

Large Shareholders and Target Returns: International Evidence

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Abstract

Laeven and Levine (2008) find that firms with multiple large shareholders (MLS) exhibit higher valuations than firms with a single large shareholder (SLS) structure, suggesting MLS play a significant corporate governance role. Using target abnormal returns at merger announcements for a sample of targets from 19 countries outside North-America, we find that the abnormal returns and first-bid-to-merger-completion returns are negatively associated with the presence and power of MLS in these firms. We interpret this result as evidence that MLS firms are often valued higher than SLS firms; therefore, upon takeover the former receive a lower merger premium. In addition, our findings suggest that relinquishing MLS ownership structures in M&A results in negative abnormal returns and first to bid completion returns: implying that they are valued more as MLS, and earn upon announcement lower premium. We also examine the type of the second largest shareholder in the MLS structure of the target, and find that widely held firms are associated to a more pronounced negative effect, while families that exacerbate agency problems in the firm are associated with positive cumulative abnormal returns.

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JEL Classification: G30, G31, G32, G34, G38

Keywords: Corporate governance, CAR, Target Premium, Large Shareholders, Investor Protection, Agency Costs, Corporate Risk Taking

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Abstract

Laeven and Levine (2008) find that firms with multiple large shareholders (MLS) exhibit higher valuations than firms with a single large shareholder (SLS) structure, suggesting MLS play a significant corporate governance role. Using target abnormal returns at merger announcements for a sample of targets from 19 countries outside North-America, we find that the abnormal returns and first-bid-to-merger-completion returns are negatively associated with the presence and power of MLS in these firms. We interpret this result as evidence that MLS firms are often valued higher than SLS firms; therefore, upon takeover the former receive a lower merger premium. In addition, our findings suggest that relinquishing MLS ownership structures in M&A results in negative abnormal returns and first to bid completion returns: implying that they are valued more as MLS, and earn upon announcement lower premium. We also examine the type of the second largest shareholder in the MLS structure of the target, and find that widely held firms are associated to a more pronounced negative effect, while families that exacerbate agency problems in the firm are associated with positive cumulative abnormal returns.

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INTRODUCTION

Instances of large shareholders in ownership structures are very common around the world including the United States (Shleifer and Vishney, 1986; La Porta et al., 1999; Claessens et al., 2000; Faccio and Lang, 2002; Holderness, 2009). The agency theory suggests that an economic rationale for such structures is that large shareholders can act as active monitors of managers who lacking incentives to maximize shareholders' wealth will likely engage in wealth expropriation activities and tunneling of corporate resources (Shleifer and Vishney, 1986; Burkart et al., 1997). More recently, several studies note that corporate ownership structures more often than otherwise include typically more than one shareholder with large voting rights. Indeed, because minority shareholders are relatively dispersed, and hence less likely to exert a direct influence in the firm's decision making, the existence of one single large shareholder will likely generate conflicts of interest with the former. In order to fill the corporate governance void that surfaces due to the existence of one such dominant shareholder, other large shareholders may emerge, especially if external governance mechanisms are not effective enough to protect minority shareholders' rights. Whether multiple large shareholders (MLS) play an effective internal governance role and are able to reduce the expropriation of the firm's resources by insiders (i.e., the most powerful blockholder or the manager) thus becomes a legitimate question. Although this issue has been recently addressed in the analytical (Zwiebel, 1995; Kahn and Winton, 1998; Noe, 2002; Bloch and Hege, 2003; Edmans and Manso, 2010; Dhillon and Rossetto, 2010) and empirical (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et al., 2008, 2009; Mishra, 2011) literature, the results to date, remain inconclusive.

The literature identifies two forms of agency problems - between managers and shareholders in widely held firms (Jensen and Meckling, 1976; Grossman and Hart, 1988) and between the dominant shareholder and minority shareholders in the firms controlled by an owner with concentrated ownership (Shleifer and Vishny, 1986; Burkart, et al., 1997). Given the quality of external governance, the dominant shareholder is instrumental in mitigating agency problems between managers and shareholders by eliminating the incentives of managers to expropriate corporate resources (Shleifer and Vishny, 1997). However, such a dominant shareholder has also incentives to monitor managers in a way that serves his/her private interests

(Laeven and Levine, 2008; Dhillon and Rossetto, 2010) and helps him/her reap private benefits of control from minority shareholders (Zingales, 1995; Dyke and Zingales, 2004). In this paper, therefore, we use targets' announcement abnormal returns to examine whether the market perceives the presence and voting power of MLS as having a mitigating effect on the extent of expropriation of minority shareholders by the dominant shareholder

In particular, we consider a framework of Mergers and Acquisitions where target firms feature alternative ownership structures, for examples structures with multiple large blockholders (MLS) and those with single large dominant shareholder (SLS). We believe that such a context provides us with a natural laboratory to assess how the market reacts to the change in (relinquishment of) the prevailing ownership structure during acquisition transactions. The M&A literature suggests that merger transactions involve positive valuation effects of the quality of external governance: the merger premium for targets that originate from relatively poor investor protection is often higher (Bris and Cabolis, 2008). In addition, targets tend to exhibit a value gain on acquisitions by a bidder that is domiciled in a better investor protection regime (Bris et al., 2008). This "governance transfer" argument can also be applied to firms: after acquisition a target inherits the bidder's governance (Bris and Cabolis, 2008) and relinquishes its own. If MLS mitigate agency problems between the dominant shareholder and minority shareholders, one should expect that targets with MLS will exhibit lower returns upon their acquisition by another firm (relinquishment of good governance). As a result, these arguments suggest that upon acquisition, MLS targets are likely to exhibit a lower or negative market reaction compared to SLS targets.

Isolating the valuation effects around the announcement of exogenous changes in the ownership structure of the targets will help us determine whether MLS mitigate or exacerbate agency problems. Based on the recent analytical literature, two predictions can be put forward: *On the one hand*, MLS may have similar incentives as those of the dominant shareholder, suggesting that they are likely to expropriate minority shareholders for private benefits. In this case, MLS are likely to collude with the dominant shareholder to share private benefits of control (e.g., Zwiebel, 1995; Kahn and Winton, 1998). Even if the MLS do not collude with the dominant shareholder, a large number of blockholders may make the decision-making process less efficient by introducing gridlocks (Edmans and Manso, 2010). Such inefficiency may in turn lead to underinvestment (i.e., sacrificing profitable opportunities in the hands of rivals). If these

arguments hold, it is expected that the market will incorporate such information in the valuation of MLS firms, by discounting the latter. In this case, provided the winning bid price reflects the fair market value, the bid price paid to MLS targets is likely to include a relatively higher merger premium. As such, MLS targets should experience higher merger announcement abnormal returns.

On the other hand, if one (or more) large shareholder chooses to compete for corporate control against (rather than colluding with) other large shareholders, he/she will be driven by incentives similar to those of minority shareholders, thus favoring extensive monitoring of managers in order to maximize firm value. In this vein, Bennedsen and Wolfenzon (2000), and Bloch and Hege (2003) argue that MLS that compete for corporate control help to shift the balance of power to other minority shareholders thus shielding them from potential expropriation by closely monitoring managers' actions and decisions (e.g.,??). This argument also suggests that, instead of colluding with the dominant shareholder to extract private benefits of control, MLS may end up sacrificing their own share of such benefits as they prevent expropriation from the dominant shareholder (Nenova, 2003, Dhillon and Rossetto, 2010). Other studies suggest that the lack of collusion among blockholders helps to reduce information asymmetry because the MLS who are unable to shift the voting outcome in their favor may end up voting "by their feet", by trading aggressively on firm's stocks, thus injecting information about the undesired outcome in stock prices (Neo, 2002; Edmans and Manso, 2010).¹ This in turn will reduce the firm's cost of equity financing (Easley and O'Hara, 2004) and increase its valuation. The empirical evidence to-date supports this argument by showing that MLS firms have higher valuations (Maury and Pajuste, 2005; Laeven and Levine, 2008; Attig et. al, 2009) and lower cost of capital (Attig et al.,

¹ For example, Edmans and Manso (2010, p. 2) argue that "By trading on private information, blockholders move the stock price toward fundamental value, and thus cause it to more closely reflect the effort exerted by the manager to enhance firm value. If the manager shirks or extracts private benefits, blockholders follow the "Wall Street Rule" of "voting with their feet" and selling to liquidity traders. This drives down the stock price, reducing the manager's equity compensation and thus punishing him ex post. However, such a mechanism elicits effort ex ante only if it is dynamically consistent. Once the manager has taken his action, blockholders cannot change it and are concerned only with maximizing their trading profits. A single blockholder will strategically limit her order to reduce the revelation of her private information. By contrast, multiple blockholders trade aggressively to compete for profits, as in a Cournot oligopoly. Total quantities (here, trading volumes) are higher than under monopoly, so more information is impounded in prices and they more closely reflect fundamental value and thus the manager's effort. Multiple blockholders therefore serve as a commitment device to reward or punish the manager ex post for his actions."

2008). If MLS enhance internal corporate governance, a likely consequence is that the valuation of MLS firms becomes more accurate and we thus expect the bid price paid to MLS targets to include a lower merger premium. As such, MLS targets should experience lower merger announcement abnormal returns.

Using a sample of targets featuring at least one dominant shareholder from nineteen countries outside North America in completed mergers announced between 1996 and 2004, we study if (and to what extent) the presence and voting power of MLS is associated with target announcement abnormal returns. We find that targets featuring MLS exhibit significantly lower announcement abnormal returns (and first-bid-to-merger-completion returns) compared to those featuring a single large (dominant) shareholder (SLS). The significant negative association between the presence and power of MLS and target returns continues to prevail after we control for several firm, industry and deal characteristics, the quality of corporate governance of bidders and targets country, and industry-, year- and country- effects. Moreover, the negative effect of MLS on target returns continues to prevail after addressing potential endogeneity issues following Laeven and Levine (2009) and Paligorova (2010). In a nutshell, we find strong evidence that MLS firms are valued more than SLS firms, and hence upon acquisition, SLS firms exhibit a greater value gain.

In addition, to examine whether the market perception of second large shareholders depends on their type, we divide these latter in three groups, namely, *Family*, *State* and *Widely Held*. We find that the market considers that in widely held firms SLS are likely to reduce agency problems as merger returns to these targets are negative. Interestingly, we find that family SLS are perceived as exacerbating agency problems since their merger returns are significantly higher. This result is consistent with the evidence that severe agency problems, tunneling and higher risk are observed in family controlled firms (e.g. Bae et al., 2002; Boubakri et al., 2009).

We contribute to the literature by examining the value premium that the market assigns to MLS firms. Overall, we find that the market assigns about 5% value premium for the presence of MLS in the firms' ownership structure. In that, we uphold the findings in the literature such as Maury and Pajuste (2005), Laeven and Levine (2008), Attig et al. (2009) that MLS firms are valued relatively higher. This also suggests that the value of MLS firms includes a premium for the positive corporate governance role of MLS.

The rest of the paper is organized as follows: we present the sample and the data in section 2. We next describe our results of the univariate and multivariate analyses, followed by robustness checks in section 3. Section 4 concludes.

2. DATA AND METHODOLOGY

We use a sample of 511 targets from 7 East Asian and 12 Western European countries with ownership data available in either Claessens et al. (2000) or Faccio and Lang (2002) studies. Completed merger events and deal characteristics data come from *SDC Platinum - Global Merger and Acquisition Database*. Annual financial data are drawn from *WorldScope Databases* while the daily total return index come from *DataStream Database*.

Using the DataStream daily total return index for individual targets, we first estimate daily returns. Likewise, using the DataStream country market and global market total return index, we estimate daily index returns as daily changes in a domestic market index (domestic market returns) and daily changes in a global market index (global market returns) respectively. We start by estimating our main proxy of target abnormal returns, which is the sum of excess target returns over the global market index returns computed using a five day event window (event day -2 to +2 days) ($CAR5$).² We also estimate $CAR5_C$ based on excess target returns over domestic market returns and $CAR5_E$ based on excess target returns over those estimated using two factor market model, that uses 200 day estimation window for generating model parameters (-21 to -220 days), where two factors are domestic market returns and global market returns. Cumulative abnormal returns are also calculated from the first bid to the merger completion date using all these three methods, which are denoted as $CarFBC$ - for those based on excess over global index return, $CarFBC_C$ - for those based on excess over domestic market index returns and $CarFBC_E$ - for those based on excess over estimates from a two factor market model, respectively. In our tests, we focus on $CAR5$ as the main test variable and use all the other proxies of target abnormal returns in the robustness tests. For the sample of firms with a non missing value for $CAR5$, we extract the following annual financial data from *DataStream Database*: *Log*

² We follow Faccio et al. (2006) by estimating abnormal returns using excess returns over the market returns.

Assets (log of total assets), *Tobin's Q*, *ROA* (return on assets) and *Leverage* (total debt by total assets) for the fiscal year ending before the event day. We exclude all events for which one of these data points are missing. Table 1 reports the sample distribution by year.

Insert Table 1 about here

MLS Variables

Using ownership data available in Claessens et al. (2000) and Faccio and Lang (2002), we create the MLS variables we follow the existing literature (Attig et al., 2008, 2009). Please note that our sample is restricted to the firms where at least one dominant shareholder with 10% or more voting rights exists.

Presence of MLS

We create two proxies to capture the presence and the extent of MLS in the ownership structure. *Presence2* is coded as a dummy with '1' for firms that have at least two large shareholders featuring at least 10% voting rights each, and '0' otherwise. The second large shareholder would limit the power of the dominant shareholder to extract private benefits at the expense of minority shareholders if s/he competes for corporate control, suggesting an efficient monitoring role (Bennedsen and Wolfenzon, 2000; Attig. et al., 2008). Under this hypothesis MLS firms are likely to be worth more than similar SLS firms, suggesting a lower return for such targets upon merger announcement. In contrast, if the second largest shareholder opts to join hands with the dominant shareholder for extracting private benefits, the firms featuring MLS would be undervalued suggesting higher returns for targets upon takeover. The sign of presence *Presence2* with *CAR5* therefore depends on whether the MLS generally play the former or the latter role.

However, what about the number of large shareholders beyond the second large shareholder? Edmans and Manso (2010) argue that if there are many blockholders, it is difficult to attain agreement among them for an efficient monitoring of managers. Bennedsen and Wolfenzon (2000) also support this argument that the presence of several blockholders reduces efficient decision making, suggesting a poor valuation of firms with several blockholders. In addition, if monitoring costs in a firm are prohibitive, multiple large shareholders may not play a monitoring role (Dhillon and Rossetto, 2010), and consequently they may prompt to either exit

the firm or join hands with the large shareholder to extract a share of private benefits. Edmans and Manso (2010), however, also argue that the disagreed blockholders, may choose to vote by their feet and inject information in the market price by trading on their firm's stock holdings. Their model predicts MLS's trading behavior improves price efficiency and therefore increases firm value. Empirical evidence shows that increase in trading volume due to blockholder trading reduces trading profit (Gallagher, Gardner, and Swan, 2010), and the increase in the number of blockholders increases price informativeness (Gorton, Huang, and Kang, 2010). Apart from this, research shows that MLS's trading behavior disciplines managerial compensation (Smith and Swan, 2008). Consequently, MLS effectively reduce information asymmetry, implying a positive valuation effect of MLS. To capture the number of blockholders, we create *Presence2345*, which represents the total number of MLS beyond the dominant shareholder, with a maximum of 4. Overall, under this argument, we expect lower returns for MLS targets (vs. SLS targets) upon merger announcements.

Power of MLS

We create two proxies to measure the absolute power of MLS, namely the voting power of the second largest shareholder (*Vote2*) and that of the four large shareholders beyond the dominant shareholder (*Vote2345*), as well as two additional proxies to measure the power of MLS relative to the dominant shareholder, namely (*Vote2/1 Ratio* and *Vote2345/1 Ratio*). Dhillon and Rossetto (2010, p. 4) argue that "*when they [shareholders beyond the dominant shareholder] do buy a larger fraction of shares, their preferences move closer to those of the initial large shareholder! ... since the conflicts of interest are endogenous, it is not trivial to show that having a larger size will be beneficial to outside investor since the large size itself reduces the conflict of interest between the initial owner and large outside investors.*" The efficient monitoring hypothesis suggests that the power of MLS should be positively associated with pre-merger value premium, and hence negatively associated with target returns upon merger announcement.

Role of Family vs. Non-Family MLS:

Whether the second largest shareholder (thus MLS) uses its presence or power to mitigate or exacerbate agency problems may depend on its type. Therefore, we start by dividing all second

largest shareholders into three categories and create a dummy variable for each. *Family2* takes the value of 1 if the second largest shareholder is a family or individual, 0 otherwise. *State2* takes the value of 1 if the second large shareholder is the government or a government agency, 0 otherwise. *Widely2* takes the value 1 if the second large shareholder is a widely held corporation or institutions, 0 otherwise. As discussed above, the theory predicts both possibilities (i.e. monitoring by the second largest shareholder or helping to extract private benefits of control) as equally likely. Indeed, the second largest shareholder may be associated with value destruction, for s/he may have incentives to create environments that help to extract private benefits of control (e.g., Winton, 1993; Zwiebel, 1995; Kahn and Winton, 1998). Also, MLS may have little incentives to take private benefits of control, and may instead use their power to monitor the activities of the largest shareholder (and managers) in favor of minority shareholders (e.g., Bennedsen and Wolfenzon, 2000; Bloch and Hege, 2003; Nenova, 2003; Dhillon and Rossetto, 2010). The incentives to create environments to extract private benefits by the second largest shareholder are likely to be higher, if s/he is a family or individual, rather than an institution and the government for several reasons: *First*, their large stake in the firm often leaves families with an undiversified wealth (Anderson and Reeb, 2003), and families have a desire to transfer control to future generations (e.g., Anderson et al., 2003) and thus may shun value maximizing high operating risk projects in favor of diversification to reduce the possibility of bankruptcy (see e.g., John et al., 2008; Mishra, 2011). *Second*, the private benefits extracted by widely held institutions are divisible among a large number of their shareholders, while those by family or individual are not divisible (Ellul et al., 2009) therefore families have incentives to risk extracting such benefits. Therefore, the role of family as the second largest shareholder is less predictable suggesting that, unlike firms featuring other types of SLS, targets featuring family as the SLS may not be as valued, and therefore may not suffer as much the cost of relinquishing the governance. Moreover, if the second largest shareholder is a family then it is expected to exacerbate agency problems. This suggests that such targets may, indeed, be undervalued and are thus expected to exhibit a positive market reaction upon relinquishing such governance environment.

Control Variables

We control for firm, industry and deal characteristics following the existing literature (e.g. Wang and Xie, 2009; Bradly et al., 1988; Bris and Cabolis, 2008), all of which are defined in Appendix A. For the fiscal year-end proceeding the event year, we estimate natural log of total assets (*Log Assets*), *Tobin's Q*, Return on Assets (*ROA*), and total debt to total assets (*Leverage*). We measure competitiveness of the target's industry using the *Hersfindhal* index. Among the deal characteristics, friendly mergers (*Friendly*), deals involving tender offer (*Tender Offer*), cross border merger (*cross-border*), cash only consideration (*Cash Only*), and ownership status dummy for bidder (*Private Bidder*) are included. We also control for industry effects using industry dummies created using Fama-French 12 industries³ classification, year effects using year dummies, and country effects using country dummies.

The properties of test and other regression variables are reported in Table 2, starting with properties of ownership variables in Panel A, target characteristics in Panel B and deal characteristics in Panel C. We observe that about forty six percent of the firms with a dominant shareholder have at least two large shareholders. Table 3 reports the correlation coefficients between our variables. They do not appear too large to raise concern for multicollinearity.

Insert Tables 2 and 3 about here

3. EMPIRICAL RESULTS

3.1 Univariate Results

Table 4 presents a univariate test of target returns (*CAR5* and *CarFBC*) between firms with a dominant shareholder (SLS) and those with multiple large shareholders (MLS). Indeed, we note that MLS targets exhibit a substantially lower market reaction to merger announcement compared to SLS firms, both with and without an adjustment for country effects. First, we test the difference in *CAR5* adjusted for country medians (*adjCAR5*) between SLS and MLS targets, and find that *adjCAR5* are significantly lower for MLS firms. Second, we test the difference in first bid to merger completion abnormal returns (*CarFBC*) adjusted for country medians (*adjCarFBC*), which is significantly lower for MLS targets.⁴ These results provide initial evidence that there is

³The Description of Fama- French 12 industries is extracted from Professor Ken French's data library at http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

⁴ We repeat this analysis using raw *CAR5* and raw *CarFBC*, both of which are also lower for MLS targets; however, difference in *CAR5* is not significant at 5% level, while difference in *CarFBC* is significant at 5% level, suggesting that country effect is non-trivial.

a value premium for having MLS in the ownership structure; therefore, in acquisitions of such targets, the premium embedded in the offer price is not as high as that for targets with one single dominant shareholder. In other words, targets with single dominant shareholders are significantly undervalued prior to merger announcement, and experience upon acquisition a significantly higher value gain for two reasons i) the market positively reacts to the removal of the severe agency problems that existed in such firms and ii) bidders are more likely to pay higher premium due to the undervaluation of such targets. Conversely for MLS targets, i) the market negatively reacts to the removal of good internal governance that existed in such firms and ii) bidders are more likely to pay lower relative premium due to the value premium embedded in their pre-announcement market price. The average difference in the announcement returns for targets with MLS and SLS firms is the value premium for having MLS in the ownership structure. This finding provides further evidence in support of prior literature that MLS help mitigate agency problems between the dominant shareholder and other minority shareholders by monitoring managers or competing for corporate control (Attig et al., 2008; Mishra, 2011). More importantly, such role of MLS appears to be valued by the market. To test these findings more thoroughly, we test this conjecture below in a multivariate framework using a full set of control variables.

Insert Table 4 about here

3.2. Multivariate Analysis

In the sample of merger announcements made by the firms featuring at least one large shareholder, we compare the target's announcement period returns ($CAR5$) and first bid to merger completion returns ($CarFBC$) between firms with SLS and MLS. We start by regressing $CAR5$ on $Presence2$, industry dummies and country dummies. The $Presence2$, which is an indicator variable featuring '1' for MLS targets, and 0 otherwise, has a negative and significant coefficient consistent with our univariate results. In Model 2, we continue to find similar results after we add firm, industry and deal characteristics. This evidence supports two important findings in the literature. First, MLS firms are generally valued higher than SLS firms (Laeven and Levine, 2008; Attig et al., 2009) therefore MLS firms experience a lower value appreciation on their acquisitions than SLS firms. Naturally, the optimal bid price for MLS or SLS targets from the acquirer's perspective is unaffected by the target's ownership structure because upon acquisition the

target's ownership structure is irrelevant. In other words, an acquirer's offer price for a target depends on the value of the fundamentals of the target that the acquirer inherits, and brings under the acquirer's own corporate governance. Therefore, it will tend to make the same bid for two different targets with the same fundamentals irrespective of the latter's corporate governance. However, before acquisition the similar fundamentals would have different market valuations because of the fundamentals that are not inherited by the acquirer upon acquisition. Target's corporate governance and ownership is one of those fundamentals that remain un-inherited by the acquirer upon acquisition. Evidently, MLS and SLS targets are likely to have different valuations before acquisition, because in the absence of other large shareholders, the dominant shareholder has incentives and power to extract private benefits of control.

Second, these results may also imply that the market assigns a value discount for relinquishing MLS structures, provided MLS play a positive governance role. The second implication supports a strand of the merger literature that suggests the existence of governance transfers from the acquirer to the management of target's assets. This literature also suggests a positive (negative) market reaction upon acquisition by an acquirer from a relatively better (inferior) governance regime (e.g. Rossi and Volpin, 2004; Bris and Cabolis, 2008; Bris et al., 2009) in cross border mergers. It also supports Wang and Xie (2009) who find that target abnormal returns and combined abnormal returns of targets and acquirers are increasing in governance (measured by anti-takeover provisions) differences between the target and the acquirer, where governance difference is the extent to which targets' governance is weaker than the acquirers' governance.

Among the target's firm, industry and deal characteristics, we find that *CAR5* is not significantly associated with *Log Assets*, *ROA* and *Leverage*. These findings are largely consistent with Wang and Xie (2009). However, it is significantly negatively associated with *Tobin's Q* of targets suggesting that targets with higher relative value show lower value gain upon acquisition. The coefficient of *Industry competition*, measured by the *Herfindhal Index* of sales of firms in each of the Fama and French 48 industries and *Friendly* mergers, are negative but insignificant. However, the coefficient of *Tender Offer* is positive and significant consistent with Wang and Xie (2009), suggesting that target's shareholders experience greater benefits in mergers involving

tender offers. Similarly, targets benefit more in *Corss-border* mergers as suggested by its positive and significant coefficient.

We extend our analysis to other properties of target ownership structures. In model 3, we find that *Vote2* -measuring the absolute power of the second largest shareholder - is negatively (significant at 10% level) associated with *CAR5*, and similarly, in model 4, *Vote2/1* -measuring the power of the second large shareholder in relation to the dominant shareholder - negatively (significant at 1% level) associated with *CAR5*. Consistent with earlier findings, and our expectation, this suggests that both absolute and relative power of the second large shareholder helps mitigate agency problems and thus increase the valuation of the firms resulting in a lower takeover premium for these targets. However, we do not find the presence and power of the large shareholder beyond the second largest shareholder to be significantly associated with *CAR5*.

3.2.1. Type of 2nd large shareholder:

The literature suggests that the identity of the large shareholders affects their incentives to monitor or expropriate. For example, as private benefits extracted by family owner are not divisible, they may have higher incentives to expropriate, while the benefits extracted by institutions or state owners are highly divisible among their owners. Therefore, family may have higher incentives to expropriate. Does this notion apply to the type of the MLS as well? To answer this question, we test the market reaction to the acquisitions of targets with different types of SLS. We divide SLS in three types, namely family, state and widely held and create a dummy for each taking the value of 1 if the shareholder is of a certain type, zero otherwise. In table 6 we report the results of our main model which also includes the SLS type dummies. Model 1 includes *Family2*, which takes the value of 1 if the second large shareholder is a family, zero otherwise. The coefficient of *Family2* is positive and significant suggesting that the market reacts relatively positively to the sale of a firm featuring family as the second large shareholder. This suggests that the family shareholder may have incentives to collude with the dominant shareholder to extract private benefits of control therefore such targets are likely to be relatively less valued prior to takeover. While the coefficient of *State2* is insignificant, the significant negative coefficient of *Widely2* suggests that widely held SLS are perceived to be less likely to extract private benefits, in particular, the because benefits they extract are divisible among the large number of shareholders therefore such second large shareholder has lesser incentives to indulge into rent extraction or

support such activities of the dominant shareholder making it less easy for the dominant shareholder to extract private benefits. These findings support a large strand of the literature, which outside North America, finds that family control is associated with value destruction, higher expropriation of minority shareholders (Bae et al., 2002; Bertrand et al., 2002) and higher cost of equity (Boubakri et al., 2009). The firms featuring family as the second large shareholder which according to this literature are likely to sell at a discount prior to the merger, experience a significant positive market reaction upon acquisition by other firms.

What about the type of the dominant shareholder? The international evidence suggests that family controlled firms are more prone to expropriation of minority shareholders compared to other type of firms (Boubakri et al., 2010; Bae et al. 2002), while controversies exist. Therefore, it is natural to expect that the firms featuring family as dominant shareholder likely would be less valued prior to merger. In such firms, what kind of role the second largest shareholder plays is also unclear a priori. Therefore, in Table 12 we divide our sample of targets into two groups, family controlled (Family1) and non-family controlled (Non-Family) to examine the role of the second large shareholder in such firms. We find that, models 1 & 2 show that in the firms featuring non-family dominants shareholders Presence2 and Vote2/1 significantly negatively associated with CAR5. This suggests that in such firms that are non-family and feature MLS in ownership structure are perceived as better governed firms such that upon acquisition (upon relinquishing such governance structure) there is a significant negative market reaction.

In summary, the findings in Table 5 highlight the importance of ownership structures with MLS in mitigating firms' agency problems and suggest that the market effectively puts a value to the presence and power of MLS, such that relinquishing such ownership structures is counterproductive. Further the findings in Table 6 suggest that the type of second large shareholder has important implications for the role of MLS in firm's agency problems. The family as the second large shareholder appears to exacerbate agency problems, while widely held public firm as the second large shareholder mitigates such agency problems.

Insert Tables 5 and 6 about here

3.3. Robustness Checks

The results presented in Table 5, have several limitations as they are based on a set of assumptions and a set of estimation techniques. Therefore, in this section, we present robustness of our results to relaxing such assumptions and using new estimation techniques for generating the dependent variable.

3.3.1. Basic Sensitivity Tests:

In Table 5, standard errors are Hubert and White corrected, however, this does not address potential cross-sectional correlation within industries. Therefore, in Table 7 we replicate our core tests after correcting for industry clustering and find that our results remain the same. One minor exception is that we find *Presence2345* to be significantly negatively associated with *CAR5*, which suggests the presence of more shareholders is significantly valuable. Similarly, in Table 5, we do not control for year effects and use *CAR5* estimated in excess of the expected daily returns as per the single factor market model, where the market index is DataStream market index of the target's country. The use of a global market index to generate excess returns has limitations, as with any other methods, and estimates abnormal returns with error. Therefore in Table 8, we replicate our key tests using year effects (in models 1 and 2), the abnormal returns estimated in excess of DataStream country market index (*CAR5_C*, in models 3 and 4), and the abnormal returns estimated in excess of expected returns estimated using the two factor model featuring DataStream country market index and DataStream global market index (*CAR5_E* in models 5 and 6). In all these models, we find that our results relating to the effect of presence and relative power of MLS continue to hold. Further, our main results are based on the abnormal returns estimated using a five day event window. To test the sensitivity of our results to the choice of the event window, and in particular to mitigate the effect of any instances of insider trading prior to the merger announcement, we replicate our results using an 11 day event window (*CAR11*), and a 3 day event window (*CAR3*). In untabulated results, our conclusions continue to hold in using *CAR11* or *CAR3*.

Further, the target's shareholders do not realize the gains from the sale of the firm until the merger is completed. Therefore, the abnormal returns measured over the five day event window do not necessarily represent both premiums received for target shares and the effect of relinquishing existing governance. To mitigate this concern, we follow Bargaron et al. (2008) and estimate cumulative abnormal returns (CAR) of the targets from the first bid to the completion

date (FBC). We denote these abnormal returns as $CarFBC$, $CarFBC_C$ and $CarFBC_E$ respectively for abnormal returns estimated as excess over expected returns based on market model with DataStream country market index, excess over the returns on DataStream country market index, excess over expected returns from two factor model using DataStream country and global market index. We present the results of the tests that use these dependent variables in Table 9. In all models reported in Table 9, our key findings remain unchanged to the use of alternative dependent variables.

Insert Tables 7 and 8 about here

3.3.2. Country Effects & Investor Protection.

First, in our data UK is disproportionately represented and some countries such as Austria and Indonesia have as low as only one target firm represented. Therefore, it is crucial that our results hold in the full sample with country effects, in the sample that includes only U.K., and in the sample that excludes countries that are thinly represented. In Table 10, we start by excluding in Model 1 all countries that have only one firm represented in the sample, in Model 2 the countries that have two or less firms, in Model 3 the countries that have three or less firms represented and in Model 4 all countries other than United Kingdom. Our results hold in the full sample, the subsample of targets from U.K. only and the subsamples that exclude the countries that are thinly represented. Second, in Model 5, we control for the investor protection proxies of the bidder's country and target's country. The investor protection proxy is extracted from <http://www.doingbusiness.org/rankings>, which ranks countries based on their ability to protect investors. The investor protection index incorporates a country's extent of disclosure index, director liability index and shareholder suits index. We find that the target's country level investor protection index loads with a positive coefficient that is significant at 10% level. We interpret this result as suggesting that while target's firm level governance now depends on the acquirer's investor protection, the target's assets are still subject to the jurisdiction of the laws where the target operates. Therefore the legal institutions in the country where the target firm operates continue to matter even after the acquisition of the firm by an acquirer featuring legal institutions of another country. However, the effect of the presence and relative power of MLS continues to be robust to these controls. Third, in model 6 we control for the difference between investor protection and in model 7 we introduce the interaction of investor protection and

Presence2 respectively. While we do not observe much significant effect of the country's investor protection environment in *CAR5*, our core findings about the role of MLS remain the same after these controls.

Insert Tables 9 and 10 about here

While we control for the bidder's country level investor protection as discussed above, this investor protection index neither does necessarily fully capture availability and implementation of investor protection in a country nor does come without measurement errors. To mitigate the concern about the quality of the proxy of investor protection of the bidder's country and its eventual effect on our findings, we replicate our tests using the sample of mergers featuring a bidder from the United Kingdom. In untabulated results, we find that *CAR5* loads significantly negatively with *Presence2* and *Vote2/1*. This further confirms that the bidder's country level investor protection does not drive our results mitigating any concern that the weakness of investor protection proxy may have affected these results. Accordingly, the results presented in Model 4 that include targets from United Kingdom only further confirms that our results are not driven by the investor protection environment of the target's country and our selection of sample countries.

3.3.3. *Endogeneity of MLS Structures*

The key endogeneity issue in this paper is the possibility of change in ownership structures post-merger in cases where the payment is made in stock. The acquirer's ownership structure is likely to change according to the target's ownership structure. For example, if the target has significant blockholder(s), these blockholders may remain significant in the acquirer's ownership structure. Similarly, if the target firm has dispersed ownership, this may dilute the ownership of the acquirer's existing blockholders to the point that they may end up being insignificant blockholders. In the stock only mergers such change in the acquirer's ownership structure may affect the market reaction to targets upon acquisitions. In order to mitigate this concern, we replicate our key results using cash only mergers (179 observations). We find that the coefficient of *Presence2* is negative and significant at 10% level in this subsample, practically ruling out the possibility that our results are an outcome of this endogeneity issue.

Second, as argued by Demsetz and Lehn (1985), La Porta et al. (1999), and Himmelberg, Hubbard and Palia (1999) a firm's ownership structure is an outcome of its contracting environment. In that, our research is likely to suffer from an omitted-variable problem. We addressed the omitted variable problem using country, year and industry fixed effects.

Third, the same arguments of Demsetz and Lehn (1985), La Porta et al. (1999), and Himmelberg, Hubbard and Palia (1999) also suggest the possibility of reverse causality between ownership structure and target valuation because individuals and institutions may self select good quality firms thus becoming significant blockholder in the firm, however, may choose to stay as passive investors effectively not influencing the firm's decision making. We address this problem using the instrumental variable approach. Since, such behavior of large blockholders is unlikely to influence country year average of ownership structure; we instrument MLS variables using the country year averages of their firm level counterparts. In unreported results using instrumental variable two stage least squares, we find that our results continue to hold. This analysis largely rules out the possibility of endogeneity of ownership structure driving our results, yet, the lack of long time series of ownership data prevents us from testing this issue more thoroughly by using dynamic panel tests to provide stronger tests to correct such endogeneity issues.

4. CONCLUSION

We use a sample of targets featuring at least one dominant shareholder from nineteen Western European and East Asian countries announced between 1996 and 2004. In this sample of completed mergers we study if the presence and voting power of Multiple Large Shareholder (MLS) is associated with target returns. We find that targets featuring MLS exhibit significantly lower announcement abnormal returns and lower first bid to merger completion returns compared to those featuring a single dominant shareholder (SLS). These results continue to prevail after we control for several firm, industry and deal characteristics, the quality of corporate governance of bidders and target's country, industry and year. We interpret these findings as evidence that MLS firms are often more valuable than SLS firms resulting in a lesser merger premium upon takeover. These findings suggest that there is a positive cost of relinquishing MLS ownership structures relative to SLS ownership structures. We also find that the governance role

of the second large shareholder in target firm is contingent on its type. The family as the SLS exacerbates agency problems, while the widely held firm mitigates such problems.

We do acknowledge the endogeneity of complex ownership structures, and show that the negative effect of MLS on target returns continues to prevail after addressing some potential endogeneity issues following Laeven and Levine (2009) and Paligorova (2010). We also control for country and industry effects to address some potentially unknown omitted variable problem, yet, we admit our study is not immune to usual problems in addressing such issues. In our tests, we are unable to simultaneously control for firm level proxies of bidder's corporate governance or targets board structure, nor are we able to test the effects of target's featuring MLS on acquirer's merger abnormal returns. Despite these limitations, our results have some important policy implications, in particular, for firm's restructuring decisions and promoting structures with multiple blockholders in ownership structures. Our results suggest that the firms with failed governance, as embedded in poor ownership structures, are better targets. Also, it is economically beneficial to promote ownership structures featuring multiple blockholders, especially, when the second blockholder is not a family or an individual.

APPENDIX A.1

Variable Definitions

Variable	Definition	Source
CAR5	The cumulative excess returns over the returns on DataStream Global Market Index for the 5-day event window (-2, +2).	Authors' Estimation
CAR5_C	The cumulative excess returns over the returns on DataStream Country Market Index for the 5-day event window (-2, +2).	Authors' Estimation
CAR5_E	The cumulative excess returns over the returns over two factor model returns, for the 5-day event window (-2, +2). The two factors are returns on DataStream Global Market Index and DataStream Country Market Index, where model parameters are estimated over the 200-day estimation period (-220, -21).	Authors' Estimation
CarFBC	The cumulative excess returns over the returns on DataStream Global Market Index from the two days before	Authors' Estimation

the first announcement day to merger completion day.

CarFBC_C	The cumulative excess returns over the returns on DataStream Country Market Index from the two days before the first announcement day to merger completion day.	Authors' Estimation
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CarFBC_E	The cumulative excess returns over the returns over two factor model returns for the window including two days before the first announcement day to merger completion day. The two factors are returns on DataStream Global Market Index and DataStream Country Market Index, where model parameters are estimated over the 200-day estimation period (-220, -21).	Authors' Estimation
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Ownership Structure Variables

Presence2	Dummy variable: 1 for firms with at least two large shareholders each with at least 10% voting rights, 0 otherwise.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Presence2345	Number of large shareholders that have at least 10% voting rights, beyond the largest shareholder.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Vote2	Size of voting rights of the second largest shareholder measured as the percentage of total votes outstanding.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Vote2345	Sum of the size of voting rights of all large shareholders other than the largest one: $\text{Vote2} + \text{Vote3} + \text{Vote4} + \text{Vote5}$.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Vote2/1 Ratio	The voting rights of the second largest shareholder relative to that of the dominant one: $\text{Vote2}/\text{Vote1}$.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Vote2345/1 Ratio	The sum of voting rights of all large shareholders other than the largest one relative to that of the dominant shareholder: $(\text{Vote2} + \text{Vote3} + \text{Vote4} + \text{Vote5})/\text{Vote1}$.	Claessens et al. (2000), Faccio and Lang (2002) Authors' Estimation
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Target Characteristics

Log Assets	Log of book value of total assets	WorldScope
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Tobin's Q	Market value of assets (total assets - total book value of equity + market value of equity) divided by book value of assets:	WorldScope
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Leverage	Book value of debts over total assets	WorldScope
ROA	Operating income before depreciation - interest expenses - income taxes, divided by book value of total assets.	WorldScope

Deal & Industry Characteristics

Industry Competition	Hersfindhal index based on the sum of the square of the market share (sales/total industry sales) of the firm in Fame French 48 industries by year of all U.S. firms.	Compustat/ Authors' Estimation
Friendly	Dummy variable: 1 for friendly deal, 0 otherwise	SDC Platinum/ Authors' Estimation
Tender Offer	Dummy variable: 1 for tender offer, 0 otherwise	SDC Platinum/ Authors' Estimation
All Cash Deal	Dummy variable: 1 for purely cash deals, 0 otherwise.	SDC Platinum/ Authors' Estimation
Cross-border	Dummy variable: 1 if target and acquirer are from different countries, 0 otherwise.	SDC Platinum, Authors' Estimation
Private Target	Dummy variable: 1 for private target, 0 otherwise.	SDC Platinum/ Authors' Estimation

Investor Protection Variables

InvestorPr	Strength of investor protection index: extent of disclosure index, extent of director liability index and ease of shareholder suits index	Doing Business
DiffInvestorPr	Acquirer's InvestorPr less Target's InvestorPr	Authors' Estimation

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Table 1**Summary Statistics of the Target Returns (CAR) by Year**

Year	μ_{Car5}	μ_{CarFBC}	σ_{Car5}	σ_{CarFBC}	N
1996	8.43%	0.82%	8.73%	13.42%	7
1997	21.08%	16.30%	22.49%	30.52%	52
1998	20.26%	19.61%	20.87%	25.97%	89
1999	17.07%	15.26%	22.06%	29.06%	133
2000	16.93%	19.21%	17.01%	20.54%	80
2001	16.34%	28.30%	19.27%	24.13%	47
2002	13.71%	28.37%	23.20%	26.82%	37
2003	5.85%	8.51%	16.63%	19.64%	42
2004	7.52%	10.70%	25.20%	25.74%	24

The table presents the summary statistics of the target returns (CAR) of the sample acquisitions by year. The sample includes targets originally drawn from 7 East Asian countries represented in Claessens et al. (2000) and 12 Western European countries represented in Faccio and Lang (2002). The CAR5 is the cumulative abnormal returns over market returns for 5-day event window (-2, +2) where market returns are based on DataStream global market index.

Table 2
Summary Statistics of Key Variables

Variable	N	Mean	Standard Deviation	Q1	Median	Q3
Panel A: Ownership Structure Variables						
Presence2	511	0.46	0.50	0.00	0.00	1.00
Vote1	511	7.12	8.57	0.00	0.00	12.50
Vote2/1	511	0.32	0.37	0.00	0.00	0.67
Presence2345	511	0.66	0.88	0.00	0.00	1.00
Vote2345	511	9.80	13.81	0.00	0.00	15.00
Vote2345/1	511	0.44	0.59	0.00	0.00	0.78
Panel B: Control Variables - Target Characteristics						
Log Assets	511	12.38	1.76	11.18	12.11	13.44
Tobin's Q	511	0.97	0.91	0.55	0.74	0.99
ROA	511	0.06	0.08	0.00	0.06	0.11
Leverage	511	0.24	0.20	0.08	0.21	0.36
Panel C: Control Variables - Deal Characteristics						
Industry Competition	511	0.06	0.04	0.04	0.05	0.06
Friendly	511	0.96	0.19	1.00	1.00	1.00
Tender Offer	511	0.79	0.41	1.00	1.00	1.00
Cross-border	511	0.25	0.44	0.00	0.00	1.00
All Cash Deal	511	0.35	0.48	0.00	0.00	1.00
Private Bidder	511	0.21	0.41	0.00	0.00	0.00

The table presents the summary statistics of control and test variables. The sample includes targets originally drawn from 7 East Asian countries represented in Claessens et al. (2000) and 12 Western European countries represented in Faccio and Lang (2002).

Table 3

Pairwise Correlation Coefficients

Variable	Presence2	Vote2	Vote2/1	Presence2345	Vote2345	Vote2345/1	Log Assets	Tobin's Q	ROA	Leverage	Industry Competition	Friendly	Tender Offer	Cross-border	All Cash Deal
Vote2	0.86														
Vote2/1	0.87	0.81													
Presence2345	0.80	0.75	0.72												
Vote2345	0.74	0.87	0.70	0.92											
Vote2345/1	0.76	0.72	0.87	0.90	0.85										
Log Assets	-0.11	-0.09	-0.12	-0.12	-0.10	-0.12									
Tobin's Q	-0.03	-0.03	-0.04	-0.04	-0.04	-0.04	-0.15								
ROA	0.11	0.08	0.09	0.09	0.07	0.08	-0.15	0.16							
Leverage	-0.05	-0.04	-0.01	-0.08	-0.07	-0.03	0.29	-0.04	-0.26						
Industry Competition	0.02	0.00	0.01	0.05	0.04	0.05	-0.10	0.01	0.05	-0.06					
Friendly	-0.04	-0.03	-0.05	-0.01	0.00	-0.03	-0.09	0.05	0.06	-0.02	-0.04				
Tender Offer	0.12	0.01	0.04	0.05	-0.01	0.02	-0.24	0.08	0.21	-0.11	0.03	-0.01			
Cross-border	0.10	0.04	0.07	0.08	0.04	0.07	-0.02	0.05	0.06	-0.06	0.07	0.03	0.14		
All Cash Deal	0.09	0.04	0.04	0.05	0.02	0.04	-0.12	-0.13	0.06	0.02	0.07	0.00	0.25	0.18	
Private Bidder	0.06	0.05	0.01	0.05	0.04	0.00	-0.19	-0.12	0.08	-0.11	-0.01	0.08	0.15	-0.06	0.21
N	511	511	511	511	511	511	511	511	511	511	511	511	511	511	511

The table represents the pairwise correlation coefficients of all test and control variables. The sample includes targets from 7 East Asian countries represented in Claessens et al. (2000) and 12 Western European countries represented in Faccio and Lang (2002).

Table 4**Univariate Tests of difference in CAR5 and FBC across ownership structures**

Owners	SLS	MLS	SLS	MLS	MLS - SLS
	Mean		Standard Deviation		T-stat
adjCAR5	6.21%	2.21%	21.15%	18.70%	-2.27
adjFBC	5.04%	0.05%	26.86%	24.29%	-2.21
N	276	235	276	235	

This table presents univariate test of difference in target announcement returns (CAR5) and the first bid to completion (FBC) between firms that have single dominant shareholder (SLS) and multiple large shareholder structure (MLS). The sample includes targets from 7 East Asian countries represented in Claessens et al. (2000) and 12 Western European countries represented in Faccio and Lang (2002).

Table 5

Target Abnormal Returns and MLS in Target Ownership							
Dependent Variable	(1) Car5	(2) Car5	(3) Car5	(4) Car5	(5) Car5	(6) Car5	(7) Car5
Presence2	-0.0487** (-2.524)	-0.0562*** (-2.874)					
Vote2			-0.0018* (-1.719)				
Vote2/1				-0.0657*** (-2.646)			
Presence2345					-0.0187 (-1.642)		
Vote2345						-0.0008 (-1.233)	
Vote2345/1							-0.0243 (-1.453)
Firm Characteristics							
Log Assets		-0.0026 (-0.459)	-0.0019 (-0.336)	-0.0025 (-0.452)	-0.0021 (-0.370)	-0.0018 (-0.311)	-0.0020 (-0.347)
Tobin's Q		-0.0236*** (-2.904)	-0.0226*** (-2.796)	-0.0238*** (-2.912)	-0.0231*** (-2.849)	-0.0224*** (-2.780)	-0.0229*** (-2.805)
ROA		0.0973 (0.875)	0.0817 (0.732)	0.0976 (0.875)	0.0812 (0.730)	0.0763 (0.685)	0.0816 (0.732)
Leverage		-0.0382 (-0.638)	-0.0429 (-0.710)	-0.0379 (-0.631)	-0.0442 (-0.734)	-0.0446 (-0.739)	-0.0417 (-0.691)
Deal & Industry Characteristics							
Industry Competition		-0.2015 (-1.043)	-0.2303 (-1.157)	-0.2217 (-1.129)	-0.2148 (-1.078)	-0.2286 (-1.140)	-0.2219 (-1.108)
Friendly		-0.0408 (-0.821)	-0.0350 (-0.704)	-0.0395 (-0.798)	-0.0352 (-0.698)	-0.0330 (-0.659)	-0.0349 (-0.695)
Tender Offer		0.1023*** (3.714)	0.0986*** (3.498)	0.1010*** (3.637)	0.0999*** (3.555)	0.0991*** (3.477)	0.1012*** (3.603)
Cross-border		0.0506** (2.137)	0.0468** (1.971)	0.0503** (2.122)	0.0477** (1.996)	0.0463* (1.945)	0.0479** (2.007)
Cash Only		0.0103 (0.474)	0.0099 (0.451)	0.0109 (0.499)	0.0093 (0.424)	0.0096 (0.436)	0.0099 (0.454)
Private Bidder		-0.0274 (-1.250)	-0.0285 (-1.290)	-0.0302 (-1.384)	-0.0295 (-1.346)	-0.0295 (-1.337)	-0.0308 (-1.406)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.1953*** (8.354)	0.2017** (2.006)	0.1816* (1.779)	0.1987** (1.971)	0.1834* (1.778)	0.1739* (1.678)	0.1781* (1.738)
Observations	511	511	511	511	511	511	511
Adjusted R-squared	0.085	0.117	0.105	0.114	0.106	0.103	0.105

The table presents relationship between target announcement abnormal returns and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Cumulative abnormal returns (CARs) are estimated using excess returns over DataStream global market index for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 6

Target Abnormal Returns and MLS and type of Second Large Shareholder				
Dependent Variable	(1) Car5	(2) Car5	(3) Car5	(4) Car5
Presence2	-0.0709*** (-3.857)	-0.0584** (-2.420)	-0.0398 (-1.587)	
Family2	0.0797** (2.226)			0.0265 (0.697)
State2		0.0506 (0.530)		0.0134 (0.159)
Widely2			-0.0429** (-2.850)	-0.0619*** (-4.241)
Firm Characteristics				
Log Assets	-0.0020 (-0.322)	-0.0027 (-0.409)	-0.0026 (-0.392)	-0.0014 (-0.204)
Tobin's Q	-0.0252*** (-4.040)	-0.0236*** (-3.845)	-0.0249*** (-3.995)	-0.0245*** (-3.742)
ROA	0.0779 (0.640)	0.0997 (0.780)	0.0969 (0.773)	0.0693 (0.546)
leverage	-0.0324 (-0.455)	-0.0384 (-0.611)	-0.0349 (-0.521)	-0.0359 (-0.490)
Deal & Industry Characteristics				
Hersfindhal	-0.1625 (-1.091)	-0.2001 (-1.555)	-0.2190 (-1.535)	-0.2436 (-1.466)
Friendly	-0.0443 (-1.006)	-0.0338 (-0.692)	-0.0379 (-0.921)	-0.0293 (-0.580)
Tender Offer	0.1001*** (4.162)	0.1039*** (3.947)	0.1061*** (4.630)	0.1080*** (4.097)
Cross-border	0.0537*** (4.783)	0.0512*** (5.327)	0.0510*** (4.702)	0.0491*** (4.575)
Cash Only	0.0096 (0.651)	0.0110 (0.687)	0.0095 (0.648)	0.0090 (0.623)
Private Bidder	-0.0294 (-1.506)	-0.0276 (-1.347)	-0.0294 (-1.451)	-0.0326 (-1.704)
Industry Effects	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes
Constant	0.1953*** (8.354)	0.2017** (2.006)	0.1816* (1.779)	0.1987** (1.971)
Observations	511	511	511	511
Adjusted R-squared	0.085	0.117	0.105	0.114

The table presents relationship between target announcement abnormal returns and presence, voting rights and the type of the second largest shareholder in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Cumulative abnormal returns (CARs) are estimated using excess returns over DataStream global market index for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 7

Robustness: Target Announcement Returns and MLS in Target Ownership (Cluster)						
Dependent Variable	(1) Car5	(2) Car5	(3) Car5	(4) Car5	(5) Car5	(6) Car5
Presence2	-0.0562** (-2.614)					
Vote2		-0.0018* (-1.920)				
Vote2/1			-0.0657** (-2.261)			
Presence2345				-0.0187* (-1.811)		
Vote2345					-0.0008 (-1.341)	
Vote2345/1						-0.0243 (-1.487)
Firm Characteristics						
Log Assets	-0.0026 (-0.394)	-0.0019 (-0.281)	-0.0025 (-0.382)	-0.0021 (-0.307)	-0.0018 (-0.256)	-0.0020 (-0.287)
Tobin's Q	-0.0236*** (-3.822)	-0.0226*** (-3.776)	-0.0238*** (-3.782)	-0.0231*** (-3.843)	-0.0224*** (-3.769)	-0.0229*** (-3.736)
ROA	0.0973 (0.774)	0.0817 (0.649)	0.0976 (0.763)	0.0812 (0.645)	0.0763 (0.609)	0.0816 (0.642)
Leverage	-0.0382 (-0.605)	-0.0429 (-0.681)	-0.0379 (-0.615)	-0.0442 (-0.675)	-0.0446 (-0.688)	-0.0417 (-0.643)
Deal & Industry Characteristics						
Industry Competition	-0.2015 (-1.507)	-0.2303 (-1.638)	-0.2217 (-1.515)	-0.2148 (-1.560)	-0.2286 (-1.622)	-0.2219 (-1.564)
Friendly	-0.0408 (-0.998)	-0.0350 (-0.851)	-0.0395 (-1.000)	-0.0352 (-0.822)	-0.0330 (-0.779)	-0.0349 (-0.832)
Tender Offer	0.1023*** (4.205)	0.0986*** (4.161)	0.1010*** (4.201)	0.0999*** (4.120)	0.0991*** (4.134)	0.1012*** (4.123)
Cross-border	0.0506*** (4.734)	0.0468*** (4.400)	0.0503*** (4.882)	0.0477*** (4.563)	0.0463*** (4.373)	0.0479*** (4.875)
Cash Only	0.0103 (0.659)	0.0099 (0.621)	0.0109 (0.696)	0.0093 (0.578)	0.0096 (0.594)	0.0099 (0.614)
Private Bidder	-0.0274 (-1.337)	-0.0285 (-1.386)	-0.0302 (-1.566)	-0.0295 (-1.498)	-0.0295 (-1.474)	-0.0308 (-1.606)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Clustering	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.2017* (2.051)	0.1816 (1.786)	0.1987* (2.065)	0.1834 (1.679)	0.1739 (1.594)	0.1781 (1.660)
Observations	511	511	511	511	511	511
Adjusted R-squared	0.117	0.105	0.114	0.106	0.103	0.105

The table presents relationship between target announcement abnormal returns and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Cumulative abnormal returns (CARs) are estimated using excess returns over DataStream global market index for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors with industry clustering are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 8

Robustness: Target Announcement Returns and MLS in Target Ownership						
	(1)	(2)	(3)	(4)	(5)	(6)
Dependent Variable	Car5	Car5	Car5_C	Car5_C	Car5_E	Car5_E
Presence2	-0.0506** (-2.510)		-0.0547*** (-2.790)		-0.0550*** (-2.796)	
Vote2/1		-0.0599** (-2.331)		-0.0656*** (-2.611)		-0.0656*** (-2.610)
Firm Characteristics						
Log Assets	-0.0028 (-0.496)	-0.0028 (-0.497)	-0.0024 (-0.429)	-0.0024 (-0.430)	-0.0029 (-0.533)	-0.0029 (-0.531)
Tobin's Q	-0.0252*** (-2.950)	-0.0254*** (-2.950)	-0.0224*** (-2.741)	-0.0226*** (-2.751)	-0.0243*** (-3.023)	-0.0245*** (-3.034)
ROA	0.1217 (1.102)	0.1234 (1.113)	0.0950 (0.856)	0.0962 (0.864)	0.0998 (0.900)	0.1007 (0.905)
Leverage	-0.0431 (-0.713)	-0.0431 (-0.712)	-0.0500 (-0.825)	-0.0496 (-0.815)	-0.0504 (-0.829)	-0.0500 (-0.819)
Deal & Industry Characteristics						
Industry Competition	-0.2257 (-1.174)	-0.2441 (-1.249)	-0.2160 (-1.145)	-0.2350 (-1.227)	-0.1976 (-1.019)	-0.2169 (-1.102)
Friendly	-0.0413 (-0.863)	-0.0402 (-0.841)	-0.0437 (-0.871)	-0.0427 (-0.852)	-0.0410 (-0.829)	-0.0399 (-0.809)
Tender Offer	0.0854*** (2.897)	0.0843*** (2.840)	0.1030*** (3.767)	0.1017*** (3.695)	0.0954*** (3.543)	0.0942*** (3.474)
Cross-border	0.0431* (1.799)	0.0425* (1.776)	0.0515** (2.170)	0.0514** (2.162)	0.0509** (2.141)	0.0507** (2.131)
Cash Only	0.0192 (0.845)	0.0199 (0.877)	0.0098 (0.448)	0.0104 (0.474)	0.0118 (0.535)	0.0124 (0.560)
Private Bidder	-0.0247 (-1.134)	-0.0274 (-1.258)	-0.0292 (-1.329)	-0.0320 (-1.460)	-0.0331 (-1.488)	-0.0359 (-1.620)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Year Effects	Yes	Yes	No	No	No	No
Constant	0.2114** (2.147)	0.2089** (2.120)	0.2030** (2.017)	0.2013** (1.996)	0.2145** (2.165)	0.2125** (2.139)
Observations	511	511	511	511	511	511
Adjusted R-squared	0.117	0.114	0.116	0.114	0.117	0.115

The table presents robustness tests for the relationship between target announcement abnormal returns and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Cumulative abnormal returns (CARs) are estimated using excess returns over DataStream global market index (CAR5), excess returns over DataStream country market index (Car5_C) and excess returns over the two factor (DataStream global and country market indices) market model (Car5_E) for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 9

Robustness: Target Returns from Bid to Completion and MLS in Target Ownership						
Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	CarFBC	CarFBC	CarFBC_C	CarFBC_C	CarFBC_E	CarFBC_E
Presence2	-0.0619** (-2.534)		-0.0543** (-2.259)		-0.0543* (-1.929)	
Vote2/1		-0.0716** (-2.355)		-0.0701** (-2.245)		-0.0684* (-1.873)
Firm Characteristics						
Log Assets	-0.0136* (-1.721)	-0.0135* (-1.707)	-0.0107 (-1.396)	-0.0108 (-1.408)	-0.0121 (-1.295)	-0.0121 (-1.297)
Tobin's Q	-0.0296** (-2.403)	-0.0297** (-2.414)	-0.0240** (-2.138)	-0.0243** (-2.170)	-0.0155 (-1.120)	-0.0159 (-1.148)
ROA	0.1577 (1.090)	0.1576 (1.079)	0.1242 (0.870)	0.1277 (0.888)	-0.1477 (-0.827)	-0.1450 (-0.806)
Leverage	0.0300 (0.381)	0.0303 (0.383)	0.0035 (0.046)	0.0045 (0.059)	-0.0470 (-0.542)	-0.0463 (-0.533)
Deal & Industry Characteristics						
Industry Competition	-0.2299 (-0.898)	-0.2524 (-0.989)	-0.3896 (-1.494)	-0.4067 (-1.577)	-0.2742 (-0.970)	-0.2919 (-1.031)
Friendly	-0.0505 (-0.739)	-0.0490 (-0.716)	-0.0455 (-0.662)	-0.0451 (-0.659)	-0.1027 (-1.401)	-0.1021 (-1.403)
Tender Offer	0.1123*** (2.927)	0.1109*** (2.863)	0.1118*** (3.096)	0.1104*** (3.030)	0.1104** (2.433)	0.1090** (2.392)
Cross-border	0.0728** (2.559)	0.0724** (2.558)	0.0725** (2.512)	0.0727** (2.534)	0.0674* (1.956)	0.0674** (1.968)
Cash Only	-0.0096 (-0.364)	-0.0090 (-0.342)	-0.0178 (-0.677)	-0.0172 (-0.654)	0.0168 (0.546)	0.0174 (0.565)
Private Bidder	-0.0192 (-0.744)	-0.0222 (-0.867)	-0.0209 (-0.818)	-0.0237 (-0.928)	-0.0245 (-0.794)	-0.0273 (-0.887)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.3500** (2.424)	0.3461** (2.378)	0.3139** (2.180)	0.3158** (2.177)	0.3805** (2.347)	0.3811** (2.326)
Observations	511	511	511	511	511	511
Adjusted R-squared	0.050	0.047	0.031	0.031	0.058	0.057

The table presents relationship between target first bid to completion date returns (CarFBC) and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. First bid to complete date (FBC) returns are estimated using excess returns over DataStream global market index (CarFBC), excess returns over DataStream country market index (CarFBC_C) and excess returns over the two factor (DataStream global and country market indices) market model (CarFBC_E) for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 10

Robustness: Target Announcement Returns, Country Effects, Investor Protection and MLS							
Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Car5	Car5	Car5	Car5	Car5	Car5	Car5
Presence2	-0.0548*** (-2.821)	-0.0535*** (-2.784)	-0.0568*** (-2.949)	-0.0689*** (-2.950)	-0.0569*** (-2.899)	-0.0569*** (-2.899)	-0.0549*** (-2.797)
Acq InvestorPr					-0.0052 (-0.556)		
Tgt InvestorPr					0.0272* (1.715)		
DiffInvertorPr						-0.0052 (-0.556)	-0.0149 (-1.046)
Presence2*DiffInvestorPr							0.0193 (1.176)
Firm Characteristics							
Log Assets	-0.0027 (-0.489)	-0.0030 (-0.550)	-0.0031 (-0.567)	-0.0028 (-0.367)	-0.0026 (-0.461)	-0.0026 (-0.461)	-0.0028 (-0.501)
Tobin's Q	-0.0231*** (-2.894)	-0.0229*** (-2.851)	-0.0231*** (-2.856)	-0.0289*** (-3.050)	-0.0235*** (-2.881)	-0.0235*** (-2.881)	-0.0227*** (-2.811)
ROA	0.0959 (0.864)	0.1046 (0.944)	0.1055 (0.955)	0.0804 (0.662)	0.1012 (0.906)	0.1012 (0.906)	0.0965 (0.867)
Leverage	-0.0369 (-0.620)	-0.0412 (-0.697)	-0.0494 (-0.830)	-0.0113 (-0.130)	-0.0378 (-0.628)	-0.0378 (-0.628)	-0.0414 (-0.683)
Deal & Industry Characteristics							
Industry Competition	-0.1970 (-1.024)	-0.1894 (-1.006)	-0.1721 (-0.924)	-0.2676 (-1.088)	-0.1977 (-1.026)	-0.1977 (-1.026)	-0.2213 (-1.112)
Friendly	-0.0403 (-0.815)	-0.0355 (-0.711)	-0.0356 (-0.714)	-0.0210 (-0.332)	-0.0417 (-0.840)	-0.0417 (-0.840)	-0.0411 (-0.820)
Tender Offer	0.1008*** (3.727)	0.0960*** (3.670)	0.1033*** (4.146)	0.1162*** (2.855)	0.1041*** (3.809)	0.1041*** (3.809)	0.1069*** (3.915)
Cross-border	0.0486** (2.114)	0.0499** (2.153)	0.0521** (2.230)	0.0724** (2.262)	0.0480** (1.986)	0.0480** (1.986)	0.0500** (2.061)
Cash Only	0.0111 (0.522)	0.0134 (0.619)	0.0147 (0.678)	-0.0082 (-0.292)	0.0095 (0.434)	0.0095 (0.434)	0.0097 (0.443)
Private Bidder	-0.0303 (-1.410)	-0.0316 (-1.486)	-0.0305 (-1.438)	-0.0467* (-1.740)	-0.0266 (-1.207)	-0.0266 (-1.207)	-0.0254 (-1.149)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	No	Yes	Yes	Yes
Constant	0.2030** (2.024)	0.2032** (2.021)	0.1981** (1.987)	0.1828 (1.371)	0.0239 (0.138)	0.1997** (1.992)	0.1994** (1.995)
Observations	508	506	503	324	511	511	511
Adjusted R-squared	0.123	0.125	0.127	0.042	0.116	0.116	0.116

The table presents robustness tests for target announcement abnormal returns and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Cumulative abnormal returns (CARs) are estimated using excess returns over DataStream global market index for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 12

Robustness: Target Returns from, MLS in Target Ownership & dominant shareholder type

Dominant Shareholder Type	Non-Family1		Family1	
	(1) Car5	(2) Car5	(3) Car5	(4) Car5
Dependent Variable				
Presence2	-0.0730** (-2.914)		0.0193 (0.261)	
Vote2/1		-0.0742* (-2.154)		-0.0057 (-0.069)
Firm Characteristics				
Log Assets	-0.0040 (-0.450)	-0.0039 (-0.433)	-0.0022 (-0.193)	-0.0019 (-0.171)
Tobin's Q	-0.0231** (-2.899)	-0.0231** (-2.733)	-0.0307** (-2.490)	-0.0296** (-2.583)
ROA	0.1093 (0.626)	0.1131 (0.634)	-0.2803 (-0.726)	-0.2513 (-0.705)
leverage	-0.0156 (-0.165)	-0.0111 (-0.115)	-0.0623 (-0.784)	-0.0644 (-0.847)
Deal & Industry Characteristics				
Hersfindhal	-0.2373 (-1.707)	-0.2828** (-2.290)	-0.2210 (-0.439)	-0.2435 (-0.498)
Friendly	-0.0504 (-1.207)	-0.0458 (-1.201)	0.0082 (0.114)	0.0173 (0.243)
Tender Offer	0.1428*** (6.319)	0.1421*** (6.565)	0.0836 (1.455)	0.0841 (1.528)
Cross-border	0.0452* (1.962)	0.0440* (1.937)	0.0730* (2.185)	0.0742** (2.354)
Cash Only	0.0023 (0.091)	0.0003 (0.014)	0.0260 (0.506)	0.0252 (0.521)
Private Bidder	-0.0139 (-0.501)	-0.0144 (-0.505)	-0.0651 (-1.362)	-0.0648 (-1.341)
Industry Effects	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes
Clustering	Yes	Yes	Yes	Yes
Constant	0.1828 (1.453)	0.1736 (1.446)	0.1460 (1.035)	0.1441 (1.005)
Observations	372	372	139	139
Adjusted R-squared	0.173	0.163	-0.043	-0.045

The table presents relationship between target announcement returns (Car5) and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. Car5 is cumulative abnormal returns for event day (+2,-2). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.

Table 13

Robustness: Target Returns from Bid to Completion and MLS in Target Ownership						
Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	CarFBC	CarFBC	CarFBC_C	CarFBC_C	CarFBC_E	CarFBC_E
Presence2	-0.0618** (-2.526)		-0.0543** (-2.259)		-0.0545* (-1.933)	
Vote2/1		-0.0712** (-2.340)		-0.0700** (-2.249)		-0.0686* (-1.889)
Firm Characteristics						
Log Assets	-0.0119 (-1.473)	-0.0118 (-1.465)	-0.0106 (-1.360)	-0.0107 (-1.383)	-0.0133 (-1.427)	-0.0134 (-1.438)
Tobin's Q	-0.0282** (-2.308)	-0.0283** (-2.324)	-0.0239** (-2.134)	-0.0242** (-2.175)	-0.0166 (-1.210)	-0.0169 (-1.243)
ROA	0.1563 (1.079)	0.1562 (1.068)	0.1241 (0.869)	0.1276 (0.887)	-0.1467 (-0.824)	-0.1439 (-0.802)
leverage	0.0237 (0.297)	0.0240 (0.300)	0.0030 (0.039)	0.0041 (0.052)	-0.0423 (-0.482)	-0.0415 (-0.472)
Deal & Industry Characteristics						
Hersfindhal	-0.2237 (-0.874)	-0.2463 (-0.964)	-0.3892 (-1.484)	-0.4063 (-1.566)	-0.2788 (-0.979)	-0.2966 (-1.041)
Friendly	-0.0513 (-0.756)	-0.0498 (-0.733)	-0.0455 (-0.662)	-0.0451 (-0.659)	-0.1022 (-1.380)	-0.1015 (-1.382)
Tender Offer	0.1111*** (2.882)	0.1098*** (2.820)	0.1117*** (3.075)	0.1103*** (3.010)	0.1112** (2.440)	0.1099** (2.399)
Cross-border	0.0753*** (2.655)	0.0748*** (2.653)	0.0727** (2.563)	0.0728** (2.584)	0.0656* (1.934)	0.0656* (1.944)
Cash Only	-0.0081 (-0.308)	-0.0075 (-0.286)	-0.0177 (-0.676)	-0.0171 (-0.654)	0.0157 (0.510)	0.0163 (0.529)
Private Bidder	-0.0203 (-0.793)	-0.0234 (-0.916)	-0.0210 (-0.826)	-0.0238 (-0.936)	-0.0236 (-0.765)	-0.0264 (-0.858)
Completion time	-0.0543 (-0.620)	-0.0537 (-0.607)	-0.0042 (-0.045)	-0.0035 (-0.037)	0.0407 (0.343)	0.0414 (0.347)
Industry Effects	Yes	Yes	Yes	Yes	Yes	Yes
Country Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.3396** (2.370)	0.3357** (2.326)	0.3131** (2.200)	0.3151** (2.203)	0.3883** (2.432)	0.3891** (2.418)
Observations	511	511	511	511	511	511
Adjusted R-squared	0.049	0.046	0.029	0.029	0.056	0.056

The table presents relationship between target first bid to completion date returns (CarFBC) and presence and voting rights of the multiple large shareholders in target's ownership structure. The sample drawn from nineteen target's countries represented in Claessens et al. (2000) and Faccio and Lang (2002) includes 511 mergers taken place between 1996 and 2004 which have at least one large shareholder in ownership structure. First bid to complete date (FBC) returns are estimated using excess returns over datastream global market index (CarFBC), excess returns over datastream country market index (CarFBC_C) and excess returns over the two factor (datastream global and country market indices) market model (CarFBC_E). All control variables are defined in Appendix A.1. T-statistics based on robust standard errors are presented inside the parenthesis, *, **, and *** refer to significance at 10%, 5% and 1% level respectively.