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Corporate Governance and State Expropriation Risk^{*}

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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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