Do Foreign Investors Exhibit a Corporate Governance Disadvantage? An Information Asymmetry Perspective

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ABSTRACT

This paper examines whether the governance role of foreign block acquirers in U.S. targets is different from that of domestic block acquirers. We find that foreign block acquirers are less likely to engage in post-acquisition governance activities in U.S. targets than domestic control block acquirers matched by several key variables. Among foreign block acquirers, those whose countries share a common language and a common legal origin with the U.S., and those with more acquisition experience in the U.S. are more likely to engage in post-acquisition governance activities; those at a further distance from their targets are less likely to engage in post-acquisition governance activities. We also find that foreign block acquirers are more likely to replace poorly performing target management if they are located geographically closer to their acquirers or if their acquirers have more acquisition experience in the U.S. Finally, U.S. targets in foreign block acquisitions realize higher abnormal announcement returns if they are located closer to the acquirers or if their acquirers have more acquisition experience in the U.S. These results suggest that information asymmetries that foreign acquirers face in the host country are an important determinant of their governance activities in domestic targets, and that the stock market takes into account the extent of such information asymmetries when assessing target value.

Keywords: Cross-Border Merger; Information Asymmetry; Corporate Governance; Foreign Block Acquirers

1. Introduction

The presence of foreign investors in the U.S. economy has increased substantially over the last three decades. For example, according to the NYSE Fact Book, in 1970 foreign equity ownership accounted for only 3 percent of U.S. firms' total equity, but increased to almost 11 percent by 2001. A similar increase in foreign ownership has also been observed in many other countries, possibly due to the ongoing process of globalization.[1] However, despite the extent of foreign ownership around the world, systematic evidence on its role in the host country is not well documented. In particular, we know relatively little about the foreign shareholders' governance activities in the host country and effects of their governance activism on target value.

In this study we examine how the post-acquisition governance activities of foreign block acquirers in U.S. targets differ from those of domestic control block acquirers matched by several key variables. Specifically, we examine whether the extent of post-acquisition governance activities of acquirers in targets such as threats of hostile takeovers, efforts to seek board representation, and proxy fights in U.S. targets and the factors that affect the probability of engaging in such activities differ between foreign and domestic block share acquisitions. We focus on information asymmetries that foreign block acquirers face in the host country as a key determinant of the extent of their governance activities in domestic targets. Using targets' the announcement returns, we also examine the market's ex ante valuation of the effect of the post-acquisition governance activities on target value.

Unlike small shareholders, who like to free-ride on the corporate governance activities of other shareholders (Grossman and Hart (1980)), block shareholders have strong incentives to monitor managerial performance and take actions that enhance firm value (Shleifer and Vishny (1986)).

[1] Hiraki, Inoue, Ito, Kuroki, and Masuda (2003) report that foreign ownership for firms on the Tokyo Stock Exchange increased from 7 percent to 18.6 percent between 1985 and 1999. Dahlquist and Robertsson (2001) show that equity ownership held by foreigners in Sweden increased from 8.2 percent to 32.4 percent during the period 1991 to 1997. The Korean Financial Supervisory Service reports that foreign equity ownership in Korea increased to 37.5 percent between 1992, when the Korean government opened the stock market to foreign investors, and August 2003.

Consistent with this view, previous studies show that large domestic shareholders play an important role in corporate governance (Shivdasani (1993), Denis and Serrano (1996), and Bethel, Liebeskind, and Opler (1998), Lins (2003)).

However, a priori the governance role of foreign block shareholders in the host country is unclear. On the one hand, if foreign multinationals have firm-specific advantages (e.g., superior management skills, better production technology, and stronger financial position) over domestic firms in the host country (Kindleberger (1969), Caves (1971), Hymer (1976), and Harris and Ravenscraft (1991)), and if they can internalize these advantages in their monitoring function, we would expect foreign blockholders to take a more active governance role in domestic firms than domestic blockholders. On the other hand, if foreign investors are less informed about a domestic firm in the host country than are domestic investors, and hence if they must bear additional costs to overcome such an information disadvantage (e.g., information acquisition costs, multinational operations costs, travel costs, etc.),[2] their incentives to engage in governance activities in the host country are expected to be weaker than those of domestic investors. We find that, in general, our results are consistent with the information disadvantage view.

Given our evidence in support of the information disadvantage view, we take the extent of information asymmetry that foreign investors face in the U.S. to be a key determinant of the cross-sectional variation in foreign acquirers' post-acquisition governance activities in domestic targets. Several factors are likely to cause foreign investors to be less informed about a host country than resident investors and in turn to affect foreign investors' incentives to engage in active governance activities.

One such factor is the physical distance between the foreign acquirer and the domestic target. Several studies document that in the U.S., investors located near a firm have an information advantage over other investors with respect to the firm, possibly due to relatively easier access to value-relevant information about the firm (Coval and Moskowitz (1999), Coval and Moskowitz (2001), and Ivkovic and

[2] Choe, Kho, and Stultz (2005) find that individual domestic investors in Korea have a short-lived information advantage over foreign investors. Further, Orpurt (2004) and Bae, Stulz, and Tan (2005) show that local analysts make more precise earnings forecasts than foreign analysts. These findings suggest that domestic investors and analysts have a significant information advantage over their foreign counterparts.

Weisbenner (2005)). In particular, Kang and Kim (2008) show that blockholders in the U.S. that are located in the same state as U.S. targets are more likely to engage in governance activities than are remote blockholders. Chan, Covrig, and Ng (2005) also show that the physical distance between the host country and the foreign country is an important determinant of international home bias. To the extent investors' monitoring costs increase with physical distance from the target because of extra communication and transportation costs (Sussman and Zeira (1995), Peterson and Rajan (2002), and Degryse and Ongena (2005)), geographically proximate foreign block acquirers are likely to have stronger incentives to engage in active post-acquisition governance activities in targets than are remote foreign block acquirers.

Another factor that is likely to contribute to foreign investors' information disadvantage is language. Grinblatt and Keloharju (2001) show that in Finland, Finnish investors whose native language is Swedish are more likely to buy stocks of companies that have Swedish-speaking CEOs than are investors whose native language is Finnish. Since a language barrier can adversely affect the communication process, this finding suggests that language constitutes an important source of information asymmetries in foreign acquisitions. To the extent that foreign investors whose countries do not share the same language as the host country incur greater information search and monitoring costs and have more difficulty in integrating a multicultural workforce than do other foreign investors, the existence of a language barrier is expected to have a significant negative effect on foreign investors' incentives to undertake an active governance role in domestic targets. This argument suggests that foreign acquirers from countries whose native language is not English are less likely to be involved in governance activities in U.S. targets than are foreign acquirers whose native language is English.

A third factor that is likely to affect the extent of information asymmetry that foreign acquirers face in the host country is previous acquisition experience in the host country. For example, if foreign investors had another acquisition experience in the U.S. prior to the block acquisition, they may have fewer information asymmetries in relation to the block acquisition since they have already accumulated information about operating in the U.S.. To the extent that these foreign investors know more about the economic environment and governance practices in the U.S., one would expect that they have greater

incentives to engage in active post-acquisition governance activities in U.S. targets than other foreign investors.

Finally, La Porta, Lopez-de-Silanes, Shleifer, and Vishny (LLSV, 1998) show that legal rules pertaining to investor protection differ substantially across legal origins.[3] To the extent that countries with the same legal origins have similar legal structures in relation to governance activities and this similarity reduces information asymmetries that foreign investors face in the host country, foreign acquirers whose legal origin is the same as the U.S. (i.e., common law origin) are expected to perform a more active governance role in the U.S. than are other foreign acquirers.

To examine the governance role of foreign shareholders in the U.S. and the link between this role and the extent of information asymmetries that foreign shareholders face in the U.S., we employ a large sample of foreign partial block acquisitions in the U.S. during 1981 to 1999 in which the foreign investors acquire at least 5% but less than 50% of the U.S. target's shares. To draw unbiased conclusions, in addition to the total sample of domestic partial block acquisitions, we also construct a control sample of domestic partial block acquisitions and then compare the post-acquisition governance activities of foreign blockholders to those of domestic blockholders. We focus on partial acquisitions for two reasons. First, since the targets involved in block acquisitions survive on the listing stock exchanges, in contrast to those involved in mergers or full acquisitions, more detailed information on post-acquisition governance activities of foreign blockholders is available for this class of acquisitions. Second, because block acquisitions represent a setting in which large shareholders have strong incentives to monitor target managers, governance activities of foreign investors are expected to be more pronounced for these acquisitions.

[3] Recent research demonstrates that legal environments affect a country's financial market development (LLSV, 1997), rate of economic growth (Demirguc-Kunt and Maksimovic (1998)), extent of ownership concentration (LLSV (1999)), value of corporate diversification (Fauyer, Houston, and Naranjo (2003)), and cross-country differences in financial policy (LLSV (2000a), Dittmar, Mahrt-Smith, and Servaes (2003), Giannetti (2003)). In particular, LLSV (1997, 1998, 1999, 2000b) show that differences among countries in legal system structure and law enforcement explain differences in financial market development, and that such development is promoted by better investor protection. Several other studies also establish a link between legal environments and agency problems. For example, Dyck and Zingales (2002) show that stronger minority shareholder rights and higher quality law enforcement are associated with lower levels of private benefits of control.

We find that compared to the total sample of U.S. block acquirers during 1981 to 1999, foreign block acquirers prefer targets operating in the same industry, targets in R&D-intensive industries, and targets in industries with high selling expenses. These results are consistent with Harris and Ravenscraft (1991), who examine the motivations for cross-border takeovers in the U.S. during the period 1970 to 1987, and suggest that imperfections in product markets play an important role not only in cross-border takeovers, but also in cross-border partial acquisitions (Buckley and Casson (1976), Dunning (1977)). In contrast, U.S. acquirers prefer targets with larger cash flows and lower growth opportunities than foreign acquirers do. To the extent that this latter set of targets observes more severe agency problems than do other targets (Jensen (1986)), our results indicate that foreign block acquisitions are less likely to be disciplinary in nature than are domestic block acquisitions. Given these results, we explicitly consider product market relationships (e.g., research/product development agreements, supply and buyer relationships, marketing/distribution ties, or technology sharing agreements) between the acquirer and the target as one of important matching criteria when we construct a control sample of domestic partial block acquisitions.

The comparison of the foreign and domestic control samples, however, shows that foreign block acquirers are less likely to be involved in post-acquisition governance activities than are domestic block acquirers. While post-acquisition governance activities in U.S. targets are less frequent in foreign block acquisitions than in domestic block acquisitions, there are some similarities in the factors that affect the likelihood of such activities by foreign and domestic block acquirers.[4] Both foreign and domestic block acquirers are more likely to engage in post-acquisition governance activities when they buy shares through open market purchases, when they buy a large percentage of shares, and when they buy shares of targets that have severe free cash problems (i.e., targets with large cash flows and low growth opportunities). We also find that the likelihood of post-acquisition governance activities decreases when the acquirers have product market relationships with targets. This finding suggests that acquirers that

[4] Covrig, Lau, and Ng (2006) show that both foreign and domestic mutual fund managers have similar preferences for stock characteristics.

maintain product market relationships with targets have few incentives to monitor target management since active intervention can potentially jeopardize such relationships.[5]

Further analysis of foreign block acquirers' post-acquisition governance activities shows that foreign acquirers whose countries share a common language and a common legal origin with the U.S. are more likely to engage in such activities than are other foreign block acquirers. Moreover, the probability of foreign acquirers' post-acquisition governance activities is positively related to previous acquisition activities in the U.S., but negatively related to physical distance from the targets. These findings suggest that information asymmetries and monitoring costs associated with governance activities are important determinants of foreign blockholders' incentives to perform an active governance role in domestic targets. We also find that while the likelihood of nonroutine top management turnover for targets in domestic block acquisitions is negatively related to past target stock performance, this negative relation does not exist for targets in foreign block acquisitions. However, when foreign acquirers share a common language with the U.S., such likelihood is negatively related to past target stock performance, indicating that foreign block acquirers with fewer information asymmetries are more likely to replace poorly performing target top management. Thus, foreign acquirers can monitor target management more effectively when they face fewer information asymmetries in U.S. operations.

Finally, we find that U.S. targets of foreign firms realize higher abnormal announcement returns when they are located closer to the acquirers, when their acquirers have more acquisition experience in the U.S. prior to the block acquisition, and when the stock market anticipates that their acquirers will engage in post-acquisition governance activities. Thus, the stock market takes a foreign acquiring firm's value-enhancing future governance activities in targets into account when assessing targets' market values and this valuation effect is more pronounced when foreign acquirers face fewer information asymmetries in the U.S.

[5] Similarly, Brickley, Lease, and Smith (1988) show that certain types of large financial blockholders, such as banks and insurance companies that tend to be influenced by potential business relations with firms, are more likely to vote for management-proposed anti-takeover amendments than are other type of financial blockholders.

We conduct a number of tests of the model in order to check the robustness of the results, such as estimating the regressions considering the endogeneity of target selection and excluding a sample of block acquisitions in which the acquirers have product market relationships with targets, and find that the results are qualitatively unchanged.

In evaluating the role of foreign ownership in corporate governance of U.S. targets, we extend the existing literature in two important ways. First, to the best of our knowledge our paper is the first to present empirical evidence on the governance role of foreign investors in the host country. In particular, our paper shows that information asymmetries play an important role in discouraging foreign investors' governance activities in the host country. By utilizing several measures of information asymmetries faced by foreign shareholders in the host country, our analysis provides convincing evidence regarding the link between the extent of information asymmetry and the likelihood of foreign shareholders' post-acquisition governance activities in host targets.

Second, our evidence sheds light on the role of non-controlling foreign block ownership in the U.S. Prior research on foreign direct investment (FDI) focuses on cross-border takeovers in which the foreign acquirer buys 100 percent of a target's shares outstanding ((Harris and Ravenscraft (1991), Kang (1993), Servaes and Zenner (1994)). However, few papers examine the issues related to foreign partial acquisitions. Our paper attempts to fill this void by examining foreign partial block acquisitions in which the foreign investors acquire less than 50% of a target's shares.

This paper proceeds as follows. Section 2 describes the data and sample characteristics. In Section 3, we compare the frequency of post-acquisition governance activities of foreign block acquirers in U.S. targets with that of domestic block acquirers. We also investigate the effect of information asymmetries that foreign block acquirers face in the U.S. on the likelihood of such governance activities and the cross-sectional variation of target abnormal returns. Section 4 summarizes and concludes the paper.

2. Sample Selection and Data

Our sample consists of block share acquisitions of U.S. targets by foreign firms between 1981 and 1999. We obtain the initial sample of U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. We first identify cross-border partial acquisitions in which the foreign firm initially held less than 5 percent of a U.S. target firm's outstanding shares before the acquisition, and then purchases more than 5 percent but less than 50 percent of the target's outstanding shares. We eliminate cases in which foreign acquiring firms are domiciled in tax haven countries such as the Cayman Islands, Bermuda, and the British Virgin Islands. We then require that the initial public announcement date of the block share purchase be available in *Dow Jones Newswire*, where we use as the announcement date the date that a news announcement first appears in this publication. We also require that stock return and financial data for U.S. targets be available in the CRSP and COMPUSTAT tapes, respectively. These restrictions result in a final sample of 268 foreign partial acquisitions of U.S. targets.

We obtain managerial ownership (officers and directors' aggregate equity ownership) data on U.S. targets from proxy statements and annual reports. Institutional ownership data come from CDA/Spectrum Institutional (13f) Holdings.

To examine the post-acquisition governance activities of foreign acquirers in U.S. targets, we use several sources, including 13D filings (which provide a general statement of the acquisition of beneficial ownership), *Dow Jones Newswire*, proxy statements, and targets' annual reports. We examine all sources for stories during the holding period of block share sales by foreign firms up to three years after the acquisition, where we define the holding period as the period from the date when the foreign firm announces the block acquisition of a target firm's equity to the date when it decreases its holding in the target to less than 5 percent. In particular, we closely follow news articles and 13D filings up to three years after the acquisition announcement date for block share sales by foreign firms. If we are not able to identify the dates of block equity sales following this process, we then search target firms' proxy

statements and annual reports to determine whether the foreign firms still hold block equity in the targets.[6]

To compare the governance activities of foreign large blockholders with those of domestic large blockholders, we construct a control sample of 268 U.S. targets in domestic partial block acquisitions between 1981 and 1999. Specifically, we match U.S. targets involved in domestic partial block acquisitions to targets in foreign partial block acquisitions by acquirer-target product market relationship, acquirer industry (financial or nonfinancial), target industry (first two digits of the SIC code), target size (book value of assets), and year of acquisition.[7] If no firm matches by year of acquisition, we use a control target matched by the previous or following year.

We determine the existence of a product market relationship between the two firms by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for the three years prior to and subsequent to the block acquisition announcement date. In particular, we search for information about whether the two firms involved in the acquisition have research/product development agreements, supplier-buyer relationships, marketing/distribution ties, or technology sharing agreements.

Panel A of Table 1 reports the distributions of the sample of 268 U.S. targets of foreign block acquirers by year and by acquirer home country. As can be seen from the panel, the years 1989, 1987, and 1996 are the most active acquisition announcement years, with 35, 23, and 22 cases, respectively. In contrast, no acquisition announcements are observed in 1980 and 1982. We find that 52 of the targets are acquired by U.K. firms, followed by Japanese (33 acquisitions) and Canadian (29 acquisitions) firms. The remaining acquirers are spread among Switzerland (23 acquisitions), Hong Kong (20 acquisitions),

[6] There are 12 cases in which the foreign firm acquires more than 50% of a target firm's shares outstanding within the three years after the initial acquisition announcement. In untabulated tests, we exclude these 12 acquisitions in the sample and repeat all analyses below. The results are qualitatively similar to those reported in the paper.

[7] As discussed in the introduction, we employ acquirer-target product market relationships as one of important matching criteria because the motives behind foreign partial acquisitions may be different from those behind domestic partial acquisitions. For example, foreign firms may acquire U.S. targets' equity for synergistic (e.g., strengthening current product market relationships or establishing new product market relationships) rather than disciplinary purposes. Therefore, controlling for this difference in motivation is important to draw an unbiased interpretation of the results. Although most of the U.S. targets involved in domestic acquisitions are matched to those in foreign acquisitions by product market relationships, four firms cannot be matched by this criterion. For these four cases, we obtain matching firms without considering product market relationships.

Germany (19 acquisitions), France (16 acquisitions), Italy (7 acquisitions), and other countries (69 acquisitions).[8] Foreign acquirers from G-7 countries account for about 58.2 percent of total sample.

[insert Table 1 about here]

Panel B of Table 1 summarizes the frequency distribution of our sample by target and acquirer industries. The panel shows that most of the U.S. targets in foreign partial block acquisitions are in manufacturing (53.7 percent), services (13.8 percent), and transportation and public utilities (9.0 percent). A breakdown of the sample by acquirer industry shows that foreign block acquirers are generally in finance, insurance, and real estate (44.4 percent) and manufacturing (34.3 percent). To compare the industry distribution of foreign acquisitions with that of domestic acquisitions, Panel B of Table 1 also shows the frequency distribution of all domestic partial block acquisitions by target and acquirer industries. There are 2,944 domestic partial block acquisitions during our sample period. Similar to the findings for the industry distribution of U.S. targets in foreign partial block acquisitions, most of the U.S. targets in domestic partial block acquisitions are in manufacturing (41.4 percent) and services (17.1 percent). However, unlike the findings for the industry distribution of foreign acquirers, we observe that U.S. acquirers are almost two times (80.4 percent) as likely to be in finance, insurance, and real estate as foreign acquirers. In contrast, U.S. acquirers that operate in manufacturing account for only a small portion of the sample (9.5 percent).

To investigate whether foreign acquirers prefer U.S. targets with certain characteristics, Panel A of Table 2 compares target and transaction characteristics between a sample of 268 U.S. targets in foreign acquisitions and all U.S. targets (2,944 targets) in domestic acquisitions. Several differences in target and transaction characteristics are worth noting. First, the fraction of open market purchases is significantly lower for foreign acquisitions than for domestic acquisitions. In contrast, the median percent of shares acquired is significantly larger for foreign acquisitions than for domestic acquisitions. These results suggest that foreign investors buy a large percentage of target shares through private negotiation.

[8] Given the large number of U.K. acquirers in our sample, we examine the robustness of our findings by repeating all analyses below excluding acquisitions involving U.K. firms; the results are qualitatively similar to those reported in the paper.

[insert Table 2 about here]

Second, we find that compared to U.S. block acquirers, foreign block acquirers prefer U.S. targets operating in the same industry, in R&D-intensive industries (as measured by the target industry's R&D expenses divided by sales), and in industries with high selling expenses (as measured by the target industry's advertising and other selling expenses divided by sales). These results are consistent with Buckley and Casson (1976), who argue that multinational firms have an incentive to bypass intermediate products' (i.e., products that take the form of organizational skills and are inseparable from the firm itself) costly market imperfections through the creation of internal markets, or in other words, that for FDI to take place, foreign acquiring firms and/or target firms in the host country should have firm-specific advantages that help foreign acquiring firms internalize these advantages through intermediate products. These results are also consistent with Harris and Ravenscraft (1991), who show that cross-border takeovers in the U.S. are more frequent than domestic takeovers in R&D-intensive industries and in related industries between the acquirer and the target. These results suggest that product market imperfections are an important factor that motivates foreign firms to undertake cross-border takeovers and partial acquisitions. To the extent that synergistic gains are larger for acquisitions involving targets operating in the same industry as acquirers, in R&D-intensive industries, and in industries with high selling expenses, the results also suggest that foreign investors prefer buying shares in U.S. targets that have a greater potential to create synergistic gains.

Third, we find that the median cash flow (the ratio of cash flows to total assets) for targets in foreign acquisitions is significantly lower than the median cash flow for targets in domestic acquisitions. In contrast, we observe an opposite pattern for the median Tobin's *q* (the sum of the market value of equity and the book value of debt, divided by the book value of total assets). Thus, U.S. acquirers tend to prefer targets with larger cash flows and lower growth opportunities than foreign acquirers do. To the extent that this class of targets observes more severe agency problems than other types of targets (Jensen (1986)), our results indicate that domestic block acquisitions are more likely to be disciplinary in nature than foreign block acquisitions.

Finally, the size (total assets), leverage ratio (total debt to total assets), equity ownership by managers, and equity ownership by institutional investors show no statistical difference between the two groups. Overall, the results in Panel A of Table 2 suggests that foreign firms acquire U.S. targets for synergistic rather than disciplinary purposes.[9]

Panel A also compares target and transaction characteristics between a sample of 268 U.S. targets in foreign acquisitions and a control sample of 268 U.S. targets in domestic acquisitions. Reflecting the fact that U.S. targets in domestic acquisitions are matched to those in foreign acquisitions by several firm characteristics, none of the target characteristics are significantly different between these two groups. However, the fraction of open market purchases is significantly lower for foreign acquisitions than for domestic acquisitions.

Panels B of Table 2 reports the frequency distribution of U.S. targets in foreign acquisitions and U.S. targets in domestic acquisitions (control) by product market relationship. We find that out of 268 U.S. targets in foreign (domestic) acquisitions, 105 (101) maintain some kind of product market relationship with the acquirers. The most frequent type of product market relationship between the foreign acquirer and the U.S. target is a research/product development agreement (38 cases), followed by marketing/distribution ties (29 cases), supplier-buyer relationships (22 cases), and technology sharing agreements (16 cases). We find a similar pattern for U.S. targets in domestic acquisitions.

In Panel C of Table 2, we compare the frequency distribution of the holding period of block shares across the above two samples. We find that on average foreign acquirers hold block shares in U.S. targets longer than do domestic acquirers. In particular, 47.4 percent of foreign acquirers hold block shares in U.S. targets for longer than three years, whereas the corresponding number is only 35.8 percent for domestic acquirers. This difference in holding periods is significant at the 0.01 level. Moreover, only 22

[9] In untabulated tests, we estimate logistic regressions in which the dependent variable equals one if a U.S. target is acquired by a foreign firm, and zero otherwise, for a pooled sample of 268 targets in foreign block acquisitions and 2,944 targets in domestic block acquisitions. We include variables used in Panel A of Table II as explanatory variables. We find that the results from the logistic regressions are similar to those reported in Panel A of Table II except that the percentage of shares acquired, the ratio of cash flows to total assets, and Tobin's *q* are not significantly related to the likelihood of being a target in foreign acquisitions.

percent of foreign acquirers hold block shares in U.S. targets for less than one year whereas the corresponding number is 38.1 percent for domestic acquirers.

To examine further whether the disciplinary nature of foreign block acquisitions is different from that of domestic block acquisitions, in Panel D of Table 2 we present the fractions of acquirers that can be classified as active investors. Following Bethel, Liebeskind, and Opler (1998), we define active investors as those who announce their intention of influencing firm policies or who are known for having pursued active policies in the past. We find that 36 domestic acquirers (13.4 percent) are classified as active investors while only 26 (9.7 percent) foreign acquirers are taken to be active investors. These results are generally consistent with those reported in Panel A of Table 2 and again suggest that domestic investors have stronger incentives to play an active governance role in influencing target management than do foreign investors.

Finally, Panel E of Table 2 reports summary statistics for the extent of information asymmetries that foreign acquirers face in the U.S. The mean physical distance between the foreign acquirer and the U.S. target is 7,554 kilometers, with a median of 6,049 kilometers.[10] The mean and median numbers of previous share acquisitions (including both minority and majority share acquisitions) that the foreign acquirer has undertaken in the U.S. during the previous five years prior to the partial block acquisitions are 0.944 and 0.00, respectively. We also find that 34% of our sample foreign acquirers use English as their primary language. In 45% of the acquisitions, the legal origin of the foreign country is English common law.

3. Empirical Results

A. Post-Acquisition Governance Activities

[10] We obtain data on physical distance from http://www.cepii.fr, which provides the bilateral distance between two countries. Distance is calculated using both the capital city and the economic center (the most important city in terms of population) of the two countries, since for several countries the capital is not populated enough to represent the economic center of the country. We report results based upon the economic center of countries, but the results reported below do not change when we use the capital city.

Firms that acquire block shares may have strong incentives to monitor managerial performance in targets and take action that enhances target firm value. In this section, we examine various kinds of post-acquisition governance activities that acquiring firms initiate during the holding period of block shares, which we define to be up to three years from the acquisition announcement date.

We classify the post-acquisition governance activities that acquirers undertake into six categories: (1) hostile takeover threats; (2) proxy contests or threats; (3) expressions of opposition to or attempts to amend antitakeover provisions; (4) efforts to seek representatives on the target's board; (5) threats of top executive turnover or involvement in the selection of a new top executive; and (6) demands for asset downsizing.

A.1. Governance Activities of Foreign and Domestic Acquirers

Table 3 summarizes foreign acquirers' post-acquisition governance activities. While some acquiring firms engage in a single governance activity, a number of acquiring firms participate in multiple activities. Thus, the classifications are not mutually exclusive. During the period from 1981 to 1999, out of 268 foreign acquiring firms, 36 (13.4%) announce a total of 64 involvements in governance activities.[11] Of these 64 activities, hostile takeover threats (19 cases) and efforts to seek board representation (19 cases) are reported most frequently, followed by demands for asset downsizing (11 cases). [12] Six foreign acquirers are involved in proxy contests and another six demand changes to the top executive. In the remaining three cases, acquirers officially express opposition to or attempt to amend antitakeover provisions proposed by target management.

[11] Twenty firms engage in one governance activity and the remaining 16 firms engage in multiple governance activities.

[12] Of the 19 foreign firms that issue hostile takeover threats, three eventually acquire more than 50 percent of the target's equity. Of the 19 foreign acquisitions (five private placements and 14 open market purchases) in which acquirers seek representation on targets' boards, 11 acquirers eventually secure such representation but eight do not. Of five (14) foreign acquirers that buy target shares through private placements (open market purchases), three (eight) eventually achieve board representation. In tests not reported here, we repeat all analyses in the paper excluding the sample of acquisitions in which the board representation is not achieved and find that the results are qualitatively unchanged. We also find that several targets of foreign acquirers, mostly those that have product market relationships, exchange board representatives with acquirers. This result suggests that the extent of the board's independence is lower in acquisitions with product market relationships than in those without such relationships.

[insert Table 3 about here]

Table 3 also summarizes governance activities of the control sample of U.S. block acquirers from 1981 to 1999. During this period, out of 268 domestic acquiring firms, 52 (19.4%) announce a total of 104 involvements in governance activities.[13] Thus, U.S. acquirers are more than 1.6 times as likely to engage in post-acquisition governance activities as are foreign acquirers. The threat of hostile takeovers is the most frequently observed type of governance activity (35 cases), followed by efforts to seek board representation (27 cases). Thirteen acquirers initiate the threat of proxy contests against target management. U.S. acquirers also frequently demand top executive turnovers (11 cases). Ten firms in the sample oppose or attempt to amend antitakeover provisions proposed by target management. Finally, eight U.S. acquirers demand some form of asset downsizing.

In summary, the analysis of post-acquisition governance activities of block acquirers in U.S. targets indicates that the frequency of these activities is much higher in domestic acquisitions than in foreign acquisitions. U.S. acquirers are almost twice as likely to engage in threats of hostile takeovers, proxy contests, and top executive turnovers, and at least three times as likely to oppose target management-proposed antitakeover amendments.

In a related study, Kang, Kim, Liu, and Yi (2006) examine post-takeover restructuring activity of acquirers in large U.S. targets and find that layoffs and selloffs are less important in justifying the target premium in foreign mergers than in domestic mergers. They also find that U.S. targets in foreign takeovers subsequently make more post-takeover investments than those in domestic takeovers. Our findings, together with those of Kang, Kim, Liu, and Yi (2006), suggest that the motives that drive foreign mergers and acquisitions are clearly different from those that drive domestic merger and acquisitions and that foreign acquirers have weaker incentives to engage in corporate governance/downsizing activities in domestic targets than do domestic acquirers.

[13] Twenty seven firms engage in one governance activity and the remaining 25 firms engage in multiple governance activities.

A.2. Logistic Regression Analysis: The Effect of Target and Transaction Characteristics on the Likelihood of Post-Acquisition Governance Activities

In this section, we examine the effect of target and transaction characteristics on the likelihood of post-acquisition governance activity by performing logistic regressions in which the dependent variable equals one if acquirers are involved in at least one of the six governance activities described in Table 3.[14] We include the following explanatory variables in the regressions.

- *Product market relationships.* Product market relationships can have a significant effect on blockholders' incentives to monitor target management. However, a priori the effect of product market relationships on the likelihood of post-acquisition governance activity is unclear. For example, if investors who have maintained product market relationships with targets purchase a large percent of target shares, they would have few incentives to monitor target management since active intervention can jeopardize such relationships. Instead, they might hold equity stakes in targets to help facilitate deeper trading relationships (Fee, Hadlock, and Thomas, (2006)). Furthermore, target management is usually involved in the process of selecting blockholders with product market relationships. These arguments suggest that blockholders with product market relationships have fewer incentives to engage in governance activities in targets than do those without such relationships. However, blockholders with product market relationships typically possess industry knowledge or operating expertise that is superior to that of blockholders without such relationships. Since the market value of blockholders that have product market relationships with targets is affected by the market value of targets via a change in the value of the blockholders' equity holdings in the targets, these blockholders might have strong incentives to fully utilize their information advantage in targets in order to maximize the value of their equity investment in the targets. In this case, one would expect blockholders with product market relationships to

[14] In unreported tests, we experiment with ordered logit and ordinary least squares regressions using the governance activity index as the dependent variable. We construct an index aggregating governance activities by adding one when large-block acquirers undertake one of the six governance activities. The score of this index therefore ranges from zero to six, with a higher score indicating more frequent governance activity by the acquirer. We find that our results do not change when we use these alternative approaches.

take a more active governance role in targets than blockholders without such relationships. To explore this issue, we use a dummy variable that equals one if the two firms involved in the acquisition have at least one of the four product market relationships described in Panel B of Table 2.

• *Duration of holding period.* Large shareholders' incentives to engage in governance activities in targets can be influenced by the duration of their block holding period. For example, Demsetz and Lehn (1985) argue that as long-term investors, large shareholders have strong incentives to monitor management. In contrast, Butz (1994) views large shareholders as short-term investors who have an incentive to influence the firm to divest its assets and then leave soon after to realize a rapid gain in wealth. These studies suggest that long-term and short-term blockholders have different incentives concerning corporate governance. We therefore include an indicator variable that equals one if the holding period of block shares acquired by investors is longer than three years, and zero otherwise.

• *Percent of share acquired.* Shleifer and Vishny (1986) show that as the size of equity ownership by large shareholders increases, the optimal level of monitoring increases. Since large equity ownership increases bolckholders' incentives to monitor and their control power, we expect blockholders to have strong incentives to engage in governance activities in targets. Hence, we include the percentage of shares acquired in the regressions. We expect a positive coefficient on this variable.

• *Target management ownership*. Equity ownership by target managers can also have an effect on the likelihood of the acquirer's post-acquisition governance activity. According to Jensen and Meckling (1976), concentrated managerial ownership aligns the interests of managers with those of shareholders, thereby minimizing the agency problem that arises from the separation of ownership and control. However, concentrated managerial ownership can insulate managers from outside influence and thus leave them unconstrained. For example, Stulz (1988) argues that high management ownership effectively

precludes takeover threats and thus decreases firm value. These arguments suggest that target management ownership affects the acquirer's incentives to conduct post-acquisition governance activities since it could create a different level of agency problems in targets.

• *Equity ownership by institutional investors.* We also consider equity ownership by other institutional investors. If block acquirers and other institutional shareholders interact with each other to monitor target management, effectively cooperating in governance activities in targets, we expect such institutional ownership to be positively related to the likelihood of the block acquirer's post-acquisition governance activity. This conjecture is consistent with Zwiebel (1995), who shows that minority blockholders can exert control through coalitions with other blockholders.

• *Free cash flow problem.* Jensen (1986) argues that firms with low growth opportunities and large cash flows suffer from severe agency problems and thus their managers are more likely to waste firms' resources than are those of other firms. Since governance mechanisms play a more influential role in disciplining managers of firms with more severe agency problems (Kang and Shivdasani (1995) and Denis, Denis, and Sarin (1997)), we expect the likelihood of post-acquisition governance activities to be positively related to the extent of a target's free cash flow problem. Further, the measure for the extent of a free cash problem controls for the need for corporate governance activism in targets. If foreign firms acquire U.S. targets that require less governance activism, then they might have fewer incentives to engage in post-acquisition governance activities in these targets. Thus, including the target's free cash flow measure in the regression allows us to examine whether the foreign acquirers' incentives to engage in governance activities are different from those of domestic acquirers after controlling for the need for governance activism in targets. We measure the extent of a target's free cash flow problem using a dummy for high cash flow / low Tobin's *q*, which equals one if the ratio of cash flow to total assets is above the sample median and Tobin's *q* is below the sample median, and zero otherwise. Firms with high

cash flow and poor growth opportunities (i.e., dummy = 1) are expected to have high free cash flow problem.

• *Industrial relatedness.* If block acquirers who operate in the same industry as targets have competitive advantages in collecting information about targets and these advantages reduce monitoring costs associated with governance activities, the acquirers will engage in more active post-acquisition governance activities in targets. To measure industry relatedness between the two firms involved in the acquisition, we use a dummy variable that equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code) and zero otherwise.

• *Other control variables.* We include as a control a dummy variable for open market purchases. This dummy equals one if the acquirers buy target shares through an open market purchase, and zero if through a private placement. Equity transferred in a private placement is typically sold based on negotiated terms between the buyer and the seller. Furthermore, unlike in an open market purchase, target management is usually involved in the process of selecting buyers in private equity placements. Thus, blockholders who buy target shares through private placements may have fewer incentives to actively discipline target managers than those who buy target shares through open market purchases. We also control for other factors such as firm size (log of total assets) and leverage (debt divided by the sum of debt and the market value of equity).[15]

The first two models in Panel A of Table 4 present the regression estimates for the sample of foreign acquisitions. The results show that the probability that foreign acquirers take any type of governance action is positively related to the dummy variable for high cash flow/low Tobin's *q* at the 0.01 level, suggesting that foreign acquirers are more likely to engage in post-acquisition governance activities when

[15] In unreported tests, we also include 16 dummy variables for the year of acquisition and 7 dummy variables for industry. The results are similar if time or industry effects are controlled for.

targets suffer from severe agency problems. The probability of post-acquisition governance activities is also positively and significantly related to the dummy variable for open market purchases and the percentage of shares acquired. The former result suggests that foreign investors who buy target shares through private negotiation are less likely to be involved in post-acquisition governance activities. The latter result supports the argument of Shleifer and Vishny (1986) that large shareholders perform an important monitoring function. However, the probability of post-acquisition governance activities is significantly negatively related to the dummy variable for product market relationships, supporting the view that block acquirers with product market relationships are less likely to take disciplinary actions against target management.

[insert Table 4 about here]

In the next two models, we report the regression estimates for the sample of domestic control acquisitions. As with the previous results for foreign acquisitions, the likelihood of post-acquisition governance activities is positively related to the dummy variable for high cash flow/low Tobin's *q*, to the dummy variable for open market purchases, and to the percentage of shares acquired, and is negatively related to the dummy variable for product market relationships.[16] In addition, the coefficient on the dummy variable for same-industry acquisitions is positive and significant at the 0.05 level. This finding suggests that U.S. acquirers that possess operating expertise in target engage in more active governance activity than those that do not have such expertise. We also find that the coefficient on equity ownership by other institutional investors is negatively associated with the probability of post-acquisition governance activities, indicating that the existence of other shareholders in targets before the acquisition of block shares adversely affects the incentives for domestic blockholders to take an active role in post-acquisition governance activities.

[16] To gain insight into the economic significance of negative coefficients on the dummy variable for product market relationships in both foreign and domestic acquisitions, we compute its marginal effects including the other explanatory variables used in regressions (2) and (4). Unreported analysis indicates that compared to foreign (domestic) block acquirers that do not maintain product market relationships with targets, the probability of post-acquisition governance activities is about 8.5% (13.8%) lower for foreign (domestic) block acquirers that maintain such relationships. These findings suggest that the effect of product market relationships on acquirers' incentives to undertake post-acquisition governance activities in targets is both economically and statistically significant.

In models (5) and (6) of Panel A, we report the regression estimates for a pooled sample of foreign and domestic acquisitions. We include a dummy variable that equals one if a large block acquirer is from a foreign country, and zero otherwise. The coefficient on this foreign country dummy is negative and significant. This finding suggests that after controlling for the need for governance activism in targets and other important target and transaction characteristics, foreign acquirers are less likely to engage in post-acquisition governance activities in U.S. targets than are domestic acquirers. The results for other variables are qualitatively similar to those reported in previous regressions.

In summary, the analysis of the likelihood of post-acquisition governance activities in U.S. targets indicates that foreign block acquirers are less likely to be involved in such activities than are domestic block acquirers. However, there are some common factors that determine the governance activities of both foreign and domestic block acquirers in U.S. targets. For both foreign and domestic acquisitions, the probability of post-acquisition governance activities increases when the acquirers purchase a large percentage of target shares and when targets suffer from severe agency problems. The likelihood of post-acquisition governance activity decreases, however, when the acquirers maintain product market relationships with the targets and when they buy target shares through a private negotiation. We also find that for domestic acquisitions, the likelihood of post-acquisition governance activities is positively related to the whether the acquirer and the target are in the same industry and is negatively related to equity ownership by other institutional investors.

To examine whether the common factors that determine the governance activities of foreign and domestic block acquirers have any differential effects on the likelihood of post-acquisition governance activities in U.S. targets, in the last column of Panel A, we present *p*-values for the tests of differences in coefficients between models (2) and (4). None of the coefficients show a significant difference except that the coefficient on the same industry dummy in model (2) is significantly smaller than that in model (4). This result suggest that foreign block acquirers who operate in the same industry as U.S. targets are less likely to engage in post-acquisition activities than their domestic counterparts, possibly due to their close product market relationships with targets.

To more closely understand the circumstances under which foreign acquirers are less likely to engage in governance activities than domestic acquirers, we examine whether the results in Panel A of Table 4 vary across targets with more need for governance activism and those with less need for governance activism. Panel B of Table 4 reports the results. In models (1) and (2), we divide a pooled sample of foreign and domestic acquisitions into targets with high cash flow and low Tobin's q (i.e., targets with higher agency problems) and other targets (i.e., targets with lower agency problems). We find that the coefficient on the foreign acquirer dummy is significantly negative in the subsample of targets with lower agency problems and insignificantly positive in the subsample of targets with higher agency problems. The test of differences in coefficients on the foreign acquirer dummy across the two subsamples, however, does not reject the null hypothesis that they are equal. In the next two models, we separate the pooled sample according to past operating performance of the targets. We find that a negative and significant coefficient on the foreign acquirer dummy is only evident in the subsamples of targets with higher past operating performance. The results are similar when we partition the pooled sample according to past stock return performance of the targets (models (5) and (6)). Thus, foreign acquirers are less likely to engage in governance activities than are domestic acquirers only when the need for corporate governance activism in targets is smaller. To the extent that foreigners face high monitoring costs associated with their governance activities in the host country, possibly due to information asymmetry, our findings suggest that such a cost disadvantage incentivizes them to pursue active governance in targets only when the benefits from their monitoring activities are expected to be large, such as when targets have high free cash problems or when targets experience poor performance**.**

A.3. Logistic Regression Analysis: The Role of Information Asymmetries in Foreign Block Acquisitions

The previous section shows that foreign block acquirers are less likely to be involved in post-acquisition governance activities in U.S. targets than are domestic block acquirers. Given that non-resident investors are generally less informed about the U.S. than resident investors, in this section we

examine the role of information asymmetries that foreign acquirers face in the U.S. as a potential explanation for cross-sectional variation in their post-acquisition governance activities. We address this issue by adding several measures of acquirer information asymmetries, as discussed in the introduction, to models (1) and (2) of Table 4.

Table 5 reports the results. In the first two models, we use the physical distance between the acquirers and their targets as a proxy for the measure of information asymmetry that foreign acquirers face in the U.S. In the first model, we control for target characteristics. We find that the probability that foreign acquirers engage in any type of governance action is negatively related to the logarithm of physical distance between the acquirer and the target at the 0.01 level. In the second model, we add transaction characteristics. Controlling for transaction characteristics does not change the significance of the coefficient on the distance variable. These findings suggest that distance is an important determinant of foreign acquirers' governance activities in U.S. targets.

[insert Table 5 about here]

In the third and fourth models, we use as a measure of information asymmetry the log of one plus the number of previous acquisitions that the foreign acquirer has undertaken in the U.S. prior to the partial block acquisitions. The coefficients on this variable are positive and significant at the 0.01 level, indicating that foreign acquirers that have previous acquisition experience in the U.S. perform a more active governance role in U.S. targets.

In the fifth and sixth models, we include a dummy variable for the same language that equals one if the primary language of the foreign acquirer is English. The estimated coefficients on this dummy variable are positive and significant at the 0.01 and 0.05 levels, respectively. Thus, foreign acquirers that share a common language with the U.S. are more likely to be involved in governance activities in U.S. targets, possibly due to their information advantages over other non-English speaking foreign acquirers. These findings are consistent with those of Grinblatt and Keloharju (2001), who show that language is an important part of the information asymmetry faced by foreign investors.

In the last two models, we include a dummy variable for the same legal origin that equals one if the legal origin of the foreign country is English common law, and zero otherwise (LLSV (1998)). The results show that in both models, the coefficients on the dummy variable for the same legal origin are positive and significant at the 0.01 level. To the extent that countries with a common legal origin deal with governance activities similarly and this similarity reduces the information asymmetries that foreign investors face in the host country, these results suggest that fewer information asymmetries in terms of legal structure provide foreign investors greater incentives to engage in an active governance role in the host country.

In sum, the results in this section suggest that the information asymmetries that foreign investors face in the host country have a significant effect on their incentives to engage in an active governance role in domestic targets.

A.4. Relationship between Past Stock Performance and Top Executive Turnover

In our analysis above we identify post-acquisition governance activities initiated by acquirers using reports from newspapers, SEC filings, and other public information sources. To the extent that some companies decide not to reveal such information to the public, several governance activities that we examine based upon these sources might be biased downward, in which case we underestimate the extent of such activities. To determine whether our results are driven by this bias, we collect complete information on targets' nonroutine top executive turnover events that took place during our sample period and examine whether the likelihood of such events is related to the variables we consider in the previous regressions.[17] One disadvantage of using this approach, however, is that it overestimates the extent of

[17] We focus on nonroutine top executive turnover since the removal of the top executive is one of the most aggressive governance actions that can be taken. Furthermore, several studies show that blockholders play an important role in the process of top executive turnover. For example, Denis, Denis, and Sarin (1997) document that the probability of top executive turnover occurring is positively related to the presence of large outside shareholders. Bethel, Liebesind, and Opler (1998) show that such a probability is high for firms experiencing activist block purchases. Kang and Shivdasani (1995) also show that for large Japanese firms, nonroutine turnover is more likely when ownership by the top 10 shareholders is high.

governance activities of foreign and domestic acquirers since some turnover events we consider might be initiated by other investors.

We obtain the sample of top executive turnover events from proxy statements and annual reports. For the holding period up to three years after the formation of block shares, we search these sources for changes of CEOs, chairmen, and presidents.[18] We define the top executive as the CEO. If a firm does not have a CEO, we take the chairman of the board to be the top executive; if the firm has neither a CEO or chairman of the board, then we take the president to be the top executive. Following Denis, Denis, and Sarin (1997), we refer to turnover events in which the top executive is removed due to death, illness, or other normal reasons as routine turnover. We also classify a management change as normal if the stated reason for the change is retirement and the retiring manager is between the ages of 64 and 66. We refer to all other turnover events as nonroutine turnover.[19] This procedure yields a final sample of 57 nonroutine turnover events for U.S. targets of domestic acquirers and a final sample of 57 nonroutine turnover events for U.S. targets of foreign acquirers. All these nonroutine turnover events are initiated by 114 different acquirers. For each turnover event, we also collect data on the background of the departing top executive, such as age and whether the executive is a chairman, from proxy statements and annual reports.

Table 6 reports the results from logistic regressions in which the dependent variable is one if nonroutine turnover occurs and zero otherwise. In addition to including all explanatory variables used in the regressions above, we also include past stock performance and the ratio of block acquirers on the target's board (the number of members of the board of directors in target sought by acquirers at the announcement date, divided by the total number of members of the board of directors in target). We include past stock performance since the dismissal of top management is more likely to occur when firms perform poorly (Weisbach (1988), Warner, Watts, and Wruck (1988), Kang and Shivdasani (1995)). We measure past stock performance as the Fama-French (1997) industry-adjusted stock return of target firms

[18] As an alternative measure of top executive turnover, in unreported tests we also search these sources for three years regardless of the holding period and obtain similar results.
[19] We also experiment with alternative definitions of nonroutine turnover, assuming that normal retirement takes place at any age above 60 or at any age above 64. Our results are qualitatively similar using these alternatives.

over the one year prior to the block acquisitions. We include board representation by block acquirers because previous studies show that the presence of outside directors on the board plays an instrumental role in internal governance. Brickley and James (1987), Weisbach (1988), and Byrd and Hickman (1992), for example, show that independent outside directors protect the interests of shareholders when there are agency problems between managers and shareholders. Given that the board members represented by block acquirers are independent outside directors, we expect that they play an important role in monitoring target management.

We also control for other variables that may affect top executive turnover. Specifically, we control for the age of the top executive, and we include both a chairman dummy, which equals one if the top executive is the chairman of the board, as well as a founder dummy, which equals one if the top executive is the founder of the firm. We define founders as those who are described as founders in the proxy statement or the annual statement, or those who have held the position of top executive since the inception of the firm.

Although we incorporate the age of the top executive in classifying nonroutine turnover, the age of the top executive can still affect the likelihood of turnover, either positively or negatively. For example, if the age of the top executive is an indicator that the executive is close to retirement, the turnover probability is expected to be positively related to this variable (Weisbach (1988)). In contrast, if the age of the top executive represents the extent of control that he or she has over the firm, the turnover probability is likely to decrease with this variable.

The status of the top executive either as chairman or founder may also affect the process of top executive turnover. For example, Fama and Jensen (1983) argue that the concentration of decision management and decision control in an individual reduces the effectiveness of the internal governance system in monitoring top management. Denis, Denis, and Sarin (1997) also show that the probability of top executive turnover is significantly smaller when the top executive is the founder or a member of the founding family. These findings suggest that top executives who are also founders or who are chairmen

have more control over firms than other types of top executives and thus the probability of top executive turnover will tend to be low.

The first four regressions report the logistic regression estimates for the targets of foreign acquirers. As expected, the board representation ratio by foreign acquirers is significantly positively related to the likelihood of turnover. Nonroutine turnover is significantly more likely when the percentage of shares purchased by acquirers is high. This finding is consistent with the monitoring role of large shareholders argued by Shleifer and Vishny (1986). The coefficient on the dummy variable for the duration of block ownership is positive and significant, indicating that foreign acquiring firms that hold target equity for a long period are more likely to replace target management. The age of top management is positively and significantly related to the turnover probability, indicating that age may be an indicator that the top executive is close to retirement (Weisbach (1988)). In addition, nonroutine turnover is significantly less likely when targets are larger, when the acquirer and the target are in the same industry, and when the top executive is the founder or a member of the founding family. The coefficient on prior industry-adjusted stock performance, however, is negative but insignificant.

To examine whether the sensitivity of target top management changes to stock performance in foreign block acquisitions is related to information asymmetries that foreign acquirers face in the U.S., in regression (4), we include an interaction term between prior stock performance and a dummy variable for the same language. If foreign acquirers with greater information asymmetries have an information disadvantage over other foreign acquirers in collecting information about targets, the informational disadvantage should provide them fewer incentives to perform an active governance role in disciplining poorly performing targets. Moreover, foreign acquirers with greater information asymmetries tend to bear higher transaction costs in undertaking governance activities compared to those with fewer information asymmetries. Thus, we expect that information asymmetries of foreign acquirers play an important role in explaining the link between the likelihood of target top management turnover and stock performance. Consistent with this view, we find that the coefficient on the interaction term between prior stock performance and a dummy variable for the same language is negative and significant at the 0.10 level.

Thus, when the foreign acquirer shares the same language as the U.S., the negative relation between past stock performance and the likelihood of turnover in targets is more pronounced.

In unreported tests, we also include as explanatory variables interaction terms between prior stock performance and other information asymmetry variables, but find that the coefficients on these interaction terms are not significant.

[insert Table 6 about here]

In regressions (5) through (7), we report the results for the targets of U.S. acquirers. Similar to those for the targets of foreign acquirers, the board representation ratio, percentage of shares purchased, and duration of block ownership by acquirers are positively and significantly related to the likelihood of turnover. In contrast, the coefficients on the age of top management, the same-industry dummy, target size, and the founder dummy are not significant. We also find that consistent with the results of Weisbach (1988) and Warner, Watts, and Wruck (1988), prior stock performance is negatively and significantly related to the likelihood of turnover. However, when we add an interaction term between prior stock performance and a dummy for acquirer's board representation on the target's board, the coefficient on prior stock performance becomes positive and insignificant while the coefficient on the interaction term is negative and significant. Thus, the probability of top management turnover in domestic acquisitions is significantly sensitive to target performance, and blockholders in the U.S. play an important role in disciplining poorly performing target managers.

A.5. Announcement Effects

In this section we examine the effect of announcements of block share purchases on target value. To assess the valuation effect of acquisition events, we compute abnormal returns using a standard event study methodology. We obtain our estimates of the market model by using 200 trading days of return data, beginning 220 days before and ending 21 days before the announcement of the block share purchase. We use as the market return the CRSP equally weighted return. We cumulate the daily abnormal returns to obtain the cumulative abnormal return (CAR) from day t_1 before the announcement date of the block

share purchase to day t_2 after the announcement date of the block share purchase. The standardized cumulative abnormal returns and test statistics are calculated using the procedure described by Dodd and Warner (1983). We use the *t*-statistic to test the hypothesis that the average CARs are equal to zero, and the sign-rank test statistic to test the hypothesis that the CARs are distributed symmetrically around zero.

Panel A of Table 7 reports the CARs for the targets of foreign and domestic acquirers for different event windows. On average, shareholders of U.S. target firms earn statistically significant positive gains. The average CAR (-1, 0), CAR (-1, 1), and CAR (-5, 5) for the targets of foreign acquirers are 4.8 percent, 5.8 percent, and 7.4 percent, respectively, all of which are statistically significant at the 0.01 level. The corresponding CARs for the targets of domestic acquirers are 7.1 percent, 8.0 percent, and 9.3 percent, respectively, all of which are also significant at the 0.01 level. These findings are consistent with those of Mikkelson and Ruback (1985), who document positive announcement returns for target firms who sell 5 percent or more of their equity stakes to other companies. Tests of differences in mean CARs (-1, 0) and mean CARs (-1, 1) across the sample of targets in foreign acquisitions and the sample of targets in domestic acquisitions reject the null hypothesis that they are equal. The medians record a similar pattern.

[insert Table 7 about here]

In Panel B of Table 8, we examine the CARs (-5, 5) for targets by stratifying the sample into two subgroups according to acquirers' involvement in post-acquisition governance activities. In both foreign and domestic acquisitions, the market's ex ante valuation of the target is higher when the market expects acquirers' post-acquisition governance activities than otherwise. The differences in median CARs (-5, 5) between the two subgroups are significant at the 0.10 level. However, controlling for whether there was future governance activity, we find no significant difference in CARs (-5, 5) between the targets of foreign acquirers and those of domestic acquirers.

To better understand the cross-sectional variation in target returns, we present the estimates from multivariate regressions using the standardized CARs (-5, 5) as the dependent variable. In untabulated tests, we also experiment with standardized CARs (-1, 1) and CARs (-10, 10) as the dependent variables.

Although the coefficients on a couple of variables that are significant in CAR (-5, 5) regressions lose their significance in CAR (-1, 1) or CAR (-10, 10) regressions, we obtain results that are qualitatively similar to those reported in the tables below. We use as independent variables those used in Table 4. In addition, we include a dummy variable that equals one if acquirers are involved in at least one of the six post-acquisition governance activities described in Table 3.[20] The results from ordinary least squares (OLS) regressions are presented in Table 8.

Models (1) and (2) present the regression estimates for the sample of 268 targets in foreign acquisitions. We find that the target returns are positively and significantly related to the dummy variable for acquirers' post-acquisition governance activities. This finding suggests that the stock market takes foreign acquiring firms' value-enhancing future governance activities for U.S. targets into account when assessing their market values. We also find that target returns are positively related to Tobin's *q* at the 0.10 level, suggesting that acquisitions of U.S. targets with high growth opportunities by foreign firms are received more favorably by investors. Although not reported here, we also find that the target CARs (-5, 5) are positively and significantly related to the number of previous acquisitions made by the foreign acquirers, suggesting that U.S. targets in foreign block acquisitions realize higher abnormal announcement returns if their acquirers have more acquisition experience in the U.S.

[insert Table 8 about here]

In models (3) and (4), we report regression estimates for the control sample of 268 targets in domestic acquisitions. As with the results for the targets in foreign acquisitions, target returns are positively related to the dummy variable for acquirers' post-acquisition governance activities. None of the coefficients on other explanatory variables are significant, however.

[20] The dummy variable for post-acquisition governance activities is strongly positively correlated with the dummy variable for high cash flow/low Tobin's *q*. The correlation coefficient between these two variables is 0.21 for the sample of domestic acquisitions and 0.27 for the sample of foreign acquisitions, both of which are significant at the 0.01 level. Since including these two highly correlated variables in the same regression can generate a multicollinearity problem, instead of using the dummy variable for high cash flow/low Tobin's *q*, we include the ratio of cash flows to total assets and Tobin's *q* in the regressions separately.

In models (5) through (8), we use a pooled sample of targets in foreign acquisitions and control targets in domestic acquisitions. In models (5) and (6), we include a dummy variable that equals one if a large block acquirer is from a foreign country, and zero otherwise. We find that the coefficient on the dummy variable for foreign acquisitions is not significant. Thus, after controlling for target and transaction characteristics and post-acquisition governance activities, U.S. target shareholders earn returns from foreign and domestic partial block acquisitions that are statistically indistinguishable. The percentage of shares acquired has a positive and significant effect on target returns, which is consistent with theoretical work on the role of large shareholders by Shleifer and Vishny (1986). We also find that the coefficient on the dummy variable for same-industry acquisitions is positive and significant at the 0.10 level.

In model (7), we add an interaction term between the dummy variable for acquirers' post-acquisition governance activities and the dummy variable for foreign acquisitions. The coefficient on this interaction term is not significant whereas the coefficient on the dummy variable for acquirers' post-acquisition governance activities is positive and significant. Thus, the effect of future governance activities on investors' ex-ante valuations of acquisition announcements appears to be statistically indistinguishable between foreign and domestic acquisitions.

In model (8), we add an interaction term between the dummy variable for high cash flow and low Tobin's q and the dummy variable for foreign acquisitions. The coefficient on this interaction term is not significant. In unreported tests, we replace the dummy variable for high cash flow and low Tobin's q in the interaction term with a dummy variable for good past operating (stock return) performance that takes the value of one if the ratio of cash flow to total assets (industry-adjusted previous excess return) is above the sample median and zero otherwise. We again find that the coefficient on this interaction term is not significant. Thus, acquisitions of targets with higher agency problems appear to be perceived no differently between foreign and domestic acquisitions.

To examine the effect of information asymmetries that foreign acquirers face in the U.S. on target returns, in Table 9 we report the estimates from OLS regressions for the sample of 268 targets in foreign acquisitions. We use as measures of information asymmetries those used in Table 5.

In models (1) and (2), we include the logarithm of physical distance between the foreign acquirer and the U.S. target. The results show that in both regressions, the logarithm of physical distance is negatively related to target returns at the 0.05 level. Thus, U.S. targets acquired by geographically proximate foreign investors realize higher announcement returns than those acquired by remote foreign investors.

In models (3) and (4), we use the number of previous acquisitions as an alternative measure of information asymmetry. In model (3), the coefficient on the number of previous acquisitions is positive, but is marginally insignificant (*p*-value=0.12). However, when we add transaction characteristics in model (4), the coefficient on the number of previous acquisitions is positive and significant at the 0.10 level, indicating that U.S. targets realize higher announcement returns when their foreign acquirers already have experience in the U.S. prior to the block acquisition.

[insert Table 9 about here]

In unreported tests, we include other information asymmetry variables used in Table 5 as explanatory variables, but find that their coefficients are not significant.

Overall, these results suggest that the extent of information asymmetries that foreign investors face in the host country is an important determinant of the source of target gains in foreign partial block acquisitions, and that the stock market incorporates the extent of information asymmetries in valuing targets.

4. Robustness Tests

To check the robustness of the results, we conduct some additional tests. Below, we briefly summarize the results of these tests.

A. Endogeneity of Target Selection

So far, we have not explicitly considered the endogeneity of target selection in our tests. However, in interpreting our regression results, the endogeneity of target selection must be taken into account. For example, it is possible that foreign block acquirers are less likely to choose targets in need of governance activities in the first place. In other words, to the extent that foreign block acquirers face many disadvantages in attempting to monitor target management, they might rationally choose to invest in well-managed targets. This selection bias can have a significant effect on foreign investors' incentives to engage in active post-acquisition governance activities in targets.

To assess the effect of this endogeneity problem on the likelihood of post-acquisition governance activities and nonroutine top executive turnover, we reestimate the regressions in Tables 4 and 6 adjusting for self-selection bias. Since the dependent variable in our estimation model is dichotomous (i.e., a dummy variable for post-acquisition governance activities and a dummy variable for nonroutine top executive turnover), we use a bivariate probit with adjustment for sample selection bias described in Van de Ven and Van Praag (1981). We consider targets with high cash flow and low Tobin's q as those with higher agency problems and others as those with lower agency problem (i.e., well-managed targets). The dependent variable in the selection probit model is equal to one if the target is a well-managed firm and zero otherwise. We use as explanatory variables the purpose of acquisitions (i.e., whether the deal is control-motivated or not), the activeness of acquirers (i.e., whether the acquirer is an active investor or not), and acquirer industry dummies, in addition to the target characteristics used in Tables 4 and 6.

Table 10 shows regression estimates for the selection probit equation and outcome equation for the likelihood of post-acquisition governance activities (nonroutine top executive turnover). The main findings are that after controlling for the endogeneity of target selection, the differences in the likelihood of governance activities between foreign and domestic acquirers become more evident.[21] For example, in the outcome model for the likelihood of post-acquisition governance activities (model (2)), the coefficient on the foreign country dummy is negative and statistically significant at the 0.01 level, suggesting that

[21] As alternative tests, we define a well-managed target as a target whose past operating performance is above the sample median, and obtain results that are qualitatively similar to those reported in Table 9. Using industry-adjusted excess returns as a measure of past performance leads to a similar conclusion.

foreign acquirers are less likely to be involved in post-acquisition governance activities in U.S. targets than are domestic acquirers. Similarly, in the outcome model for the likelihood of nonroutine top executive turnover (model (4)), the coefficient on the foreign country dummy is negative and significant at the 0.05 level. When we include an interaction term between prior stock performance and a dummy variable for foreign country as an additional explanatory variable (model (5)), the coefficient on this interaction term is positive and significant at the 0.10 level. Given that the relation between the likelihood of nonroutine top executive turnover and prior target performance in domestic acquisitions is negative in Table 6, this finding suggests that foreign block acquirers play a less active role in disciplining poorly performing target management than do domestic block acquirers.

B. First-Time Block Acquisitions

Table 5 shows that foreigners are more likely to engage in governance activities when they have more acquisition experience in the U.S. This result suggests a further selection issue addressed in the previous section. To the extent that many of the foreign block acquisitions are one-time investments made as part of a product market relationship, foreign buyers in these acquisitions might have fewer incentives to engage in post-acquisition governance activities than domestic buyers.[22] To investigate whether the difference in governance activities between foreign and domestic acquirers is still evident even after controlling for this effect, we strip out all of the first-time block acquisitions from our samples of foreign and domestic block acquisitions. We then reestimate the regressions in Table 4 with a smaller sample of these active foreign and domestic investors. In untabulated tests, we find that the coefficient on the foreign acquirer dummy loses its significance. Thus, for a subsample of acquisitions in which active governance activism is expected, foreign acquirers do not show any differences in governance activities compared to domestic acquirers. We also reestimate the regressions in Table 9 using this subsample. We

[22] Out of 268 foreign (domestic) acquirers, 42 (80) have previous acquisition experience. Of these 42 foreign (80 domestic) acquirers, 17 (17) engage in post-acquisition governance activities. Thus, foreign acquirers with previous acquisition experience are almost twice as likely to engage in post-acquisition governance activities as are domestic acquirers with previous acquisition experience.

find that none of the coefficients on the foreign acquirer dummy are statistically significant. These findings suggest that foreigners with previous acquisition experience are not inferior to domestic ones in terms of governance activities and that previous acquisition experience serves as an important source of information for foreign investor to actively engage in governance activities.

C. Product Market Relationship

The previous section shows that the likelihood of post-acquisition governance activities decreases when foreign (domestic) acquirers have product market relationships with targets. This finding suggests that acquirers that maintain product market relationships with targets have few incentives to monitor target management. To more closely examine the monitoring incentives of foreign acquirers, we repeat the analysis in Tables 4, 5, 8, and 9 excluding the sample of block acquisitions in which the acquirers have product market relationships with targets. We find the qualitative results unchanged. To conserve space, we do not report the results in the tables.

D. G-7 Countries

As shown in Table 1, the majority of foreign bidders come from G-7 countries, representing about 58 percent of our sample. Given this large number of acquirers from G-7 countries, we examine the robustness of our findings by repeating all regression analyses in the paper separating the foreign county dummy into G-7 country and other country dummies. We find no significant differences between the coefficients on G-7 country and other country dummies.

5. Summary and Conclusions

In this paper we examine whether 1) the extent of post-acquisition governance activities by block acquirers in U.S. targets, and 2) the factors that affect the probability of taking such activities, are different between foreign and domestic block acquisitions. We focus specifically on the explanatory role of the information asymmetry that foreign block acquirers face in the host country.

We find that compared to the sample of all U.S. block acquirers, foreign block acquirers prefer targets operating in the same industry, in R&D intensive industries, and in industries with high selling expenses. In contrast, U.S. block acquirers prefer targets with large cash flows and low growth opportunities. These results indicate that foreign block acquisitions are primarily motivated to overcome product market imperfections and thus are less likely to be disciplinary in nature than domestic block acquisitions. However, even after controlling for product market relationships between the acquirer and the target, we find that the frequency of post-acquisition governance activities initiated by block acquirers in targets is much lower among foreign block acquisitions than domestic block acquisitions: U.S. acquirers are almost twice as likely to engage in threats of hostile takeovers, proxy contests, and top executive turnovers, and at least three times as likely to oppose target management-proposed antitakeover amendments.

We also find that there are some similarities in the factors that determine the likelihood of foreign and domestic acquirers in U.S. targets engaging in post-acquisition governance activities. In particular, both foreign and domestic acquirers' likelihood of post-acquisition governance activities is positively related to the percentage of shares acquired and the extent of a target's free cash flow problems, and is negatively related to the presence of acquirer-target product market relationships and target share purchases effected through private negotiation.

Further analysis of foreign acquisitions shows that foreign investors' perspective on information asymmetries in the U.S. plays an important role in explaining their post-acquisition governance activities in targets. We find that foreign acquirers whose countries share a common language and a common legal origin with the U.S. are more likely to engage in governance activities in targets than are other foreign acquirers. The likelihood of post-acquisition governance activities of foreign acquirers is also positively related to the extent of their previous acquisition experience in the U.S.

For targets of domestic acquirers, the likelihood of nonroutine top management turnover is significantly negatively related to the prior stock performance of targets. For targets of foreign acquirers, we find that such negative relation exists only when foreign acquirers share a common language with the

U.S. This finding suggests that foreign block acquirers actively discipline poorly performing target managers when they face fewer information asymmetries in the host country.

Finally, we find that after controlling for target and transaction characteristics, U.S. targets in foreign block share acquisitions earn announcement returns that are statistically indistinguishable from those in domestic block share acquisitions. For the sample of U.S. targets in foreign block share acquisitions, U.S. targets realize higher abnormal returns when their acquirers have more experience in the U.S. and when the stock market anticipates acquirers' post-acquisition governance activities.

Overall, these findings suggest that information asymmetries and monitoring costs that foreign acquirers face in the host country are important determinants of the extent to which they engage in governance activities in domestic targets, and the stock market takes the acquirer's information asymmetries and monitoring costs associated with governance activities into account when assessing target value.

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Table 1

Distribution of Foreign Block Share Acquisition Activity in the U.S. by Year, by Home Country of the Acquirer, and by Target and Acquirer Industries

The sample consists of 268 U.S. targets in foreign block share acquisitions and 2,944 U.S. targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign and domestic partial block share acquisitions in which the foreign and domestic firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample of U.S. targets in foreign block share acquisitions is restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. The numbers in parentheses are the percentages of observations.

Panel A: Distribution of Foreign Block Share Acquisition Activity in the U.S. by Year and by Home Country of the Acquirer

Year	G-7 countries						Switzer-land	Hong Kong	Others	Total
	U.K.	Canada	Germany	Japan	France	Italy				
1980	0	0	0	0	0	0	0	0	0	0
1981	0	0	0	0	0	1	0	0	0	1
1982	0	0	0	0	0	0	0	0	0	0
1983	1	3	0	1	0	0	0	0	0	5
1984	2	1	0	0	0	0	0	0	1	4
1985	1	3	0	0	0	0	1	1	4	10
1986	3	1	1	1	2	1	0	5	1	15
1987	4	4	0	4	1	0	1	4	5	23
1988	4	5	1	5	0	0	1	1	4	21
1989	11	2	2	5	0	0	2	5	8	35
1990	3	1	0	5	1	1	4	0	2	17
1991	1	0	0	2	0	2	1	0	5	11
1992	5	1	1	2	0	1	1	0	3	14
1993	5	1	0	1	3	0	1	0	5	16
1994	3	1	1	1	2	0	5	0	5	18
1995	1	3	3	1	0	0	1	1	7	17
1996	5	1	4	1	0	1	4	0	6	22
1997	1	1	2	1	3	0	0	2	7	7
1998	2	0	2	2	0	0	1	0	4	11
1999	0	1	2	1	4	0	0	1	2	11
Total	52	29	19	33	16	7	23	20	69	268

Panel B: Distribution of Foreign and Domestic Block Share Acquisition Activity by Target and Acquirer Industries

	Foreign Acquisitions		Domestic Acquisitions	
Industry (two-digit SIC)	Targets	Acquirers	Targets	Acquirers
Agriculture, forestry, and fishing (01-09)	2 (0.7)	3 (1.1)	14 (0.5)	11 (0.4)
Mining and construction (10-17)	20 (7.5)	12 (4.5)	186 (6.3)	51 (1.7)
Manufacturing (20-39)	144 (53.7)	92 (34.3)	1220 (41.4)	279 (9.5)
Transportation and public utilities (40-49)	24 (9.0)	19 (7.1)	286 (9.7)	79 (2.7)
Wholesales and retail trade (50-59)	18 (6.7)	7 (2.6)	282 (9.6)	42 (1.4)
Finance, insurance, and real estate (60-67)	23 (8.6)	119 (44.4)	454 (15.4)	2367 (80.4)
Services (70-89)	37 (13.8)	16 (6.0)	502 (17.1)	54 (1.8)
Total	268 (100.0)	268 (100.0)	2944 (100.0)	2944 (100.0)

Table 2
Descriptive Statistics for U.S. Targets in Foreign and Domestic Block Share Acquisitions

The sample consists of 268 U.S. targets in foreign block share acquisitions, 2,944 U.S. targets in domestic block share acquisitions, and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that listed on the CRSP daily stock return file at the time of the announcement. A U.S. control target in a domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. The acquirer-target product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The holding period is the period from the date when the acquiring firm announces the acquisition of a target firm's block equity to the date when it decreases its holding in the target to less than 5 percent. Following Bethel, Liebeskind, and Opler (1998), we define active investors as those who announce their intention of influencing firm policies or who are known for active policies in the past. The number of previous share acquisitions includes both minority and majority share acquisitions that the foreign acquirer has undertaken in the U.S. during the previous five years prior to the partial block acquisitions. The numbers in the difference columns denote *p*-values for the two-tailed test. The numbers in parentheses are the percentages of observations. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Panel A: Descriptive Statistics for U.S. Targets in Foreign and Domestic Partial Block Acquisitions

Variables	U.S. Targets in Foreign Acquisitions		U.S. Targets in Domestic Acquisitions		U.S. Control Targets in Domestic Acquisitions		Test of Difference		Test of Difference	
	(A)		(B)		(C)		(A-B)		(A-C)	
	N=268		N=2,944		N=268					
	Mean	Median	Mean	Median	Mean	Median	t-test	Wil-Coxon Z-test	t-test	Wil-Coxon Z-test
Fraction of open market purchases	0.40	-	0.66	-	0.50	-	0.00***	-	0.02**	
Percentage of shares acquired	0.13	0.10	0.10	0.07	0.13	0.10	0.00***	0.00***	0.26	0.69
Total assets (in millions of dollar)	5,209	5,055	5,183	5,168	4,553	4,547	0.85	0.66	0.20	0.44
Fraction of same-industry acquisition (using the first two digits of the SIC)	0.27	-	0.11	-	0.23	-	0.00***	0.00***	0.20	0.19

Leverage (debt / debt plus market value of equity)	0.32	0.26	0.31	0.23	0.27	0.21	0.63	0.64	0.22	0.11
Cash flow (operating income plus depreciation / total assets)	-0.03	0.06	-0.02	0.07	-0.02	0.07	0.69	0.03**	0.82	0.50
Tobin's *q* (market value of equity plus book value of debt / book value of total assets)	1.58	1.12	1.60	0.99	1.84	1.11	0.87	0.00***	0.93	0.63
Equity ownership by managers (officers and directors)	0.21	0.13	-	-	0.19	0.15	-	-	0.39	0.87
Equity ownership by institutional investors	0.25	0.21	-	-	0.27	0.23	-	-	0.36	0.41
R&D expense / sales for the target's industry	0.10	0.02	0.06	0.01	0.101	0.027	0.00***	0.00***	0.91	0.46
Selling expenses (advertising and other selling expenses / sales for the target's industry	0.29	0.27	0.26	0.24	0.294	0.277	0.00***	0.00***	0.54	0.47

Panel B: Distribution of Foreign and Domestic Block Share Acquisition Activity by Product Market Relationship of the Acquirer and the Target

Types	Foreign Acquisitions	Domestic Control Acquisitions
Research / product development agreement	38	41
Marketing or distribution agreement	29	26
Supplier-buyer (product or service) agreement	22	21
Technology sharing (licensing right) agreement	16	13
Total	105	101

Panel C: Distribution of Foreign and Domestic Block Share Acquisition Activity by Holding Periods of Ownership

Holding Periods	Foreign Acquisitions	Domestic Control Acquisitions
Less than one year	59 (22.0)	102 (38.1)
Longer than one year but less than two years	41 (15.3)	50 (18.7)
Longer than two years but less than three years	41 (15.3)	20 (7.5)
Longer than three years	127 (47.4)	96 (35.8)
Total	268 (100.0)	268 (100.0)

Panel D: Fraction of Foreign and Domestic Block Share Acquisition Activity in which the Acquirer Can Be Classified as an Active Investor

	Foreign Acquisitions	Domestic Control Acquisitions
Active investors	26 (9.7)	36 (13.4)

Panel E: Extent of Information Asymmetries That Foreign Acquirers Face in the U.S.

Variables	Mean	Median
Physical distance between acquirer and target (kilometers)	7,554.34	6,049.03
Number of previous share acquisitions	0.944	0.00
Fraction of acquisitions in which the foreign acquirer uses English as its primary language	0.34	-
Fraction of acquisitions in which the legal origin of the foreign country is English common law	0.45	-

Table 3
Post-Acquisition Governance Activities in Targets Initiated by Block Acquirers

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. Post-acquisition governance activities are identified from several sources, including 13D filings, *Dow Jones Newswire*, proxy statements, and annual reports of target firms. All sources are examined for stories during the holding period of block shares by acquiring firms up to three years after the acquisition. The classification of governance activities is not mutually exclusive, so acquirers that are involved in multiple governance activities are counted more than once in the table.

	Foreign Acquisitions	Domestic Control Acquisitions
Governance activities	N=268	N=268
Threat of hostile takeovers	19	35
Efforts to seek representatives on the target's board	19	27
Demand for asset downsizing	11	8
Proxy contests or threats	6	13
Threat of top executive turnover or involvement in the selection of a new top executive	6	11
Expression of opposition to or attempt to amend anti-takeover provisions	3	10
Total	64	104

Table 4

Logit Regression Estimates of the Likelihood of Post-Acquisition Governance Activities by Block Acquirers

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. Post-acquisition governance activities are identified from several sources, including 13D filings, *Dow Jones Newswire*, proxy statements, and annual reports of target firms. All sources are examined for stories during the holding period of block shares by acquiring firms up to three years after the acquisition. The dependent variable equals one if acquirers engage in at least one of the six governance activities categorized in Table 3. The dummy variable for a same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). Tobin's *q* is measured by the ratio of the sum of the market value of equity and the book value of debt to the book value of total assets. The dummy variable for high cash flow and low Tobin's *q* equals one if the ratio of cash flows to total assets is above the sample median and Tobin's *q* is below the sample median, and zero otherwise. Past operating income is measured by the ratio of operating income to total assets. Past stock performance is measured by the Fama-French (1997) industry-adjusted stock return over the one year prior to the block acquisitions. *p*-values are in parentheses. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Panel A: Using total sample

	Foreign Acquisitions (A)		Domestic Control Acquisitions (B)		Pooled Sample (A + B)		Test of Differences in Coefficients between (2) and (4): (Prob > chi2)
Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Acquisition is made through an open market purchase (dummy)		1.419**		2.325***		1.839***	(0.23)
		(0.02)		(0.00)		(0.00)	
Percentage of shares acquired		7.420***		6.288***		6.358***	(0.64)
		(0.00)		(0.01)		(0.00)	
Holding period of block shares is longer than three years (dummy)		-0.335		0.004		-0.185	(0.68)
		(0.51)		(0.99)		(0.54)	
There is a product market relationship between acquirer and target (dummy)		-2.040***		-1.689***		-1.682***	(0.66)
		(0.01)		(0.01)		(0.00)	
Same-industry acquisition (dummy)		-0.976		1.103**		0.299	(0.02) **
		(0.17)		(0.03)		(0.41)	
Log of total assets	0.242*	0.160	0.096	0.110	0.167*	0.145	(0.41)
	(0.08)	(0.30)	(0.43)	(0.43)	(0.06)	(0.14)	
Leverage (debt / debt plus market value of equity)	0.373	0.432	0.312	-0.525	0.291	-0.273	(0.22)
	(0.66)	(0.66)	(0.65)	(0.50)	(0.59)	(0.64)	
Equity ownership by managers (officers and directors)	-0.846	-1.613	-2.585**	-1.664	-1.791**	-1.747**	(0.71)
	(0.47)	(0.24)	(0.02)	(0.19)	(0.03)	(0.04)	
Equity ownership by institutional investors	-1.452	-1.854	-2.092*	-2.602**	-1.798**	-2.281***	(0.53)
	(0.26)	(0.17)	(0.06)	(0.03)	(0.03)	(0.01)	
High cash flow / low Tobin's *q* (dummy)	1.272***	1.240***	0.905***	0.696*	1.047***	0.919***	(0.23)
	(0.00)	(0.00)	(0.01)	(0.07)	(0.00)	(0.00)	

Acquirer is from a foreign country (dummy)					-0.628*** (0.01)	-0.460* (0.09)
Intercept	-3.258*** (0.00)	-3.791*** (0.00)	-1.252** (0.02)	-3.270*** (0.00)	-1.841*** (0.00)	-3.111*** (0.00)
Pseudo-R^2	0.1087	0.2701	0.0735	0.2389	0.0902	0.2353
No. of observations	266	266	266	266	532	532

Panel B: Using subsamples of the pooled sample

Independent variables	Dummy for High Cash Flow and Low Tobin's *Q*		Past Operating Performance		Past Stock Performance	
	Dummy = 1 (1)	Dummy = 0 (2)	Above the sample median (3)	Below the sample median (4)	Above the sample median (5)	Below the sample median (6)
Acquisition is made through an open market purchase (dummy)	1.948*** (0.00)	2.047*** (0.00)	1.080** (0.03)	3.317*** (0.00)	1.476** (0.02)	2.310*** (0.00)
Percentage of shares acquired	7.384** (0.05)	6.219*** (0.00)	6.269*** (0.01)	7.665*** (0.01)	4.165 (0.15)	6.585*** (0.00)
Holding period of block shares is longer than three years (dummy)	-0.548 (0.31)	0.315 (0.44)	-0.451 (0.29)	0.417 (0.40)	-0.538 (0.32)	0.334 (0.41)
There is a product market relationship between acquirer and target (dummy)	-2.860*** (0.01)	-0.923 (0.11)	-2.092*** (0.00)	-0.648 (0.42)	-2.409** (0.03)	-1.073* (0.07)
Same-industry acquisition (dummy)	-0.439 (0.49)	0.615 (0.19)	0.107 (0.82)	0.650 (0.33)	-0.468 (0.51)	0.784* (0.10)
Log of total assets	0.041 (0.81)	0.076 (0.61)	0.048 (0.70)	0.047 (0.82)	0.245 (0.15)	-0.055 (0.72)
Leverage (debt / debt plus market value of equity)	-0.129 (0.91)	-0.333 (0.68)	-0.401 (0.61)	-0.364 (0.76)	-1.550 (0.12)	0.754 (0.39)
Equity ownership by managers (officers and directors)	-3.242* (0.06)	-0.988 (0.36)	-2.866** (0.02)	-0.475 (0.74)	-1.525 (0.25)	-2.319* (0.07)
Equity ownership by institutional investors	-2.865** (0.04)	-2.238* (0.07)	-2.436** (0.03)	-1.223 (0.50)	-3.412** (0.03)	-1.837 (0.14)
Cash flow (operating income plus depreciation / total assets)	-2.811 (0.60)	2.836* (0.06)	2.017 (0.44)	3.872 (0.15)	3.406* (0.07)	1.929 (0.32)
Tobin's *q* (market value of equity plus book value of debt / book value of total assets)	-1.075 (0.43)	-0.680*** (0.01)	-0.903** (0.02)	-0.493 (0.19)	-0.769** (0.02)	-0.781* (0.06)
Acquirer is from a foreign country (dummy)	0.021 (0.96)	-0.877** (0.02)	-0.639* (0.06)	-0.173 (0.72)	-0.784* (0.06)	-0.193 (0.60)
Intercept	-0.266 (0.85)	-2.414** (0.02)	-0.239 (0.80)	-4.249*** (0.00)	-0.980 (0.36)	-0.193 (0.61)
Pseudo-R^2	0.2338	0.2558	0.2279	0.3136	0.3549	0.2144
No. of observations	146	386	266	266	266	266

Table 5

Logit Regression Estimates of the Likelihood of Post-Acquisition Governance Activities by Foreign Block Acquirers

The sample consists of 268 U.S. targets in foreign block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. Post-acquisition governance activities are identified from several sources, including 13D filings, *Dow Jones Newswire*, proxy statements, and annual reports of target firms. All sources are examined for stories during the holding period of block shares by acquiring firms up to three years after the acquisition. The dependent variable equals one if acquirers engage in at least one of the six governance activities categorized in Table 3. The number of previous acquisitions is the total number of minority and majority share acquisitions that the foreign acquirer undertook in the U.S. during the previous five years prior to the partial block acquisitions. The dummy variable for same language equals one if the primary language of foreign acquirers is English. The dummy variable for same legal origin equals one if the legal origin of the commercial code of the foreign country is English common law. The dummy variable for same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). Tobin's *q* is measured by the ratio of the sum of market value of equity and book value of debt to book value of total assets. The dummy variable for high cash flow and low Tobin's *q* equals one if the ratio of cash flows to total assets is above the sample median and Tobin's *q* is below the sample median. *p*-values are in parentheses. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Log of distance between acquirer and target	-0.495***	-0.390**						
	(0.00)	(0.03)						
Log of one plus the number of previous acquisitions			1.266***	1.023***				
			(0.00)	(0.00)				
Same language (dummy)					1.375***	0.943**		
					(0.00)	(0.03)		
Same legal origin (dummy)							2.145***	1.541***
							(0.00)	(0.01)
Acquisition is made through an open market purchase (dummy)		1.383**		1.265**		1.416**		1.209*
		(0.02)		(0.05)		(0.02)		(0.06)
Percentage of shares acquired		7.705***		7.675***		6.839***		6.394***
		(0.00)		(0.00)		(0.01)		(0.01)
Holding period of block shares is longer than three years (dummy)		-0.289		-0.362		-0.176		-0.026
		(0.57)		(0.49)		(0.73)		(0.96)
There is a product market relationship between acquirer and target (dummy)		-2.016**		-1.863**		-1.774**		-1.532*
		(0.02)		(0.03)		(0.04)		(0.07)
Same-industry acquisition (dummy)		-1.066		-0.586		-1.009		-0.833
		(0.14)		(0.40)		(0.16)		(0.25)
Log of total assets	0.256*	0.186	0.187	0.138	0.228	0.176	0.247	0.228
	(0.07)	(0.24)	(0.21)	(0.40)	(0.11)	(0.28)	(0.11)	(0.18)
Leverage (debt / debt plus market value of equity)	0.229	0.408	0.854	0.737	0.098	0.202	0.215	0.104
	(0.79)	(0.68)	(0.36)	(0.48)	(0.91)	(0.84)	(0.81)	(0.92)
Equity ownership by managers (officers and directors)	-0.968	-1.519	-1.550	-2.293	-0.993	-1.517	-1.229	-1.782
	(0.43)	(0.27)	(0.23)	(0.11)	(0.41)	(0.28)	(0.31)	(0.20)
Equity ownership by institutional investors	-1.894	-2.272	-1.434	-1.701	-1.641	-2.080	-2.09	-2.410*
	(0.16)	(0.11)	(0.31)	(0.24)	(0.22)	(0.14)	(0.13)	(0.10)
High cash flow / low Tobin's q (dummy)	1.243***	1.281***	0.990***	0.940**	1.307***	1.277***	1.108***	1.042**
	(0.00)	(0.00)	(0.01)	(0.04)	(0.00)	(0.00)	(0.01)	(0.02)
Intercept	1.119	-0.557	-3.366***	-3.973***	-3.649***	-4.231***	-4.317***	-4.736***
	(0.55)	(0.76)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Pseudo-R^2	0.1426	0.2912	0.2190	0.3329	0.1676	0.2932	0.2219	0.3106
No. of observations	266	266	266	266	266	266	266	266

Table 6
Logit Regression Estimates of the Likelihood of Nonroutine Top Executive Turnover for U.S. Targets in Foreign and Domestic Block Acquisitions

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. Nonroutine top executive turnover events are identified from proxy statements and annual reports. For the holding period up to three years after the formation of block shares, we search these sources for changes of presidents, chairmen, and CEOs. We define the top executive as the CEO. If a firm does not have a CEO, we use the chairman of the board as the top executive. Otherwise, the top executive is defined as the president. We refer to turnover events in which the top executive is removed due to death, illness, or other normal reasons as routine turnover. We also classify a management change as normal if the stated reason for the management change is retirement and the retiring manager is between the ages of 64 and 66. We refer to all other turnover events as nonroutine turnover. The dependent variable is one if nonroutine turnover occurs and zero otherwise. Board representation ratio is the number of members of the board of directors in target sought by acquirers at the announcement date, divided by the total number of members of the board of directors in target. The prior industry-adjusted stock return is Fama-French (1997) 48 industry-adjusted return for the past one year before the block acquisition. The product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The dummy variable for same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). *p*-values are in parentheses. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

	Foreign Acquisitions (A)				Domestic Control Acquisitions (B)		
Independent variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board representation ratio	3.415**	3.398**			4.926***	5.325***	
	(0.02)	(0.02)			(0.00)	(0.00)	
Prior industry-adjusted stock return: a		-0.029	-0.774			-0.601**	0.237
		(0.94)	(0.19)			(0.05)	(0.56)
Acquirer has board representation on the target's board (dummy): b			0.754**				0.674*
			(0.06)				(0.10)
a * b			1.374				-1.146**
			(0.12)				(0.03)
Same language (dummy): c				-0.253			
				(0.55)			
a * c				-1.716*			
				(0.06)			
Acquisition is made through an open market purchase (dummy)	-0.063	-0.064	0.035	0.026	0.161	0.237	0.306
	(0.89)	(0.89)	(0.94)	(0.95)	(0.74)	(0.63)	(0.54)
Percentage of shares acquired	4.444**	4.448**	6.022***	5.011***	5.325**	5.436**	7.463***
	(0.02)	(0.02)	(0.00)	(0.01)	(0.04)	(0.03)	(0.00)
Holding period of block shares is longer than three years (dummy)	0.832**	0.831**	0.833**	0.827**	1.651***	1.705***	1.821***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.00)	(0.00)	(0.00)

There is a product market relationship between acquirer and target (dummy)	-0.014 (0.97)	-0.015 (0.97)	-0.096 (0.81)	-0.075 (0.86)	-0.246 (0.60)	-0.197 (0.68)	-0.168 (0.73)
Same-industry acquisition (dummy)	-0.945** (0.04)	-0.946** (0.04)	-0.998** (0.03)	-1.009** (0.03)	-0.709 (0.15)	-0.752 (0.13)	-0.716 (0.14)
Log of total assets	-0.252* (0.10)	-0.253* (0.09)	-0.325 (0.03)	-0.261* (0.09)	-0.025 (0.87)	-0.035 (0.82)	-0.110 (0.48)
Leverage (debt / debt plus market value of equity)	-0.183 (0.83)	-0.198 (0.83)	0.306 (0.73)	-0.157 (0.86)	-0.127 (0.88)	-0.325 (0.71)	-0.207 (0.81)
Equity ownership by managers (officers and directors)	1.146 (0.26)	1.149 (0.26)	0.833 (0.41)	1.232 (0.22)	-0.531 (0.65)	-0.298 (0.80)	-0.408 (0.73)
Equity ownership by institutional investors	0.483 (0.68)	0.477 (0.69)	0.515 (0.68)	0.541 (0.65)	-1.932 (0.16)	-1.928 (0.17)	-2.137 (0.12)
Tobin's *q* (market value of equity plus book value of debt / book value of total assets)	-0.054 (0.44)	-0.054 (0.45)	-0.044 (0.55)	-0.071 (0.34)	-0.003 (0.95)	0.017 (0.77)	-0.034 (0.61)
Age of top executive	0.083*** (0.00)	0.083*** (0.00)	0.087*** (0.00)	0.079*** (0.00)	0.031 (0.16)	0.030 (0.19)	0.036* (0.10)
Top executive is a chairman (dummy)	-0.070 (0.86)	-0.071 (0.86)	0.040 (0.91)	0.041 (0.92)	0.048 (0.89)	0.140 (0.71)	0.155 (0.68)
Top executive is a founder (dummy)	-0.826* (0.06)	-0.828* (0.06)	-0.864** (0.04)	-0.941** (0.03)	-0.599 (0.18)	-0.729 (0.11)	-0.577 (0.19)
Intercept	-5.772*** (0.00)	-5.765*** (0.00)	-6.028*** (0.00)	-5.608*** (0.00)	-3.958*** (0.01)	-4.002*** (0.01)	-4.116*** (0.01)
Pseudo-R^2	0.2171	0.2172	0.2174	0.2300	0.2682	0.2824	0.2611
No. of observations	266	266	266	266	266	266	266

Table 7
Cumulative Abnormal Returns (CARs) for U.S. Targets around the Announcement Date

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. We compute abnormal returns using the market model. We estimate the market model by using 200 trading days of return data ending 21 days before the acquisition announcement. We use as the market return the CRSP equally weighted return. The product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The numbers in the difference columns denote *p*-values for the two-tailed test. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Panel A: CARs for U.S. Targets by Nationality of Acquirers

	U.S. Targets in Foreign Acquisitions (A)		U.S. Control Targets in Domestic Acquisitions (B)		Test of Difference (A - B)	
	N=268		N=268			
	Mean	Median	Mean	Median	Mean	Median
CAR (-1, 0)	0.048***	0.030***	0.071***	0.038***	0.02**	0.08*
CAR (-1, 1)	0.058***	0.041***	0.080***	0.060***	0.05**	0.02**
CAR (-5,1)	0.074***	0.051***	0.085***	0.054***	0.38	0.70
CAR (-5, 5)	0.074***	0.047***	0.093***	0.062***	0.23	0.20
CAR (-10, 10)	0.086***	0.054***	0.114***	0.086***	0.19	0.10
CAR (-20, 20)	0.086***	0.066***	0.130***	0.100***	0.16	0.16

Panel B: CAR (-5,5) for U.S. Targets by Post-Acquisition Governance Activities of Acquirers

	Post-Acquisition Governance Activity (A)		No Post-Acquisition Governance Activity (B)		Test of Difference (A - B)	
	Mean	Median	Mean	Median	Mean	Median
U.S. targets in foreign acquisitions (C)	0.091***	0.089***	0.072***	0.041***	0.38	0.07*
U.S. control targets in domestic acquisitions (D)	0.104***	0.085***	0.090***	0.055***	0.55	0.09*
Test of Difference (C - D)	0.63	0.60	0.29	0.31		

Table 8

Regression Estimates of Cumulative Abnormal Returns (-5, 5) of U.S. Targets on Explanatory Variables

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. We compute abnormal returns using the market model. We estimate the market model by using 200 trading days of return data ending 21 days before the acquisition announcement. We use as the market return the CRSP equally weighted return. The dependent variable is the standardized cumulative abnormal return (-5, 5), which is calculated using the procedure described by Dodd and Warner (1983)**.** The product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The dummy variable for same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Independent variables	Foreign Acquisitions (A)		Domestic Control Acquisitions (B)		Pooled Sample (A + B)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Acquirer undertakes post-acquisition governance activities (dummy): a	2.049***	2.158***	1.880***	1.280*	1.907***	1.704***	1.515**	1.644***
	(0.01)	(0.01)	(0.01)	(0.09)	(0.00)	(0.00)	(0.02)	(0.00)
Acquirer is from a foreign country (dummy): b					-0.284	-0.343	-0.413	-0.176
					(0.44)	(0.35)	(0.30)	(0.68)
a*b							0.446	
							(0.65)	
High cash flow / low Tobin's q (dummy): c								0.411
								(0.51)
a*c								-0.578
								(0.48)
Acquisition is made through an open market purchase (dummy)		-0.228		0.757		0.157	0.166	0.049
		(0.74)		(0.32)		(0.75)	(0.73)	(0.92)
Percentage of shares acquired		4.442		4.433		4.101*	4.092*	3.719*
		(0.12)		(0.23)		(0.07)	(0.07)	(0.10)
Holding period of block shares is longer than three years (dummy)		0.241		-0.219		0.066	0.075	0.090
		(0.65)		(0.71)		(0.86)	(0.84)	(0.81)
There is a product market relationship between acquirer and target (dummy)		-0.288		-1.033		-0.642	-0.647	-0.618
		(0.64)		(0.16)		(0.18)	(0.17)	(0.19)
Same-industry acquisition (dummy)		0.415		1.033		0.712*	0.734*	0.677
		(0.48)		(0.13)		(0.10)	(0.10)	(0.13)
Log of total assets	-0.117	-0.090	0.061	0.078	-0.033	-0.025	-0.030	-0.100
	(0.53)	(0.64)	(0.79)	(0.74)	(0.82)	(0.86)	(0.83)	(0.46)
Leverage (debt / (debt + market value of equity))	1.657	1.512	0.022	-0.562	0.776	0.579	0.582	0.191
	(0.16)	(0.20)	(0.98)	(0.65)	(0.34)	(0.49)	(0.49)	(0.82)
Equity ownership by managers (officers and directors)	-1.491	-1.783	-0.228	0.267	-0.956	-1.227	-1.236	-1.263
	(0.26)	(0.19)	(0.89)	(0.88)	(0.36)	(0.25)	(0.24)	(0.24)
Equity ownership by institutional investors	0.905	0.861	0.788	0.763	0.706	0.716	0.710	0.808
	(0.58)	(0.60)	(0.65)	(0.66)	(0.55)	(0.54)	(0.54)	(0.50)
Tobin's *q* (market value of equity plus book value of debt / book value of total assets)	0.174*	0.178*	0.023	0.046	0.096	0.105	0.105	
	(0.08)	(0.08)	(0.83)	(0.66)	(0.18)	(0.15)	(0.15)	
Cash flow (operating income plus depreciation / total assets)	0.162	0.131	-0.921	-1.170	-0.282	-0.390	-0.377	
	(0.84)	(0.87)	(0.42)	(0.31)	(0.67)	(0.56)	(0.57)	

Intercept	1.474*** (0.00)	0.814 (0.50)	1.460 (0.19)	0.821 (0.56)	1.713** (0.02)	1.267 (0.17)	1.318 (0.16)	1.897** (0.02)
Adjusted-R^2	0.0238	0.0240	0.0031	0.0097	0.0223	0.0267	0.0252	0.0214
F-value	1.92*	1.54	1.12	1.21	2.5***	2.11***	1.97***	1.89**
No. of observations	264	264	263	263	527	527	527	527

Table 9
Regression Estimates of Cumulative Abnormal Returns (-5, 5) of U.S. Targets in Foreign Acquisition on Information Asymmetry Variables

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. We compute abnormal returns using the market model. We estimate the market model by using 200 trading days of return data ending 21 days before the acquisition announcement. We use as the market return the CRSP equally weighted return. The dependent variable is the standardized cumulative abnormal return (-5, 5), which is calculated using the procedure described by Dodd and Warner (1983). The number of previous acquisitions is the total number of minority and majority share acquisitions that the foreign acquirer undertook in the U.S. during the previous five years prior to the partial block acquisitions. The product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The dummy variable for same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Independent variables	(1)	(2)	(3)	(4)
Log of distance between acquirer and target	-0.623**	-0.654**		
	(0.02)	(0.02)		
Log of one plus the number of previous acquisitions			0.608	0.681*
			(0.12)	(0.09)
Acquisition is made through an open market purchase (dummy)		-0.170		-0.113
		(0.80)		(0.86)
Percentage of shares acquired		5.030*		5.098*
		(0.07)		(0.07)
Holding period of block shares is longer than three years (dummy)		0.228		0.153
		(0.67)		(0.77)
There is a product market relationship between acquirer and target (dummy)		-0.386		-0.458
		(0.54)		(0.63)
Same-industry acquisition (dummy)		0.262		0.459
		(0.66)		(0.44)
Log of total assets	-0.039	-0.010	-0.106	-0.087
	(0.84)	(0.96)	(0.57)	(0.65)
Leverage (debt / debt plus market value of equity))	1.748	1.532	2.010*	1.841
	(0.14)	(0.20)	(0.09)	(0.13)
Equity ownership by managers (officers and directors)	-0.513	-0.645	-1.940	-2.345*
	(0.21)	(0.12)	(0.15)	(0.09)
Equity ownership by institutional investors	0.226	0.191	0.719	0.632
	(0.65)	(0.70)	(0.66)	(0.70)

Tobin's q (market value of equity plus book value of debt / book value of total assets)	0.167* (0.10)	0.170* (0.10)	0.169* (0.10)	0.174* (0.09)
Cash flow (operating income plus depreciation / total assets)	0.105 (0.90)	0.027 (0.97)	0.163 (0.84)	0.067 (0.93)
Intercept	6.999*** (0.01)	6.622** (0.02)	1.517* (0.09)	0.883 (0.47)
Adjusted-R^2	0.0144	0.0148	0.0048	0.0060
F-value	1.55	1.33	1.18	1.13
No. of observations	264	264	264	264

Table 10
Probit Regression Estimates of the Likelihood of Post-Acquisition Governance Activities (Nonroutine Top Executive Turnover for U.S. Targets) by Block Acquirers: Controlling for Endogeneity of Target Selection

The sample consists of 268 U.S. targets in foreign block share acquisitions and 268 U.S. control targets in domestic block share acquisitions between 1981 and 1999. We obtain the sample of foreign partial block acquisitions in which the foreign firms acquire more than 5 percent but less than 50 percent of the outstanding shares in U.S. targets from the Security Data Corporation (SDC) Platinum database published by Thomson Financial. The sample firms are restricted to those for which public announcement dates of acquisitions are available in Dow Jones Newswire, and that are listed on the CRSP daily stock return file at the time of the announcement. A U.S. target in the domestic partial block acquisition is matched to one in the foreign partial block acquisition by acquirer industry (financial or nonfinancial), target industry (the first two digits of the SIC code), target size (book value of assets), year of acquisition, and acquirer-target product market relationship. If no firm matches by year of acquisition, a control target is matched using the previous or following year. Post-acquisition governance activities are identified from several sources, including 13D filings, *Dow Jones Newswire*, proxy statements, and annual reports of target firms. All sources are examined for stories during the holding period of block shares by acquiring firms up to three years after the acquisition. Nonroutine top executive turnover events are identified from proxy statements and annual reports. For the holding period up to three years after the formation of block shares, we search these sources for changes of presidents, chairmen, and CEOs. We define the top executive as the CEO. If a firm does not have a CEO, we use the chairman of the board as the top executive. Otherwise, the top executive is defined as the president. We refer to turnover events in which the top executive is removed due to death, illness, or other normal reasons as routine turnover. We also classify a management change as normal if the stated reason for the management change is retirement and the retiring manager is between the ages of 64 and 66. We refer to all other turnover events as nonroutine turnover. A probit model with sample selection described in Van de Ven and Van Praag (1981) is used to estimate the regressions. The dependent variable in the selection probit model is equal to zero if the ratio of cash flows to total assets is above the sample median and Tobin's *q* is below the sample median, and one otherwise. The dependent variable in the outcome probit model of the likelihood of post-acquisition governance activities (nonroutine top executive turnover) is equal to one if acquirers engage in at least one of the six governance activities categorized in Table 3 (nonroutine turnover occurs) and zero otherwise. The prior industry-adjusted stock return is Fama-French (1997) 48 industry-adjusted return for the past one year before the block acquisition. The product market relationship is determined by searching *Dow Jones Newswire*, proxy statements, and annual reports of the target for three years prior to and subsequent to the announcement date of block share purchases. The dummy variable for same-industry acquisition equals one if the acquirer and the target are in the same industry (at least to the first two digits of the SIC code). Tobin's *q* is measured by the ratio of the sum of the market value of equity and the book value of debt to the book value of total assets. Following Bethel, Liebeskind, and Opler (1998), we define active investors as those who announce their intention of influencing firm policies or who are known for active policies in the past. *p*-values are in parentheses. The symbols *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

	Post-Acquisition Governance Activities		Nonroutine Top Executive Turnover		
Independent variables	Selection model (1)	Outcome model (2)	Selection model (3)	Outcome model (4)	Outcome model (5)
Acquirer is from a foreign country (dummy): a	-0.140	-0.495***	-0.200	-0.361**	-0.367**
	(0.54)	(0.01)	(0.15)	(0.02)	(0.02)
Prior industry-adjusted stock return: b			-0.076	-0.195	-0.359
			(0.54)	(0.11)	(0.56)
a * b					0.449*
					(0.08)
Acquisition is made through an open market purchase (dummy)	2.045*	0.922***	-0.270	0.287	0.302
	(0.06)	(0.00)	(0.19)	(0.19)	(0.17)
Percentage of shares acquired	2.000	3.194***	1.052	2.995***	2.983***
	(0.97)	(0.00)	(0.97)	(0.00)	(0.00)
Holding period of block shares is longer than three years (dummy)	-0.201	0.115	0.011	0.783***	1.821***
	(0.30)	(0.58)	(0.94)	(0.00)	(0.00)

There is a product market relationship between acquirer and target (dummy)	0.004 (0.98)	-0.532* (0.06)	0.057 (0.77)	0.010 (0.95)	0.026 (0.89)
Same-industry acquisition (dummy)	0.006 (0.97)	0.252 (0.31)	-0.014 (0.93)	-0.456*** (0.01)	-0.465*** (0.01)
Log of total assets	0.134** (0.04)	-0.274 (0.71)	-0.017 (0.83)	-0.049 (0.44)	-0.057 (0.38)
Leverage (debt / debt plus market value of equity)	-0.974*** (0.01)	-0.686 (0.13)	-0.518 (0.11)	0.222 (0.56)	0.265 (0.49)
Equity ownership by managers (officers and directors)	0.985* (0.06)	1.131 (0.81)	0.402 (0.33)	0.433 (0.34)	-0.458 (0.32)
Equity ownership by institutional investors	-0.064 (0.90)	-0.847 (0.18)	-0.089 (0.84)	-0.593 (0.26)	-0.555 (0.30)
Tobin's q (market value of equity plus book value of debt / book value of total assets)	2.815*** (0.00)	-0.286** (0.03)	1.283*** (0.00)	-0.036 (0.24)	-0.034 (0.20)
Age of top executive			0.028*** (0.00)	0.028*** (0.00)	0.029*** (0.00)
Top executive is a chairman (dummy)			-0.010 (0.24)	0.158 (0.31)	0.174 (0.26)
Top executive is a founder (dummy)			0.436** (0.02)	-0.553*** (0.00)	-0.563*** (0.00)
Number of members of the board of directors sought by acquirers at the announcement day / total number of members of the board of directors in target			0.070 (0.90)	2.045*** (0.00)	2.161*** (0.00)
Acquirer is an active investor (dummy)	-0.501** (0.03)		-0.328 (0.15)		
Acquirer has a control purpose (dummy)	-0.399 (0.12)		-0.114 (0.59)		
Industry dummies	Yes		Yes		
Intercept	-1.733*** (0.00)	-1.346*** (0.01)	-0.432 (0.49)	-2.475*** (0.00)	-2.545*** (0.00)
LR test of independent equations (rho=0): chi2(1)		6.06***		5.76**	5.64**
No. of observations	532	532	532	532	532