488.

Shleifer, A., and R. Vishny, 1989. Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics* 25, 123–139.

Shleifer, A., and R. Vishny, 1997. A survey of corporate governance. *Journal of Finance* 52, 737-783.

Stulz, R., 1990. Managerial discretion and optimal financing policies. *Journal of Financial Economics* 26, 3–27.

Titman, S., and R. Wessels, 1988. The determinants of capital structure choice. *Journal of Finance* 43, 1-19.

Volpin, P., 2002. Governance with poor investor protection: Evidence from top executive turnover in Italy. *Journal of Financial Economics* 64, 61-90.

Wang, C., and F. Xie, 2009. Corporate governance transfer and synergistic gains from mergers and acquisitions. *Review of Financial Studies*, 829-858.

Williamson, O., 1963. Selling expense as a barrier to entry. *Quarterly Journal of Economics* 77, 112-128.

Winton, A., 1993. Limitation of liability and the ownership structure of the firm. *Journal of Finance* 48, 487-512.

Wurgler, J., 2000. Financial markets and the allocation of capital. *Journal of Financial Economics* 58, 187-214.

Zwiebel, J., 1995. Block investment and partial benefits of corporate control. *Review of Economic Studies* 62, 161-185.

Table 1A
Summary Statistics of Bidder Returns (*CAR2*) by Country

Country	Number of Acquisitions	Mean Bidder Returns (*CAR2*)	Standard Deviation
Finland	20	-0.0038	0.1222
France	26	0.0082	0.0678
Germany	11	0.0485	0.0748
Hong Kong	13	-0.0299	0.2540
Ireland	27	-0.0074	0.0674
Italy	12	-0.0140	0.0558
Japan	36	-0.0476	0.0857
Malaysia	13	0.0138	0.0448
Norway	18	-0.0073	0.0730
Philippines	3	0.0308	0.0534
Singapore	8	-0.0304	0.1243
Spain	16	-0.0246	0.0788
Sweden	32	-0.0598	0.0795
Switzerland	10	0.0098	0.0622
United Kingdom	537	-0.0089	0.0766
Total	**782**	**-0.0114**	**0.0842**

This table presents the summary statistics of bidder returns (*CAR2*) of the sample acquisition announcements by country. The sample is drawn from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002). The bidder returns (*CAR2*) are the cumulative market-model adjusted returns for a 5-day event window (-2, +2) where market model parameters are estimated over a 200-day estimation period (-220, -21).

Table 1B
Summary Statistics of Bidder Returns (*CAR2*) by Year

Year Announced	Number of Acquisitions	Mean Bidder Returns (*CAR2*)	Standard Deviation
1996	138	-0.0059	0.0451
1997	118	-0.0066	0.0613
1998	155	-0.0156	0.0758
1999	191	-0.0287	0.0809
2000	180	0.0032	0.1202
Total	**782**	**-0.0114**	**0.0842**

This table presents the summary statistics of bidder returns (*CAR2*) of the sample acquisition announcements by year. The sample is drawn from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002). The bidder returns (*CAR2*) are the cumulative market-model adjusted returns for a 5-day event window (-2, +2) where market model parameters are estimated over a 200-day estimation period (-220, -21).

Table 2A
Summary Statistics of Key Variables

Variable	N	Mean	Standard Deviation	Q1	Median	Q3
Panel A: Ownership Structure Variables						
Presence1	782	0.71	0.45	0.00	1.00	1.00
Presence2	782	0.31	0.46	0.00	0.00	1.00
Presence2345	782	0.45	0.80	0.00	0.00	1.00
Vote2	782	4.84	7.81	0.00	0.00	10.60
Vote2345	782	6.64	11.81	0.00	0.00	11.00
Vote2/1	782	0.21	0.34	0.00	0.00	0.40
Vote2345/1	782	0.29	0.54	0.00	0.00	0.50
High_diff	782	4.46	2.75	3.26	5.25	6.35
Panel B: Bidder Characteristic Variables						
Firm Size	782	5.90	2.08	4.36	5.68	7.06
Tobin's Q	782	2.48	3.32	1.19	1.66	2.40
Free Cash Flow	782	0.09	0.25	0.05	0.10	0.15
Leverage	782	0.13	0.14	0.03	0.09	0.18
Price Runup	782	-0.09	0.41	-0.30	-0.08	0.13
Panel C: Deal Characteristic Variables						
Deal Value to ACQ Value	782	0.41	1.24	0.02	0.10	0.36
Stock	782	0.49	0.50	0.00	0.00	1.00
Cross-border	782	0.37	0.48	0.00	0.00	1.00
Private Target	782	0.48	0.50	0.00	0.00	1.00
Public Target	782	0.32	0.47	0.00	0.00	1.00
Subsidiary Target	782	0.19	0.39	0.00	0.00	0.00
Diversifying	782	0.49	0.50	0.00	0.00	1.00
High_tech Industry	782	0.09	0.29	0.00	0.00	0.00
Panel D: Industry Characteristic Variables						
Industry M&A	782	0.06	0.12	0.01	0.02	0.06
Uniqueness	782	0.33	0.47	0.00	0.00	1.00
Competitiveness	782	0.32	0.47	0.00	0.00	1.00

This table presents the summary descriptive statistics for ownership structure variables, bidder characteristics control variables, deal characteristics control variables and industry characteristics control variables. The sample includes firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002).

Table 2B
Pearson Correlation Matrix

Variable	Presence1	Presence2	Presence2345	Vote2	Vote2345	Vote2/1	Vote2345/1	High_diff	Firm Size	Tobin's Q	Free Cash Flow	Leverage	Deal Value to ACQ Value	High_tech	Cross-border	Diversifying	Stock	Private Target	Public Target	Subsidiary Target	Price Runup	Industry M&A	Competitiveness
Presence2	0.43																						
Presence2345	0.36	0.84																					
Vote2	0.39	0.89	0.78																				
Vote2345	0.34	0.80	0.94	0.89																			
Vote2/1	0.35	0.85	0.71	0.82	0.73																		
Vote2345/1	0.27	0.70	0.80	0.69	0.81	0.86																	
High_diff	0.89	0.35	0.28	0.35	0.29	0.23	0.15																
Firm Size	-0.28	-0.23	-0.20	-0.21	-0.21	-0.23	-0.21	-0.21															
Tobin's Q	0.03	0.00	-0.01	-0.03	-0.03	-0.01	-0.02	0.04	0.08														
Free Cash Flow	-0.05	-0.07	-0.05	-0.05	-0.04	-0.04	-0.04	-0.07	0.12	-0.52													
Leverage	0.01	0.05	0.07	0.04	0.06	0.06	0.07	0.00	0.04	-0.27	-0.07												
Deal Value to ACQ Value	0.06	0.07	0.10	0.09	0.11	0.07	0.08	0.06	-0.17	0.01	-0.17	0.08											
High_tech	-0.04	-0.07	-0.07	-0.08	-0.08	-0.06	-0.05	0.01	0.10	0.31	0.04	-0.16	-0.05										
Cross-border	-0.09	-0.02	-0.04	-0.04	-0.06	-0.06	-0.08	-0.06	0.36	0.08	0.02	-0.01	-0.04	0.18									
Diversifying	0.00	-0.02	-0.03	-0.01	-0.03	-0.05	-0.06	-0.03	-0.09	-0.04	-0.03	-0.06	0.01	-0.10	-0.05								
Stock	-0.02	0.02	0.02	0.02	0.03	0.03	0.04	0.04	-0.04	0.10	-0.10	0.05	0.19	0.09	-0.16	-0.16							
Private Target	0.02	0.02	0.00	-0.01	-0.02	0.02	0.02	0.00	-0.39	0.07	0.02	-0.20	-0.12	0.08	-0.13	0.06	-0.02						
Public Target	-0.08	-0.07	-0.06	-0.06	-0.06	-0.08	-0.07	-0.05	0.41	0.00	-0.03	0.17	0.13	-0.09	0.13	-0.05	0.11	-0.66					
Subsidiary Target	0.06	0.04	0.06	0.07	0.08	0.06	0.06	0.05	0.00	-0.08	0.01	0.04	0.00	0.00	0.01	-0.03	-0.11	-0.47	-0.33				
Price Runup	0.02	0.00	-0.01	0.02	0.00	0.00	0.00	0.02	0.02	-0.11	-0.05	0.07	-0.12	-0.04	-0.04	0.02	-0.11	-0.07	0.05	0.03			
Industry M&A	0.05	0.08	0.05	0.04	0.03	0.04	0.02	0.07	0.06	0.37	-0.24	-0.10	0.01	0.17	0.07	-0.05	0.18	0.03	-0.01	-0.05	-0.16		
Competitiveness	-0.04	-0.06	-0.03	-0.04	-0.02	-0.07	-0.05	-0.04	0.22	-0.08	0.04	0.13	0.01	-0.10	-0.01	0.01	-0.01	-0.18	0.12	0.08	-0.01	-0.07	
Uniqueness	0.01	0.01	-0.06	-0.02	-0.06	0.03	-0.03	0.02	-0.09	0.23	0.02	-0.26	-0.04	0.38	0.11	-0.05	0.08	0.14	-0.10	-0.05	-0.13	0.19	-0.35
N	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782	782

This table reports the pairwise correlation coefficients of variables. The sample includes firms from 5 East Asian and 10 Western European countries represented in Claessens et al. (2000) and Faccio and Lang (2002).

76

Table 3
Univariate Tests of Difference in *CAR2* with Ownership Structure

Type	Presence 1	Presence 2	Number of Acquisitions	Mean Bidder Returns (*CAR2*)	Standard Deviation	T-stat
Widely Held	0	0	228	-0.0092	0.0720	-5.9724
SLS	1	0	310	-0.0199	0.0955	-12.8420
MLS	1	1	244	-0.0027	0.0788	-1.9336
Testing of the Mean Difference						
	CAR2(Difference)		T-stat		Significance Level	
SLS-Widely Held	-0.0107		-1.4787		Not Significant	
MLS-SLS	0.0172		2.3209		5% Level	

This table presents the univariate tests of the difference in bidder returns (*CAR2*) between firms that are widely-held, with single large shareholder (SLS) and with multiple large shareholder structure (MLS). The sample includes firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002). The bidder returns (*CAR2*) are the cumulative market-model adjusted returns for a 5-day event window (-2, +2) where market model parameters are estimated over a 200-day estimation period (-220, -21).

Table 4A
Bidder Returns and Bidder's Ownership Structure

Model	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2
Presence1	**-0.0119***	-0.0099	-0.0113	-0.0073	-0.0039	
	(-1.673)	(-1.508)	(-1.596)	(-1.111)	(-0.543)	
Presence2	**0.0180***	**0.0166***				**0.0169***
	(2.463)	(2.300)				(2.311)
Bidder Characteristics						
Firm Size					0.0007	
					(0.276)	
Tobin's Q					-0.0016	
					(-0.545)	
Free Cash Flow					-0.0494	
					(-0.470)	
Leverage					**-0.0871***	
					(-1.915)	
Price Runup					**-0.0374***	
					(-2.555)	
Deal Characteristics						
Deal Value to ACQ Value					-0.0104	
					(-1.042)	
High_tech					0.0044	
					(0.275)	
Deal Value to ACQ Value*High_tech					0.0126	
					(0.570)	
Cross-border					0.0078	
					(0.868)	
Diversifying					0.0109	
					(1.541)	
Private Target*Stock					0.0054	
					(0.479)	
Public Target*Stock					**0.0380*****	
					(2.989)	
Subsidiary Target*Stock					-0.0008	
					(-0.035)	
Industry Characteristics						
Industry M&A					-0.0352	
					(-0.814)	
Competitiveness					-0.0043	
					(-0.587)	
Uniqueness					**-0.0154***	
					(-1.757)	
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	No	Yes	No	Yes	Yes	Yes
Constant	0.0067	0.0111	0.0007	0.0031	0.0085	-0.0030
	(0.733)	(1.155)	(0.068)	(0.277)	(0.314)	(-0.265)
Observations	782	782	538	538	538	554
Adjusted R-squared	0.020	0.040	0.009	0.028	0.069	0.028
F-test (p-value)	0.0028	0.0000	0.0399	0.0013	0.0000	0.0008

This table presents relationship between bidder returns (*CAR2*) and the presence of single large shareholder (SLS) and multiple large shareholders (MLS) in the ownership structure. The sample includes acquisitions announcement made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 4B
Baseline Regressions: Bidder Returns and MLS in Bidder's Ownership Structure

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2
Presence2	**0.0189****						
	(2.349)						
Vote2		**0.0009***					
		(1.952)					
Vote2/1 Ratio			**0.0203****				
			(1.969)				
Presence2345				**0.0087***			
				(1.723)			
Vote2345					0.0005		
					(1.609)		
Vote2345/1 Ratio						**0.0137****	
						(2.001)	
High_diff							-0.0045
							(-1.105)
Bidder Characteristics							
Firm Size	0.0033	0.0031	0.0031	0.0032	0.0031	0.0032	0.0026
	(1.244)	(1.152)	(1.177)	(1.197)	(1.161)	(1.207)	(1.012)
Tobin's Q	-0.0037	-0.0037	-0.0038	**-0.0039***	-0.0038	**-0.0039***	**-0.0039***
	(-1.584)	(-1.577)	(-1.633)	(-1.664)	(-1.633)	(-1.682)	(-1.656)
Free Cash Flow	**-0.0477***	**-0.0482***	**-0.0497***	**-0.0499***	**-0.0495***	**-0.0504***	**-0.0502***
	(-1.709)	(-1.723)	(-1.786)	(-1.796)	(-1.778)	(-1.818)	(-1.793)
Leverage	**-0.0668****	**-0.0639****	**-0.0657****	**-0.0654****	**-0.0641****	**-0.0666****	**-0.0641****
	(-2.088)	(-1.986)	(-2.038)	(-2.037)	(-1.995)	(-2.066)	(-1.971)
Price Runup	**-0.0426*****	**-0.0427*****	**-0.0425*****	**-0.0427*****	**-0.0425*****	**-0.0423*****	**-0.0431*****
	(-3.454)	(-3.444)	(-3.441)	(-3.450)	(-3.425)	(-3.424)	(-3.441)
Deal Characteristics							
Deal Value to ACQ Value	-0.0012	-0.0013	-0.0013	-0.0014	-0.0014	-0.0013	-0.0012
	(-0.229)	(-0.265)	(-0.257)	(-0.269)	(-0.287)	(-0.267)	(-0.235)
High_tech	0.0226	0.0217	0.0212	0.0214	0.0211	0.0204	0.0187
	(1.120)	(1.074)	(1.051)	(1.067)	(1.049)	(1.013)	(0.923)
Deal Value to ACQ Value*High_tech	0.0130	0.0140	0.0145	0.0127	0.0134	0.0139	0.0150
	(0.788)	(0.843)	(0.872)	(0.778)	(0.814)	(0.838)	(0.898)
Cross-border	0.0052	0.0062	0.0061	0.0064	0.0068	0.0067	0.0067
	(0.557)	(0.675)	(0.663)	(0.698)	(0.739)	(0.739)	(0.729)
Diversifying	-0.0032	-0.0037	-0.0032	-0.0034	-0.0036	-0.0033	-0.0036
	(-0.434)	(-0.499)	(-0.430)	(-0.468)	(-0.487)	(-0.441)	(-0.493)
Private Target*Stock	0.0033	0.0039	0.0040	0.0040	0.0042	0.0044	0.0042
	(0.323)	(0.383)	(0.395)	(0.393)	(0.416)	(0.435)	(0.412)
Public Target*Stock	**0.0323*****	**0.0329*****	**0.0332*****	**0.0330*****	**0.0331*****	**0.0331*****	**0.0338*****
	(2.808)	(2.859)	(2.896)	(2.887)	(2.893)	(2.911)	(2.933)
Subsidiary Target*Stock	-0.0248	-0.0256	-0.0251	-0.0263	-0.0263	-0.0261	-0.0234
	(-1.141)	(-1.166)	(-1.155)	(-1.192)	(-1.189)	(-1.190)	(-1.105)
Industry Characteristics							
Industry M&A	-0.0270	-0.0227	-0.0236	-0.0242	-0.0224	-0.0223	-0.0188
	(-0.668)	(-0.558)	(-0.573)	(-0.600)	(-0.553)	(-0.544)	(-0.456)

Competitiveness	-0.0008	-0.0014	-0.0013	-0.0011	-0.0015	-0.0013	-0.0020
	(-0.122)	(-0.200)	(-0.189)	(-0.161)	(-0.210)	(-0.195)	(-0.293)
Uniqueness	**-0.0197****	**-0.0194****	**-0.0204****	**-0.0180****	**-0.0183****	**-0.0191****	**-0.0196****
	(-2.193)	(-2.165)	(-2.267)	(-1.996)	(-2.041)	(-2.125)	(-2.178)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0016	0.0045	0.0051	0.0038	0.0046	0.0045	0.0393
	(0.063)	(0.184)	(0.209)	(0.156)	(0.187)	(0.186)	(1.317)
Observations	554	554	554	554	554	554	554
Adjusted R-squared	0.092	0.088	0.088	0.088	0.088	0.088	0.085

This table presents relationship between bidder returns (*CAR2*) and MLS with a sample of firms that have at least one large shareholder. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 5
Bidder Returns, Legal Institutions and MLS in Bidder's Ownership Structure

Model	(1)	(2)	(3)	(4)	(5)
Dependent Variable	*CAR2*	*CAR2*	*CAR2*	*CAR2*	*CAR2*
Presence2	**0.0221***	**0.0213***	**0.0211***	**0.0213***	**0.0210***
	(2.866)	(2.713)	(2.673)	(2.713)	(2.641)
Bidder Characteristics					
Firm Size	0.0031	0.0036	0.0035	0.0035	0.0030
	(1.447)	(1.617)	(1.590)	(1.595)	(1.341)
Tobin's Q	-0.0035	**-0.0039***	**-0.0038***	**-0.0039***	-0.0037
	(-1.563)	(-1.711)	(-1.677)	(-1.691)	(-1.647)
Free Cash Flow	**-0.0456***	**-0.0498***	**-0.0488***	**-0.0492***	**-0.0479***
	(-1.684)	(-1.802)	(-1.780)	(-1.791)	(-1.739)
Leverage	**-0.0721****	**-0.0706****	**-0.0709****	**-0.0713****	**-0.0715****
	(-2.331)	(-2.296)	(-2.300)	(-2.310)	(-2.287)
Price Runup	**-0.0426*****	**-0.0416*****	**-0.0419*****	**-0.0423*****	**-0.0423*****
	(-3.639)	(-3.568)	(-3.586)	(-3.604)	(-3.586)
Deal Characteristics					
Deal Value to ACQ Value	-0.0008	-0.0008	-0.0008	-0.0008	-0.0009
	(-0.163)	(-0.160)	(-0.166)	(-0.154)	(-0.171)
High_tech	**0.0340***	**0.0338***	**0.0335***	**0.0330***	**0.0328***
	(1.851)	(1.848)	(1.848)	(1.822)	(1.809)
Deal Value to ACQ Value*High_tech	0.0055	0.0069	0.0068	0.0066	0.0081
	(0.517)	(0.663)	(0.651)	(0.639)	(0.806)
Cross-border	0.0059	0.0061	0.0054	0.0061	0.0060
	(0.682)	(0.700)	(0.633)	(0.704)	(0.679)
Diversifying	-0.0039	-0.0041	-0.0038	-0.0038	-0.0038
	(-0.531)	(-0.548)	(-0.507)	(-0.513)	(-0.509)
Private Target*Stock	0.0036	0.0028	0.0040	0.0034	0.0028
	(0.390)	(0.297)	(0.431)	(0.366)	(0.305)
Public Target*Stock	**0.0294*****	**0.0303*****	**0.0314*****	**0.0308*****	**0.0296*****
	(2.600)	(2.677)	(2.762)	(2.726)	(2.613)
Subsidiary Target*Stock	-0.0283	-0.0295	-0.0271	-0.0279	-0.0308
	(-1.284)	(-1.364)	(-1.225)	(-1.274)	(-1.450)
Industry Characteristics					
Industry M&A	-0.0242	-0.0271	-0.0279	-0.0272	-0.0244
	(-0.615)	(-0.680)	(-0.704)	(-0.688)	(-0.611)
Competitiveness	0.0033	0.0032	0.0023	0.0025	0.0025
	(0.451)	(0.442)	(0.308)	(0.335)	(0.339)
Uniqueness	**-0.0219****	**-0.0216****	**-0.0213****	**-0.0215****	**-0.0213****
	(-2.428)	(-2.392)	(-2.373)	(-2.387)	(-2.365)
Legal Institutions					
Disclosure Requirement	**0.0743***				
	(1.729)				
Investor Protection		**0.0480***			
		(1.787)			
Common-Law Legal Origin			**0.0213****		
			(1.995)		
Anti-self-dealing Index				**0.0375****	

81

				(2.007)	
Revised Anti-director Rights					0.0092
					(1.490)
Year Effect	Yes	Yes	Yes	Yes	Yes
Country Effect	No	No	No	No	No
Constant	-0.0639	-0.0385	-0.0218	-0.0365	-0.0464
	(-1.605)	(-1.383)	(-0.902)	(-1.328)	(-1.258)
Observations	554	554	554	554	554
Adjusted R-squared	0.088	0.088	0.089	0.089	0.085

This table presents the relationship between bidder returns (*CAR2*) and the presence of a second largest shareholder after controlling for the proxies for country-level investor protection quality. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 6A
Bidder Returns and MLS in Bidder's Ownership Structure of Different Countries

Model	(1)	(2)	(3)	(4)
Sample	United Kingdom	Western Europe	Western Europe & East Asia	Complete Sample
Dependent Variable	CAR2	CAR2	CAR2	CAR2
Presence2	**0.0264***	**0.0183**	**0.0189**	**0.0188**
	(2.716)	(2.206)	(2.349)	(2.336)
Bidder Characteristics				
Firm Size	0.0032	0.0024	0.0033	0.0033
	(1.003)	(0.908)	(1.244)	(1.223)
Tobin's Q	-0.0016	-0.0026	-0.0037	-0.0037
	(-0.562)	(-1.137)	(-1.584)	(-1.582)
Free Cash Flow	-0.0123	-0.0246	**-0.0477***	**-0.0475***
	(-0.478)	(-1.149)	(-1.709)	(-1.698)
Leverage	**-0.0733***	**-0.0564***	**-0.0668**	**-0.0678**
	(-1.701)	(-1.658)	(-2.088)	(-2.133)
Price Runup	-0.0202	**-0.0341**	**-0.0426***	**-0.0427***
	(-1.400)	(-2.569)	(-3.454)	(-3.475)
Deal Characteristics				
Deal Value to ACQ Value	-0.0001	-0.0006	-0.0012	-0.0012
	(-0.025)	(-0.126)	(-0.229)	(-0.229)
High_tech	0.0056	0.0125	0.0226	0.0226
	(0.236)	(0.605)	(1.120)	(1.118)
Deal Value to ACQ Value*High_tech	0.0046	0.0224	0.0130	0.0127
	(0.165)	(0.637)	(0.788)	(0.774)
Cross-border	-0.0051	0.0031	0.0052	0.0053
	(-0.462)	(0.332)	(0.557)	(0.570)
Diversifying	-0.0012	-0.0020	-0.0032	-0.0031
	(-0.138)	(-0.252)	(-0.434)	(-0.421)
Private Target*Stock	0.0022	0.0019	0.0033	0.0035
	(0.214)	(0.199)	(0.323)	(0.347)
Public Target*Stock	**0.0383***	**0.0319***	**0.0323***	**0.0327***
	(2.713)	(2.631)	(2.808)	(2.875)
Subsidiary Target*Stock	-0.0106	-0.0282	-0.0248	-0.0239
	(-0.373)	(-1.486)	(-1.141)	(-1.116)
Industry Characteristics				
Industry M&A	0.0023	-0.0116	-0.0270	-0.0257
	(0.050)	(-0.304)	(-0.668)	(-0.638)
Competitiveness	-0.0079	-0.0026	-0.0008	-0.0009
	(-0.930)	(-0.351)	(-0.122)	(-0.125)
Uniqueness	**-0.0256***	**-0.0188**	**-0.0197**	**-0.0198**
	(-2.693)	(-2.117)	(-2.193)	(-2.203)
Year Effect	Yes	Yes	Yes	Yes
Country Effect	No	Yes	Yes	Yes
Constant	0.0078	0.0068	0.0016	0.0012
	(0.325)	(0.333)	(0.063)	(0.050)
Observations	377	498	554	562
Adjusted R-squared	0.067	0.090	0.092	0.226

This table presents the impact of the presence of a second largest shareholder on bidder returns (*CAR2*) of different samples with different countries. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 6B
Univariate Tests for Regional Analysis of Bidder *CAR2* and MLS structure

	Ownership Type		Difference		
	SLS	*MLS*	*MLS-SLS*	*T-stat*	*Significance Level*
East Asia	-0.0389	0.0143	0.0532	1.8275	10%
N	37	19			
Western Europe	-0.0173	-0.0041	0.0132	1.7958	10%
N	273	225			

This table presents the univariate tests of East Asian region and Western European region. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days.

Table 7
Robustness Tests with Industry Fixed Effects

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2
Presence2	0.0215**						
	(2.441)						
Vote2		0.0012**					
		(2.342)					
Vote2/1 Ratio			0.0243**				
			(2.105)				
Presence2345				0.0102*			
				(1.954)			
Vote2345					0.0007**		
					(2.058)		
Vote2345/1 Ratio						0.0171**	
						(2.245)	
High_diff							-0.0046
							(-1.049)
Bidder Characteristics							
Firm Size	0.0047	0.0044	0.0044	0.0046	0.0045	0.0046	0.0036
	(1.557)	(1.487)	(1.475)	(1.495)	(1.488)	(1.519)	(1.227)
Tobin's Q	-0.0043	-0.0043	-0.0043*	-0.0046*	-0.0045*	-0.0046*	-0.0044*
	(-1.648)	(-1.627)	(-1.674)	(-1.772)	(-1.730)	(-1.766)	(-1.705)
Free Cash Flow	-0.0536*	-0.0536*	-0.0554*	-0.0570*	-0.0562*	-0.0574*	-0.0557*
	(-1.676)	(-1.673)	(-1.736)	(-1.793)	(-1.767)	(-1.806)	(-1.738)
Leverage	-0.0979***	-0.0954***	-0.0971***	-0.0967***	-0.0959***	-0.0985***	-0.0943***
	(-3.175)	(-3.108)	(-3.153)	(-3.155)	(-3.139)	(-3.225)	(-3.042)
Price Runup	-0.0433***	-0.0431***	-0.0429***	-0.0434***	-0.0429***	-0.0427***	-0.0437***
	(-3.281)	(-3.264)	(-3.257)	(-3.272)	(-3.238)	(-3.234)	(-3.261)
Deal Characteristics							
Deal Value to ACQ Value	-0.0011	-0.0012	-0.0012	-0.0013	-0.0014	-0.0012	-0.0011
	(-0.212)	(-0.249)	(-0.232)	(-0.246)	(-0.272)	(-0.242)	(-0.206)
High_tech	0.0393*	0.0389*	0.0376	0.0377*	0.0380*	0.0366	0.0342
	(1.721)	(1.706)	(1.648)	(1.672)	(1.680)	(1.623)	(1.505)
Deal Value to ACQ Value*High_tech	0.0179	0.0187	0.0193	0.0173	0.0179	0.0183	0.0193
	(1.020)	(1.062)	(1.091)	(0.991)	(1.021)	(1.043)	(1.090)
Cross-border	0.0034	0.0044	0.0046	0.0044	0.0049	0.0051	0.0054
	(0.324)	(0.430)	(0.449)	(0.425)	(0.475)	(0.497)	(0.529)
Diversifying	0.0011	0.0006	0.0010	0.0005	0.0004	0.0007	0.0003
	(0.151)	(0.078)	(0.132)	(0.062)	(0.048)	(0.098)	(0.040)
Private Target*Stock	0.0051	0.0057	0.0056	0.0058	0.0062	0.0062	0.0054
	(0.519)	(0.588)	(0.574)	(0.592)	(0.635)	(0.635)	(0.548)
Public Target*Stock	0.0323**	0.0327**	0.0331**	0.0327**	0.0328**	0.0328**	0.0330**
	(2.478)	(2.521)	(2.553)	(2.524)	(2.542)	(2.551)	(2.531)
Subsidiary Target*Stock	-0.0193	-0.0202	-0.0195	-0.0208	-0.0209	-0.0206	-0.0176
	(-0.855)	(-0.884)	(-0.863)	(-0.906)	(-0.911)	(-0.903)	(-0.796)
Industry Characteristics							
Industry M&A	-0.0111	-0.0058	-0.0073	-0.0094	-0.0067	-0.0071	-0.0041

85

	(-0.239)	(-0.124)	(-0.154)	(-0.203)	(-0.143)	(-0.151)	(-0.086)
Competitiveness	-0.0156	-0.0169	-0.0180	-0.0150	-0.0155	-0.0162	-0.0171
	(-0.635)	(-0.689)	(-0.735)	(-0.599)	(-0.623)	(-0.657)	(-0.691)
Uniqueness	0.0318	0.0333	0.0340	0.0383	0.0383	0.0361	0.0383
	(0.805)	(0.841)	(0.876)	(0.942)	(0.935)	(0.910)	(0.991)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.0194	-0.0176	-0.0160	-0.0176	-0.0181	-0.0173	0.0208
	(-0.700)	(-0.639)	(-0.587)	(-0.631)	(-0.649)	(-0.622)	(0.609)
Observations	554	554	554	554	554	554	554
Adjusted R-squared	0.097	0.095	0.093	0.094	0.094	0.095	0.087

This table presents relationship between bidder returns (*CAR2*) and ownership structure variables related to the presence and the power of MLS with a sample of firms that have at least one large shareholder after further controlling for industry fixed effects. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder announcement period abnormal returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 8
Robustness Tests with Different Proxies for Control Variables

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2	CAR2
Presence2	**0.0179****	**0.0183****	**0.0189****	**0.0190****	**0.0209****	**0.0192****	**0.0185****
	(2.219)	(2.312)	(2.364)	(2.366)	(2.499)	(2.391)	(2.358)
Bidder Characteristics							
Firm Size			0.0029	0.0021	0.0026	0.0019	0.0020
			(1.042)	(0.760)	(0.938)	(0.645)	(0.792)
Log Assets	0.0011						
	(0.399)						
Log Sales		0.0024					
		(0.823)					
Tobin's Q	-0.0032	-0.0021			-0.0011	-0.0009	-0.0037
	(-1.305)	(-0.896)			(-0.743)	(-0.611)	(-1.579)
Tobin's Q_W			-0.0028				
			(-1.148)				
Market-to-book Value				-0.0001			
				(-1.034)			
Free Cash Flow	-0.0420	-0.1058	-0.0243	-0.0184			**-0.0524***
	(-1.484)	(-1.141)	(-1.406)	(-1.145)			(-1.863)
ROA					-0.0288		
					(-1.294)		
Cash & Cash Equivalent						0.0187	
						(0.684)	
Leverage	**-0.0694****	**-0.0699****	**-0.0608***	**-0.0503***	**-0.0550***	-0.0479	**-0.0637****
	(-2.104)	(-2.112)	(-1.962)	(-1.726)	(-1.819)	(-1.579)	(-2.157)
Price Runup	**-0.0425*****	**-0.0411*****	**-0.0417*****	**-0.0400*****	**-0.0392*****	**-0.0387*****	**-0.0450*****
	(-3.445)	(-3.449)	(-3.443)	(-3.329)	(-3.303)	(-3.310)	(-3.617)
Deal Characteristics							
Deal Value to ACQ Value	-0.0017	-0.0018	-0.0010	-0.0011	-0.0008	-0.0006	
	(-0.311)	(-0.296)	(-0.189)	(-0.200)	(-0.152)	(-0.119)	
Deal Value to ACQ Value_W							-0.0113
							(-1.072)
High_tech	0.0231	0.0205	0.0196	0.0101	0.0119	0.0092	0.0212
	(1.148)	(1.063)	(0.988)	(0.560)	(0.639)	(0.500)	(1.055)
Deal Value to ACQ Value*High_tech	0.0128	0.0119	0.0142	0.0170	0.0164	0.0173	
	(0.786)	(0.761)	(0.867)	(1.058)	(0.915)	(1.080)	
Deal Value to ACQ Value_W*High_tech							0.0206
							(1.119)
Cross-border	0.0078	0.0057	0.0056	0.0056	0.0028	0.0050	0.0064
	(0.856)	(0.595)	(0.602)	(0.601)	(0.294)	(0.532)	(0.732)
Diversifying	-0.0035	-0.0027	-0.0030	-0.0026	-0.0038	-0.0020	-0.0026
	(-0.465)	(-0.355)	(-0.402)	(-0.354)	(-0.505)	(-0.267)	(-0.362)
Private Target*Stock	0.0022	0.0024	0.0034	0.0023	0.0017	0.0031	0.0040
	(0.218)	(0.237)	(0.333)	(0.223)	(0.158)	(0.302)	(0.393)
Public Target*Stock	**0.0346*****	**0.0310****	**0.0333*****	**0.0320*****	**0.0332*****	**0.0327*****	**0.0388*****
	(2.937)	(2.536)	(2.892)	(2.762)	(2.814)	(2.811)	(3.227)

Subsidiary Target*Stock	-0.0250	-0.0269	-0.0233	-0.0229	-0.0225	-0.0223	-0.0197
	(-1.150)	(-1.305)	(-1.057)	(-1.034)	(-0.938)	(-0.995)	(-0.995)
Industry Characteristics							
Industry M&A	-0.0247	-0.0212	-0.0315	-0.0388	-0.0218	-0.0166	-0.0317
	(-0.606)	(-0.538)	(-0.779)	(-0.965)	(-0.585)	(-0.437)	(-0.788)
Competitiveness	-0.0001	0.0007	-0.0012	-0.0010	0.0022	-0.0004	-0.0009
	(-0.018)	(0.102)	(-0.173)	(-0.141)	(0.311)	(-0.050)	(-0.132)
Uniqueness	**-0.0204****	**-0.0188****	**-0.0207****	**-0.0206****	**-0.0180***	**-0.0206****	**-0.0203****
	(-2.276)	(-2.132)	(-2.284)	(-2.276)	(-1.949)	(-2.267)	(-2.264)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0120	0.0081	-0.0012	-0.0050	-0.0058	-0.0082	0.0111
	(0.435)	(0.312)	(-0.050)	(-0.216)	(-0.248)	(-0.339)	(0.447)
Observations	554	552	554	554	534	554	554
Adjusted R-squared	0.089	0.095	0.087	0.083	0.086	0.081	0.101

This table presents the impact of the presence of a second largest shareholder on bidder returns (*CAR2*) with different control variable proxies. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 9
Robustness Tests with Clustering

Model	(1)	(2)	(3)
Clustering	Country	Industry	Bidder
Dependent Variable	CAR2	CAR2	CAR2
Presence2	**0.0189****	**0.0189*****	**0.0189****
	(2.807)	(2.791)	(2.296)
Bidder Characteristics			
Firm Size	**0.0033****	0.0033	0.0033
	(2.161)	(1.336)	(1.178)
Tobin's Q	**-0.0037***	**-0.0037****	-0.0037
	(-1.861)	(-2.033)	(-1.628)
Free Cash Flow	-0.0477	**-0.0477***	**-0.0477***
	(-1.315)	(-1.816)	(-1.733)
Leverage	**-0.0668*****	**-0.0668****	**-0.0668****
	(-4.068)	(-2.107)	(-2.002)
Price Runup	**-0.0426****	**-0.0426*****	**-0.0426*****
	(-2.445)	(-3.193)	(-3.406)
Deal Characteristics			
Deal Value to ACQ Value	-0.0012	-0.0012	-0.0012
	(-0.924)	(-0.213)	(-0.228)
High_tech	0.0226	0.0226	0.0226
	(1.690)	(1.405)	(1.136)
Deal Value to ACQ Value*High_tech	**0.0130****	**0.0130***	0.0130
	(2.199)	(1.890)	(0.707)
Cross-border	0.0052	0.0052	0.0052
	(0.644)	(0.483)	(0.568)
Diversifying	-0.0032	-0.0032	-0.0032
	(-0.952)	(-0.464)	(-0.441)
Private Target*Stock	0.0033	0.0033	0.0033
	(0.508)	(0.266)	(0.324)
Public Target*Stock	**0.0323*****	**0.0323****	**0.0323*****
	(4.670)	(2.432)	(2.820)
Subsidiary Target*Stock	**-0.0248***	-0.0248	-0.0248
	(-2.041)	(-1.362)	(-1.217)
Industry Characteristics			
Industry M&A	-0.0270	-0.0270	-0.0270
	(-0.773)	(-1.154)	(-0.695)
Competitiveness	-0.0008	-0.0008	-0.0008
	(-0.138)	(-0.098)	(-0.120)
Uniqueness	**-0.0197*****	**-0.0197****	**-0.0197****
	(-3.145)	(-2.375)	(-2.143)
Year Effect	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes
Constant	0.0016	0.0016	0.0016
	(0.140)	(0.085)	(0.058)
Observations	554	554	554
Adjusted R-squared	0.092	0.092	0.092

This table presents the impact of the presence of a second largest shareholder on bidder returns (*CAR2*) after correcting the standard errors of regression coefficients for country, industry and bidder clustering. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder returns (CAR2) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors corrected for clustering are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 10
Robustness Tests with Different Event Windows

Model	(1)	(2)	(3)	(4)	(5)	(6)
Event Window	(-5, +5)	(-4, +4)	(-3, +3)	(-1, +1)	(0, +2)	(0, +1)
Dependent Variable	CAR5	CAR4	CAR3	CAR1	CAR02	CAR01
Presence2	**0.0198****	**0.0200****	**0.0151***	**0.0152****	**0.0143***	**0.0120***
	(2.077)	(2.288)	(1.828)	(2.241)	(1.918)	(1.866)
Bidder Characteristics						
Firm Size	-0.0004	0.0013	0.0007	0.0032	0.0032	0.0027
	(-0.124)	(0.467)	(0.250)	(1.473)	(1.285)	(1.315)
Tobin's Q	-0.0015	-0.0033	-0.0038	-0.0016	-0.0024	**-0.0023***
	(-0.352)	(-1.444)	(-1.426)	(-0.969)	(-1.270)	(-1.653)
Free Cash Flow	-0.0275	-0.0413	-0.0461	-0.0243	-0.0331	**-0.0312***
	(-0.714)	(-1.618)	(-1.598)	(-1.432)	(-1.321)	(-1.860)
Leverage	-0.0087	-0.0261	-0.0499	**-0.0592****	-0.0502	**-0.0546***
	(-0.212)	(-0.862)	(-1.558)	(-2.062)	(-1.615)	(-1.911)
Price Runup	**-0.0705*****	**-0.0606*****	**-0.0500*****	**-0.0334*****	**-0.0381*****	**-0.0280*****
	(-4.625)	(-4.335)	(-3.857)	(-3.511)	(-3.426)	(-3.150)
Deal Characteristics						
Deal Value to ACQ Value	0.0009	-0.0015	-0.0003	**-0.0061***	-0.0017	**-0.0069****
	(0.165)	(-0.273)	(-0.069)	(-1.812)	(-0.327)	(-2.086)
High_tech	0.0280	0.0238	0.0277	0.0034	0.0056	0.0022
	(0.961)	(1.003)	(1.281)	(0.216)	(0.309)	(0.156)
Deal Value to ACQ Value*High_tech	0.0053	0.0055	0.0111	0.0142	**0.0299***	**0.0201***
	(0.357)	(0.351)	(0.731)	(1.248)	(1.843)	(1.712)
Cross-border	0.0055	0.0099	0.0061	0.0051	0.0005	0.0022
	(0.475)	(0.923)	(0.607)	(0.605)	(0.056)	(0.275)
Diversifying	-0.0057	-0.0040	-0.0064	-0.0029	-0.0058	-0.0058
	(-0.635)	(-0.506)	(-0.821)	(-0.465)	(-0.867)	(-1.006)
Private Target*Stock	0.0051	0.0017	-0.0034	0.0010	0.0032	0.0014
	(0.415)	(0.157)	(-0.328)	(0.114)	(0.342)	(0.173)
Public Target*Stock	**0.0322****	**0.0307****	**0.0286****	**0.0201****	**0.0272****	**0.0205****
	(2.180)	(2.216)	(2.181)	(2.152)	(2.563)	(2.353)
Subsidiary Target*Stock	-0.0261	-0.0254	-0.0315	-0.0301*	-0.0163	-0.0224
	(-1.196)	(-1.182)	(-1.529)	(-1.875)	(-0.748)	(-1.347)
Industry Characteristics						
Industry M&A	-0.0975	-0.0465	-0.0161	-0.0085	-0.0048	-0.0005
	(-1.511)	(-0.833)	(-0.298)	(-0.250)	(-0.139)	(-0.017)
Competitiveness	-0.0072	-0.0058	-0.0013	-0.0005	0.0033	0.0024
	(-0.786)	(-0.735)	(-0.171)	(-0.083)	(0.510)	(0.424)
Uniqueness	**-0.0239****	**-0.0173***	**-0.0178***	**-0.0134***	**-0.0137***	-0.0104
	(-2.161)	(-1.710)	(-1.833)	(-1.703)	(-1.714)	(-1.462)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.0314	0.0180	0.0214	-0.0069	-0.0016	0.0032
	(1.211)	(0.750)	(0.883)	(-0.396)	(-0.073)	(0.197)
Observations	554	554	554	554	554	554
Adjusted R-squared	0.112	0.099	0.092	0.099	0.074	0.092

This table presents the impact of the presence of a second largest shareholder on bidder returns (*CAR2*) with different event windows. The sample includes acquisitions announcement made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 11
Robustness Tests with Investor Protection of Target's Country

Model	(1)	(2)	(3)	(4)	(5)
Dependent Variable	CAR2	CAR2	CAR2	CAR2	CAR2
Presence2	**0.0185****	**0.0183****	**0.0183****	**0.0190****	**0.0193****
	(2.317)	(2.290)	(2.289)	(2.337)	(2.373)
Bidder Characteristics					
Firm Size	0.0033	0.0032	0.0032	0.0034	0.0036
	(1.240)	(1.204)	(1.200)	(1.258)	(1.321)
Tobin's Q	-0.0038	-0.0037	-0.0037	-0.0037	-0.0037
	(-1.601)	(-1.584)	(-1.575)	(-1.586)	(-1.603)
Free Cash Flow	**-0.0483***	**-0.0478***	**-0.0473***	**-0.0475***	**-0.0480***
	(-1.721)	(-1.704)	(-1.690)	(-1.702)	(-1.721)
Leverage	**-0.0664****	**-0.0661****	**-0.0664****	**-0.0667****	**-0.0675****
	(-2.097)	(-2.086)	(-2.076)	(-2.089)	(-2.103)
Price Runup	**-0.0419*****	**-0.0418*****	**-0.0417*****	**-0.0418*****	**-0.0417*****
	(-3.307)	(-3.284)	(-3.277)	(-3.321)	(-3.334)
Deal Characteristics					
Deal Value to ACQ Value	-0.0012	-0.0011	-0.0011	-0.0011	-0.0011
	(-0.230)	(-0.221)	(-0.222)	(-0.219)	(-0.211)
High_tech	0.0252	0.0253	0.0249	0.0238	0.0232
	(1.200)	(1.217)	(1.205)	(1.165)	(1.139)
Deal Value to ACQ Value*High_tech	0.0074	0.0064	0.0068	0.0128	0.0160
	(0.261)	(0.227)	(0.243)	(0.775)	(0.926)
Cross-border	0.0043	0.0045	0.0056	0.0085	0.0129
	(0.458)	(0.485)	(0.614)	(0.832)	(1.204)
Diversifying	-0.0027	-0.0025	-0.0025	-0.0029	-0.0030
	(-0.370)	(-0.344)	(-0.336)	(-0.387)	(-0.400)
Private Target*Stock	0.0031	0.0030	0.0033	0.0038	0.0044
	(0.303)	(0.295)	(0.318)	(0.372)	(0.426)
Public Target*Stock	**0.0324*****	**0.0324*****	**0.0328*****	**0.0331*****	**0.0335*****
	(2.797)	(2.798)	(2.845)	(2.866)	(2.856)
Subsidiary Target*Stock	-0.0259	-0.0251	-0.0249	-0.0252	-0.0257
	(-1.187)	(-1.150)	(-1.137)	(-1.134)	(-1.158)
Industry Characteristics					
Industry M&A	-0.0266	-0.0266	-0.0264	-0.0265	-0.0265
	(-0.659)	(-0.660)	(-0.658)	(-0.659)	(-0.660)
Competitiveness	-0.0011	-0.0009	-0.0008	-0.0010	-0.0010
	(-0.149)	(-0.132)	(-0.112)	(-0.147)	(-0.142)
Uniqueness	**-0.0198****	**-0.0197****	**-0.0197****	**-0.0197****	**-0.0193****
	(-2.191)	(-2.182)	(-2.177)	(-2.189)	(-2.131)
Target's Legal Institutions					
Disclosure Requirement	-0.0022				
	(-0.063)				
Investor Protection		0.0076			
		(0.321)			
Common-Law Legal Origin			0.0061		

				(0.466)	
Anti-self-dealing Index				0.0135	
				(0.667)	
Revised Anti-director Rights					0.0066
					(1.158)
Year Effect	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes
Constant	0.0042	-0.0036	-0.0039	-0.0119	-0.0337
	(0.107)	(-0.119)	(-0.136)	(-0.347)	(-0.817)
Observations	549	549	549	552	552
Adjusted R-squared	0.087	0.087	0.088	0.091	0.092

This table presents the relationship between bidder returns (*CAR2*) and the presence of a second largest shareholder after controlling for the proxies for country investor protection environment of the target. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder returns (*CAR2*) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 12
Robustness Tests with Different Models for Bidder Returns

Model	(1) Mean Adjusted	(2) Market Adjusted	(3) Two-factor Market Model	(4) Estimation Window (-210, -11)
Specification				
Dependent Variable	CAR2	CAR2	CAR2	CAR2
Presence2	**0.0195****	**0.0193****	**0.0193****	**0.0187****
	(2.414)	(2.374)	(2.397)	(2.328)
Bidder Characteristics				
Firm Size	0.0043	0.0036	0.0032	0.0036
	(1.526)	(1.323)	(1.197)	(1.339)
Tobin's Q	-0.0029	-0.0035	-0.0037	-0.0036
	(-1.187)	(-1.506)	(-1.573)	(-1.549)
Free Cash Flow	-0.0388	-0.0442	**-0.0469***	**-0.0497***
	(-1.390)	(-1.599)	(-1.676)	(-1.779)
Leverage	-0.0464	**-0.0663****	**-0.0663****	**-0.0649****
	(-1.456)	(-1.984)	(-2.083)	(-2.019)
Price Runup	**-0.0427*****	**-0.0177**	**-0.0407*****	**-0.0418*****
	(-3.194)	(-1.460)	(-3.281)	(-3.386)
Deal Characteristics				
Deal Value to ACQ Value	-0.0005	-0.0007	-0.0012	-0.0011
	(-0.103)	(-0.141)	(-0.231)	(-0.205)
High_tech	0.0232	0.0196	0.0215	0.0222
	(1.119)	(0.989)	(1.065)	(1.098)
Deal Value to ACQ Value*High_tech	0.0293	0.0166	0.0184	0.0103
	(1.616)	(1.013)	(1.111)	(0.630)
Cross-border	0.0009	0.0038	0.0052	0.0047
	(0.090)	(0.401)	(0.563)	(0.510)
Diversifying	-0.0011	-0.0017	-0.0027	-0.0034
	(-0.150)	(-0.232)	(-0.366)	(-0.463)
Private Target*Stock	0.0045	0.0043	0.0037	0.0032
	(0.435)	(0.418)	(0.364)	(0.317)
Public Target*Stock	**0.0298****	**0.0323*****	**0.0330*****	**0.0324*****
	(2.557)	(2.746)	(2.876)	(2.826)
Subsidiary Target*Stock	-0.0324	-0.0187	-0.0245	-0.0237
	(-1.464)	(-0.866)	(-1.131)	(-1.092)
Industry Characteristics				
Industry M&A	-0.0240	-0.0198	-0.0268	-0.0284
	(-0.616)	(-0.505)	(-0.643)	(-0.688)
Competitiveness	0.0007	0.0023	-0.0002	-0.0009
	(0.107)	(0.319)	(-0.031)	(-0.135)
Uniqueness	**-0.0179****	**-0.0198****	**-0.0186****	**-0.0189****
	(-1.991)	(-2.170)	(-2.078)	(-2.110)
Year Effect	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes
Constant	-0.0111	-0.0041	0.0019	-0.0007
	(-0.445)	(-0.169)	(0.076)	(-0.030)
Observations	554	554	554	554
Adjusted R-squared	0.093	0.061	0.093	0.089

This table presents the impact of the presence of a second largest shareholder on bidder returns (*CAR2*) for different abnormal returns measures or estimation window. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Three different models and one different estimation period are used to estimate abnormal returns. Bidder returns (*CAR2*) are estimated over the event window (-2, +2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dependent Variable	*CAR2*	*CAR2*	*CAR2*	*CAR2*	*CAR2*	*CAR2*	*CAR2*
Presence2	**0.0199***						
	(2.420)						
Vote2		**0.0009***					
		(1.952)					
Vote2/1 Ratio			**0.0206***				
			(1.932)				
Presence2345				0.0083			
				(1.586)			
Vote2345					0.0005		
					(1.537)		
Vote2345/1 Ratio						**0.0132***	
						(1.883)	
High_diff							-0.0036
							(-0.837)
Bidder Characteristics							
Firm Size	0.0038	0.0036	0.0036	0.0036	0.0036	0.0037	0.0031
	(1.311)	(1.238)	(1.248)	(1.227)	(1.219)	(1.250)	(1.076)
Industry Tobin's Q	-0.0017	-0.0014	-0.0018	-0.0015	-0.0014	-0.0017	-0.0014
	(-0.494)	(-0.407)	(-0.508)	(-0.427)	(-0.392)	(-0.467)	(-0.401)
Industry Free Cash Flow	0.0206	0.0197	0.0207	0.0248	0.0233	0.0248	0.0238
	(0.203)	(0.195)	(0.203)	(0.243)	(0.229)	(0.243)	(0.234)
Industry Leverage	-0.0002	0.0040	0.0036	0.0021	0.0039	0.0037	0.0048
	(-0.003)	(0.079)	(0.071)	(0.040)	(0.078)	(0.072)	(0.095)
Deal Characteristics							
Deal Value to ACQ Value	0.0016	0.0015	0.0015	0.0015	0.0014	0.0015	0.0017
	(0.302)	(0.280)	(0.291)	(0.281)	(0.271)	(0.292)	(0.311)
High_tech	0.0112	0.0100	0.0093	0.0089	0.0088	0.0080	0.0062
	(0.635)	(0.564)	(0.526)	(0.505)	(0.497)	(0.453)	(0.344)
Deal Value to ACQ Value*High_tech	0.0219	0.0232	0.0237	0.0222	0.0228	0.0232	**0.0247***
	(1.551)	(1.618)	(1.647)	(1.569)	(1.598)	(1.620)	(1.686)
Public Target	**0.0215***	**0.0219***	**0.0218***	**0.0220***	**0.0221***	**0.0219***	**0.0209***
	(1.699)	(1.712)	(1.711)	(1.719)	(1.722)	(1.719)	(1.661)
Private Target	0.0109	0.0113	0.0113	0.0109	0.0113	0.0113	0.0096
	(0.932)	(0.951)	(0.955)	(0.920)	(0.946)	(0.957)	(0.834)
Industry Characteristics							
Industry M&A	0.0034	0.0074	0.0082	0.0062	0.0076	0.0087	0.0116
	(0.087)	(0.187)	(0.204)	(0.158)	(0.191)	(0.217)	(0.286)
Competitiveness	0.0011	0.0005	0.0005	0.0005	0.0002	0.0002	-0.0003
	(0.151)	(0.071)	(0.072)	(0.067)	(0.033)	(0.033)	(-0.045)
Uniqueness	-0.0130	-0.0128	-0.0134	-0.0116	-0.0118	-0.0124	-0.0129
	(-1.435)	(-1.412)	(-1.475)	(-1.278)	(-1.311)	(-1.361)	(-1.413)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-0.0281	-0.0263	-0.0248	-0.0258	-0.0260	-0.0256	0.0047
	(-0.835)	(-0.784)	(-0.745)	(-0.756)	(-0.766)	(-0.761)	(0.139)
Observations	554	554	554	554	554	554	554

Adjusted R-squared	0.032	0.027	0.027	0.026	0.026	0.027	0.022

This table presents the relationship between bidder returns *(CAR2)* and proxies for the presence and the power of MLS with a sample of firms that have at least one large shareholder and use most likely exogenous control variables. The sample includes acquisition announcements made by firms from 5 East Asian countries represented in Claessens et al. (2000) and 10 Western European countries represented in Faccio and Lang (2002) between 1996 and 2000. Bidder returns (CAR2) are estimated over the event window (-2, +2) using market model with Datastream country market index using returns for -21 to -220 days. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level, respectively.

Table 13B
Robustness Tests with Instrumental Variables Approach

Model	Variables	Instrument	Wu-Hausman (p-value)
(1)	Presence2	iPresence2	0.7374
(2)	Vote2	iVote2	0.5976
(3)	Vote2/1 Ratio	iVote2/1 Ratio	0.6510
(4)	Presence2345	iPresence2345	0.5921
(5)	Vote2345	iVote2345	0.5708
(6)	Vote2345/1 Ratio	iVote2345/1 Ratio	0.3546
(7)	High_diff	iHigh_diff	0.9871

Test of endogeneity

Null hypothesis: Variables are exogenous.

This table summarizes the specifications of instrumental variables approach in addressing endogeneity issue. The p-value for Wu-Hausman test indicates whether the original variables are endogenous or not.