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Corporate governance and merger performance: Learning from the Australian experience

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Abstract

Studies on the relationship between ownership structure and firm performance suggest that ownership structure has a significant impact on firm performance . The methodological choice and various merger-related factors have been identified as affecting the magnitude of post-merger returns.This study investigates the influence of corporate governance characteristics on long-term post-merger stock returns performance of acquirers in Australia. The findings reveal that there is evidence of long-term underperformance by Australian acquirers. However, there is limited evidence of inter-group difference in performance. Further analysis finds evidence that the market reacts positively to merger news for acquirers with high concentration of external substantial shareholders, especially in the case of focused mergers. Malaysia may learn from such experience of an Asia Pacific neighbour as it expands and deepens its corporate spheres.

Keywords: buy-and-hold abnormal return, calendar-time abnormal return, event studies, long-term performance, merger and acquisitions, ownership structure

Introduction

Mergers and Acquisitions (M&As) have been a phenomenon for firms since the early 1900s until now. The studies conducted on M&A had focused on short term stock returns surrounding announcement dates using USA, UK and Canadian data. Only a smaller body of research examined long-term post acquisition returns (Martynova & Renneboog, 2008). Most of these long-term post-acquisition studies concluded that acquirers experienced significant underperformance for US firms (Agrawal, Jaffe & Mandelker, 1992; Moeller, Schlingemann & Stulz, 2003, 2005), while non-significant returns were evident for UK and Canadian acquirers (Abhyankar, Ho & Zhao, 2005; Andre, Kooli & L'Her, 2004; Dutta & Jog, 2009). The methodological choice and various merger-related factors have been identified as affecting the magnitude of post-merger returns. This has motivated us to undertake this study using comprehensive data on Australian acquiring firms, combined with multiple benchmarks to analyze the long-term post-merger stock performance.

Our results showed that there is evidence of long-term underperformance by Australian acquirers. However, when acquirers were divided into different sub-groups based on firms' characteristics or shares ownership, it showed there is limited evidence of difference in performance between these sub-groups. We also found that focused mergers and increasing substantial shareholder ownership significantly contribute to positive long-term stock returns' performance.

Our study contributes to the literature in several ways. First, in contrast to most M&As studies which usually based on USA and UK data, this study examined Australian acquisition, which will represent out-of-sample evidence for a well-developed capital market with increasingly popular M&A activity in its corporate market. In 2009 alone, Australia had 3,353 merger and acquisition (M&A) deals totaling

$US151.491 billionn. This represents 25 per cent of M&A activities in the Asia Pacific region or 6.71 percent of global M&A (*The Australian*, 5th. January 2010; Zephyr Quarterly, 2010). Second, there is a need for a study on the relationship between corporate governance factors and M&As (Da Silva Rosa & Walter, 2004). It is the premise of this study to shed light on, and to help explain, the relationship between the type of merger, ownership structure and acquirer long-term post-merger performance. Especially, to explain the relationship of acquirer performance and institutional ownership, which we believed very limited with the exception of Duggal and Millar (1999).

Literature review

The majority studies on long-term M&As performance have identified abnormal returns to be insignificantly different from zero, which supports the Efficient Market Hypothesis (Brown & Da Silva Rosa, 1998; Loughran & Vijh, 1997; Moeller, Schlingemann & Stulz, 2004). Some studies identified significant negative returns for a few years after mergers (Agrawal et al., 1992; Rau & Vermaelen, 1998). On the other hand, studies by Healy et.al. (1992) and Manson et. al. (2000) found that the cash flow operating returns for both targets and bidders of UK firms improved in the five years following mergers, which lends support to the notion that M&A activities are capable of improving firm performance. The studies on the relationship between ownership structure and firm performance have been very encouraging. They suggested that ownership structure has a significant impact on firm performance [Denis et al. (1997), Gorton and Schmid (2000), Chen (2001), La Porta et al. (2002), Pivovarsky (2003), Chen et al. (2003), Durnev and Kim (2005), Black et al. (2006)].

Further, the studies that recognized insider ownership as a tool for agency cost reduction are Holderness et al. (1999), Kesner (1987), Kim and Lyn (1988) and Leech and Leahy (1991). They proved that managerial ownership is positively related to performance indicators. However, Duggal and Millar (1999) found no relationship between bidder gains and predicted values of institutional ownership; which suggest that institutional investors do not enhance efficiency in market for corporate control, and that their monitoring abilities are doubtful. Researchers have also tried to explain why certain types of merger prevail over others. Servaes (1996) found that insider ownership was negatively related to diversification during the 1960s. Denis, Denis and Sarin's (1997) results showed that high managerial and institutional ownership is associated with reduced level of diversification. This is consistent with Amihud and Lev (1981) on the relationship between ownership concentration and the propensity to undertake diversifying mergers. In sum, there are certain ownership structure mechanisms which have a potential role in reducing the conflict between managers and shareholders, which leads to a reduction in agency costs.

Research design

a. Sample selection and data

A total of 821 completed M&A announcements (1997 – 2009) that reported deal values by firms listed on the Australian Securities Exchange (ASX) have been selected for this study. Then ownership information was hand collected from firms' annual reports. Meanwhile the data on stock price, firm size and other annual accounting data were obtained from Thomson Financial DataStream. Summary descriptive statistics for the sample are provided in Appendix 1.

b. Methodology

This study investigated stock return performance over 12 months starting from the announcement date of a completed deal. Two different methodologies will be used for the calculation of the abnormal returns.

First, based on value-weighted buy-and-hold abnormal returns (VW BHARs). BHARs are defined as the return on a buy-and-hold investment in the sample firm less the return on a buy-and-hold investment benchmark portfolio. This method has become the standard method of measuring long-term abnormal returns (Barber & Lyon, 1997; Lyon, Barber, & Tsai, 1999; Mitchell & Stafford, 2000; Savor & Lu, 2009). Second, using calendar-time as in Mitchell and Stafford's (2000) study, we proxy the expected return on the event portfolio using the Fama and French (1993) three factor model:

$$R_{pt} - R_{ft} = \alpha_p + b_p\,(R_{Mt} - R_{ft}) + s_p\,(SMB_t) + h_p\,(HML_t) + \varepsilon_{pt} \quad (1)$$

Where,

$(R_{pt} - R_{ft})$ = the equal- or value-weighted excess return on calendar-time portfolio p in month t
$(RM_t - R_{ft})$ = the market risk premium for month t
SMB_t = the return on the portfolio of small stocks minus the return on the portfolio of large stocks for month t (size factor)
HML_t = the return on the portfolio of high book-to market (value) stocks minus the return portfolio of low book-to-market (glamour) stocks for month t (book-to-market factor)
α_p = calendar time abnormal return.

Then, we run a univariate regression to test the significance differences between the groups of pre-determined sub-samples.

Results and discussions

In this section, we discuss the VW BHAR of same size and B/M percentile benchmarks and VW Fama-French 3 factor WLS regression for the 12-month post-merger periods will be focused on, with the corresponding skewness and cross-correlation adjusted t-statistics used in the evaluation of the null hypothesis of zero-mean difference in the abnormal returns between sub-sample groups. The discussion will be based on the sub-sample groups within those two methodologies for the 12-month event windows.

Table 1. Univariate analysis of value-weighted BHAR and fama-french 3-factor regression for 12-month

	Based on size-B/M benchmark			Fama-French 3 Factor Regression (VW)			
12 months	n1	VW BHAR	Adj t-test	n2	Alpha - WLS	t-test	Adj. R sq
Bod 1: Henry (2008)							
0: 0-32.27%	203	-0.078	-1.651	122	-0.008	-1.19	0.313
1: > 32.27%	726	-0.042	-1.809	132	-0.009	-3.54	0.735
(0) - (1)		-0.036	-0.703		0.001	0.24	0.048
Bod 2: Morck et al. (1988)							
1: ≤ %5	344	-0.045	-1.561	131	-0.006	-2.25	0.705
2: 5-25%	310	-0.058	-1.559	124	-0.021	-3.55	0.523
3: > 25%	275	-0.048	-1.196	122	-0.004	-0.84	0.514
(1) - (2)		0.013	0.280		0.015	2.51	0.147
(1) - (3)		0.003	0.055		-0.002	-0.25	0.034
(2) - (3)		-0.010	-0.191		-0.017	-2.65	0.101

12 months	Based on size-B/M benchmark			Fama-French 3 Factor Regression (VW)			
	n1	VW BHAR	Adj t-test	n2	Alpha - WLS	t-test	Adj. R sq
Cash							
0	572	-0.070	-2.538	133	-0.007	-2.56	0.715
1	357	-0.019	-0.655	121	-0.012	-3.18	0.611
(0) - (1)		-0.051	-1.205		0.005	1.28	0.008
Cross-Border							
0	733	-0.045	-0.655	129	-0.008	-1.93	0.703
1	193	-0.068	-1.431	124	-0.034	-4.92	0.263
(0) - (1)		0.022	0.145		0.027	3.50	0.077
Focus							
0	460	-0.058	-2.149	132	-0.014	-3.06	0.624
1	469	-0.042	-1.414	124	0.002	0.40	0.716
(0) - (1)		-0.016	-0.385		-0.016	-2.35	0.072
Institution							
0	461	-0.083	-2.612	139	-0.013	-2.31	0.488
1	468	-0.018	-0.727	124	-0.008	-2.89	0.677
(0) - (1)		-0.066	-1.612		-0.005	-0.85	0.058
Public							
0	428	-0.048	-1.692	124	-0.009	-1.77	0.620
1	501	-0.052	-1.826	133	-0.008	-2.28	0.700
(0) - (1)		0.004	0.090		0.001	0.13	0.011
Rel Size							
0	467	0.000	-0.047	132	-0.009	-3.25	0.653
1	462	-0.100	-3.258	124	-0.010	-2.88	0.634
(0) - (1)		0.100	2.398		0.001	0.16	0.051
Subs 1: Henry (2008)							
0: ≤ 27.05%	703	-0.052	-2.287	124	-0.010	-3.78	0.685
1: > 27.05%	226	-0.044	-0.949	133	-0.010	-1.56	0.372
(0) - (1)		-0.008	-0.164		0.000	0.13	0.019
Subs 2: Median value							
0	462	-0.067	-2.585	127	-0.012	-3.84	0.663
1	467	-0.034	-1.086	132	-0.006	-1.31	0.608
(0) - (1)		-0.033	-0.806		-0.006	-1.22	0.016
Value Acquirer							
0	465	-0.110	-3.953	129	-0.009	-2.08	0.678
1	464	0.009	0.351	132	-0.010	-2.57	0.690
(0) - (1)		-0.119	-2.898		0.001	0.05	0.061

The Bod 1 ownership group was divided based on Henry (2008), whereby the group classification is 0 for ownership levels from 0-32.27%, and 1 for ownership above 32.27%; and, for substantial ownership (Subs1), the group classification is 0 for ownership levels from 0-27.05%, and 1 for ownership levels

above 27.05%. The Bod 2 ownership classification was divided based on Morck et al. (1988), whereby the group classification is 1 for ownership less than 5%, 2 for between 5-25% and 3 for ownership above 25%. The term n1 represents the number of firms in each sub-sample, while n2 represents the numbers of portfolio-months with a minimum of four firms in each particular portfolio-month.

Table 1 shows the results of the univariate analysis of value-weighted BHAR (Column 3) using the same size and B/M percentile benchmark, while Column 6 presents the abnormal returns (alphas) from WLS Fama-French 3-factor model estimation, over 12-month periods respectively.

First, from Column 3 (Table 1), there is evidence of statistically significant underperformance for acquirers with a high level of BOD share ownership based on the Henry (2008) criteria in the VW BHAR and the VW Fama-French 3 factor regression for the 12-month period after the merger event, with the abnormal returns of -0.042 and -0.108 (-0.009 x 12 months), respectively. Whereas, the acquirers with low BOD ownership under this sub-sample group criteria experience statistically insignificant abnormal returns under both methodologies with abnormal returns of -0.078 and -0.096 respectively. Furthermore, there is no significant mean difference between the two sub-sample returns for the +1 to +12 interval under the event-time and calendar-time methodologies, with the group return differences being -0.036 and 0.012, respectively.

Second, under the Morck, Shleifer and Vishny (1988) BOD ownership criteria, it can be observed that for the one-year post-merger period in Panel A of Table 1, firm sub-samples 1 and 2 have experienced statistically significant levels of monthly underperformance drift of -0.006 (t-statistic = -2.250) and -0.021 (t-statistic = -3.550) based on the FF regression model, respectively. The analysis also indicates there is a statistically significant performance difference between sub-samples 1 and 2, and also between sub-samples 2 and 3, with return differences of 0.016 (t-statistic = 2.510) and -0.018 (t-statistic = -2.650), respectively. However, there is no indication of statistically significant group return differences under the BHAR methodology.

There is one interesting relationship to notice between BOD ownership and acquirer firms' performance. For example, in the one-year post-merger performance analysis, for BOD ownership under the Morck, Shleifer and Vishny (1988) classification, firms with low BOD ownership experienced significantly better performance (less negative returns) compared to acquirers with the median range level of BOD ownership. This implies that having the median level of BOD ownership results in poorer acquisition returns; however, when BOD ownership is higher (more than 25%), the underperformance level again improves. The same behavior can be observed for the VW BHAR under the Henry (2008) criteria, as the level of underperformance improves when BOD ownership increases; however, this change is not statistically significant.

The third results row presents the univariate analysis results based on merger method of payment classification. The results show that cash-financed mergers perform better than their counterparts, but the group differences are not statistically significant. Specifically, the non-cash financing sub-sample registers a statistically significant mean BHAR of -0.070 (t-statistic = -2.538) during the one-year post-event window. The cash financing merger subsample, however, shows a lower and statistically insignificant BHAR of -0.019. Meanwhile, under the FF regression model, both sub-sample groups exhibit statistically significant underperformance, with acquirers undertaking cash-financed mergers registering negative abnormal returns of -0.012 (t-statistic =-3.180) and acquirers in non-cash financed mergers generating returns of -0.007 (t-statistic =-2.560). None of the sub-sample groups under the BHAR or FF regression model, however, significantly outperforms its counterpart.

Fourth, based on the Cross-border group sub-sample results, both sub-sample groups fail to exhibit statistically reliable return results under the BHAR methodology. However, under the FF regression model approach, both sub-groups exhibit statistically significant underperformance, with the local merger (0) group performing significantly better than acquirers completing cross-border acquisitions (1), with the mean return difference being 0.027 (t-statistic = 3.500) in the one-year event window.

Generally, based on the Cross border sub-sample results above, we observed that the cross-border acquirers performed worse than their control group, one-year period after the merger, under event-time

analysis (BHAR) and calendar-time analysis. However, the results fail to report consistent statistically significant differences between these two sub-samples. Over the one-year event window, the local mergers group exhibit statistically better performance than acquirers involved in cross-border mergers based on the FF regression.

Next, we move on to the performance of the Focus sub-samples, which is identified based on 2-digit SIC codes. During the one-year post-event window, the diversification merger (0) sub-sample acquirers experience significant underperformance based on event-time (BHAR) and calendar-time analysis (CTAR) with a group mean abnormal return of -0.058 (t-statistic = -2.149) and alpha of -0.014 (t-statistic = -3.060) respectively. On the other hand, a lower level of underperformance (BHAR = -0.042, t-statistic = -1.414) and positive alpha (α= 0.002, t-statistic = 0.400) are reported for acquirers involved in focused mergers (1). However, only the FF regression model shows a statistically significant difference in performance between the alphas of the focused merger and diversification merger acquirer sub-samples. Hence, these results indicate weak support for the hypothesis that acquirers in focused mergers perform better (as indicated by lower negative results) than those completing diversification mergers during the one-year post-merger period.

Meanwhile, the performance of the Institutional share ownership sub-samples, which is defined as low levels of Institutional share ownership if the institutional shareholding level is below the sample median on an annual basis, and high levels of Institutional share ownership if the institutional shareholding level is above the sample median on an annual basis. The 12-month post-merger performance based on institutional share ownership classification shows that acquirers with low levels of Institutional shareholdings (0) experienced a statistically significant mean BHAR of -0.083 (t-statistic = -2.612), while acquirers with higher levels of Institutional shareholdings (1) also experienced underperformance as represented by an average negative abnormal return of -0.018; however, it is not statistically different from zero. On the other hand, the FF regression model shows that both sub-sample groups experienced statistically significant underperformance, with acquirers with a higher level of Institutional shareholdings performing better compared to the comparison group, with abnormal returns of -0.008 (t-statistic = -2.89) and -0.013 (t-statistic = -2.310) respectively. Furthermore, no significant difference between the sub-samples under the BHAR and CTAR methodologies for the one-year post-merger performance period is reported. Thus, the null hypothesis of no significant abnormal return performance difference between firms with low and high levels of institutional shareholding during the long-term post-merger period cannot be rejected.

Next, is the analysis based on the Public target sub-sample results for the one-year post-event window. The results shows that acquirers that merged with public target firms (1) experience a statistically significant greater level of underperformance, with BHAR of -0.052 (t-statistic = -1.826), compared to acquirers that merge with private firm targets (0) which experienced returns that are not statistically different from zero. Under the FF regression model, both sub-samples show statistically significant underperformance, with public target acquirers just marginally outperforming their counterparts with monthly abnormal returns of -0.008 (t-statistic = -1.770) and -0.009 (t-statistic = -2.280) respectively. However, the mean difference between the two sample groups is not statistically significant under the BHAR and FF regression model approaches.

Similarly, the same sign and magnitude nature to those outlined in the type of target analysis above can be observed under the Relative size of target-to-acquirer sub-samples criteria. For the one-year period after the merger, acquirers with higher relative size (1) experienced statistically significant BHARs of -0.100 (t-statistic = -3.258), compared to acquirers with low relative size (0) which reports zero average abnormal returns. Alternatively, based on the FF regression model, both sub-samples exhibit significant underperformance. The acquirers with lower relative size experience lower underperformance compared to the acquirers with higher relative size, with abnormal returns of -0.010 (t-statistic = -3.250) and -0.009 (t-statistic = -2.880) respectively. However, the results do not register any significant abnormal return difference between the two groups of acquirers.

Next, we analyzed the acquirers' stock market performance based on substantial shareholder ownership using the Henry (2008) criteria, and tested the null hypothesis of no significant mean return difference between acquirers with low and high levels of substantial share ownership using the adjusted t-test for the event-time methodology and the normal two-tailed t-test for the calendar time methodology. During first year after the merger, the acquirers with low level of substantial shareholdings (0) experienced statistically significant BHARs of -0.052 (t-statistic = -2.287), while acquirers with a higher level of substantial shareholdings (1) experienced lower abnormal returns of -0.044, which are also not significantly different from zero. A similar pattern can be observed under the FF regression model, with acquirers with low substantial shareholder ownership showing higher statistically significant underperformance based on monthly mean returns of -0.010 (t-statistic = -3.780), while acquirers with a higher level of substantial shareholdings earned non-significant returns. Furthermore, no significant differences between the low and high ownership firm sub-samples under the BHAR and CTAR methodologies during the one-year post-merger period are reported.

Further, the analysis also examined the influence of substantial shareholder ownership, using median values as the cut-off criteria, on one-year post-merger performance. The results portray an almost similar pattern to the results from the substantial shareholder ownership criteria based on Henry (2008). The results favor the performance of acquirers with high level of substantial shareholdings (1) compared to the acquirers with low levels of substantial shareholdings (0). The high level of substantial shareholdings acquirers experienced insignificant abnormal returns under the BHAR and FF regression model methods, with average return outcomes of -0.034 (t-statistic = -1.086) and -0.006 (t-statistic = -1.310), respectively. On the other hand, the acquirers subject to a lower level of substantial shareholder influence experienced statistically significant lower (inferior) abnormal returns under the BHAR and FF regression model approaches with returns of -0.067 (t-statistic = -2.585) and -0.012 (t-statistic = -3.840), respectively. Although the results shows that acquirers with a higher level of substantial shareholdings performed better in this event window, this indication cannot be confirmed statistically, as there is no significant difference between the sub-sample group returns under the BHAR and CTAR methodologies.

Based on both substantial shareholder ownership criteria described previously, it appears that the market perceives that acquirers with higher levels of substantial shareholder ownership will make better acquisition decisions compared to the acquirers with low levels of substantial shareholder ownership, as indicated by the lower degree of underperformance during the one-year period after mergers. However, these results do not support the efficient monitoring hypothesis, as none of the mean group return differences is statistically significant. These results suggest that large outsider shareholders cannot provide better monitoring function to prevent sub-optimal merger decision, such as i) initiating acquisitions in order to save face for perceived past management mistakes (Lys & Vincent, 1995); ii) managers resorting to takeovers to reduce risk (Amihud and Lev, 1981); iii) managers acquiring growing firms to enhance their reputations (Morck et al., 1990); or, iv) managers using acquisitions as a devise to maintain control over free cash flows (Jensen, 1988), which resulting most likely from managerial entrenchment. Therefore, it is not possible to reject the null hypothesis of no mean difference in returns between acquirers with low and high substantial shareholder ownership.

Finally, sub-samples were analyzed based on the value versus glamour firm criteria. During the one-year post-event window, the glamour acquirers (0) experienced statistically significant BHARs of -0.110 (t-statistic = -3.953), compared to value acquirers (1) which had higher (less negative) abnormal returns of -0.009, however, they are not statistically significant. The group comparison results show that value acquirers performed significantly better than glamour acquirers, with the mean return difference being 0.119 (t-statistic = 2.898). Under the FF regression model, both sub-sample groups show statistically significant levels of underperformance, with alpha values of -0.009 (t-statistic = -2.080) and -0.010 (t-statistic = -2.570) for glamour acquirers and value acquirers respectively. However, the results do not register any significant abnormal return difference between the two groups of acquirers.

In summary, based on the above results, it can be concluded that, generally, Australian acquirers did not perform well over the 12-month period following merger announcement, as indicated by the negative

stock market abnormal returns identified by the event-time and calendar-time methodologies. This is an indication that the market reacted negatively to the corporate control activity of acquirers (André, Kooli, & L'Her, 2004; Jarrell & Poulsen, 1989; Rau & Vermaelen, 1998) over the long-term, which reflects the completion of acquisition and post-acquisition integration aspect. Further analysis of the abnormal return performance using various sub-samples reveals that there are also certain firm-specific and takeover-specific attributes which impact on return outcomes for acquirers.

The long-term performance of acquirers is found to be positively correlated with the level of BOD ownership and, up until certain point, this relation could be non-linear as described by Morck, Shleifer and Vishny, (1988). The results shows that firms with low BOD ownership experienced statistically significantly lower underperformance compared to acquirers with medium levels of BOD ownership; however, when ownership is higher (more than 25%), the underperformance level exhibits improvement again. Generally, this result is consistent with agency theory (Jensen and Mackling, 1976) and the non-linear relationship between board share ownership and general (not merger-specific) firm performance identified by Morck et al. (1988). Thus, supports the alternative hypothesis that higher BOD ownership is expected to lower agency costs, reduced inefficiency and thereby leading to superior long-term merger performance. However, this result should be interpreted with caution due to the possibility of non-linear relationship between BOD ownership and firm performance (Morck et al., 1988).

The acquirer which undertaken cash-financed mergers, local target mergers, focused mergers and public target merger appear not to be able to outperform their respective counterpart. Furthermore, there is an indication that institutional investors have a positive and beneficial effect on acquirer long-term post-merger performance. During the three-year post-merger period, acquirers with greater institutional investor shareholdings experienced significantly higher (less negative) returns than low institutional shareholding acquirers based on the event-time methodology, and which is also weakly supported by the calendar-time methodology.

The relative size of targets compared to acquirers appears to negatively affecting acquirer long-term post-merger performance. According to the BHAR and FF regression model techniques, acquirers that merged with relatively smaller size targets performed significantly better compared to if they merge with relatively bigger targets.

The substantial share ownership results do not support the efficient monitoring hypothesis, which suggest that large outsider shareholders do not provide a better monitoring function and guide firm managements to make superior decisions in acquisitions. Thus, the acquirers are unable to achieve superior long-term performance compared to acquirers with low concentration of substantial share ownership.

The results based on the glamour versus value acquirers classification exhibit conflicting conclusions in regard to their performances of within the one-year and three-year post-event windows. However, based on the event-time methodology results, it can be concluded that value acquirers achieve significantly greater post-merger performance results than glamour acquirers.

Summary and conclusions

In this study, we empirically examined the long-term abnormal returns of Australian acquirer by using a comprehensive sample of 821 M&As from Jan 1997 to Jun 2009. We used both event time and calendar-time methodologies and variety of benchmarks to detect long-term stock returns performance; and it was discovered that the results are sensitive to these choices.

Consistent with the viewpoint of earlier documented studies, such as by Agrawal et al., (1992) and Moeller et al., (2003, 2005), we found results supporting the indication of long-term underperformance of Australian. We acknowledged this negative abnormal return may be due to 'chance results' as stated by Fama (1998). We also investigated the inter-group difference in long-term performance and only managed to present statistically differences between groups with low-high relative target size. In a further analysis,

we found evidence that the market reacts positively to merger news for acquirers with high concentration of external substantial shareholders, especially when it is a focused merger.

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Appendix

Panel A. Sample construction and transaction value (over 1997–2009)

Year	No. of completed Australian M&A announcements	Foreign acquirer	Australian Proprietary Limited (Pty Ltd) acquirer	Australian Public Limited acquirer	No. of completed M&A with governance information	Total transaction value (th. AUD)	Avg. transaction value (th. AUD)
1997	20	13	1	6	2	256,113.65	128,056.83
1998	24	14	4	6	3	80,634.17	26,878.06
1999	40	25	1	14	8	1,339,730.78	167,466.34
2000	129	39	14	76	39	414,593.75	10,630.61
2001	139	44	16	79	49	19,220,178.08	392,248.53
2002	133	41	16	76	38	1,934,352.12	50,904.01
2003	218	42	33	143	95	7,938,597.50	83,564.18
2004	236	57	36	143	101	5,785,210.49	57,279.31
2005	239	47	51	141	98	9,775,125.09	99,746.17
2006	218	51	40	127	93	16,097,899.25	173,095.69
2007	317	73	60	184	132	20,071,119.08	152,053.93
2008	223	42	43	138	126	18,225,032.73	144,643.12
2009*	81	24	14	43	37	2,067,449.21	55,877.01
Total	2,017	512	329	1,176	821	103,206,036	125,707.72

Note: * until end of Jun 2009

Panel B. Transactions by acquirer's primary SIC code

	Transactions		Avg. Transaction value (th. AUD)	Total transaction	
	No.	%		(th. AUD)	%
01-09 Agriculture, Forestry, & Fishing	4	0.49	32,279.31	129,117.32	0.13
10-14 Mining	196	23.87	121,040.98	23,734,031.28	22.99
15-17 Construction	21	2.56	48,596.98	1,020,536.66	0.99
20-39 Manufacturing	144	17.54	69,907.25	10,066,644.36	9.75
40-49 Transportation & Public Utilities	66	8.04	198,565.26	13,105,307.18	12.70
50-59 Trade	46	5.60	137,205.64	6,311,459.68	6.11
60-64 Finance & Insurance	38	4.63	412,491.70	15,674,684.53	15.19
65 Real Estate	17	2.07	119,014.38	2,023,244.49	1.96
67 Holding & Other Investment Offices	82	9.99	239,804.08	19,663,934.82	19.05
70-89 Services	207	25.21	55,493.12	11,487,075.74	11.13
Total	821	100.00	125,707.72	103,206,036	100.00

Panel C. Transactions by targets country

Country	# of Transactions	Total transaction value (th. AUD)	Avg. transaction (th. AUD)
Australia	652	70095435.65	107508.33
New Zealand	18	6494046.62	360724.81
United Kingdom	42	17496988.86	416594.97
US	38	5800732.92	152650.86
Others	71	3,318,832	46744.11
Total	821	103,206,036	125,707.72