

Corporate Governance and the Returns to Acquiring Firms' Shareholders: An International Comparison

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Abstract:

We examine the effects of mergers on the returns to acquiring companies' shareholders for a large sample of companies from both Anglo-Saxon and non-Anglo-Saxon countries over the 1980s and 1990s. With the important exception of Japan, we find similar patterns of returns across both types of countries. For a sample of 9,733 acquiring companies the mean percentage gain over a short window of 21 days is 0.6 percent. This picture changes dramatically as the market has more time to evaluate the mergers and/or the acquiring firms. After three years, acquirers' shareholders in the United States and continental Europe lost on average 19 percent of their market value compared to a portfolio of non-merging firms in their size deciles and their two-digit industry, in Canada, Australia and New Zealand roughly 16 percent, and in the four Scandinavian countries almost 15 percent. Further analysis indicates that some mergers are consistent with the hypothesis that mergers generate synergies, but that a majority of mergers in Continental Europe are explained by the managerial discretion and/or hubris hypothesis. Our findings also suggest that corporate governance institutions in the United States and the other Anglo-Saxon countries lead to better investment performance than in continental Europe, when one confines one's attention to mergers.

Keywords: Corporate Governance, Mergers, Acquisitions, Determinants of Mergers, Effects of Mergers, International Comparison

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