

**Shareholders at the Gate?
The Role of Institutional Investors in the Market for
Corporate Control around the World**

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Abstract:

This paper surveys the rise of a new class of shareholders, institutional investors, around the World and the role they play in recent merger and acquisitions (M&As). Institutional money managers have become major players in capital markets. Based on data used in Ferreira, Massa and Matos (2007) on equity holdings by institutions in over 26 countries, I show that these held over US\$18 trillion, which is close to 40% of world stock market capitalization in 2005. The main findings of the paper are that the volume of M&A transactions is higher in countries with more institutional ownership, and the fraction of cross-border merger deals increases particularly with holdings by foreign institutions. I also examine a large sample of individual M&A transactions and find that foreign shareholders increase the probability that takeover bids for local firms are made by foreign companies.

Keywords: Market for Corporate Control; Mergers and Acquisitions; Institutional Investors; Mutual Funds; Foreign Investors.

*: This article draws heavily on two papers: 1) "What is the Role of Institutional Investors in Mergers and Acquisitions? Cross-country Evidence", co-authored with Miguel Ferreira (ISCTE Lisbon Business School) and Massimo Massa (INSEAD); and 2) "The Colors of Investors' Money: The Role of Institutional Investors Around the World" co-authored with Miguel Ferreira. I thank both Miguel and Massimo for letting me discuss our findings in this article.

1. The Role of Institutional Investors in the Recent Global Merger Boom

In the first half of 2007, over US\$ 2 trillion-worth of merger deals were announced, making it likely that this year's volume exceeds the record set in 2006. One particular aspect of this recent takeover boom is that it is broader-based in terms of geography, with a record of 46% of deals being cross-border (Economist (2007)). This merger activity seems to be linked to the fact that financial markets are more globalized than ever. One new aspect of this is the emergence of several multinationals from developing countries becoming bidders for companies from developed nations (as in the Arcelor/Mittal deal).

A major force in the integration of world financial markets is the rise of institutional investors. These professional investors' combined portfolio value is in excess of US\$45 trillion, according to the International Monetary Fund (2005), including over US\$20 trillion in equities. Assets under management of institutions have tripled since the early 1990s. Institutional investors hold now a majority of shares in many companies in developed markets; and their presence is rapidly growing in emerging market countries. Ferreira and Matos (2007) analyze equity holdings by institutions in 2005 for over 26 countries and show that institutions held about 40% of world stock market capitalization.

Business press reports highlight frequently the importance of institutional investors in determining takeover outcomes. Institutional investor votes are credited with determining the outcome of high stakes contests. For example, at the time of writing of this article, one of the largest takeover contests under course is that for ABN AMRO (NL). According to Financial Times (2007b), a London-based activist hedge fund, The Children's Investment Fund (TCIF), with a 1 percent stake effectively pressured ABN AMRO management into talks with Barclays (UK) and this has spurred an auction of the Dutch bank. Having to increase its bid because of a competing offer from a consortium led by the Royal Bank of Scotland, many of Barclays' top shareholders seem opposed to Barclays offering more. Atticus, another activist hedge fund, that holds a very small percentage of Barclays, expressed publicly that the UK bank should abandon its bid and that pushed the share price up by 3 per cent [Financial Times (2007b)].

How can activist institutions with minority share holdings potentially affect takeover contests and, ultimately, share prices? Because other institutional shareholders are also becoming more willing to entertain offers (in the target firms) or stop them (for acquirer firms) as they strive to increase their returns. Actions of some institutions may lead to substantial trading by institutional shareholders as a group.

Large pension funds were some of the pioneers in investor activism like CalPERS in the US or Hermes in the UK.¹ A recent poll conducted by the Financial Times (2007a) identified some of the most influential activist investors: from well-known U.S. investors Carl Icahn or Kirk Kerkorian (who has targeted Chrysler and GM), to hedge-fund managers like TCIF and Atticus

¹ Becht, Franks, Mayer and Rossi (2007) analyzes in detail the activities of Hermes, the fund manager owned by the British Telecom Pension Scheme. The study finds that the fund outperforms benchmarks and estimate that the abnormal returns are associated with its activist engagements. This contrasts previous empirical evidence, summarized in surveys by Karpoff (2001) and Gillan and Starks (2007), that U.S institutional investors engage in little activism and there is little link between activism and performance.

mentioned above, or even mutual fund managers like Fidelity in Europe. Gillan and Starks (2007) survey the evolution of shareholder activism in the U.S. and describe how shareholder activists use the proxy process, and other approaches, to pressure corporate boards and managers for change.² The involvement of large institutional shareholders has increased in recent decades, yet the empirical evidence suggests that effects of such activism are mixed.

2. A Special Role for Foreign Institutional Investors?

Foreign institutions are likely to play a special role in M&A transactions. Foreign investors are more likely than domestic ones to have less business ties to targeted firms and this make them less friendly to incumbent management.

For example, in the largest takeover battle to date – the hostile bid by Vodafone (UK) for Mannesmann (DE) – the eventual success of Vodafone’s offer was attributed to the fact that Mannesmann, the largest DAX-30 firm at the time, had the most international ownership structure of any German firm with over 60 percent of its shares being held by foreign investors and 40 percent alone by U.S. and British investors.³

Foreign-based money managers, focused on maximizing returns, are more likely to facilitate value-enhancing cross-border mergers and resist “economic patriotism”. For example, when the French government recently intervened with plans to merge Gaz de France with Suez to ward off a possible hostile bid from Enel, an Italian utility, the large institutional investors were the more outspoken critics (Financial Times (2006)). Economic patriotism is not a monopoly of the French as illustrated by resistance in the U.S. to the takeover of Unocal by a Chinese acquirer or the portrayal of Spanish banks as “new conquistadores” in the English press.

But there is a lack of substantive academic evidence on role played by institutional investors. Gillan and Starks (2003) have argued that foreign institutional investors can play a special governance role in corporations worldwide. And Ferreira and Matos (2007) offer a first exploration of the monitoring role of institutional investors outside the U.S. and find that firms with higher ownership by foreign and independent institutions (unlike other institutional investors) have higher firm valuations, better operating performance, and lower capital expenditures. Our results indicate that foreign and independent institutions, with potential fewer business ties to firms and freer from management influence, are involved in monitoring corporations worldwide.

² One recent example is that of Relational Investors (a US fund) that took a small stake in Home Depot, pushed out its CEO and forced the company to put its supply-division up for sale.

³ Hopner and Jackson (2004) report that all shareholders holding stakes of 0.1 percent or more in Mannesmann at the time of the takeover bid were institutional investors (with the exception of Hutchinson Whampoa, a Hong Kong conglomerate). German mutual funds controlled only 13 percent of Mannesmann.

3. Evidence from a Large Cross-Country Study

So are companies facing shareholders at their gates? Do institutional investors, as equity owners, facilitate the frequency at which corporations change hands via merger deals?

This article provides empirical evidence on the role of institutional investors in the market for corporate control around the world. It summarizes the findings of Ferreira, Massa and Matos (2007) and the reader can find more details in that paper.

3.1. Data

3.1.1. Sample of Mergers and Acquisitions

The sample used in Ferreira, Massa and Matos (2007) contains all mergers and acquisitions (M&As) announced between January 2000 and December 2005, drawn from the Securities Data Corporation (SDC) Platinum database. We follow Volpin (2004) and Bris and Cabolis (2005) and select only acquisitions where both target and acquirer firms are listed in a stock exchange.⁴ The sample contains 3,584 M&A target firms (total volume of is US\$3.8 trillion) from 26 countries for which we have institutional ownership data (as described in the next sub-section).⁵

M&A volume per country is defined as the percentage of the WorldScope-Datastream firms in a given country that are targets in successful M&As over 2000-2005. Column (8) of Table 1 shows that volume is highest in Canada (with 24.2% firms targeted in the period) and the lowest in Hong Kong (2.1%). Cross-border ratio is defined as the percentage of completed deals in a country in which the acquirer is from a different country than the target. Firms from Japan and the U.S. are the least targeted by foreign acquirers (see the last column of Table 1).

Our sample of mergers is geographically diverse. Panel A of Table 2 presents the number of completed deals for each pair of target firm country (in row) and acquirer firm country (in column). A total of 765 deals are cross-border (value of US\$0.9 trillion), while a large majority of 2,819 deals (value of US\$2.8 trillion) are within country borders. Panel B, however, shows that over 40% of deals involving non-U.S. targets are cross-border.

3.1.2. Institutional Investors Holdings Data

The institutional investor holdings data are drawn from FactSet/LionShares, which is used by information providers such as Reuters and others. This dataset has been previously used by Ferreira and Matos (2007) and the data sources are public filings by investors (such as 13-F filings in the U.S.), companies, and security regulatory agencies around the world. Institutions in this dataset include U.S.-based mutual fund managers (like Fidelity), domestic bank trusts or funds by insurance companies (like BNP Paribas and AXA in France), or global non-U.S.-based pension funds (like Norway's State Petroleum Fund). We use the historical filings from January

⁴ Sample criteria: (1) the transaction is for a majority of shares of the target firm (percentage sought after the deal is above 50%); and (2) the deal is completed by the end of our sample period (December 2005).

⁵ Target firms from more than 21 other countries (e.g., Argentina, Brazil, and China) for which we have no data on domestic institutional investors (see section below) are grouped into the "other countries" category.

2000 to December 2005. It contains holdings data on over 35,000 stocks (local shares and American depository receipts) worldwide by over 5,300 institutions for a total market value of US\$ 18 trillion in December 2005.

Column (3) of Table 1 presents the fraction of each country's stock market capitalization that is held by institutions. Institutional presence is highest in the U.S., with over 73% of U.S. market value in the hands of institutional money managers on average over the sample period from 2000 to 2005. Overall, institutional ownership accounts, on average, for over 40% of the total world stock market capitalization.⁶

Columns (4) and (5) of Table 1 present the fraction per country held by domestic and foreign institutions. In many countries, holdings by foreign institutional investors exceed those of local money managers. The extreme case is Finland, where the market is dominated by a very large cap, Nokia, which attracts a lot of foreign institutions. In contrast, domestic institutions are prevalent in the U.S. and control more shares than foreigners in Canada and Sweden.

The institutional ownership variables we use in the remainder of the paper are:

- IO_TOTAL is the sum of the holdings of all institutions in a firm's stock at the end of each calendar year divided by the end-of-year market capitalization.
- Domestic Institutional Ownership (IO_DOMESTIC) is the percentage of shares held by all institutions domiciled in the same country in which the stock was issued. Foreign Institutional Ownership (IO_FOREIGN) is the fraction of shares held by institutions domiciled in a country different from the one where the stock was issued.

Table 3 presents the institutional holdings data in matrix form to summarize the stock allocations by country of origin of the institution (in columns) and destination stock market country (in rows). In December 2005, institutions managed a total of US\$ 5.2 trillion of non-U.S. stocks (i.e., excluding the row labeled "U.S."). Domestic institutions held a total of US\$ 1.5 trillion (the sum of the diagonal elements of the matrix), while U.S. foreign institutions had US\$ 2 trillion and non-U.S. foreign institutions US\$ 1.7 trillion (the sum of off-diagonal elements). Thus, on aggregate, non-U.S. firms across the world attract money from three institutional investor clienteles with similar pocket sizes.

⁶ It is important to note that not all shares issued by corporations can be held by institutions, as a significant fraction is closely-held by large shareholders in some countries. Correcting for the aggregate percentage of closely-held shares (available from WorldScope), institutional ownership as a percentage of market float is high in countries like Canada (48%) or Sweden (44%).

3.2. Results on M&A Activity at the Country-Level

We start by testing whether the aggregate level of institutional ownership affects M&As activity in a country. We follow Rossi and Volpin (2004) and estimate the regression:

$$VOLUME_i = \alpha + \beta IO_i + \delta X_i + \varepsilon \quad (1)$$

where the dependent variable is the percentage of firms from country i that are targeted in completed M&As relative to all listed firms in that country. IO captures the level of institutional ownership, either overall (IO_TOTAL) or its domestic ($IO_DOMESTIC$) and foreign components ($IO_FOREIGN$). Following Rossi and Volpin (2004), we control for common law origin ($COMMON$) anti-director rights index ($ANTI$), as indicators of the level of minority shareholder protection (La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998)), and the quality of accounting disclosure (ACC). And we also include several other control variables to capture the level of market development.⁷

Table 4 shows that the IO_TOTAL coefficient is positive and significant, providing evidence that the frequency of M&As is higher in countries with higher institutional ownership. The effect is economically significant: an extra 10 percentage points in total institutional ownership translated into between 1.2%-1.9% more firms being targeted in a given country over 2000-2005.

In column (8) of Table 4 we find that both domestic and foreign institutional ownership are positively associated with the frequency of M&A deals. As for other control variables, column (1) of Table 4 replicates the findings of Rossi and Volpin (2004) that the frequency of M&As is higher in common-law countries, with better investor protection. But in regressions that include institutional ownership variables, only the legal origin variable ($COMMON$) is positive and significant. Coefficients on other proxies of investor protection, ownership concentration and stock market return are insignificant.

We then move on to classify M&A transactions into domestic versus cross-border ones on the basis of the nationality of the acquirer firm. We estimate:

$$CROSS_BORDER_i = \alpha + \beta IO_i + \delta X_i + \varepsilon \quad (2)$$

where the dependent variable is the cross-border ratio, i.e. the percentage of completed M&A deals in a country that involve a foreign acquirer. IO and control variables are defined as before.

Results are reported in Table 5. We find that foreign institutions have a particularly important role as “facilitators” of cross-border deals, in contrast to domestic institutions. In column (2) we find a positive but not significant effect of total institutional ownership variable (IO_TOTAL) on the frequency of cross-border deals. Column (3) breaks down total institutional ownership into

⁷ All variables are time series averages over the 2000-2005 period. Additional control variables include GDP per capita (GDP), GDP average annual real growth rate ($GROWTH$), the degree of ownership concentration ($OWNER$), average annual stock market return (MKT_RET), and a survey-based measure of product market competition ($COMPETITION$) to proxy for the availability of target firms in a given country. Ferreira, Massa and Matos (2007) presents the variable definitions and data sources.

domestic and foreign ownership. $IO_FOREIGN$ is positive and significant, while $IO_DOMESTIC$ is insignificant.

This is evidence that foreign (but not domestic) institutional money managers facilitate the level of takeovers by foreign bidders. Columns (4)-(8) show alternative specifications. Unlike Rossi and Volpin (2004), we do not find evidence that cross-border M&As target more civil-law countries. Once we account for institutional ownership, the power of external governance provisions to explain M&As seems to disappear.

To conclude our country-level tests, we examine whether firms from a country are likely to target a firm from another country if their home investors are already present in such country. To explore this hypothesis, we combine the worldwide matrix of (26 x 26) matched pairs of cross-border M&A deals in Table 2 with the cross-border portfolio investment of institutions in Table 3. The matched-pairs regression equation is

$$CROSS_BORDER(i,j) = \alpha + \beta IO(i,j) + \delta X(i,j) + \varepsilon, \quad (3)$$

where $CROSS_BORDER(i,j)$ is the number of deals in which the target is from country i and the acquirer is from country j as a percentage of the total number of deals with target in country i (sum of row). $IO(i,j)$, is the total holdings of institutions from country j (country of acquirer firm) of stocks of firms from country i (country of target firm) as a percentage of market capitalization of country i . Other regressors include the difference in economic development, investor protection, accounting standards, and stock market returns between country j and country i . We also include variables to control for proximity and familiarity target and acquirer firms' countries like a common language ($SAME_LANG$) and belong to the same geographical region ($SAME_REG$).

Table 6 reports that the coefficient for the $IO(i,j)$ variable is positive and significant. This evidence supports the hypothesis that the institutional investors “build bridges” that facilitate the completion of deals across countries. For example, in the case of the Mannesmann takeover, Hopner and Jackson (2004) report that 40 percent alone of stocks were held by U.S. and U.K. investors. Our results would indicate that U.K. firms, like Vodafone, would find it easier to target German firms since UK-based investors are already present in that country.

Columns (3)-(6) consider alternative specifications controlling for many other factors that explain the M&A activity between two countries. In line with Rossi and Volpin (2004), we find that acquirers usually come from countries with strong investor protection ($ANTI(i)-ANIT(j)$) and higher level of economic development relative to the target country ($GDP(j)-GDP(i)$). M&A activity is higher between countries that share the same language, geographical region or have high level of bilateral trade. In the last column of Table 6, we also include fixed effects for target and acquirer countries to control for all unobserved country characteristics. In all the specifications, cross-country institutional ownership is always a relevant factor.

3.3. Results on Individual M&A Transactions

We now explore firm-level evidence that institutional ownership is an important factor in international M&A transactions. For this purpose, we merge the sample of M&A target firms with Lionshares/FactSet firm-level institutional ownership and Datastream-WorldScope company controls. We concentrate on non-U.S. target firms in this section. The resulting sample is described in Ferreira, Massa and Matos (2007) and consists of 1,272 M&A target firms.

First, we focus on the probability of a firm being targeted by a foreign bidder and see how it is affected by institutional ownership. We estimate the following probit regression:

$$\text{Prob}(\text{Deal is Cross-Border})_i = a + b X_i + c IO_i + e \quad (4)$$

where the dependent variable is dummy that takes the value of one if the M&A deal is cross-border and zero if it is domestic. The regressors include the percentage of shares held by institutions in the target firm in the quarter-end prior to the deal announcement (IO) and a set of other firm and country-level control variables.⁸

Table 7 presents the results. We find that total institutional ownership (IO_TOTAL) increases the likelihood of a firm being targeted by a foreign bidder. If we consider separately the fraction held by domestic and foreign investors in the target firm (columns (3) and (4)), we find that foreign investor presence ($IO_FOREIGN$) positively and significantly affects the probability of a merger deal taking place. A one standard deviation increase in foreign institutional ownership increases by over 20% the chances of deal being cross-border instead of within-border. The presence of domestic investors, instead, does not significantly impact whether a M&A is cross-border. These findings validate the country-level evidence in the previous section. In terms of control variables, we find that larger firms attract more attention of foreign bidders ($SIZE$), but other firm characteristics seem to play little role.

Second, we examine how the takeover premium paid for target firms depends on the size (and composition) of the institutional shareholder base. We estimate:

$$PREMIUM_TARGET_i = a + b X_i + c IO_i + e, \quad (5)$$

where the target firm's abnormal return around the merger announcement ($PREMIUM_TARGET$) is regressed on the levels of institutional ownership in the target at the last quarter-end prior to the merger announcement date (IO_TOTAL , $IO_DOMESTIC$, $IO_FOREIGN$) as well as a set of control variables as defined before.⁹

⁸ We control for specific characteristics of the targeted firm, such as target firm size ($SIZE$), valuation and recent returns (BM , RET), investment opportunities ($INVOP$) and accounting and financial indicators (ROE , LEV , $CASH$). Other potential determinants for cross-border mergers could be firm visibility. This is proxied by whether the firm is a member of an international index ($MSCI$) or lists its shares in the U.S. via an ADR (level 2 and 3) program (ADR).

⁹ Takeover premiums are measured as the abnormal return of target firm's stock on trading days -1 to +1 around the bid announcement. Target firm abnormal returns are calculated against a two-factor market model using the local market and the world market index daily returns for a full year prior to the announcement. Average abnormal returns in this sample are 7.7%. This goes up to 9.9% for cross-border deals, a figure close to the levels documented by Bris and Cabolis (2005).

Table 8 presents the results. We find that institutional investor presence is positively associated with higher returns accruing to the shareholders of the target firms, especially the presence of foreign institutions (*IO_FOREIGN*). Firms with an extra 10 percentage points in institutional ownership, on average, display target premiums more than 1% higher. This may be explained by the fact that in firms with more foreign institutional ownership management is less entrenched and firm may attract more competing bids and therefore shareholders earn a higher takeover premium.

4. Take-Away Conclusions

Institutional shareholders are holding increasing shares of companies around the World. In the study above, we examined how the presence of these investors affects the market for corporate control. The main results from the large-scale study by Ferreira, Massa and Matos (2007) that I described above are:

- i) Countries with higher institutional investor presence have more active M&A markets.
- ii) Countries with higher presence of foreign institutional investors are more subject to cross-border merger transactions. Foreign institutions have a particularly important role as “facilitators” of cross-border deals.
- iii) Institutional shareholders seems to build direct “bridges” between firms internationally, facilitating merging outcomes of firms from the country of their origin with the firms of countries in which they invest. This speaks to the Vodafone(UK)-Mannesmann(DE) case we highlighted above, where a high presence by UK-based investors in the target company Mannesmann seems to have facilitated the deal.
- iv) The presence of foreign institutional investors in a target firm’s shareholder base increase the probability by over 20% of the bid being made by a foreign acquirer.
- v) A larger institutional shareholder base increases returns going to shareholders of the target firms. This may be explained with firms with higher institutional ownership attracting more competing bids and therefore commanding a higher final bid. This speaks to the high returns ABN AMRO shareholders are getting as a result of the competition between two foreign bidders (Barclays and the RBS-consortium) for the firm.

Our research shows that institutional investors are a driving force in financial integration of capital markets, as this class of shareholders are on the rise and are prompting change in the governance of firms around the world.

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Table 1
Mergers and Acquisitions and Institutional Ownership by Target Country
[Table 1 of Ferreira, Massa and Matos (2007)]

This table presents number of Datastream/Worldscope firms and total market capitalization (in million US dollars) per country. Columns 3-5 present the aggregate levels of institutional ownership as a percentage of market capitalization per country: total, by domestic institutions, and by foreign institutions. These values are averages of annual figures for years 2000-2005. Columns 6-8 present the number of all completed M&A deals announced in the sample years, the total transaction value (in million US dollars) and the percentage of listed firms that are targeted per country. See text for the sample definition. Columns 9-11 show the number, value (in million US dollars), and percentage of firms targeted in cross-border deals relative to all completed deals. The sample period is from 2000 to 2005.

	Sample of Firms		Institutional Ownership (%)			All Deals			Cross-Border Deals		
	Number	Market Cap	Total	Domestic	Foreign	Number	Total Value	% of Firms	Number	% of Firms	Ratio (%)
Australia (AU)	1,753	584,469	6.40	0.86	5.54	190	77,300	10.84	33	1.88	17.37
Austria (AT)	180	62,072	8.70	0.68	8.02	6	8,821	3.33	3	1.67	50.00
Belgium (BE)	259	219,469	10.54	3.30	7.24	12	30,769	4.63	3	1.16	25.00
Canada (CA)	1,746	888,813	38.39	20.64	17.75	423	188,842	24.23	113	6.47	26.71
Denmark (DK)	314	109,511	18.70	7.35	11.34	17	16,930	5.41	4	1.27	23.53
Finland (FI)	223	202,065	35.52	3.33	32.19	11	13,760	4.93	5	2.24	45.45
France (FR)	1,491	1,556,741	18.33	5.85	12.49	85	125,561	5.70	31	2.08	36.47
Germany (DE)	1,308	1,122,865	17.51	7.05	10.46	71	57,037	5.43	42	3.21	59.15
Greece (GR)	247	76,536	4.85	0.26	4.58	8	1,987	3.23	2	0.81	25.00
Hong Kong (HK)	1,074	519,263	8.72	1.47	7.26	23	45,088	2.14	6	0.56	26.09
India (IN)	393	218,769	10.27	1.57	8.71	37	2,357	9.41	7	1.78	18.92
Ireland (IE)	127	89,732	30.39	0.63	29.75	4	1,858	3.15	4	3.15	100.00
Italy (IT)	456	676,377	12.24	2.47	9.77	20	19,685	4.39	6	1.32	30.00
Japan (JP)	4,070	3,414,759	7.68	1.52	6.16	248	148,538	6.09	9	0.22	3.63
Luxembourg (LU)	54	47,110	16.87	0.71	16.16	3	4,723	5.56	3	5.56	100.00
Netherlands (NL)	372	748,685	22.44	1.24	21.20	28	38,176	7.53	20	5.38	71.43
Norway (NO)	330	111,425	18.21	6.58	11.64	27	8,829	8.18	18	5.45	66.67
Poland (PL)	52	26,467	8.31	2.23	6.09	2	99	3.85	1	1.92	50.00
Portugal (PT)	137	66,648	9.29	1.24	8.05	7	828	5.11	5	3.65	71.43
Singapore (SG)	617	168,734	8.76	1.05	7.71	23	16,739	3.73	4	0.65	17.39
South Africa (ZA)	772	220,671	9.47	2.33	7.14	34	9,603	4.40	7	0.91	20.59
Spain (ES)	278	493,337	15.03	1.87	13.16	18	15,070	6.47	6	2.16	33.33
Sweden (SE)	550	295,888	29.16	16.32	12.83	35	10,436	6.36	17	3.09	48.57
Switzerland (CH)	392	781,184	17.80	3.00	14.80	17	9,556	4.34	9	2.30	52.94
United Kingdom (UK)	3,592	3,047,705	18.78	7.51	11.28	227	433,768	6.32	81	2.26	35.68
United States (US)	11,753	13,992,086	73.33	67.91	5.41	1,711	2,311,756	14.56	222	1.89	12.97
Other	7,710	2,531,083	16.98	0.13	16.85	297	140,340	3.85	104	1.35	35.02
World	40,250	32,272,467	40.98	31.92	9.06	3,584	3,738,453	10.01	765	1.96	23.83
World (excluding US)	28,497	18,280,381	16.23	4.37	11.86	1,873	1,426,697	6.53	543	2.02	32.13

Table 2
Mergers and Acquisitions by Target and Acquirer Country
[Table 2 of Ferreira, Massa and Matos (2007)]

Panel A presents the number of completed deals for each pair of target firm country (in row) and acquirer firm country (in column). Panel B presents the number and value (in million US dollars) of all completed deals and those involving non-US target firms. The sample period is from 2000 to 2005.

Target Country		Panel A: Number of M&A Deal																										Total			
		Acquirer Country																													
		AU	AT	BE	CA	DK	FI	FR	DE	GR	HK	IN	IE	IT	JP	LU	NL	NO	PL	PT	SG	ZA	ES	SE	CH	UK	US	Other			
AU		157			7				1					1							1	3			2	5	9	4	190		
AT			3						1																	2			6		
BE				9											1										1		1		12		
CA					310	1	1	4	2							1		1					1	1	2	16	75	5	423		
DK						13																			2			1	17		
FI							6			1															2		1	1	11		
FR								54	5						3	2	1	2						2	1	3	2	6	85		
DE									2	29					3		1	2	1						1	3	6	16	71		
GR											6																	1	8		
HK												17			1								1					1	23		
IN													30					1					1		1			1	37		
IE																											2		4		
IT										2					14													3	20		
JP																239											3	2	248		
LU																												2	3		
NL																												2	3		
NO																											1	4	28		
PL																												5	27		
PT																												1	2		
SG																												1	7		
ZA																												1	23		
ES																												1	34		
SE																												4	18		
CH																												1	35		
UK																												1	17		
US																												4	227		
Other																												1	28		
Total																													28	1,711	
																													23	193	297
																														248	3,584

Panel B: Summary of M&A Deals				
	All Deals		Non-US Targets Deals	
	Number	Value	Number	Value
Intra-Border Deals	2,819	2,824,674	1,330	826,827
Cross-Border Deals	765	913,779	543	599,870
All Deals	3,584	3,738,453	1,873	1,426,697
Deals with U.S. Acquiror Firm			190	119,237

Table 3
Institutional Stock Holdings by Destination and Origin Institution Country
[Table 3 of Ferreira, Massa and Matos (2007)]

Panel A presents the market value (in billion US dollars) of institutional stock holdings for each pair of destination country of stock held (in row) and country of origin of the institution (in column). Panel B presents market value (in billion US dollars) of institutional stock holdings of all firms and non-US firms. Values are for December 2005.

Panel A: Market Value of Institutional Stock Holdings																														
Destination Country	Origin Institution Country																													
	AU	AT	BE	CA	DK	FI	FR	DE	GR	HK	IN	IE	IT	JP	LU	NL	NO	PL	PT	SG	ZA	ES	SE	CH	UK	US	Other	Total		
AU	23			3				3		2			1	3		1	1				3				12	34		91		
AT		1					1	2																	4	5		18		
BE			9				6	6								1								6	10		43			
CA				361			3	2								2	2							21	237	1	638			
DK					18			2										1					1	3	21	8	8	39		
FI			1			12	4	10					1				2						3	2	8	31	1	79		
FR			8	6	3	3	177	68				5	9	1	3	6	6					5	5	9	54	119	4	491		
DE			5	4	3	2	23	118				3	6		2	4	4					3	4	9	42	91	4	329		
GR							1	2																	4	5		17		
HK				2				3		14				3		1					6			9	31	4	80			
IN							1	1		3	21										4			5	28		67			
IE				2			2	4																	8	19		41		
IT			3	2			14	23				5	25		2	2	2							3	22	29	1	138		
JP	1			11	5		12	21		3		3	9	147	3	6	6				6		1	6	10	62	236	16	567	
LU							2	1																3	9		18			
NL				4	4	2	1	17	34						1	13									3	9		56		
NO							1	3																	42	111	6	258		
PL																									7	13		48		
PT																									4	2		14		
SG																									1	3		9		
ZA								1		2														3	11		26			
ES				3	2	1		9	26			1	2			2	2							7	18	2	48			
SE					1	2	2	5								3	4							1	10	30	3	125		
SE					2	2	2	9	23			3	4		2	4	4						1	5	10	23	1	151		
CH				2	4	2	2	9	23															5	38	35	115	4	260	
UK				6	17	6	4	17	48		2	7	11	3	4	10	12				1	2	2	13	11	371	286	14	851	
US	4	2	11	134	15	2	307	70				20	19	43	8	49	30						1	10	7	102	499	21	12,829	
Other	2	2	2	11	6	1	20	13		26		3	4	5	3	9	4							21	10	7	102	499	21	772
Total	35	10	60	568	69	33	631	491	2	56	21	58	102	209	33	119	104	5	4	47	20	44	189	195	1,176	13,654	108	18,045		

Panel B: Summary of Market Value of Institutional Stock Holding		
	All Firms	Non-US Firms
Domestic Institutions	13,180	1,527
Foreign Institutions	4,865	3,869
All Institutions	18,045	5,216
US Foreign Institutions		2,001

Table 4
Determinants of the Volume of Mergers and Acquisitions Across Countries
[Table 4 of Ferreira, Massa and Matos (2007)]

This table presents the estimates of the cross-sectional regression of the volume of mergers and acquisitions by country. The dependent variable is the percentage of listed firms (out of WorldScope firms in each country) that were targeted in completed M&A deals from 2000 to 2005. Panel A presents the estimates using a sample of all 26 countries. Panel B excludes the U.S.. IO_TOTAL is the average total institutional ownership as a percentage of market capitalization. IO_DOMESTIC is the average institutional ownership by domestic institutions as a percentage of market capitalization. IO_FOREIGN is the institutional ownership by foreign institutions as a percentage of market capitalization. GDP is the average log GDP per capita in US dollars. GROWTH is the GDP average annual real growth rate. COMMON is a dummy variable that equals one for common law countries. ANTI is an index of minority shareholders rights. ACC is an index of the quality of accounting disclosure. OWNER is the average equity stake by the three largest shareholders in the ten largest non-financial firms. MKT_RET is the average annual stock market return. COMPETITION is a survey-based measure of product market competition. Robust t-statistics are in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: All Countries								
IO_TOTAL		0.1567 (2.78)	0.1562 (2.72)	0.1908 (3.04)	0.1614 (2.66)	0.1196 (1.89)	0.1916 (3.92)	
IO_DOMESTIC								0.1769 (3.34)
IO_FOREIGN								0.2633 (2.52)
GDP	0.0008 (0.09)	-0.0077 (-0.89)	-0.0072 (-0.81)	-0.0120 (-0.82)	-0.0097 (-0.70)	-0.0153 (-1.53)	0.0051 (0.56)	0.0040 (0.43)
GROWTH	-1.4117 (-1.74)	-1.2187 (-1.71)	-0.9478 (-1.46)	-0.1677 (-0.17)	-1.2576 (-1.14)	-1.5017 (-1.83)	-1.4296 (-2.09)	-1.6954 (-2.20)
COMMON	0.0658 (2.73)	0.0455 (2.04)			0.0493 (1.90)	0.0448 (1.79)	0.0483 (2.37)	0.0550 (2.47)
ANTI			0.0133 (1.91)					
ACC				0.0005 (0.45)	0.0002 (0.15)			
OWNER						-0.0008 (-1.33)		
MKT_RET							0.1271 (1.31)	0.1359 (1.38)
COMPETITION							-0.0415 (-2.87)	-0.0432 (-2.92)
Constant	0.0732 (0.73)	0.1312 (1.45)	0.0911 (0.96)	0.1225 (0.91)	0.1402 (1.11)	0.2525 (2.19)	0.2466 (2.43)	0.2646 (2.51)
Observations	26	26	26	23	23	24	25	25
R-squared	0.25	0.46	0.44	0.39	0.50	0.53	0.67	0.68
Panel B: Excluding US								
IO_TOTAL		0.2543 (3.01)	0.2343 (2.65)	0.3056 (2.61)	0.3513 (3.50)	0.2218 (2.32)	0.3139 (4.72)	
IO_DOMESTIC								0.5123 (4.63)
IO_FOREIGN								0.1798 (2.06)
GDP	-0.0006 (-0.06)	-0.0103 (-1.20)	-0.0094 (-1.05)	-0.0085 (-0.57)	-0.0026 (-0.20)	-0.0175 (-1.78)	0.0016 (0.19)	0.0017 (0.23)
GROWTH	-1.2193 (-1.47)	-1.4697 (-2.07)	-1.0585 (-1.63)	0.2460 (0.23)	-0.9643 (-0.97)	-1.8521 (-2.21)	-1.8292 (-2.91)	-1.2696 (-2.02)
COMMON	0.0554 (2.13)	0.0528 (2.38)			0.0689 (2.77)	0.0559 (2.18)	0.0594 (3.19)	0.0463 (2.57)
ANTI			0.0141 (2.02)					
ACC				-0.0002 (-0.12)	-0.0012 (-1.01)			
OWNER						-0.0006 (-1.04)		
MKT_RET							0.1209 (1.41)	0.0799 (0.99)
COMPETITION							-0.0440 (-3.42)	-0.0405 (-3.42)
Constant	0.0834 (0.82)	0.1477 (1.67)	0.1022 (1.08)	0.1045 (0.78)	0.1155 (1.02)	0.2581 (2.30)	0.2864 (3.13)	0.2635 (3.14)
Observations	25	25	25	22	22	23	24	24
R-squared	0.18	0.44	0.40	0.35	0.56	0.51	0.72	0.78

Table 5
Determinants of the Incidence of Cross-Border Mergers and Acquisitions
[Table 5 of Ferreira, Massa and Matos (2007)]

This table presents the estimates of the cross-sectional regression of the cross-border deals ratio by country. The dependent variable is the percentage of completed M&A deals that involve a foreign acquiror (cross-border) over all deals that target firms of each country (see last column of Table 1). Panel A presents the estimates using a sample of all 26 countries. Panel B excludes the U.S.. IO_TOTAL is the average total institutional ownership as a percentage of market capitalization. IO_DOMESTIC is the average institutional ownership by domestic institutions as a percentage of market capitalization. IO_FOREIGN is the institutional ownership by foreign institutions as a percentage of market capitalization. GDP is the average log GDP per capita in US dollars. GROWTH is the GDP average annual real growth rate. COMMON is a dummy variable that equals one for common law countries. ANTI is an index of minority shareholders rights. ACC is an index of the quality of accounting disclosure. OWNER is the average equity stake by the three largest shareholders in the ten largest non-financial firms. MKT_RET is the average annual stock market return. OPEN is a survey-based measure of the attitude towards cross-border deals. Robust t-statistics are in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: All Countries								
IO_TOTAL		0.0390 (1.49)						
IO_DOMESTIC			0.0184 (0.68)	0.0095 (0.37)	0.0262 (1.08)	0.0160 (0.61)	0.0115 (0.42)	0.0208 (0.83)
IO_FOREIGN			0.1259 (2.45)	0.1273 (2.58)	0.1280 (2.17)	0.1494 (2.40)	0.1340 (2.63)	0.1543 (3.28)
GDP	0.0041 (1.05)	0.0020 (0.48)	0.0000 (-0.00)	0.0004 (0.10)	-0.0033 (-0.59)	-0.0023 (-0.41)	-0.0035 (-0.84)	-0.0016 (-0.36)
GROWTH	0.0219 (0.07)	0.0700 (0.21)	-0.2252 (-0.65)	-0.3688 (-1.25)	-0.3941 (-1.01)	-0.6135 (-1.39)	-0.6341 (-1.68)	-0.7001 (-1.98)
COMMON	-0.0018 (-0.17)	-0.0068 (-0.66)	0.0009 (0.08)			0.0123 (1.05)	0.0100 (0.89)	0.0121 (1.10)
ANTI				0.0029 (0.94)				
ACC					0.0000 (0.09)	-0.0001 (-0.25)		
OWNER							-0.0001 (-0.40)	
MKT_RET								0.0601 (1.29)
OPEN								0.0004 (0.04)
Constant	-0.0164 (-0.39)	-0.0019 (-0.05)	0.0143 (0.35)	0.0057 (0.14)	0.0470 (0.92)	0.0479 (0.94)	0.0590 (1.25)	0.0279 (0.56)
Observations	26	26	26	26	23	23	24	25
R-squared	0.06	0.15	0.29	0.32	0.33	0.38	0.39	0.44
Panel B: Excluding US								
IO_TOTAL		0.1134 (3.21)						
IO_DOMESTIC			0.1298 (1.93)	0.1109 (1.65)	0.1845 (2.82)	0.1727 (2.63)	0.1353 (2.13)	0.1309 (2.18)
IO_FOREIGN			0.1033 (2.05)	0.1086 (2.22)	0.1055 (2.03)	0.1258 (2.31)	0.1170 (2.48)	0.1281 (2.82)
GDP	0.0043 (1.08)	-0.0001 (-0.02)	0.0001 (0.03)	0.0004 (0.10)	-0.0013 (-0.25)	-0.0004 (-0.07)	-0.0032 (-0.84)	-0.0016 (-0.38)
GROWTH	-0.0097 (-0.03)	-0.1214 (-0.41)	-0.0777 (-0.23)	-0.2448 (-0.84)	-0.1805 (-0.52)	-0.3879 (-0.99)	-0.5225 (-1.51)	-0.5553 (-1.66)
COMMON	-0.0001 (-0.01)	-0.0012 (-0.13)	-0.0022 (-0.22)			0.0114 (1.13)	0.0085 (0.83)	0.0102 (1.00)
ANTI				0.0019 (0.63)				
ACC					-0.0004 (-0.87)	-0.0005 (-1.17)		
OWNER							0.0000 (0.02)	
MKT_RET								0.0391 (0.88)
OPEN								-0.0018 (-0.22)
Constant	-0.0180 (-0.42)	0.0106 (0.29)	0.0085 (0.22)	0.0038 (0.10)	0.0450 (1.01)	0.0458 (1.04)	0.0469 (1.08)	0.0372 (0.80)
Observations	25	25	25	25	22	22	23	24
R-squared	0.07	0.38	0.39	0.40	0.53	0.56	0.52	0.55

Table 6
Determinants of Cross-Border Mergers and Acquisitions: Country Pairs
[Table 6 of Ferreira, Massa and Matos (2007)]

This table presents the estimates of the regression of cross-border M&A deals between matched country pairs. The dependent variable is the number of cross-border deals between target firms from country *i* and acquiror firms from country *j* as a percentage of the total of number of deals with target firm from country *i*. Panel B excludes all county pairs with US as the target country. IO(*i,j*) is the average total stock holdings of institutions from country *j* (same country as acquiror firm) in firms from country *i* (same country of target firm). GDP is the average log GDP per capita in US dollars. SAME_LANG is a dummy variable that equal one if the target and acquirer firms come from countries with the same official language. SAME_REGION is a dummy variable that equal one if the target and acquirer firms come from countries from the same geographical region. ANTI is an index of minority shareholders rights. ACC is an index of the quality of accounting disclosure. MKT_RET is the average annual stock market return. OPEN is a survey-based measure of the attitude towards cross-border deals. BILATERAL_TRADE is the average value of imports by country *i* from country *j* as a percentage of total imports by country *i*. Robust t-statistics are in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: All Countries Pairs							
IO(<i>i,j</i>)		1.0612 (3.09)	1.2152 (4.90)	1.2015 (4.92)	1.2006 (4.90)	0.6424 (1.80)	0.6512 (2.17)
GDP(<i>j</i>) - GDP(<i>i</i>)	0.0060 (2.01)	0.0042 (1.40)	0.0001 (0.05)	0.0007 (0.36)	-0.0006 (-0.32)	-0.0018 (-1.03)	-0.0009 (-0.06)
SAME_LANG	0.0218 (2.32)	0.0141 (1.82)	0.0122 (2.04)	0.0122 (2.04)	0.0122 (2.04)	0.0019 (0.25)	0.0168 (2.05)
SAME_REG	0.0081 (1.67)	0.0090 (2.01)	0.0117 (2.91)	0.0117 (2.90)	0.0117 (2.90)	0.0012 (0.29)	0.0046 (0.86)
ANTI(<i>j</i>) - ANTI(<i>i</i>)	0.0040 (3.28)	0.0026 (2.30)		0.0006 (0.58)			
ACC(<i>j</i>) - ACC(<i>i</i>)			0.0004 (1.78)	0.0003 (1.37)	0.0003 (1.66)	0.0004 (1.99)	0.0007 (2.18)
MKT_RET(<i>j</i>) - MKT_RET(<i>i</i>)					-0.0192 (-0.81)		
BILATERAL_TRADE(<i>i,j</i>)						0.3214 (2.05)	
Constant	0.0089 (2.55)	0.0038 (1.12)	0.0029 (1.79)	0.0030 (1.78)	0.0030 (1.84)	0.0019 (0.86)	
Target (<i>i</i>) country dummies	No	No	No	No	No	No	Yes
Acquiror (<i>j</i>) country dummies	No	No	No	No	No	No	Yes
Observations	507	507	421	421	421	421	421
R-squared	0.05	0.15	0.21	0.21	0.21	0.30	0.28
Panel B: Excluding US as Target							
IO(<i>i,j</i>)		1.0572 (3.07)	1.2134 (4.88)	1.2008 (4.89)	1.2000 (4.88)	0.6241 (1.73)	0.6476 (2.14)
GDP(<i>j</i>) - GDP(<i>i</i>)	0.0061 (1.96)	0.0043 (1.38)	-0.0001 (-0.08)	0.0005 (0.25)	-0.0008 (-0.40)	-0.0020 (-1.14)	-0.0087 (-1.33)
SAME_LANG	0.0237 (2.31)	0.0152 (1.80)	0.0133 (2.06)	0.0133 (2.06)	0.0133 (2.05)	0.0026 (0.33)	0.0180 (2.13)
SAME_REG	0.0083 (1.68)	0.0093 (2.01)	0.0115 (2.76)	0.0116 (2.85)	0.0116 (2.78)	0.0007 (0.18)	0.0039 (0.68)
ANTI(<i>j</i>) - ANTI(<i>i</i>)	0.0042 (3.25)	0.0027 (2.30)		0.0006 (0.52)			
ACC(<i>j</i>) - ACC(<i>i</i>)			0.0004 (1.79)	0.0003 (1.39)	0.0004 (1.69)	0.0004 (2.00)	0.0004 (0.62)
MKT_RET(<i>j</i>) - MKT_RET(<i>i</i>)					-0.0189 (-0.76)		
BILATERAL_TRADE(<i>i,j</i>)						0.3301 (2.05)	
Constant	0.0085 (2.40)	0.0035 (1.01)	0.0030 (1.73)	0.0030 (1.76)	0.0030 (1.72)	0.0021 (0.90)	
Target (<i>i</i>) country dummies	No	No	No	No	No	No	Yes
Acquiror (<i>j</i>) country dummies	No	No	No	No	No	No	Yes
Observations	485	485	401	401	401	401	401
R-squared	0.05	0.15	0.21	0.21	0.21	0.30	0.28

Table 7
Determinants of the Probability of Being Targeted in a Cross-Border Deal
[Table 8 of Ferreira, Massa and Matos (2007)]

This table presents the estimates of coefficients of probit model for the target cross-border dummy variable (TARGET_CROSS) that equals one if a cross-border deal is announced for a firm in a given year and zero otherwise using the sample of WorldScope/Datastream non-US firms. The firm-level regressors include log market capitalization (SIZE), log book-to-market equity ratio (BM), investment opportunities (INVOP), stock return (RET), dividend yield (DY), return-on-equity (ROE), leverage (LEV), cash holdings (CASH), ADR listed dummy (ADR), and MSCI index membership dummy (MSCI). The country-level regressors include GDP per capita (GDP), common law dummy (COMMON), and quality of accounting disclosure index (ACC). Regressions include year fixed-effects. The sample period is from 2000 to 2005. Robust t-statistics are in parentheses.

	(1)	(2)	(3)	(4)
IO_TOTAL	1.4560 (4.28)	1.5713 (3.58)		
IO_DOMESTIC			0.5814 (1.48)	0.9200 (1.71)
IO_FOREIGN			2.9125 (4.04)	3.6252 (4.00)
SIZE	0.0628 (2.98)	0.0579 (1.52)	0.0540 (2.50)	0.0434 (1.13)
BM		-0.0806 (-1.17)		-0.0768 (-1.12)
INVOP		0.1228 (0.89)		0.0976 (0.69)
RET		0.1090 (0.92)		0.1429 (1.20)
DY		-0.2514 (-0.11)		-0.0533 (-0.02)
ROE		-0.1532 (-0.88)		-0.1393 (-0.80)
LEV		-0.3861 (-1.28)		-0.3493 (-1.15)
CASH		1.0249 (2.67)		1.0863 (2.80)
ADR		0.3024 (0.68)		0.2900 (0.62)
MSCI		0.0063 (0.03)		-0.0441 (-0.22)
GDP	-0.1038 (-1.42)	-0.1174 (-1.26)	-0.1019 (-1.40)	-0.1176 (-1.26)
COMMON	0.0215 (0.17)	0.0342 (0.21)	0.0573 (0.46)	0.0613 (0.37)
ACC	0.0075 (0.82)	0.0085 (0.72)	0.0087 (0.95)	0.0098 (0.82)
Observations	1,272	733	1,272	733

Table 8
Determinants of the Target Premium
[Table 9 of Ferreira, Massa and Matos (2007)]

This table presents the estimates of coefficients of the OLS regression for the non-US target firm's abnormal premium, defined as the cumulative abnormal return in US dollars for trading days [-1,1] relative to the deal announcement day measured relative to a two-factor international market model using a year of prior daily data. The firm-level regressors include log market capitalization (SIZE), log book-to-market equity ratio (BM), investment opportunities (INVOP), return-on-equity (ROE), leverage (LEV), and cash holdings (CASH). The country-level regressors include GDP per capita (GDP), common law dummy (COMMON), and quality of accounting disclosure index (ACC). Regressions include year fixed-effects. The sample period is from 2000 to 2005. Robust t-statistics are in parentheses.


	(1)	(2)	(3)	(4)
IO_TOTAL	0.1166 (2.81)	0.1451 (2.57)		
IO_DOMESTIC			0.0933 (1.81)	0.1302 (1.85)
IO_FOREIGN			0.1807 (3.30)	0.1619 (2.50)
SIZE	-0.0032 (-1.51)	-0.0045 (-1.39)	-0.0038 (-1.85)	-0.0053 (-1.64)
BM		-0.0005 (-0.07)		0.0000 (-0.01)
INVOP		0.0036 (0.28)		0.0020 (0.16)
ROE		0.0226 (1.17)		0.0272 (1.39)
LEV		-0.0651 (-2.53)		-0.0672 (-2.65)
CASH		0.0345 (0.77)		0.0300 (0.68)
GDP	0.0061 (1.00)	0.0163 (2.48)	0.0062 (1.02)	0.0168 (2.56)
COMMON	0.0128 (1.09)	0.0275 (1.77)	0.0137 (1.17)	0.0274 (1.75)
ACC	0.0028 (3.25)	0.0008 (0.77)	0.0027 (3.17)	0.0008 (0.71)
Observations	1,221	737	1,221	737



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around the World**


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My presentation draws heavily on two papers:

- 1) “What is the Role of Institutional Investors in Mergers and Acquisitions? Cross-country Evidence”, 2007, co-authored with Miguel Ferreira (ISCTE Lisbon) and Massimo Massa (INSEAD);
- 2) “The Colors of Investors’ Money: The Role of Institutional Investors Around the World”, ***Journal of Financial Economics*** (***forthcoming***) co-authored with Miguel Ferreira (ISCTE)

I thank both Miguel and Massimo for letting me discuss our findings



In the news:



Takeover Boom: “\$2 trillion of deals in 07, on track to smash the record set in 06 when markets partied like it was 99.”

“Rise in the share of mergers that are cross-border, to a record 46% in the four months to April.”

“Once-staid institutional shareholders are becoming more willing to entertain offers as they strive to increase returns.”

In the news:



Activist Investors: “US: big institutions are (or support) activist investors”

- . CalPERS, Relational Investors (Home Depot)
- . Kirk Kerkovian (Chrysler, GM)

“Europe: “Shareholders at the gate?””

- . Hermes (UK), Fidelity (UK)
- . TCIF and Atticus

IMF (2005): Institutional investors assets >\$45 trillion (\$20 trln in equities)

Mergers in the news:

• ABN AMRO:



• The Economist (April 26, 07):

“London-based Children's Investment Fund, which set the ball rolling by calling for a break-up or sale of ABN.

• Financial Times (June 11, 07):

“Atticus thinks Barclays should abandon its bid for ABN and is prepared to state its views publicly. How come news that an activist investment manager with just 1% of Barclays Bank's shares can push the share price up by an initial 3%?”

• DAIMLER-CHRYSLER:



“Research shows that mergers often fail to bring expected benefits: look no further than the break-up of DaimlerChrysler after nine unhappy years.”

To motivate our paper ... the largest ever takeover (US\$ 180 bln):

. Acquirer = VODAFONE (UK)

. Target = MANNESMANN (DE)

-> Largest DAX-30 firm

-> Large INSTITUTIONAL ownership: all shareholders with >0.1% were institutions (except Hutchinson Whampoa, HK)

-> Large FOREIGN investor presence = 60% (40% alone by UK and US)

Source: Hopner and Jackson (2004)

Shareholder	Country/Number	Percent
Hutchison Whampoa	Hongkong	10.2
Capital Research & Management	U.S.	2.8
Schroder Investment Management	UK	2.1
Janus Capital Corp.	U.S.	1.8
Templeton Investment Management	UK / Hongkong	1.8
Deka Deutsche Kapitalgesellschaft	D	1.8
Deutsche Asset Management	D / U.S. / UK	1.6
Alliance Capital Management	U.S.	1.5
American Express Asset Management	U.S.	1.1
DWS Deutsche Gesellschaft für Wertpapiersparen	D	1.0
Fidelity Management & Research Company	U.S. / UK	0.9
Foreign & Colonial Management	UK	0.9
Putnam Investment Management	U.S.	0.7
Commerzbank Investment Management	D	0.7
Dresdner Bank Investment Management	D	0.7
MFS Investment Management	U.S.	0.7
Union Investment Gesellschaft	D	0.6
Oppenheim Kapitalgesellschaft	D	0.6
UBS Erinson	CH / D	0.6
Allianz Kapitalanlagegesellschaft	D	0.6
Robur Kapitalverwaltung	S	0.6
Frankfurt Trust Investment Gesellschaft	D	0.5
Allionds Bayerische Kapitalanlage	D	0.5
Universa Investment-Gesellschaft	D	0.5
Mercury Asset Management	UK	0.5
Adig Allgemeine Deutsche Investment	D	0.5
Inka-internationale K&G	D	0.5
Cumulative total, stakes of 1% or more	10 shareholders	25.7 (15.5) ^a
Cumulative total, stakes of 0.5% or more	27 shareholders	36.3 (26.1) ^a
Cumulative total, stakes of 0.1% or more	63 shareholders	44.3 (34.1) ^a

Example: 1999 - takeover of MANNESMANN (DE) by VODAFONE (UK) ...



MANNESMANN's ad: "Warning! Vodafone will turn your stock portfolio into a construction site."



VODAFONE's reply: "Mannesmann is making fools of its shareholders!"

This paper: What's the role of institutional investors in M&A events?

- ▶ Impact on M&A activity at country-level?
- ▶ Special role in cross-border deals?
- ▶ Firm-level evidence?

Main Findings:

- ▶ Higher Institutional Ownership (IO) associated with more M&A Volume (specially Cross-Border deals)
- ▶ IO_FOREIGN increases the probability bid made by foreign firm ... Institutions build "bridges" between firms across countries!

Previous Literature:

- ▶ Gillan & Starks (03): role of institutional investors on global corporate governance. But evidence in US of activism is mixed.
- ▶ M&As in the US: Stulz et al. (90) Ambrose and Megginson (92) Gaspar, Massa and Matos (05), Chen, Harford and Li (06)
- ▶ M&As international: law & finance (Rossi&Volpin04 Bris&Chabolis06)

Role of Institutional Investors outside the US:

- ▶ Ferreira & Matos (JFE,forthcoming):
 - . Institutional money does not have single 'color' (US=Non-US)
 - . Firms with higher foreign or active institutional ownership have higher valuations (Tobin Q) and operating performance

OUTLINE OF THE PRESENTATION

0. Introduction

1. Institutional Ownership Data

2. Country-Level Tests

3. Firm-Level Tests

Conclusions

Empirical analysis over 2000-05 :

- . Institutional equity holdings – dataset 1: FACTSET/LIONSHARES
- . M&A deals worldwide – dataset 2: SDC PLATINUM

FACTSET/LIOSNHARES: equity holdings by institutional investors

- . 27 countries, >5,000 institutions, >35,000 stocks

ALL WORLD

- . \$ 18 trillion (Dec-05)
- . 38.5% of world market cap
- . 49.9% of market float

EXCLUDING U.S. FIRMS

- . \$ 5.2 Trillion (Dec-05)
- . 19.1% of market cap
- . 27.9% of market float

An aggregate view: by country of institution (rows) and stock (columns)

Institution Country	Destination Stock Market Country																											Total	
	US	UK	FR	CA	SE	JP	NL	CH	IT	NO	IE	BE	DK	HK	ES	SG	FI	LU	ZA	AU	IN	AT	PT	LI	PL	GR	Other		
US	11,853	116	207	253	236	143	115	29	15	18	30	7	9	18	24	31	31	35	34	29	1	1	1	1	1	1	1	1	1,488
UK	312	31	21	42	10	62	12	35	22	7	8	6	4	9	18	24	4	2	1	1	1	1	1	1	1	1	1	102	
FR	307	17	17	23	5	17	17	9	14	1	2	6	1	1	9	0	4	2	1	0	1	1	1	0	1	1	1	29	
CA	124	17	6	2	1	11	1	4	2	0	2	0	1	2	2	1	1	0	1	3	0	0	0	0	0	0	0	13	
DE	70	48	68	2	1	21	34	23	23	3	4	6	2	3	26	1	10	1	0	3	1	2	1	0	1	2	13		
SE	33	19	9	1	4	5	5	1	2	1	0	1	1	2	0	3	1	0	1	0	1	0	0	0	0	0	10		
JP	43	3	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5		
NL	49	10	6	2	4	5	1	1	2	1	1	0	1	2	0	1	0	0	1	0	0	1	0	0	0	0	1	9	
CH	86	11	9	2	6	1	6	1	2	1	1	1	0	1	3	0	2	0	1	1	0	1	0	1	0	0	0	7	
IT	19	11	9	0	6	1	6	0	0	0	0	0	1	0	1	2	0	1	1	0	1	0	0	0	0	0	0	4	
NO	30	12	6	2	4	1	6	3	4	2	1	1	0	1	1	2	0	0	1	0	0	1	0	0	0	0	0	4	
IE	20	7	5	1	3	0	3	2	3	9	0	1	0	1	1	2	0	0	0	1	0	0	0	0	0	0	0	3	
BE	11	6	8	0	5	1	2	4	2	3	0	0	0	0	3	0	1	0	0	0	0	0	0	0	0	0	1	2	
DK	15	9	3	0	3	2	5	2	2	1	0	0	0	0	1	0	1	0	0	0	1	0	0	0	0	0	0	6	
HK	1	2	0	0	0	0	3	0	0	0	0	0	0	0	2	0	0	1	2	3	0	0	0	0	0	0	0	29	
ES	5	2	5	0	3	0	1	2	1	2	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	
SG	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	21	
FI	2	4	3	0	2	2	1	1	2	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	
LU	8	4	3	0	2	1	5	1	2	2	0	1	0	0	1	1	0	1	0	0	0	0	0	0	0	0	0	3	
ZA	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20	
AU	4	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	35	
IN	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	21	
AT	2	1	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10	
PT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	
LI	1	0	0	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	
PL	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	
GR	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	
Other	22	12	4	1	4	1	16	0	4	1	0	0	1	4	2	1	0	2	1	0	2	1	0	0	0	0	0	119	
Total	12,826	851	191	638	329	151	567	258	260	188	18	41	43	39	80	125	26	79	19	45	91	67	19	9	0	11	17	772	

Non-US firms (US\$ 5.2 trillion): 3 investor groups with equal “pocket sizes”

- A** US\$2 trillion from U.S.-BASED Foreign institutions
- B₁ B₂** US\$1.7 trillion from NON-U.S. Foreign institutions
- C** US\$1.5 trillion from DOMESTIC institutions

A detailed view: largest firms in FR and SE

TOTAL					ERICSSON				
Market cap in Dec-05 = US\$154 billion					Market cap in Dec-05 = US\$51 billion				
Total institutional ownership = 48.4%					Total institutional Ownership = 43.6%				
Domestic IO = 11.5% , Foreign IO = 36.8% , Foreign U.S. IO = 14.6%					Domestic IO = 19.9% , Foreign IO = 23.8% , Foreign U.S. IO = 11.3%				
Ind. IO = 26.7% , Grey IO = 21.4%					Ind. IO = 22.0% , Grey IO = 21.3%				
Top 10 institutions :					Top 10 institutions :				
(name)	(country)	(type)	(%held)	(shares)	(name)	(country)	(type)	(%held)	(shares)
Ecureuil Gestion SA	FR	INV ADV	1.9%	local	Robur Fonder AB	SE	M FUND	2.7%	local
Fidelity Mgt	US	INV ADV	1.8%	adr	Handelsbanken Kapitalförvaltning	SE	BANK	2.5%	local
Crédit Agricole Asset Mgt	FR	BANK	1.8%	local	Nordea Investment Mgt AB	SE	INV ADV	1.8%	local
IXIS Asset Mgt	FR	M FUND	1.7%	local	Alecta Pensionsförsäkring	SE	P FUND	1.6%	local
Wellington Mgt	US	M FUND	1.2%	adr	SEB Investment Mgt AB	SE	M FUND	1.5%	local
Capital Research & Mgt	US	INV ADV	1.1%	local	Fjärde AP-fonden	SE	P FUND	1.4%	local
Deka Investment GmbH	DE	BANK	0.8%	local	Oppenheimer Funds	US	INV ADV	1.3%	local
BNP Paribas Asset Mgt	FR	BANK	0.7%	local	Första AP-fonden	SE	P FUND	1.2%	local
Fidelity Investments Intl	UK	M FUND	0.7%	local	Andra AP-fonden	SE	P FUND	1.1%	local
UBS Global Asset Mgt	CH	BANK	0.7%	local	Fidelity Mgt	US	INV ADV	1.0%	adr

- ▶ Domestic / US / Non-US Foreign
- ▶ Local shares / ADR receipts

An aggregate view: Top 5 institutions

	Dec-2000	Dec-2005	5 Largest Institutions (Dec-2005)
United States	Total Equity Assets (\$ mln) 10,078,671 Nr of institutions 2,162	13,654,134 3,233	1: Barclays Global Investors NA (CA) - \$674.9 bln 2: Capital Research & Management Co. - \$661.6 bln 3: Fidelity Management & Research - \$646.8 bln 4: State Street Global Advisors - \$456.5 bln 5: Vanguard Group, Inc. - \$375.9 bln
United Kingdom	Total Equity Assets (\$ mln) 371,122 Nr of institutions 123	1,176,063 324	1: AMVESCAP Plc - \$113.9 bln 2: Fidelity Investments International (UK) Ltd. - \$95.1 bln 3: JPMorgan Asset Management (UK) Ltd. - \$75.3 bln 4: Schroder Investment Management (UK) Ltd. - \$60.6 bln 5: INVESCO Asset Management Ltd. - \$44 bln
France	Total Equity Assets (\$ mln) 285,796 Nr of institutions 41	630,562 173	1: AXA SA - \$281.7 bln 2: Crédit Agricole Asset Management (France) SA - \$41.7 bln 3: DSS Asset Management (France) SA - \$32.9 bln 4: BNP Paribas Asset Management (France) - \$31.6 bln 5: AXA Investment Managers Plais SA - \$24.6 bln
Canada	Total Equity Assets (\$ mln) 126,912 Nr of institutions 39	567,857 213	1: TD Asset Management, Inc. - \$40.6 bln 2: AIM Trisark Investments - \$26.9 bln 3: Jaislowky, Fraser Ltd. - \$26.9 bln 4: CSP Investment Board - \$26.6 bln 5: CDP Capital World Markets - \$25.4 bln
Germany	Total Equity Assets (\$ mln) 117,554 Nr of institutions 53	491,007 164	1: Dresdnerbank Investment Management Kapitalanlage GmbH (DEB) - \$69.7 bln 2: DWS Investment GmbH (Germany) - \$45.5 bln 3: Deka Investment GmbH - \$29.4 bln 4: Union Investment Privatfonds GmbH - \$34 bln 5: Universal-Investment-GmbH - \$30.3 bln
Sweden	Total Equity Assets (\$ mln) 26,322 Nr of institutions 12	166,958 65	1: Robur Fonder AB - \$27.2 bln 2: SEB Investment Management AB - \$17.1 bln 3: Handelsbanken Kapitalförvaltning - \$16.1 bln 4: Alecta Pensionsförsäkring, Omnesdel - \$15.8 bln 5: Nordea Investment Management AB (Sweden) - \$12.9 bln
Japan	Total Equity Assets (\$ mln) 48,165 Nr of institutions 36	209,306 86	1: Nomura Asset Management Co., Ltd. - \$36 bln 2: Fidelity Investments Japan Ltd. - \$23.1 bln 3: Nikko Asset Management Co. Ltd. - \$14.9 bln 4: Nomura Securities Co., Ltd. - \$12.4 bln 5: Daiwa Asset Management - \$12.3 bln
Netherlands	Total Equity Assets (\$ mln) 34,762 Nr of institutions 17	116,633 41	1: Stichting Pensioenfonds AEP - \$24.9 bln 2: ABN AMRO Asset Management (Amsterdam) - \$24.1 bln 3: Robeco Asset Management - \$16.6 bln 4: ING Investment Management Advisors BV - \$17.7 bln 5: AEGON Asset Management NV (Netherlands) - \$10.1 bln

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INTRODUCTION 1. DATA 2. COUNTRY TESTS 3. FIRM TESTS CONCLUSIONS

. Dataset 1: SDC M&A deals

. M&A events per country (SDC data)

. Universe of firms =
WS/Datastream

. M&A volume = % targeted in M&A deals

. Cross-Border ratio (as % of all deals)

	Sample of Firms		Institutional Ownership (%)			All Deals			Cross-Border Deals		
	Number	Market Cap	Total	Domestic	Foreign	Number	Total Value	% of Firms	Number	% of Firms	Ratio (%)
Australia (AU)	1,753	594,465	6.40	0.56	5.54	190	77,200	10.54	33	1.68	17.37
Austria (AT)	180	62,072	8.70	0.68	8.02	6	8,821	3.33	3	1.67	50.00
Belgium (BE)	259	219,469	10.54	3.30	7.24	12	30,769	4.63	3	1.16	25.00
Canada (CA)	1,746	888,813	38.39	20.64	17.75	423	188,842	24.23	113	6.47	26.71
Denmark (DK)	314	109,511	18.70	7.35	11.34	17	16,930	5.41	4	1.27	23.53
Finland (FI)	223	202,085	35.52	3.33	32.19	11	13,760	4.93	5	2.24	48.46
France (FR)	1,491	1,556,741	18.33	9.85	12.48	85	125,561	5.70	31	2.08	38.47
Germany (DE)	1,308	1,122,865	17.51	7.05	10.46	71	57,037	5.43	42	3.21	59.15
Greece (GR)	247	76,536	4.85	0.26	4.58	8	1,987	3.23	2	0.81	25.00
Hong Kong (HK)	1,074	519,263	8.72	1.47	7.26	23	45,088	2.14	6	0.56	26.09
India (IN)	393	218,769	10.27	1.57	8.71	37	2,357	9.41	7	1.78	18.92
Ireland (IE)	127	89,732	30.39	0.63	29.75	4	1,658	3.15	4	3.15	100.00
Italy (IT)	456	676,377	12.24	2.47	9.77	20	19,685	4.39	6	1.32	30.00
Japan (JP)	4,070	3,414,759	7.68	1.52	6.16	248	148,538	6.09	9	0.22	3.63
Luxembourg (LU)	54	47,110	16.87	0.71	16.16	3	4,723	5.56	3	5.56	100.00
Netherlands (NL)	372	748,655	22.44	1.24	21.20	28	38,176	7.53	20	5.38	71.43
Norway (NO)	330	111,425	18.21	6.58	11.64	27	8,829	8.18	18	5.45	66.67
Poland (PL)	52	26,467	8.31	2.23	6.09	2	99	3.85	1	1.92	50.00
Portugal (PT)	137	66,648	9.29	1.24	8.05	7	828	5.11	5	3.65	71.43
Singapore (SG)	617	166,734	8.76	1.05	7.71	23	16,739	3.73	4	0.65	17.39
South Africa (ZA)	772	220,671	9.47	2.33	7.14	34	9,603	4.40	7	0.91	20.59
Spain (ES)	278	493,337	15.03	1.87	13.16	18	15,070	6.47	6	2.16	33.33
Sweden (SE)	550	295,888	29.16	16.32	12.83	35	10,436	6.36	17	3.09	48.57
Switzerland (CH)	392	731,194	17.80	3.00	14.80	17	9,556	4.34	9	2.30	52.94
United Kingdom (UK)	3,592	3,047,705	18.78	7.51	11.28	227	433,768	6.32	81	2.26	35.68
United States (US)	11,753	13,992,086	73.33	67.91	5.41	1,711	2,311,756	14.56	222	1.89	12.97
Other	7,710	2,531,083	16.98	0.13	16.85	297	140,340	3.85	104	1.35	35.02
World	40,250	32,272,467	40.98	31.92	9.06	3,584	3,738,453	10.01	765	1.95	23.83
World (excluding US)	28,497	18,280,381	16.23	4.37	11.86	1,873	1,426,697	6.53	543	2.02	32.13

. Dataset 2: FactSet/Lionshares institutional holdings

. Holdings by DOMESTIC and FOREIGN institutions

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Germany (DE)	1,308	1,122,865	17.51	7.05	10.46	71	57,037	5.43	42	3.21	59.15
Greece (GR)	247	76,536	4.85	0.26	4.58	8	1,987	3.23	2	0.81	25.00
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Italy (IT)	456	676,377	12.24	2.47	9.77	20	19,685	4.39	6	1.32	30.00
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Portugal (PT)	137	66,648	9.29	1.24	8.05	7	828	5.11	5	3.65	71.43
Singapore (SG)	617	168,734	8.76	1.05	7.71	23	16,739	3.73	4	0.65	17.39
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Sweden (SE)	550	295,888	29.16	16.32	12.83	35	10,436	6.36	17	3.09	48.57
Switzerland (CH)	392	781,184	17.80	3.00	14.80	17	9,556	4.34	9	2.30	52.94
United Kingdom (UK)	3,592	3,047,705	18.78	7.51	11.28	227	43,798	6.32	81	2.26	35.68
United States (US)	11,753	13,992,096	73.33	67.91	5.41	1,711	2,311,756	14.56	222	1.89	12.97
Other	7,710	2,531,083	46.09	0.13	46.05	297	140,340	3.85	104	1.35	35.02
World	40,250	32,272,467	40.98	31.92	9.06	3,584	3,738,453	10.01	765	1.96	23.83
World (excluding US)	28,497	18,280,381	16.23	4.37	11.86	1,873	1,426,697	6.53	543	2.02	32.13

COUNTRY-LEVEL TEST 1:

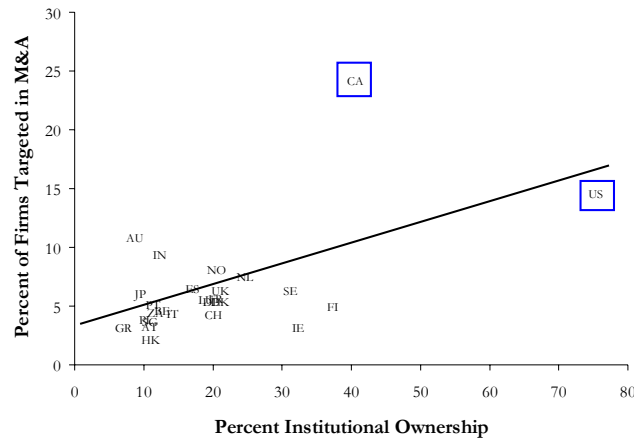
. M&A Volume / Market Cap = f (IO_TOTAL)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Panel A: All Countries							
IO_TOTAL		0.1567 (2.78)	0.1562 (2.72)	0.1908 (3.04)	0.1614 (2.66)	0.1196 (1.89)	0.1916 (3.92)	
IO_DOMESTIC								0.1769 (3.34)
IO_FOREIGN								0.2633 (2.52)
GDP	0.0008 (0.09)	-0.0077 (-0.89)	-0.0072 (-0.81)	-0.0120 (-0.82)	-0.0097 (-0.70)	-0.0153 (-1.53)	0.0061 (0.56)	0.0040 (0.43)
GROWTH	-1.4117 (-1.74)	-1.2187 (-1.71)	-0.9478 (-1.46)	-0.1677 (-0.17)	-1.2576 (-1.14)	-1.5017 (-1.83)	-1.4296 (-2.09)	-1.6954 (-2.20)
COMMON	0.0698 (2.73)	0.0465 (2.04)			0.0493 (1.90)	0.0448 (1.79)	0.0483 (2.37)	0.0950 (2.47)
ANTI			0.0133 (1.91)					
ACC				0.0005 (0.45)	0.0002 (0.15)			
OWNER						-0.0008 (-1.33)		
MKT_RET							0.1271 (1.31)	0.1359 (1.38)
COMPETITION							-0.0415 (-2.87)	-0.0432 (-2.92)
Constant	0.0732 (0.73)	0.1312 (1.45)	0.0911 (0.96)	0.1225 (0.91)	0.1402 (1.11)	0.2525 (2.19)	0.2466 (2.43)	0.2546 (2.51)
Observations	26	26	26	23	23	24	25	25
R-squared	0.25	0.46	0.44	0.39	0.50	0.53	0.67	0.68

. investor protection and market development variables not significant [except common law (COMMON) as in Rossi & Volpin(04)]

COUNTRY-LEVEL TEST 1:

. M&A Volume / Market Cap = f (IO_TOTAL)



COUNTRY-LEVEL TEST 2:

. Cross-Border M&A / Total M&A = f (IO_DOMESTIC, IO_FOREIGN)

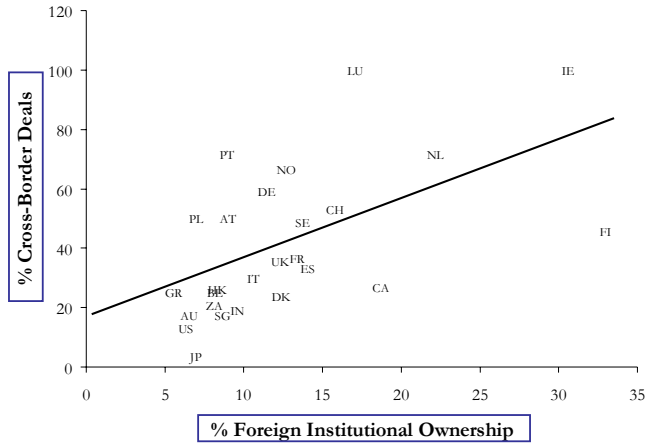
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Panel A: All Countries							
IO_TOTAL		0.0390 (1.49)						
IO_DOMESTIC			0.0184 (0.68)	0.0095 (0.37)	0.0262 (1.08)	0.0160 (0.61)	0.0115 (0.42)	0.0208 (0.83)
IO_FOREIGN			0.1259 (2.45)	0.1273 (2.58)	0.1280 (2.17)	0.1484 (2.40)	0.1340 (2.63)	0.1543 (3.28)
GDP	0.0041 (1.05)	0.0020 (0.48)	0.0000 (-0.00)	0.0004 (0.10)	-0.0033 (-0.59)	-0.0023 (-0.41)	-0.0030 (-0.84)	-0.0016 (-0.36)
GROWTH	0.0219 (0.07)	0.0700 (0.21)	-0.2252 (-0.65)	-0.3688 (-1.25)	-0.3941 (-1.01)	-0.6135 (-1.39)	-0.6341 (-1.68)	-0.7001 (-1.98)
COMMON	-0.0018 (-0.17)	-0.0068 (-0.66)	0.0009 (0.08)			0.0123 (1.05)	0.0100 (0.89)	0.0121 (1.10)
ANTI				0.0029 (0.94)				
ACC					0.0000 (0.09)	-0.0001 (-0.25)		
OWNER							-0.0001 (-0.40)	
MKT_RET								0.0601 (1.29)
OPEN								0.0004 (0.04)
Constant	-0.0164 (-0.39)	-0.0019 (-0.05)	0.0143 (0.35)	0.0057 (0.14)	0.0470 (0.92)	0.0479 (0.94)	0.0590 (1.25)	0.0279 (0.58)
Observations	26	26	26	26	23	23	24	25
R-squared	0.06	0.15	0.29	0.32	0.33	0.38	0.39	0.44

. IO_FOREIGN > 0: foreign institutions “facilitators”

. Unlike Rossi & Volpin(04), other proxies for investor protection and market development insignificant

COUNTRY-LEVEL TEST 2:

. Cross-Border M&A / Total M&A = f (IO_DOMESTIC, IO_FOREIGN)



. Intra vs. Cross-Border M&A volume (overall 2000-05):

Panel A. Number of M&A Deal		Acquirer Country																				Total							
Target Country		AU	AT	BE	CA	DK	FI	FR	DE	GR	HK	IN	IE	IT	JP	LU	NL	NO	PL	PT	SG	ZA	ES	SE	CH	UK	US	Other	
AU	1571																												190
AT		3																											6
BE			31																										12
CA				310																									423
DK					13																								17
FI						13																							11
FR							54																						85
DE								29																					71
GR									8																				1
HK										17																			3
IN											30																		37
IE												10																	4
IT													10																20
JP														239															248
LU															3														3
NL																3													28
NO																	9												27
PL																		1											2
PT																			2										7
SG																				10									23
ZA																					27								34
ES																						12							18
SE																							18						35
CH																							18						17
UK																								8					2
US																										148			227
Other																											1,459	26	1,711
Total		184	9	25	385	26	16	97	75	9	23	32	37	250	4	37	16	2	4	30	36	32	44	34	250	1,679	248	3,584	

Overall M&A volume: . 44% are US targets (=\$1,711 bln)

. 25% is cross-border

If exclude US targets: . 42% is cross-border

COUNTRY-PAIRS TEST 3:

$$CROSS_BORDER(i,j) = \alpha + \beta IO(i,j) + \delta X(i,j) + \varepsilon$$

$CROSS_BORDER(i,j)$ = # of deals target country i , bidder from j

$IO(i,j)$ = % of country i 's Market Cap held by institutions from j

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: All Countries Pairs							
$IO(i,j)$		1.0612 (3.09)	1.2152 (4.90)	1.2015 (4.92)	1.2006 (4.90)	0.6424 (1.80)	0.6512 (2.17)
$GDP(i) - GDP(i)$	0.0060 (2.01)	0.0042 (1.40)	0.0001 (0.05)	0.0007 (0.36)	-0.0006 (-0.32)	-0.0018 (-1.03)	-0.0009 (-0.06)
$SAME_LANG$	0.0218 (2.32)	0.0141 (1.82)	0.0122 (2.04)	0.0122 (2.04)	0.0122 (2.04)	0.0019 (0.25)	0.0168 (2.05)
$SAME_REG$	0.0081 (1.57)	0.0090 (2.01)	0.0117 (2.91)	0.0117 (2.90)	0.0117 (2.90)	0.0012 (0.29)	0.0046 (0.86)
$ANTI(j) - ANTI(i)$	0.0040 (3.28)	0.0026 (2.30)		0.0006 (0.58)			
$ACC(j) - ACC(i)$			0.0004 (1.78)	0.0003 (1.37)	0.0003 (1.66)	0.0004 (1.99)	0.0007 (2.18)
$MKT_RET(j) - MKT_RET(i)$					-0.0192 (-0.81)		
$BILATERAL_TRADE(i,j)$						0.3214 (2.05)	
Constant	0.0089 (2.55)	0.0038 (1.12)	0.0029 (1.79)	0.0030 (1.78)	0.0030 (1.84)	0.0019 (0.86)	
Target (i) country dummies	No	No	No	No	No	No	Yes
Acquirer (j) country dummies	No	No	No	No	No	No	Yes
Observations	507	507	421	421	421	421	421
R-squared	0.05	0.15	0.21	0.21	0.21	0.30	0.28

OUTLINE OF THE PRESENTATION

0. Introduction

1. Institutional Ownership Data

2. Country-Level Tests

3. Firm-Level Tests

Conclusions

Examine firm-level data for Non-US target firms [**** work in progress ****]

		N	Mean	Std Dev	Min	Max
Target Cross-Border Dummy	CROSS_TARGET	1,272	0.324	0.468	0.000	1.000
Target Abnormal Premium	PREMIUM_TARGET	1,221	0.077	0.133	-0.348	0.695
Total Institutional Ownership	IO_TOTAL	1,272	0.082	0.125	0.000	0.987
Domestic Institutional Ownership	IO_DOMESTIC	1,272	0.056	0.106	0.000	0.981
Foreign Institutional Ownership	IO_FOREIGN	1,272	0.030	0.066	0.000	0.718
Market Capitalization	SIZE	1,272	11,530	1,856	5,136	18,045
Book-to-Market	BM	1,134	-0.360	0.855	-3.232	3.144
Investment Opportunities	INVOP	1,084	0.144	0.403	-0.741	2.902
Annual Stock Return	RET	1,255	-0.121	0.597	-2.459	1.625
Dividend Yield	DY	1,170	0.016	0.023	0.000	0.141
Return-on-Equity	ROE	1,041	-0.013	0.334	-2.151	0.708
Leverage	LEV	1,053	0.279	0.223	0.000	1.205
Cash Holdings	CASH	1,092	0.161	0.185	0.000	0.882
ADR Listed Dummy	ADR	1,271	0.017	0.130	0.000	1.000
MSCI Membership Dummy	MSCI	1,272	0.075	0.264	0.000	1.000
GDP Per Capita	GDP	1,272	10,174	0.821	6,131	10,906
Common Law Dummy	COMMON	1,272	69.985	6,636	36,000	83,000
Quality of Accounting Disclosure Index	ACC	1,272	0.482	0.500	0.000	1.000

- . Sample = 1,272 events
- . 32% cross-border

TEST 1: FOREIGN BIDDER

. $Prob(Deal\ is\ Cross-Border)_i = a + b X_i + c IO_i + e$

	(1)	(2)	(3)	(4)
IO_TOTAL	1.4560 (4.28)	1.5713 (3.58)		
IO_DOMESTIC			0.5814 (1.48)	0.9200 (1.71)
IO_FOREIGN			2.9125 (4.04)	3.6252 (4.00)
SIZE	0.0628 (2.98)	0.0579 (1.52)	0.0540 (2.50)	0.0434 (1.13)
BM		-0.0806 (-1.17)		-0.0766 (-1.12)
INVOP		0.1228 (0.89)		0.0976 (0.69)
RET		0.1090 (0.92)		0.1429 (1.20)
DY		-0.2514 (-0.11)		-0.0533 (-0.02)
ROE		-0.1532 (-0.88)		-0.1393 (-0.80)
LEV		-0.3961 (-1.28)		-0.3493 (-1.15)
CASH		1.0249 (2.67)		1.0953 (2.80)
ADR		0.3024 (0.68)		0.2900 (0.62)
MSCI		0.0063 (0.03)		-0.0441 (-0.22)
GDP	-0.1038 (-1.42)	-0.1174 (-1.26)	-0.1019 (-1.40)	-0.1176 (-1.26)
COMMON	0.0215 (0.17)	0.0342 (0.21)	0.0573 (0.46)	0.0613 (0.37)
ACC	0.0075 (0.82)	0.0085 (0.72)	0.0067 (0.95)	0.0098 (0.82)
Observations	1,272	733	1,272	733

TEST 2: TARGET PREMIUM

. $CAR(-1,+1)_i = a + b X_i + c IO_i + e$

	(1)	(2)	(3)	(4)
IO_TOTAL	0.1166 (2.81)	0.1451 (2.57)		
IO_DOMESTIC			0.0933 (1.81)	0.1302 (1.85)
IO_FOREIGN			0.1607 (3.30)	0.1615 (2.50)
SIZE	-0.0032 (-1.51)	-0.0045 (-1.39)	-0.0038 (-1.85)	-0.0053 (-1.64)
BM		-0.0005 (-0.07)		0.0000 (-0.01)
INVOP		0.0036 (0.28)		0.0020 (0.16)
ROE		0.0226 (1.17)		0.0272 (1.39)
LEV		-0.0651 (-2.53)		-0.0672 (-2.65)
CASH		0.0345 (0.77)		0.0300 (0.68)
GDP	0.0061 (1.00)	0.0163 (2.48)	0.0062 (1.02)	0.0168 (2.56)
COMMON	0.0128 (1.09)	0.0275 (1.77)	0.0137 (1.17)	0.0274 (1.75)
ACC	0.0028 (0.25)	0.0008 (0.77)	0.0027 (0.71)	0.0008 (0.71)
Observations	1,221	737	1,221	737

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INTRODUCTION

1. DATA

2. COUNTRY TESTS

3. FIRM TESTS

CONCLUSIONS

Country Level findings:

- ▶ Volume of M&A ↑ with higher IO
- ▶ Cross-border M&As ↑ with foreign IO



Individual M&A transaction findings:

- ▶ Prob(Foreign Takeover) ↑ if Foreign IO
- ▶ IO +vely associated w/ target premiums



... IO driving force in financial integration of capital markets