DO CROSS-BORDER ACQUISITIONS CREATE MORE SHAREHOLDER VALUE THAN DOMESTIC DEALS FOR FIRMS IN A MATURE ECONOMY? THE JAPANESE CASE

Kotaro Inoue *, Robert Ings **

* *Corresponding author* Tokyo Institute of Technology, Japan
Contact details: Tokyo Institute of Technology, 2-12-1 W9-49, Ookayama, Meguro, Tokyo, 152-8552, Japan
** Credit Suisse Securities (Japan) Limited, Japan

OPEN ACCESS

How to cite this paper: Inoue, K., & Ings, R. (2018). Do cross-border acquisitions create more shareholder value than domestic deals for firms in a mature economy? The Japanese case. *Corporate Ownership & Control, 15(3-1),* 268-281.
http://doi.org/10.22495/cocv15i3c1p10

ISSN Online: 1810-3057
ISSN Print: 1727-9232

Received: 07.01.2018
Accepted: 18.05.2018

JEL Classification: F21, G32, G34
DOI: 10.22495/cocv15i3c1p10

Abstract

In this paper, we analyse the shareholder wealth effect in domestic and cross-border acquisitions involving Japanese acquiring firms over the period from 2000 to 2010. The results of our study reveal that cross-border acquisitions create larger returns for the acquirers' shareholders than domestic deals. Furthermore, although acquisitions of firms in G7 countries create larger value than other acquisitions in the period between 2000 and 2003, in the period between 2008 and 2010, which corresponds to a period of slow economic growth in G7 countries after the US financial crisis, acquisitions involving target firms in non-G7 countries created greater wealth gains for shareholders than deals that targeted firms in G7 countries. Our results highlight the growing importance of M&A target firms in growing markets for mature firms in advanced and slow-growth economies.

Keywords: Cross-Border Acquisitions, Bidder Returns, Japanese Firms

Acknowledgement: The authors gratefully appreciate Hideaki Kiyoshi Kato, Marc Bremer, Konari Uchida, Shinichi Fukuda, attendants of workshop at Research Institute of Economy, Trade and Industry (RIETI), Development Bank of Japan, University of Tokyo, Nagoya University, and attendants of 2012 Conference of Midwest Finance Association and 2012 Conference of Nippon Finance Association for helpful comments. This research is funded by Grants-in-Aid for Scientific Research.

1. INTRODUCTION

This empirical research focuses on the shareholder wealth effect of domestic and cross-border transactions involving Japanese acquiring firms over the eleven-year period from 2000 to 2010. During this first decade of this century, the Japanese economy has been in a stagnate economic state, and there has been a strong impetus for Japanese firms to shift not only their production operations abroad, but also to target foreign markets to enhance growth. Although Japanese firms have been consolidating domestically in many industries in order to eliminate excess capacity, some firms have been aggressively pursuing cross-border acquisitions.

We analyse domestic and cross-border acquisitions by Japanese firms who face a mature economy with limited growth opportunities and clarify the differences regarding how equity markets evaluate these transactions. In the analysed period, Japanese firms acquire firms not only in developed countries such as the U.S. and the EU but also in developing countries such as China, Hong Kong, India and other East Asian countries.

Although Japanese firms have been increasingly executing cross-border acquisitions after 2000, this is not the first wave of Japanese foreign acquisitions. As Kang (1993) showed, there was a period from the mid-1980's to 1990, when Japanese firms aggressively purchased American firms and assets. During this period the Japanese economy was in an asset bubble

and although many firms actively invested abroad, many of these investments were effectively diversification, and in areas unrelated to their core business, such as real estate and hotels. By the early 1990's, many of these investments were divested and many Japanese firms pulled out of these foreign markets entirely. The most infamous examples of this would have to be Mitsubishi Estate Company purchasing the Rockefeller Center in New York in 1989 and Matsushita Electric Industries purchasing MCA in 1991. On the other hand, there were also some successful acquisitions such as acquisitions of Firestone by Bridgestone in 1988 which made Bridgestone the global leader in the tire industry. Japanese cross-border acquisition activities decreased rapidly, and acquisitions played a minimal role during the rest of 1990's. It was around 2004 that some strong Japanese exporting firms began to expand their global presence by purchasing businesses abroad to overcome weak demand in the domestic market.

Our event study of the stock price response to the announcement of takeovers finds that both domestic and cross-border transactions increase shareholder value for Japanese acquiring firms; however, cross-border transactions create a larger wealth effect for the acquiring firm when it takes a controlling stake in the target. This is consistent with results reported by Ellis, Moeller, Schlingemann, and Stulz (2011), who analysed acquisitions from 56 countries from 1990 to 2007. Ellis et al. find that the gain for shareholders of acquirers is generally higher if the acquisition is made in a country with poor corporate governance. Furthermore, we find that transactions involving emerging markets create a greater wealth effect in the post-Lehman Shock period. This result is consistent with Chari, Ouimet, and Tesar (2010) who find developed-market acquirers experienced uniquely positive and significant increases in their stock price when they acquire emerging-market targets.

A unique finding of this study is that the gain for shareholders of acquiring firms is not always higher when the target firm is from emerging-market. For Japanese acquirers, the significant positive wealth effects from acquiring emerging-market targets are only observed in the post-Lehman Shock period. The interpretation that positive wealth effects from acquiring developing-market targets are related to benefits of good governance of acquirers reported by Ellis et al. (2011) and Chari et al. (2010) cannot fully explain our results. We interpret our results as wealth effects being primarily related to growth opportunity perceived by the market that the acquirers can achieve through cross-border acquisitions. Consistent with this interpretation, the gain for a shareholder of Japanese acquiring firms is higher when the acquirer is more profitable and faces lower sales growth, and the targets are located in the countries with higher economic growth.

These results are consistent with the view that profitable firms facing a mature domestic market are more likely to create wealth by expanding their superior operational capabilities to the targets operating in growing markets. From these results, we conclude that entering high growth markets through acquisitions provides significant opportunities to create shareholder wealth for Japanese firms. And in general, this is not isolated to Japanese firms; these results suggest that cross-border deals are a viable investment choice for companies in other mature economies. In fact, as a result of the recent financial crisis and ensuing economic downturn, firms in many industrial nations have sought growth in emerging markets. The main contribution of this paper is that we empirically show that the stock market positively evaluates growth opportunities from cross-border acquisitions from developed mature country despite the number of difficulties associated with these deals such as insufficient previous information and different corporate culture.

We proceed as follows. In Section 2, we review the relevant literature. In Section 3, we explain the hypotheses. In Section 4, we describe the data and sample. In Section 5, we explain the economic background which Japanese firms faced during the analysed period and the characteristics of acquisitions by Japanese firms. In Section 6, we investigate the shareholder wealth effect associated with the announcement of both cross-border and domestic acquisitions and their associated factors. In Section 7, we investigate the relation between control premiums and shareholder returns of acquiring firms. We conclude in Section 8.

2. PREVIOUS RESEARCH

Cross-border M&A volume is growing within the global M&A market. According to Erel et al. (2012), cross-border transactions made up 30% of M&A activity in 1998, however by 2007 this figure has increased to 47% of all deals. The primary backdrop to this increase in cross-border activity is in the international consolidation of product markets. Research by Mitchell and Mulherin (1996), and Andrade, Mitchell and Mulherin (2001) suggest that M&A activity is concentrated during specific periods within specific industries. It is expected that a progressively consolidating market will experience an increase in cross-border M&A deals, especially within industries which face limits on growth opportunities in their domestic market. Specifically, the attraction of overseas acquisitions is enhanced when on a relative basis the target allows access in terms of resources that cannot be obtained through domestic acquisitions. And with this, the probability of creating greater shareholder value from the cross-border acquisition increases.

There are many empirical studies regarding the creation of shareholder value through mergers and acquisitions; however, the research specifically focused on cross-border acquisitions is limited. There are also only a handful of papers utilizing a sample that compares the economic effects of both domestic and cross-border acquisitions. Moeller and Schlingemann (2005) analysed shareholder returns for transactions involving American firms with a sample period from 1985 to 1995. The results of this research showed that cross-border transactions allow acquiring firms to create larger synergies relative to domestic deals; however, due to the intense competition within the M&A market, acquirer returns have decreased.

The creation of the European Union has to lead to an extensive increase in cross-border transactions. With a sample of transactions involving publicly

traded European firms from 1993 to 2000 and limited to deal values of $100 million USD or more, Goergen and Renneboog (2004) found that 37% of all transactions were cross-border. This paper shows that, even after controlling for the different market environment, acquiring firms experience higher abnormal returns in cross-border deals while target firm shareholders receive higher returns than from domestic transactions. The shareholders of acquiring firms experienced a 5-day average abnormal return of 3% from cross-border deals, while domestic deal abnormal returns were not statistically different from zero.

Contrary results were found by Denis, Denis and Yost (2002), who analysed acquisitions by UK firms and concluded that managerial difficulties related to differences in corporate culture, coupled with the inefficiencies created by regional diversification led to value destruction for acquiring shareholders. Within this context, it has been suggested that due to the integration of investors in world capital markets, cross-border M&A may not actually add value. This paper reported evidence that compared to domestic transactions, cross-border M&A create significantly less value. Furthermore, their research arrived at a similar result when they analysed the cash flow performance of the acquirer five years after the transaction. The poor performance of cross-border M&A deals is notable in the sample of transactions from the 1990's.

Conn, Cosh, Guest and Hughes (2005), using a sample period from 1984 to 1998, examined shareholder returns in cross-border transactions in the British market and compared them with domestic transactions. During the announcement period, both domestic and cross-border deals had statistically significant positive returns of approximately 1%. However, when they adjusted for other influences on shareholder returns, they found that acquirer returns were statistically larger for deals with domestic targets. Moreover, only in cases where the targeted firm was a privately held company did acquirer shareholders receive positive abnormal returns. They suggest that the reason for acquiring firms creating greater shareholder value when targeting private firms could be linked to relatively smaller overpayment.

As described, the existing literature has reported mixed results regarding the creation of wealth for acquiring firm shareholders in cross-border M&As relative to domestic acquisitions. However, Ellis, Moeller, Schlingemann, and Stulz (2011) recently analysed a large sample of controlling acquisitions from 56 countries from 1990 and 2007 and reported that, in the case of acquisitions of public firms for cash transactions, cross-border acquisitions have a larger abnormal return than domestic acquisitions. They did not find a statistically significant difference in the average shareholder return in other types of domestic and cross-border acquisitions. Ellis et al. find that the gain for shareholders of acquirers is generally higher if the acquisition is made in a country with worse governance.

Only Kang (1993), to the authors' knowledge, examines Japanese cross-border M&As and their influence on the shareholder. Kang studied a sample of Japanese firms acquiring American firms over the period from 1975 to 1988; he estimated abnormal returns for both target and acquiring firms. Kang found significant positive announcement period abnormal returns for Japanese acquirers only. In terms of the targets' returns, both were positive regardless of whether the acquiring firm was Japanese or American. Yet the period in which Kang focused was during the Japanese asset bubble, and as such, the economic situation in which Japanese firms now find themselves is vastly different.

Our study is not merely a simple update of previous research with more recent data and different countries but is the first study focusing on the wealth effects of cross-border acquisitions by firms operating in a mature and slow growth domestic economy. As Weston, Mitchell and Mulherin (2004) noted, growth is the primary motivation for cross-border acquisitions. Consistent with this view, Chari, Ouimet, and Tesar (2010) found that developed-market acquirers experienced a uniquely positive and significant increase in their stock price.

Japanese firms now find themselves in a mature economy; Japan's decreasing population caused by a low birthrate and limited immigration has created a significant limitation on domestic growth. This makes access to relatively high growth overseas markets vital to many firms' futures. This need has been accelerated further by the recent global financial crisis with many Japanese firms trading mainly with industrialized countries whose economies have had persistently low growth. In contrary, Asian economies have been the driving force of world economic growth (IMF 2010). This leads us to postulate that recent acquisitions of emerging market firms will have relatively high economic value. For many Japanese firms struggling within their mature home markets, the question of whether shareholder value can be enhanced by accessing growing overseas markets through M&A is intriguing. Thus, it is very crucial to examine this topic since management is strongly concerned with the difficulties associated with cross-border deals in spite of their potential growth opportunities. This is not to limit this research's implications to Japanese firms alone; other industrialized nations' firms that have experienced a reduction in potential growth due to the recent economic recession, should also look abroad for growth or to enhance corporate resources.

3. HYPOTHESES

One would expect that cross-border acquisitions that allow the acquiring firm to obtain access to resources not available in its home market would have the potential for larger wealth effects than transactions between domestic firms. However, as previously described, research to date has not shown this to be the case. On the other hand, the slow growth Japanese economy suggests that cross-border acquisitions may play an important role in the strategies of Japanese companies. As the world enters the second decade of the new century, emerging countries including the BRIC countries have had superior and striking economic growth; the rapid expansion of their consumer markets has increased their attractiveness. This is in great contrast to areas such as Europe, America and Japan who have had low economic growth since the global financial crisis (see Section 5.1 for further discussion on the background of this view.) This has caused a significant shift in

many firms in terms of their expectations of future growth opportunities, leading to greater emphasis on purchasing assets and entry into emerging markets. Since Japanese firms have competitive advantages in advanced technologies and operational efficiency in manufacturing, these firms are expected to create value by expanding their operations in these growing markets. Through our overview of previous research involving the wealth effect of M&A activities and current economic trends, we construct the following hypotheses:

$H_{1\text{-}1}$: Cross-border M&A have a positive wealth effect for the acquiring firm's shareholders.

$H_{1\text{-}2}$: When compared to domestic acquisitions, cross-border acquisitions create a larger wealth effect for the acquiring firm's shareholders.

$H_{1\text{-}3}$: During the period after the financial crisis, emerging market acquisitions create a larger wealth effect for the acquiring firm's shareholders compared to industrialized country acquisitions.

Compared to domestic acquisitions, cross-border acquisitions are highly influenced by cultural difference problems, and the lack of information regarding managerial practices leads to an asymmetric information dilemma. In recent research by Deliotte (2009) surveying Japanese firms, management answered that the greatest problems completing cross-border acquisitions effectively related to differences in corporate culture. Weber and Camerer (2003) show from laboratory experiments that the difference in corporate culture between the acquirer and the target firm is likely to decrease post-acquisition performance due to difficulties in communicating. The optimal method to alleviate these cultural differences for the acquiring firm is to obtain more information regarding the target. In fact, this survey reported that the largest factor in the success or failure of a cross-border M&A transaction perceived by Japanese managers was the acquirer's ability to obtain sufficient information about the target. In cases where the targets being publicly traded firms, the existence of a publicly traded parent company, or the targets being within a similar industry, could all – to a certain extent – decrease the asymmetric information problem by accessing publicly disclosed information or reputation in the industry and allow the acquirer to more easily create shareholder value. In addition, we use acquirer's toehold, prior shareholding in target firms by the acquirers, as a proxy of the prior relationship between the acquiring firms and their target firms. Since Japanese firms typically do not attempt to hold hostile blocking shares of other firms, the acquirer toehold can be interpreted as an evidence of prior business alliance or close relationship between the acquirer and target.

H_2: Cross-border acquisitions have a larger value creation effect in the case where: the acquirer has a toehold position in the target, the target is a subsidiary of a publicly traded parent company, the target is a publicly traded company or is in the same industry as the acquirer.

If firms operating in a mature economy can obtain growth opportunities through accessing overseas growth markets, the creation of shareholder value in cross-border acquisitions is primarily one where the acquirer can gain access to the market where the target firm is located and derive synergy by influencing the efficiency of the target firm. Furthermore, the relative size of the target firm for the acquirer will also positively influence the economic effect.

H_3: The acquirers' wealth effect will be influenced by the amount of synergy created and this synergy will be positively related to the relative size of the acquisition deal, and greater for an acquirer with a higher ROA ratio.

We use ROA (Return on Assets) as a relative proxy to measure the acquirer's operational efficiency, as this metric is not strongly distorted by differences in capital structure and volatile stock market condition in the period analysed in this study. For example, Wang and Xie (2009) report that acquirer's ROA has positive effects on synergy effects from acquisitions. Since more than 70% of target firms in cross-border acquisitions are non-public firms, we do not consider target profitability in this research due to limited data availability.

4. DATA AND METHODOLOGY

4.1. Data and sample

The data set was obtained from Thomson One Banker (SDC); it consists of successful bids (completed deals) from January 1st, 2000 to December 31st, 2010. As the main objective of this paper is to comparatively analyse the economic impact for Japanese acquirers from domestic and cross-border acquisitions, following the sample selection process employed by Goergen and Renneboog (2004), we captured relatively larger size deals by limiting the minimum deal size (transaction value) to be at least $50 million U.S. dollars. Furthermore, in order to control for noise and equity positions that would not necessarily be considered part of M&A activity, we further limit our data set to include only deals where the acquiring firm held 20% or more of the target firm post-transaction. The rationale for this 20% limit is that with conventional accounting standards, a 20% equity stake in a firm qualifies it an affiliate company and the "equity method" of accounting will be implemented. Furthermore, the acquirer will typically have a high degree of influence on the managerial decisions of the target firm after the acquisition. In order to analyse the economic impact on share prices at the time of the acquisition in our event study analysis, it is necessary for the acquiring firm to be a publicly traded firm listed on a Japanese stock exchange.

For Japanese firms, the primary method of payment for cross-border transactions has been historically cash, and as such, in order to alleviate any distortion created by the method of payment, we limited the domestic acquisitions to be only those that involved a cash payment as the method of payment[1].

Finally, the data set was further decreased by only including deals in which the acquiring firm's financial and share price data were available. This led to a data set of 438 domestic (in-in) and 198 cross-border (in-out) deals, for a total data set of 636 in total.

[1] There were only two stock based cross-border acquisitions in the period. These deals are excluded from the sample in this study

4.2. Data

All variables, with the exception of the share price data which was taken from Bloomberg, were obtained from Thomson One Banker. Table 1 (in Appendix) includes a brief explanation of the various variables used in the study.

5. ECONOMIC BACKGROUND AND DEAL CHARACTERISTICS

5.1. Economic background and the trend of cross-border acquisitions by Japanese firms

As we have described in our hypothesis section, one of the primary motives for Japanese firms executing cross-border acquisitions is to gain access to high growth markets, and as such, targets should be located in economies with relatively higher economic growth.

Figure 1 shows the proportionate GDP growth of Japan, G7 excluding Japan, and developing Asia. The Japanese share of global GDP has been on a continuous decline during our analysis period and was reduced to less than 10% by 2005. The G7 excluding Japan's share of GDP peaked in 2002, and thereafter much like Japan has been on the decline with the primary driver of GDP growth in the world coming from developing Asia. This trend has accelerated due to the recent financial crisis, and developing Asia by the end of 2010, contributed to just over 15% of global GDP.

Figure 2 is based on data from the IMF describing the economic growth patterns of major economic groupings with the organization defining certain countries as either advanced or emerging economies. The growth gap between Japan and both economic groupings is relatively high, but the increasing growth gap between Japan and Developing Asian Countries, is striking. With structural problems in the Japanese economy including a low birth rate, one can understand why Japanese firms have become increasingly conscious of being too dependent on the domestic economy; it is rational for these firms to consider expanding into growth markets overseas.

An overview of our sample by target nation is shown in Table 2. The table is divided into targets located in G7 countries and non-G7 countries. In this paper, we treat G7 countries as developed countries and non-G7 countries as emerging countries. Chari, Ouimet and Tesar (2010) divide their sample in a similar way. One exception is that they categorize Spain as a developed nation. There is only one Spanish target firm in our sample and our results do not change by excluding it. In terms of cross-border transactions, the United States is by far the most targeted country accounting for more than one-fourth of all deals. Along with the second most targeted country, the United Kingdom, these two countries make up the bulk of G7 transactions and account for more than one-third of all the cross-border transactions in our sample. Cross-border transactions targeting firms in G7 countries made up 42% of cross-border deals until 2007. Yet, this proportion decreases to 38% in the period between 2008 and 2010. This suggests that in the post-crisis period Japanese firms have started to shift their focus. In the last three years, the driving force for large cross-border transactions has clearly shifted from G7 countries to Non-G7 countries. This trend for Japanese acquirers is consistent with the economic growth that has been occurring in these emerging economies as was shown in Figure 1. The economics behind acquiring firms in industrialized countries and firms in emerging markets is structurally different. Our data reflects a clear shift in the world economy between the first and second half of this decade.

5.2. Descriptive statistics

Descriptive statistics are shown in Table 3. Panel A shows a breakdown of the sample, and the acquirer's toehold and the percent of shares acquired. In cross-border transactions, the percentage toehold prior to acquisition (% Owned Before Transaction) is lower than in domestic transactions. Although not shown in the table, the difference is statistically significant at the 1% level. Within cross-border acquisitions, as previously explained, due to the asymmetrical information dilemma, one would anticipate that a toehold would play a significant role in the acquiring firm. However, the results show that this percentage is actually lower in cross-border transactions. This implies that many cross-border acquisitions are one time transactions with no prior equity relationship between the acquirer and target.

Panel B shows financial data for acquirers and targets. As was described in Panel A of Table 2, only 23% of target firms in cross-border deals are public firms; we show financial data for these targets just for reference and do not use these data in the analysis below. Target EV/EBITDA (EV is enterprise value), ROE, ROA and EBITDA margins (EBITDA/Sales) are higher in the cross-border acquisitions than in domestic acquisitions.

Although the differences are not statistically significant, the growth ratio also tends to be higher for targets in emerging market transactions (target firms in non-G7 countries). In addition, the median ROA of cross-border targets is significantly higher than that of domestic targets, mainly due to the relatively high ROA of non-G7 targets. In other words, Japanese acquiring firms are now in a situation where more profitable and higher growth can more easily be found in the overseas market and more specifically within emerging markets. However, when we look at deal information, cross-border targets are valued with a higher EBITDA multiple and have a higher control premium. Even in the cases that acquirers access to the high growth market, they should pay the costs for that. Hence, if acquires can create shareholder wealth from these deals is an empirical issue.

In particular, G7 transactions tend to have the highest premium, although both differences are not statistically significant at 5% level. As was the case for G7 transactions, most of the deals involve either the United States or the United Kingdom; the relative development of their markets for corporate control may explain this higher premium payment.

Turning to acquiring firms, acquirers in both domestic and cross-border deals are typically more profitable than domestic targets. This is in contrast to cross-border transactions, where the acquiring firms, particularly in emerging market transactions,

have lower profitability compared to their targets. This suggests that superior firms in terms of profitability within the domestic market purchase less profitable firms, but this trend is reversed in cross-border deals. This establishes an important implication that domestic M&A is often driven by the possible economic gain from restructurings of underperforming target firms, while the cross-border acquisition is not motivated by such opportunities and more driven by possible improvements in profitability by accessing new markets.

Although not shown in the table, these described results within the entire data set did not change when we further subdivided the sample set into only majority (controlling stake) transactions.

6. EMPIRICAL RESULTS

6.1. Tests of the wealth effect for acquiring firms

First, in order to test Hypothesis 1-1 ($H_{1\text{-}1}$), we calculated abnormal returns at the announcement date of the M&A with the standard market model. We estimated the parameters of the market model based on the share price in a 200-day window from 220 days to 21 days prior to the initial announcement date of the deal. The cumulative abnormal return (CAR) window utilized in our analysis are three days (-1, +1) and seven days (-1, +5). We consider these event windows are appropriate since we do not find significant abnormal returns in the 10 days prior to the announcement day. The results are shown in Table 4.

The overall results confirm that M&A creates shareholder wealth for Japanese firms. The three day announcement period CAR (-1, +1) is a positive 0.59% which is statistically significant at the 1% level. However, as the announcement period window is expanded to seven days (-1, +5) the result becomes statistically insignificant. The CARs for both the three day and the seven day announcement periods for cross-border transactions are higher than domestic transactions, but the difference is statistically insignificant. However, for transactions where a controlling stake (more than a 50% of the stake of the target) is achieved – described as the "Majority Acquisitions" subsample – the mean CAR in domestic acquisitions is statistically insignificant. However, in both the three day and the seven-day windows, the mean CAR in the cross-border acquisition is positive and statistically significant at the 5% level and larger than that of domestic acquisitions with statistical significance at the 10% level.

These results are consistent with both Hypothesis 1-1 and 1-2 ($H_{1\text{-}1}$, $H_{1\text{-}2}$). In other words, cross-border acquisitions which result in majority control of targets allow acquirers to access resources that are not obtainable in domestic transactions and this creates a greater wealth effect for the acquirer's shareholders. Our results are consistent with Ellis et al. (2011), who found that cross-border acquisitions from 56 countries create larger value for acquirer shareholders in the controlling acquisitions of public targets with cash transactions.

Furthermore, by subdividing the sample into specific time periods and comparing acquisitions involving G7 and Non-G7 targets, we find that for the three day CAR during the period of 2000 to 2003, only G7 transactions created statistically significant positive returns. However, the data for 2008 to 2010 show a reversal in CARs with non-G7 targets creating significant positive wealth for acquiring firm shareholders. This is consistent with Hypothesis 1-3. The targets' locations and the timing of the transactions have substantially different effects on shareholder wealth due to the economic condition of the target market.

6.2. Factors that influence wealth for acquiring firms

To explain and control for transaction characteristics, we performed OLS regressions to test all of the hypotheses altogether. To test Hypothesis 1 (H_1), we add a cross-border dummy variable and a cross-term dummy between G7/Non-G7 dummies, and a timing dummy for the deal announcement as explanatory variables. To test Hypothesis 2 (H_2), we add the toehold (% Owned Before Transaction), and dummy variables identifying the target as public (Public Dummy), a subsidiary of a public firm (Sub. Dummy), and if the deal is in the same industry (Horizontal Dummy). To test Hypothesis 3 (H_3), we add the relative size of the deal in relation to the market capitalization of the acquirer (Relative Size) and the profitability of the acquirer (Acquirer ROA). The results are presented in Table 5.

In Model 1, which treats all cross-border acquisitions as a single group, the cross-border dummy variable is positive and statistically significant at the 5% level for both the entire sample and the Majority Acquisition sub-sample which reconfirms Hypothesis 1-2.

In Model 2, which is constructed to test for separate effects from cross-border acquisitions of G7 targets and non-G7 targets, we find positive effects only in non-G7 targets in the Majority Acquisitions sub-sample (statistically significant at 10% level).

Further, in Model 3 which tests the effects of both target location and the period that the deals were announced, we find the wealth effects are higher for transactions involving G7 targets for the period of 2000 to 2003, but this positive wealth effect disappears in the final period of 2008 to 2010. This is in contrast to Non-G7 transactions where the period of 2008 to 2010 – post the onset of the financial crisis – has a statistically significant positive wealth effect. These results suggest that greater value is created by deals targeting high growth economies. This result also confirms Hypothesis 1-3. After the start of the global financial crisis, the rapid decline in G7 economies coupled with the continued growth of emerging markets such as the BRICs countries lead to larger wealth effects being created by acquisitions involving these emerging markets. This can be interpreted as international capital markets focusing on the economic condition of the target's market when executing cross-border acquisitions.

Next, in order to estimate the effectiveness of resolving the asymmetric information problem proposed in Hypothesis 2, we examine whether the target firm was a subsidiary of a parent company, a publicly traded company itself, or whether the target was in the same industry by creating a dummy for each of these variables. Also, we include the acquirer's toehold in the target firm (% Owned Before Transaction) as a proxy of the previous relationship

between the acquirer and the target. In the cross-border acquisition sample, although the signs of the coefficient of these dummy variables are positive, they are not statistically significant. For the Horizontal dummy and Subsidiary dummy, when the entire sample set was tested, a positive effect was observed; yet, these results were also not statistically significant for the cross-border sub-sample. These results and the observed larger wealth effects from acquisitions of non-G7 targets in recent years collectively suggest that capital markets do not have a particularly strong concern about the asymmetric information issue relative to potential economic benefit from the acquisitions. This might reflect the fact that detailed due diligence process is becoming more common and professional services to support the process is also becoming available even in the emerging markets.

Regarding Hypothesis 3, concerning the synergy effects from acquisitions, both the relative size of the target to the acquirer and the acquirers' ROA had a positive effect. This suggests that when a well-performing firm acquires a relatively large target, a larger shareholder wealth effect is achieved. This is consistent with the synergy view of acquisitions. Furthermore, acquiring firms with a higher ROA tend to create a larger wealth effect as shown by the significant results for the ROA variable over the entire sample and in all subsamples. This is consistent with the results reported by Wang and Xie (2009). These results indicate that the wealth effect for acquiring shareholders comes from the acquiring firm's ability to capture synergies due to the firm's already established effectiveness in creating profits. This also supports Hypothesis 3.

Other analysis concerning cash balances and the leverage of the acquiring firm do not find a statistically significant relationship with the acquiring firm's wealth creation. In the cross-border subsample, the percentage of cash on the balance sheet is negative and statistically significant at the 10% level. This implies that the stock market might be sceptical of cross-border acquisitions by firms with higher cash balances. This result is consistent with Jensen's (1986) free cash flow problem. To examine this potential concern regarding the free cash flow problem, we analyse the effect of the cash balance of the acquirer on the control premium in Section 7.

6.3. Robustness check for wealth effect from growth opportunities

In the previous sections, we showed results consistent with hypotheses 1-2 and 1-3, which emphasize the importance of growth opportunities for acquiring firms obtained through cross-border acquisitions. However, since we have not included in the regression analysis a variable which is directly related to the growth opportunities of acquiring firms and target firms, we here conduct additional analysis to confirm that the observed wealth effects are associated with growth opportunity expected in the deals. We include both the annualized sales growth-rate three years before the announcement of acquiring firms and the annualized GDP growth-rate three years before the announcement of target countries as independent variables. Since many of target firms in our sample are not public firms, we use country growth-rates instead of firm growth rates. Based on hypotheses 1-2 and 1-3, we predict positive effects for the GDP growth rate of the target's country. The results are shown in Table 6. The sample size in Table 6 is smaller than that in Table 5 due to a lack of sales data over the three years before the announcement date.

Table 6 shows that GDP growth rate of the target country prior to the announcement of the deal has a positive and significant effect on the return for acquirers. This is consistent with our conclusion in the previous section in which greater value is created by deals targeting firms in high growth countries. In addition, the sales growth-rate of acquirers before the acquisition negatively affects the wealth of acquirers. The negative effects of the sales growth-rate of acquirers are predominant in cross-border acquisitions. These results are also consistent with the interpretation that mature, but profitable, Japanese firms can enhance their shareholders' wealth by taking growth opportunities in the targeted market.

7. CONTROL PREMIUM ANALYSIS

Our descriptive statistics shown in the Panel B of Table 3 suggested that larger control premiums tend to be paid for cross-border acquisitions, notably in acquisitions targeting G7 firms. This is a similar result to the empirical studies performed by Harris and Ravenscraft (1991) and Rossi and Volpin (2004). This suggests that acquiring firms' management anticipate greater wealth creation from cross-border acquisitions if other conditions are equal. To understand the pricing of targets in acquisitions, we control for the transaction period and perform a multi-variant regression on the control premium. We present the results in Table 7.

The results of this regression suggest that regarding the connection between the control premium and the percentage obtained in the transactions, taking a larger percentage control of the target firm requires a larger control premium. In addition, the premium payment for transactions after 2008 is higher at a statistically significant level. After share prices substantially decreased in 2008 and 2009, the period just after the global financial crisis, the premium payment has a tendency to appear larger. This is similar to the results of Baker Pan and Wurgler (2009) who argue that the reference point for the shares influences the control premium payment. However, when we control for the time period, we do not find supporting evidence that the difference in the control premium of cross-border acquisitions and domestic acquisitions is significant. Furthermore, there is no evidence that ratio of cash to total assets of the acquirer increases the level of the control premium paid in the acquisitions. This result is inconsistent with the free cash flow problem of acquirers who hold large cash balances.

In addition, to further test the potential over-payment issue by acquirers, we analyse the correlation of the control premium and shareholder wealth, following a similar analysis to Goergen and Renneboog (2003). The results are shown in Table 8.

For the entire sample, the cross-border and the domestic sample, the correlations between shareholder wealth and the control premium are positive, although not statistically significant. This suggests that in instances where the acquirer pays a

large premium, capital markets do not necessarily negatively evaluate the deal.

If we look at the overall picture, we can conclude that the free cash flow problem is not an important issue for Japanese M&A and acquirers seem to be perceived as rational in their acquisition price determination. The premium payment is reasonable in the context of the expected value of the synergy.

8. CONCLUSION

In this paper, we empirically show that cross-border acquisitions create larger shareholder wealth compared to domestic transactions for Japanese acquiring firms. In recent years, Japanese firms have been increasingly driven to gain access to growing overseas markets. Our results show Japanese firms have been able to create relatively high wealth effects for their shareholders by executing cross-border acquisitions of firms operating in high growth economies. After the start of the global financial crisis, capital markets have perceived emerging markets as having more upside potential in creating wealth for shareholders.

One important limitation of this study is that we focus on shareholders' announcement returns of acquiring firms based on efficient market hypothesis. Since we do not analyse operating performance of acquirers in the post-acquisition period, we cannot conclude that acquirers do create value as expected by the stock market at the initial announcement of the transactions. This will be our future research topic.

Mergers and acquisitions are a market transaction, and as such, on average an exchange of equivalents. Even if an acquirer purchases a high growth firm, it is not certain that the acquirer's enterprise value will increase since share prices of growing firms before the acquisition should reflect their growth opportunities. However, the results of this paper show that in the case of Japanese firms purchasing companies located in relatively higher growth countries, a shareholder wealth creation effect is observed. We argue this is a result of Japanese firms deriving high potential wealth creation through synergies between the acquiring firm's superior operating strengths and the target firm's access to the expanding market in the target countries. With current world economic dynamics, these conclusions should not be limited to the Japanese context: we expect that for most industrialized economies, cross-border transactions into high growth markets will increasingly create higher value for the acquiring firm.

REFERENCES

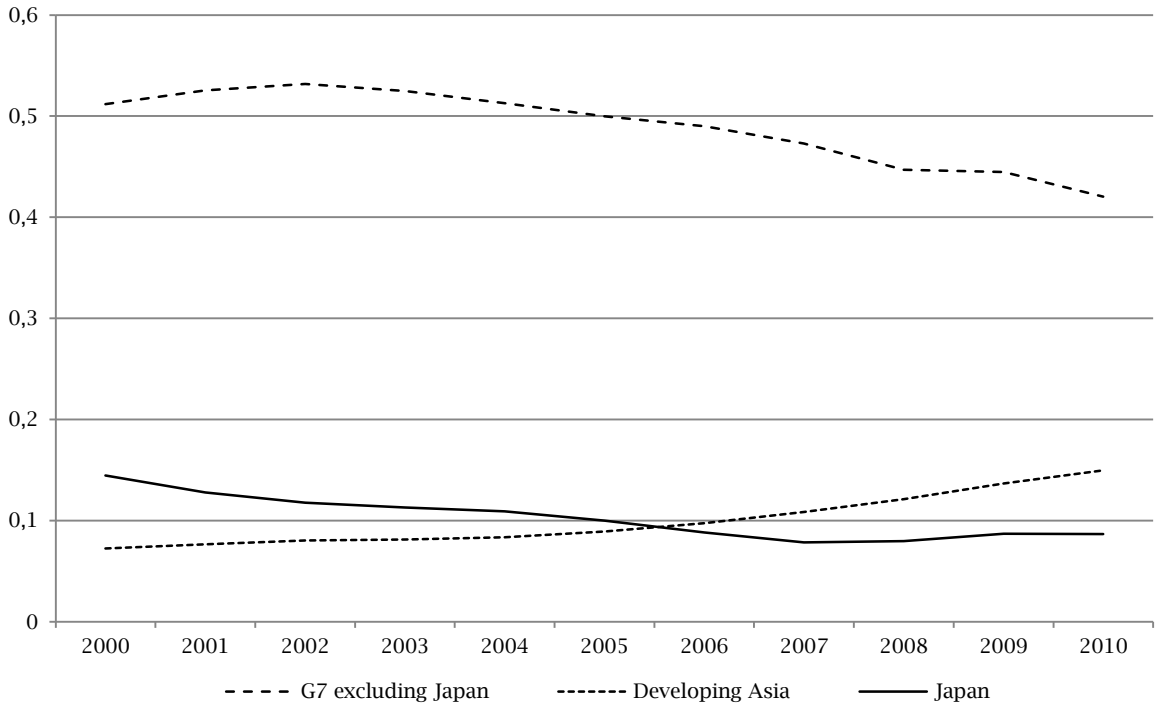
1. Andrade, G., Mitchell, M., & Stafford, E. (2001). New evidence and perspectives on mergers. *Journal of Economic Perspectives, 15(2),* 103-120. https://doi.org/10.1257/jep.15.2.103
2. Baker. M., Pan, X., & Wurgler, J. (2009). *A reference point theory of mergers and acquisitions* (NBER Working Paper No.15551).
3. Chari, A., Ouimet, P. P., & Tesar, L. L. (2010). The value of control in emerging markets. *The Review of Financial Studies, 23(4),* 1741-1770. https://doi.org/10.1093/rfs/hhp090
4. Conn, R. L., Cosh, A., Guest, P. M., & Hughes, A. (2005). The impact on UK acquirers of domestic, cross-border, public and private acquisitions. *Journal of Business Finance and Accounting, 32(5-6),* 815-870. https://doi.org/10.1111/j.0306-686X.2005.00615.x
5. Deloitte Touche Tohmatsu. (2009). *Outbound M&A by Japanese firms.* Retrieved from the World Wide Web: http://www.tohmatsu.com/assets/Dcom-Japan/Local%20Assets/Documents/knowledge/fas-pdf/jp_k_fas_tran001_jp_231009.pdf.pdf
6. Denis, D. J., Denis, D. K., & Yost, K. (2002). Global diversification, industrial diversification and firm value. *Journal of Finance, 57(5),* 1951-1979. https://doi.org/10.1111/0022-1082.00485
7. Ellis, J., Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2011). *Globalization, governance, and the returns to cross-border acquisitions* (NBER Working Paper No. 16676).
8. Erel, I., Liao, R. C., & Weisbach, M. S. (2012). Determinants of cross-border mergers and acquisitions. *Journal of Finance, 67(3),* 1045-1082. https://doi.org/10.1111/j.1540-6261.2012.01741.x
9. Goergen, M., & Renneboog, L. (2004). Shareholder wealth effects of European domestic and cross-border takeover bids. *European Financial Management Journal, 10(1),* 9-45. https://doi.org/10.1111/j.1468-036X.2004.00239.x
10. Harris, R. S., & Ravenscraft, D. (1991). The role of acquisitions in foreign direct investment: Evidence from the U.S. stock market. *Journal of Finance, 46(3),* 825-844. https://doi.org/10.1111/j.1540-6261.1991.tb03767.x
11. International Monetary Fund. (2010). *World economic outlook database.* Retrieved from the World Wide Web: http://www.imf.org/external/index.htm
12. Jensen, M. C. (1986). Agency cost of free cash flow, corporate finance, and takeovers. *The American Economic Review, 76(2),* 323-329. Retrieved from the World Wide Web: http://www.jstor.org/stable/1818789
13. Kang, J. (1993). The international market for corporate control: Mergers and acquisitions of U.S. firms by Japanese firms. *Journal of Financial Economics, 34(3),* 345-371. https://doi.org/10.1016/0304-405X(93)90031-6
14. Mitchell, M. L., & Mulherin, J. H. (1996). The impact of industry shocks on takeover and restructuring activity. *Journal of Financial Economics, 41(2),* 193-229. https://doi.org/10.1016/0304-405X(95)00860-H
15. Moeller, S. B., & Sclingemann, F. P. (2005). Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking and Finance, 29(3),* 533-564. https://doi.org/10.1016/S0378-4266(04)00047-0
16. Rossi, S., & Volpin, P. F. (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics, 74(2),* 277-304. https://doi.org/10.1016/j.jfineco.2003.10.001
17. Wang, C., & Xie, F. (2009). Corporate governance transfer and synergistic gains from mergers and acquisitions. *The Review of Financial Studies, 22(2),* 829-858. https://doi.org/10.1093/rfs/hhn018
18. Weber, R. A., & Camerer, C. F. (2003). Cultural conflicts and merger failure: An experimental approach. *Management Science, 49(4),* 400-415. https://doi.org/10.1287/mnsc.49.4.400.14430
19. Weston, J. F., Mitchell, M. L., & Mulherin, J. H. (2004). International takeovers and restructuring. In *Takeovers, Restructuring and Corporate Governance* (4th ed.). New Jersey, USA: Prentice Hall.

APPENDIX

Table 1. Explanation of variables

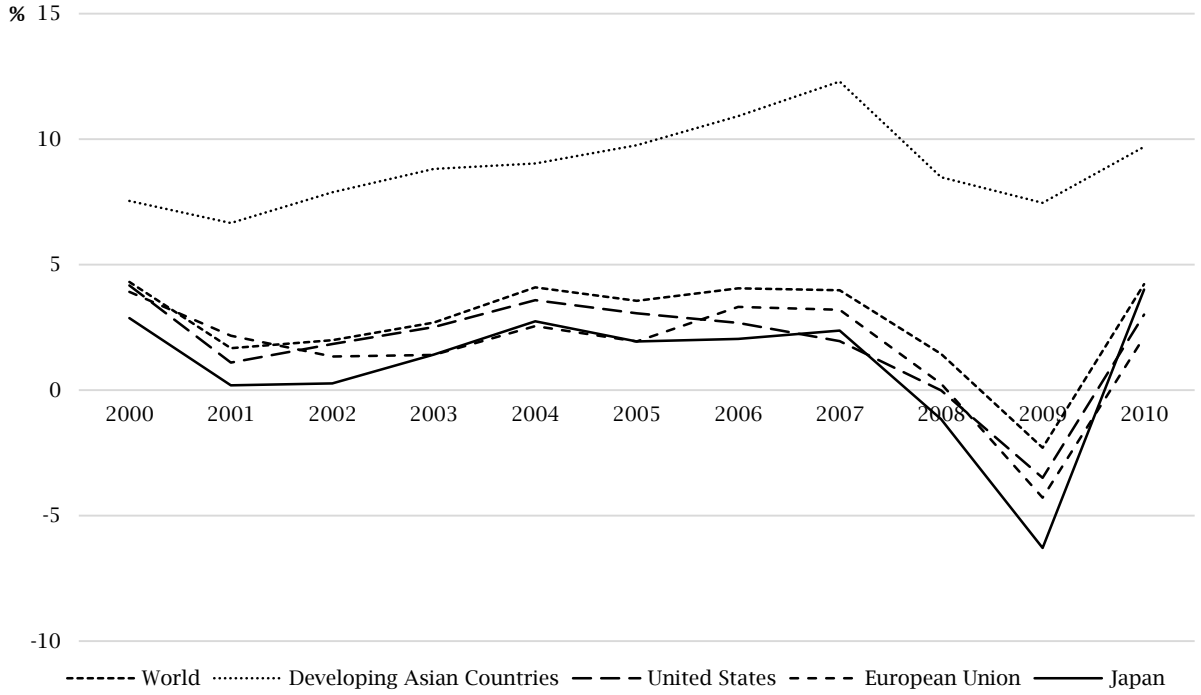
Variable	*Definition*
D/E (debt-equity ratio)	The total debt divided by the book value of equity of acquiring firm in the previous fiscal year of the deal announcement
EBITDA Margin	Ratio of EBITDA to sales of the company
One Day prior Premium	Premium percentage paid over the trading share price estimated one day prior to the transaction
Four Weeks prior Premium	Premium percentage paid over the trading share price estimated four weeks prior to the transaction
Horizontal Deals	Dummy variable which takes one when the target firm and the ultimate parent firm of the acquiring firm having the same SIC code, takes zero otherwise.
Majority Acquisitions	Transactions where an acquirer purchases more than a 50% of the stake of the target firm
% Cash on BS	Percentage of cash and cash equivalents divided by the total assets on the balance sheet
% Owned Before Transaction	Previous equity stake-holding
% of Shares Acquired	Post-acquisition percentage common equity holding minus previous equity stake-holding
% Owned After Transaction	Post-acquisition percentage common equity holding
Public Dummy	Dummy variable which takes one when the target firm is a public firm.
Relative Size	Ratio of the transaction value to the market capitalization of acquiring firm as of the announcement date of the transaction
ROE and ROA	Net income divided by the book value of equity and total assets of the previous fiscal year to the deal announcement respectively
Subsidiary Dummy	Dummy variable, which takes one when the target firm is a subsidiary of the public firm and takes zero otherwise.
Value of Transaction	Deal value of the acquisition in millions of U.S, dollars
Acquirer Growth 3 Yr	Average sales growth rate of the acquirer in the three years prior to the deal announcement
Target GDP Growth 3Yr	Average GDP growth rate of the target's nation in the three years prior to the deal announcement

Figure 1. The percentage share of world GDP over the ten-year sample period



Note: This graph describes the percentage share of world GDP over the ten-year sample period. The data were obtained from the IMF and do not include EU and other non-Asian developing countries' figures, hence the total does not equal one hundred percent. The figures are nominal GDP values and were converted from the original USD values using the annual average exchange rate in each year.

Figure 2. Economic growth of countries over the sample period



Note: This graph dissects economic growth over the sample period. The data were taken from the 2010 IMF report on the economic outlook for the global economy. Values are based on GDP in national currency terms and exchange rate projections provided by country economists for the group of other emerging markets and developing countries.

Table 2. Sample distribution by deal timing and target nations

Period (deals announced)	***2000-2003***	***2004-2007***	***2008-2010***	***Total***
Cross-border acquisitions	49	93	56	198
(% to the entire sample)	*34%*	*30%*	*30%*	*31%*
Target Countries				
G7	15	45	21	81
(% to cross-border sample)	31%	48%	38%	41%
US	10	27	16	53
UK	3	12	2	17
Others	2	6	3	11
Non-G7	34	48	35	117
(% to cross-border sample)	*69%*	*52%*	*63%*	*59%*
Australia	2	2	6	10
Hong Kong	2	4	2	8
Philippines	1	2	3	6
Thailand	3	3	0	6
Brazil	1	3	1	5
China	1	3	1	5
India	0	1	4	5
South Korea	5	0	0	5
Others	19	30	18	67
Domestic acquisitions	94	216	128	438
(% to the entire sample)	*66%*	*70%*	*70%*	*69%*

Table 3. Descriptive statistics (Part I)

Panel A: Sample breakdown by target location				
	Domestic	*Cross-border*	*Cross-border*	
			G7	*Non-G7*
N	438	198	81	117
(% to the entire sample)				
Period 2000-2003	66%	34%	10%	24%
Period 2004-2007	70%	30%	15%	16%
Period 2008-2010	70%	30%	11%	19%
Public Target	46%	23%	22%	24%
Horizontal Deals	33%	51%	57%	47%
Majority Acquisition	53%	75%	89%	66%
(Sample mean)				
% Owned Before Transaction	17%	4%	2%	6%
% of Shares Acquired	59%	75%	88%	66%
% Owned After Transaction	76%	79%	90%	72%

Table 3. Descriptive statistics (Part II)

Panel B: Medians of variables of deal, acquirers and targets						
	Domestic	*Cross-border*	*Difference z-value*	*Cross-border*		*Difference z-value*
				G7	*Non-G7*	
Deal						
N	438	198		81	117	
Value of Transaction ($mil)	128,94	176,31	0,001**	205,00	162,87	0,470
Enterprise Value/EBITDA	10,06	12,34	0,018**	12,14	16,36	0,582
Relative Size	7,60%	6,33%	0,087	8,74%	5,43%	0,030**
One Day Prior Premium	13,76	23,00	0,260	47,23	10,19	0,078
Four Weeks Prior Premium	16,73	28,69	0,024**	60,96	24,15	0,078
Target (Public Firm Only)						
N	200	46		18	28	
Target Sales Growth	2,57%	10,49%	0,095	4,17%	10,53%	0,417
Target Cash as % of BS	12,58%	9,95%	0,438	14,14%	8,75%	0,210
Target D/E ratio	26,66%	58,26%	0,115	62,65%	58,26%	0,901
Target ROE	7,56%	18,03%	0,002**	11,54%	20,39%	0,117
Target ROA	1,86%	5,17%	0,035**	3,61%	5,39%	0,743
Target EBITDA Margin	7,26%	11,89%	0,00**	13,39%	10,76%	0,312
Acquirer						
N	438	198		81	117	
Acquirer % of Cash on BS	10,36%	11,49%	0,123	13,21%	10,88%	0,030**
Acquirer D/E	160,44%	29,76%	0,000**	18,06%	45,06%	0,004**
Acquirer ROE	6,38%	8,51%	0,004**	8,75%	8,15%	0,312
Acquirer ROA	2,59%	2,86%	0,392	3,77%	2,55%	0,030**
Acquirer EBITDA Margin	10,07%	10,50%	0,607	12,78%	8,94%	0,002**

Note: The median of each variables and z-value based on Mann–Whitney U test of the difference between the medians of the two samples.

*** indicates the difference is statistically significant at 5% level.*

Table 4. Cumulative abnormal returns for acquirer shareholders (Part I)

Panel A. Entire Sample						
	CAR (-1, +1)			***CAR (-1, +5)***		
	N	***Mean***	***t-stat***	***N***	***Mean***	***t-stat***
Entire Sample	636	0,59%	*2,648****	636	0,44%	*1,536*
Domestic	438	0,40%	*1,667**	438	0,32%	*0,954*
Cross-border	198	1,00%	*2,108***	198	0,71%	*1,298*
Difference		-0,60%	*1,262*		-0,39%	*0,618*
Majority Acquisitions	381	0,67%	*2,073***	381	0,45%	*1,132*
Domestic	232	0,22%	*0,599*	232	-0,16%	*-0,335*
Cross-border	149	1,38%	*2,297***	149	1,40%	*2,065***
Difference		-1,16%	*1,748**		-1,57%	*1,930**

*Note: ***, **, * indicate statistically significant at 1%, 5%, and 10% level based on a two-tail t-test.*

Table 4. Cumulative abnormal returns for acquirer shareholders (Part II)

Panel B. Subsample						
	CAR (-1, +1)			***CAR (-1,+5)***		
	N	***Mean***	***t-stat***	***N***	***Mean***	***t-stat***
2000-2003						
Entire Sample	143	0,86%	*1,990***	143	-0,03%	*-0,054*
Domestic	94	0,47%	*1,092*	94	0,21%	*0,320*
Cross-border	49	1,60%	*1,691**	49	-0,49%	*-0,416*
G7 target	15	4,87%	*2,290***	15	2,31%	*1,050*
Non-G7 target	34	1,65%	*0,180*	34	-1,72%	*-1,281*
2004-2007						
Entire Sample	309	0,22%	*0,699*	309	0,61%	*0,134*
Domestic	216	0,11%	*0,289*	216	-0,34%	*-0,611*
Cross-border	93	0,49%	*0,793*	93	1,00%	*1,237*
G7 target	45	0,66%	*0,891*	45	1,20%	*1,066*
Non-G7 target	48	0,33%	*0,336*	48	0,81%	*0,694*
2008-2010						
Entire Sample	184	1,00%	*2,269***	184	1,45%	*3,295****
Domestic	128	0,85%	*1,957**	128	1,53%	*3,179****
Cross-border	56	1,34%	*1,266*	56	1,28%	*1,343*
G7 target	21	-0,85%	*-0,625*	21	-0,84%	*-0,562*
Non-G7 target	35	2,66%	*1,832**	35	2,55%	*2,133***

Note: CAR(-1, +1) and CAR(-1,+5) are three day and seven day announcement period cumulative abnormal returns.

Majority Acquisition is a subset of any transaction where the post acquisition equity holding is 50% or more. G7 target and Non-G7 target are subsection of the cross-border sample.

****, **, * indicate statistically significant at 1%, 5%, and 10% level based on a two-tail t-test.*

Table 5. Regression tests of acquirer cumulative abnormal returns

	Entire Sample			*Majority Acquisitions*		*Cross-border*		
	Model 1	***Model 2***	***Model 3***	***Model 1***	***Model 2***	***Model 3***	***Model 2***	***Model 3***
N	636	636	636	381	381	198	198	198
Adjusted R^2	0,051	0,047	0,063	0,088	0,084	0,103	0,105	0,128
F-Value	*2,520*	*3,097*	*3,021*	*3,603*	*3,314*	*3,016*	*1,926*	*2,597*
Intercept	0,000	0,000	0,008	-0,012	-0,015	-0,003	0,018	-0,009
	(0,012)	*(0,013)*	*(0,544)*	*(-0,468)*	*(-0,587)*	*(-0,096)*	*(0,543)*	*(-0,266)*
% Owned Before Transaction	0,000	0,000	0,000	0,000	0,000	0,000	-0,008	0,000
	(1,590)	*(1,349)*	*(1,307)*	*(0,504)*	*(0,248)*	*(0,338)*	*(0,603)*	*(0,073)*
% ownership after transaction	0,000	0,000	0,000	0,000	0,000*	0,000	0,000	0,000
	(1,572)	*(1,532)*	*(1,652)*	*(1,552)*	*(1,680)*	*(1,485)*	*(1,331)*	*(1,289)*
Transaction Value (Ln)	-0,003	-0,003	-0,004	-0,005	-0,004	-0,005	-0,002	-0,003
	(-1,377)	*(-1,242)*	*(-1,633)*	*(-1,496)*	*(-1,403)*	*(-1,611)*	*(-0,503)*	*(-0,707)*
Acquirer ROA	0,123***	0,124***	0,126***	0,150***	0,151***	0,153***	0,167**	0,172***
	(4,991)	*(4,997)*	*(5,122)*	*(5,104)*	*(5,130)*	*(5,221)*	*(2,332)*	*(2,542)*
Acquirer D/E	0,000	0,000	0,000	0,000	0,000	0,000	-0,002	-0,003
	(1,129)	*(1,029)*	*(0,935)*	*(0,471)*	*(0,543)*	*(0,645)*	*(-0,397)*	*(-0,631)*
Acquirer % of Cash on BS	-0,034*	-0,033*	-0,030*	-0,053**	-0,049**	-0,042*	-0,055	-0,058*
	(-1,886)	*(-1,826)*	*(-1,684)*	*(-2,196)*	*(-2,024)*	*(-1,749)*	*(-1,524)*	*(-1,662)*
Relative Size	0,007***	0,007***	0,007***	0,009***	0,010***	0,009***	0,011***	0,011***
	(3,911)	*(3,929)*	*(4,120)*	*(4,376)*	*(4,370)*	*(4,575)*	*(4,485)*	*(4,698)*
Sub. Dummy	0,011*	0,011*	0,010	0,018**	0,016*	0,015*	0,018	0,016
	(1,734)	*(1,689)*	*(1,502)*	*(1,965)*	*(1,789)*	*(1,727)*	*(1,530)*	*(1,331)*
Public Dummy	0,010	0,010	0,009	0,009	0,009	0,007	0,014	0,008
	(1,580)	*(1,493)*	*(1,429)*	*(0,886)*	*(0,844)*	*(0,687)*	*(0,950)*	*(0,541)*
Horizontal Dummy	0,008	0,008	0,011*	0,010	0,010	0,014*	0,006	0,011
	(1,424)	*(1,437)*	*(1,800)*	*(1,235)*	*(1,299)*	*(1,673)*	*(0,467)*	*(0,898)*
Manufacturing	-0,007	-0,007	-0,008	-0,008	-0,008	-0,008	-0,012	-0,120
	(-1,454)	*(-1,367)*	*(-1,488)*	*(-1,169)*	*(-1,141)*	*(-1,160)*	*(-1,014)*	*(-1,043)*
Infrastructure	-0,020***	-0,020**	-0,021**	-0,035***	-0,035***	-0,035***	-0,030*	-0,032**
	(2,619)	*(-2,510)*	*(-2,628)*	*(-2,933)*	*(-2,884)*	*(-2,887)*	*(-1,909)*	*(-2,067)*
Financials	-0,010	-0,010	-0,010	-0,015	-0,017	-0,150	0,007	0,004
	(-1,192)	*(-1,230)*	*(-1,167)*	*(-1,246)*	*(-1,344)*	*(-1,218)*	*(0,334)*	*(0,214)*
Cross-border Dummy	0,011**			0,014**				
	(2,052)			*(2,094)*				
G7		0,006			0,006		-0,003	
		(0,944)			*(0,722)*		*(-0,332)*	
Non-G7		0,008			0,015*			
		(1,370)			*(1,933)*			
G7 2008-2010			-0,013			-0,008		
			(-0,970)			*(-0,503)*		
G7 2004-2007			0,006			0,005		
			(0,647)			*(0,446)*		
G7 2000-2003			0,031**			0,036**		
			(2,338)			*(1,991)*		
Non-G7 2008-2010			0,024**			0,041***		0,038***
			(2,275)			*(2,653)*		*(2,604)*
Non-G7 2004-2007			0,007			0,013		0,002
			(0,795)			*(1,066)*		*(0,124)*
Non-G7 2000-2003			-0,011			-0,006		-0,032***
			(-1,017)			*(-0,426)*		*(-2,067)*
2004-2007			0,090			-0,011		0,058
			(1,256)			*(-1,093)*		*(2,604)*
2008-2010			0,000			-0,002		0,007
			(0,020)			*(-0,136)*		*(0,405)*
Industry dummy	Y	Y	Y	Y	Y	Y	Y	Y
Year dummy	Y	Y		Y	Y		Y	

Note: The dependent variables are the three day abnormal return around announcement date (CAR (-1,+1)). Model 1 simply controls the announcement years, while Model 2 controls for the announcement years but also introduces a dummy for G7 target and Non-G7 target. Model 3 further controls for the region of the cross-border transaction as well as the time period of the deal's announcement date. t-statistics are presented in parenthesis.

****, **, and * denote statistical significance at 1%, 5% and 10% level.*

Table 6. Additional regression tests of acquirer cumulative abnormal returns (Part I)

	Entire Sample	*Cross-border*
N	626	192
Adjusted R^2	0,057	0,161
F-Value	*2,455*	*2,478*
Intercept	-0,007	-0,025
	(0,466)	*(0,747)*
% Owned Before Transaction	0,000	0,000
	(0,843)	*(0,065)*
% ownership after transaction	0,000**	0,000**
	(2,172)	*(2,091)*
Transaction Value (Ln)	-0,004	-0,003
	(-1,565)	*(0,798)*

Table 6. Additional regression tests of acquirer cumulative abnormal returns (Part II)

	Entire Sample	***Cross-border***
Acquirer ROA	0,135***	0,150**
	(5,326)	*(2,145)*
Acquirer D/E	0,000	-0,006
	(0,879)	*(-1,150)*
Acquirer % of Cash on BS	-0,018	-0,041
	(-0.988)	*(-1,223)*
Relative Size	0,009***	0,014***
	(4,733)	*(5,365)*
Sub. Dummy	0,011*	0,019
	(1,646)	*(1,553)*
Public Dummy	0,010	0,014
	(1,550)	*(0,938)*
Horizontal Dummy	0,007	-0,003
	(1,154)	*(-0,300)*
Acquirer Growth 3Yr	0,000	-0,054***
	(-0,040)	*(-2,762)*
Acquirer Growth 3Yr * C-B	-0,026	
	(1,850)	
Target GDP Growth 3Yr	0,003**	0,004**
	(2,392)	*(1,972)*
Industry dummy	Y	Y
Year dummy	Y	Y

Note: The dependent variables are the three day abnormal return around announcement date (CAR (-1,+1)). t-statistics are presented in parenthesis.

****, **, and * denote statistical significance at 1%, 5% and 10% level.*

Table 7. Regression tests of the control premium

	Entire Sample	***Cross-border***	***Domestic***
N	219	35	185
Adjusted R^2	0,098	0,272	0,082
F-Value	*3,14*	*2,235*	*2,804*
Intercept	9,503	-6,255	8,369
	(0,511)	*(-0,143)*	*(0,373)*
% Owned Before Transaction	-0,143	0,106	-0,248
	(-0,935)	*(0,203)*	*(-1,308)*
% Ownership After Transaction	0,394***	0,482*	0,471***
	(2,737)	*(1,883)*	*(2,651)*
Transaction Value (Ln)	-2,908	-7,472	-1,96
	(-0,970)	*(-1,262)*	*(-0,555)*
Acquirer D/E	-0,434	-8,756	-0,78
	(-0,643)	*(-0,623)*	*(-0,095)*
Acquirer % of Cash on BS	-15,642	54,195	-29,09
	(-0,571)	*(1,279)*	*(-0,819)*
Relative size of transaction to acquirer EV	-0,189	-0,756	-14,191
	(-0,107)	*(-0,509)*	*(-1,163)*
Horizontal Dummy	-6,989	4,553	-8,056
	(-0,864)	*(0,306)*	*(-0,841)*
G7	17,648	22,714	
	(1,361)	*(1,533)*	
Non-G7	*-12,48*		
	(-1,165)		
2004-2007	2,287	17,933	0,634
	(0,303)	*(0,742)*	*(0,060)*
2008-2010	31,297***	42,268	28,325**
	(3,053)	*(1,682)*	*(2,443)*

Note: This table is multivariate regression results analyzing effects on control premiums. The control premium are calculated based on the target share price of one day prior to the announcement date (One Day Prior Premium). Sample are only the cases that targeted firms are publicly firms. t-statistics are presented in parenthesis.

****, **, and * denote statistical significance at 1%, 5% and 10% level.*

Table 8. Correlation between acquirer returns and the control premium (Part I)

	CAR (-1, +1)	***CAR (-1, +5)***	***1 Day prior Premium***
Cross-border			
CAR (-1,+1)	1,000	0,750***	0,041
CAR (-1,+5)	0,750***	1,000	0,298
One Day Prior Premium	0,041	0,298	1,000
N	198	198	34
Domestic			
CAR (-1,+1)	1,000	0,724***	0,042
CAR (-1,+5)	0,724***	1,000	0,007
One Day Prior Premium	0,042	0,007	1,000
N	439	439	171

Table 8. Correlation between acquirer returns and the control premium (Part II)

	CAR (-1, +1)	***CAR (-1, +5)***	***1 Day prior Premium***
		Entire	
CAR (-1,+1)	1,000	0,730***	0,046
CAR (-1,+5)	0,730***	1,000	0,059
One Day Prior Premium	0,046	0,059	1,000
N	636	636	204

Note: This table indicates the correlation analysis results of premium payment and the cumulative abnormal returns. This correlation analysis shows the Pearson correlation of the cumulative abnormal returns (CAR) for both the 3-day CAR (+1,-1) and 7-days CAR(-1,+5) to the premium payment comparative to share price one day prior to the announcement date (One Day Prior Premium).

****, **, and * denote statistical significance at 1%, 5% and 10% level.*