Does target corporate governance affect the acquirers' ownership decisions? Evidence from Vietnam M&A market

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ABSTRACT

In this paper, we expand the understanding of the motivations and the importance of corporate governance mechanisms of target firms in acquisitions in Vietnam by testing whether target corporate governance mechanisms can explain different equity ownership levels in target firms. We find that bidders tend to prefer a higher equity ownership level in target firms, which have better board size, less powerful CEOs, and higher block-shareholdings. These governance characteristics also lead to a greater percentage of equity ownership by the acquirers "in" and "after" the transaction. Our results support the view that bidding firms actively assess target corporate governance characteristics as part of their acquisition planning.

JEL classifications: G32; G34

Key words: Equity ownership level; Minority acquisitions; Majority acquisitions; Target firms; Board size; CEO power; Large shareholders; Vietnam

1. Introduction

The focus of this paper is on the relation between target corporate governance and ownership choices and outcomes. We employ a partial-control and full-control ownership dichotomy, which can yield a better understanding of majority acquisitions. The literature has provided a vast amount of research that has examined different motives for acquisitions from the perspective of the bidders, and indicates that the drivers can differ markedly across different equity ownership levels (Maksimovic and Phillips, 2001; Fee and Thomas, 2004; Ouimet, 2013 and Liao, 2014). Nevertheless, these studies commonly have only investigated the drivers for the trade-off between minority (less than 50%) and majority (more than 50%) ownership of the target. Particularly, they assume that purchasing more than 50% but less than 100% ownership (partial-control) will be similar to obtaining 100% ownership (full- control). Kim (2012) argues that the complexities, risks, and expected synergies will be different across certain ownership levels. Dang and Henry (2016) currently find the relation between target corporate governance mechanisms and the trade-off and outcomes between partial-control and full-control acquisitions using a sample of countries with different institutional environments. This paper examine what determines the bidders' different equity ownership stakes in a typical emerging market, Vietnam, in where the Vietnamese government has yet to consolidate the laws governing M&A to streamline capital flow from foreign countries while counterbalancing the protection of local business, as it planned.

Based on the extant literature on corporate governance (Roll, 1986; Kroll et al., 1990; Datta et al., 2001; Harford and Li, 2007; Malmendier and Tate, 2008; Croci and Petmezas, 2015; Dang and Henry, 2016), this study focuses on three different dimensions of target corporate governance: board size; CEO power; and large shareholder blockholdings. The most direct mechanism of corporate governance is via the board of directors and board composition. Prior studies have examined the effect of board size on reducing conflicts of interest between shareholders and managers in target firms, and documented that targets with more independent directors tend to employ resistance strategies to improve shareholder wealth (Cotter et al., 1997) or oppose full-merger offers (Bange and Mazzeo, 2004). However, the correlation between board size and equity preferences in takeovers has not been examined in the current literature. Given the potential existence of free-riding problem, target outside

directors may be more likely to oppose full-control acquisitions as these takeovers would threaten their benefits and tenure on the board; therefore, this can reduce the probability of the success of full-control acquisitions and encourage bidders to attempt partial-control acquisitions. As expected, this study finds that bidders select to undertake partial-control acquisitions when targets have more independent directors at the time of takeovers. Also, target firms which are monitored by boards with more independent directors are less likely to be acquired through full-control mergers. Further, the likelihood of achieving an expected ownership level outcome is lower if target firms have more independent directors. These findings expand prior empirical studies by Kini et al. (1995), Cotter et al. (1997), and Bange and Mazzeo (2004) regarding the effect of target board independence on the bidders' takeover choices and takeover outcomes.

The second dimension of a firm's corporate governance structure examined in this chapter relates to the power of CEOs. Prior studies find that the CEO of a firm that becomes a takeover target suffers a conflict of interest that might possibly result in opportunistic behavior; thus, the target CEO can resist a full-acquisition bid in an attempt to keep his job (Grossman and Hart, 1986; Allen and Phillips, 2000; Fee et al., 2006; Ouimet, 2013). In a similar vein, according to Hartzell et al. (2004) and Moeller (2005), if the bidder guarantees to provide, or contractually provides, a position for the target CEO in the merged firm and offers attractive retirement payments, he is more likely to approve a full merger offer. To date, there is no research on the role and effect of target CEO power in explaining the ownership decisions in takeovers. Given the incentive-based theories, we argue that target managers may use their powerful position to resist full-control acquisition attempts because they are more likely to be displaced and lose compensation and perquisites after a full merger than following a partial-control takeover. This study finds a positive correlation between target CEO power and partial-control ownership propensity, supporting my prediction that target CEO power is a significant predictor of the equity ownership decisions in takeovers. we also find that target firms with more powerful CEOs are less likely to be acquired through full-control acquisitions. This target corporate governance characteristic also leads to a lower likelihood of desired control level acquisitions being achieved compared to unmatched ownership outcomes.

Large shareholder blockholdings are the last corporate governance mechanism examined in this study. Through blockholdings, large shareholders influence corporate decisions and enhance the overall monitoring environment, thus, the conflicts between shareholders and managers and leading to the mitigation of agency costs (Demsetz and Lehn, 1985; Shleifer and Vishny, 1986; and Hartzell and Starks, 2003). Also, prior studies document that target blockholders can directly influence the target board and management prior to the takeover, control the takeover process (Cooney et al., 2009), and determine deal success (Ye, 2014). Nevertheless, little has been done to examine the effect of target blockholdings on the bidders' equity ownership preferences in takeovers. we expect that target blockholders are more likely to disapprove of full-control acquisitions. One explanation can be that target blockholders represent a major impediment to full-control achievement, particularly as they may resist or lobby for better terms or encourage competing bidders. It may also be that blockholders have developed their ownership stake for strategic reasons and may have their own control aspirations. This would also be consistent with an increased likelihood of takeover offer resistance, and particularly to full-control bids. In other words, this would encourage bidders to attempt partial-control acquisitions and reduce the likelihood of the success of full-control mergers. As expected, there is a strong positive relationship between target blockholdings and the likelihood of a partial-control ownership sought, consistent with the idea that bidders tend to prefer partial-control rather than full-control when target firms have higher blockholdings. Also, target firms with higher blockholdings are less likely to be acquired through full-control mergers.

Overall, this study implies that bidders consider target corporate governance characteristics when determining their preferred equity ownership level. Also, these mechanisms have significant effects on the ownership outcomes in takeovers.

The rest of the essay is organized as follows. Section 2 presents a detailed review of the existing literature on corporate governance and their potential effects on the equity ownership decisions of bidders, takeover outcomes, and the gains to target firms. The related hypotheses are also developed in this section. A description of data is given in Section 3, while Section 4 presents methodologies used to examine the research questions. Section 5 reports empirical results, and Section 6 concludes the essay.

2. Theoretical background and hypotheses

2.1. Minority vs. Majority Acquisitions

Deciding on an appropriate ownership level is one of the most important strategic decisions of firms in acquisitions. Given an opportunity to acquire another firm, the bidders have the choice of purchasing a minority (less than 50%), or a partial-control (more than 50% and less than 100%) or a full-control (100%) ownership level of the target through a merger.

The motive behind majority acquisitions (more than 50%) has been documented in numerous prior studies. Maksimovic and Phillips (2001) and Ouimet (2013) find that majority acquisitions are more frequent when bidders expect an increase in value gains through the ability to maximize joint production. Kim and Singal (1993), Fee and Thomas (2004), and Shahrur (2005) support an increase in market power following majority takeovers. Murphy (1985), Gabaix and Landier (2008), Lang et al. (1991), and Ouimet (2013) find evidence that agency motivations are important factors for the bidders' managers to seek majority control. However, these studies assume that purchasing more than 50% ownership will be similar to obtaining 100% ownership. According to Kim (2012), the expected difficulties, synergies and risks resulting from partial-control acquisitions may differ from complete integration.

From the resource-based view, as a result of the unification between ownership and control rights, full-control acquisitions allow bidders to exert full control over the targets' major operational and strategic decisions, exploiting the combined resource, achieving economies of scale and scope, and attaining greater market power (Kim, 2012 and Ouimet, 2013). Nevertheless, full-control acquisitions require higher investments in tangible and intangible assets, higher resource commitment and control, resulting in greater uncertainties (Spencer et al., 1998 and Kim, 2012).

Unlike minority and full-control acquisitions, a partial-control acquisition involves obtaining majority, but not complete, equity and voting control, allowing the bidder to exercise majority control over the target firm's decision-making. Partial-control acquisitions may provide some advantages over minority and full-control acquisitions. First, given an effective control ownership level, a partial-control acquisition can provide an opportunity for the bidder to gather more information, better evaluate the potential of the target and expected gains before taking a full-control stake. Second,

partial-control acquisitions may be preferred by increasing the motivation of bidders to invest in product market relationships, leading to an increase in the targets' competitiveness and market power rather than being required to delist the target following full-control acquisitions. Third, Contractor et al. (2014) find that partial-control takeovers can strengthen target management incentives. They explain that the bidder can leave a percentage of ownership for the target's founders and/or managers to encourage their support, especially when the bidder comes from a foreign market and are less familiar with the target's local market. By leaving room for target management, a partial-control bidder can receive ongoing help and guidance regarding business environment and policy, local customs, and customer preferences that would not be available in the context of a full-control acquisition. Moreover, Rossi and Volpin (2004) and Kim (2012) support the supply-oriented view and indicate that the target's controlling shareholders will be less willing to give up control and the additional private benefits until they are required to concede the acquisition outcome.

2.2. Target corporate governance and equity ownership decisions in acquisitions

Prior studies building on recent advances in the corporate governance literature have examined the role of corporate governance mechanisms on shaping the bidders' acquisition decisions (Roll, 1986; Kroll et al., 1990; Datta et al., 2001; Harford and Li, 2007; Malmendier and Tate, 2008 and Croci and Petmezas, 2015). Particularly, these studies tend to focus on explaining the motivations for acquisitions from the agency problem perspective resulting from the separation of firm ownership and control. However, two of the most important questions relating to whether and how target corporate governance characteristics explain the bidders' equity investment preferences and the actual acquisition ownership outcomes are yet to be fully explored.

A number of prior studies have identified an association between independent outside directors and corporate governance actions (Weisbach, 1988; Byrd and Hickman, 1992; Shivdasani, 1993 and Brickley et al., 1994) and firm performance (Rosenstein and Wyatt, 1990; Hermalin and Weisbach, 1991; Yermack, 1996; Bhagat and Black, 2002 and Ferris et al., 2003). Certain events, such as takeovers, can lead to conflicts of interest between shareholders and managers of targets and, hence, the role of independent directors becomes more important. While existing research documents that target shareholders experience high returns following successful deals (Doukas and Travlos, 1988;

Harris and Ravenscraft, 1991), target managers are more likely to oppose such takeovers due to potential losses in compensation and other control benefits (Jensen and Ruback, 1983; Jarrell et al., 1988; Stulz, 1988; Song and Walkling, 1993; Duggal and Millar, 1994; Bange and Mazzeo, 2004). Independent directors, in turn, can control these conflicts and potentially increase shareholder wealth during acquisitions. Cotter et al. (1997) examine the role of target firm independent outside directors during takeover attempts and find that target boards with a majority of independent directors tend to use resistance strategies to enhance shareholder wealth. Bange and Mazzeo (2004) examine the effect of target board characteristics on the bidders' takeover offer choices and find that, when the target's board is independent, the merger offer is less likely to succeed. However, little work has been done on whether there is a potential association between target non-executive directors and the acquirers' equity preferences. An increasingly independent target board is expected to evaluate acquisition offers objectively and from the perspective of firm and shareholder interests, and to potentially resist acquisitions which are opportunistic or do not offer a compelling value proposition to target shareholders. Such scrutiny is likely to make full-control acquisitions more expensive and/or difficult to achieve.

Furthermore, in the presence of any moral hazard or self-interest problems, it is more likely that independent directors would be unwilling to accept full-control acquisitions as their success would threaten their benefits and position on the board. With a full-control merger, independent directors will most likely lose their jobs as the target becomes a subdivision or component of the bidder. In contrast, the target remains listed after partial-control acquisitions and hence, the directors may retain their position and benefits. Consequently, greater board independence may encourage bidders to seek partial-control acquisitions and reduce the likelihood of the success of full-control acquisitions. Motivated by this discussion, we propose the following research hypotheses:

Hypothesis H3.1.1 (Ownership preferences) - Bidders are more likely to attempt partial-control rather than full-control acquisitions if target firms have more independent directors.

Hypothesis H3.1.2 (Ownership outcomes) - Target firms with more independent directors are less likely to be acquired through full-control acquisitions.

Hypothesis H3.1.3 (Matched ownership outcomes) - The likelihood of achieving a desired ownership level is lower if target firms have more independent directors.

The second dimension of target corporate governance mechanisms relates to the target CEO's power. According to Harford and Li (2007), acquisition decisions may be the most important corporate resource allocation decisions that the CEOs pursue. The corporate governance literature incorporates numerous studies on the relationship between the bidder CEO's personal benefits and acquisition performance (Roll, 1986; Kroll et al., 1990; Datta et al., 2001; Hartzell et al., 2004 and Malmendier and Tate, 2008). These studies tend to conclude that the incentives and power of CEOs have a significant effect on acquisition investments. This finding is in line with incentive-based theories proposed by Jensen and Meckling (1976) and Morck et al. (1988). According to Jensen and Meckling (1976) and Jensen and Ruback (1983), the agency costs which result due to the mismatch in the interests of shareholders and managers can reduce as top management ownership increases, because the personal interests of the CEOs are more inclined to converge with those of the shareholders when managerial shareholdings increase. In contrast, Morck et al. (1988), Hartzell et al. (2004), Moeller (2005), and Li and Aguilera (2008), argue that CEOs who hold a larger ownership of the firms' outstanding shares can obtain enough voting power and, hence, can benefit themselves rather than pursuing the shareholder wealth maximization strategies as suggested by Manne (1965). Recently, Croci and Petmezas (2015) examine the effect of risk-taking incentives on acquisition investments and find that the bidder CEOs exposed to risk-taking incentives are more likely to conduct risky investments. From the perspective of the target firms, Grossman and Hart (1986), Allen and Phillips (2000), Fee et al. (2006), Ouimet (2013), and Jenter and Lewellen (2015) document that full-control acquisitions can have a negative effect on target CEO incentives, making full-control deals become more expensive. They explain that the acquisition of full-control over the target's resources may improve the bidder's incentives to invest, but the target manager's incentives to improve returns on relationship-specific assets might be lost following the full-control acquisition. A target CEO would directly benefit from any value gain at the target firm prior to a full-control acquisition. However, after a full-control acquisition, the stock of a public target is normally delisted; therefore, the target CEO cannot benefit at all. This may impose a cost to full-control acquisitions if non-contractible investments

by the target's CEO are important to achieving value creation. Bargeron et al. (2009) maintain that the CEO of a firm that becomes a takeover target suffers a conflict of interest that might possibly result in opportunistic behavior; thus, the target CEO can resist a full-acquisition bid in an attempt to keep his job. In a similar vein, according to Hartzell et al. (2004) and Moeller (2005), if the bidder guarantees to provide, or contractually provides, a position for the target CEO in the merged firm and offers attractive retirement payments, he is more likely to approve a full merger offer (also see Stulz, 1988; Song and Walkling, 1993; Duggal and Millar, 1994; Bange and Mazzeo, 2004 and Henry, 2004, for the relation between target CEO attributes and takeover outcomes). To date, no evidence has been forthcoming in terms of the effect of target CEO power on the bidders' ownership decisions. Since CEO power can be viewed as the level of control of a CEO over the board; thus, a target firm with weaker corporate governance might be related to the presence of a more powerful CEO. More powerful CEOs are expected to use the power associated with their existing positions to resist full-control acquisition attempts because they are more likely to be displaced and lose compensation and perquisites after a full merger than following a partial-control takeover. Simplicity, clear resistance incentive for the CEO based on self-interest grounds, which increases the difficulty of acquisitions generally, and this leads to a greater likelihood of bidders electing to go for a partial-control outcome. The following research hypotheses are, therefore, proposed:

Hypothesis H3.2.1 (Ownership preferences) - Bidders are more likely to attempt partial-control rather than full-control acquisitions if target firms have more powerful CEOs.

Hypothesis H3.2.2 (Ownership outcomes) - Target firms with more powerful CEOs are less likely to be acquired through full-control acquisitions.

Hypothesis H3.2.3 (Matched ownership outcomes) - The likelihood of achieving a desired ownership level is lower if target firms have more powerful CEOs.

The last corporate governance mechanism relates to large shareholder blockholdings. A blockholding interest is a major pillar through which large shareholders can effectively exert control over managers. According to Demsetz and Lehn (1985), shareholders who hold large ownership stakes are motivated to oversee managerial activities, monitor the actions of CEOs and, hence, exercise greater control or influence. In other words, large shareholders are more likely to affect corporate

decisions and use their increased monitoring capacity to readjust the interests of shareholders and managers, leading to the reduction in agency costs (Demsetz and Lehn, 1985; Shleifer and Vishny, 1986; Hartzell and Starks, 2003 and Tihanyi et al., 2003). Given a large body of theoretical and empirical literature on the influence of ownership structures and large shareholders on corporate control and performance, a number of studies find that large shareholders, and especially institutional investors, play a key role in the bidders' acquisition decisions (Stulz et al., 1990; Ambrose and Megginson, 1992; Chen et al., 2007 and Ferreira et al., 2010). In a similar vein, Gillan and Starks (2003) and Ferreira and Matos (2008) indicate that institutional investors can eliminate the information gap between the bidders and target firms, and enhance the performance, and quality of corporate governance, of the bidders. This is because institutional investors with large stakes are expected to have a superior monitoring effect to protect their substantial shareholdings and heighten the value of their investment (Guercio and Hawkins, 1999; Gillan and Starks, 2003; Brav et al., 2008; and Andriosopoulos and Yang, 2015). From the perspective of target firms, the question of how large shareholders interact with the acquisition process is well documented in the literature. Paul (2007), Matvos and Ostrovsky (2008) and Ye (2014) suggest that blockholders influence the success of deals as they retain the final opinion over deal completion. In addition, large shareholders can have a significant influence on the takeover process by affecting target board and management actions and decision-making prior to the takeover (Agrawal and Mandelker, 1990; Moeller, 2005; Gaspar et al., 2005; Greenwood and Schor, 2009 and Cooney et al., 2009). we propose that target large shareholders act strategically in acquisition contests and recognize the significance of their holdings in influencing acquisition outcomes. This is likely to be even more prominent if these shareholders potentially have their own control aspirations. As a result, they may resist or lobby for better terms, and reduce the probability of the success of full-control mergers. Subsequently, we propose the following research hypotheses:

Hypothesis H3.3.1 (Ownership preferences) - Bidders are more likely to attempt partial-control rather than full-control acquisitions if target firms have higher blockholdings.

Hypothesis H3.3.2 (Ownership outcomes) - Target firms with higher blockholdings are less likely to be acquired through full-control acquisitions.

Hypothesis H3.3.3 (Matched ownership outcomes) - The likelihood of achieving a desired ownership level is lower if target firms have higher blockholdings.

3. Data

3.1. Data and Sample Selection

In the study, information regarding acquisition announcement date and bid-specific factors has been obtained from the Thomson Reuters SDC Platinum database. Also, to ensure the sample captures transactions motivated by control, we only focus on acquisitions in which the bidder owns less than 50% of the target firm's stock before the transaction. A deal is classified as a partial-control acquisition when the acquirer owns greater than 50% and less than 100% of the target firm's equity after the acquisition and as a full-control takeover when the acquirer owns 100% of the target after the deal. Further, to avoid the potential effects of very small deals, the sample only includes deals with a value of at least US$1 million. Moreover, target firms are required to be publicly-listed, and required to have stock price and financial data available in the DataStream, Thomson Reuters Worldscope, or the Bureau Van Dijk Electronic Publishing Mint Global databases. Firm-level corporate governance characteristics are taken from the most recent annual report prior to the acquisition announcement and obtained from the Thomson One Investment Banker database. To avoid possible sample selection bias, observations are dropped if multiple firms acquire the same target on the same day. In addition, information on country-specific characteristics has been obtained from the World Bank's World Development Indicators database.

After discarding observations associated with the above requirements, partial-control acquisitions account for 281 cases in our sample, while full ownership results in 212 acquisitions. Added together, these observations comprise a total sample size of 493 acquisitions over the 2000-2013 period.

3.2. Characteristics of minority and majority acquisitions

Table 1 below reports the distribution of acquirer and target industries for both partial-control and full-control acquisitions. Target firms and acquirers in both the samples operate in a diverse cross-sectional distribution of industries. The results indicate that both partial-control and full-control acquirers prefer target firms involved in industries, such as manufacturing, financial services, and consumer products.

[Insert Table 1 here]

Table 2 presents summary statistics regarding deal- and firm-specific characteristics for partial-control and full-control acquisitions between 2000 and 2013. Similar to the results reported in Table 3.1, partial-control bidders prefer cross-border targets, employ larger toeholds and cash payment in their deals relative to these attributes for full-control bidders. In contrast, full-control acquirers tend to avoid diversifying their business focus by acquiring target firms which have similar business activities. Both types of acquirers appear to be indifferent in terms of size, profitability, and performance in the fiscal year prior to the announcement date. Partial-control targets, on the other hand, have smaller size, and higher profitability and risk than target firms in full-control acquisitions. Moreover, both types of acquisitions are associated with positive announcement returns, although no statistical difference in cumulative returns exists between the two samples.

[Insert Table 2 here]

Turning to Table 3,

[Insert Table 3 here]

Table 4 reports summary statistics for target corporate governance characteristics are reported. The results suggest that partial-control targets, on average, tend to exhibit stronger board independence, greater CEO power and larger blockholdings than full-control targets. These results are consistent with the expectation that targets with more independent directors, powerful CEOs, and higher blockholdings are considerably more likely to be acquired through partial-control acquisitions than through full-control takeovers.

[Insert Table 4 here]

4. Methods

4.1. The role of target corporate governance in the bidders' equity ownership choices

In this section, logistic regressions are undertaken to examine the influence of target corporate governance characteristics on the bidders' equity ownership decisions. The logit model estimated is as follows:

$$\boldsymbol{SHARE\ SOUGHT = \beta_0 + \beta_1 BOARDSIZE + \beta_2 CEOPOWER + \beta_3 BLOCKHOLDINGS + \beta_4 CONTROLS + \varepsilon} \quad \textbf{(1)}$$

where, *SHARE SOUGHT* is the percentage of target ownership stake sought by the acquirer. Independent variables in the model are presented below.[1]

a. Board independence (BOARDSIZE)

In order to measure the degree of board independence, several criteria have been proposed in the literature. Based on Hermalin and Weisbach (2003), Adams and Mehran (2009), Pathan (2009), and Croci and Petmezas (2015), this study employs the proportion of independent non-executive directors on the board as a proxy for the degree of board independence.

b. CEO power (CEOPOWER)

Following Roll (1986), Kini et al. (1995), Pathan (2009), and Croci and Petmezas (2015), we create a CEO power index based on capturing a number of different dimensions. The CEO is suggested as being more powerful when he has been employed in this position for a longer time, was internally hired, also holds the position of the chairman of the board, and holds a higher equity stake in the firm. Accordingly, the CEO power index is calculated as the sum of four CEO-related dummy variables: CEO tenure, CEO internal, CEO duality, and CEO ownership. The maximum possible number for the CEO power index is 4, with a higher value indicating more CEO power to exert greater impact on board decisions.

c. Blockholding (BLOCKHOLDINGS)

Referring to Agrawal and Mandelker (1990), Moeller (2005), Cremers and Nair (2005), Masulis et al. (2007) and Cronqvist and Fahlenbrach (2009), the percentage ownership held by the shareholders whose shareholdings are at least 5% of target issued capital at the year-end prior to acquisition announcement, is employed to proxy for target blockholdings.

d. Other determinants of equity ownership preferences (CONTROLS)

This study employs a number of other factors that could potentially influence the bidders' ownership choices and, hence, they should be controlled for in a multivariate setting. For deal-specific characteristics, RELATED is the proxy for the industry-similarity between the bidder and target firms. Andriosopoulos and Yang (2015) find that if the target and bidder operate in different industries, it is less likely for the bidder to acquire full-control of the target. Maksimovic and Phillips (2001) and

[1] Also see Appendix A for more details on variable definitions and data sources.

Santalo and Becerra (2008) support that the effective gain from joint maximization following full-control takeovers would be highest when the target and acquirer operate in the same industry. In terms of firm-level factors, Market capitalization (MCAP) (Song and Walkling, 1993; Bange and Mazzeo, 2004 and Andriosopoulos and Yang, 2015), Leverage (LEVRG) (Song and Walkling, 1993; Harford, 1999; Novaes, 2003; Bange and Mazzeo, 2004; Uysal, 2011; Kim, 2012 and Croci and Petmezas, 2015), ROA (Kim, 2012; Andriosopoulos and Yang, 2015 and Croci and Petmezas, 2015), Market to Book (MTB) (Harford, 1999; Shleifer and Vishny, 2003; Titman et al., 2004; Faccio and Masulis, 2005; Uysal, 2011; Andriosopoulos and Yang, 2015 and Croci and Petmezas, 2015), and Target Risk (RISK) (Uysal, 2011), have been popularly employed in the literature as determinants of the mode of acquisition. Further, due to studying a cross-country sample of acquisitions which significantly depends on the level of financial development across countries; therefore, we follow Liao (2014) and expect that bidders are more likely to engage in full-control takeovers if the targets are located in countries with strong capital markets. To proxy for the development of a country's financial markets, the GDP per capita (GDPCPT) and Market capitalization to GDP (MCGDP) variables are employed.

4.2. The effect of target corporate governance on the ownership outcomes

We next examine the effect of target corporate governance on the ownership outcomes in takeovers. The logit model is given as:

$$\boldsymbol{SHARE\ ACQUIRED = \beta_0 + \beta_1 BOARDSIZE + \beta_2 CEOPOWER + \beta_3 BLOCKHOLDINGS + \beta_4 CONTROLS + \varepsilon} \quad \textbf{(2)}$$

where, *SHARE ACQUIRED* is the percentage of target ownership stake acquired by the acquirer.

$$\boldsymbol{SHARE\ OWNED = \beta_0 + \beta_1 BOARDSIZE + \beta_2 CEOPOWER + \beta_3 BLOCKHOLDINGS + \beta_4 CONTROLS + \varepsilon} \quad \textbf{(3)}$$

where, *SHARE OWNED* is the percentage of target ownership stake owned by the acquirer.

Again, the main test variables are *INDIR*, *CEOPOWER*, and *BLOCK*. We employ various deal-level independent variables which are considered to have a potential impact on takeover outcomes, including *CROSS-BORDER* (Andriosopoulos and Yang, 2015); *TOEHOLD* (Kim, 2012); *CASH* (Faccio and Masulis, 2005); *PREMIUM and HOSTILE* (Cotter et al., 1997).

5. Results

5.1. Target corporate governance and the acquirers' ownership decisions

Table 3.5 presents the empirical analysis results of the relation between target corporate governance and bidders' equity choices across partial-control and full-control acquisitions. The dependent variable is 1 if the bidder seeks a partial-control ownership level and is 0 if a full-control stake was sought. It is also noticed that the models across specifications are chosen after checking for multi-collinearity (variance inflation factor test) and model specification error (command linktest).

As reported in Column 1 of Table 3.5, the coefficient on the board independence variable (INDIR) is positive and statistically significant. This result supports Hypothesis H3.1.1 that partial-control acquisitions are comparatively more common if targets have a higher percentage of independent directors.

Column 2 examines the impact of the target's CEO power on the bidders' equity ownership decisions, and shows a weak positive correlation between target CEO power and the probability of a partial-control takeover being sought. This result supports Hypothesis H3.1.2 that bidders consider target CEO power when deciding the level of desired acquisition ownership, and that targets with more powerful CEOs are more likely to be sought in partial-control rather than through full-control takeovers.

Column 3 indicates that there is a strong positive correlation between the percentage of shares owned by large shareholders and partial-control acquisition propensity. This result is consistent with Hypothesis H3.1.3 that the likelihood that a partial-control stake is sought rather than a full-control is higher if target firms have greater blockholder shareholdings.

After each main test variable is considered separately, all of the variables are tested together in Column 4. The results are consistent with the findings above, though the coefficient on the INDIR variable is now statistically insignificant. The coefficient on the INDIR variable is positively insignificant, suggesting that once all of the target corporate governance variables are tested together, the effect of independent directors on the bidders' ownership choices is statistically weaker than other proxies.

In Column 5, the focus is on the impact of target corporate governance, in association with the target country's economic development level, on the acquirers' equity preferences. The idea here is that the diversity in the level of economic growth of the target country can lead to different expectations of

bidders regarding ownership decisions. Accordingly, we create a dummy variable, EMERGING, which is equal to 1 if the target country is classified as an emerging market, and zero if it is a developed market economy. The coefficient on this variable is not statistically significant, suggesting that the bidders' ownership preferences are independent of the target country's level of economic development. we also interact the EMERGING variable with the three target corporate governance variables, and find insignificant coefficients for these incremental effects.

As an alternative test, in Table 3.6, we redo the analysis by replacing my main test variables, INDIR, CEOPOWER, and BLOCK with alternative proxies, HINDIR, CEOOWN, and HBLOCK. HINDIR is a dummy variable taking on the value of one if the percentage of independent directors on the board is greater than median percentage of independent directors of the sample in year t, and zero otherwise. CEOOWN is an indicator variable taking on the value of one if the CEO shareholding is greater than or equal to 1%, and zero otherwise. HBLOCK is a dummy variable taking on the value of one if the percentage of shares owned by large shareholders is greater than median percentage of shares owned by large shareholders of the sample firms in year t, and zero otherwise. The findings shown in Table 3.6, again, support my hypotheses that bidders are more likely to offer partial-control acquisition terms to targets with more independent boards, influential CEOs, and higher blockholder ownership levels.

[Insert Table 2 here]

5.2. Target corporate governance and the ownership outcomes

Table 3.7 examines whether target corporate governance has a significant impact on acquisition ownership outcomes. The dependent variable is 1 if a partial-control ownership level was obtained after the transaction and is 0 if a full-control stake was owned.

Column 1 attempts to identify if target board independence influences the takeover outcomes. This result supports Hypothesis H3.2.1 that targets with more independent directors are less likely to be acquired through full-control mergers.

The results in Column 2 are in line with Hypothesis H3.2.2, suggesting that a partial-control ownership outcome from an acquisition is more probable if the target's CEO is in a more powerful controlling or bargaining position.

Consistent with Hypothesis H3.2.3, Column 3 reports a strong positive correlation between target blockholdings and partial-control acquisition outcomes.

In Column 4, all variables are tested together and provide evidence supporting my predictions that targets with more independent outside directors, powerful CEOs and a higher percentage of shares owned by large shareholders are more likely to be partially acquired, though the coefficient on the INDIR variable is statistically insignificant.

In Table 3.8, we employ the alternative measures of target corporate governance mechanisms. As expected, the results document that greater board independence, higher CEO ownership, and a larger percentage of shares being owned by large blockholders are positively correlated with the probability that a partial-control ownership position is achieved after the transaction..

[Insert Table 3 here]

Turning to Table 4, we examine whether target corporate governance has a significant impact on matched actual equity acquisition outcomes using a multivariate setting. The dependent variable is 1 if an actual desired ownership outcome is achieved and is 0 if it is an unmatched ownership outcome. The coefficients on the *INDIR* and *CEOPOWER* variables are negative and statistically significant, supporting hypotheses *H1.2* and *H2.2* that target governance characteristics, such as more independent directors and more powerful CEOs, result in a lower likelihood of achieved actual equity acquisitions relative to unmatched ownership outcomes regardless of the target country's economic development level.[2] Further, the sign of the coefficient on the *BLOCK* variable also supports hypothesis *H3.2*, though it is statistically insignificant.

[Insert Table 4 here]

6. Conclusion

The essay evaluates the role of target corporate governance on the bidders' equity ownership level preferences and ownership outcomes across eight East and Southeast Asian economies. The results are in support of the predictions that bidders are more likely to attempt partial-control rather than full-control if target firms have more independent directors, more powerful CEOs, and higher blockholdings. In a similar vein, the study also finds that the probability that an expected ownership

[2] In an unreported table, using alternative proxies, we also find that higher board independence and greater CEO ownership are substantial predictors of the matched ownership outcomes in takeovers.

level is matched is lower relative to unmatched ownership outcomes if target firms have more independent directors, more powerful CEOs, and larger blockholder shareholdings. Further, the essay confirms that there is no difference in abnormal returns gained between full-acquired and partial control-acquired target shareholders, although target shareholders experience positive returns in both types of equity ownership around the bid announcement date.

The findings indicate the importance of target corporate governance as drivers of the bidder's equity ownership choices, takeover outcomes, and target shareholder gains. More specifically, they suggest that bidding firms actively assess target ownership and corporate governance structures as part of their acquisition planning. The findings also suggest that the effective role of corporate governance mechanisms, such as independent directors and insider and external blockholder ownership, on corporate actions and performance which has typically been documented in the literature extends to the acquisition space and decision-making also.

So far, the thesis focuses on firm-level governance characteristics to examine the relation between target corporate governance and acquirers' location, and equity ownership choices. We still do not know whether cross-country factors affect the bidders' takeover location decisions and the gains to target firms across eight East and Southeast Asian markets. This research gap would be discussed in the last essay.

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Appendix: List of variables

Variable	Description and source
Dependent variables	
SHARE SOUGHT	The percentage of target ownership stake sought by the acquirer (Source: SDC Platinum).
SHARE ACQUIRED	The percentage of target ownership stake acquired by the acquirer (Source: SDC Platinum).
SHARE OWNED	The percentage of target ownership stake owned by the acquirer (Source: SDC Platinum).
Firm-level variables	
SIZE	Total assets transformed in natural logarithm form (Source: Mint Global - Bureau Van Dijk).
MTB	Market to Book ratio (Source: Mint Global - Bureau Van Dijk).
LEVERAGE	Total debt divided by Total assets (Source: Mint Global - Bureau Van Dijk).
ROA	Earnings before interest & tax (EBIT) divided by Total assets (Source: Mint Global - Bureau Van Dijk).
SALES GROWTH	The annual percentage increase in Sales (Source: Mint Global - Bureau Van Dijk).
Deal-specific variables	
RELATEDNESS	An indicator variable taking on the value of one for those acquisitions where the target and the acquirer have the same areas of operations (the same four-digit primary SIC code), and zero for unrelated acquisitions (Source: SDC Platinum).
CROSS-BORDER	An indicator variable taking on the value of one if the nationality of the bidder and target is the same, and zero if it is different (Source: SDC Platinum).
CASH	An indicator variable taking on the value of one if an acquisition is financed with cash, and zero if it is financed with stock or a mixed cash and stock form of payment (Source: SDC Platinum).
TOEHOLD	An indicator variable taking on the value of one if the bidder owns the target's equity at the time of takeover, and zero otherwise (Source: SDC Platinum).
FRIENDLY	An indicator variable taking on the value of one for friendly transactions, and zero for hostile takeovers (Source: SDC Platinum).

Table 1

Industry distribution of completed mergers and acquisition deals in the 2000-2015 period

SIC codes		Target industry	
		Deals	**%**
0000-999	Food products	17	3.79
1000-1999	Mining and construction	88	19.60
2000-2999	Consumer products	103	22.94
3000-3999	Manufacturing	63	14.03
4000-4999	Utilities and transportation	61	13.59
5000-5999	Wholesale, retail, and some services	46	10.24
6000-6999	Financial services	49	10.91
7000-7999	Personal and business services	19	4.23
8000-8999	Miscellaneous	3	0.67

Table 2

Deal- and firm-specific characteristics of M&A deals in Vietnam, 2000-2015

All continuous variables using the fiscal year ended before the acquisition are winsorized at the 1% level. Equity ownership levels are separated into 2 groups (minority vs. majority ownership). Deal-specific characteristics are taken from the SDC Platinum including *RELATEDNESS, CASH, CROSS-BORDER, FRIENDLY, TOEHOLD, SHARE SOUGHT, SHARE ACQUIRED*, and *SHARE OWNED*. Firm-level variables include *SIZE, ROA, LEVERAGE, SALES GROWTH*, and *MTB*. See Appendix for more details on variable definitions. Difference in means is calculated using a *t*-test. Symbols ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variables	1				2				Difference testing (*t*-ratio)
	Minority ownership				Majority ownership				
	N	Mean	Med	SD	N	Mean	Med	SD	
RELATEDNESS	377	0.053	0	0.22	72	0.167	0	0.38	3.47***
CASH	377	0.408	0	0.49	72	0.417	0	0.50	0.12
CROSS-BORDER	377	0.151	0	0.36	72	0.042	0	0.20	-2.51**
FRIENDLY	377	0.607	1	0.49	72	0.861	1	0.35	4.20***
TOEHOLD	377	0.220	0	0.41	72	0.569	1	0.50	6.32**
SHARE SOUGHT (%)	377	0.159	0.110	0.12	72	0.397	0.399	0.27	12.35***
SHARE ACQUIRED (%)	377	0.147	0.102	0.11	72	0.392	0.359	0.27	13.22***
SHARE OWNED (%)	377	0.179	0.147	0.12	72	0.677	0.621	0.18	29.83***
SIZE ($mil)	373	159.534	23.004	717.60	72	119.099	18.216	354.35	-0.46
ROA	369	0.097	0.079	0.10	71	0.068	0.065	0.09	-2.22**
LEVERAGE	368	0.376	0.323	0.26	70	0.396	0.369	0.25	0.59
SALES GROWTH	363	0.364	0.156	1.06	71	0.219	0.062	0.96	-1.07
MTB	357	1.182	0.968	0.85	61	1.412	1.075	1.07	1.86*

Table 3

Definitions of the corporate governance-related variables

This table explains the components of the two summary governance measures: strong board index and CEO power index. Strong board index is a proxy for strong board and is calculated as the sum of five board variables: board size, independent directors, female directors, board meetings frequency, and committees. CEO power index is a proxy for CEO power and is calculated as the sum of four CEO-related variables: CEO tenure, CEO internal, CEO duality, and CEO ownership.

Variables	Definition
1. *BOARD SIZE*	Dummy variable which equals one if the board size in year *t* (the most recent fiscal year ended before acquisition) is less than the median board size of the sample in year *t*, and zero otherwise.
2. *CEO TENURE*	Dummy variable which equals one if the CEO tenure in year *t* is longer than the median CEO tenure of the sample in year *t*, and zero otherwise.
2. *CEO INTERNAL*	Dummy variable which equals one if the CEO is internally hired, and zero otherwise.
3. *CEO DUALITY*	Dummy variable which equals one if the CEO also holds the position of the chairman of the board, and zero otherwise.
4. *CEO OWNERSHIP*	Dummy variable which equals one if the CEO shareholding is greater than or equal to 1%, and zero otherwise.
5. *CEO POWER*	The sum of four CEO-related dummy variables including *CEO TENURE*, *CEO INTERNAL*, *CEO DUALITY*, and *CEO OWNERSHIP*.
6. LARGE SHAREHOLDERS	The number of shareholders whose shares are greater than or equal to 5%.
7. BLOCKHOLDERS	The percentage of shares owned by shareholders whose shareholdings are greater than or equal to 5%.

Table 4

Target corporate governance characteristics for minority and majority ownership acquisitions

This table reports target corporate governance characteristics for minority and majority ownership acquisitions. All firm-level governance variables are taken from the most recent annual report ended before acquisition, and defined as follows: *BOARD SIZE* is the number of directors on the board; *IND. DIRECTORS* is the percentage of independent directors on the board; *FEMALE DIRECTORS* is the number of female directors on the board; *BOARD MEETING* is the number of board meetings in the fiscal year ended before the announcement; *BOARD COMMITTEE* is the number of board committees. CEO-related characteristics include: *CEO TENURE*, the number of years for which the CEO has served in this position; *CEO INTERNAL*, a dummy variable which equals one if the CEO is internally hired, otherwise zero; *CEO DUALITY*, a dummy variable that equals one if the CEO also holds the position of the chairman of the board, otherwise zero; *CEO OWNERSHIP*, a dummy variable that equals one if the CEO shareholding is greater than or equal to 1%, zero otherwise; *CEO POWER*, the sum of four dummy variables for *CEO TENURE*, *CEO INTERNAL*, *CEO DUALITY*, and *CEO OWNERSHIP*. *LARGE SHAREHOLDERS* is the number of shareholders whose shares are greater than or equal to 5%, while *BLOCKHOLDERS* is the percentage of shares owned by shareholders whose shareholdings are greater than or equal to 5%. Difference in means is calculated using a *t*-test. Symbols *** and ** indicate significance at the 1%, 5% and 10% levels, respectively.

Corporate governance characteristics	**Minority ownership acquisitions**				**Majority ownership acquisitions**				**Difference testing**
	N	**Mean**	**Med**	**SD**	**N**	**Mean**	**Med**	**SD**	
BOARD SIZE (members)	377	5.332	5.000	1.36	72	4.931	5.000	1.45	-2.26**
IND. DIRECTORS (%)	377	0.587	0.600	0.19	72	0.617	0.667	0.16	1.27
FEMALE DIRECTORS	377	0.782	0.000	0.97	72	0.500	0.000	0.86	-2.30**
BOARD MEETING	377	6.663	4.000	6.73	72	6.125	4.000	4.53	-0.65
BOARD COMMITTEE	377	2.050	2.000	0.37	72	2.083	2.000	0.40	0.67
CEO TENURE (years)	331	5.073	4.000	3.99	57	3.982	3.000	3.13	-1.96**
CEO INTERNAL	333	0.889	1.000	0.31	57	0.842	1.000	0.37	-1.01
CEO DUALITY	332	0.407	0.000	0.49	57	0.298	0.000	0.46	-1.55
CEO OWNERSHIP	329	0.413	0.000	0.49	57	0.333	0.000	0.48	-1.13
CEO POWER	329	2.161	2.000	1.25	57	1.807	2.000	1.14	-1.99**
LARGE SHAREHOLDERS	327	2.755	3.000	1.58	58	2.293	2.000	1.30	-2.09**
BLOCKHOLDINGS (%)	327	0.496	0.510	0.22	58	0.595	0.553	0.18	3.29***

Table 5

Target corporate governance and the bidders' ownership choices

This table presents the effects of target corporate governance on the bidders' equity ownership choices using four OLS specifications. The dependent variable, *SHARE SOUGHT*, which is the percentage of target ownership stake sought by the acquirer. Main test variables are *BOARD SIZE (*Dummy variable which equals one if the board size in year *t* is less than the median board size of the sample in year *t*, and zero otherwise), *CEO POWER (*the sum of four dummy variables for CEO duality, CEO tenure, CEO ownership, and CEO internal), and *BLOCKHOLDERS (*the percentage of shares owned by large shareholders whose shareholdings are greater than or equal to 5%). *RELATEDNESS* is an indicator variable taking on the value of one if the target and the acquirer have the same areas of operations (the same four-digit primary SIC code), and zero for unrelated acquisitions. *CASH* is an indicator variable taking on the value of one if an acquisition is financed with cash, and zero if it is financed with stock or a mixed cash and stock form of payment. *CROSS-BORDER* is an indicator variable taking on the value of one if the nationality of the bidder and target is the same, and zero if it is different. *FRIENDLY* is an indicator variable taking on the value of one for friendly transactions, and zero for hostile takeovers. *TOEHOLD* is an indicator variable taking on the value of one if the bidder owns the target's equity at the time of takeover, and zero otherwise. *SIZE (*Total Assets and transformed in natural logarithm form); *LEVERAGE (*Total Debt divided by Total Assets); *ROA (*Earnings before interest & tax divided by Total Assets); *MTB (*(Book value of Total assets - Book value of Equity + market value of Equity) / Book value of Total assets); *SALES GROWTH* (The annual percentage increase in Sales) are included in all regressions as proxies for target firm-level characteristics. In all specifications, we also include year and industry dummies to control for year effects and industry effects, but do not report their coefficients. We also control for the impact of different types of equity preferences. Robust standard errors are shown in parentheses. Symbols ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variables	**1**	**2**	**3**	**4**
BOARD SIZE	0.061**			0.184***
	(0.02)			(0.06)
CEO POWER		-0.014**		-0.009*
		(0.00)		(0.00)
BLOCKHOLDINGS			0.080**	0.063*
			(0.03)	(0.03)
RELATEDNESS	0.090**	0.095*	0.096*	0.088**
	(0.04)	(0.05)	(0.05)	(0.04)
CASH	0.023	0.018	0.017	0.022
	(0.02)	(0.02)	(0.02)	(0.02)
CROSS-BORDER	0.036	0.031	0.029	0.035
	(0.02)	(0.02)	(0.02)	(0.02)
FRIENDLY	0.086***	0.088***	0.086***	0.089***
	(0.02)	(0.02)	(0.02)	(0.02)
TOEHOLD	-0.064***	-0.072***	-0.067***	-0.068***
	(0.01)	(0.01)	(0.01)	(0.01)
SIZE	-0.011*	-0.015**	-0.014**	-0.015**
	(0.00)	(0.00)	(0.00)	(0.00)
LEVERAGE	0.014	0.023	0.014	0.009
	(0.03)	(0.03)	(0.03)	(0.03)
ROA	-0.153**	-0.123*	-0.103	-0.104
	(0.07)	(0.07)	(0.06)	(0.08)
MTB	0.013	0.012	0.006	0.008
	(0.00)	(0.00)	(0.01)	(0.01)
SALES GROWTH	-0.011**	-0.013*	-0.012*	-0.011
	(0.00)	(0.00)	(0.00)	(0.00)
INTERCEPT	0.080	0.112	0.075	0.101
	(0.06)	(0.08)	(0.08)	(0.08)
Minority vs. Majority	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes
N	408	363	363	361
Adjusted R^2	0.1611	0.1597	0.1540	0.2040
F ratio	3.27***	3.02***	2.87***	3.34***

Table 6

Target corporate governance and the bidders' ownership levels acquired in takeovers

This table presents the effects of target corporate governance on the bidders' ownership levels acquired in takeovers using four OLS specifications. The dependent variable, *SHARE ACQUIRED*, which is the percentage of target ownership stake acquired by the acquirer. Main test variables are *BOARD SIZE (*Dummy variable which equals one if the board size in year *t* is less than the median board size of the sample in year *t*, and zero otherwise), *CEO POWER (*the sum of four dummy variables for CEO duality, CEO tenure, CEO ownership, and CEO internal), and *BLOCKHOLDERS (*the percentage of shares owned by large shareholders whose shareholdings are greater than or equal to 5%). *RELATEDNESS* is an indicator variable taking on the value of one if the target and the acquirer have the same areas of operations (the same four-digit primary SIC code), and zero for unrelated acquisitions. *CASH* is an indicator variable taking on the value of one if an acquisition is financed with cash, and zero if it is financed with stock or a mixed cash and stock form of payment. *CROSS-BORDER* is an indicator variable taking on the value of one if the nationality of the bidder and target is the same, and zero if it is different. *FRIENDLY* is an indicator variable taking on the value of one for friendly transactions, and zero for hostile takeovers. *TOEHOLD* is an indicator variable taking on the value of one if the bidder owns the target's equity at the time of takeover, and zero otherwise. *SIZE (*Total Assets and transformed in natural logarithm form); *LEVERAGE (*Total Debt divided by Total Assets); *ROA (*Earnings before interest & tax divided by Total Assets); *MTB (*(Book value of Total assets - Book value of Equity + market value of Equity) / Book value of Total assets); *SALES GROWTH* (The annual percentage increase in Sales) are included in all regressions as proxies for target firm-level characteristics. In all specifications, we also include year and industry dummies to control for year effects and industry effects, but do not report their coefficients. We also control for the impact of different types of equity preferences. Robust standard errors are shown in parentheses. Symbols ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variables	**1**	**2**	**3**	**4**
BOARD SIZE	0.058**			0.145**
	(0.02)			(0.06)
CEOPOWER		-0.015***		-0.012**
		(0.00)		(0.00)
BLOCKHOLDINGS			0.077**	0.058*
			(0.03)	(0.03)
RELATEDNESS	0.076*	0.079	0.081*	0.073*
	(0.04)	(0.05)	(0.05)	(0.04)
CASH	0.027	0.021	0.020	0.024
	(0.02)	(0.02)	(0.02)	(0.02)
CROSS-BORDER	0.031	0.027	0.025	0.031
	(0.02)	(0.02)	(0.02)	(0.02)
FRIENDLY	0.089***	0.088***	0.086***	0.088***
	(0.02)	(0.02)	(0.02)	(0.02)
TOEHOLD	-0.060***	-0.071***	-0.064***	-0.067***
	(0.01)	(0.01)	(0.01)	(0.01)
SIZE	-0.007	-0.012*	-0.010	-0.011*
	(0.00)	(0.00)	(0.00)	(0.00)
LEVERAGE	-0.001	0.012	0.004	0.002
	(0.03)	(0.03)	(0.03)	(0.03)
ROA	-0.144**	-0.112	-0.094	-0.093
	(0.07)	(0.07)	(0.07)	(0.07)
MTB	0.016*	0.014	0.008	0.011
	(0.00)	(0.00)	(0.01)	(0.01)
SALES GROWTH	-0.010*	-0.012	-0.011	-0.009
	(0.00)	(0.00)	(0.00)	(0.00)
INTERCEPT	0.066	0.107	0.065	0.096
	(0.07)	(0.08)	(0.08)	(0.08)
Minority vs. Majority	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes
N	408	363	363	361
Adjusted R^2	0.1782	0.1804	0.1708	0.2094

F ratio	3.78***	3.76***	3.19***	3.63***

Table 7

Target corporate governance and ownership outcomes after the transaction

This table presents the effects of target corporate governance on the bidders' ownership outcomes after the takeover using four OLS specifications. The dependent variable, *SHARE OWNED*, which is the percentage of target ownership stake owned by the acquirer. Main test variables are *BOARD SIZE (*Dummy variable which equals one if the board size in year *t* is less than the median board size of the sample in year *t*, and zero otherwise), *CEO POWER (*the sum of four dummy variables for CEO duality, CEO tenure, CEO ownership, and CEO internal), and *BLOCKHOLDERS (*the percentage of shares owned by large shareholders whose shareholdings are greater than or equal to 5%). *RELATEDNESS* is an indicator variable taking on the value of one if the target and the acquirer have the same areas of operations (the same four-digit primary SIC code), and zero for unrelated acquisitions. *CASH* is an indicator variable taking on the value of one if an acquisition is financed with cash, and zero if it is financed with stock or a mixed cash and stock form of payment. *CROSS-BORDER* is an indicator variable taking on the value of one if the nationality of the bidder and target is the same, and zero if it is different. *FRIENDLY* is an indicator variable taking on the value of one for friendly transactions, and zero for hostile takeovers. *TOEHOLD* is an indicator variable taking on the value of one if the bidder owns the target's equity at the time of takeover, and zero otherwise. *SIZE (*Total Assets and transformed in natural logarithm form); *LEVERAGE (*Total Debt divided by Total Assets); *ROA (*Earnings before interest & tax divided by Total Assets); *MTB (*(Book value of Total assets - Book value of Equity + market value of Equity) / Book value of Total assets); *SALES GROWTH* (The annual percentage increase in Sales) are included in all regressions as proxies for target firm-level characteristics. In all specifications, we also include year and industry dummies to control for year effects and industry effects, but do not report their coefficients. We also control for the impact of different types of equity preferences. Robust standard errors are shown in parentheses. Symbols ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Variables	**1**	**2**	**3**	**4**
BOARD SIZE	0.110***			0.225***
	(0.03)			(0.08)
CEOPOWER		-0.017**		-0.011
		(0.00)		(0.00)
BLOCKHOLDINGS			0.192***	0.166***
			(0.04)	(0.04)
RELATEDNESS	0.059	0.057	0.059	0.047
	(0.04)	(0.05)	(0.05)	(0.04)
CASH	0.024	0.016	0.011	0.020
	(0.02)	(0.02)	(0.02)	(0.02)
CROSS-BORDER	0.021	0.013	0.006	0.013
	(0.02)	(0.03)	(0.03)	(0.03)
FRIENDLY	0.117***	0.107***	0.103***	0.103***
	(0.02)	(0.02)	(0.02)	(0.02)
TOEHOLD	0.147***	0.121***	0.136***	0.128***
	(0.02)	(0.02)	(0.02)	(0.02)
SIZE	-0.005	-0.009	-0.009	-0.010
	(0.00)	(0.00)	(0.00)	(0.00)
LEVERAGE	-0.008	0.010	-0.010	-0.017
	(0.03)	(0.03)	(0.03)	(0.03)
ROA	-0.167**	-0.133*	-0.110	-0.111
	(0.08)	(0.07)	(0.07)	(0.08)
MTB	0.023*	0.025*	0.008	0.014
	(0.01)	(0.01)	(0.01)	(0.01)
SALES GROWTH	-0.011*	-0.015*	-0.014*	-0.011
	(0.00)	(0.00)	(0.00)	(0.00)
INTERCEPT	-0.013	0.046	0.003	0.027
	(0.08)	(0.09)	(0.09)	(0.09)
Minority vs. Majority	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes

N	408	363	363	361
Adjusted R^2	0.2470	0.2129	0.2329	0.2795
F ratio	6.98***	6.34***	6.18***	6.56***