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# Home preference at selecting financial advisors in cross-border M&As



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**Home Preference at Selecting Financial Advisors  
in Cross-Border M&As**

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## **Home Preference at Selecting Financial Advisors in Cross-Border M&As**

### **Abstract**

This paper examines the determinants of the choice of financial advisors and their impact on the announcement effects of US acquirers in cross-border M&As. Two hypotheses are tested: one pertains to the acquiring firms' home preference in selecting financial advisors, and the other relates to advisors' experience in target countries. Evidence supports the home preference hypothesis in the selection of advisors in cross-border M&As, particularly in all-cash paid transactions where acquirers take the entire risk of not realizing the expected synergy value. We also observe home preference among investors as acquirers that picked US advisors experience significantly higher positive abnormal returns in all-cash paid transactions than those without US advisors, even when the chosen US advisors do not have significant experience in the target country. Finally, home preference at the choice of financial advisor may be costly if US acquirers pass by more experienced because of home preference.

## 1. Introduction

How do firms choose their financial advisors in mergers and acquisitions (M&As)? Do they pick the optimal advisors for the transactions? And how do their investors react to the firm's choice of financial advisors? These questions are clearly important for understanding M&As, one of the most important corporate capital market activities, and financial advisory markets, one of the most profitable and significant investment banking business for banks. If firms choose financial advisors for reasons other than rational and optimal, resources are not allocated to the most efficient uses. Such costs may become even more staggering in scenario of international diversifications. If the optimal advisor (who supposedly could reduce costs associated with the transaction the most) is not selected, then the question is why not? How do investors react to such choices and why? In this paper, we attempt to answer these questions.

Literature about financial advisors in M&As provides both rational and less rational reasons in the choice of financial advisors. Servaes and Zenner (1996) offer a list of rational reasons for a firm to hire a professional advisor to assist its M&A transactions. Specifically, they suggest that the most important determinant of investment banking choice is the complexity of the deals (e.g. less experienced acquirers, stock payments, large transactions etc.), followed by other determinants such as information asymmetry and contracting costs. All of these reasons suggest that the choice of using an investment bank is a rational decision, and a professional advisor (instead of in-house expertise) would be selected based on characteristics of the deal, target characteristics, and acquirers' experience. Servaes and Zenner's arguments therefore indicate that once the decision of hiring a professional is made, the optimal advisor should be the one that reduces the costs associated with M&A the most. Furthermore, these optimal choices should also lead to better deal outcomes in the long run for acquirers.

Recent literature, however, sheds doubts on the independence and the efficiency of firms' choice of professional firms. For example, Hayward (2003) suggests that banks use their clients' engagements to be hired subsequently. He argues that banks derive influence from their specialized expertise and lead their clients to complex

solutions and to transactions with adverse performance. Francis, Hasan and Sun (2007) show that acquirers with little M&A experience are more likely to hire their previous equity underwriters in current stock financed transactions if, they provided more optimistic analyst coverage prior to the bespoke transactions.

Why wouldn't acquirers pick financial advisors that can reduce the M&A related costs most (including direct costs such as execution related and indirect costs such as picking a wrong target)? And what is the explanation for such choices? Our paper intends to explore these questions by examining a sample of US firms acquiring foreign targets. The reasons to study a set of cross-border M&As are two-fold. First, the first question we examine is whether the selection of a financial advisor is determined by rational reasons suggested by the literature. A sample of cross-border M&As enables us to address this question because they apparently engage in significantly high costs (La Porta et al., 1997, 1998). If the firms were rational in selecting their advisor in cross-border M&As, they should pick the bank that can reduce the transaction costs and the information asymmetry most (e.g. such as costs caused by different regulations and tax complexities of foreign countries).

Second, if firms choose banks for reasons other than rational, it will be challenging to identify the behavioral determinants for such choices. The literature of home preference of investors in equity selections (French & Poterba, (1991), Cooper & Kaplanis, (1994), Tesar & Werner, (1995), Hasan and Simaan (2000), Lewis, (1999), Kang & Stulz, (1997)), sheds some light on this question, and suggests that there exist inefficiencies when investors select securities. They document that instead of holding the optimal portfolios, investors show preference for domestic stocks or local stocks. Could firms also have such home preference in selecting advisors? For instance, do they select advisors they hear a lot about? Or, do they hire a bank that is closer to home because they simply feel more comfortable with it? A sample of cross-border M&As makes it easier to examine this home preference hypothesis.

In the last decade, US corporations acquired \$742.9 billion of foreign firms during the period 1990 to 2003.<sup>1</sup> The increased amount of cross-border mergers and acquisitions (M&As hereafter) has attracted tremendous interests from both business

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<sup>1</sup> According to SDC Mergers and Acquisitions Database

practitioners and academic researchers. However, financial advisors, one of the most important participants in M&As, have received relatively little attention. This is surprising given that over 80% of deals are assisted by financial advisors<sup>2</sup>, and that more than half the profits of the US securities industry are from their global business<sup>3</sup> (See Figure 2). While there are a few studies that examine the choice of financial advisors in domestic M&As (e.g., Servaes & Zenner, 1996; Rau, 2000; Kale, Kini & Ryan, 2003; Allen, Jagtiani, & Saunders, 2004, Bao & Edmans, (2008)), it is still unclear how firms choose financial advisors, and whether and how the choice of financial advisors impacts acquiring firms' announcement effects. Further, these studies are sparser in the area of cross-border M&As.

By using a sample of cross-border M&As, we examine two competing hypotheses to understand the choice of financial advisors and the impact of this choice on firms' short-term and long-term performance. First, the rational choice hypothesis (indicated by Servaes & Zenner, (1996)) suggests that advisors that can reduce their clients' transaction costs and information asymmetry most should be selected in cross-border M&As. To test this hypothesis, we need to identify a group of banks that have the resources and ability to help their clients to reduce costs most. We define those banks that have great amount of advisory experience in the target country's M&A markets as the optimal banks that acquirers should select.<sup>4</sup> Specifically, we expect that firms should choose those experienced banks, whether it is a US affiliated or not, in more complicated transactions and/or transactions involving greater amount of information asymmetry.

On the other hand, the home preference hypothesis indicates that banks from home are selected, regardless of their previous advisory experience in the target country, the acquiring firms' experience, the deal complexity, and the target country's

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<sup>2</sup> According to SDC Mergers and Acquisitions Database and it is a transaction value perspective

<sup>3</sup> According to Securities Industry Association 2002 year book

<sup>4</sup> Please note that we do not suggest that a bank's past experience is positively and significantly related with the quality of the service it provides. Actually, Rau (2000) finds that bank market share is related to the fee payments and the percentage of the deals completed but not to the performance of the acquirers advised by the bank in the past. Bao and Edmans (2008) provides direct evidence that in selecting financial advisors, clients seem to overlook the investment banks' past performance but rely on the past market share. We define those experienced banks as the optimal choice based on the assumption that they have the resources, knowledge, and capability to help their clients to reduce transaction costs and information asymmetry.

characteristics. For example, under this hypothesis, US banks with little experience in M&A business in the target countries are preferred by US acquirers, even when the transaction is large, the acquirer is inexperienced, and/or there are greater amount of information asymmetry of the targets and the target countries.

Furthermore, also interesting is the examination of shareholders' reaction with regard to the advisor choice. As we discussed earlier, it is well-documented that investors have strong preference for domestic equities in international markets. Do investors also have preference for domestic banks in cross-border M&As? For example, do they respond more favorably when transaction is assisted by a US bank than by a non-US bank? To answer this question we conduct event studies to document the announcement effects by the types of financial advisors and by characteristics of the deal.

Last, but not least, home preference hypothesis may suggest inefficiency. It is a inefficient choice if deals turn out to be underperforming. To examine the long-term outcome, we calculate the acquirers' operating performance in the three years after the cross-border M&As and compare it with their operating performance in the three years prior to the transaction. If home preference leads to biased choice, we should observe that those firms hired inexperienced home advisors underperform in the long run, especially when the acquirers are inexperienced too.

We address those questions with a sample of 376 cross-border M&As in which US firms are the acquirers from 1990 to 2003. There are several reasons for the choice of this sample. First, according to the SDC league tables, US advisors rank in the top 25 in the local M&A markets in more than 52 countries. A possible factor that may have caused this to happen is the expansion of US multinational firms in the past two decades. Indeed, as commented by Maureen Hendricks, head of global capital markets at J.P. Morgan,<sup>5</sup> "You don't compete against the local banks for the local business. You compete for the cross-border business." It is a rich sample to examine the rational hypothesis versus the home preference hypothesis. Second, the US is the largest FDI inflow and outflow country. In 2001, the total amount of cross-border M&As conducted

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<sup>5</sup> "Wall Street's Global Power" Business Week, November 1, 1993, p102

by US acquirers account for about 14.5% of worldwide cross-border M&As.<sup>6</sup> The economic importance of examining this issue cannot be overemphasized.

Our results suggest the home preference hypothesis, indicating that US banks are preferred by US acquirers in their cross-border M&As. Specifically, after controlling the endogeneity of the payment method, the results from the examining of the determinants of the choice of US advisors suggest that US advisors are more likely to be chosen in all-cash paid deals, bigger transactions, and are more likely to be hired by acquiring firms with little cross-border M&A experience in a target country. The results from the bivariate probit model suggest that cash payment is more likely to be used in taking over targets from developing countries, countries with higher corruption level, and countries with lower government efficiency. The overall results are consistent with the home preference conjecture that US advisors are preferred over non-US advisors, especially when cash is chosen as the sole payment method in cross-border M&As.

The results of the announcement effect studies suggest that investors have home preference too at their firms' choice of financial advisors in cross-border M&As. Specifically, we find that the average abnormal returns associated with US acquiring firms' cross-border M&A announcements are positive and significantly higher for those using US advisors. It is particularly the case for the deals financed by all-cash. On the other hand, we find that experienced financial advisors, US or not, have a positive relationship with the announcement effects of stock-paid transactions. It is possible that financial advisors' local reputation is important in convincing target shareholders to accept stocks instead of cash.<sup>7</sup>

With the caveat found for the group of stock financed transactions, we interpret the positive relationship between the announcement effects and US financial advisors in all-cash financed deals as the evidence supporting the home preference hypothesis, given that in all-cash paid transactions, acquirers take the entire risk that the expected synergy value may not materialize.

Last, we observe that acquiring firms with US advisors experience negative and significantly unfavorable performance changes than do those with non-US advisors. It is

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<sup>6</sup> As estimated by using SDC data, US firms conducted about 90 billion dollars cross-border takeovers in 2001 and according to IMF, the global cross-border value is 621 billion dollars.

<sup>7</sup> Thanks for the comments of an anonymous referee.



particularly driven by acquirers with no experience in the target country, with cash as the sole payment method. These results support the home preference hypothesis in that there are inefficiencies in the firms' choice of financial advisors in cross-border M&As. Acquiring firms with little cross-border M&A experience themselves should have had more favorable performance changes if they used experienced advisors in all-cash paid transactions.

The remainder of the paper is organized as follows. Section 2 develops the hypotheses and our conjectures. Section 3 describes the data sources and descriptive analysis. Section 4 presents the results of the event study and the regression analysis and the determinants of the choices of financial advisors. Section 5 presents the acquiring firms' long-term operating performance. Section 6 discusses the alternative definition of US banks and the robustness test results. Section 7 provides summary and concluding remarks.

## 2. Hypotheses

To test the home preference hypothesis, we need to identify a group of banks that have strong bonds with US markets. First, we measure the home affiliation by advisors' geographic locations and business activities. *US* advisors refer to those advisors that are actively doing business in the US markets but not necessarily domiciled in US. For example, Deutsche Bank is a German bank, but ranks in the top 25 in US M&A markets. Therefore, we classify Deutsche Bank as a *US* advisor. Panel A of Table 1 provides the list of foreign banks that are classified as *US* advisors due to their significant stakes in US M&A markets. *Non-US* advisors, on the other hand, refer to the remaining advisors. In a particular merger when there are multiple advisors, we define the syndicate as a *US* bank if one of them is domiciled in the US or has substantial business in US markets.

To examine the rational hypothesis, we need to identify a group of banks that appear to be rational choices for US acquirers facing a cross-border deal. We use the bank's M&A advisory experience in target countries as the measurement of the bank's skills and knowledge available to help its clients in completing the deal in that particular country. Using information produced in the SDC league tables, we define an advisor as an expert if it ranks in the top 25 in target countries' M&A business in the year prior to the deals in the sample.

Thus, within the *US* group, there are two sub-groups. One is *US\_Toplocal*, which refers to US advisors that also rank in the top 25 in target countries, and the other sub-group is the *non-exp. US* group, which includes the remaining US advisors that have little experience in the target country's M&A business. Similar to our rankings for the *US* group, for the *non-US* advisor group we subdivide the sample into the *Other\_Toplocal* group, which includes those top local advisors, with the exception of US advisors and the *Pure Local* group, which includes the remaining non-US advisors. Panel B of Table 1 displays a list of advisors identified as top advisors in variant target countries.

As summarized in 1, the rational hypotheses inspired by Servaes and Zenner (1996) indicate that experienced financial advisors (*US\_Toplocal* advisors and *Other\_Toplocal* advisors) should be preferred by acquirers that deal with large transaction, that have little M&A experience in target country, and that takeover targets

from countries with higher information asymmetries (such as countries with higher corruption costs, less stable government, higher creditor risk and inefficient government, etc.). The conjecture is that because financial advisors are hired to reduce transaction costs and information asymmetry costs, those with the most experience should be selected because they have the knowledge and resources to provide the service expected under the rational hypotheses.

The home preference hypothesis, on the other hand, suggests that *US* advisors, with or without extensive target country M&A advisory experience, are preferred in cross-border M&As, especially if cash is the sole payment method, the value of transaction is large, the acquirers are inexperienced, and the target countries are labeled with higher information asymmetries. The conjecture is that when the uncertainty and/or the value at stake are high, acquirers simply feel better working with someone they know, or someone has a strong bond with the home.

The home preference hypothesis is also implicitly supported by the “reputation concern” argument of McLaughlin (1990, 1992). He suggests that investment banks would protect the interests of their client firms due to reputation-building concerns and therefore give positive signals to the investors. Such concerns could be even stronger for banks that have big stakes in the market where they intend to maintain reputation. Therefore, it offers an explanation for acquirers’ home preference complex in that *US* acquirers select *US* advisors because they believe that those advisors have apparent reputation concerns in home market. It also suggests that shareholders with home preference should respond more favorably to transactions assisted by *US* advisors for the similar reason, especially in deals with higher uncertainty.

The reason that we suggest all-cash payment is related to higher uncertainty in cross-border M&As is explained by the following. The choice and impact of exchange medium have been discussed extensively in the studies of domestic M&As (e.g., Hansen, 1987; Martin, 1996; Faccio & Masulis, 2005). Literature suggests that because in all-cash paid deals acquiring firm’s shareholders take on the entire risk that expected synergy value may not materialize, the choice of all-cash payment in domestic M&As is perceived as a signal of the quality of the deal, and is associated with more favorable stock market reactions. On the other hand, one of the arguments used in stock-paid

transactions is that acquiring firms' managers dilute such risk by paying stocks to target shareholders (Hansen, 1987).

In international M&As, however, all-cash payment may not simply be a signal of management's strong confidence of the quality of the deal. There are cases where acquiring firms do not prefer stock payment in countries with less developed markets, even if when the risk of not achieving the synergy value is high (Reuer et al., 2004). There are also cases that target countries require that acquiring firms give target firm shareholders the election of cash payment ("Cash shelter"). If acquirers have to pay by cash for either reason, they take on the entire risk that the expected synergy value will not materialize, which is even higher in cross-border M&As because of the disadvantage of the acquiring firms' unfamiliarity with the target country, its culture, and its institutions (Zaheer, 1995). Therefore, we contend that US advisors are preferred by US acquirers in cross-border M&As when contingent payouts (e.g., stocks) are not used when home preference hypothesis prevails.

For example, to pay for the tour and/or souvenirs, tourists may pay by cash or by credit card. Credit cards give tourists the option to dispute in case of fraudulent situation or discontentment. It is however, not a popular payment method in overseas tourisms because, first, frequently, credit cards are not accepted by all; second, tourists may not want to use a credit card for fear of fraud or identify theft in countries where consumer credit transactions are not well protected. When cash is the only option left, home preference hypothesis suggests that even though the local tourist guides may offer the same quality of services at lower costs, or offer a more pleasant trip at the same cost, inexperienced tourists feel better about going with someone who they have heard good things about, or with someone they may share a strong bond with (e.g., someone from the home country).

### 3. Data Resources and Descriptive Analysis

The data set contains cross-border mergers and acquisitions where acquiring firms are domiciled in US from January 1, 1990 to December 31, 2003, as indicated by the Worldwide M&A section of the Securities Data Corporation (SDC) platinum. We obtain information on i) the identities of the firms involved in the mergers or acquisitions, ii) the names and nationality of the financial advisors involved in the transaction, iii) the status of the transactions, iv) the primary four digit SIC code for both acquirers and targets, v) the tender offer flag, vi) the payment method, and vii) the shares owned by acquirers after the transaction.

There were 2,395 completed cross-border M&As in which US firms were acquirers during the period 1990 to 2003 that have information of the acquirers' financial advisors. Among those 2,395 transactions, public firms conducted 1,109. Figure 1 presents our estimation of the transaction values conducted by public US acquirers vs. private acquires in cross-border M&As during the sample period. Since, the intention in our study is to examine the stock market reactions to firms' international M&A announcements we ignore private acquirers in this paper. Furthermore, we selected the sample according to the following rules:

- i. No M&As in utility industries (reduce 30);
- ii. No M&As in financial industries (reduce 71);
- iii. Shares acquired are larger than 50% (reduce 126);
- iv. Transaction value information is available(reduce 176);
- v. Transaction value is larger than or equal to \$10million (reduce 63);
- vi. Payment information is available (reduce 127) ;
- vii. Target's ultra parent is Non-US (reduce 50).

Stock price information is obtained from CRSP. To conduct our event study analysis, we require that all the acquirers in the sample had stock information at least 300 days before the announcement date so as to have a 255 estimation window ending 46 days prior to the announcement. Therefore, given all those factors, we end with 376 transactions for our study.

Table 3 presents the distribution of the sample by both target countries and choice of financial advisors. As shown in table 2, 114 targets in the sample come from the UK, and account for about 30.32% of total observations. Targets trailing the UK are: Canada, Germany, and France. The rational hypothesis suggests that advisors with the most local experience should be selected in cross-border M&As because they are most likely to have the knowledge and resources to provide assistance in reducing costs. Therefore, under rational hypothesis, we would expect to observe that advisors with substantial business experience in target countries are used more often. Our results, however, show just the opposite. We find that 301 of 376 transactions (80%) are advised by *US* advisors, indicating that *US* advisors dominate cross-border M&As where *US* firms are the acquirers. It is especially interesting that a significant amount (129) of acquirers hired *Non-exp. US* advisors who did not have substantial experience doing business in the target country. It would be difficult to understand the significant preference of *Non-exp. US* advisors from the rational hypothesis perspective, which indicates that local experience matters.

Table 4 presents the characteristics of the merging firms and target's home country sorted by the choice of financial advisors and the payment method. We also report the various measurements of target's home country's corporate governance. Corporate governance has been used in existent literature as a proxy of information asymmetry costs in cross-border M&As (Kiymaz, 2004). The governance variables *Corruption*, *Unstable*, and *Gvt. Ineff.* (government inefficiency) are originally collected from Kaufman et al. (1999), and for the convenience of explanation, we transformed their numbers by subtracting them from 2.5. Therefore, the higher the numbers for those measurements are, the lower the quality of corporate governance in the target country, and the higher the information cost. For example, *Corruption* measures the level of the exercise of public power for private gains; *Unstable* measures the instability of the government; and *Gvt. Ineff.* refers to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. *Creditor Risk* and *Shareholder Protec*

(shareholder protection) are two additional proxies for information asymmetry, and are collected from Lo Porta et al. (1999).

As explained earlier in the section of hypotheses development, we report the summary statistics sorted by payment methods. In the transactions paid by all-cash, those helped by US advisors are associated with significantly larger transaction values, higher number of private targets, acquirers with larger market capitalization, and more frequently, with targets from developing countries and countries with higher corruption levels. The intuition from the rational hypotheses indicates that when firms takeover targets from countries with higher information asymmetries, a strategy for acquiring firms to reduce the cost incurred is to use advisors that are familiar with local markets. The results reported so far however, seem not to support the argument of rational hypotheses, but rather to support the home preference argument in the choice of financial advisors in cross-border M&As. In particular, the observed patterns are mostly true among transactions paid in cash. As we argued earlier, in international M&As, cash payment method, though generically simpler than stock exchanges between two firms from two countries, brings relatively more uncertainty to acquirers in that it leaves the entire risk of not realizing the expected synergy value to the acquiring firms. In such cases, *US* advisors, especially those without extensive experience of doing business in the target country, seem to be preferred by acquirers over local experts. A choice that is consistent with the conjecture of home preference hypothesis.

## **4. Empirical Results on Event Study and the Choice of Financial Advisors**

### **4.1 Event Study**

We first examine how acquirers' shareholders react to the choice of financial advisors due to the announcement. We apply the standard event study methodology (Brown & Warner, (1985)), and assume that security returns are driven by a single-index market model. Table 5 presents the announcement effects of *US* acquirers. Panel A, displays the average abnormal returns for the event window (-10, +10). At the announcement date ( $t = 0$ ), the average abnormal return is 1.05%, and significant at 1% level. Panel B displays the average cumulative abnormal returns (CARs thereafter) for

various event windows. (The average CARs of the three-day window  $t = (-1, 1)$  is 1.37%, and it is significant at 1% level.

Table 6 reports the announcement effects for the event window  $(-1, 1)$ <sup>8</sup> by the choice of financial advisors and payment methods. Those acquirers using *US* advisors experience 1.48% CARs, compared to the -0.53% of those using *non-US* advisors. The difference is 2.082% at the 5% significance level. All-cash paid transactions drive the significant positive difference between these two groups. To be specific, all-cash paid deals with *US* advisors report 2.674% higher CARs than those with *non-US* advisors at the 1% significance level. US investors seem to respond more favorably when *US* advisors are hired in all-cash financed deals. It is especially the case for firms with no M&A experience in recent 5 years in the target country. The CARs difference between using *US* advisors and *non-US* advisors is 2.893% (significant level is at 1%) for the subgroup and 3.667% (significant level is at 1%) for those all-cash paid deals in this subgroup.

Results from table 6 also suggest that the market does not respond differently to the stock financed deals advised by *US* advisors and *non-US* advisors. We must point out that the stock-paid transactions in our sample cluster (93%) in developed countries where capital markets are more advanced. As suggested by Reuer (2004), stock itself as a contingent payment method can mitigate risk in international mergers and acquisitions. Therefore, we contend that in stock-paid transactions, acquirers' demand of having a financial advisor from the home country diminishes.

We further notice, however, that in stock-paid transactions the market reaction is more favorable for those that are helped by advisors – from US or not - ranking top in target countries. Technically, stock-paid transactions are more complex than cash paid transactions because they involve estimating both the acquirers' and targets' stock values and the exchange of shares. If stock is the acquisition currency in taking over targets from markets with higher shareholder protection and corporate governance, acquirers' home preference of US advisors diminishes, and the possession of local experience turns out to be more crucial.

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<sup>8</sup> we tried different windows and the results hold the same.



According to the analysis of the abnormal returns from the event study, the acquiring firms that use *US* advisors experience more favorable announcement effects than those that do not, no matter whether the *US* advisors have local experience or not. Therefore, the results from the univariate analysis of the event study indicate that shareholders possess home preference as well on the choice of financial advisors in cross-border M&As, especially in all-cash paid transactions. They feel better about deals of higher uncertainty that are assisted by banks that either they have heard a lot about or are closer to home. As we argued earlier, one explanation for this preference may be that since shareholders perceive those banks who have stronger bonds with home markets as having reputation concerns (or in some cases legal concerns) at home, they believe that home banks' interests should be more aligned with their clients, and they should be more concerned about the consequences of those deals than *non-US* advisors. When uncertainty is relatively lower (i.e. when stock is the exchange medium), however, we find that the banks' local expertise does weigh in.

## 4.2 Regression Analysis and Choice Analysis

### 4.2.1 Cross-sectional Analysis of Announcement Effects

In this section, we present the cross-sectional evidence of how investors react to the choice of financial advisors. We are interested in determining whether the observed home preference effects survive after controlling for the influence of other variables.<sup>9</sup> Many studies have examined the issue of determinants of abnormal returns in the context of domestic and cross-border mergers (e.g. Asquith et al., 1983; Travlos, 1987; Jarrell & Poulsen, 1989; Hayne, 1989; Servaes, 1991, Goergen & Renneboog (2004), Moeller & Schlingemann (2005)). Consistent with this literature, we select our control variables. To introduce country factors, we also include target countries' economic development, shareholder protection, and governance measurements.

In table 7, we test which choice of financial advisors is related to better announcement effects of acquiring firms: the experience or the home bonds. As we defined earlier, the home bonds of financial advisors (serving the home preference hypothesis) is proxied by including all advisors from US, including *US\_Toplocal* and *Non-exp. US* advisors. The local experience of advisors (serving the rational hypothesis) is proxied by financial advisors' ranking in target countries' M&A markets, including *US\_Toplocal* and *Other\_Toplocal* advisors. The dependent variable for models in this table is the cumulative abnormal returns for acquiring firms around period  $t = (-1, 1)$ . Models (1) to (5) include transactions paid in all-cash and models (6) to (10) include transactions paid in stock, or a combination of cash and stock. All regressions are with White's robust standard errors to correct potential heteroscedasticity.

Models 1 to 5 of table 7 report the estimation results in all-cash financed transactions. The results in model 1 confirm the previous observed relationship between the choice of *US* advisors and the announcement effects of acquiring firms in all-cash paid transactions. Specifically, the use of *US* advisors increases acquiring firm shareholders' market value by 3.2% at 1% significance level. Results from models 2 to 5 show that there is a positive and significant relationship between both types of *US*

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<sup>9</sup> Since the choice of "US" advisors might be an endogenous variable in explaining the announcement effects, we conduct the inverse mill ratio test. The coefficients of the generated inverse mill ratio are not significant in explaining the announcement effects. Therefore, the estimations from the ordinary least square regressions are consistent and reliable. When conducting the inverse mill ratio, we check the endogeneity of the choice of "US" advisors and the endogeneity of the choice of "US" advisors when cash is chosen to be the payment method. In either case, the estimations from the OLS regressions of the announcement effects are consistent.

advisors and the announcement effects, though the choice of *US\_Toplocal* advisors is related with even more positive effects than the choice of *Non-exp. US* advisors. This confirms our previous finding that it is the home bonds of financial advisors that matters in all-cash financed transaction because even the use of *Non-exp. US* advisors that do not have sophisticated experience of doing business in the target countries are more positively and significantly related with announcement effects than are the *Other\_Toplocal* advisors.

Results from models 1 to 5 also show that there is a negative relationship between firm size and announcement effects which is consistent with the findings of Moeller et al.'s (2004) regarding domestic M&As. Furthermore, since public targets are more transparent than private targets, a take over of public targets with all-cash payment in cross-border M&As significantly increases shareholder value by 6.2%. To take over public targets from countries with higher shareholder protection, however, reduces the gains for acquirers. We suggest that it might be because acquirers may have to share larger proportion of synergy values with target firms because of the higher bargaining power of the targets.

Models 6 to 10 report the estimation results in stock financed transactions. The results suggest that after controlling for the impacts of other variables, it is the local experience of financial advisors that matters more to acquiring firms' shareholders when stock is the exchange medium. Both types of financial advisors with outstanding local experience, including *US\_Toplocal* advisors and *Other\_Toplocal* advisors, are positively and significantly related to the announcement effects of acquiring firms in stock-paid transactions, while the impact of the use of *non-exp. US* is marginally positive, yet not significant. In sum, the results reported in table 6 supports the home preference hypothesis of the choice of financial advisors in cross-border M&As, especially when the uncertainty is high. This finding has economic significance since cash is the predominant payment method in cross-border M&As (Rossi & Volpin, (2004)).

If, in fact, home shareholders perceive that all-cash paid transactions helped by *US* advisors more favorable than those with the absence of *US* advisors, such perception may be even stronger for acquiring firms with no M&A experience in a target country that has more information asymmetry. To further test the home preference hypothesis of *US* advisors in all-cash paid cross-border M&As, we interact the choice variables and acquiring firms' experience and target country's governance measurements, and present

the estimation results in table 8. Models 1 to 5 report coefficient estimations for transactions paid in all-cash and models 6 to 11 report for those in stocks. The results from models 1 to 5 suggest that the impact of the home bonds of *US* advisors becomes even more stronger when acquiring firms take over targets from countries with higher corruption, unstable governments, higher creditor risks, and lower government efficiency, especially if it is the first time, in the last five years, that acquiring firms take over targets from that particular country.

The results of tables 7 and 8 confirm the investors' home preference at the choice of financial advisors in cross-border M&As. Specifically, in all-cash financed transactions where the uncertainty for acquiring firms is relatively higher, *US* advisors, with outstanding business experience in target countries or not, are related with significantly higher announcement effects. The home preference effects of *US* advisors are even stronger when acquiring firms take over targets from countries with a higher degree of information asymmetries, controlling the experience of the acquiring firms. Although we also find that in stock-paid transactions, advisors with outstanding local experience, such as *US\_Toplocal* and *Other\_Toplocal*, are related to significantly higher announcement effects. We do not suggest this finding as a strong contradiction to the home preference hypothesis for the following reasons. First, cash payment is the overwhelmingly prevailing payment method in cross-border M&As, and second, stock payment reduces acquiring firms' exposure to the risks caused by information asymmetries in cross-border M&As, and therefore, the home preference effect of the choice of home advisors becomes less significant.

#### **4.2.2 Determinants of Choice of Financial Advisors**

In this section, we examine the determinants of the choice of financial advisors. Specifically, we are testing two competing hypotheses: one is rational hypothesis, and the other, the home preference hypothesis. As we argued earlier, the choice of the payment method, however, may not be an exogenous decision since the country factors that impact the choice of financial advisors may impact the choice of payment method by firms as well. Hence, how payment methods impact the choice of financial advisors in cross-border M&As cannot be predicted consistently in a simple probit model, due to the possible endogeneity of the payment method variable. Therefore, in this section, to provide consistent estimations of the determinants of the choice of *US* advisors, we conduct bivariate probit models to control endogeneity of payment method. Following

the instruction of Larcker and Rusticus (2008), we attempt to capture decision making process and explain the selection of the variable.

The rational reason for the existence of financial intermediaries is that they can help reduce transaction costs by economies of specialization, scale economies in information acquisition, and reduction in search costs (Benston & Smith, 1976). Servaes and Zenner (1996) study the role of investment banks in acquisitions, basically, they suggest that financial advisors are hired to value targets and make bids at a lower cost than acquirers would do by themselves. They find that the decision of accomplishing M&As with the assistance of investment banks is largely based transaction costs and information asymmetries. Therefore, the variables that are included in our choice models to test the rational hypothesis are chosen. Additionally, we bring country factors into the study of the choice of financial advisors in cross-border M&As. The definition of the main variables follows.

#### **4.2.2.1 Main Variables**

*Allcash*: Servaes and Zenner (1996) suggest that when the payment is cash only, acquirers are less likely to employ an investment bank for the acquisition since, it is relatively easier to execute than the stock financed acquisition. We argue, however, that although cash payment is related to lower transaction costs in domestic M&As, it might be a riskier payment method in cross-border M&As, especially when targets are from countries with less developed markets, government is less effective, and the level of corruption is relatively higher.

*LnSize*: is a measurement for the size of the transaction value. The larger the value of the transaction, the riskier it is for shareholders of acquiring firms. The home preference hypothesis indicates that when the size of the transaction is bigger, home advisors are preferred by acquiring firms, regardless of the advisors' experience of doing business in local markets.

*Tender*: is a dummy variable, and equals to one if the transaction is a tender offer identified by SDC.

*First*: is a dummy variable, and equals to one if acquiring firms have not conducted M&As in target countries in the five years prior to the current transaction. The measurement of target country experience of acquiring firms can be used as a proxy for the extent of information asymmetry faced by individual acquiring firms that could not be captured by country factors. The home preference hypothesis predicts that if it is the first

time for acquiring firms to take over targets from the target country in recent years, home advisors are more likely to be hired than local advisors.

We also include other variables suggested in the literature as control variables for information asymmetry. For example, Servaes and Zenner (1996) suggest that when acquisition is in a related industry, acquirers are less likely to use an investment bank for an acquisition because it is less complex. Therefore, the rational hypothesis suggest that, if, in fact, acquiring firms decide to use an investment bank in related deals, non-top investment banks (*non-exp. US* and *Pure Local* banks) are more likely to be hired than top (*US\_Toplocal* and *Other\_Toplocal*) investment banks. Home preference hypothesis, on the other hand, suggests that regardless of the relatively simpler transaction, *US* advisors (*US\_Toplocal* and *non-exp. US*) are preferred. Corporate governance can also be applied as a measure of information asymmetry in cross-border M&As (Kiymaz, 2004). According to the corporate governance measurements of Kaufman et al. (1999), we include *Corruption*, *Unstable*, and *Gvt. Ineffi.* in the choice analysis.

#### 4.2.2.2 Results from the Choice Models

First, table 9 reports the maximum likelihood estimation of the simple probit model of the choice of *US* advisors. The variable *Allcash* has a significant and negative relationship with the choice of *US* advisors. The results appear to suggest that since cash payment method is relatively less complicated than stock payment, *US* advisors are less likely to be hired. This relationship, however, is contrary to our previous findings that support the home preference hypothesis. If using *US* advisors in all-cash paid transactions actually relates with more favorable announcement effects, why are they less likely to be used in such transactions? Furthermore, as argued earlier, the home preference hypothesis implies that payment method is an endogenous variable. That is, the factors that determine the choice of payment method may determine the choice of advisors as well. Therefore, a simple probit model would be inappropriate to offer consistent estimations of the coefficients. To control the endogeneity problem caused by a binary variable in a probit model, bivariate probit model can be used (Wooldridge, 1999; Evans, Oats and Schwab, 1995).

The probit models used to estimate the choice of payment method are as follow:

$$Allcash = \alpha + \beta_1 LnSize + \beta_2 Related + \beta_3 Tender + \beta_4 First + \beta_5 Shareholderprotec. + \beta_6 LineofCredit + \beta_7 Bridgeloan + \beta_8 SameLender + \beta_9 CashShelter + \beta_{10} (Institutional Factors) + \varepsilon \quad (9)$$

Instruments for payment methods are as follows: *ShareholderProtec*, *LineofCredit*, *BridgeLoan*, *SameLender*, *CashShelter*, as well as various measurements of target countries institutional factors. *LineofCredit* is retrieved from SDC, if the source of the fund for the transaction comes from the acquiring firm's line of credit; *BridgeLoan* is retrieved from SDC if the source of the fund for the transactions comes from bridge loans; *Same Lender* is a dummy variable and it equals to one if the current financial advisors are also lender of the acquiring firm. Allen and Peristiani (2007) and Allen et al (2004) show that many commercial banks and investment banks are not only advisors but also lenders. *CashShelter* is a dummy variable and is retrieved from SDC. It equals to one if the target country requires that acquiring firms give target shareholders the election of cash payment. The institutional factors are defined earlier in this paper, including *Corruption*, *Unstable*, *Gvt. Ineff.*, *Creditor Risk*, and *Developing*. Since those institutional factors are correlated, we include one at each time.

Panel A of Table 10 reports the bivariate probit analysis of the choice of *US* advisors with the instrumented payment method variable *Allcash*, and panel B reports the estimation results for the choice of cash payment. Rho, which is the correlation of the error terms from the two choice models, is reported in the last row of panel A, and the Chi square tests strongly reject the null hypothesis of the exogeneity of the variable *Allcash*. The endogeneity of payment method in the choice model of financial advisors is confirmed. The results from the bivariate probit models suggest that when cash payment is chosen in cross-border M&As, *US* advisors are more likely to be hired by acquiring firms. Specifically, the choice of cash payment increases the likelihood of hiring *US* advisors by 34% at the 1% significance level. The results from the bivariate probit model are consistent with the conjectures regarding the home preference at selecting financial advisors in cross-border M&As.

Additionally, the larger the transaction size is the more likely a *US* advisor is hired, which is consistent with the home preference prediction. And the lack of target country experience of acquiring firms increases the likelihood of hiring *US* advisors by 5%.

The estimations of the bivariate probit model depend on the validity of the instruments. If the instruments *ShareholderProtec*, *LineofCredit*, *BridgeLoan*, *SameLender*, *CashShelter*, and *Institutional Factors* are valid, then: (1) they must be determinants of the choice of payment method, but (2) must not be determinants of the

choice of US advisors. It is easy to demonstrate how they meet the first test. As shown in panel B of the bivariate model, the instruments are all significant predictors (at least at 10% level). Thus, the credibility of the bivariate probit results depends primarily on the assumption that those instrumental variables are not determinants of the choice of *US* advisors. Following Wooldridge (1999), and Evans, Oates, and Schwab (1995), we conduct the following tests: (1) estimate the bivariate probit model by 2SLS and obtain the 2SLS residuals,  $\hat{u}_1$ ; (2) regress  $\hat{u}_1$  on all exogenous variables (including the instruments); (3) obtain the R-Square,  $R^2_1$ ; (4) under the null hypothesis, all instrumental variables are uncorrelated with  $\mu_1$ ,  $nR^2_1 \sim \chi^2_q$ , where  $q$  is the number of instrumental variables minus the total number of endogenous variables. If  $nR^2_1$  exceeds the 5% critical value in the  $\chi^2_q$  distribution, we reject the null hypothesis, and conclude that at least some of the instrumental variables are not exogenous.

Table 10 presents the test of exogeneity of the instrumental variables. The dependent variables are obtained from the estimation of 2SLS model. Since we use *ShareholderProtec*, *LineofCredit*, *BridgeLoan*, *SameLender*, *CashShelter*, and any one of the institutional factors as the instrumental variable, we have 5 over-identifying restrictions. Regressing the 2SLS residual  $\hat{u}_1$  on all the exogenous variables produces  $R^2_1=0.006$  when either *Developing*, *Creditor Risk* or *Gvt. Ineff.* is the 5<sup>th</sup> instrument, and 0.007 when either *Corruption* or *Unstable* is the 5<sup>th</sup> instrument. Therefore, no matter which institutional variable is used as the 5<sup>th</sup> instrumental variable, the “ $nR^2_1$ ” is a small value in a  $\chi^2_5$  distribution. Furthermore, all the additional instrumental variables pass the over-identification test. As suggested by Evans and Schwab (1995), this approach is not the most appropriate test for the exogeneity of the instrumental variables in probit models but it is the best available diagnostic. In sum, our results from the bivariate probit models are valid and reliable.

## **5. The acquirers’ long term operating performance**

Our findings, so far, suggest that *US* advisors are preferred by *US* acquiring firms and their shareholders in cross-border M&As, especially when uncertainty is relatively high. The results are consistent with home preference hypothesis, which predicts that home advisors, even those who do not have extensive experience of doing business in the target countries, are preferred in overseas transactions over local advisors. Home



preference hypothesis, however, may suggest inefficiency. That is, the shareholders would have been better off if an experienced advisor is used instead of someone that is familiar being used. To answer the question whether the choice of *US* advisors is an optimal decision, we examine the acquiring firms' operating performance after the cross-border M&As.

Following Linn and Switzer (2001), we use firm's pre-tax cash flows as our measure of firm operating performance. It is defined as after-tax income before extraordinary items plus depreciation and amortization charges, net interest expense (interest expense - interest income) and total income taxes. The cash flow measure is scaled by the market value of assets at the beginning of the year, defined as the sum of the market value of equity, book value of preferred stock, book value of long-term debt and book value of current long-term debt. Both the pre- and post-merger operation cash flows are of the acquiring firm.<sup>10</sup> We use industry-adjusted measures. The industry-adjusted measure for each firm is calculated by subtracting the mean of the major SIC groupings from the raw operating performance measure in the corresponding year.

All of the post merger performance changes are calculated as following. First, we collect the financial information of the acquirers over the three years prior to the cross-border merger announcement date. We then collect the financial information of the combined firms three years after the cross-border merger announcement date. We scale both the pre-merger and post-merger financial ratios by subtracting off the industry average financial ratios in the same year. Lastly, we take the difference between the average of the industry adjusted pre-merger and post merger financial ratios.

Table 12 presented the industry adjusted operating performance changes of the acquirers. We show the results for the whole sample and for the sub samples sorted by the cross-border M&A experience of the acquirers. In general, acquirers using *US* advisors experience insignificant changes after the cross-border M&As, while those using *non-US* advisors experience significant and positive performance changes. The difference is not statistically significant for the whole sample.

When we split the sample according to the acquiring firms' experience, the results are significantly different in the group of acquirers with no recent cross-border M&A

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<sup>10</sup> Both the pre- and post-merger operation cash flows are calculated based on the information of the bidders. Due to the limitation of the information on the foreign targets, the target pre-merger performance is not included.

experience in the target country. Specifically, for this group of acquirers, the use of *US* advisors is related with negative performance change (-0.014), it is especially negative and significant (-0.017) in the group of transactions paid by cash. The use of *non-US* advisors, on the other hand, is related with positive and significant (0.037) performance change. The difference is significant at 5% level. That is, the acquiring firms would have experienced 5.1 percentage points more performance changes if they were using *non-US* financial advisors. The underperformance of *US* advisors is particularly driven by the deals helped by *non-exp. US* advisors, which is consistent with the home preference hypothesis. The fact that the difference is especially more significant among all-cash paid transactions is also consistent with our conjecture.

## 6. Robustness Tests

In this study, we include banks domiciled outside of United States as US banks if they have substantial business presence in US markets, such as Deutsche Bank AG or Rothschild, etc. Are our conclusions being influenced by the classification or definition of what is considered US banks? To get a better insight on this question, we conduct several robustness tests by re-estimating our models using alternative classifications of what is considered as US banks.

First, we change our definition of US banks by only including those US domiciled financial institutions. This geographic approach gives us 263 US bank assisted transactions and 113 non-US assisted transactions. As shown in column 1 and 2 of Table 13, our main results remain qualitatively same after the change of the bank classification. Specifically, acquiring firms, especially those without cross-border experience in target country, experience 1.960% (at 1% significance level) cumulative abnormal returns around the announcement if they use US banks, significantly higher than those with non-US banks who experience insignificant 0.215% . It is particularly driven by deals financed by 100 percent cash. Consistent with the home preference hypothesis, investors show preference to home advisors in deals with high transaction costs (e.g. non-experienced acquirer) and high uncertainty (e.g. all cash payment).

The long term results also support the home preference hypothesis under the new definition of US banks. Those non-experienced US acquirers experience significantly negative performance deterioration three years after the cross-border M&As when they

use US banks in the all-cash financed transactions. A similar pattern does not exist among those experienced acquirers and in stock financed transactions.

In columns 4 and 5 of table 13, we split the US banks further by separating out those transactions helped by both US banks and banks from the target country. The main results hold. The robustness tests show that our main results are not necessarily influenced by our alternative definitions of US banks.

## 7. Summary

There are limited researches on the choice and impact of financial advisors in M&As, and such studies are even sparser in cross-border M&As. Although the literature suggests rational reasons that determine the choice of advisors (Servaes & Zenner, (1996)), the recent studies show that the choice of financial advisors may not be an optimal decision (e.g. Hayward, (2003), Bao & Edmans, (2008), Francis, Hasan & Sun, (2007), among others). Through a sample of cross-border M&As, we suggest that the choice of financial advisors may not be a rational decision, and an explanation for such choices is the home preference hypothesis. That is, instead of choosing an advisor that may reduce M&A related transaction costs and information asymmetry costs most, acquiring firms pick the advisor closer to home.

Specifically, using a sample of 376 cross-border M&As conducted by US firms from 1990 to 2003, we find that home preference hypothesis explains the choice of financial advisors better than the rational hypothesis. It is particularly true if cash is the only payment method. We suggest that the investors have home preference too at the selection of the financial advisors. The average announcement returns is significantly higher for acquiring firms with US advisors in all-cash paid transactions, where acquiring firms take the entire risk of the possibility of not realizing the synergy value. We show the inefficiency indicated by the home preference hypothesis by examining the acquiring firms' post-merger performance changes. Those firms, particularly those with little cross-border M&A experience that used US advisors, would have experienced more positive performance changes if they had used non-US advisors. The home preference inefficiency is especially driven by those transactions that were helped by *non-exp. US* advisors who have little experience of doing business in target countries.

There are several implications from the results of the paper. First, while the integration of global product industries has increased tremendously, the financial service industries seem to be more segmented. All things being equal, in a perfectly integrated global service industry, we should not observe a significant difference in choosing between home advisors and target country's advisors. And we suggest that in such a segmented industry, the home preference at the selection of financial advisors has more of an important influence than local expertise in cross-border M&As.

Second, the results suggest the direction of the causality of observed positive correlation between banking industry's foreign activities and home client's foreign direct investments (Goldberg & Saunders, 1981; Goldberg & Johnson, 1990). The preference of home bonds to local knowledge expertise suggests that investment banks do not go abroad first. It is more likely that they follow their clients abroad.

Third, although the study is conducted under a cross-border scenario, the results shed light on the future studies of the role of financial advisors in general. The results show that as the choice of financial advisors may not be a rational decision. The possible explanation examined in our study indicates home preference of the acquirers and shareholders. The implications for domestic M&As, therefore, would be that if domestic financial markets are segmented too, home preference may be found in domestic M&As.

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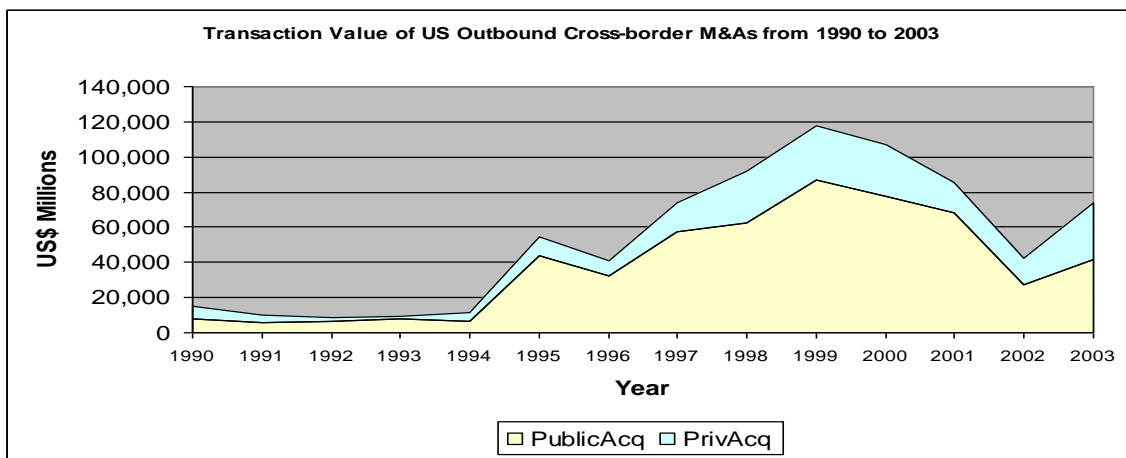
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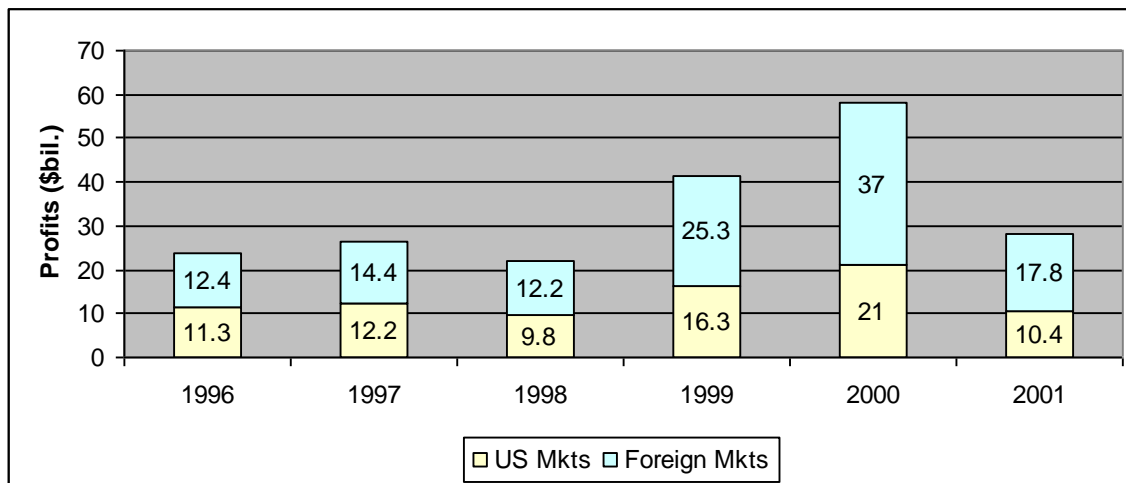
Figure 1 US Outbound Cross-Border Mergers and Acquisitions by Year

The Y axle denotes the estimation of the transaction value of cross-border M&As conducted by US firms in US million dollars. “PublicAcq” refers to those cross-border M&As conducted by public US acquirers while “PrivAcq” refers to those by private US acquirers.



Database: Own elaboration on SDC database.

Figure 2 The Investment Bank Industry’s Profits from Global Business



Database: Own elaboration on Securities Industry Association 2002 yearbook.





Table 1

The Classification of Acquirers' Financial Advisors According to the Domiciled Country and the Ranking in the M&A Markets

Panel A. The list of advisors who are domiciled in foreign countries but actively doing business in the US Capital Markets

Acquirers' Advisors	Domiciled Country
Deutsche Bank AG	Germany
ING Barings	Netherlands
Lazard Houses	France
Rothschild Bank AG	France
Swiss Bank Corporation	Switzerland
Union Bank of Switzerland	Switzerland
ABN AMRO	Netherlands

Panel B. The list of advisors who are actively doing business in target countries' M&A markets

Acquirers' Advisors	Target Country	Domiciled or Actively Doing Business in US
ABN AMRO	Switzerland	1
Banc of America Securities	Canada, United Kingdom	1
Bear Stearns & Co Inc	Brazil, Italy, United Kingdom	1
Citigroup	Germany, France	1
Credit Suisse First Boston	Germany, Israel, Brazil, New Zealand, Poland, Switzerland, Thailand, United Kingdom, Canada, Chile, Czech Republic, Peru, Spain, Finland, France, Netherlands	1
Deloitte & Touché	United Kingdom	1
Deutsche Bank AG	United Kingdom, Canada, France	1
Ernst & Young LLP	Netherlands, United Kingdom, Germany	1
First Boston Corp	United Kingdom	1
Goldman Sachs & Co	Canada, China, Denmark, Finland, France, Germany, Japan, Netherlands, Norway, United Kingdom	1
Houlihan Lokey Howard & Zukin	United Kingdom	1
ING Barings	Netherlands, Poland, Sweden	1
Jefferies & Co Inc	United Kingdom	1
Jefferson Capital Group	Canada	1
JP Morgan	Canada, China, Germany, Italy, Sweden, United Kingdom, France, Mexico	1
Lazard Houses	Germany, United Kingdom, France	1
Lehman Brothers	Brazil, Canada, China, France, Germany, Japan, Netherlands, Norway, United Kingdom, China Taiwan	1
Merrill Lynch & Co Inc	Canada, India, Chile, Mexico, Netherlands, Sweden, United Kingdom	1
Morgan Stanley & Co	Brazil, Canada, France, Germany, Ireland, Israel, Japan, Singapore, South Korea, Sweden, Switzerland, United Kingdom	1

NationsBank	Canada	1
PricewaterhouseCoopers	France, India, Indonesia, United Kingdom, Canada	1
Prudential Securities Inc	United Kingdom	1
Raymond James & Associates	Canada	1
Robert W Baird & Co Inc	Germany, Netherlands, United Kingdom	1
Salomon Brothers	Canada	1
SunTrust Robinson Humphrey	Canada	1
Thomas Weisel Partners LLC	United Kingdom	1
UBS Warburg	United Kingdom, France, Germany	1
William Blair & Co	France, United Kingdom	1
BNP Paribas SA	Brazil	0
Cazenove & Co	United Kingdom	0
CIBC World Markets Inc	Canada, Israel	0
Close Brothers Ltd	United Kingdom	0
Credit Commercial de France	France	0
D Carnegie AB	Denmark	0
Den Norske Bank ASA	Norway	0
Dresdner Kleinwort Wasserstein	Canada	0
Enskilda	Sweden	0
GBS Finanzas SA	Spain	0
Goepel Shields	Canada	0
KPMG Corporate Finance	Germany, United Kingdom, Australia, France	0
Rothschild Group	Brazil, France, Spain	0
Schroders	United Kingdom	0
Seymour Pierce Ltd	United Kingdom	0
Societe Generale	Canada	0
TD Securities Inc	Canada	0
Thomson Kernaghan	Canada	0

Table 2

Hypotheses of theories predicting the choice of financial advisors in cross-border M&As:

Rational hypothesis vs. Home preference hypothesis

	Rational Hypothesis		Home Preference Hypothesis	
	Experienced: <i>(US_Toplocal and Other_Toplocal)</i>	Non-Experienced: <i>(Non-exp. US and Pure Local)</i>	US: <i>(US_Toplocal and Non-exp. US)</i>	Non-US: <i>(Other_Toplocal and Pure Local)</i>
Allcash		✓	✓	
Related		✓		✓
Transaction Value	✓		✓	
Acquirers' experience	✓		✓	
Target countries with high information asymmetry	✓		✓	

Table 3

## Distributions of Target Countries by the Choice of Financial Advisors

US refers to the advisors who are either domiciled in US or actively doing business in US M&A markets and *Non-US* refers to the rest of the advisors. *US\_Toplocal* refers to US advisors that rank top 25 in target countries' M&As markets; *Non-exp. US* refers to US advisors who do not rank top in target countries' M&A markets; *Other\_Toplocal* refers to other top 25 in target countries except for US advisors; *Pure Local* refers to those advisors who are domiciled in target countries but not ranking top; Sub. Total denotes for the total number of targets acquired by US acquirers in particular country during the sample period of 1994 to 1999.

Country	US	Non-US	US Advisors		Non-US Advisors		Sub.	Perc.
			<i>US_Toplocal</i>	<i>Non-exp. US</i>	<i>Other_Toplocal</i>	<i>Pure Local</i>		
UK	94	20	68	26	12	8	114	30.32%
Canada	46	12	28	18	8	4	58	15.43%
Germany	32	7	16	16	1	6	39	10.37%
France	22	14	13	9	7	7	36	9.57%
Netherlands	14	2	7	7	0	2	16	4.26%
Australia	9	3	1	8	1	2	12	3.19%
Sweden	8	1	4	4	1	0	9	2.39%
Brazil	6	2	2	4	2	0	8	2.13%
Israel	6	2	2	4	1	1	8	2.13%
Switzerland	5	2	2	3	1	1	7	1.86%
Denmark	4	2	1	3	1	1	6	1.60%
Italy	5	1	2	3	0	1	6	1.60%
Finland	4	1	3	1	0	1	5	1.33%
Norway	3	2	3	0	1	1	5	1.33%
Spain	2	3	1	1	2	1	5	1.33%
New Zealand	4	0	2	2	0	0	4	1.06%
South Africa	3	1	0	3	0	1	4	1.06%
Chile	3	0	2	1	0	0	3	0.80%
Mexico	3	0	2	1	0	0	3	0.80%
Poland	3	0	2	1	0	0	3	0.80%
Argentina	2	0	0	2	0	0	2	0.53%
Belgium	2	0	0	2	0	0	2	0.53%
Ireland-Rep	2	0	1	1	0	0	2	0.53%
Peru	2	0	1	1	0	0	2	0.53%
Taiwan	2	0	1	1	0	0	2	0.53%
Austria	1	0	0	1	0	0	1	0.27%
Belize	1	0	0	1	0	0	1	0.27%
Bermuda	1	0	0	1	0	0	1	0.27%
China	1	0	1	0	0	0	1	0.27%
Czech	1	0	1	0	0	0	1	0.27%
Hong Kong	1	0	0	1	0	0	1	0.27%
Hungary	1	0	0	1	0	0	1	0.27%
India	1	0	1	0	0	0	1	0.27%
Indonesia	1	0	1	0	0	0	1	0.27%
Japan	1	0	1	0	0	0	1	0.27%
Malaysia	1	0	0	1	0	0	1	0.27%
Puerto Rico	1	0	0	1	0	0	1	0.27%
Singapore	1	0	1	0	0	0	1	0.27%
South Korea	1	0	1	0	0	0	1	0.27%
Thailand	1	0	1	0	0	0	1	0.27%
Total	301	75	172	129	38	37	376	100.00%

Table 4

## Characteristics of Deals and Merging Firms: Sorted by the Choice of Financial Advisors

This table presents the summary characteristics of the sample cross-border M&As, sorted by the payment method and the choice of financial advisors. *Allcash* refers to transactions that are paid 100 percent in cash; *Stock* refers to transactions that are paid in all stock or a combination of stock and cash; *US* refers to the advisors who are either domiciled in US or actively doing business in US M&A markets and non-US refers to the rest of the advisors; *Transaction Value* is the average size of transactions in million US dollars; *Related* is one if the acquiring firms and targets have same prior three SIC digits; *Tender* is one if the tender offer flag from SDC database is “Yes”; *Public Tgts* is one if foreign targets listed in local security markets; *Acq.’s Mkt Value* refers to the market capitalization of acquiring firms 4 weeks before the announcement date; *First* is a dummy variable and it is one if acquiring firms have not yet conducted any M&As in the target countries in the previous 5 years; *Developing* is one if target countries are categorized as low income countries according to IMF; the following variables of *Corruption*, *Unstable*, and *Gvt. Ineff.* are collected from Kaufman et al. (1999) and we transform the original numbers by subtracting them from 2.5. Therefore, higher the numbers we have for those measurements in the study, lower quality the corporate governance the target country has. Specifically, *Corruption* measures the success of controlling the exercise of public power for private gains; *Unstable* measures the stability of the government; and *Gvt. Ineff.* refer to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government’s commitment to policies. *Creditor Risk* and *Shareholder Protec.* are collected from Lo Porta et al. (1999). *CashShelter* is one if the target country requires that acquiring firms give target shareholders the election of cash payment.

	<i>Allcash</i>				<i>Stock</i>				
	All (1)	<i>US</i> (2)	<i>Non-US</i> (3)	Diff.(2)-(3) (4)	All (5)	<i>US</i> (6)	<i>Non-US</i> (7)	Diff. (6)-(7) (8)	Diff.(1)-(5) (9)
Obs.	253	193	60		123	108	15		
Transaction Value (\$mil.)	339	366	254	112 *	334	336	320	16	5
Related	0.455	0.446	0.483	-0.038	0.496	0.509	0.400	0.109	-0.041
Tender	0.213	0.192	0.283	-0.092*	0.228	0.231	0.200	0.031	-0.014
Public Tgts	0.281	0.259	0.350	-0.091*	0.325	0.324	0.333	-0.009	-0.045
Acq.’s Mkt Value (\$mil.)	10,156	12,167	3,686	8,481***	5,901	6,511	1,510	5,001	4,255
First	0.727	0.741	0.683	0.058*	0.780	0.787	0.733	0.054	-0.053
Developing	0.107	0.124	0.050	0.074**	0.057	0.065	0.000	0.065	0.050**
Corruption	0.956	0.979	0.886	0.093*	0.877	0.868	0.936	-0.068	0.080*
Unstable	1.515	1.520	1.502	0.018	1.485	0.324	0.333	-0.009	0.030
CreditorRisk	1.577	1.482	1.883	-0.401***	1.829	1.843	1.733	0.109	-0.252*
Gvt. Ineff.	0.981	0.991	0.948	0.043	0.965	0.969	0.933	0.036	0.016
Sharehldr.	2.352	2.389	2.233	0.155*	2.138	2.176	1.867	0.309*	0.214***
CashShelter	0.043	0.052	0.017	0.035*	0.024	0.028	0.000	0.028	0.019*

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 5  
Summary of Announcement Effects

This table presents the summary of 376 acquiring firms' announcement effects. The event study is conducted by using the standard estimation. Specifically, the estimation window is from (-300, -46) while the event window is from (-10, 10). To be included in the event study, the observations must have at least 100 days stock information available 46 days prior to the announcement. Patell Z statistics and the generalized sign Z test are reported. Panel A. reports the daily average abnormal returns for 376 acquiring firms. Panel B. reports the average cumulative abnormal returns for various event windows. Results of the event window (-1, 1) are used in later regression analysis.

Panel A. Mean Abnormal Return from the time period  $t = (-10, 10)$

Day	N	Mean Abnormal Return	Patell Z	Generalized Sign Z
-10	376	-0.02%	-0.046	0.207
-9	376	-0.06%	0.061	0.000
-8	376	0.14%	0.335	-0.723
-7	376	-0.35%	-1.617*	-1.446*
-6	376	0.15%	0.477	-0.930
-5	376	-0.14%	-1.001	-0.930
-4	376	-0.22%	-1.635*	-2.272*
-3	376	-0.32%	-1.809**	-0.310
-2	376	0.12%	0.443	2.479**
-1	376	-0.08%	-0.236	0.310
0	376	1.05%	4.865***	3.305***
1	376	0.39%	3.198***	1.549*
2	376	-0.18%	-0.928	-1.240
3	376	0.25%	1.927**	1.446*
4	376	0.14%	1.212	1.756**
5	376	0.23%	1.525*	1.136
6	376	-0.31%	-1.325*	-0.620
7	376	0.10%	0.118	0.826
8	376	-0.01%	-0.399	-0.930
9	376	0.27%	1.351*	2.066**
10	376	0.11%	0.564	1.963**

Panel B. Cumulative Abnormal Return for different event windows

Windows	N	Mean Cumulative Abnormal Return	Patell Z	Generalized Sign Z
(-10, -2)	376	-0.58%	-1.598*	-0.413
(-1, 0)	376	0.98%	3.273***	2.479**
(0, +1)	376	1.45%	5.701***	4.235***
(-1, +1)	376	1.37%	4.519***	4.028***
(+2, +10)	376	0.59%	1.348*	1.136
(-10, +10)	376	1.38%	1.545*	2.995***

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 6

## Announcement Effects of US Acquirers: Sorted by the Choice of Financial Advisors

This table shows event study results for 376 US acquiring firms by the types of financial advisors. The estimation window is from (-300, -46) while the event window is from (-10, 10). To be included in the event study, the observations must have at least 255 days stock information available 46 days prior to the announcement. *US* refers to the advisors who are either domiciled in US or actively doing business in US M&A markets and *Non-US* refers to the rest of the advisors. *US\_Toplocal* refers to US advisors that rank top 25 in target countries' M&As markets; *Non-exp. US* refers to US advisors who do not rank top in target countries' M&A markets; *Other\_Toplocal* refers to other top 25 in target countries except for US advisors; *Pure Local* refers to those advisors who are domiciled in target countries but not ranking top;; *Allcash* refers to those transactions are paid all in cash; *Stock* refers to transactions that are paid in stocks or a combination of stocks and cash.

		All	US	Non-US	US			Non-US			Difference of Means					
					Diff.	US_	Non-exp.	Diff.	Non-US_	Pure	Diff.					
		(1)	(2)	(3)	(2)-(3)	Toplocal	US	(5)-(6)	Toplocal	Local	(8)-(9)	(5)-(8)	(6)-(8)	(5)-(9)	(6)-(9)	
		(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
Obs.	All	376	301	75	n.a	172	129	n.a	38	37	n.a	n.a	n.a	n.a	n.a	
	Allcash	253	193	60	n.a	114	79	n.a	31	29	n.a	n.a	n.a	n.a	n.a	
	Stock	123	108	15	n.a	58	50	n.a	7	8	n.a	n.a	n.a	n.a	n.a	
All Acquirers																
	All	1.066	1.482	-0.601	2.082**	1.872	0.961	0.911	-0.359	-0.849	0.491	2.231**	1.320	1.023**	1.766	
(i)	Allcash	0.869	1.503	-1.170	2.674***	1.485	1.530	-0.044	-1.116	-1.229	0.113	2.601**	2.646***	2.714**	2.759***	
(ii)	Stock	1.472	1.443	1.680	-0.237	2.633	0.062	2.570*	2.997	0.527	2.469*	-0.363	-2.934	2.175	-0.465	
	Diff. (i) -(ii)	-0.603	0.060	-2.851**		-1.148	1.468		-4.113**	-1.757						
Acquirers with no experience																
	All	1.455***	1.993***	-0.900	2.893***	2.396***	1.520***	0.876	-0.751	-1.061	0.310	3.147**	2.271*	3.457**	2.581*	
(iii)	Allcash	1.180***	1.997***	-1.669**	3.667***	1.865***	2.159***	-0.294	-1.775	-1.547	-0.228	3.640***	3.934***	3.412**	3.706***	
(iv)	Stock	1.984***	1.986***	1.969***	0.017	3.348***	0.523	2.825*	3.758***	0.478	3.280*	-0.410	-3.235	2.870	0.045	
	Diff. (iii) -(iv)	-0.804	0.011	-3.638*		-1.483	1.636		-5.533**	-2.025						
Acquirers with experience																
	All	-0.001	-0.001	0.001	-0.002	0.558	-1.486***	2.044*	0.604	-0.409	1.013	-0.046	-2.090*	0.967	-1.077	
(v)	Allcash	0.041	0.093	-0.095	0.188	0.627	-1.154**	1.781	0.495	-0.626	1.121	0.132	-1.649	1.253	-0.528	
(vi)	Stock	-0.348	-0.563	0.885	-1.448	0.386	-2.037	2.423	1.094***	0.676	0.417	-0.708	-3.131	-0.291	-2.714	
	Diff. (v) -(vi)	0.389	0.656	-0.980		0.241	0.883		-0.599	-1.302						

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively



Table 7

## Acquirers' Announcement Effects: The Home Preference vs. the Local Experience

The dependent variable for models in this table is the cumulative abnormal returns for acquiring firms around period  $t = (-1, 1)$ . Models (1) to (5) include paid in all-cash and models (6) to (10) include transactions paid in stock or a combination of cash and stock. *Allcash* refers to those transactions are paid all in cash; *Stock* refers to transactions that are paid in stocks or a combination of stocks and cash; *Top Local*, including *US\_Toplocal* and *Other\_Toplocal*, refers to those advisors who rank top 25 in target country or actively doing business in target countries' M&A markets; *First* is a dummy variable and it is one if it is the first time in 5 years that the US acquirers conduct a cross-border M&A in the target country; the following variables of *Corruption*, *Unstable*, and *Gvt. Ineff.* are collected from Kaufman et al. (1999) and we transform the original numbers by subtracting them from 2.5. Therefore, higher the numbers we have for those measurements in the study, lower quality the corporate governance the target country has. Specifically, *Corruption* measures the success of controlling the exercise of public power for private gains; *Unstable* measures the stability of the government; and *Gvt. Ineff.* refer to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies; *LnAcqMkt* is the nature logarithm of acquiring firms market capitalization; *Public Tgt* is one if foreign targets are public ones; *Sharehldr.* ranges from 1 to 3, higher number refers to higher shareholder protection in target countries; *Acq. 's Q* refers to a proxy for Tobin's Q ratio of acquiring firms, which is calculated according to Pruitt and Chung (1994). The reported p-values in the parenthesis reflect White's heteroscedasticity correction.

	All-cash Bid					Stock				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Constant	0.107** (0.021)	0.109** (0.017)	0.107** (0.017)	0.111** (0.017)	0.108** (0.107)	0.151* (0.077)	0.181** (0.032)	0.194** (0.023)	0.230** (0.021)	0.186** (0.027)
<i>US</i>	0.032*** (0.002)					0.005 (0.677)				
<i>US_Toplocal</i>		0.035** (0.038)	0.035** (0.038)	0.034** (0.036)	0.035** (0.039)		0.038** (0.035)	0.037** (0.045)	0.043** (0.014)	0.038** (0.033)
<i>Non-exp. US</i>		0.029* (0.067)	0.032** (0.050)	0.032* (0.051)	0.032** (0.051)		0.008 (0.682)	0.004 (0.841)	0.008 (0.643)	0.006 (0.756)
<i>Other_Toplocal</i>		0.001 (0.961)	0.001 (0.950)	0.002 (0.812)	0.001 (0.936)		0.038** (0.033)	0.035** (0.054)	0.038** (0.029)	0.035** (0.048)
<i>First</i>	0.001 (0.909)	0.001 (0.885)	0.002 (0.846)	0.002 (0.812)	0.002 (0.852)	0.014 (0.395)	0.016 (0.323)	0.015 (0.326)	0.014 (0.350)	0.015 (0.344)
<i>LnAcqMkt</i>	-0.006*** (0.003)	-0.007*** (0.004)	-0.007*** (0.003)	-0.006*** (0.002)	-0.007*** (0.003)	-0.007 (0.109)	-0.009** (0.037)	-0.008** (0.047)	-0.010** (0.020)	-0.009** (0.032)
<i>PublicTgt</i>	0.062*** (0.003)	0.062*** (0.003)	0.062*** (0.004)	0.063*** (0.003)	0.063*** (0.003)	0.084** (0.031)	0.070* (0.092)	0.053 (0.244)	0.060 (0.156)	0.063 (0.128)
<i>Sharehldr.</i>	0.004 (0.504)	0.004 (0.526)	0.004 (0.414)	0.003 (0.576)	0.005 (0.407)	-0.008 (0.589)	-0.013 (0.403)	-0.015 (0.347)	-0.018 (0.242)	-0.014 (0.377)
<i>PublicTgt.*Sharehldr.</i>	-0.021** (0.018)	-0.021** (0.019)	-0.022** (0.015)	-0.022** (0.014)	-0.022** (0.012)	-0.032* (0.075)	0.025 (0.194)	-0.020 (0.334)	-0.018 (0.359)	-0.023 (0.237)
<i>Acq. Tobin'sq</i>	-0.001 (0.909)	-0.001 (0.906)	-0.001 (0.922)	-0.001 (0.931)	-0.001 (0.909)	0.002 (0.768)	0.003 (0.713)	0.003 (0.696)	0.003 (0.676)	0.003 (0.693)
<i>Corruption</i>	0.001 (0.819)	0.002 (0.766)				-0.003 (0.838)	-0.006 (0.652)			
<i>Unstable</i>			0.003 (0.686)					-0.015 (0.246)		
<i>Creditor Risk</i>				-0.001 (0.820)					-0.009 (0.232)	
<i>Gvt. Ineff.</i>					0.002 (0.801)					-0.006 (0.610)
Obs.	253	253	253	253	253	123	123	123	123	123
Adjusted R <sup>2</sup>	0.081	0.082	0.087	0.086	0.086	0.057	0.082	0.088	0.096	0.083
Prob.>F	0.003	0.005	0.003	0.002	0.003	0.027	0.010	0.012	0.018	0.014

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 8

## Acquirers' Announcement Effects: The Incremental Value of US Advisors Certification Role

The dependent variable for models in this table is the cumulative abnormal returns for acquiring firms around period  $t = (-1, 1)$ . *Allcash* is one if the transaction is paid in 100 percent cash; *Stock* refers to transactions that are paid in all stock or a combination of stock and cash; *US* refers to those advisors who are either domiciled in US or actively doing business in US market; *First* is a dummy variable and it is one if it is the first time in 5 years that the US acquirers conduct a cross-border M&A in the target country; the following variables of *Corruption*, *Unstable*, and *Gvt. Ineff.* are collected from Kaufman et al. (1999) and we transform the original numbers by subtracting them from 2.5. Therefore, higher the numbers we have for those measurements in the study, lower quality the corporate governance the target country has. Specifically, *Corruption* measures the success of controlling the exercise of public power for private gains; *Unstable* measures the stability of the government; and *Gvt. Ineff.* refer to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies; *LnAcqMkt* is the natural logarithm of acquiring firms market capitalization; *PublicTgt* is one if foreign targets are public ones; *Sharehldr.* ranges from 1 to 3, higher number refers to higher shareholder protection in target countries; *Acq. Q* refers to a proxy for Tobin's Q ratio of acquiring firms, which is calculated according to Pruitt and Chung (1994). The reported p-values in the parenthesis reflect White's heteroscedasticity correction.

	Allcash						Stock				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Constant	0.113*** (0.005)	0.207*** (0.001)	0.132*** (0.006)	0.131*** (0.005)	0.124*** (0.009)	0.128*** (0.007)	0.161* (0.053)	0.131 (0.126)	0.157* (0.055)	0.197** (0.034)	0.147* (0.089)
<i>US</i>	0.033*** (0.001)	0.008 (0.517)	0.024** (0.034)	0.021* (0.075)	0.022** (0.031)	0.024** (0.034)	0.006 (0.655)	0.025 (0.328)	0.010 (0.587)	0.003 (0.860)	0.010 (0.583)
<i>US*First*Distance</i>		0.005** (0.027)									
<i>US*First*Corruption</i>			0.013** (0.050)					-0.026 (0.342)			
<i>US*First*Unstable</i>				0.011* (0.075)					-0.005 (0.692)		
<i>US*First*CreditorRisk</i>					0.008* (0.078)					0.003 (0.771)	
<i>US*First*Gvt. Ineff.</i>						0.012** (0.050)					-0.007 (0.714)
<i>First</i>		-0.026* (0.092)	-0.008 (0.445)	-0.011 (0.321)	-0.005 (0.621)	-0.006 (0.543)		0.029 (0.217)	0.019 (0.339)	0.008 (0.735)	0.018 (0.428)
<i>Distance</i>		-0.009* (0.100)									
<i>Corruption</i>			-0.011 (0.313)					0.023 (0.483)			
<i>Unstable</i>				-0.005 (0.601)					-0.008 (0.595)		
<i>Creditor Risk</i>					-0.005 (0.189)					-0.009* (0.100)	
<i>Gvt. Ineff.</i>						-0.009 (0.324)					0.002 (0.922)
<i>LnAcqMkt</i>	-0.007*** (0.001)	-0.006*** (0.002)	-0.007*** (0.003)	-0.007*** (0.002)	-0.006*** (0.002)	-0.007*** (0.002)	-0.007* (0.096)	-0.008* (0.101)	-0.006 (0.149)	-0.008* (0.069)	-0.007 (0.107)
<i>PublicTgt</i>	0.064*** (0.002)	0.062*** (0.005)	0.061*** (0.003)	0.062*** (0.003)	0.061*** (0.004)	0.064*** (0.003)	0.079** (0.030)	0.088** (0.026)	0.070* (0.100)	0.074* (0.059)	0.077** (0.049)
<i>Sharehldr.</i>	0.004 (0.424)	0.002 (0.660)	0.003 (0.616)	0.004 (0.396)	0.004 (0.536)	0.004 (0.472)	-0.008 (0.521)	-0.007 (0.655)	-0.010 (0.514)	-0.012 (0.404)	-0.008 (0.577)
<i>PublicTgt.*Sharehldr.</i>	-0.022*** (0.009)	-0.021** (0.019)	-0.021** (0.018)	-0.022** (0.014)	-0.021** (0.018)	-0.023** (0.010)	-0.032* (0.077)	-0.033* (0.071)	-0.028 (0.148)	-0.027 (0.139)	-0.030* (0.097)

<i>Acq. 's Q</i>	-0.001 (0.957)	-0.001 (0.872)	0.001 (0.866)	-0.001 (0.971)	0.001 (0.985)	-0.001 (0.957)	0.003 (0.671)	0.002 (0.755)	0.002 (0.782)	0.002 (0.781)	0.002 (0.763)
Obs.	253	253	253	253	253	253	123	123	123	123	123
Adjusted R <sup>2</sup>	0.086	0.106	0.088	0.093	0.096	0.093	0.053	0.059	0.060	0.064	0.056
Prob.>F	0.006	0.000	0.002	0.001	0.000	0.001	0.014	0.029	0.060	0.040	0.042

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

**Table 9**  
**Probit Analysis of the Choice of US Advisors vs. non-US Advisors**

This table presents estimation results by using probit models. The dependent variable is the dummy variable: *US advisors*. US advisors refer to those advisors who are either domiciled in US or actively doing business in the US markets; *Allcash* is one if the transaction is paid in 100 percent cash; *LnSize* is the natural logarithm of the size of the transaction value; *Developed* is one if target countries are categorized as high income countries according to IMF; *Related* is one if the acquiring firms and targets have same prior three SIC digits; *Tender* is one if the tender offer flag from SDC database is "Yes"; *Public Tgt* is one if foreign targets listed in local security markets; *First* is a dummy variable and it is one if acquiring firms have not yet conducted any M&As in the target countries in the previous 5 years; *Developing* is one if target countries are categorized as low income countries according to IMF; the following variables of *Corruption*, *Unstable*, and *Gvt. Ineff.* are collected from Kaufman et al. (1999) and we transform the original numbers by subtracting them from 2.5. Therefore, higher the numbers we have for those measurements in the study, lower quality the corporate governance the target country has. Specifically, *Corruption* measures the success of controlling the exercise of public power for private gains; *Unstable* measures the stability of the government; and *Gvt. Ineff.* refer to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. *Creditor Risk* is collected from Lo Porta et al. (1999). Marginal effects are reported in the bracket.

	(1)	(2)	(3)	(4)	(5)
Constant	-3.591*** (0.006)	-4.161*** (0.001)	-4.087*** (0.001)	-3.956*** (0.002)	-4.132*** (0.001)
<i>Allcash</i>	-0.475*** (0.007)	-0.451** (0.011)	-0.436** (0.013)	-0.448** (0.012)	-0.438** (0.012)
<i>LnSize</i>	0.285*** (0.000)	0.274*** (0.000)	0.274*** (0.004)	0.275*** (0.000)	0.275*** (0.000)
<i>Related</i>	0.002 (0.990)	0.011 (0.943)	0.012 (0.940)	0.004 (0.981)	0.009 (0.951)
<i>Tender</i>	-0.348* (0.063)	-0.324* (0.082)	-0.363* (0.052)	-0.373** (0.047)	-0.352* (0.059)
<i>First</i>	0.273 (0.135)	0.287 (0.117)	0.317* (0.082)	0.341* (0.063)	0.308* (0.096)
<i>Developing</i>	0.683** (0.034)				
<i>Corruption</i>		0.094 (0.449)			
<i>Unstable</i>			0.003 (0.984)		
<i>Creditor Risk</i>				-0.081 (0.128)	
<i>Gvnt. Ineffi.</i>					0.049 (0.705)
Obs.	376	376	376	376	376
Pseudo R <sup>2</sup>	0.085	0.072	0.072	0.078	0.072
Chi <sup>2</sup>	29.10	24.63	24.41	25.45	24.79

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 10

Maximum Likelihood Estimates of Bivariate Probit Model:  
US Advisors vs. non-US Advisors

This table presents estimation results by using bivariate probit models. Panel A. reports the estimation results for the choice of US advisors. The dependent variable is the dummy variable: US advisors. US advisors refer to those advisors who are either domiciled in US or actively doing business in the US markets; *Allcash* is one if the transaction is paid in 100 percent cash; *LnSize* is the nature logarithm of the size of the transaction value; "Related" is one if the acquiring firms and targets have same prior three SIC digits; *Tender* is one if the tender offer flag from SDC database is "Yes"; *First* is a dummy variable and it is one if acquiring firms have not yet conducted any M&As in the target countries in the previous 5 years; *Developing* is one if target countries are categorized as low income countries according to IMF; the following variables *Corruption*, *Unstable*, and *Gvt. Ineff.* are collected from Kaufman et al. (1999) and we transform the original numbers by subtracting them from 2.5. Therefore, higher the numbers we have for those measurements in the study, lower quality the corporate governance the target country has. Specifically, *Corruption* measures the success of controlling the exercise of public power for private gains; *Unstable* measures the stability of the government; and *Gvt. Ineff.* refer to the measures of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies. *Creditor Risk* and *Sharehldr.* are collected from Lo Porta et al. (1999). Panel B. reports the estimation results for the choice of *Allcash* payment. The additional variables used to estimate the payment method are as following. *CashShelter* is one if the target country requires that acquiring firms give target shareholders the election of cash payment. *LineofCredit* is retrieved from SDC and it is one if the source of the fund for the transaction comes from the acquiring firm's line of credit; *BridgeLoan* is retrieved from SDC and it is one if the source of the fund for the transactions comes from bridge loans; "Same Lender" is a dummy variable and it is one if the current financial advisors are also lender of the acquiring firms. Marginal effects for US=1 and Allcash=1 are reported in the bracket.  $\rho$  is the correlation between the error terms of the two Probit models and the p-values for  $\rho$  are reported.

Panel A. Estimation Results for the Choice of US Advisors

	(1)	(2)	(3)	(4)	(5)
Constant	-4.747*** (0.000)	-4.777*** (0.000)	-4.802*** (0.000)	-4.738*** (0.000)	-4.782*** (0.000)
<i>Allcash</i>	1.107*** (0.000) [0.355]	0.967*** (0.000) [0.332]	1.048*** (0.000) [0.289]	0.934*** (0.000) [0.289]	1.096*** (0.000) [0.350]
<i>LnSize</i>	0.238*** (0.000) [0.056]	0.246*** (0.000) [0.058]	0.244*** (0.000) [0.057]	0.249*** (0.000) [0.057]	0.240*** (0.000) [0.056]
<i>Related</i>	0.079 (0.563) [-0.003]	0.086 (0.544) [-0.006]	0.073 (0.599) [-0.010]	0.063 (0.656) [-0.010]	0.080 (0.564) [-0.004]
<i>Tender</i>	-0.276 (0.115) [-0.127]	-0.274 (0.121) [-0.112]	-0.283 (0.110) [-0.128]	-0.298* (0.094) [-0.128]	-0.275 (0.119) [-0.119]
<i>First</i>	0.350** (0.027) [0.054]	0.340** (0.037) [0.059]	0.349** (0.030) [0.066]	0.358** (0.029) [0.066]	0.352** (0.027) [0.0]
Obs.	376	376	376	376	376
Log Likelihood	-394.768	-389.179	-398.052	-390.381	-396.380
Chi2	89.02	73.38	68.25	60.74	82.74
Prob. > Chi2	0.000	0.000	0.000	0.000	0.000
$\rho$	-0.869*** (0.000)	-0.809*** (0.000)	-0.833*** (0.001)	-0.797*** (0.003)	-0.860*** (0.000)

Panel B. Estimation results for the choice of payment method

	(1)	(2)	(3)	(4)	(5)
Constant	0.836 (0.465)	0.224 (0.849)	0.701 (0.547)	1.153 (0.306)	0.508 (0.663)
<i>LnSize</i>	-0.052 (0.361)	-0.046 (0.426)	-0.053 (0.352)	-0.056 (0.326)	-0.054 (0.345)
<i>Related</i>	-0.078 (0.563)	-0.101 (0.463)	-0.081 (0.554)	-0.082 (0.552)	-0.083 (0.545)
<i>Tender</i>	-0.109 (0.546)	-0.088 (0.618)	-0.103 (0.562)	-0.087 (0.624)	-0.093 (0.606)
<i>First</i>	-0.181 (0.278)	-0.166 (0.324)	-0.159 (0.344)	-0.156 (0.352)	-0.170 (0.310)
<i>Sharehldr.</i>	0.305*** (0.000)	0.376*** (0.000)	0.282*** (0.000)	0.231*** (0.004)	0.357*** (0.000)
<i>LineofCredit</i>	-0.328* (0.096)	-0.348* (0.099)	-0.315 (0.121)	-0.315 (0.129)	-0.330* (0.094)
<i>BridgeLoan</i>	0.846* (0.096)	0.850 (0.099)	0.823 (0.121)	0.847* (0.129)	0.895* (0.094)

	(0.083)	(0.146)	(0.112)	(0.090)	(0.090)
	0.530**	0.527*	0.542**	0.552**	0.558**
<i>SameLender</i>	(0.047)	(0.061)	(0.049)	(0.046)	(0.038)
	0.619*	0.743**	0.644*	0.576*	0.590*
<i>CashShelter</i>	(0.057)	(0.033)	(0.055)	(0.084)	(0.071)
	0.699***				
<i>Developing</i>	(0.000)				
		0.406***			
<i>Corruption</i>		(0.004)			
			0.157		
<i>Unstable</i>			(0.176)		
				-0.036	
<i>Creditor Risk</i>				(0.439)	
					0.299***
<i>Gvt. Ineff.</i>					(0.010)

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 11

## Overidentifying Restriction Tests

The dependent variable is the estimated residual from 2SLS models. The first stage of the 2SLS model is a linear probit model and it is defined as following:  $Allcash = \alpha + \beta_1 LnSize + \beta_2 Related + \beta_3 Tender + \beta_4 First + \beta_5 Sharehldr. + \beta_6 LineofCredit + \beta_7 Bridgeloan + \beta_8 SameLender + \beta_9 CashShelter + \beta_{10}$  (Institutional Factors) +  $\varepsilon$ . The second stage of the 2SLS is defined as:  $US = \alpha + \beta_1 LnSize + \beta_2 Related + \beta_3 Tender + \beta_4 First + v$ .  $nR^2$  and the 1% Critical value in the  $\chi^2_q$  are reported at the bottom of each model. In the model,  $q = (6-1) = 5$ . If  $nR^2$  exceeds (say) the 1% critical value in the  $\chi^2_q$  distribution, we reject  $H_0$  and conclude that at least some of the instruments are not exogenous.

	(1)	(2)	(3)	(4)	(5)
Constant	-0.032 (0.942)	0.007 (0.987)	-0.024 (0.954)	-0.018 (0.966)	-0.035 (0.938)
<i>LnSize</i>	-0.0004 (0.986)	-0.002 (0.933)	-0.001 (0.971)	-0.001 (0.971)	-0.001 (0.974)
<i>Related</i>	-0.004 (0.940)	-0.004 (0.945)	-0.009 (0.899)	0.004 (0.941)	0.004 (0.940)
<i>Tender</i>	-0.009 (0.908)	-0.011 (0.874)	-0.002 (0.971)	-0.008 (0.910)	-0.009 (0.901)
<i>First</i>	-0.006 (0.935)	-0.003 (0.969)	-0.002 (0.971)	-0.003 (0.962)	-0.004 (0.957)
<i>Sharehldr.</i>	0.013 (0.722)	0.014 (0.723)	0.015 (0.706)	0.012 (0.759)	0.016 (0.706)
<i>LineofCredit</i>	0.090 (0.312)	0.080 (0.364)	0.079 (0.347)	0.084 (0.329)	0.084 (0.330)
<i>BridgeLoan</i>	-0.196* (0.060)	-0.180* (0.085)	-0.179* (0.062)	-0.185* (0.062)	-0.187* (0.060)
<i>SameLender</i>	0.099 (0.197)	0.116 (0.110)	0.111 (0.116)	0.107 (0.145)	0.107 (0.149)
<i>CashShelter</i>	-0.006 (0.963)	0.002 (0.988)	0.005 (0.963)	-0.001 (0.994)	-0.003 (0.983)
<i>Developing</i>	0.033 (0.725)				
<i>Corruption</i>		-0.017 (0.756)			
<i>Unstable</i>			-0.003 (0.895)		
<i>Creditor Risk</i>				-0.002 (0.921)	
<i>Gvt. Ineff.</i>					0.005 (0.932)
n	376	376	376	376	376
R <sup>2</sup>	0.006	0.007	0.007	0.006	0.006
nR <sup>2</sup>	2.256	2.632	2.632	2.256	2.256
$\chi^2_5$ at 1%	15.09	15.09	15.09	15.09	15.09
$\chi^2_5$ at 10%	9.24	9.24	9.24	9.24	9.24
Reject H <sub>0</sub>	No	No	No	No	No

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively

Table 12

## Industry Adjusted Operating Performance changes of the Acquirers

This table presents the post-merger industry-adjusted operating performance changes. Following Linn et al. (2001) operating cash flows are defined as after tax income before extraordinary items plus depreciation and amortization charges, net interest expense (interest expense - interest income) and total income taxes. Operating cash flows are normalized by the market value of assets at the end of the year prior to the merger or acquisition, defined as the sum of the market value of equity, book value of preferred stock, book value of long-term debt and book value of current debt. Market value of equity are retrieved from Compustat (item#24\*#25). When numbers are missing from Compustat, prices and volumes from CRSP are used. Both the pre- and post-merger operating cash flows are calculated based on acquirers' information. The industry-adjusted measure is calculated by subtracting the mean of the corresponding year and the major SIC grouping from the firms' operating performance measure, where extreme values are excluded when calculating the industry average. The change is calculated as the difference between the average of the three years after the cross-border M&A and the average of the three years before the transaction. The industry-adjusted cash flows are percentage.

	All	US	Non-US			US			Non-US		Difference of Means			
				Diff.	US_	Non-exp.	Diff.	Non-US_	Pure	Diff.				
	(1)	(2)	(3)	(2)-(3)	Toplocal	US	(5)-(6)	Toplocal	Local	(8)-(9)	(5)-(8)	(6)-(8)	(5)-(9)	(6)-(9)
All Acquirers														
Total														
(n=341)	0.001	-0.005	0.022*	-0.027	0.004	-0.017	0.021	0.002	0.043*	-0.041	0.002	-0.019	-0.039	-0.060**
Cash														
(n=233)	0.003	-0.002	0.020	0.022	0.005	-0.013	0.018	0.011	0.029	-0.018	-0.006	-0.024	-0.024	-0.042
Stock														
(n=108)	-0.004	-0.010	0.032	0.042	0.003	-0.025	0.028	-0.037*	0.093*	0.130*	0.040	0.012	-0.090	-0.118**
Acquirers with no experience														
Total														
(n=255)	-0.004	-0.014	0.037*	-0.051**	0.003	-0.033**	0.036*	0.018	0.057**	-0.039	-0.015	-0.051*	-0.054*	-0.090***
Cash														
(n=170)	-0.006	-0.017*	0.032*	-0.049*	-0.001	-0.038*	0.037*	0.031	0.034	-0.003	-0.030	-0.069*	-0.035	-0.072*
Stock														
(n=85)	0.001	-0.007	0.055	-0.062	0.009	-0.025	0.034	-0.033	0.128**	0.160*	0.042	0.008	-0.119*	-0.153**
Acquirers with experience														
Total														
(n=86)	0.015	0.024*	-0.011	0.035	0.010	0.051	-0.041	-0.041	0.014	-0.055	0.051	0.092	-0.004	0.037
Cash														
(n=63)	0.028*	0.042**	-0.007	0.049*	0.019	0.092*	-0.073*	-0.040	0.019	-0.059	0.059	0.132*	0.000	0.073
Stock														
(n=23)	-0.022*	-0.020	-0.029**	0.009	-0.018	-0.022	0.004	-0.048***	-0.010	-0.038*	0.030	0.026	-0.008	-0.012

The symbols \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% respectively



Table 13 Robustness Tests

This table presents the short term announcement effects and the long term performance changes by using the alternative definition of US banks. All US\_GEO includes only US banks that are domiciled in US. In cases where there are more than one bank for the acquirer, we define the syndicate as US bank if one of them is domiciled in US. In columns 4 and 5, we split the US banks further by separating out those transactions helped by both US banks and banks from the target country.

	All US_GEO (n= 263)	Non-US_GEO (n=113)	Diff. (1)- (2)	US_GEO_only (n=244)	US_GEO_TgtHome (n=19)	Diff. (4)- (5)	Diff. (4)- (2)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
<i>Panel A. CARs (-1,1)</i>								
Acquirers with no experience								
	All	1.960***	0.215	1.745**	1.859***	3.692***	-1.833	1.644*
(i)	Allcash	2.115***	-0.706	2.821***	2.049***	3.394***	-1.345	2.756***
(ii)	Stock	1.709	3.026***	-1.317	1.545	4.050***	-2.506	-1.481
Acquirers with experience								
	All	0.097	-0.400	0.497	0.370	-1.807*	2.177	0.770
(iii)	Allcash	0.197	-0.234	0.431	0.393	-1.044	1.437	0.627
(iv)	Stock	-0.122	-0.993	0.871	0.319	-4.096*	4.415	1.313
<i>Panel B. Long-term Performance Changes in percentage</i>								
Acquirers with no experience								
	All	-1.822*	2.855**	-4.677**	-1.172	-15.471 <sup>11</sup>	14.299**	-4.028**
(v)	Allcash	-2.123*	2.291**	-4.414**	-1.488	-15.574	14.085*	-3.779*
(vi)	Stock	-1.309	4.520	-5.829	-0.632	-15.299	14.668*	-5.152
Acquirers with experience								
	All	2.443	-0.309	2.752	0.946	11.422 <sup>12</sup>	-10.476*	1.255
(vii)	Allcash	4.516*	-0.158	4.674	2.039	18.554*	16.515**	2.197
(viii)	Stock	-2.740	-0.806	-1.934	-1.707	-9.973	8.266	-0.901

<sup>11</sup> The number of observations for this sub sample reduces to 8.

<sup>12</sup> The number of observations for this sub sample reduces to 8.

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