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Corporate Governance and State Expropriation Risk

Burcin Col, Vihang Errunza

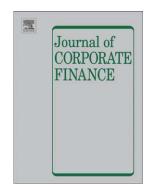
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Corporate Governance and State Expropriation Risk

Burcin Col Pace University Vihang Errunza McGill University

Abstract

Recent studies show that the transfer of corporate governance structure across borders has significant valuation consequences. It is equally important to consider the valuation effect of state expropriation risk as well as its interaction with quality of corporate governance. Using a sample of cross-border acquisitions during 1989-2009, we find that targets, which operate under some degree of state expropriation risk, receive a significantly lower premium. The target shareholders are not fully rewarded for the improvement in firm governance since the benefits of improvement are mitigated under predation. Our results provide evidence for twin-agency theory of Stulz (2005) through cross-border mergers.

Keywords: Cross-border mergers, valuation, state expropriation, corporate governance

JEL classification: G15, G34, G38

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^{*}Burcin Col is at Lubin School of Business, Pace University, One Pace Plaza, New York, NY 10038, USA. E-mail: bcol@pace.edu. Vihang Errunza is at Desautels Faculty of Management, McGill University, 1001 Sherbrooke Street West, Montreal, Quebec H3A 1G5, Canada. E-mail: vihang.errunza@mcgill.ca Phone: +1-514-398-3876. We thank Bo Becker, Artyom Durney, Lawrence Kryzanowski, Craig Lewis, Adolfo de Motta, Hernan Ortiz-Molina, Laura Starks and participants at 2011 Northern Finance Association Meetings as well as the 2011 FMA European Meetings, FMA Annual Meetings, Australasian Finance and Banking Conference, Desautels-HEC-Rotman Winter Workshop for insightful comments. Col acknowledges financial support from CFGR. Errunza acknowledges financial support from the Bank of Montreal Chair at McGill University, IFM2 and SSHRC.

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