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Consolidation and Value Creation in the Insurance Industry: the Role of Governance

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Résumé: Nous examinons la performance à long terme des fusions et acquisitions dans l'industrie de l'assurance responsabilité. Nous investiguons spécifiquement si ces transactions créent de la valeur pour les actionnaires des acquéreurs et évaluons comment la gouvernance d'entreprise affecte cette performance. Nos résultats montrent que les fusions et acquisitions génèrent des rendements positifs anormaux à long terme, soit après trois ans. Même si les offres amicales paraissent plus profitables que celles hostiles, l'évidence empirique ne supporte pas la conjecture que les transactions domestiques créent davantage de valeur que celles étrangères. Nos résultats sont significativement plus élevés pour les acquéreurs habituels et dans les pays où les investisseurs sont mieux protégés. Les mécanismes internes de gouvernance d'entreprise affectent significativement la performance des acquéreurs.

Mots clés: Fusion et acquisition, assurance responsabilité, gouvernance d'entreprise, création de valeur, performance des acquéreurs

JEL Classification: D80, G22

Abstract: We examine the long run performance of M&A transactions in the property-liability insurance industry. We specifically investigate whether such transactions create value for the bidders' shareholders and assess how corporate governance mechanisms affect such performance. Our results show that M&A create value in the long run as buy and hold abnormal returns are positive and significant after three years. While tender offers appear to be more profitable than mergers, our evidence does not support the conjecture that domestic transactions create more value than cross border transactions. Furthermore, positive returns are significantly higher for frequent acquirers and in countries where investor protection is better. Internal corporate governance mechanisms are also significant determinants of the performance of bidders.

Keywords: Merger and acquisition, property-liability insurance, governance, value creation, performance of bidders

INTRODUCTION

Over the last decade, the insurance industry experienced a large number of mergers and acquisitions (M&A) transactions. The economic rationales for these operations include the insurers' will to increase their geographical reach, their products' range (Amel et al., 2004) and benefit from scale and scope economies (Cummins et al., 1999). Furthermore, insurers could have initiated these transactions in order to benefit from financial synergies (Chamberlain and Tennyson, 1998) or reduce the riskiness and/or improve the amount/timing of their cash flow streams (Cummins and Weiss, 2004).

According to *Thomson Financial*, M&A transactions in the US insurance industry over the 1990-2001 period account for the third of the transactions worldwide in terms of number (639 compared to 2101), and for almost 45% in terms of value (218.1$ US billions compared to 480.8$ US billions). Interestingly, US insurers do not limit their M&A activity to the domestic market, and engage more and more often in cross border operations, enhancing a worldwide consolidation movement in the insurance industry. Surprisingly, however, few studies focus on the value creation of this phenomenon with the exception of Cummins and Weiss (2004) and Floreani and Rigamonti (2001) that look into the short run market reaction of such transactions.[1]

The existing financial literature, on the other hand, suggests that M&A transactions may also destroy, rather than create, value especially if they are motivated by managerial hubris (Roll, 1986). As Denis and McConnell (2003, p.4) sustain" *managers interested in maximizing the size of their business empires can waste corporate resources by overpaying for acquisitions rather than returning cash to the shareholders*". Hence a negative impact on the bidders' firm value could be observed. For such behavior to be curbed, effective internal (i.e., firm-level) and external (i.e., country level) governance mechanisms, such as (1) a strong board and a concentrated ownership, and (2) a legal environment that offers strong protection to minority shareholders, need to be put in place. The legal environment relates not only to investor protection but also to transparency and overall quality of accounting standards, which have all

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[1] Akhigbe and Madura (2001) also study the valuation effect of M&A transactions on the acquirers' shares in the insurance industry, but they do not distinguish between within-border and cross-border deals.

been recently shown by Rossi and Volpin (2003), and Moeller and Schlingemann (2005), to be significant determinants of M&A.

This paper contributes to the literature along two ways: First, we go beyond extant studies by investigating whether, in the long run, bidders' shareholders in the insurance industry benefit from this M&A phenomenon.[2] Second, we examine the impact of firm level and country level corporate governance mechanisms on the performance of US property-liability insurers involved in intra industry acquisitions. To the best of our knowledge, our paper is the first to address this issue in such a large governance framework. Indeed, the empirical literature that focused on the consequences of M&A transactions in the insurance industry did not attempt to assess the importance of cross country and firm level differences in governance structures simultaneously as possible explanations of the acquirer's performance. We specifically seek to answer the following questions: (1) to what extent does firm-level corporate governance affect the long term performance of acquirers in the US insurance industry? (2) Do cross country differences in the legal environment and investor protection affect the long term performance of these acquirers?

Our interest in intra-industry transactions stems from the following two reasons. First, intra-industry transactions are more likely to generate efficiency gains than diversifying mergers (Cummins and Weiss, 2004). Second, studying the performance of US bidders in this type of transactions is of particular interest for regulation purposes. As a matter of fact, the European Union has issued, since the beginning of the 90's, a series of directives aimed to create a unique European insurance market and make cross-border transactions less costly especially within the Union. Simultaneously, while the United States issued the Gramm-Leach Bliley Act in late 1999, in order to reduce the restrictions on banking activities, insurance companies were not concerned and cross-border transactions were not made any easier for them. In this context, any evidence suggesting that cross-border transactions may actually create value for US acquirers would lead us to assert that American regulators should follow the example of their European counterparts and put in place some kind of regulation that facilitates and encourages cross border intra-industry transactions.

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[2] As sustained by Weston, Mitchell and Mulherin (2004), the focus on a particular industry also sheds light on the sources of the wealth gains in M&A transactions (p. 198).

Within intra-industry transactions, we choose to focus on acquisitions made by property-liability insurers. Indeed, during the 90's there was a heavy M&A activity in this industry and we think it is worth exploring the financial consequences of this consolidation movement. Furthermore, as suggested by Cummins and Weiss (2000), the changing industry structure that results from the recent waves of M&A and its impact on the performance of bidders in general, is an under-researched area and calls for a particular attention. Specifically, they suggest as a promising area for future research to focus on the effects of consolidation on performance and efficiency in the property-liability insurance industry due to both their theoretical and regulatory implications, and to analyze the impact of board composition and other aspects of corporate governance on performance and efficiency in the insurance industry. Our paper fills this void in the literature.

Interestingly, over the 1995-2000 period, foreign transactions made by US property-liability insurers represent only 12% of the total number of transactions they realized (see Figure 1 for a distribution of these cross border transactions). The infrequency of such deals is puzzling since no explicit regulation prohibits insurers from making acquisitions abroad. We hypothesize that either (1) cross border transactions offer no gain for the acquiring insurer in this industry, (2) or investor protection barriers such as inefficient legal infrastructures in the target home country make such transactions difficult to implement.[3]

(Insert Figure 1 about here)

The main innovation of this paper is to relate corporate governance (both external and internal) using a large array of measures, to the long run performance of US property-insurance-acquirers. Using a sample of 177 transactions made by US insurers, out of which 30 involve a foreign target, and for which we document extensive coverage of corporate governance variables, we show that M&A indeed create value in the long run: buy and hold abnormal returns are positive and significant after three years. Our evidence suggests that tender offers are more profitable than mergers but provides no support for the conjecture that domestic transactions perform better than their cross border counterparts. Furthermore, positive returns are significantly higher for frequent

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[3] Using macroeconomic data, Buch and Delong (2004) report evidence showing that cross-border transactions in the banking industry are more likely to occur between two countries sharing the same language and legal system, and which are geographically close.

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acquirers and in countries where investor protection is more important (i.e., where legal rules exist and are enforced). Internal corporate governance mechanisms, such as board independence and turnover, and CEO share ownership, are also significant determinants of the long run positive performance of bidders. Specifically, once we control for the board size, higher independence of the board leads to a better performance in the long run for the bidder. This result shows that board independence improves the bidder's long term performance once the number of independent directors is sufficient to make a difference. On the other hand, as expected, the percentage of newly nominated directors (i.e., Board turnover) shows a positive and significant coefficient in all specifications. Finally, our evidence shows that the more shares the CEO holds, the lower the value creation for the bidders' shareholders over the long run. This result is consistent with arguments from the agency theory on managers' entrenchment of CEO ownership (Morck, Shleifer and Vishny, 1988).

The remainder of the paper is organized as follows: first, we review the literature on M&A transactions in the insurance industry. In section 2, we identify and discuss potential determinants of the long run performance of acquirers, related to internal and external governance mechanisms. In section 3, we describe our sample, and in sections 4 and 5 we discuss our empirical findings from the univariate and multivariate analysis respectively. We then conclude in section 6.

1. M&A TRANSACTIONS IN THE INSURANCE INDUSTRY: LITERATURE REVIEW AND HYPOTHESES

Common sense dictates that bidders initiate M&A transactions only if they create value for their shareholders. Thus, studying the impact of such deals on the bidder's performance is of particular interest, especially for intra-industry transactions because these are the most likely to be driven by synergies, and hence create value. Few empirical papers investigate whether M&A transactions are value enhancing in the insurance industry, although insurers are quite active in the consolidation process.

The available empirical research shows that US acquiring insurers experience a greater efficiency and a higher profitability three year after the M&A (Cummins, Tennyson and Weiss, 1999;

Cummins and Xie, 2006).[4] The reported findings also suggest that such deals lead to a significant positive valuation effect for the acquiring insurers. Indeed, Akhibe and Madura (2001) report a positive and significant abnormal return for acquiring insurers and conclude that this favorable valuation effect is driven by the similarity of services provided by both the acquirers and the acquired. In other words, the somewhat standardization in their products makes the merger of operations, for both parties, easier. Interestingly, Akhibe and Madura (2001) document a higher positive and significant market reaction for acquirers who are "non-life insurers". Floreani and Rigamonti (2001) also report a positive and significant valuation effect for the bidder following M&A transactions involving pure insurance partners. This market valuation is positive but slightly lower when the target firm is publicly traded. However, only transactions involving insurers buying insurers seem to create value for the bidder. Indeed, Cummins and Weiss (2004) report a small negative valuation effect on the bidder's shares following transactions that do not involve pure insurance partners. Based on these empirical findings, we can enunciate our first hypothesis:

Hypothesis 1: M&A transactions involving only insurers should create value for the US acquiring insurer in the property-liability industry.

Additionally, cross-border transactions may generate a higher positive valuation effect for the bidder because they are perceived to lead to a geographic expansion of its market. Floreani and Rigamonti (2001) results support this argument. According to their findings, transactions involving insurance partners that are both located in the European Union are not welcomed by the financial market.

Cross border transactions can also destroy value for the bidder because they are more difficult to manage. According to Cummins and Weiss (2004, p.11), "*M&A also may reduce value to the extent that firms are not very successful in conducting post-merger integration. Post merger integration is likely to be especially difficult for cross-country and cross industry mergers due to larger national and corporate cultural differences that must be overcome.*" Cummins and Weiss

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[4] Cummins and Rubio-Mises (2003) also report evidence suggesting that Spanish insurers benefit from efficiency gains following M&A transactions.

(2004) however fail to report evidence supporting this argument. On the contrary, their results suggest that domestic transactions destroy value while cross border transactions are value neutral for acquirers. Additionally, bidders generally have to pay higher premiums in cross border transactions, which may translate into negative wealth gains for them. Rossi and Volpin (2003) report evidence supporting this argument, as bidders are found to pay on average a 3% higher premium in cross-border transactions. Kiymaz (2004) reports positive and significant cumulative abnormal returns (CAR) for US financial institutions involved in cross border M&A operations during the days surrounding the announcement of such transactions. However, the positive CARs are not significant for the sub-sample of US insurers acquiring international targets.

Overall, there is no general agreement in the extant literature, on whether cross border transactions create (Floreani and Rigamonti, 2001), do not create or destroy value (Cummins and Weiss, 2004) for acquiring insurers. Hence, we enunciate our second hypothesis as follows:

Hypothesis 2: Cross border transactions are expected to perform differently than within border transactions for the US acquirers in the property-liability insurance industry.

Although our paper considers only pure insurance transactions, we do not limit our analysis to transactions where the target and the bidder have identical activities. To gauge the potential benefit for acquirers of *diversifying* transactions (diversifying transactions correspond to deals where the acquirer and the target have different four digits SIC codes) and *focusing* transactions (focusing transactions correspond to deals where the acquirer and the target have identical four digits SIC codes), we control in all our analysis for the type of deal.

The proponents of diversifying transactions argue that the latter allow the acquiring insurer to benefit from economies of scope and scale through the joint use of customer databases, managerial expertise and brand name. In addition, diversifying transactions are expected to reduce the acquirer's risk because they allow him to operate in a broader range of insurance lines. Estrella (2001) findings invalidate however the risk reduction argument. Indeed, his results show that the median failure probability resulting from combinations of two property-casualty firms is lower than those resulting from a combination of a property-casualty firm with a bank holding

company or a life insurer. Also, the percentage of combinations that result in a lower failure probability for both parties is more important in the case of pure property-casualty transactions compared to transactions where a property-casualty insurer buys a life insurer. Overall, Estrella (2001) findings suggest that diversifying transactions do not lead to a risk reduction for the property-casualty insurers.

In contrast, the proponents of focusing transactions argue that insurers are better off when they focus on their core business. Furthermore, these transactions are less likely to be initiated by managers wishing to protect their human capital or increase their private benefits (Amihud and Lev, 1981; Jensen, 1986). Berger et al. (2004) show that diversifying transactions are beneficial for some types of insurers while focusing transactions are beneficial for other types. Overall, their results suggest that every insurer can benefit from M&A as long as he chooses the appropriate strategy in his transactions.

Hypothesis 3: M&A focusing transactions should, ceteris paribus, create more value for the US acquiring insurer than diversifying transactions.

2. POTENTIAL DETERMINANTS OF THE LONG RUN PERFORMANCE OF ACQUIRERS
A. Cross country differences

The financial literature is replete of papers investigating the consequences of M&A transactions and the factors affecting the performance of the participating partners. However, these studies focus mainly on industrial firms or banks, and just few of them pay attention to the insurance industry, with the notable exception of Cummins, Tennyson and Weiss (1999), Akhigbe and Madura (2001), Floreani and Rigamonti (2001) Cummins and Weiss (2004) and more recently Cummins and Xie (2006).

Also, only Floreani and Rigamonti (2001) and Cummins and Weiss (2004) investigate the wealth gains of insurers in an international setting. Floreani and Rigamonti (2001) propose a model to explain the observed abnormal returns for the acquiring insurer, but do not include variables

controlling for cross country differences despite available evidence that suggests otherwise.[5] For example, previous research by Rossi and Volpin (2003) suggest that differences in laws protecting shareholders interests and accounting standards across countries do affect the volume and characteristics of mergers and acquisition transactions. Their results also suggest that, in cross border transactions, the acquiring firms usually come from countries offering higher investor protection than the targets'. Additionally, hostile deals are relatively more likely in countries with better shareholder protection, suggesting that good protection for minority shareholders makes control more contestable by reducing the private benefits of control. Kiymaz (2004) also shows that US financial institutions earn higher returns by acquiring targets in countries with effective government and public institutions. Hence, following Rossi and Volpin (2003) and Kiymaz's findings, we enunciate our fourth hypothesis as follows:

Hypothesis 4: Bidders' post acquisition performance is likely to be affected by its internal corporate governance characteristics and the target's home country governance structure.

Accordingly, we control for *differences in the institutional environments* by considering variables that describe the extent of investor protection, namely: law and order, contract enforcement, the legal system, and the extent of perceived corruption. All these indices are derived from La Porta, Lopez-de-Silanes, Shleifer (1998) and La Porta, Lopez-de-Silanes, Shleifer and Vishny (1999), and from ICRG (International Country Risk Guide). To capture different aspects of law enforcement, we use the degree of contract enforcement (*EC*) in the target's country and we construct an index of investor protection that equals the sum of law and order, enforcement of contracts, and an inverse measure of corruption (*INDEX*). Higher values of (*INDEX*) correspond to a legal environment that offers a better protection for shareholders. We expect therefore acquisitions to be more value enhancing in environments where investors are more protected.

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[5] Floreani and Rigamonti (2001) include the bidder's size, the relative value of the deal, the method of payment, the geographic location of the target and the bidder as well as dummy indicating the industry in which the partners operate as explanatory variables of the observed market reaction.

B. Firm level corporate governance characteristics

Previous studies show that corporate governance at the firm level has an impact on the post-acquisition performance of bidders. Therefore, we control for the bidder's governance characteristics including its ownership structure. Namely, we include variables related to the percentage of shares held by the CEO (*%CEO*), institutions (*%INST*), and block-holders (*%BLOCK*). We expect performance to be better, ceteris paribus, the larger the percentage of shares held by the CEO, institutions and block-holders, since agency conflicts are decreased in the presence of these stakeholders, and since participation by institutions and block-holders acts as a disciplinary device. On the other hand, these variables could be negatively related to the post acquisition performance if the important shareholding (especially by the CEO) results in an entrenchment problem. Indeed, beyond a certain threshold, CEOs and major block-holders become entrenched and pursue their personal objectives rather than maximizing shareholders' wealth. Consequently, as long as the shareholding of these entities does not lead to an entrenchment problem, the coefficients of these variables are expected to be positive.

Within internal corporate governance mechanisms, we also assess the impact of the Board characteristics on the long run performance of acquirers. Boards of directors are generally believed to play a significant role in corporate governance (Fama and Jensen, 1983). Governance scholars also emphasize the distinctive contribution of outside directors that are active monitors of managers in order to ensure that they act in the interest of shareholders, and other stockholders (Fama, 1980; Fama and Jeansen, 1983). These outside directors are shown to influence very important decisions in the firm such as CEO turnover (Weisbach, 1988) and negotiation of tender offer bids (Byrd and Hickman, 1992). Accordingly, we include the proportion of independent directors within the board (Vicknair et al, 1993) as an explanatory variable of the bidder's post acquisition performance (*%INDD*). We additionally use the percentage of new nominees on the board (*%RENEW*).[6] Boards that renew regularly their members are less likely to suffer from directors' entrenchment problems, and should exercise a better monitoring on the firm's top management. We expect these proxies for decreased agency conflicts and for a higher transparency to be positively related to post-acquisition performance.

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[6] Here, a new nominee is defined as a director who is nominated for the first time in the board of directors.

Finally, we consider the CEO tenure (*TENURE CEO*, a proxy for his experience), and the CEO independence from the chief of the board position (*INDCEO*) as explanatory variables of the long run performance of acquirers. Several studies document that performance is higher when the transaction is conducted by an experienced CEO and when conflicts of interests are lower, hence when the CEO does not head the board of directors (Denis and McConnell, 2003).

C. Deal characteristics

In order to test the impact of the deal characteristics on the bidder's long run post-acquisition performance, we also include the following control variables:

Mode of acquisition (Merger or tender offers): We include a dummy variable (*MERGER*) that equals one if the transaction is a merger, zero otherwise. In the M&A literature, takeovers are considered to be more costly to acquirers but are more likely to be disciplinary. Although takeovers are more rewarding to targets, little is known for certain about the impact of the mode of transaction on bidders' long run performance. Hence, we provide no directional expectation on the sign of this variable and leave this issue to be resolved empirically.

Percentage of shares acquired: Transactions where the bidder obtains the control of the target are more likely to create value because they offer more flexibility for the bidder to impose its way of doing business. Also, these transactions are more likely to be disciplinary. Therefore, we control for whether the transaction led to a change in control or not[7], and for the ownership structure of the bidder. Namely, we include a variable related to the percentage of shares acquired *(%ACQ)*, and we expect it to have a positive coefficient.

Target's origin: Considering whether the target is domestic or foreign allows us to test our second hypothesis. We include a dummy variable *(FOREIGN)* that equals one if the target is foreign, zero

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[7] Since change of control is highly correlated to the percentage acquired, we do not use both of these variables simultaneously. The variable percentage acquired thus captures the change of control during the transaction. The results remain unchanged whether we use one or the other.

otherwise. As discussed earlier, we do not offer any directional expectation concerning the sign of its coefficient.

Target relative Size: The relative size of the target with respect to the bidder is also shown to be a relevant determinant of the bidder's post acquisition performance. Large targets are more difficult to incorporate into the bidder's activities. Ideally, we should use the value of the target's total assets, its net sales or its market capitalization reported to the bidder's one as a measure of relative size. Unfortunately, these variables are available only for few targets and their inclusion in the regressions would cause a dramatic decrease in our sample size. To overcome this problem, we use a dummy variable (*AGENCY*) that equals one if the target is an insurance agency or broker zero otherwise since insurance agencies/brokers have a small size compared to the bidder's size (recall that bidders are public companies and are consequently obliged to have a minimum size in order to be publicly traded). *AGENCY* is expected to have a positive coefficient.

Type of transaction: This variable allows us to gauge the potential benefits of focusing versus diversifying transactions, and to test our third hypothesis. We include a dummy (*FOCUS*) equals one if the target and the bidder have identical four digits SIC codes, zero otherwise. The literature is generally divided as to whether it is more beneficial for acquirers to focus on their activities or to diversify them, as previously discussed. However, the evidence reported for the financial industry and more particularly for the insurance sector suggests that focusing transactions create more value for these types of acquirers. Consequently, we expect this variable to have a positive coefficient.

Type of bidder: Frequent acquirers are more likely to perform better since they have the necessary experience to conduct post-merger integration of the target's activities. Frequent M&A transactions also signal to investors that acquirers are expanding and having good future prospects which should be rewarded by the market. In order to control for this argument, we include a variable measuring the number of M&A transactions conducted by the bidder during the year of acquisition (*FREQA*), and expect it to have a positive coefficient.

3. DATA AND SAMPLE

A. The Mergers and Acquisitions data

Our initial database contains all mergers and acquisition transactions concerning financial companies announced between January 1995 and December 2000 with a completed status and reported by SDC, a database from *Thompson Financial*.[8] Because we wish to study the factors affecting the performance of US property-liability insurers following an M&A, we kept only transactions where the bidder is US and belongs to this industry. Also, our study focuses on intra-industry M&A between different companies which made us drop 75 observations where the target is not an insurer and 50 observations corresponding to buybacks. We also eliminate 10 observations because the percentage of shares acquired is less than 10% and 23 observations because they correspond to the acquisition of an undisclosed minority stake. Our intermediate sample consists in 604 M&A transactions where the bidder is a US property-liability insurer and the target is also an insurer. Once we gather variables related to internal corporate governance, we end up with a final sample of 177 transactions, out of which 30 are cross-border. In order to compute the firm's long run performance, we calculate buy and hold returns (raw and adjusted) as in Floreani and Rigamonti (2001). Returns are drawn from CRSP.

(Insert Table 1 about here)

As can be seen in Table 1, most targets come from the UK, followed by other European countries, Northern America, and Latin America.

(Insert Table 2 about here)

Table 2 provides an exhaustive description of our dataset characteristics. First, we note that most transactions in the sample are tender offers (the average number of mergers is less than 10%). We also note that the sample is largely composed of domestic acquisitions. Indeed, only 17% of the transactions involve targets located in foreign countries. Interestingly, 50% of the sample

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[8] These transactions were all completed by late before December 2002.

includes transactions that involve partners in the same four digit code industry. These figures show that US insurers engage more often in industrial rather than geographical diversification.

The vast majority of transactions involve a change of control, and the mean percentage acquired is 95%. For a small subset of firms, we were able to gather figures on the deal value and the method of payment. These figures show that most transactions are paid in cash, especially when they involve foreign targets. In fact, all foreign transactions are tender offers that are paid in cash. Evidence in Rossi and Volpin (2004) shows that the probability of an all cash-bid decreases with the degree of investor protection in the home country of the acquirer. This in turn indicates that acquisitions paid in stock, require a friendlier investor protection environment.

Panel B of Table 2 also shows that board of directors in acquiring firms are, on average, composed of 11 members, out of which 5 are independent, and one is newly nominated. In half of the sample, the CEO is not independent and acts as both the CEO and the chief of the board. We also note that block-holders own on average 25% of the shares compared to 17.36% held by institutions and 6.5% held by the CEO. The CEO has an average tenure of 9 years and is in his mid-fifties.

Panel C of Table 2 shows that the vast majority of the target countries have a common legal origin (only 8.5% of the targets' home countries have a civil legal origin). This is likely due to the fact that most transactions are domestic (147 out of 177 involve US targets).

4. UNIVARIATE ANALYSIS
  A. Long run performance

We compute our long run returns on an unadjusted and an adjusted base. To compute market adjusted returns, we substract from the acquirer's three-year buy-and-hold returns, the corresponding three-year buy and hold return of the S&P500 index.

The results reported in Panel A of Table 3 show that acquirers in our sample exhibit a positive mean buy-and hold performance over three years of 0.842. Once adjusted for the market returns,

the firms show a positive overperformance of 0.573. Our first hypothesis is therefore verified. This result is consistent with the evidence documented by Floreani and Rigamonti (2001) who find that bidders' shareholders earn significant positive returns following M&A transactions in the insurance industry. It also supports the greater efficiency and higher profitability reported by acquiring insurers three year after the M&A documented by Cummins, Tennyson and Weiss (1999) and more recently by Cummins and Xie (2006).[9] Interestingly, our findings contrast with evidence on cross-industry long run performance of M&A documented by Loughran and Vijh (1997), Rau and Vermalen (1998) and Mitchell and Stafford (2000). Indeed these studies document for their full samples, that exclude financial institutions and insurance companies, small and often not statistically significant estimates of long term price performance. Our finding of long run over-performance for M&A in the insurance industry is thus industry-specific.

(Insert Table 3 about here)

Furthermore, Floreani and Rigamonti (2001) show that the positive valuation effect is more important for cross-border transactions when the bidder is located in the EU. According to the results reported in Panel B of Table 3, cross border transactions yield lower mean adjusted returns (although positive) than domestic transactions (0.285 and 0.631, respectively). The difference between both sub samples is significant at the 5% level. Our second hypothesis arguing that the performance of cross border and domestic transactions should be different is thus supported. However, this result is weakly supported if we compare the sub-sample medians (0.264 and 0.547, respectively with a p-value of median difference equals to 0.108). Cross-border transactions, argue Floreani and Rigamonti (2001), may generate a higher positive valuation effect for the bidder because they are perceived to lead to a geographic expansion of its market. But, as noted by Cummins and Weiss (2004), M&A may also reduce value to the extent that firms are not very successful in conducting post-merger integration, especially in cross border transactions as compared to pure domestic transactions. Our evidence supports weakly the Cummins and Weiss (2004) suggestion.

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[9] In order to check the robustness of our findings, we also calculate for firms in our sample with available operational data, the combined ratio variation between the last fiscal year proceeding the one in which the transaction was announced, to 3 years following the announcement. The combined ratio is traditionally used by insurer to indicate the profitability of their operations. It is calculated as the sum of the expense and the loss ratios. Our results indicate that, on average, the insurers' underwriting result increases by 5 cents of a dollar three years after a M&A.

Panel C of Table 3 reports the bidder's long run performance by type of transaction. The results suggest that acquirers are better off when focusing on their core business which supports our third hypothesis. Indeed, focusing transactions yield higher mean and median raw and adjusted returns (The mean and median BHAR for focusing transactions are 0.763 and 0.826 respectively compared to 0.371 and 0.332 for diversifying transactions). The difference between both sub samples is significant at the 1% level. Interestingly, the results reported in Panel B and C suggest that diversification (at the industry or geographical level) is not beneficial for US insurers in the property liability industry.

B. Characteristics of acquirers with foreign transactions

Panel A of Table 4 reports univariate results for cross border versus domestic transactions. According to Moeller and Schlingemann (2005) who compare stock price and operating performance across cross-border and domestic transactions, bidders earn significantly less returns and perform more poorly when targets are foreign. We first note that all transactions with foreign targets are tender offers (and paid in cash). In domestic transactions, 88% are tender offers. We also document that frequent acquirers that have a larger average number of transactions per year are more likely to buy domestic targets (average of 7 transactions per year). On average, the acquired percentage in domestic transactions is significantly higher (at the 5% level) than in foreign transactions (96.38% versus 88%), but both types of transactions involve a change in control. Within foreign target countries, 50% have a civil legal origin.

Turning to internal governance variables, we document that acquirers of foreign targets have significantly (at the 1% level) larger boards than acquirers involved in domestic transactions (14.4 and 10.46 respectively). The percentage of shares held by block-holders and by institutions is significantly (at the 5% level) higher in acquirers of domestic targets. This result suggests that these stakeholders are more heavily involved in domestic transactions that are free from political risk considerations inherent to cross border transactions.

Furthermore, we document that CEO tenure is almost twice longer in transactions that involve foreign targets, suggesting that this type of transaction calls for a larger experience of the CEO. The percentage of shares held by the CEO is not significantly different in cross-border versus domestic acquisitions, but we find that a change of CEO occurs significantly more often in domestic transactions.

C. Characteristics of acquirers with focusing transactions

Panel B of Table 4 reports univariate results for focusing versus diversifying transactions. 95.6% of the focusing transactions involve a target from a country with a civil law origin compared to 87.2% for diversifying transactions. A possible explanation is that focusing transactions in less protective environments are less costly to acquirers than diversifying transactions that may be more uncertain to exploit. Interestingly, acquirers that have a larger average number of transactions per year engage more actively in focusing transactions (average of 7.758 transactions compared to 4.558 and the difference is significant at the 1% level). Furthermore, insurers involved in diversifying transactions have the same board size and turnover as the ones involved in focusing transactions but are slightly more independent (the mean percentage of independent directors is 45.7% for diversifying transactions compared to 40.3% for focusing transactions with a significant mean difference at the 10%).

We also note that the percentage of shares held by block-holders and by institutions is significantly (at the 5% and 10% level respectively) higher for acquirers involved in diversifying transactions. This result suggests that these stakeholders encourage insurers to diversify their activities by entering new market sectors and may be provide the required assistance for such diversification. Finally, the results reported in Panel B of Table 4 show that diversifying transactions are initiated by more experienced CEOs (the mean tenure of the CEO is 10.19 years in diversifying transactions compared to 6.44 years in focusing transactions). This finding suggests that CEOs wait till they get a solid position in the property liability insurance industry before entering new insurance segments.

(Insert Table 4 about here)

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5. MULTIVARIATE ANALYSIS

In our multivariate analysis, we consider the following general model:

BHAR = F (Deal Characteristics, Internal Corporate Governance, External Governance).

Where *Deal characteristics* refers to the percentage of shares acquired (*%ACQ*), the mode of acquisition (*MERGER*), the target's origin (*FOREIGN*), [10] the type of bidder (*FREQA*), the type of transaction (*FOCUS*) and the target's relative size (*AGENCY*). *Internal corporate governance* refers to the ownership structure of the acquirer *(%INST, %BLOCK)*, the BOD characteristics (*%INDD, %RENEW*), and the CEO characteristics (*%CEO, INDCEO, TENURE CEO*). Finally, *external governance* refers to the degree of contract enforcement (*EC*) and the level of investor protection in the country (*INDEX*). Table 5 reports several specifications of our general model. Table 6 provides a description of our variables.

(Insert Tables 5 and 6 about here)

The first specification that appears in Table 5 is our basic model and controls only for the deal characteristics. Specifications (2) and (3) introduce our two measures of investor protection. We control in specifications (4) and (5) for block-holders' ownership stake and the board characteristics. Specifications (6) and (7), instead, control for institutional ownership and board characteristics. The two last specifications introduce CEO characteristics.[11]

Our findings go as follows: In all specifications, the percentage acquired (*%ACQ*) is never significant.[12] However, the dummy variable (*MERGER)* shows that higher returns are obtained for tender offers. The coefficient of the variable is consistently negative and highly significant (at the

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[10] Recall that all foreign transactions are tender offers and that they are all paid in cash. The variable Foreign is thus likely to largely capture the method of payment.

[11] Some specifications with all variables together were impossible to run due to problems of correlations.

[12] Note that the percentage acquired and the percentage before the transaction are highly correlated (0.96). Thus, we use the percentage acquired in all specifications. However, the results remain the same if we use the percentage before the transaction instead.

5% level) confirming the conjecture that mergers are less beneficial to acquirers. Similarly, once we control for frequent acquisitions (*FREQA*), we obtain a positive and highly significant coefficient (at the 1% level) indicating that frequent acquirers exhibit higher returns in the long run. This result suggests that bidders involved in several acquisitions acquire the necessary experience to integrate successfully the target's activities into their own businesses.

The dummy (*FOREIGN*) is consistently negative suggesting that returns to the bidders' shareholders are higher for domestic transactions, but its coefficient is significant in only one out of the nine specifications we consider. Accordingly, our second hypothesis is not supported and we can not conclude that cross border transactions perform differently from the domestic ones. In unreported results we investigate whether some specific foreign transactions lead to a significant different performance for the bidder namely: (1) Transactions where the geographic diversification is accompanied by an industry diversification, (2) Foreign transaction involving targets from the European Union. Our empirical findings suggest that these two types of foreign acquisitions do not have any significant impact on the bidder's performance since both variables have systematically insignificant coefficients.

Furthermore, as previously discussed in the description of our third hypothesis, focusing transactions are expected to generate more gains for the acquiring insurers. The introduction of (*FOCUS*) in all specifications of Table 5 never yields a significant coefficient.[13] As for our proxy for relative size, (*AGENCY*), it fails to exhibit any significance in any of our models.

In specification (2) and (3), we introduce our proxies for investor protection, namely enforcement of contracts (*EC*) and the composite index of investor protection (*INDEX*). Both variables exhibit positive and significant coefficients (at the 1% and 5% levels, respectively). This result confirms evidence in Rossi and Volpin (2001) who document that the level of shareholder protection is a

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[13] We do not control for the method of payment since previous findings reported in Akhigbe and Madura (2001) and Floreani and Rigamonti (2001) show that this variable has no explanatory power of the acquirers' returns in the insurance industry. Its effect is indirectly captured as previously explained by the dummy foreign.

significant determinant of the method of payment, the frequency of hostile takeovers, the premium and the volume of transactions.[14]

When we introduce board characteristics, in specifications (4) to (9), we obtain systematically highly significant coefficients for board independence *(%IND)* and board turnover (%Renew). Specifically, the percentage of independent directors is consistently negatively and significantly (at the 1% level) related to long run performance. This result is puzzling since independence of the board is commonly considered as a proxy for more transparency and less agency conflicts among members of the board.

In an attempt to find an explanation for this result, we take a closer look at the data, and note that, over our study period, several companies have small boards with few or no independent directors (e.g., Berkshire Hathaway Inc) while others have large boards with important shares of independent directors (e.g., Saint Paul Companies). Therefore, we introduce an interaction variable (unreported here) for the % of independent directors that controls for the board size (i.e., *%INDD*BODSZ*). The coefficients of our variables remain remarkably constant and the interaction variable *%IND*BODsz* exhibits a positive and significant coefficient. Thus, once we control for the board size, higher independence of the board leads to a better performance in the long run for the bidder. This result shows that board independence improves the bidder's long term performance once the number of independent directors is sufficient to make a difference.

On the other hand, as expected, the percentage of newly nominated directors (*%RENEW*) on the board shows a positive and significant coefficient (at the 1% level) in all specifications. This finding suggests that boards that renew constantly their members are more beneficial to shareholders. As for the acquirers' ownership structure, we find that institutional ownership is not a significant determinant of the long run performance of acquirers, while block-holders' ownership seems negatively and significantly (at the 5% level) related to performance. This runs against arguments from the agency theory on the disciplinary role of block-holders. In order to

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[14] Since some studies stress the differences of shareholder protection between countries, we consider, in addition to the Enforcement of contracts indicator and our composite investor protection index, the difference in institutional environments between the target and the home country. Our results remain qualitatively the same. They are available upon request.

investigate further this finding, we rerun specification (4) and (5) by replacing the percentage of shares held by block-holders with the difference between the percentage they hold and (1) the percentage of shares held by institutions (*WEDGE1*) and (2) the percentage of shares held by the CEO (*WEDGE2*). Interestingly, *WEDGE1* and *WEDGE2* exhibit negative and significant coefficients suggesting that block-holders' shareholdings is associated with a decrease in the bidder's post acquisition performance only when they do not belong to the bidder's management nor to the financial industry.

In specifications (8) and (9), we introduce variables related to the CEO characteristics, namely independence of the CEO from the chief of the board position, his tenure as CEO and the % of shares he holds. We document in this third set of regressions that the percentage of shares held by the CEO is significantly (at the 1% level) and negatively related to the bidder's long run performance. Hence, the more shares the CEO holds and the lower the value creation for the bidders' shareholders over the long run. This result is consistent with arguments from the agency theory on managers' entrenchment of CEO ownership (Morck, Shleifer and Vishny, 1988).

INDCEO, our proxy for CEO (in)dependence and TENURE CEO, our proxy for the CEO experience have positive but insignificant coefficients at a conventional level. These findings suggest that independent and experienced CEOs are not more successful in conducting M&A transactions in the insurance industry.

D. Robustness Checks

Thus far, our empirical findings suggest that shareholders of US insurers in the property liability industry benefit from mergers and acquisitions in the long run. Also bidders who make multiple acquisitions in the same year seem to report a higher performance. However, the improvement in the bidder's performance over the three years window we consider could result from subsequent transactions realized by the bidder over this window. In such a case, the variable (*FREQA*) may capture this effect since bidders who make multiple acquisitions are usually engaged in a M&A program that lasts for more than one year. In order to check the robustness of our findings, we include in specifications (1) to (9) reported in Table 5 a dummy variable (*SUBSEQUENT*) that

equals one if the bidder makes a merger or acquisition during the three years following the event year, and zero otherwise. The information required to construct this variable is hand collected from proxy statements. Our results are reported in Table 7. Overall, our results and conclusions remain unchanged. Interestingly, *SUBSEQUENT* has a positive but insignificant coefficient in all of nine specifications suggesting that it is the number of transactions realized during the year, and not the ones conducted subsequently that improve the bidder's performance.

(Insert Table 7 about here)

Furthermore, merger and acquisition transactions could lead to a change in the management of the acquiring company (especially in the case of a merger). Accordingly, the abnormal positive performance reported for the bidder could result from the higher skills of the new manager instead of the acquisition itself. In order to check the robustness of our findings, we construct a dummy variable (*CEO CHANGE*) that controls for CEO Turnover around the transaction and add it to specifications (4) to (9). Our results are reported in Table 8.

(Insert Table 8 about here)

Our results and conclusions remain unchanged. *CEOCHANGE* has a consistently negative coefficient but it is never significant. Accordingly, a change in the bidder's top management does not seem to affect its post acquisition performance.

We also conduct some additional tests in order to check the robustness of our findings. First, we use instead of the *%BLOCK* and *%INST*, the corresponding number of stake-holders (*#BLOCK* and *#INST)* as well as the number of non insider block holders (*# NON INSIDER BLOCK*). The results are reported in Table 9. Overall, our conclusions remain unchanged. Interestingly, the coefficient of *# NON INSIDER BLOCK* and *#INST* are positive which suggests that the presence of multiple non insider block holders and institutions is beneficial for the bidders' shareholders. Unfortunately, the insignificance of these variables' coefficients does not provide support for this conclusion. Second, we re-run specifications (1) to (9) while controlling for the type of target, private or public by adding a dummy variable (*PUBLIC*) that equals one if the target is public, zero

otherwise. The results are reported in Table 10. The coefficient of *PUBLIC* is never significant at all. The other coefficients in the models remain remarkably stable.

(Insert Tables 9 and 10 about here)

6. CONCLUSION

This paper assesses the long run performance of acquiring firms in the property liability industry and investigates the impact of internal and external governance characteristics on the observed post acquisition performance.

Although the literature has largely examined the impact of M&A on short run performance and market reaction of bidders at the announcement, very few studies examined whether these transactions indeed create wealth in the long run.

We show, with a sample of 177 transactions, out of which 30 involve foreign targets, that they indeed lead to positive and significant unadjusted and market adjusted buy and hold returns over three years following the transaction. Furthermore, tender offers appear to be more profitable than mergers, and positive returns are significantly higher for frequent acquirers and in countries where investor protection is better (i.e., where legal rules exist and are enforced). Foreign acquisitions do not have a significant impact on the bidder's performance even when they involve a geographical diversification or a target from the European Union.

Once we introduce internal corporate governance mechanisms, such as board independence and turnover, we find that these variables affect the long run positive performance of bidders. We also show that CEO ownership has a negative impact which is consistent with the entrenchment hypothesis. Finally, as expected, the legal environment and the extent of shareholder protection determine the extent of buy and hold abnormal returns in the long run, as transactions in more protective environments seem to yield a better performance.

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FIGURE 1: DISTRIBUTION OF CROSS BORDER TRANSACTIONS MADE BY US PROPERTY LIABILITY INSURERS OVER THE **1995-2000** PERIOD BY TARGET'S ORIGIN
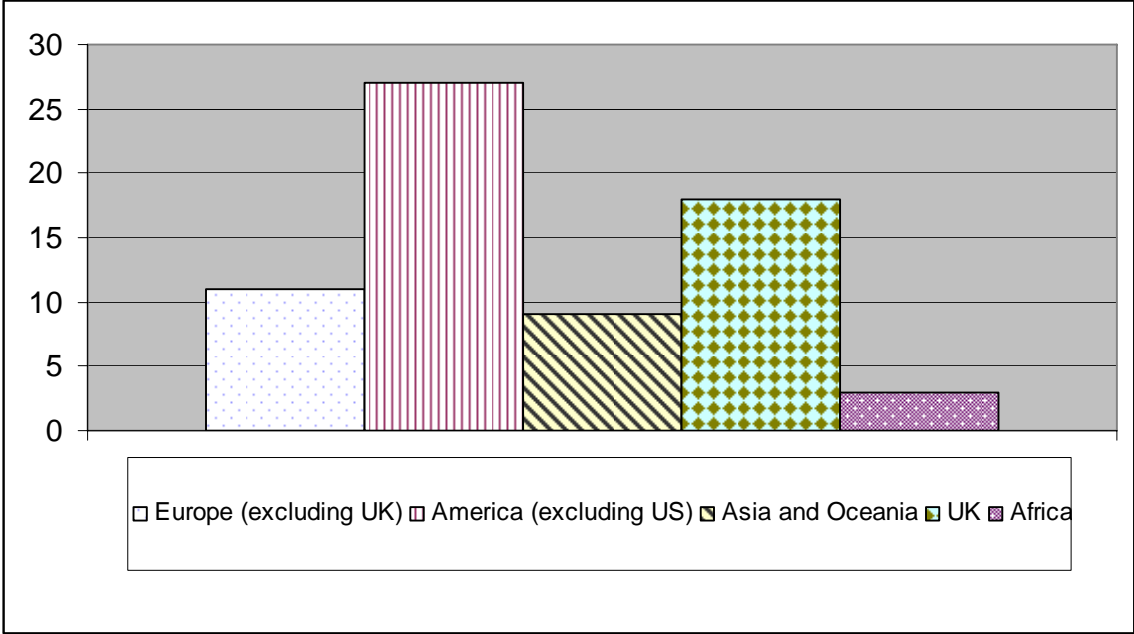
TABLE 1- DISTRIBUTION OF THE TRANSACTIONS BY TARGET NATION

Table 1 reports the number of transactions by target country for the sample of 177 M&A transactions by US property-liability US insurance over the period 1995-2000.

Target nation	Number of transactions
Argentina	1
Australia	2
Bermuda	2
Brazil	3
Canada	2
Colombia	1
Denmark	1
Egypt	1
Finland	1
France	2
Hong Kong	1
Indonesia	1
Israel	1
Mexico	2
Spain	2
UK	7
Total Foreign	30
Total Domestic (US)	147
Total Sample	177

TABLE 2- DESCRIPTIVE STATISTICS OF THE SAMPLE

This table reports descriptive statistics of the sample of acquirers in the property-liability insurance over the period 1995 to 2000. Panel A describes the deal characteristics; Panel B describes the acquirer's internal governance characteristics, while Panel C reports statistics on the legal environment of target countries. For each variable, the table provides the number of observations, the mean, the median and the standard deviation. For a detailed description of the variables, please refer to Table 6.

Variable	N	Mean	Median	Std. Dev.
Panel A- Deal Characteristics				
FOREIGN	177	0.169	0.000	0.376
MERGER	177	0.096	0.000	0.295
FOCUS	177	0.514	1.000	0.501
CASH	35	1.000	1.000	0.000
STOCK	14	1.000	1.000	0.000
MIX	9	1.000	1.000	0.000
%ACQ	177	94.961	100.000	15.870
CONTROL	177	0.938	1.000	0.242
DEAL VALUE	53	1115.205	84.500	3899.189
PUBLIC	177	0.135	0.000	0.343
AGENCY	177	0.542	1.000	0.500
Panel B- Acquirers 'internal governance characteristics				
BODSZ	177	11.130	11.000	3.024
%INDD	177	0.430	0.364	0.187
INDCEO	177	0.576	1.000	0.495
%NEWNOM	177	0.661	0.583	0.314
%RENEW	177	0.095	0.083	0.115
%CEO (IN %)	177	6.536	1.050	12.378
%BLOCK (IN %)	177	24.993	26.700	19.080
%INST (IN %)	177	17.366	11.700	16.717
#BLOCK	177	2.051	2.000	1.354
#INST	177	1.644	1.000	1.337
TENURE CEO	154	9.292	7.000	9.172
CEO CHANGE	177	0.096	0.000	0.295
CEO AGE	177	55.474	53.000	8.752
Panel C- Target countries' governance characteristics				
CIVIL	177	0.085	0.000	0.279
LAW AND ORDER	175	5.771	6.000	0.860
CORRUPTION	175	3.994	4.000	0.520
EC	175	9.017	9.000	0.638

<p style="text-align:center">TABLE 3-L<small>ONG RUN</small> P<small>ERFORMANCE OF ACQUIRERS</small></p>

This table reports the three-year Buy and Hold returns (BHR 3yr) and the three-year abnormal returns (adjusted for market returns over three years) (BHAR 3yr), for the whole sample as well as for the subsamples of foreign and domestic acquisitions, and for focusing and diversifying transactions. The p-values for the test of difference are obtained with a t-test (for mean equality) and a Wilcoxon Rank-Sum test (for median equality). a, b, and c refer to significance at the 1, 5 and 10% levels respectively.

	BHR 3yr			**BHAR 3yr**		
Panel A- Acquirers' long run performance						
Mean	0.842			0.573		
Median	0.884			0.502		
N	177			177		
Panel B- Acquirers' long run performance by target origin						
	Domestic targets	**Foreign targets**	**P-value for test of difference**	**Domestic targets**	**Foreign targets**	**P-value for test of difference**
Mean	0.890	0.608	0.080[c]	0.631	0.285	0.034[b]
Median	0.944	0.385	0.081[c]	0.547	0.264	0.108
N	147	30		147	30	
Panel C- Acquirers' long run performance by type of transaction						
	Focusing transactions	**Diversifying transactions**	**P-value for test of difference**	**Focusing transactions**	**Diversifying transactions**	**P-value for test of difference**
Mean	1.047	0.625	0.001[a]	0.763	0.371	0.011[b]
Median	1.110	0.391	0.000[a]	0.826	0.332	0.006[a]
N	91	86		91	86	

TABLE 4- UNIVARIATE ANALYSIS

This table reports univariate results for the subsamples of foreign and domestic acquisitions and for focusing and diversifying transactions based on variables related to the deal characteristics (type of transaction (i.e., merger or tender offer), frequent acquirer, % acquired), to the target's *external governance characteristics* (law and order, corruption, enforcement of contracts, legal origin), and to the bidder's *internal governance characteristics* (Board size, % of independent directors sitting on the board % of new nominees on the board, % of shares held by the CEO, % of shares held by block-holders, % of shares held by institutions as well as the tenure of the CEO and the change of CEO). For a detailed description of the variables, please refer to Table 6. Tests of difference in means and statistical significance between both sub samples appear in the last column. a , b and c refer to significance at the 1, 5 and 10% levels respectively.

Panel A- Univariate analysis according to the target origin

Variable	Foreign targets (1)	Domestic targets (2)	p-value of mean difference (1 vs 2)
MERGER	0.000	0.116	
CIVIL	0.500	0.000	
COMMON	0.500	1.000	
LAW AND ORDER	4.571	6.000	0.000[a]
CORRUPTION	3.964	4.000	0.887
EC	9.786	8.871	0.000[a]
FREQA	2.667	6.925	0.000[a]
%ACQ	0.880	0.964	0.044[b]
BODSZ	14.400	10.463	0.000[a]
%INDD	0.473	0.421	0.172
%RENEW	0.078	0.098	0.247
%CEO (IN %)	3.887	7.077	0.195
%BLOCK (IN %)	18.138	26.393	0.026[b]
%INST (IN %)	11.814	18.499	0.042[b]
TENURE CEO	13.300	7.238	0.017[b]
CEO CHANGE	0.033	0.109	0.077[c]

Panel B- Univariate analysis according to the type of transaction

Variable	Focusing transactions (1)	Diversifying transactions (2)	p-value of mean difference (1 vs 2)
MERGER	0.099	0.093	0.895
CIVIL	0.044	0.128	0.048[b]
COMMON	0.956	0.872	0.048[b]
LAW AND ORDER	5.967	5.559	0.003[a]
CORRUPTION	4.055	3.928	0.114
EC	8.945	9.095	0.117
FREQA	7.758	4.558	0.000[a]
%ACQ	96.122	93.732	0.320
BODSZ	10.967	11.302	0.465
%INDD	0.403	0.457	0.053[c]
%RENEW	0.0959	0.093	0.895
%CEO (IN %)	5.853	7.259	0.460
%BLOCK (IN %)	21.961	28.202	0.031[b]
%INST (IN %)	15.329	19.521	0.099[c]
TENURE CEO	6.439	10.198	0.006[a]
CEO CHANGE	0.121	0.070	0.248

TABLE 5- MULTIVARIATE ANALYSIS

This table reports our multivariate analysis. The dependent variable is the three-year BHAR of our sample of acquiring firms. The independent variables are %ACQ (% acquired), MERGER (equals one if the transaction is a merger), FOREIGN (equals one if cross border transaction), FREQA (number of transactions during the same year), AGENCY (equals one if target is an insurance agency or broker), FOCUS (equals one if bidder and target have the same 4-digit SIC code), EC (enforceability of contracts), INDEX (index of investor legal protection), %INDD (% of independent directors on the board), %RENEW (% of new nominees on the board), %INST, %BLOCK and %CEO (% of shares held by institutions, block-holders and the CEO, respectively), INDCEO (equals one if CEO is COB) and TENURE CEO (tenure of CEO as CEO). a , b and c refer to significance at the 1, 5 and 10% levels respectively. All coefficients are adjusted for heterosckedasticity.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Transactions characteristics									
CONS	-0.266	-3.561	-1.906	-2.670	-1.052	-3.139	-1.395	-2.771	-1.755
	(0.487)	(0.003)[a]	(0.010)[a]	(0.011)[b]	(0.182)	(0.003)[a]	(0.071)[c]	(0.008)[a]	(0.027)[b]
%ACQ	0.004	0.003	0.003	0.003	0.003	0.005	0.005	0.003	0.003
	(0.340)	(0.480)	(0.480)	(0.373)	(0.417)	(0.176)	(0.184)	(0.407)	(0.453)
MERGER	-0.576	-0.587	-0.577	-0.557	-0.542	-0.614	-0.604	-0.612	-0.600
	(0.010)[a]	(0.005)[a]	(0.009)[a]	(0.010)[a]	(0.014)[b]	(0.007)[a]	(0.009)[a]	(0.013)[b]	(0.017)[b]
FOREIGN	-0.040	-0.430	-0.021	-0.460	-0.076	-0.378	-0.019	-0.325	-0.029
	(0.809)	(0.104)	(0.904)	(0.041)[b]	(0.660)	(0.111)	(0.914)	(0.217)	(0.875)
FREQA	0.069	0.063	0.068	0.041	0.045	0.043	0.047	0.054	0.059
	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]
AGENCY	0.129	0.152	0.148	0.114	0.114	0.089	0.083	0.078	0.080
	(0.446)	(0.362)	(0.407)	(0.459)	(0.486)	(0.581)	(0.630)	(0.643)	(0.651)
FOCUS	0.090	0.121	0.059	0.073	0.080	0.130	0.072	0.089	0.026
	(0.591)	(0.454)	(0.735)	(0.628)	(0.961)	(0.400)	(0.664)	(0.591)	(0.882)
Shareholders protection									
INDEX			0.093		0.088		0.083		0.098
			(0.007)[a]		(0.008)[a]		(0.011)[b]		(0.000)[a]
EC		0.383		0.367		0.375		0.323	
		(0.008)[a]		(0.002)[a]		(0.002)[a]		(0.006)[a]	
Board characteristics									
%INDD				-1.367	-1.329	-1.423	-1.392	-1.132	-1.087
				(0.001)[a]	(0.001)[a]	(0.001)[a]	(0.002)[a]	(0.005)[a]	(0.008)[a]
%RENEW				1.780	1.794	1.955	1.990	2.448	2.444
				(0.001)[a]	(0.001)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]
Ownership structure									
%INST						-0.001	-0.001		
(IN %)						(0.901)	(0.905)		
%BLOCK				-0.008	-0.008				
(IN %)				(0.026)[b]	(0.019)[b]				
CEO characteristics									
%CEO								-1.259	-1.431
								(0.000)[a]	(0.001)[a]
INDCEO								0.172	0.158
								(0.268)	(0.314)
TENURE CEO								0.001	0.003
								(0.896)	(0.631)
N	177	175	175	175	175	175	175	152	152
R squared	0.296	0.334	0.309	0.465	0.442	0.450	0.424	0.502	0.514
P-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

TABLE 6- VARIABLES DESCRIPTION

This table provides the description of the variables used in the analysis and their respective data sources.

Variable	Description and data sources
FOREIGN	Dummy that is equal to one if the target is not US (SDC and Factiva)
MERGER	Dummy that is equal to one if the transactions is a merger (SDC)
FOCUS	Dummy that is equal to one if the target and the bidder have the same 4 digit SIC code (SDC)
CASH	Dummy that is equal to one if the transaction is paid with cash only (SDC)
STOCK	Dummy that is equal to one if the transaction is paid with stock only (SDC)
MIX	Dummy that is equal to one if the transaction is paid with a mix of stock and cash (SDC)
%ACQ	Percentage of shares acquired during the transaction (SDC)
CONTROL	Dummy that is equal to one if the transaction involves a change in control (SDC)
DEAL VALUE	Deal value in millions of dollars (SDC)
PUBLIC	Dummy variable that is equal to one if the target is public (SDC, Factiva and proxy statements)
AGENCY	Dummy that is equal to one if the target is an agency or broker rather than a company or a holding company (SDC, Factiva and proxy statements)
FREQA	Number of transactions realized by the bidder during the year (SDC)
BODSZ	The number of directors sitting on the board (proxy statements)
%INDD	% of independent directors sitting on the board (proxy statements)
INDCEO	Dummy that is equal to one if the CEO is also the chief of the board (COB) (proxy statements)
%NEWNOM	(%) of nominees on the board (proxy statements)
%RENEW	(%) of new members elected on the board (proxy statements)
%CEO	Share ownership by the CEO (proxy statements)
%(#)BLOCK	Share ownership by (number of) block holders (proxy statements)
%(#)INST	Share ownership by (number of) institutional investors (proxy statements)
TENURE CEO	Tenure of the CEO as the CEO (proxy statements)
CEOCHANGE	Dummy that is equal to one if there is a change of the CEO (proxy statements)
CEO AGE	Age of the CEO (proxy statements)
CIVIL	Dummy that is equal to one for civil law countries (ICRG)
LAW AND ORDER	Measures the strength and impartiality of the legal system and the popular observance of the law. Higher values imply a better legal environment (ICRG)
CORRUPTION	Inverse measure of perceived corruption within the political system. Higher values imply a lower corruption environment (ICRG)
ENFORCEMENT OF CONTRACTS (EC)	Measures the extent of respect of contractual agreements. Higher values imply higher respect of arrangements (ICRG)
INDEX OF INVESTOR PROTECTION	Equals the sum of Law and Order, Corruption and EC (ICRG and authors' calculations)
RETURNS	CRSP

TABLE 7- ROBUSTNESS CHECK: CONTROL FOR SUBSEQUENT TRANSACTIONS

This table reports our multivariate analysis when we control for subsequent transactions made by the bidder. The dependent variable is the three-year BHAR of our sample of acquiring firms. The independent variables are %ACQ (% acquired), MERGER (equals one if the transaction is a merger), FOREIGN (equals one if cross border transaction), FREQA (number of transactions during the same year), AGENCY (equals one if target is an insurance agency or broker), FOCUS (equals one if bidder and target have the same 4-digit SIC code), EC (enforceability of contracts), *SABSEQUENT* (equals one if the bidder makes an additional M&A during the 3 years following the announcement), INDEX (index of investor legal protection), %INDD (% of independent directors on the board), %RENEW (% of new nominees on the board), %INST, %BLOCK and %CEO (% of shares held by institutions, block-holders and the CEO, respectively), INDCEO (equals one if CEO is COB) and TENURE CEO (tenure of CEO as CEO).). a, b, and c refer to significance at the 1, 5 and 10% levels respectively. All coefficients are adjusted for heterosckedasticity.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
Transactions characteristics									
CONS	-0.407	-3.760	-2.167	-2.811	-1.217	-3.343	-1.661	-2.838	-1.839
	(0.320)	(0.003)^a	(0.005)^a	(0.013)^b	(0.165)	(0.003)^a	(0.046)^b	(0.010)^a	(0.034)^b
%ACQ	0.003	0.002	0.002	0.003	0.003	0.005	0.005	0.003	0.003
	(0.386)	(0.557)	(0.570)	(0.395)	(0.443)	(0.216)	(0.232)	(0.418)	(0.476)
MERGER	-0.581	-0.594	-0.584	-0.564	-0.548	-0.619	-0.608	-0.616	-0.606
	(0.009)^a	(0.005)^a	(0.008)^a	(0.010)^a	(0.014)^b	(0.007)^a	(0.010)^a	(0.012)^b	(0.016)^b
FOREIGN	-0.054	-0.460	-0.046	-0.469	-0.083	-0.403	-0.020	-0.333	-0.022
	(0.742)	(0.086)^c	(0.795)	(0.037)^b	(0.630)	(0.088)^c	(0.991)	(0.207)	(0.907)
FREQA	0.067	0.061	0.065	0.040	0.044	0.041	0.045	0.056	0.058
	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a
AGENCY	0.130	0.148	0.144	0.111	0.111	0.085	0.081	0.078	0.082
	(0.443)	(0.375)	(0.416)	(0.472)	(0.497)	(0.595)	(0.639)	(0.642)	(0.649)
FOCUS	0.064	0.096	0.029	0.064	-0.003	0.107	0.046	0.084	0.019
	(0.713)	(0.566)	(0.872)	(0.682)	(0.985)	(0.507)	(0.792)	(0.625)	(0.915)
SABSEQUENT	0.220	0.259	0.275	0.135	0.141	0.245	0.260	0.060	0.069
	(0.303)	(0.236)	(0.231)	(0.578)	(0.575)	(0.303)	(0.300)	(0.806)	(0.783)
Shareholders protection									
INDEX			0.098		0.091		0.088		0.100
			(0.004)^a		(0.006)^a		(0.007)^a		(0.004)^a
EC		0.388		0.370		0.379		0.325	
		(0.008)^a		(0.002)^a		(0.002)^a		(0.006)^a	
Board characteristics									
%INDD				-1.356	-1.316	-1.400	-1.366	-1.119	-1.072
				(0.001)^a	(0.001)^a	(0.002)^a	(0.003)^a	(0.007)^a	(0.010)^a
%RENEW				1.813	1.829	1.999	2.035	2.463	2.461
				(0.001)^a	(0.001)^a	(0.000)^a	(0.000)^a	(0.000)^a	(0.000)^a
Ownership structure									
%INST (IN %)						-0.000	-0.000		
						(0.942)	(0.944)		
%BLOCK (IN %)				-0.007	-0.008				
				(0.060)^c	(0.045)^b				
CEO characteristics									
%CEO								-1.214	-1.381
								(0.007)^a	(0.005)^a
INDCEO								0.174	0.161
								(0.263)	(0.308)
TENURE CEO								0.001	0.003
								(0.867)	(0.604)
N	177	175	175	175	175	175	175	152	152
R squared	0.299	0.339	0.314	0.446	0.443	0.453	0.428	0.526	0.514
P-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

TABLE 8- ROBUSTNESS CHECK: CONTROL FOR A CEO CHANGE

This table reports our multivariate analysis when we control for a CEO change after the transaction. The dependent variable is the three-year BHAR of our sample of acquiring firms. The independent variables are %ACQ (% acquired), MERGER (equals one if the transaction is a merger), FOREIGN (equals one if cross border transaction), FREQA (number of transactions during the same year), AGENCY (equals one if target is an insurance agency or broker), FOCUS (equals one if bidder and target have the same 4-digit SIC code), EC (enforceability of contracts), INDEX (index of investor legal protection), %INDD (% of independent directors on the board), %RENEW (% of new nominees on the board), %INST, %BLOCK and %CEO (% of shares held by institutions, block-holders and the CEO, respectively), INDCEO (equals one if CEO is COB), TENURE CEO (tenure of CEO as CEO) and *CEO CHANGE (*equals one if there is a CEO change during the year*)*. a , b and c refer to significance at the 1, 5 and 10% levels respectively. All coefficients are adjusted for heteroskedasticity.

	(4)	(5)	(6)	(7)	(8)	(9)
Transactions Characteristics						
CONS	-2.703	-1.052	-3.191	-1.400	-2.778	-1.736
	$(0.013)^b$	(0.185)	$(0.004)^a$	$(0.073)^c$	$(0.010)^a$	$(0.033)^b$
%ACQ	0.003	0.003	0.005	0.005	0.003	0.003
	(0.375)	(0.418)	(0.178)	(0.186)	(0.498)	(0.536)
MERGER	-0.564	-0.542	-0.624	-0.606	-0.605	-0.595
	$(0.010)^a$	$(0.016)^b$	$(0.007)^a$	$(0.010)^a$	$(0.013)^b$	$(0.018)^b$
FOREIGN	-0.470	-0.076	-0.391	-0.018	-0.342	-0.026
	$(0.044)^b$	(0.663)	(0.109)	(0.919)	(0.200)	(0.889)
FREQA	0.040	0.045	0.042	0.047	0.053	0.058
	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$
AGENCY	0.115	0.114	0.088	0.083	0.066	0.071
	(0.459)	(0.488)	(0.584)	(0.631)	(0.693)	(0.691)
FOCUS	0.077	0.080	0.137	0.074	0.082	0.018
	(0.615)	(0.962)	(0.385)	(0.662)	(0.616)	(0.918)
Shareholders protection						
INDEX		0.088		0.084		0.102
		$(0.009)^a$		$(0.013)^b$		$(0.003)^a$
EC	0.373		0.384		0.336	
	$(0.002)^a$		$(0.003)^a$		$(0.006)^a$	
Board characteristics						
%INDD	-1.389	-1.329	-1.469	-1.406	-1.156	-1.107
	$(0.001)^a$	$(0.001)^a$	$(0.002)^a$	$(0.004)^a$	$(0.004)^a$	$(0.006)^a$
%RENEW	1.775	1.794	1.953	1.989	2.447	2.444
	$(0.001)^a$	$(0.001)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$
Ownership structure						
%INST (IN %)			-0.000	-0.000		
			(0.983)	(0.935)		
%BLOCK (IN %)	-0.007	-0.008				
	$(0.031)^b$	$(0.021)^b$				
CEO Characteristics						
%CEO					-1.254	-1.434
					$(0.000)^a$	$(0.000)^a$
INDCEO					0.163	0.151
					(0.306)	(0.351)
TENURE CEO					-0.001	0.002
					(0.888)	(0.800)
CEO CHANGE	-0.067	0.001	-0.107	-0.035	-0.265	-0.228
	(0.757)	(0.997)	(0.637)	(0.878)	(0.384)	(0.469)
N	175	175	175	175	152	152
R squared	0.466	0.442	0.450	0.424	0.529	0.516
P-value	0.000	0.000	0.000	0.000	0.000	0.000

TABLE 9- ROBUSTNESS CHECK: NUMBER OF STAKEHOLDERS

This table reports our multivariate analysis when we control for the number of stakeholders. The dependent variable is the three-year BHAR of our sample of acquiring firms. The independent variables are %ACQ (% acquired), MERGER (equals one if the transaction is a merger), FOREIGN (equals one if cross border transaction), FREQA (number of transactions during the same year), AGENCY (equals one if target is an insurance agency or broker), FOCUS (equals one if bidder and target have the same 4-digit SIC code), EC (enforceability of contracts), INDEX (index of investor legal protection), %INDD (% of independent directors on the board), %RENEW (% of new nominees on the board), # *NON INSIDER BLOCK* , #BLOCK and #INST are (number of shares held by non insider blockholders, block-holders and institutions, respectively. a, b, and c refer to significance at the 1, 5 and 10% levels respectively. All coefficients are adjusted for heterosckedasticity.

	(4)	**(5)**	**(4)**	**(5)**	**(6)**	**(7)**
Transactions characteristics						
CONS	-2.967	-1.274	-3.324	-1.559	-3.272	-1.435
	$(0.007)^a$	(0.107)	$(0.002)^a$	$(0.044)^b$	$(0.003)^a$	$(0.066)^c$
%ACQ	0.005	0.005	0.006	0.006	0.006	0.006
	(0.182)	(0.193)	(0.144)	(0.156)	(0.155)	(0.170)
MERGER	-0.598	-0.585	-0.629	-0.618	-0.604	-0.596
	$(0.007)^a$	$(0.009)^a$	$(0.008)^a$	$(0.012)^b$	$(0.009)^a$	$(0.012)^b$
FOREIGN	-0.421	-0.036	-0.302	-0.092	-0.328	-0.057
	$(0.074)^c$	(0.842)	(0.189)	(0.581)	(0.173)	(0.755)
FREQA	0.041	0.046	0.047	0.052	0.045	0.049
	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$
AGENCY	0.100	0.099	0.066	0.060	0.084	0.078
	(0.524)	(0.560)	(0.693)	(0.737)	(0.610)	(0.657)
FOCUS	0.108	0.045	0.166	0.109	0.141	0.083
	(0.491)	(0.790)	(0.300)	(0.528)	(0.373)	(0.628)
Shareholders protection						
INDEX		0.085		0.081		0.079
		$(0.009)^a$		$(0.012)^b$		$(0.015)^b$
EC	0.371		0.373		0.375	
	$(0.002)^a$		$(0.002)^a$		$(0.002)^a$	
Board characteristics						
%INDD	-1.397	-1.359	-1.533	-1.502	-1.501	-1.454
	$(0.001)^a$	$(0.001)^a$	$(0.000)^a$	$(0.001)^a$	$(0.001)^a$	$(0.001)^a$
%RENEW	1.885	1.904	2.077	2.111	2.026	2.046
	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$	$(0.000)^a$
Ownership structure						
# NON INSIDER BLOCK			0.089	0.089		
			(0.203)	(0.219)		
#BLOCK	-0.052	-0.061				
	(0.379)	(0.301)				
#INST					0.041	0.030
					(0.554)	(0.669)
N	175	175	175	175	175	175
R squared	0.453	0.429	0.460	0.433	0.452	0.425
P-value	0.000	0.000	0.000	0.000	0.000	0.000

This table reports our multivariate analysis when we control for the status of the target firm. The dependent variable is the three-year BHAR of our sample of acquiring firms. The independent variables are %ACQ (% acquired), MERGER (equals one if the transaction is a merger), FOREIGN (equals one if cross border transaction), FREQA (number of transactions during the same year), AGENCY (equals one if target is an insurance agency or broker), FOCUS (equals one if bidder and target have the same 4-digit SIC code), PUBLIC (equals one if the target is a publicly traded firm), EC (enforceability of contracts), INDEX (index of investor legal protection), %INDD (% of independent directors on the board), %RENEW (% of new nominees on the board), %INST, %BLOCK and %CEO (% of shares held by institutions, block-holders and the CEO, respectively), INDCEO (equals one if CEO is COB) and TENURE CEO (tenure of CEO as CEO). a , b and c refer to significance at the 1, 5 and 10% levels respectively. All coefficients are adjusted for heterosckedasticity.

	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
Transactions characteristics									
CONS	-0.324	-3.638	-1.906	-2.785	-1.057	-3.271	-1.400	-2.903	-1.671
	(0.410)	(0.003)[a]	(0.010)[a]	(0.009)[a]	(0.182)	(0.002)[a]	(0.072)[c]	(0.004)[a]	(0.034)[b]
%ACQ	0.004	0.003	0.003	0.004	0.003	0.006	0.006	0.004	0.004
	(0.293)	(0.417)	(0.454)	(0.306)	(0.378)	(0.140)	(0.165)	(0.289)	(0.363)
MERGER	-0.630	-0.649	-0.603	-0.642	-0.590	-0.712	-0.669	-0.750	-0.694
	(0.013)[b]	(0.007)[a]	(0.015)[b]	(0.005)[a]	(0.011)[b]	(0.003)[a]	(0.007)[a]	(0.002)[a]	(0.007)[a]
FOREIGN	-0.032	-0.422	-0.018	-0.447	-0.069	-0.359	-0.031	-0.279	-0.063
	(0.846)	(0.111)	(0.919)	(0.048)[b]	(0.694)	(0.134)	(0.862)	(0.295)	(0.750)
FREQA	0.070	0.064	0.068	0.042	0.046	0.044	0.049	0.056	0.088
	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.011)[b]
AGENCY	0.140	0.164	0.152	0.131	0.122	0.106	0.093	0.101	0.092
	(0.416)	(0.332)	(0.399)	(0.409)	(0.465)	(0.517)	(0.595)	(0.547)	(0.606)
FOCUS	0.093	0.125	0.061	0.079	0.013	0.138	0.079	0.099	0.039
	(0.582)	(0.444)	(0.727)	(0.600)	(0.937)	(0.373)	(0.634)	(0.548)	(0.823)
PUBLIC	0.107	0.121	0.050	0.164	0.094	0.194	0.130	0.297	0.211
	(0.620)	(0.573)	(0.818)	(0.404)	(0.635)	(0.365)	(0.550)	(0.163)	(0.345)
Shareholders protection									
INDEX			0.091		0.085		0.079		
			(0.008)[a]		(0.011)[b]		(0.019)[b]		
EC		0.384		0.369		0.376		0.322	
		(0.007)[a]		(0.002)[a]		(0.002)[a]		(0.005)[a]	
Board characteristics									
%INDD				-1.374	-1.333	-1.443	-1.407	-1.119	-1.073
				(0.001)[a]	(0.001)[a]	(0.002)[a]	(0.003)[a]	(0.006)[a]	(0.009)[a]
%RENEW				1.810	1.813	1.996	2.018	2.515	2.494
				(0.001)[a]	(0.001)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]	(0.000)[a]
Ownership structure									
%INST (IN %)						-0.000	-0.000		
						(0.994)	(0.969)		
%BLOCK (IN %)				-0.007	-0.008				
				(0.031)[b]	(0.022)[b]				
CEO characteristics									
%CEO								-1.187	-1.350
								(0.001)[a]	(0.001)[a]
INDCEO								0.153	0.137
								(0.324)	(0.391)
TENURE CEO								-0.001	0.001
								(0.811)	(0.856)
N	177	175	175	175	175	175	175	152	152
R squared	0.296	0.335	0.310	0.467	0.443	0.452	0.425	0.534	0.517
P-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000