The relative performance of naked cross-border deals versus those in which the acquirer's knowledge-intensive investors have expertise in the target region

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Abstract

Using a comprehensive dataset of cross-border acquirers share registers, this paper tests whether knowledge-intensive shareholders can influence M&A deal success. We posit that deals in which long-term investors have a high level of expertise in the target region are more likely to perform better than if the deal is 'naked', i.e. when such regional expertise amongst the shareholders is low. This research uses an index of country-level M&A maturity to measure the relative divergence between acquirer and target countries. Where there exists significant divergence in environments, the management of an acquirer considering a potential foreign investment may find that the experience which it has built up in its home market may not be enough to understand the potential complications arising from crossing over to another, divergent region. This research investigates whether acquirers in such situations could benefit from the regional expertise of their existing knowledge-intensive investors. Evidence is presented which confirms the hypothesis that cross-border deals in divergent environments are more likely to be successful if the acquirer's investors have a higher level of expertise in the target region. This provides a specific setting which is consistent with earlier theoretical work that argues in general that information flows should not just be from firms to capital markets but also in the opposite direction, and that this flow of information is particularly important whenever information is dispersed.

Keywords: Cross-Border M&A, Institutional Investors, Investor Relations, Financial Geography, Country Development, M&A Maturity

Naked M&A transactions: The relative performance of naked cross-border deals versus those in which the acquirer's knowledge-intensive investors have expertise in the target region

1. Introduction

Ferreira, Massa and Matos (2009), hereafter FMM, consider cross-border M&A deals and find (Subsection 4.3) that the extent to which a deal is value-increasing depends on whether there is foreign institutional ownership of the companies. Specifically, they find (p. 640) that "foreign institutional ownership in both target and acquirer firms is associated with higher combined returns in cross-border deals. This is consistent with the "facilitation hypothesis" that foreign institutions promote deals that offer greater value creation (synergy)." They argue that this is because foreign institutional investors may reduce transaction costs and informational asymmetries between potential acquirers and targets. However, they do not propose in detail how these advantages arise.

Building upon the theory of Financial Geography and the work of Dye and Sridhar (2003), this research argues that the reason that the holdings of foreign institutional investors is positively associated with acquirer returns performance is because a subset of the investors may have key expertise in the target region. That is, in an economic setting in which information is hard to gather and diverse in nature, it may be reasonably argued that those investors with regional expertise hold information which the management of the acquirer finds hard to collect. Thus, they may have a role to play in reducing cross-border M&A deal informational asymmetries. To summarise, one goal of this research is to refine the earlier hypotheses of FMM in order to provide a more nuanced understanding of the specific reasons behind the observation of this positive association.

In order to try to detect these effects, this research is conducted at acquirer share register level and the success of transactions is measured at deal level. Additionally, since it is argued here that the effects are most likely to arise with those institutional investors who are both knowledge-intensive and who have regional expertise, the investor sample is further refined. First, institutional investors are split into those who are relatively more knowledge-intensive (informed) versus those who are not. The latter group includes those who only invest in specific stocks for very short periods of time and therefore are not assumed to conduct detailed firm-level analyses. Second, in order to identify informed institutional investors, an analysis of their share registers is conducted to ascertain their portfolio allocation, which is then used as a proxy for measuring regional expertise. It is, therefore, suggested that simply looking at aggregate institutional investor holdings is an imperfect measure of the potential for reductions in informational asymmetries by acquirer firms learning from institutional investors. Instead, this research tests to see whether the holding positions in the target region of informed institutional investors is positively associated with post-M&A deal performance. Our statistically significant results confirm the above thesis. In addition, we add to the existing literature by highlighting the importance of maintaining a constructive dialogue with long-term and strategically-savvy investors about investment programmes and strategies. In addition, we posit that the importance of this two-way communication is of particular importance when the divergence of the acquirer and target market is high. Thus, we suggest that the relationship established by FMM between the composite of investors on the share register and deal success is due to a reduction in information asymmetry and, especially importantly, when the investment is being made in countries with less developed M&A markets.

This paper is organised as follows: Section 2 is a review of the literature on financial geography, management choices of strategic options contingent on market reactions and other related literature, which can be used to provide support for our aforementioned primary hypothesis; Section 3 discusses the data sources and provides the list of variables; Section 4 presents empirical tests of the hypotheses; and the conclusion is presented in Section 5.

2. Related literature

This section considers the previous literature on the benefits which can accrue to the management of an acquirer by consulting its investors when it is considering making a cross-regional M&A deal. With regard to this, it has long been recognised (see, for instance, Jennings and Mazzeo, 1991) that when an initial M&A bid is issued, the management of the potential acquirer needs to be cognisant of the stock market reaction to the initial announcement. For instance, shortly after Hewlett Packard (HP) withdrew from a much touted potential deal with PwC, the CEO, Carly Fiorina, stated, "I recognise that a number of you verbalised your concerns over the past few weeks, and others simply voted with their positions in the stock. ... I realise you made some valid points."[1]

Expressed more generally, Dye and Sridhar (p.389, 2003) argued that "The existing literature … primarily views the information flows between firms and the capital market as one way — from firms to the capital market. This paper is premised on information flows also occurring from capital markets to firms…" In their model, investors form an opinion on the potential (net cash flow) prospects associated with an option to invest in a project which could here be

[1]Recorded on numerous press wires at the time, including Canada's *Financial Post* (*National Post*) on 14 November 2000, 'Hewlett shelves PWC deal' by David Akin with files from Simon Avery.

interpreted as an M&A deal. In their model, information about the potential success of the new deal project is widely dispersed and so it reasonable to assume that the management of the acquirer will want to have access to some of the information held by others before making a decision on whether or not to invest. In this model, the only way that management can get access to information on the value of a new project is by observing the reaction of investors - in terms of aggregate price - when it is announced that the potential deal is 'live'. Just as in the real case of HP above, management can choose to back out of the deal if the price reaction is sufficiently negative. However, we note that there may be other ways in which the management of the acquirer can learn from investors. For example, the senior management of firms meet their major institutional investors on a regular basis and talk in general terms about strategy. Holland (2006), for instance, discusses how senior management and institutional investors exchange information while staying within the spirit of disclosure regulations such as Regulation Fair Disclosure (Reg FD) in the US or the equivalent in other locations. It is, for instance, not illegal for senior management to ask institutional investors what factors, in their view, determined the success or failure of regional deals in which they had a position. Management can use such carefully conducted meetings in order to collect information and, in principle, learn from knowledgeable institutional investors. The potential for such learning when cross-border deals are being considered is the principal focus of this research.

In the Dye and Sridhar model, it is assumed that information is widely dispersed and so management find it hard to directly collect all the information themselves. Given the collection difficulties management may choose to consult investors that hold the hard to get information. Rather than simply asserting that such dispersion exists, this research considers the institutional reasons for its existence in certain settings and not in others. As shown

hereafter, the principal reason proposed here for the existence of dispersion is based on the notion of relative country-level diversity in M&A maturity. That is, we suggest that dispersion may be relatively low in cross-border deals between similarly mature M&A markets (e.g., US to UK), whereas when there is divergence in maturity (e.g., US to India), there may be high dispersion. To summarise, this research assumes the potential value to management of informed institutional investors with regional expertise is greatest when the relative difference of M&A maturity between acquirer and target regions is largest. In order to provide support for the assumption that informed institutional investors are likely to hold valuable dispersed information and to explain how to identify such investors, a brief review of the literature on financial geography is necessary.

The earliest research in this area concentrated on how certain investors tried to build up proprietary 'local' information expertise. For instance, Huberman (2001) looked at regional Bell-operated companies and showed that investors tended to prefer to invest in local Bell firms rather than those in other regions and, in a similar fashion, Coval and Moskowitz (2001) found that US institutional investors exhibited a strong preference for locally headquartered firms in their domestic portfolios. More recently, Uysal et al. (2008) examined the impact of geographical proximity on the acquisition decisions of US companies and found that "acquirer returns in local transactions were more than twice that in non-local transactions." Bae et al. (2008) suggested that local analysts have a significant informational advantage over foreign analysts and based this conclusion on data collected from a large sample of countries. They argued that a plausible explanation for their ability to identify a local advantage "is that local analysts have better access to information because they can talk to firm representatives in person and observe what goes on in firms directly." Thus, their research suggests that some institutional investors may be characterised as collecting and

processing local information which is difficult or costly to access. This then begs the question of how to identify institutional investors who develop local expertise.

In an attempt to answer this question, Chen, Harford and Li (2007) argued that it is a mistake to view all institutional investors as having common information sets and processing ability. They argued that all institutional investors "face a cost-benefit analysis of monitoring versus trading, where monitoring includes both information gathering and efforts to influence management. Monitoring is distinguished from trading by both the type of information gathered (long-term versus short-term) and the effort to influence management rather than to simply trade on that information." They defined a class of institutional investors which they describe as specialist monitors who invest significant resources in understanding the complex business environment of the firms in which they invest. They argued that those investors are characterised as conducting 'deep research' and, furthermore, they typically invest for the long term. They argued that such investors can be identified by looking at portfolio turnover styles. Thus, in this research, the informed investors most likely to collect local (regional) information are proxied by those investors who have a low portfolio turnover style.

To summarise the above, the literature on financial geography suggests that investors may earn higher returns if they collect complex local information. Dye and Sridhar's work suggests that this is exactly the sort of information which management may need to access when it is making investment decisions with dispersed information. This research suggests that a specific application of these generic issues arise in the field of cross-regional M&A deals. When the relative maturity of the M&A market of the potential acquirer diverges significantly from that of the potential target, the management of the acquirer may not have sufficient information on the target region and, in order to increase the chance of a successful

deal, will want to collect information which is held in diverse places. In such a setting, informed investors with regional expertise may have a role to play in releasing difficult to collect dispersed information. This leads to our two primary hypotheses:

H1: The Positive Effect of Regionally-Informed Investors on Deal Performance

Medium- to long-term post-M&A performance is positively related to the level of expertise that the acquirer's investors possess in the target region.

H2: The Effect of Market Diversity on the Importance of Regionally-Informed Investors

The effect of Regionally-Informed Investors on post-M&A performance depends on the divergence between the acquirer and the target markets.

In order to test the relative success of various cross-regional deals, this research adopts the standard approach of using medium- to long-term buy-and-hold abnormal returns following the announcement of M&A. Thus, the following equation for acquirer ex-post performance is estimated:

$$BHAR\_Ret_{i,j} = \alpha + \beta_{H1} * KnI\_II + \beta_{H2} * (KnI\_II * Rel\_Maturity_{Acq.-Tar.}) + \beta_k (Control\ variables) + \varepsilon_{ij} \quad (1)$$

where:

$BHAR\_Ret_{i,j}$ = The buy-and-hold abnormal returns (BHAR) which accrue to acquirers' low and very low turnover shareholder $_i$ from deal $_i$ over a 12 - month event window starting from one month prior to announcement to capture the run-up period.

KnI_II = The percentage of the total portfolio of the acquirer's low and very low turnover shareholders which is invested in the region of the target company.

$Rel\_Maturity_{Acq.-Tar}$ = The difference in M&A maturity between the acquirer and target country.

To summarise, in order to confirm the hypotheses, the empirical tests need to show that the data is consistent with

$$\beta_{H1} > 0 \quad \text{and}$$

$$\beta_{H2} > 0$$

We use the standard control variables found to be relevant to post-merger performance in the M&A literature as follows:

Acquirer borrowing capacity: Bruner (1988) shows that when bidders with high levels of debt capacity and liquidity buy targets with the opposite characteristics, this results in positive combined (acquirer and target) returns. We use the ratio of EBIT to net interest expense on debt as well as the ratio of bidder total debt to total assets to estimate the debt capacity of bidder companies. We expect that the coefficient corresponding to this variable will be negative and significant. The results presented in Table 5 (all models) demonstrate that this variable is negatively and significantly related to bidder post-merger performance.

Deal hostility: Mitchell and Stafford (2000), Cosh and Guest (2001), Fuller, Netter and Stegemoller (2002), and Megginson, Morgan and Nail (2004) document that hostile bidders tend to outperform non-hostile acquirers. We account for this effect by including a dummy variable which is equal to one in the case of hostile takeovers. In line with existing empirical evidence, the results presented in table 6 (all models) show that this variable has a negative and significant effect on post-M&A performance.

Growth versus value bidders: So-called 'glamour' acquirers, i.e. companies with high market-to-book ratios, are more likely to overestimate their ability to perform a successful M&A deal as compared to value acquirers, i.e. companies with low market-to-

book ratios. The block shareholders, CEOs, and directors of value bidders are expected to be more prudent. As a result, the market should view value bidders more favourably relative to glamour bidders. This hypothesis supported by Rau and Vermaelen (1998). In addition, Devos, Kadapakkam and Krishnamurthty (2008), as well as Bouwman, Fuller and Nain (2009) show that bidders with low market-to-book ratios tend to perform better than glamour acquirers. We expect the latter variable to have a negative and significant association with post-M&A performance. The results presented in Table 6 (all models) confirm our expectations.

Industry relatedness: Moeller and Schlingemann (2005) and Martynova and Renneboog (2006) document that a high level of industry relatedness between the target and bidder can affect positively the post-M&A performance of bidders and vice versa. We use a dummy variables which captures the four-digit SIC (Standard Industry Classification) code relatedness between the target and bidder companies. In accordance with previous studies on post-deal performance and our expectations, the four-digit SIC relatedness variable has a positive and significant coefficient (see Table 5, all models).

Method of Payment: Managers who view their companies as undervalued by the capital market prefer to finance acquisitions with cash, whereas those who view their company as overvalued are more likely to finance M&A with stock (Kang and Stulz, 1997). Previous studies have documented that cash-financed acquisitions tend to be more beneficial, or at least less harmful to bidder companies' shareholders (e.g., Huang and Walkling, 1987; Travlos, 1987; Loughran and Vijh, 1997; and Carow, Heron, and Saxton, 2004). We account for the latter effect by including a dummy variable which equals one when the method of payment for the acquisition is all cash and zero otherwise. In line with our a priori

expectations, this variable has a positive and significant coefficient in Table 6 (models 1, 2, and 3).

Acquirer liquidity: According Martynova and Renneboog (2006), acquirers characterised with high liquidity levels experience worse post-M&A performance. We use the ratio of cash and cash-equivalents to total assets to capture the influence of this variable. We expect that the level of acquirer liquidity will exert a negative and significant impact on post-deal performance in our model. Interestingly, the regression results presented in Table 5 (models 1, 2, and 3) show that the level of acquirer liquidity is positively and significantly related to post-acquisition performance.

Acquirer share turnover: It is expected that when the degree of information asymmetry between bidder company's management and its shareholders is higher, the long-term post-M&A performance of bidders is poorer. Following Ferreira et al. (2009), we account for this effect by measuring the share turnover of bidders prior to deal announcement. We expect this variable to be positively and significantly associated with our measure of post-M&A performance. The results presented in table 5 show that acquirer share turnover has a negative and statistically significant coefficient in all models.

Difference between acquirer and target countries' corporate governance: Martynova and Renneboog (2009) develop the so-called positive spill-over by law hypothesis, which posits that the corporate governance regulations of the bidder are imposed on the target in M&A deals where the acquirer is domiciled in a country with strong shareholder protection. This can have a positive impact on the post-M&A returns that accrue to bidder companies. To account for the latter effects we calculate the difference between

acquirer and target's countries anti-self-dealing indices. We expect this variable to have a negative and significant association with bidder post-M&A performance and that the higher the divergence between the target and bidder shareholder protection, the more likely it is to realise synergies by strengthening the target company's corporate governance. According to the results presented in Table 5 (all models), this variable has a negative and significant coefficient.

We present all variables in Table 1.

Place Table 1 here

3. Data and methodology

Following the approach of FMM, this research merges a sample of cross-border M&A deals from SDC Platinum with Factset Lionshares Global Ownership database to obtain firm-level institutional ownership as of the quarter-end prior to deal announcement. In contrast to FMM, our sample consists of completed bids only as we are interested in testing the relationship between knowledge-intensive investors level of regional expertise with ex-post success – measured here as the medium- and long-term shareholder wealth creation. Following a review of the acquirer share registers of the initial data sample of 3,932 cross-border deals we further refine the sample to only include deals by acquirers listed on the primary exchange of their country of listing, e.g. including firms listed on FTSE 100 and excluding firms listed on for example AIM. We introduce this filter to the dataset as the initial dataset of acquirers display some anomalies related to the type of investor on the share registers. For example, we find an unusually low proportion of index-tracking investors in the small stock and an

unusually high proportion of value-investors in the initial cut. Next, the Factset region for the deals was recorded. Note that our final sample includes only public acquirers.

The data capture period is 1 January 2002 to 31 December 2011, and the resulting sample is broken down as follows:

1. Potential cross-border deals from SDC	8,254
2. M&A deals from 1 in which the acquirer has a share register in Factset	4,688
3. Completed deals in 2. with acquirer accounting data from Worldscope	3,932
4. Sample in 3. for which the acquirer is primary-listed	1,237

Table 2 records the sample descriptive statistics for the deal data.

Place Table 2 here

Table 2 shows a breakdown of the acquirer and deal characteristics for the final study sample and the acquirers which were excluded as they were not listed on the primary exchange (see step 3 above). As expected, we note that are final sample display the characteristics of a mature company sample. Specifically, the study sample firms are larger in terms of revenue (median revenue of $7.046bn compared to $296m) and market value (median revenue of $8.807bn compared to $486m) in the year prior to the transaction announcement) than the excluded sample. The firms in the study sample are also more profitable than the excluded, less mature, firms with the median Return on Equity for the former being 16% and the latter 11% in the year prior to the announcement.

The cross-regional deal distribution from acquirer region to target region is presented in Table 3, Panels A and B.

Place Table 3 (Panels A & B) here

The descriptive statistics are presented in three ways. Panel A shows the *numerical count* of the regional deals. The within region deals are recorded on the diagonal and all other entries represent cross-regional deals. It is not surprising to see that the largest number of cross-regional deals is from Europe to North America, followed by North America to Europe. Interestingly, the next highest cross-regional deal counts are for Asia to Europe and Asia to North America. The sum of these two-cross border counts in which the acquirer is Asian is actually greater than the deal count for within the Asian region.

One problem with the simple numerical count is that some regions are much larger than others, so Panel B presents the same deal data but in *proportionate terms* in order that the numerical count does not mask relative regional trends. The proportions show some interesting features for the smaller regions. African acquirers do 32% of all their deals with European targets compared to 14% within region and only 11% with North America. In contrast, Latin American acquirers do 71% of all their deals with North American targets, only 18% are within region and the percentage with European targets is negligible. The other region which shows a clear pattern is the petro-dollar rich region of the Middle East where acquirers have 52% of targets in North America, 26% in Asia and Europe surprisingly low at 9%.

While these first two panels help develop an appreciation of regional M&A geography, they do not provide any information on our key proposed explanatory variable of investor expertise. The next step is to analyse the final sample of cross-border acquirers' share registers to construct the regional expertise variable. In order to identify a candidate set of institutional investors which may be described as knowledge-intensive (informed), all of the institutional investors classified by Factset as having a low or very low portfolio turnover are selected, a total of 25,549 investors. The regional investment pattern is then recorded for this large sub-sample of investors. So, for instance, for illustrative purposes consider an acquirer based in Europe. Step 1 records all of the investors on the acquirer's share register with a low or very low turnover style. Step 2 then records the cross-regional distribution of all the investments of each of these informed investors. Thus, when a European acquirer is considering a cross-regional M&A deal into Asia, it is possible to identify how many of its institutional investors already have holdings in Asia and how much larger that holding is – implying that a larger proportion indicates higher level of expertise. These target region holdings are used as the measure (proxy) for regional expertise given that it is unlikely the investors will have invested in the target region without first conducting research and collecting data. In order to see the patterns of regional expertise, Panel C presents the average level of expertise on acquirers' share register, i.e. the average portfolio allocation which informed investors ('Low' and 'Very Low') hold in the target region.

Place Table 3 (Panel C) here

Panel C, Columns 1 to 7, show the average expertise per regional pair. As an example, we find that for African acquirers which invest in Europe, the average regional expertise on their share register is 34% compared to 30% for investing in North America.

The final two columns show the average regional expertise shown ex-ante on acquirers' share registers per acquirer region but irrespective of target region. So, if we compare the top two listed acquirer regions, Africa and Asia, we see that Asian acquirers have on average more regional expertise – and should, therefore, be in a better position to evaluate investment opportunities abroad providing that their management teams consult their knowledge-intensive investors - on their share registers compared to African acquirers. Finally, the last column takes the same average irrespective of target region but excludes intra-regional transactions. From this table, we conclude that European and Asian acquirers appears to have the highest level of knowledge-intensive expertise on their share register when making cross-border deals. The average portfolio allocation in the target region for knowledge-intensive investors on the acquirer share register for European acquirers is 35% with the corresponding allocation for Asian acquirers' investors being 30%. However, these figures does not address the issue of the large flow of intra-regional cross-border transactions for which we assume the level of investor expertise is less relevant. The average knowledge-intensive regional expertise for cross-regional deals is presented in Column 9 of the same panel. Here we can see that it is instead Asian (32%), Latin American (31%) and Pacific (28%) acquirers which have the highest level of expertise in the target region represented on their share register.

In addition to investor regional expertise, the other explanatory variable which we introduce as a proxy for market divergence is the difference in the maturity for M&A purposes of the acquirer and target regions. We capture this by using the M&A Maturity Index developed by Appadu, Faelten, Moeller and Vitkova (2012). This index is based on a country scoring procedure which evaluates the factors which make a country attractive for and able to sustain M&A activity on the basis of five main groups of factors which have identified by previous studies as the major drivers of M&A activity. The five factor groups are:

- Regulatory and political factors (e.g., rule of law (see Rossi and Volpin, 2004) and corruption of officials (see Yartey, 2008));
- Economic and financial factors (e.g., GDP growth (see Berthelemy and Demurger, 2000 and Liu, Shu and Sinclair, 2009) and stock market capitalisation and access to financing (see Yartey, 2008 and Saborowski, 2009));
- Technological factors (e.g., high-technology export and innovation (see Porter, 1993));
- Socio-economic factors (e.g., population and demographics (Appadu, Faelten, Moeller and Vitkova (2012)); and
- Quality of infra-structure and assets (e.g. roads and railways, and the number of sizeable corporate assets; see, e.g., Sekkat and Veganzones-Varoudakis, 2004; Quazi, 2005; Mateev, 2009; and Anyanwu, 2012).

The M&A Maturity Index allocates a score of between 0% and 100% in each factor group to 148 countries worldwide - where 100% indicates the highest degree of development and 0% the lowest level of development for M&A purposes – and produces an overall M&A maturity score as a weighted average of the five groups. The top and bottom 15 countries represented in our sample is presented in Table 4, Panels A and B.

Place Table 4 (Panels A & B) here

The country rankings for 2012 demonstrate the emergence of Asia as a fast developing region for M&A activity, with the region claiming five of the top ten country positions. Despite the US (85%) and UK (82%) claiming the top and third spots respectively, Singapore (84%) and

Hong Kong (81%) are second and fourth respectively, with South Korea (5th), China (9th) and Japan (10th) following. By using the relative M&A maturity index score,[2] i.e. the difference between the acquirer and target countries' level of development for M&A purposes, we should be in a better position to measure true divergence between the two markets and therefore better identify the cross-border transactions for which management will be in greater need of additional expertise. According to Tong, Alessandri, Reur, and Chintakananda (2008), it is also country- as opposed to industry-effects which will influence the performance of companies involved in cross-country investment activities.

In Table 5, Panels A to C we present univariate analysis of acquirer ex-post shareholder wealth creation.

Place Table 5 Panels A, B & C here

The general form of equation (1) shows that post returns are used as the dependent variable in order to appraise the performance of individual M&A deals. More specifically, since the main focus of our analysis is to examine post-M&A performance from the perspective of investors with low or very low turnover (informed investors), it is argued here that the most relevant performance metric would be one which takes into account the post-acquisition returns over a 12-month investment horizon.[3] Performance is thus measured on the basis of acquirer share price returns using the buy-and-hold abnormal returns (BHAR) which accrue

[2] Note that the M&A Maturity Index is measured on a time series basis starting from year 2006 before which we use data for 2006 as the latest available year.

[3] This investment horizon also coincides with the time period which Factset uses in order to distinguish between different levels of investor turnover.

to acquirers over a 12-month event window starting from one month prior to the announcement of the deal in order to capture the run-up period.[4] The BHAR approach to measuring abnormal returns has been widely used in studies involving share price performance (see, e.g., Barber and Lyon, 1997; and Mitchell and Stafford, 2000). Mitchell and Stafford (2000) define BHAR as "the average multiyear return from a strategy of investing in all firms that complete an event and selling at the end of a pre-specified holding period versus a comparable strategy using otherwise similar non-event firms." An advantage of using BHAR is that this approach to measuring company share price performance is closer to investors' actual investment experience compared to the periodic rebalancing which other approaches to share price performance analysis involve. Given the specific cross-regional focus of this study, the BHARs are equally weighted and adjusted to the performance of the respective MSCI regional index of the acquirer company over the same time. Specifically, we consider the following regions for the purposes of calculating bidder BHAR: Africa, Asia, Europe, Latin America, Middle East, North America and Pacific.[5]

In Table 5, Panel A, we provide an overview of acquirers BHAR across acquirer region and time. Our first conclusion is that on average, acquirers appear to have outperformed their regional indices by 7.2% in the 12 month period post the announcement of the transaction. This is an interesting finding as many previous studies provide evidence to the contrary, i.e. that M&A deals typically destroy shareholder wealth for the acquirer (Schlingemann, Stultz and Moeller, 2005). We explain this average positive acquirer returns by the superior

[4] Note that the BHAR analysis uses the Total Returns of a company, i.e. it includes share price appreciation or depreciation as well as the return from reinvesting the paid dividends.

[5] Note that for Middle East and Africa – where no appropriately regionally defined indices for the sample period could be sourced – we use the MSCI Emerging Markets Europe and Middle East and the MSCI Emerging Markets Europe, Middle East and Africa respectively.

financial performance ex-ante displayed by our study-sample. The restriction imposed to reach our final sample – that acquirers need to be listed on the primary stock exchange - means that the type of companies included in our study-sample are on average better performing. Some interesting regional differences are also evident from the results presented in Table 5, Panel A. When measuring BHAR over 12 months, we find that acquirers from Latin America earn the largest statistically significant returns while acquirers from Africa and the Middle East do not earn any positive returns which are statistically significantly different from zero. This aggregate average as well as the relative returns pattern does not seem to change qualitatively when the period over which the BHARs are calculated is increased from 12 to 24 or 36 months.

Panel B provides that data on returns at the regional level. This shows a very different pattern to the aggregated statistics above. For instance, as mentioned earlier, Asian acquirers are relatively big investors in both Europe and North America and even though when all deals are taken together, overall they earn positive returns (10.8% Panel A), Asian acquirers do not earn statistically significantly positive returns on their European deals. There appears, therefore, to be significant variations in cross-regional deal performance.

It has been argued earlier that one reason for possible variations in returns performance is that the maturity of the M&A market of the acquirer is very different from that of its target, so information on the target region may be widely dispersed and or difficult to collect. Before testing formally whether informed investors with regional expertise can contribute to reducing such asymmetries, it is interesting to see if simply stratifying deal data according to whether the acquirer and target are located in M&A markets with a high, medium or low level of maturity has an effect. Panel C reports the results of this. Interestingly, the results

seem to suggest that simply looking at the relative maturity of the acquirer and target markets does not explain regional variations in performance. Although some differences in the acquirer portfolios (BHAR) exists the difference between the portfolios are not statistically significant.

This naturally leads to formal testing in order to see whether performance variation can be explained by Hypotheses 1 and 2 – the role of investors with regional expertise when M&A markets are most divergent.

4. Empirical tests on the effects of institutional investors' regional expertise

Equation (1) is estimated with the results reported in Table 6.

Place Table 6 here

Using the BHAR performance of bidders adjusted for the corresponding regional index benchmark, the relationship is tested between the acquirers' post-merger performance over an event window of 12 months and the degree of regional expertise of the acquirers' informed investors.[6] The results for β_{H1} indicate that there is a significant and positive relationship between the level of regional expertise that the acquirer's informed investors possess and post-bid performance. Specifically, the models presented in Table 6, Model 1, show that the coefficient corresponding to the variable which quantifies the regional expertise of each monitoring investor, namely *KnI_II*, is positive and statistically significantly different from

[6] The significance and sign of these regression results was tested with alternative BHAR holding periods, such as 24 and 36 months, with no significant differences in the results or conclusions. These regressions are presented in Appendix A and B.

zero. This latter result provides support for Hypothesis 1 that informed investors who possess specialised regional knowledge about the target's geographical region (acquired due to existing investments in the region) can contribute to the success of cross-regional M&A deals.

In addition, the regression results presented in Table 5, Model 2-4, provide support for the second hypothesis developed in this study that β_{H2} is positive. Specifically, Models 3 and 4 show that the regional expertise of knowledge-intensive institutional investors is more useful (in the sense that it adds more value to subsequent acquirer performance) in cases in which the target country's M&A market is most divergent from the acquirer's home M&A market (as indicated by a positive and higher difference in the M&A Maturity Index scores of the acquirer and target countries). Specifically, the coefficient on the interaction variable *KnI_II x Rel_Maturity* is positive and significant. When comparing the results of Models 3 and 4, one can see that the expertise of informed investors is more important in cases in which the 'distance' between the M&A maturity of the acquirer and target countries is higher.

Furthermore, Model 3 shows that simply considering the geographical distance between the target and acquirer regions of domicile is not sufficient when trying to identify the types of cross-regional deal for which the regional expertise of informed investors is more valuable (i.e. the coefficient corresponding to the *KnI_II x Cross_reg* variable is not statistically significant in Model 4).[7] The regional expertise of informed investors becomes more valuable (i.e. it has the potential to contribute more to the value creation which results from an M&A

[7] Note here that the cross-regional variable excludes the cross-border flows between North America and Europe as expertise is less relevant as although the flow is cross-regional the two regions are close in all but geographical distance.

deal) only when the difference between the levels of maturity of the acquirer and target M&A markets is taken into account.[8]

The fact that the regional expertise of the low and very low turnover investor class has a positive association with acquirers' post-merger performance is in accordance with the line of argument put forward by Chen et al. (2007), who argued that independent, long-term institutional investors gather information about the overall quality of firm management and its tendency to make better or worse decisions. Independent long-term institutional investors also gather information about the scope of influence over the actions of firm managers and invest in companies where the benefits associated with the quality of management and the opportunity to influence managerial decisions outweigh the costs of gathering information and monitoring the companies. Moreover, the finding that there is a positive association between the post-merger performance of bidders with the pre-acquisition holdings of institutional investors who possess specialised knowledge about the M&A market of the target's region demonstrates the idea that the class of informed investors is better positioned to gather information about individual investment projects such as cross-regional deals.

[8] As our regressions are run on investor level (from the acquirer share register), we note that clustering issues might arise. It is certainly plausible that the same investor is a shareholder at multiple acquirers in the sample, especially for acquirers in the same region. If the two (or more) acquirers with the same investor(s) on their share register invest in the same region, the effect of our *KnI_II* variable on deal success might be overstated. We control for this issue by adding a cluster control on the *Investor name* variable. All regression models illustrated in Table 6 and in Appendix A and B are controlling for this effect.

5. Conclusion

Traditional research on information flows in financial markets concentrates on flows from firms to investors. However, motivated by the earlier theoretical work of Dye and Sridhar (2002), this research investigates whether there may be value in information flows in the reverse direction, i.e. from investors to firms. Keeping within the spirit of the Dye and Sridhar model, this research looks at cross-border M&A deals with potentially widely distributed information and attempts to identify settings in which firm management could learn most from those investors who have experience and expertise in the target region. It is proposed here that such expertise held by investors is likely to benefit the management of a potential acquirer most when the target country is significantly less developed in terms of M&A maturity compared to the acquirer country, i.e. where the divergence of the two markets is large and hence the extent of information asymmetry is greater. Thus, this research suggests that going naked (without informed investor support) into foreign deals in complex cross-regional settings may be dangerous for the bottom line.

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Tables

Table 1: Variable definitions

Number	Variable name	Definition	Expected sign
1	BHAR_Ret$_{i,j}$	The buy-and-hold abnormal returns (BHAR) which accrue to acquirers' low and very low turnover shareholder $_i$ from deal $_j$ measured over a 12 - month event window starting from one month prior to announcement in order to capture the run-up period. BHAR returns are adjusted to the corresponding MSCI regional index for each acquirer's country of domicile	***
2	KnI_II	Knowledge-intensive institutional investors: the percentage of the total portfolio of the acquirer's low and very low turnover shareholders which is invested in the region of the target company.	+
3	Cross_reg	Cross-regional dummy: variable which indicates 1 if the deal is between regions in which the investment expertise of knowledge-intensive institutional investors is expected to be most important. Specifically, in cases when the cross-border deal is between Western Europe (including the United Kingdom) and North America (the United States and Canada) the dummy is equal to 0 and for all other cross-regional deals it is equal to 1	-
4	KnI_II x Cross_reg	Knowledge-intensive institutional investors *interacted with* the cross-regional dummy: this variable captures the effect of knowledge-intensive institutional investors in cases when the deal is cross-regional. The variable is equal to the product of variable 1 and variable 2.	+
5	Rel_Maturity	Relative maturity: the difference between the M&A maturity of the acquirer and target countries. M&A maturity is measured by the M&A Maturity Index, which rates 148 countries in terms of their degree of development for M&A purposes. The country index is calculated by using an average weighting of six groups of factors which have been identified in previous research as critical for a market to attract and sustain M&A activity, namely, regulatory and political, financial and economic, technological, socio-economic, development of physical infrastructure and availability of assets.	+/-
6	KnI_II x Rel_Maturity	Knowledge-intensive institutional investors *interacted with* relative maturity: this variable captures the effect of knowledge-intensive institutional investors as determined by the M&A maturity gap between the acquirer and target countries. It is expected that in cases when the target's country is less mature for M&A purposes than the acquirer's country, the effect of knowledge-intensive institutional investors on post-M&A performance should be more positive.	+

Table 1: Variable definitions – continued

Number	Variable name	Definition	Expected sign
7	Cult_Dist	Cultural distance between the acquirer's and target's countries.	-
8	Deal_Val	Value of M&A deal: the natural logarithm of the M&A deal value measured in millions of US dollars.	-
9	Hostile	Hostile deal dummy: variable which is equal to 1 if the deal is hostile and 0 otherwise.	+
10	Ind_Relat.	Industry relatedness between target and acquirer dummy: variable which is equal to 1 if the target and acquirer 4-digit SIC (Standard Industry Classification) codes are the same and 0 otherwise.	+
11	All_Cash	Method of payment is all-cash dummy: variable which is equal to 1 if the method of payment for the M&A deal is all cash and 0 otherwise.	+
12	$MV\_BV_{Acq\ Y-1}$	Market-to-book ratio of the acquirer company: equal to the market value divided by the book value of the acquirer one year before the deal announcement.	+/-
13	$TD\_TA_{Acq\ Y-1}$	Ratio of total debt to total assets of the acquirer company: equal to the total debt divided by the total assets of the acquirer company one year before the deal announcement.	+/-
14	$Liquid_{Acq\ Y-1}$	Liquidity of acquirer company: equal to the cash and cash equivalents divided by the total assets of the acquirer one year before the deal announcement.	-
15	$Turnov_{Acq}$	Share turnover of acquirer company: equal to the trading volume divided by the total outstanding shares of the acquirer company measured three months before the deal announcement.	-
16	$Anti\text{-}self\text{-}dealing_{Acq\text{-}Tar}$	The difference between acquirer country and target country in the anti-self-dealing index: the anti-self-dealing index as developed by Djankov, La Porta, Lopez-de-Silanes and Shleifer (2008).	+
17	Prct_Held_B	Percentage held before the deal announcement: the percentage of outstanding bidder company shares that the low and/or very low turnover investor $_i$ holds in acquirer $_j$ measured three months prior to deal announcement	+/-
18	Investor name	The name of the low and very low turnover investor that is present on the acquirer's share register	**

Table 1: Variable definitions – continued

Number	Variable name	Definition	Expected sign
19	DV_MV_{Acq}	Ratio of deal value to market value: equal to the M&A transaction value dividend by the market value of the acquirer as of 20 days prior to deal announcement	*
20	$MV_{Acq\ Y-1}$	The market value of the acquirer as of one year prior to the deal announcement measured in thousands of US $	*
21	$Sales_{Acq\ Y-1}$	Net sales/revenue of acquirer as of one year prior to deal announcement measured in thousands of US $	*
22	$ROE_{Acq\ Y-1}$	Acquirer return on equity: Acquirer net income divided by common shareholder's equity as of one year prior to deal announcement	*
23	$EBIT\_MG_{Acq\ Y-1}$	Acquirer EBIT margin: equal to earnings before interest and tax divided by net sales as of one year prior to deal announcement	*
24	$ICR_{Acq\ Y-1}$	Acquirer Interest Cover Ratio: equal to earnings before interest and tax dividend by the net interest expense of the acquirer as of one year prior to deal announcement	*

*** Please note that this is the dependent variable in our model, ** Please note that this variable is used for the purposes of controlling for cluster effects, * Please note that these variables are used for the purposes of comparing the characteristics of our final study sample to the sample of M&A deals which are excluded from this study.

Table 2: Cross-border acquirers and transaction characteristics

Sample	All (3,932) - A		Study-sample (1,237) - B		Excluded (2,695) - C		Mean test (A-B)	Median test (A-B)	Mean test (C-B)	Median test (C-B)
Variable	Average	Median	Average	Median	Average	Median	t-stat.	Pearson Chi^2	t-stat.	Pearson Chi^2
Deal_val	495***	59***	1086	257	282***	36***	-8.92	258.91	-13.59	421.78
DV_MV	59%	5%***	10%	2%	77.05%*	6%***	1.19	95.11	0.01	163.53
$MV_{Acq\ Y-1}$	9,416,841***	1,105,015***	21,550,815	8,807,284	4,770,547***	485,998***	-12.46	458.65	-18.97	770.07
$MV\_BV_{Acq\ Y-1}$	2.17	2.02**	3.05	2.22	1.83	1.96***	-0.61	5.51	-0.72	10.6
$Sales_{Acq\ Y-1}$	8,551,202***	766,706***	19,844,048	7,046,057	4,369,264***	295,973***	-12.23	474.47	-18.20	793.47
$ROE_{Acq\ Y-1}$	5.32%**	13%***	15.87%	16%	1.27%***	11%***	-2.29	43.69	-2.71	78.09
$EBIT\_MG_{Acq\ Y-1}$	-84.24%*	11%***	12%	13%	-122.85%**	10%***	-1.58	22.17	-1.87	38.9
$TD\_TA_{Acq\ Y-1}$	23%	20%***	25%	23%	22%	17%***	-0.96	24.99	-1.14	47.24
$Liquid_{Acq\ Y-1}$	18.84%***	12%***	12%	7%	20.99%***	14%***	9.5	61.26	11.68	96.31
$ICR_{Acq\ Y-1}$	37.31***	5.84***	28.04	6.12	41.17***	5.61***	-6.53	373.99	-9.67	582.33

This table compares the key acquirer and deal characteristics of the study sample to the initial sample with all of the available information (i.e. including acquirers not listed on a primary stock exchange) and to the sample of excluded acquirers. 'All (3,932) - A' refers to the sample of all public acquirers for which accounting and share register information is available and which are also listed on non-primary exchanges. 'Study-sample (1,237) - B' refers to the final sample of deals used for the purposes of the analysis performed in this study. 'Excluded (2,695) -C' refers to the sample of deals which are excluded from the analysis due to the fact that they are not listed on a primary stock exchange. Company financials are obtained from Datastream and measured in US$ while deal value is measured in millions of US$. 'Deal_val' stands for the value of the M&A transaction; 'DV_MV' is measured as the ratio of the M&A deal value to the acquirer market value as of 20 days before the announcement of the deal; '$MV_{Acq\ Y-1}$' stands for the market value of the acquirer as of one year prior to deal announcement; '$MV_BV_{Acq\ Y-1}$' measures the acquirer market-to-book ratio as of one year prior to deal announcement; '$Sales_{Acquirer\ Y-1}$' measures the acquirer net sales as of one year prior to deal announcement; 'ROE' is measured in % terms and represents net income before preferred dividends less the preferred dividend requirement divided by last year's common equity, and is calculated by Datastream; '$EBIT_MG_{Acq\ Y-1}$' is measured as the ratio of EBIT to net sales as of one year before the deal announcement; '$TD_TA_{Acq\ Y-1}$' is measured as total debt divided by total assets; '$Liquid_{Acq\ Y-1}$' is measured as the ratio of acquirer cash and equivalents divided by total assets as of one year prior to deal announcement; and '$ICR_{Acq\ Y-1}$' is measured as the ratio of acquirer EBIT divided by net interest expense as of one year prior to deal announcement .

***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Table 3: M&A deals and investor expertise per sample region

Panel A: Number of completed cross-border deals per regional pair

Target region → Acquirer region ↓	Africa	Asia	Europe	Latin America	Middle East	North America	Pacific	All
Africa	4	0	9	5	1	3	6	28
Asia	0	74	52	2	1	43	14	186
Europe	18	43	351	45	8	158	16	639
Latin America	2	0	0	3	0	12	0	17
Middle East	0	6	2	0	3	12	0	23
North America	4	25	121	19	9	67	22	267
Pacific	2	12	24	2	0	21	16	77
All	30	160	559	76	22	316	74	1,237

Panel A shows the cross-border deal flow (number) in the sample from the acquirer region to the target region over the sample period (1,237 in total from all regions to all regions).

Panel B: Proportion of completed cross-border deals per regional pair

Target region → Acquirer region ↓	Africa	Asia	Europe	Latin America	Middle East	North America	Pacific	All
Africa	0.14	0.00	0.32	0.18	0.04	0.11	0.21	1.00
Asia	0.00	0.40	0.28	0.01	0.01	0.23	0.08	1.00
Europe	0.03	0.07	0.55	0.07	0.01	0.25	0.03	1.00
Latin America	0.12	0.00	0.00	0.18	0.00	0.71	0.00	1.00
Middle East	0.00	0.26	0.09	0.00	0.13	0.52	0.00	1.00
North America	0.01	0.09	0.45	0.07	0.03	0.25	0.08	1.00
Pacific	0.03	0.16	0.31	0.03	0.00	0.27	0.21	1.00

Panel B shows the proportion of cross-border deal flow in the sample from the acquirer region to the target region over the sample period (1,237 in total from all regions to all regions).

Panel C: Average investor regional expertise (KnI_II)

Target region → Acquirer region ↓	Africa (1)	Asia (2)	Europe (3)	Latin America (4)	Middle East (5)	North America (6)	Pacific (7)	Av. KnI_II (8)	Av. KnI_II (cross-regional) (9)
Africa	0.28	-	0.34	0.03	-	0.30	0.03	0.19	0.19
Asia	-	0.24	0.34	0.01	0.00	0.36	0.01	0.30	0.32
Europe	0.01	0.11	0.48	0.01	0.02	0.28	0.02	0.35	0.22
Latin America	0.00	-	-	0.12	-	0.32	-	0.28	0.31
Middle East	-	0.11	0.32	-	0.33	0.44	-	0.21	0.21
North America	0.02	0.07	0.18	0.01	0.00	0.64	0.01	0.26	0.16
Pacific	-	0.21	0.28	0.01	-	0.32	0.05	0.24	0.28

Panel C illustrates the average level of expertise in the target region which acquirers have on their share registers pre-announcement. Specifically, it shows the average portfolio allocation in the target region of the low and very low turnover investors on the acquirer share register in the quarter prior to the deal announcement, i.e. our definition of knowledge-intensive institutional investors' regional expertise (*KnI_II*). Note that the turnover classification is defined by the FactSet database and for our sample of 1,237 completed deals, 25,549 of the aggregate investors in the acquirers' share registers are classified as having low or very low turnover. Columns 1 to 7 show the average expertise per regional pair, e.g. the value of 0.28 in the upper left cell shows that the level of regional expertise of African acquirers in our sample, i.e. the average portfolio allocation for low and very low turnover investor listed on the acquirer share register into the Africa region, is 28%. If we compare this to the cell corresponding to African acquirers investing in the European region, we can conclude that the level of expertise on the acquirers' share register (34%) is on average higher than for their home region of Africa.

The final two columns show the average regional expertise shown ex-ante on acquirers' share registers per acquirer region but irrespective of target region. So, if we compare the top two listed acquirer regions, Africa and Asia, we see that Asian acquirers have on average more regional expertise – and should, therefore, be in a better position to evaluate investment opportunities abroad providing that their management teams consult their knowledge-intensive investors - on their share registers compared to African acquirers. Finally, the last column takes the same average irrespective of target region but excludes intra-regional transactions.

Table 4: Description of the M&A Maturity Index

Panel A: This panel shows the M&A Maturity Index country ranking and index score (2012) and the corresponding score for the five factor groups for the top 15 ranked countries represented in our sample.

Country name	Rank	M&A Maturity Index score	Regulatory and political	Economic and financial	Technological	Socio-economic	Infrastructure and assets
United States	1	0.85	0.84	0.81	0.92	0.80	0.89
Singapore	2	0.84	0.96	0.75	0.90	0.68	0.92
United Kingdom	3	0.82	0.80	0.77	0.93	0.71	0.90
Hong Kong	4	0.81	0.87	0.76	0.83	0.72	0.88
South Korea	5	0.81	0.76	0.65	0.95	0.91	0.78
Germany	6	0.80	0.76	0.66	0.91	0.73	0.95
Canada	7	0.80	0.84	0.76	0.89	0.81	0.71
France	8	0.80	0.80	0.70	0.92	0.67	0.90
China	9	0.79	0.44	0.87	0.81	0.97	0.87
Japan	10	0.79	0.73	0.75	0.92	0.69	0.87
Netherlands	11	0.79	0.86	0.71	0.94	0.65	0.79
Switzerland	12	0.79	0.86	0.75	0.93	0.60	0.78
Australia	13	0.77	0.90	0.73	0.85	0.69	0.70
Spain	14	0.77	0.68	0.74	0.76	0.79	0.90
Austria	15	0.74	0.80	0.58	0.84	0.60	0.88

Panel B: This panel shows the M&A Maturity Index country ranking and index score (2012) and the corresponding score for the five factor groups for the bottom 15 ranked countries represented in our sample.

Country name	Rank	M&A Maturity Index score	Regulatory and political	Economic and financial	Technological	Socio-economic	Infrastructure and assets
Egypt	65	0.56	0.38	0.54	0.47	0.66	0.74
Peru	68	0.55	0.52	0.64	0.56	0.59	0.43
Philippines	70	0.54	0.35	0.64	0.65	0.63	0.41
Lebanon	76	0.51	0.37	0.59	0.59	0.51	0.50
Macedonia	80	0.50	0.63	0.49	0.46	0.55	0.38
Pakistan	86	0.47	0.21	0.46	0.37	0.65	0.64
Bangladesh	90	0.44	0.20	0.61	0.32	0.69	0.39
Syria	97	0.42	0.38	0.45	0.35	0.49	0.42
Nigeria	101	0.41	0.23	0.50	0.40	0.53	0.38
Ecuador	102	0.40	0.27	0.37	0.49	0.52	0.36
Ghana	107	0.39	0.52	0.38	0.25	0.49	0.31
Papua New Guinea	123	0.34	0.26	0.50	0.40	0.35	0.19
Uganda	132	0.32	0.31	0.34	0.28	0.41	0.25
Sierra Leone	133	0.31	0.33	0.36	0.39	0.29	0.20
Dem. Rep. of Congo	143	0.27	0.19	0.39	0.42	0.25	0.12

Panels A and B shows the top and bottom 15 countries in the 2012 M&A Maturity Index represented in our sample. The *Rank* is the country ranking for 2012, based on the total of 148 countries ranked in the index. The *M&A Maturity Index score* - which determines the rank - is the weighted average of the five factor group scores including 1) *Regulatory and political factors* (e.g., rule of law and and political stability), 2) *Economic and financial factors* (e.g., GDP growth and access to financing), 3) *Technological factors* (e.g., high-tech exports and innovation), 4) *Socio-economic factors* (e.g., population) and 5) *Quality of infra-structure and assets* (e.g. roads and railways, and the number of sizeable corporate assets).

Table 5: Long-term acquirer performance – Buy-and-hold returns (BHAR)

Panel A: Regional acquirer BHAR – time dependent

Acquirer region ↓	BHAR months -1 - 12 t-stats (observations)	BHAR months -1 - 24 t-stats (observations)	BHAR months -1 - 36 t-stats (observations)
Africa	0.042	0.076	0.032
	0.616 (28)	0.461 (23)	0.104 (21)
Asia	0.108***	0.163***	0.295***
	4.883 (186)	4.961 (164)	5.675 (140)
Europe	0.053***	0.121***	0.215***
	5.061 (639)	6.729 (607)	7.144 (561)
Latin America	0.175**	0.198*	0.086
	2.257 (17)	1.928 (15)	0.729 (14)
Middle East	-0.105	-0.103	-0.151
	-1.318 (23)	-0.795 (19)	-0.910 (17)
North America	0.095***	0.236***	0.415***
	4.481 (266)	7.230 (243)	8.129 (209)
Pacific	0.109***	0.175***	0.392***
	2.969 (77)	3.184 (70)	4.709 (63)
All	0.072***	0.151***	0.266***
	8.499 (1,236)	11.567 (1,141)	12.826 (1,025)

Panel A shows the equally-weighted buy-and-hold portfolio returns (BHAR) for all acquirers which completed a cross-border deal during the sample period (1,237 deals). The matrix shows the performance per acquirer region and BHAR period, ranging from month -1 before the announcement to months 12, 24 and 36 after the announcement. Each period shows the average abnormal total return, adjusted to the regional MSCI index and the corresponding t-statistics and number of observations. Note that for Middle East and Africa – where no appropriate regionally defined indices for the sample period could be sourced – we use the MSCI Emerging Markets Europe and Middle East and the MSCI Emerging Markets Europe, Middle East and Africa indices, respectively.
***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Panel B: Regional acquirer BHAR – target region dependent

Target region → Acquirer region ↓	Africa t-stats (obs.)	Asia t-stats (obs.)	Europe t-stats (obs.)	Latin America t-stats (obs.)	Middle East t-stats (obs.)	North America t-stats (obs.)	Pacific t-stats (obs.)
Africa	-0.02	-	0.15	0.11*	0.33	0.08	-0.20
	-0.17 (4)	- (0)	1.18 (9)	1.74 (5)	- (1)	1.14 (3)	-0.93 (6)
Asia	-	0.16***	0.05	0.04	0.00	0.11**	0.08**
	- (0)	3.46 (74)	1.30 (52)	0.25 (2)	- (1)	2.80 (43)	2.11 (14)
Europe	0.09	0.06	0.05***	0.00	0.09**	0.05***	0.04
	1.36 (18)	1.51 (43)	3.51 (351)	0.12 (45)	2.04 (8)	3.21 (158)	0.51 (16)
Latin America	0.26	-	-	0.17	-	0.16	-
	0.84 (2)	- (0)	- (0)	1.02 (3)	- (0)	1.64 (12)	- (0)
Middle East	-	0.14	-0.09	-	-0.37*	-0.16*	-
	- (0)	0.70 (6)	-0.50 (2)	- (0)	-1.83 (3)	-1.82 (12)	- (0)
North America	-0.12	0.15*	0.09**	0.17*	0.14*	0.09***	0.01
	-1.43 (4)	1.97 (25)	2.82 (120)	1.69 (19)	1.88 (9)	2.59 (67)	0.15 (22)
Pacific	0.09	-0.01	0.12*	0.17***	-	0.17**	0.10
	0.59 (2)	-0.06 (12)	1.74 (24)	4.39 (2)	- (0)	2.13 (21)	1.43 (16)

Panel B shows the equally-weighted buy-and-hold portfolio returns (BHAR) for all acquirers which completed a cross-border deal during the sample period (1,237 deals). The matrix shows the performance per acquirer and target region, with the BHAR period ranging from month -1 before the announcement to month 12 after the announcement. Each cell shows the average abnormal total return, adjusted to the regional MSCI index and the corresponding t-statistics and number of observations. Note that for Middle East and Africa – where no appropriate regionally defined indices for the sample period could be sourced – we use the MSCI Emerging Markets Europe and Middle East and the MSCI Emerging Markets Europe, Middle East and Africa indices, respectively.
***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Panel C: Panel C: Acquirer BHAR (-1, 12) – relative M&A maturity$_{\text{Acquirer country to target country}}$

Target region → Acquirer region ↓	All t-stats (observations)	High M&A maturity$_{\text{Tar .C}}$ t-stats (observations)	Medium M&A maturity$_{\text{Tar. C}}$ t-stats (observations)	Low M&A maturity$_{\text{Tar C.}}$ t-stats (observations)	Mean test (Similar vs different M&A maturity)	
High M&A maturity$_{\text{Acq. C}}$	0.08***	0.07***	0.09***	0.08***	HH vs HM	HH vs HL
	5.541 (396)	3.06 (127)	3.05 (152)	3.39 (117)	0.189	0.144
Medium M&A maturity$_{\text{Acq. C}}$	0.06***	0.05***	0.07*	0.08***	MM vs MH	MM vs ML
	4.81 (450)	2.99 (219)	1.74 (84)	3.47 (147)	-0.557	0.266
Low M&A maturity$_{\text{Acq. C}}$	0.07***	0.07**	0.08***	0.07**	LL vs LH	LL vs LM
	4.46 (390)	2.08 (101)	3.15 (145)	2.42 (144)	-0.144	0.301

Panel C shows the equally-weighted buy-and-hold portfolio returns (BHAR) for all acquirers which completed a cross-border deal during the sample period (1,237deals). The matrix shows the performance per acquirer and the target country's M&A maturity, where High M&A maturity refers to those countries which rank above the top 33 percentile within the sample in terms of the M&A Maturity Index, Medium M&A maturity refers to those countries which rank between the 33 and 66 percentiles and where Low M&A maturity refers to those countries which rank in the bottom 33 percentile. Each cell shows the average abnormal total return (-1 months, 12 months), adjusted to the regional MSCI index and the corresponding t-statistics and number of observations. Note that for Middle East and Africa – where no appropriate regionally defined indices for the sample period could be sourced – we use the MSCI Emerging Markets Europe and Middle East and the MSCI Emerging Markets Europe, Middle East and Africa indices, respectively. The last column of this table shows the t-statistics corresponding to the following mean comparison tests: 'HH vs HM' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in high M&A maturity markets to those associated with deals between acquirers domiciled in high M&A maturity markets and targets domiciled in medium M&A maturity markets, 'HH vs HL' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in high M&A maturity markets to those associated with deals between acquirers domiciled in high M&A maturity markets and targets domiciled in low M&A maturity markets, 'MM vs MH' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in medium M&A maturity markets to those associated with deals between acquirers domiciled in medium M&A maturity markets and targets domiciled in high M&A maturity markets, 'MM vs ML' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in medium M&A maturity markets to those associated with deals between acquirers domiciled in medium M&A maturity markets and targets domiciled in low M&A maturity markets, 'LL vs LH' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in low M&A maturity markets to those associated with deals between acquirers domiciled in low M&A maturity markets and targets domiciled in high M&A maturity markets, 'LL vs LM' compares the buy-and-hold abnormal returns associated with deals between acquirers and targets domiciled in low M&A maturity markets to those associated with deals between acquirers domiciled in low M&A maturity markets and targets domiciled in medium M&A maturity markets.

***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Table 6: Analysis of 12-month cross-border post-M&A performance

	(1)	(2)	(3)	(4)
Institutional investor expertise				
KnI_II	0.036***	0.039***	0.039***	0.032***
	4.00	3.93	4.41	3.27
KnI_II x Cross_reg		-0.020		0.052**
		-0.89		2.19
KnI_II x Rel_Maturity			0.474***	0.546***
			3.03	3.39
Control variables				
Cult_Dist	-0.013***	-0.013***	-0.009***	-0.012***
	-5.65	-5.03	-4.16	-4.25
Prct_Held_B	0.197**	0.196**	0.244***	0.245**
	2.05	2.04	2.53	2.53
Deal_Val	-0.027***	-0.027***	-0.025***	-0.025***
	-12.93	-12.91	-12.10	-12.01
Hostile	-0.076***	-0.076***	-0.073***	-0.073***
	-6.67	-6.62	-6.09	-6.05
Ind_Relat.	0.044***	0.044***	0.050**	0.049***
	5.96	5.85	6.78	6.63
All_Cash	0.021***	0.021***	0.010*	0.010
	3.08	3.10	1.39	1.45
$MV\_BV_{Acq\ Y-1}$	-0.001***	-0.001***	-0.001***	-0.001***
	-15.95	-15.70	-15.21	-15.10
$TD\_TA_{Acq\ Y-1}$	-0.300***	-0.301***	-0.305***	-0.306***
	-10.81	-10.81	-11.05	-11.02
$Liquid_{Acq\ Y-1}$	-0.436***	-0.435***	-0.427***	-0.432***
	-10.53	-10.52	-10.38	-10.45
$Turnov_{Acq}$	-0.026***	-0.026***	-0.032***	-0.031***
	-10.76	-10.68	-12.39	-12.09
$Anti\text{-}self\text{-}dealing_{Acq\text{-}Tar}$	-0.032**	-0.032**	-0.052***	-0.050***
	-2.59	-2.49	-4.04	-3.74
Cross_reg		0.009		0.501
		0.97		0.05
Rel_Maturity			0.507***	0.001***
			9.19	8.46
Constant	0.349***	0.348***	0.329***	0.330***
	19.11	19.10	18.03	18.09
Number of observations	10,784	10,784	10,610	10,610
R-squared	0.111	0.111	0.137	0.139

This table presents the regression analysis of acquirer post-M&A performance. The dependent variable is defined as the acquirer buy-and-hold abnormal returns measured over the 12-month period after the deal announcement and adjusted by the MSCI regional index corresponding to the region of the acquirer. The explanatory variables used in the regression are defined as follows: 'KnI_II' stands for knowledge-intensive institutional investors, 'KnI_II x Cross_reg' stands for knowledge-intensive institutional investors *multiplied by* the cross-regional dummy, 'KnI_II x Rel_Maturity' stands for knowledge-intensive institutional investors *multiplied by* the difference in M&A maturity between the target and acquirer countries, 'Cult_Dist' stands for the cultural distance between the acquirer and target countries, 'Prct_Held_B' stands for the percentage of ownership of all of the outstanding shares which each institutional investor has in the acquirer company, 'Deal_Val' stands for the natural logarithm of the M&A deal value, 'Hostile' stands for a dummy variable which equals 1 when the deal is hostile and 0 otherwise, 'Ind_Relat.' stands for a dummy variable which equals 1 when the target and acquirer operate in the same industry and 0 otherwise, 'All_Cash' stands for a dummy variable which is equal to 1 when the method of payment is all cash and 0 otherwise, 'MV_BV_{Acq}' stands for the market-to-book ratio of the acquirer, 'TD_TA_{Acq}' stands for the ratio of total debt to total assets, '$Liquid_{Acq}$' stands for the ratio of cash and cash equivalents to total assets, '$Turnov_{Acq}$' stands for the trading volume divided by total outstanding shares three months before deal announcement, '$Anti\text{-}self\text{-}dealingAcq\text{-}_{Tar}$' stands for the difference between the acquirer and target countries' anti-self-dealing index values, 'Rel_Maturity' stands for the difference between acquirer and target M&A maturity, and 'Cross_reg' equals 1 when the deal is cross-regional and 0 otherwise.

To address any potential clusters within our dataset, we use a cluster control for the *Investor Name* variable. In this way, we control for any overstatement of the t-statistics related to the reoccurrence of the same institutional investor on multiple acquirer share registers.

***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Appendices

Appendix A: Analysis of 24-month cross-border post-M&A performance

	(1)	(2)	(3)	(4)
Institutional investor expertise				
KnI_II	0.042***	0.053***	0.043***	0.042***
	3.00	3.45	3.13	2.76
KnI_II x Cross_reg		-0.134***		0.009
		-3.88		0.24
KnI_II x Rel_Maturity			1.070***	0.962***
			4.17	3.61
Control variables				
Cult_Dist	-0.046***	-0.036***	-0.040***	-0.035***
	-9.90	-7.15	-8.95	-7.00
Prct_Held_B	-0.028	-0.020	0.062	0.068
	-0.21	-0.14	0.46	0.51
Deal_Val	-0.044***	-0.045***	-0.042***	-0.042***
	-12.78	-12.96	-12.81	-12.78
Hostile	-0.170***	-0.169***	-0.159***	-0.159***
	-5.93	-5.86	-5.21	-5.21
Ind_Relat.	0.061***	0.063***	0.075***	0.077***
	5.02	5.13	6.26	6.36
All_Cash	0.018*	0.016	-0.002	-0.004
	1.73	1.54	-0.18	-0.35
$MV\_BV_{Acq\ Y-1}$	-0.002***	-0.002***	-0.002***	-0.002***
	-37.73	-37.24	-35.34	-34.91
$TD\_TA_{Acq\ Y-1}$	-0.036	-0.023	-0.043	-0.029
	-0.65	-0.41	-0.79	-0.52
$Liquid_{Acq\ Y-1}$	-0.430***	-0.409***	-0.423***	-0.413***
	-5.31	-5.05	-5.20	-5.05
$Turnov_{Acq}$	-0.068***	-0.069***	-0.079***	-0.080***
	-16.63	-16.64	-18.30	-17.99
$Anti\text{-}self\text{-}dealing_{Acq\text{-}Tar}$	-0.071***	-0.083***	-0.108***	-0.115***
	-3.87	-4.36	-5.90	-6.09
Cross_reg		-0.023		1.059***
		-1.54		-2.64
Rel_Maturity			1.017***	-0.039***
			11.58	11.30
Constant	0.569***	0.570***	0.544***	0.543
	16.78	16.87	16.71	16.71
Number of observations	9,626	9,626	9,452	9,452
R-squared	0.157	0.160	0.205	0.206

This table presents the regression analysis of acquirer post-M&A performance. The dependent variable is defined as the acquirer buy-and-hold abnormal returns measured over the 24-month period after the deal announcement and adjusted by the MSCI regional index corresponding to the region of the acquirer. The explanatory variables used in the regression are defined as follows: 'KnI_II' stands for knowledge-intensive institutional investors, 'KnI_II x Cross_reg' stands for knowledge-intensive institutional investors *multiplied by* the cross-regional dummy, 'KnI_II x Rel_Maturity' stands for knowledge-intensive institutional investors *multiplied by* the difference in M&A maturity between the target and acquirer countries, 'Cult_Dist' stands for the cultural distance between the acquirer and target countries, 'Prct_Held_B' stands for the percentage of ownership of all of the outstanding shares which each institutional investor has in the acquirer company, 'Deal_Val' stands for the natural logarithm of the M&A deal value, 'Hostile' stands for a dummy variable which equals 1 when the deal is hostile and 0 otherwise, 'Ind_Relat.' stands for a dummy variable which equals 1 when the target and acquirers operate in the same industry and 0 otherwise, 'All_Cash' stands for a dummy variable which is equal to 1 when the method of payment is all cash and 0 otherwise, 'MV_BV_{Acq}' stands for the market-to-book ratio of the acquirer, 'TD_TA_{Acq}' stands for the ratio of total debt to total assets, '$Liquid_{Acq}$' stands for the ratio of cash and cash equivalents to total assets, '$Turnov_{Acq}$' stands for the trading volume divided by total outstanding shares three months before deal announcement, '$Anti\text{-}self\text{-}dealingAcq\text{-}_{Tar}$' stands for the difference between the acquirer and target countries' anti-self-dealing index values, 'Rel_Maturity' stands for the difference between acquirer and target M&A maturity, and 'Cross_reg' equals 1 when the deal is cross-regional and 0 otherwise.

To address any potential clusters within our dataset, we use a cluster control for the *Investor Name* variable. In this way, we control for any overstatement of the t-statistics related to the reoccurrence of the same institutional investor on multiple acquirer share registers.

***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.

Appendix B: Analysis of 36-month cross-border post-M&A performance

	(1)	(2)	(3)	(4)
Institutional investor expertise				
KnI_II	0.042**	0.036*	0.033*	0.013
	2.31	1.84	1.76	0.69
KnI_II x Cross_reg		-0.058		0.135**
		-1.17		2.35
KnI_II x Rel_Maturity			1.874***	1.629***
			4.65	4.05
Control variables				
Cult_Dist	-0.098***	-0.084***	-0.092***	-0.081***
	-14.70	-11.68	-13.75	-11.49
Prct_Held_B	0.102	0.115	0.224	0.239
	0.47	0.53	1.01	1.07
Deal_Val	-0.062***	-0.062***	-0.065***	-0.064***
	-12.90	-13.03	-13.36	-13.26
Hostile	-0.195***	-0.194***	-0.176***	-0.176***
	-7.22	-7.12	-5.91	-5.88
Ind_Relat.	0.215***	0.217***	0.239***	0.244***
	9.91	9.95	10.66	10.80
All_Cash	-0.020	-0.023	-0.030	-0.034*
	-1.16	-1.33	-1.66*	-1.85
MV_BV_{Acq}	-0.008***	-0.008***	-0.009***	-0.009***
	-18.19	-18.24	-18.79	-18.85
TD_TA_{Acq}	0.320***	0.350***	0.296	0.340***
	4.26	4.67	3.99	4.57
$Liquid_{Acq}$	0.193*	0.211**	0.220**	0.230**
	1.93	2.13	2.21	2.33
$Turnov_{Acq}$	-0.119***	-0.120***	-0.130***	-0.130***
	-25.06	-24.89	-26.68	-26.41
$Anti\text{-}self\text{-}dealing_{Acq\text{-}Tar}$	-0.068**	-0.083***	-0.107***	-0.121***
	-2.23	-2.61	-3.37	-3.66
Cross_reg		-0.074***		-0.117***
		-3.96		-5.51
Rel_Maturity			1.061***	1.213***
			8.84	9.48
Constant	0.724***	0.726***	0.714***	0.706***
	15.04	15.13	14.99	14.99
Number of obs.	8,272	8,272	8,098	8,098
R-squared	0.176	0.179	0.210	0.213

This table presents the regression analysis of acquirer post-M&A performance. The dependent variable is defined as the acquirer buy-and-hold abnormal returns measured over the 36-month period after the deal announcement and adjusted by the MSCI regional index corresponding to the region of the acquirer. The explanatory variables used in the regression are defined as follows: 'KnI_II' stands for knowledge-intensive institutional investors, 'KnI_II x Cross_reg' stands for knowledge-intensive institutional investors *multiplied by* the cross-regional dummy, 'KnI_II x Rel_Maturity' stands for knowledge-intensive institutional investors *multiplied by* the difference in M&A maturity between the target and acquirer countries, 'Cult_Dist' stands for the cultural distance between the acquirer and target countries, 'Prct_Held_B' stands for the percentage of ownership of all of the outstanding shares which each institutional investor has in the acquirer company, 'Deal_Val' stands for the natural logarithm of the M&A deal value, 'Hostile' stands for a dummy variable which equals 1 in when the deal is hostile and 0 otherwise, 'Ind_Relat.' stands for a dummy variable which equals 1 when the target and acquirers operate in the same industry and 0 otherwise, 'All_Cash' stands for a dummy variable which is equal to 1 when the method of payment is all cash and 0 otherwise, 'MV_BV_{Acq}' stands for the market-to-book ratio of the acquirer, 'TD_TA_{Acq}' stands for the ratio of total debt to total assets, '$Liquid_{Acq}$' stands for the ratio of cash and cash equivalents to total assets, '$Turnov_{Acq}$' stands for the trading volume divided by total outstanding shares three months before deal announcement, 'Anti-self-dealingAcq-$_{Tar}$' stands for the difference between the acquirer and target countries' anti-self-dealing index values, 'Rel_Maturity' stands for the difference between acquirer and target M&A maturity, and 'Cross_reg' equals 1 when the deal is cross-regional and 0 otherwise.
To address any potential clusters within our dataset, we use a cluster control for the *Investor Name* variable. This way we control for any overstatement of the t-statistics related to the reoccurrence of the same institutional investor on multiple acquirer share registers.
***, **, and * indicate statistical significance at a 1%, 5% and 10% level, respectively.