Cross-Border Acquisitions and Insider Ownership

Abstract

Several studies document that the bid announcement return (BAR) of cross-border acquisitions is lower than that of domestic acquisitions. We use uniquely detailed ownership data to examine how insider information and bid trustworthiness affects the BAR. While cross-border acquisitions yield lower returns this effect disappears as we adjust for the degree of insider information and bid trustworthiness caused by pre-bid ownership. Investors do not unconditionally dislike cross-border acquisitions, but foreign acquirers are more often outsiders that are at a comparative disadvantage when judging the value of synergies.

INTRODUCTION

A number of studies document that the bid announcement return (BAR) of cross-border acquisitions is lower than that of domestic acquisitions (e.g. Moeller and Schlingemann, 2005; Eckbo and Thorburn, 2000; Denis et al., 2002; Francis, et al., 2008), but the reason for the difference is yet not well understood. A successful acquisition usually requires a hefty premium to be paid on top of the pre-bid share price, and cross-border acquisitions are no exception. From an economic perspective, a bid premium is only motivated if the acquiring firm can obtain synergistic gains larger than the premium. Hence a positive BAR only comes if the premium is lower than the expected achievable synergistic gains (Bradley et al., 1988). Firms that misjudge the problems of gaining synergies often overpay and destroy value for their shareholders (Sirower, 1997). One perhaps tempting interpretation of the comparatively low BAR of cross-border acquisitions is that cultural divergence hinders acquiring firms from exploiting synergistic gains. Surely cross-border acquisitions often occur between more culturally divergent entities than domestic acquisitions (Napier et al., 1993), and thus they require more cultural consideration (Morosini et al., 1997; Very et al., 1997; Weber et al., 1996). But, even if both integration costs and bid premiums are higher for the cross-border acquisitions, large synergistic gains can still make them attractive. It remains an open question if differences in the BAR can be explained by firm-specific data.

We propose an alternative reason as to why there is a negative cross-border effect: insider ownership. Cross-border acquisitions are known to differ systematically from domestic acquisitions in the sense that they are larger, hostile and cash-offers (see e.g. Moeller and Schlingemann, 2005). In addition, the acquiring firm engaged in a cross-border acquisition is more often an outsider who knows less about the target firm and is lesser known by pre-bid shareholders. The more management of the acquiring firm knows about the target firm the better it can estimate cultural divergences, and other integration problems and sources of synergies. We test the extent to which differences in the BAR between cross-border and domestic acquisitions are explained by insider ownership. Unlike most other studies of cross-border acquisitions we hold the country of the target firm fixed and make use of detailed country-specific information about the ownership and control of the target firm, and particularly the association between the acquiring firm and the target firm.

The empirical study shows that the BAR is lower, and negative, for cross-border acquisitions. The cross-border acquisitions differ from domestic acquisitions in a number of different aspects, but as we control for these differences the insider ownership variables continue to explain most of the variation in the BAR. Indeed, besides cash-in-payment, that has a positive effect on BAR, the main explanatory factors are insider information and bid trustworthiness. Contrary to most other studies, such as Moeller and Schlingemann (2005), the cross-border effect disappears in our sample. Our approach of holding the target firm's country fixed enables us to provide contemporary international research with valuable insights. When management of a bidding firm owns no shares at all at the time of the public offer it is more likely to increase the bid price, overpay and destroy value for its shareholders. On the basis of our findings we suggest that the difference in the BAR is not really a cross-border effect, but an effect of foreign acquirers being, to a greater extent, pre-bid outsider shareholders. From this perspective, the cross-border effect seems unrelated to cultural divergence and other integration problems that would make cross-border acquisitions relatively more costly to push through.

THEORY

Returns from cross-border acquisitions

In both domestic and cross-border acquisitions the shareholders of the target firm gain considerably more than shareholders of the acquiring firm. Eckbo (2009) shows that across a large number of international empirical studies the acquiring firm's bid announcement return (BAR) is close to zero. Evidently, shareholders do not perceive acquisitions as value creating in the long run (c.f. Jensen and Ruback, 1983; Magenheim and Mueller, 1988). Management of the acquiring firm usually announces that various kinds of synergistic gains are obtained by integrating the target firm's resources in its own organization. A major cause of the poor BARs appears to be an overestimation of the synergies and an underestimation of the problems of capitalizing on them (Sirower, 1997). When managers are given discretion they often choose corporate growth on behalf of profitability (Donaldson, 1984). In a similar vein, Roll (1986) speaks of 'managerial hubris' and argues that without an overestimation of the synergistic gains few acquisitions will be made. Several studies test alternative hypotheses and with mixed findings (Sirower, 1997; Seth et al., 2000; Mueller and Sirower, 2003). While no study rejects the hubris hypothesis, Mueller and Sirower (2003) find no support for the synergy hypothesis. That is, the bid premium paid by the acquiring firm soaks up the value of the synergies.

Cross-border acquisitions have increased immensely in the last decades. Early empirical evidence suggested that they overall create value for shareholders (e.g. Doukas and Travlos, 1988; Doukas, 1995; Kiymaz, 2004), but, as with domestic acquisitions, most of the gain remains with the target firm's shareholders (Seth et al., 2000). A number of studies have compared the relative BARs of cross-border and domestic acquisitions (Moeller and Schlingemann, 2005; Francis et al., 2008; Eckbo and Thorburn, 2000; Aw and Chatterjee, 2000). Eckbo and Thorburn (2000) find that in the Canadian takeover market U.S. acquirers earn lower BARs than Canadian acquirers. They are unable to explain the difference using any institutional or acquisition related controls. Similarly, Moeller and Schlingemann (2005) find that when U.S. firms announce a cross-border acquisition they are rewarded by a lower BAR than when they announce a domestic acquisition. They refer to the negative relative BAR as a *cross-border effect* which they cannot explain. Francis et al. (2008) employ data on U.S. firms' foreign acquisitions and find that cross-border acquisitions in segmented non-US markets can create more value than domestic acquisitions, particularly for large acquirers. However, it is evident that most of the cross-border acquisitions (86%) are made in integrated financial markets with a significant cross-border effect.

Differences in the acquiring firm's BAR between domestic and cross-border investments have so far almost always been tested on a sample containing U.S. firms (either as target or acquiring firms). There is hence a need to document if relative differences in the BAR between domestic and cross-border acquisitions also exist outside of the United States. But, in addition, there is a need to explain the cross-border effect. Our departure point is that the BAR is negatively associated with the perceived attractiveness of the offer, when evaluated on the basis of the bid premium and the synergistic gains. Relatively poor BARs from cross-border acquisitions should come from comparatively higher bid premiums and/or lower synergistic gains. Moeller and Schlingemann (2005) identify a cross-border effect that remains after they have controlled for a number of factors that are known to impact the BAR, and are likely to differ between domestic and cross-border acquisitions. These factors include deal characteristics, firm characteristics, and the macroeconomic environment. In the end of their study Moeller and Schlingemann (2005: 561) suggest that "future research should focus on providing further explanation for the observed cross-border effect using, for example, firm-level data rather than aggregated country data in the hope of better exploiting the cross-sectional variation of firm and country characteristics." As a response we employ detailed firm-level data, rather than aggregated country data, and analyze differences in the acquiring firm's ability to understand potential synergies arising from the acquisition of the target firm.

Insider ownership and bid announcement returns

The probability to push through a, for the acquiring firm's shareholders, value creating acquisition increases with the acquiring firm's access to information about the target firm's current and future performance. Such information is useful for two reasons. First, it enables the acquiring firm to verify the target firm's value as a stand-alone entity at the time of the acquisition bid. Second, it enables the acquiring firm to estimate the degree to which synergies can be obtained from a combination of the acquiring and target firms' resources. In addition, the acquiring firm can better understand organizational problems that might hinder a full exploitation of the synergies.[1] It is possible that some 'insider information' can be obtained from close collaboration (vertical integration) or fierce competition (horizontal integration). But most acquiring firms can only obtain such information if its management, or a controlling shareholder, sits on the target firm's board of directors. And, this only happens if they own a substantial portion of the target firm. Furthermore, the extent to which an acquiring firm, sitting on the board of directors of the target firm, can use its position varies. If the acquirer has been around for a long time she might wait for the right moment to buy the target firm at a cheap price. This would be a point in time when share prices are overly depressed as the insider typically makes better evaluations of future prospects than do outside investors. Such an acquirer might, but does not have to, differ from a bidder that step-by-step moves in and takes control over the target firm in a short period of time.

The information advantage factor that a large shareholder has (in particular when being on the board of directors) coincides with a second insider factor indicative of the success of the acquisition bid, namely the bid's trustworthiness. Following early work by Walkling (1985) several studies confirm that the percentage of shares in the target firm controlled by the acquiring firm at the time of the offer is positively correlated with the bid's success (Jennings and Mazzeo, 1993; Eckbo and Thorburn, 2000) and negatively correlated with the bid premium (Eckbo and Langohr, 1989; Eckbo and Thorburn, 2000). There are, at least, two reasons for this. First, the more shares a bidder owns in the target firm the better its bargaining position is compared with management and other potential buyers. It is simply more costly for someone else to resist the bid. Second, a sizable bidder has to put less money on the table as she already owns some of the capital. This makes the bid more trustworthy and as smaller shareholders realize this they are more likely to tender their shares. This pre-bid ownership of shares is usually referred to as a toehold (Betton and Eckbo, 2000). In the United States, where ownership is rather dispersed, toehold bidding has declined substantially over the last two decades (Betton et al., 2007). Outside of the Anglo-Saxon countries it is common that control is concentrated to a few blockholders (Jenkinson and Ljungqvist, 2001). In Sweden ownership is rather concentrated (Overland, 2008) and therefore toehold bidding is likely to be relatively common (c.f. Holmen and Knopf, 2004).

To the best of our knowledge, no previous study has investigated how insider information and bid trustworthiness affect differences in the BAR between cross-border and domestic acquisitions. We predict that cross-border acquisitions generate lower returns than domestic acquisitions, i.e., that there is a *cross-border effect*. This prediction is in line with past findings and occurs because of an unfavorable relationship between the bid premium and obtainable synergies in cross-border acquisitions. Second, we predict that insider ownership, in the form of insider information and bid trustworthiness, is negatively associated with the relative BAR of cross-border acquisitions. Foreign acquirers are more likely to pay an excessively high bid premium as they to a lesser extent understand the target firm's ability to provide synergistic gains and they overpay to be trustworthy. Shareholders of the acquiring firm see this and react negatively even though cross-border acquisitions might create considerable synergies.

METHODOLOGY

Sample and Data

The empirical analysis is based on firms listed at the Stockholm Stock Exchange and we use official statistics to identify them. We start the analysis in 1985, which is the first year when detailed ownership data is publicly available (Sundqvist, 1985), and end it in 2007. The data we use concern both the acquiring and target firms. Capital market and accounting data has been compiled from the databases SixTrust (for Swedish firms) and Datastream (for non-Swedish firms). Our primary ownership data source is 'Owners and power' (Sundqvist, 1985-2007), a booklet with data of the 25 largest registered owners in each firm.[2] This booklet enables an analysis of not only the direct ownership, i.e., when the acquiring firm owns shares in the target firm, but also indirect ownership where the acquiring and target firms have the same majority shareholder or the acquiring firm owns shares in the target firm through a third-party.[3] Because ownership information is so easily accessible, both public bids, and rumors of such bids, are analyzed in the media using reliable ownership statistics. The database Affärsdata (containing all articles from Swedish business magazines, daily newspapers and many press releases issued by Swedish firms) is used when searching for ownership changes around the time of the bid announcement. Finally, we analyze the association between the target firm's board of directors and the acquiring firm using 'Board and auditors' (Sundqvist, 1991-2007), a booklet containing detailed information on the board of directors of all publicly listed Swedish firms.

We refer to Holmén and Knopf (2004) who provide detailed information of the Swedish corporate governance model and takeover market. One of the peculiarities of the Swedish setting is the rather high concentration of ownership derived partly from the frequent use of dual-class shares, pyramids and cross-holdings. Most publicly listed firms tend to have one or two large blockholders that take an active part in management. Most acquisitions are made by either a pre-bid blockholder or someone who prior to the public announcement has negotiated with a blockholder. Because of this most takeovers are friendly and not contested.[4] Despite the frequent use of pyramids and dual-class shares, Holmén and Knopf (2004) find no evidence of a majority shareholder expropriation of minority rights and contribute this to extralegal institutions such as a high degree of tax compliance and an extensive newspaper circulation.

[Insert Tables 1 about here]

Table 1 shows that 407 publicly listed firms were acquired in the studied time period. 86 of them were made by foreign acquirers and 321 by domestic acquirers. Out of the domestic acquirers 193 were publicly listed firms and 128 were private firms. Out of the foreign acquirers 69 were publicly listed firms and 17 were private firms. We study all 262 bids in which the acquiring firm is publicly listed, but data constraints limit the final sample to 240 observations (185 domestic and 55 cross-border acquisitions).[5] The cross-border acquisitions are made by firms representing 12 different countries.

Measures

The bid announcement return (BAR) is measured as the acquiring firm's three-day (-1, +1) market-adjusted return. The market return is calculated using the most common stock index for each individual market (for Sweden we use Affärsvärldens Generalindex). Differences in the BAR between cross-border and domestic acquisitions can exist if characteristics known in the literature to affect acquirer returns in general, differ systematically between cross-border and domestic acquisitions. Therefore, we first consider whether any systematic differences exist between the two sub-samples based on firm and deal characteristics. We employ a set of variables often found to create cross-sectional variations in the BAR. As shown in Table 2 we consider the bid premium (Travlos, 1987), bid anticipation (Betton and Eckbo, 2000), method of payment (Travlos, 1987; Eckbo, 2009), market sentiment (Andrade, 2001), market-to-book (Lang et al., 1991), relative size (Asquith et al., 1983), and industry relatedness (Bradley et al., 1988). To preserve space, we refer to the above literature for the development of the hypotheses on how these variables are predicted to affect the BAR.

[Insert Table 2 about here]

Insider information is a measure of the acquiring firm's comparative ability to understand the target firm's value on a stand-alone basis and the value of obtainable synergies. This ability increases when the acquiring firm's management or main shareholders have access to the target firm's board of directors prior to the bid. We construct a dummy variable taking the value 1 if this is the case. First, if the acquiring firm is the main pre-bid shareholder or it possesses >20% of the voting rights prior to the bid announcement we assume that there is access to the target firm's board of directors. We use the booklet 'Owners and power' (Sundqvist, 1985-2007) to determine the acquiring firm's direct ownership in the target firm. The same information is used to determine indirect ownership, i.e., if the acquiring and target firms have identical main owners.[6] We also search Affärsdata for 30 days prior to the bid announcement until six days after, looking for (1) changes in ownership in the months prior to the bid that could have led to changes among the board members, and (2) notices of how board members commented the bid.

Bid trustworthiness is a measure of how credible the acquiring firm is at the time of the bid announcement. The most credible bidder is probably one that is the main pre-bid shareholder of the target firm. Instead of using only the direct ownership between the acquiring and target firms we use the booklet 'Owners and power' (Sundqvist, 1985-2007) and determine the extent to which the acquiring firm's main owner controls the target firm in some other way.[7] The second most credible situation occurs if the bidding firm at the time of the announcement is the majority shareholder of the target firm (i.e., controls more than 50% of the voting rights). As documented by Holmén and Knopf (2004) many acquisitions are preceded by an acquirer that buys shares from blockholders prior to the public bid. The more shares the acquirer purchases prior to the announcement, the more credible she will appear. When the bidder owns few or no shares at the time of the bid announcement she is unable to use ownership to signal the bid's trustworthiness. But the bidder can easily substitute ownership with e.g. a cash based offer including a hefty premium. We use two measures of bid trustworthiness. The first measure is a dummy taking the value 1 if prior to the bid the acquiring firm, or one of its main shareholders, is the largest shareholder of the target firm. The second measure is the percentage points of the voting rights acquired right before the public bid announcement.

RESULTS

Differences between cross-border and domestic acquisitions

Panel A of Table 3 shows differences between cross-border and domestic acquisitions. BARs are lower for cross-border acquisitions (-1.45% versus +0.29%) and thus acquisitions in the Swedish market have been viewed as value destructive by the acquiring firm's shareholders. Foreign acquirers acquire target firms with higher pre-bid market-to-book ratios (2.69 versus 2.14), and as they pay a higher bid premium (32.3% versus 25.9%) the difference in the (untabulated) post-bid market-to-book ratio is even greater. Market sentiments are lower for cross-border acquisitions (1.4% versus 10.0%) and while many domestic acquisitions seem to lack synergistic gains in the operating business (i.e., no horizontal or vertical integration is obtained), this is never the case with the cross-border acquisitions (35.7% versus 0%). To include cash in the payment is more common in cross-border than domestic acquisitions (80.0% versus 38.9%), and we expect this to be because the target firm's shareholders dislike shares it is difficult to trade. Overall, the differences are expected and underline how important it is to control for firm- and deal-specific characteristics.

[Insert Table 3 about here]

Table 3 also shows that several of the governance related variables are systematically different between cross-border and domestic acquisitions. Foreign acquirers are to lesser extent majority owners prior to the bid (20.0% versus 36.2%), but they acquire similar amounts of voting rights from blockholders prior to the public bid announcement (27.4% versus 28.9%). Also, they sit on the board of directors to a lesser extent than domestic acquirers (20.0% versus 47.8%). Panel B of Table 3 shows correlations between tested variables and evidently cross-border acquisitions differ significantly from domestic acquisitions in terms of all tested variables. Furthermore, the BAR is correlated with several variables, including the dummy for cross-border acquisitions and all insider ownership variables.

Insider information and bid trustworthiness

Table 4 displays differences between cross-border and domestic acquisitions in regards of insider information (Panel A) and bid trustworthiness (Panel B). Panel A shows that a large number of the acquisitions are made by insiders, but also that there are substantial differences between the cross-border and domestic acquisitions. For the total sample, as well as the two sub-samples, there is a higher bid premium when the acquirer is not a board member (29.6% versus 24.3%). However, we note that while the difference is negligible for the domestic acquisitions (0.79%) it is very large for the cross-border acquisitions (21.35%).For the total sample the difference in BAR is considerable when the acquirer is a board member (+1.91%). The same association holds for the domestic acquirers (+2.26%), but not for the foreign acquirers where the BAR is lower when the acquirer sits on the board of directors (-1.53%).

[Insert Table 4 about here]

Panel B shows that 33% of the acquisitions are made by the main pre-bid shareholder, and 16% of the acquisitions are made by an acquirer that owns more than 50% of the voting rights prior to the bid (untabulated). The frequency is higher for the domestic (37%) than the cross-border acquisitions (20%). For the total sample the bid premium is the least when the acquirer is a pre-bid main owner (24.7%) and the highest when she owns few or no shares at the time of the bid announcement (29.7%). For domestic acquisitions there is no particular difference, whereas cross-border acquisitions display large differences. For the total sample the BAR is the least when the acquirer owns few or no shares at the bid announcement, and the highest when she is a pre-bid main shareholder. The domestic acquisitions follow the same pattern, although the difference is largely between being a pre-bid main shareholder or not. The cross-border acquisitions display a somewhat odd relationship. In 56% of the acquisitions the BAR is almost zero (-0.06%) when the foreign acquirer was not a pre-bid main shareholder, but acquired shares from blockholders to become one at the time of the announcement. If the acquirer did not do so, or she owned the shares well before the bid, she earned substantial negative BARs. The univariate analysis provides several valuable insights. First, the difference in bid premium between cross-border and domestic acquisitions is not uniform across the two insider ownership dimensions. The bid premium of cross-border acquisitions is higher when the acquirer is not a board member. Second, in a large part of the cross-border acquisitions the acquirer purchases enough shares from blockholders before the public bid announcement to become the largest shareholder. This behavior seems to be the least value destructive behavior (BAR is almost zero).

The cross-border effect and insider ownership

The bid announcement return (BAR) has withstood a number of tests in past research. Our aim is to identify the extent to which it exists in our sample of Swedish firms and examine its association with insider ownership while controlling for factors potentially associated with the BAR. Table 5 presents the results of five regressions that we introduce consecutively. To begin with we test model (1), which is a univariate model in which differences in BAR between cross-border and domestic acquisitions are tested. While the explanatory power is low, there is a significant difference which confirms the cross-border effect (p-value: 0.036). We note that contrary to other studies (Moeller and Schlingemann, 2005; Francis et al., 2008) non-Swedish acquirers earn negative BARs.

Next, we turn to the insider ownership variables. Model (2) uses three variables; a dummy that considers if the acquiring firm is the main shareholder prior to the bid, the percentage points of shares bought by the acquiring firm just prior to the bid announcement, and a dummy that considers if the acquiring firm or its main owner sits on the target firm's board prior to the bid. Evidently both insider information, in the form of board participation, and bid trustworthiness, in the form of the pre-bid acquisition of voting rights, are systematically associated with the BAR (p-values of 0.001 and 0.009 respectively). If, for example, the bidding firm acquires shares so that she controls at least 50% of the voting rights just prior to the bid announcement, its BAR increases with on average 1.73 percentage points. Similarly, if the bidding firm sits on the board of directors the BAR is on average 3.26 percentage points higher. Somewhat surprisingly it does not appear as if being a shareholder in the target firm prior to the bid has an effect on the BAR (beyond the effect of being so large that the shareholder sits on the board). The explanatory power of the model is rather weak, but not particularly weaker than those of comparative studies (e.g. Moeller and Schlingemann, 2005).

[Insert Table 5 about here]

Model (3) is a combination of models (1) and (2). Adding the dummy variable that controls for cross-border acquisitions does not at all provide incremental explanatory power to model (2). In fact, the adjusted R^2 decreases (from 0.033 to 0.032) and the cross-border dummy coefficient is now statistically insignificant. However, the two proxies for insider information and bid trustworthiness remain significant (with p-values of 0.003 and 0.016, respectively). Obviously the difference in BARs between cross-border and domestic acquisitions largely relates to insider ownership variables.

Next, we introduce the seven general control variables previously discussed. As shown in Panel A of Table 3 there are substantial differences between cross-border and domestic acquisitions regarding most of these variables. We are particularly concerned about two effects. First, we let the pre-bid acquisition of voting rights proxy for bid trustworthiness, but this measure can be flawed as a higher bid premium also would increase the trustworthiness. Indeed we know that cross-border acquisitions are pushed through using higher bid premiums (see Panel A of Table 4). In addition, we have to control for the pre-bid market-to-book ratio which is negatively correlated with the bid premium. By including the bid premium and the pre-bid market-to-book ratio we ensure the validity of our bid trustworthiness measure. Second, we know that cross-border acquisitions often are cash offers because target firm shareholders are reluctant to shares in a firm listed at a foreign stock exchange. The association between cash-in-payment and the BAR is unclear as cash payments can relate to both extremely high as well as low BARs (Eckbo, 2009). If cash, when controlling for other variables, is negatively associated with BARs and positively related to cross-border acquisitions previously results might be flawed.

Model (4) shows that the results in model (2) are essentially unchanged when the control variables are added. Both board participation and the pre-bid acquisition of voting rights remain significant explanatory variables (p-values of 0.018 and 0.025, respectively). In addition, cash-in-payment (p-value: 0.000) and the pre-bid market-to-book ratio (p-value: 0.084) are significantly associated with the BAR. The coefficient on cash-in-payment is positive, meaning that investors view cash offers as value creating (as opposed to the managerial hubris hypothesis suggested by Roll, 1988). We find it noteworthy that the cash-in-payment coefficient is positive and significant given that 80% of the cross-border acquisitions are paid in cash, but still earn negative BARs. We also note that these seven control variables provide a substantial incremental explanatory power (compared with model (2)).

Finally, we move to model (5) in which we add the dummy for cross-border acquisitions. This has a negative effect on the incremental explanatory power of the model (a decrease from 0.084 to 0.083) and the cross-border dummy is insignificant. The only substantial change is that the coefficient on the pre-bid market-to-book variable becomes insignificant. Both the insider information and the bid trustworthiness variables remain significant. We conclude that the cross-border effect has disappeared and the main reason for this is that the insider ownership variables better explain cross-sectional variations in our sample.

CONCLUSIONS

Previous research has shown that the bid announcement return (BAR) is lower for cross-border acquisitions than for domestic acquisitions. While the characteristics of the bidding firm, target firm, and the deal explain BARs, it does not explain the cross-border effect. By holding the nationality of the target firm fixed we make use of unique Swedish ownership data and study the effects of insider ownership. The univariate analysis suggests that cross-border acquisitions differ from their domestic counterparts in a number of ways. They come with a higher bid premium and this premium is paid on top of an already quite high market-to-book ratio. The cross-border bids are more often paid in cash and less affected by market sentiments. Many more cross-border acquisitions create a horizontal integration which opens up for synergies. Of particular interest is the finding that foreign acquirers less often sit on the board of directors, but they on average acquire the same amount of shares from blockholders prior to the bid.

Our study suggests that insider ownership, in the form of insider information and bid trustworthiness, are two important factors explaining differences in the BAR, both between cross-border and domestic acquisitions and within a sample of all acquisitions. The bid premium is not capable of explaining any of the difference in the BAR between cross-border and domestic acquisitions. To the best of our knowledge, these are novel empirical findings that are appealing also from an analytical point of view. We suggest that shareholders are not *per se* reluctant to foreign acquisitions, but reluctant to those kinds of acquisitions where the acquirer is an outsider.

The Swedish governance system contains a number of features that makes it possible to control firms with limited capital ownership. As a consequence, most Swedish firms have one or two blockholders. A successful negotiation with them prior to making the bid is obviously advantageous to the bidding firm's shareholders. We believe that the Swedish setting is ideal for studying the effects of insider ownership because its usage is so extensive and the system is transparent. However, one has to be careful before stating that these findings are applicable to settings where ownership is less concentrated, or where there might be restrictions in making pre-bid discussions with individual shareholders. Ultimately this is an empirical question to be determined using data from other countries. Nevertheless, we believe it is plausible that the effects of our measures of both insider information and bid trustworthiness are underestimated. Bid trustworthiness can be established by making toehold acquisitions months prior to the official bid. If so, it can also be achieved by buying shares in the open market rather than from a specific seller. This is not considered in our study. In addition, it is possible to argue that foreign acquirers not only have less insider information, but also less information in general about the target firm, than the average domestic acquirer.

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Table 1: Acquisition frequency at the OMX Nordic Exchange Stockholm

Publicly announced successful bids	407
of which domestic acquisitions	321
of which cross-border acquisitions	86
Non-public acquirer	145
of which domestic acquisitions	128
of which cross-border acquisitions	17
Public acquirer	262
of which domestic acquisitions	193
of which cross-border acquisitions	69
Our sample	*240*
of which domestic acquisitions	185
of which cross-border acquisitions	55

All publicly announced bids from 1985 to 2007 are included in the initial sample. Bids are identified by going through fact books of the OMX Nordic Exchange Stockholm (formerly known as the Stockholm Stock Exchange). Bids are classified using information from a wide variety of sources, including the acquiring and target firms' annual reports as well as the databases Affärsdata, Datastream and SixTrust. The difference between our sample and the total population is due to missing return data for non-Swedish acquirers and missing ownership data for the target firm.

Table 2: General control variables

Variable	*Definition*	*Exp.sign*
Bid premium	Bid market value of equity divided by the average market value of equity in days t_{-250} to t_{-1}.	-
Bid anticipation	Dummy taking the value 1 if there is any newspaper article discussing the bid in the 30 days prior to the bid announcement. Otherwise 0.	-
Cash-in-payment	Dummy taking the value 1 if the bid offer contains any cash element. Otherwise 0.	+/-
Market sentiments	The stock index return from day t_{-250} to t_{-1}.	+
Pre-bid market-to-book	Target firm's average market value of equity in days t_{-20} to t_{-1} relative to its book value of equity from the latest annual report released prior to the bid announcement.	+/-
Relative size	Dummy taking the value of 1 if the target firm's pre-bid value of equity is more than 30% of the total pre-bid value of the target and bidder firm's value of equity. Otherwise 0.	+
Conglomerate	Dummy taking the value 1 if the acquisition does not create a horizontal or a vertical integration.	-

Table 3: Descriptive statistics

Panel A: Differences between domestic and cross-border acquisitions

	Cross-Border acquisitions			*Domestic acquisitions*			*Difference*
	N	Mean	Median	n	Mean	Median	
BIDRET	55	-0,0145	-0,0120	185	0,0029	0,0030	-0,0174
BIDPREM	55	0,3232	0,2451	185	0,2591	0,2451	0,0641
ANTICIPA	55	0,1636	0,0000	185	0,1730	0,0000	-0,0093
CASH	55	0,8000	1,0000	185	0,3892	0,0000	0,4108
MKTSENT	55	0,0139	0,0043	185	0,0998	0,0101	-0,0859
PRE_M/B	55	2,6873	2,3024	185	2,1351	1,6923	0,5522
RELSIZE	55	0,3091	0,0000	185	0,6216	1,0000	-0,3125
CONGLOM	55	0,0000	0,0000	185	0,3568	0,0000	-0,3568
PREBIDMAIN	55	0,2000	0,0000	185	0,3622	0,0000	-0,1622
PREACQ	55	0,2735	0,1500	185	0,2885	0,1730	-0,0151
BOARD	55	0,2000	0,0000	185	0,4811	0,0000	-0,2811

Panel B: Correlation coefficients (Pearson and Spearman)

	BIDRET	FOREIGN	BIDPREM	ANTICIPA	CASH	MKTSENT	PRE_M/B	REL_SIZE	CONGLO	PREMAIN	PREACQ	BOARD
BIDRET		**-0,118**	-0,057	-0,023	***0,244***	**0,086**	**-0,092**	0,037	**-0,127**	0,049	**0,051**	**0,149**
FOREIGN	**-0,146**		***0,149***	-0,003	**0,146**	**-0,164**	**0,160**	***-0,266***	**0,335**	**-0,117**	-0,031	***-0,252***
BIDPREM	-0,032	0,065		***-0,261***	0,093	**-0,144**	**-0,155**	***-0,217***	0,050	0,021	0,014	**-0,142**
ANTICIPA	-0,018	-0,003	***-0,282***		0,047	-0,066	**0,127**	0,083	-0,066	-0,080	**-0,154**	**0,125**
CASH	***0,205***	**0,146**	0,087	0,047		0,103	0,090	***-0,167***	**-0,153**	**-0,148**	0,008	0,056
MKTSENT	**0,099**	**-0,128**	-0,102	-0,034	**0,150**		0,101	0,059	-0,003	0,036	**0,116**	**0,139**
PRE_M/B	**-0,111**	**0,162**	**-0,138**	0,101	**0,122**	***0,168***		-0,003	-0,015	**-0,126**	-0,033	-0,009
REL_SIZE	0,015	**-0,266**	**-0,206**	0,083	**-0,167**	0,052	-0,009		-0,085	0,069	-0,084	0,019
CONGLO	***-0,198***	***0,335***	0,014	-0,066	**-0,153**	-0,022	0,001	-0,085		-0,033	**0,131**	***-0,276***
PREMAIN	0,027	**-0,117**	0,068	-0,080	**-0,148**	0,031	**-0,115**	0,069	-0,033		***-0,219***	***0,458***
PREACQ	**0,055**	-0,029	-0,029	**-0,155**	-0,014	0,049	-0,003	-0,075	**0,136**	***-0,187***		***-0,520***
BOARD	***0,174***	***-0,252***	**-0,107**	**0,125**	0,056	**0,149**	-0,014	0,019	***-0,276***	***0,458***	***-0,520***	

BIDRET is the bid announcement return estimated as the change in the bidding firm's share price (measured in local currency) from day t_{-1} to day t_{+1}. FOREIGN is a dummy variable taking the value 1 if the acquiring firm is not listed at the Stockholm Stock Exchange, otherwise 0. BIDPREM is the bid premium, defined as the difference between the bid value and the target firm's average market value of equity in the twenty days preceding the acquisition bid. ANTICIPA is a dummy variable taking the value 1 if there is any speculation in the Swedish business press about an acquisition in the 30 days preceding the bid, otherwise 0. CASH is a dummy variable taking the value 1 if the bid contains any cash element at all, otherwise 0. MKTSENT is the market sentiment, defined as the AFGX stock index return in the 250 days preceding the bid announcement. PRE_M/B is the pre-bid market-to-book value of equity, defined as the target firm's pre-bid average market value of equity in the twenty days prior to the bid announcement divided by the latest figure of its book value of equity (from an annual report). REL_SIZE is the target firm's pre-bid average market value of equity in the twenty days prior to the bid announcement divided by the total value of the target and acquiring firm's pre-bid value of equity. CONGLO is a dummy variable taking the value 1 if the acquisition does not lead to any visible horizontal or vertical integration, otherwise 0. PREMAIN is a dummy variable taking the value 1 if the bidding firm is the largest shareholder of the target firm prior to the bid announcement, otherwise 0. PREACQ is the percentage of voting rights acquired by the bidding firm prior to the public announcement of the bid. BOARD is a dummy variable taking the variable 1 if acquiring firm or its main shareholder sits on the board of directors of the target firm at the time of the bid announcement.

Table 4: Insider ownership and bid trustworthiness

Panel A: Insider ownership

	Total	Domestic	Cross-border
Number of observations			
Board	43%	48%	20%
No Board	57%	52%	80%
Bid announcement return			
Total	-0,12%	0,29%	-1,45%
Board	1,00%	1,46%	-2,67%
No Board	-0,91%	-0,80%	-1,14%
Bid premium			
Total	27,41%	25,91%	32,32%
Board	24,33%	25,46%	15,24%
No Board	29,62%	26,25%	36,59%

Panel B: Bid trustworthiness

	Total	Domestic	Cross-border
Number of observations			
Pre-bid main shareholder	33%	36%	20%
Bid majority shareholder	46%	44%	56%
No (or small) shareholder	21%	20%	24%
Bid announcement return			
Total	-0,12%	0,29%	-1,45%
Pre-bid main shareholder	0,72%	1,28%	-2,67%
Bid majority shareholder	-0,20%	-0,25%	-0,06%
No (or small) shareholder	-1,18%	-0,26%	-3,72%
Bid premium			
Total	27,41%	25,91%	32,32%
Pre-bid main shareholder	24,68%	26,23%	15,24%
Bid majority shareholder	28,27%	25,46%	35,25%
No (or small) shareholder	29,67%	26,01%	39,81%

The analysis is based on 240 acquisitions of publicly listed firms at the Stockholm Stock Exchange in the years 1985 to 2007 (185 domestic and 55 foreign acquisitions). *Insider ownership* is measured using a dummy variable taking the variable 1 if acquiring firm or its main shareholder sits on the board of directors of the target firm at the time of the bid announcement, otherwise 0. *Bid trustworthiness* is measured using three categories. A *pre-bid main shareholder* is the largest shareholder well before the bid announcement. A *bid majority shareholder* was not the main shareholder of the target firm before, but acquired enough shares just before the announcement to become the largest shareholder at the time of the bid announcement. All other acquirers are classified as *No (or small) shareholders*. A *domestic* acquirer is one that is listed at the Stockholm Stock Exchange at the time of the acquisition bid and a *cross-border* acquisition is made by a firm listed at a stock exchange outside of Sweden. The *bid announcement return* is measured as the change in the acquired firm's share price (measured in local currency) from day t-1 to day t+1. The *bid premium* is measured as the difference between the bid value and the target firm's average market value of equity in the twenty days preceding the acquisition bid.

Table 5: Bid announcement effect in domestic and cross-border acquisitions

	Predicted Sign	model 1	model 2	model 3	model 4	model 5
FOREIGN	-	**-0.0174**		-0.0086		-0.008
		(0.036)		(0.201)		(0.244)
BIDPREM	-				-0.0229	-0.0220
					(0.169)	(0.178)
ANTICIPA	-				-0.0078	-0.0076
					(0.249)	(0.253)
CASH	+/-				**0.0409***	**0.0423***
					(0.000)	(0.000)
MKTSENT	+				0.0031	0.0013
					(0.439)	(0.476)
PRE_M/B	+/-				-0.0049	-0.0045
					(0.084)	(0.116)
REL_SIZE	+				0.0092	0.0078
					(0.139)	(0.186)
CONGLO	-				0.0073	0.0051
					(0.221)	(0.305)
PREMAIN	+		0.0048	0.0048	-0.0018	-0.0022
			(0.348)	(0.348)	(0.441)	(0.430)
PREACQ	+		**0.0004***	**0.0003**	**0.0003**	**0.0003**
			(0.009)	(0.016)	(0.025)	(0.038)
BOARD	+		**0.0326***	**0.0299***	**0.0239**	**0.0221**
			(0.001)	(0.003)	(0.018)	(0.030)
Observations		240	240	240	240	240
Adjusted R^2		0.010	0.033	0.032	0.084	0.082

The analysis is based on 240 acquisitions of publicly listed firms at the Stockholm Stock Exchange in the years 1985 to 2007 (185 domestic and 55 foreign acquisitions). The explained variable is the bid announcement return of the acquired firm estimated as the change in the acquired firm's share price (measured in local currency) from day t-1 to day t+1. FOREIGN is a dummy variable taking the value 1 if the acquiring firm is not listed at the Stockholm Stock

Exchange, otherwise 0. BIDPREM is the bid premium, defined as the difference between the bid value and the target firm's average market value of equity in the twenty days preceding the acquisition bid. ANTICIPA is a dummy variable taking the value 1 if there is any speculation in the Swedish business press about an acquisition in the 30 days preceding the bid, otherwise 0. CASH is a dummy variable taking the value 1 if the bid contains any cash element at all, otherwise 0. MKTSENT is the market sentiment, defined as the AFGX stock index return in the 250 days preceding the bid announcement. PRE_M/B is the pre-bid market-to-book value of equity, defined as the target firm's pre-bid average market value of equity in the twenty days prior to the bid announcement divided by the latest figure of its book value of equity (from an annual report). REL_SIZE is the target firm's pre-bid average market value of equity in the twenty days prior to the bid announcement divided by the total value of the target and acquiring firm's pre-bid value of equity. CONGLO is a dummy variable taking the value 1 if the acquisition does not lead to any visible horizontal or vertical integration, otherwise 0. PREMAIN is a dummy variable taking the value 1 if the bidding firm is the largest shareholder of the target firm prior to the bid announcement, otherwise 0. PREACQ is the percentage of voting rights acquired by the bidding firm prior to the public announcement of the bid. BOARD is a dummy variable taking the variable 1 if acquiring firm or its main shareholder sits on the board of directors of the target firm at the time of the bid announcement. P-values are shown in the parentheses. Bold indicates statistical significance at the 5% level. * indicates statistical significance at the 1% level.

Endnotes

[1] These hinders can be for example cultural divergencies (Napier et al., 1993), strategic incompatibility (Meyer and Altenborg, 2008) or other forms of incompatible resources.

[2] Sundqvist reports the holdings of the 25 largest shareholders as of January each year. The data is collected from a public record including all shareholders with more than 500 shares. In the booklet family relationships as well as partnerships are outlined, subjectively, by the author. The format and employed methodology has not changed over the years.

[3] There are a number of reverse takeovers in the sample, i.e., when the acquiring firm finances the acquisition by issuing new shares bought by the target firm's main shareholder. In some of these takeovers there is also a substantial degree of insider ownership.

[4] Rydqvist (1996) discusses hostile takeover attempts in Sweden, but they are carried out as accumulation of minority blocks and not as hostile tender offers.

[5] A few firms have been acquired right after they were publicly listed and then data (usually ownership data) is unobtainable. Some non-Swedish acquirers are also unidentified or they have some missing data.

[6] In 1991 Sundqvist started publishing the booklet 'Auditors and boards'. The information in this booklet confirms that (1) acquiring firms with >20% of the voting rights sit on the target firm's board of directors, and (2) acquiring and target firms with the same main owners are represented by the same board members.

[7] We observe that on 41 occasions (16.3%) the target firm's main shareholder has control by using several corporate entities.