

**EARNINGS MANAGEMENT OF TARGET FIRMS AND DEAL PREMIUMS:
THE ROLE OF INDUSTRY RELATEDNESS**

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Abstract: This paper contributes to the merger and acquisitions (M&A) literature by providing evidence on the role of industry relatedness in the association between the earnings management (EM) practices of the target firm before the deal and the premium offered by the acquirer. We argue that familiarity with accounting policies and practices of the industry is a crucial factor that helps acquirers to see through the targets' EM practices. Our results support this prediction since we observe that the association between the target's signed discretionary accruals and the premium offered is negative (positive) in intra-industry (inter-industry) M&A.

Keywords: mergers and acquisitions; earnings management; bid premium; industry relatedness.

JEL codes: G34 (Mergers • Acquisitions • Restructuring • Corporate Governance); M41 (Accounting).

1. INTRODUCTION

Global merger and acquisitions (M&A) reached a total of 4.1 trillion USD in deal announcements in 2018, the third highest volume since 2002 (J.P. Morgan, 2019: 2).¹ Not even the uncertainties regarding Brexit managed to discourage investors from carrying out M&A. On the contrary, overseas buyers have taken advantage of a sliding pound, and in 2018 deals involving UK firms peaked at 275 billion USD, the highest this century (PwC, 2019).

Despite the growing appetite for M&A, many deals fail.² Specifically, while shareholders from target companies usually receive a significant premium for their shares, these investments do not always benefit acquirers. Indeed, overpayment is one common reason for M&A failure (PwC, 2016). Often, acquirers overvalue the synergies and expected gains arising from the deal, which subsequently entail harmful consequences for their shareholders, as several studies suggest. For example, Martynova and Renneboog (2008) find that stock returns surrounding deal announcements are positive for target firms, but at best insignificant for acquirers; and studies, such as Guest, Bild, and Runsten (2010) or Tuch and O'Sullivan (2007), provide evidence that the acquirers suffer negative share returns in the long run.

The evidence of opportunistic earnings management (EM) practices by target firms before M&A is scarce and inconclusive, and some studies suggest that these practices are not always at the expense of the acquirer. Nevertheless, there is evidence that poor financial reporting quality (FRQ) before the takeover positively relates to the deals' withdrawn (Marquardt & Zur, 2015; Skaife & Wangerin, 2013). Furthermore, anecdotal evidence suggests that misunderstanding regarding the manipulated financial statements of the target underlies the overvaluation of some M&A. An example is the acquisition of the UK firm *Autonomy* in the corporate software and services sector by the US hardware business *HP*. In 2018, the US Department of Justice filed a criminal investigation against Mike Lynch, the former CEO and co-founder of *Autonomy*. As alleged by *HP*, he and other executives engaged in financial mismanagement before the deal completion in 2011 (Jolly, 2018). *HP* invested USD 11.1

¹ As usual in the literature, we use the terms mergers, acquisitions, deals, takeovers and M&A interchangeably (e.g., Weitzel & Berns, 2006).

² A deal is considered successful if the lower costs and/or the increase in revenues derived from the business combination compensate the premium paid. This is not always the case, and the failure rate of M&A is over 50% (see Chang, Curtis, & Jenk, 2002; Child, Faulkner, & Pitkethly 2001; Nguyen & Kleiner, 2003; or Riad, 2007).

billion in the deal, paying a premium of 64% for *Autonomy* and just one year later booked an impairment loss of USD 8.8 billion (Ciesielski, 2016; Gupta, Damouni, & Sandle, 2012). This occurred despite the fact that *HP* had performed an intensive due diligence before the merger (Moore, 2012). Indeed, this is an extreme case of accounting fraud by the target company, although it could be argued that such incidents are rather rare. Nevertheless, given that earnings management practices are a pervasive and widespread strategy of firms (Bagnoli & Watts, 2000), and that acquirers obviously have clear incentives to hide this type of (non-efficient) decision, the chances are that such cases of (less extreme) earnings upwards manipulation underlying M&A overvaluation are probably more frequent than the anecdotal evidence would lead to expect.

The current growth trend of M&A activity along with the critical consequences of overvaluation highlight the need for a better understanding of how acquirers fix the premium in the due diligence process. In such a process, the analysis of the target's financial statements provides significant input (Angwin, 2001; Very & Schweiger, 2001). This paper aims to shed light on one of the critical factors that might help bidders to be more aware of EM practices by the target before the deal, namely industry relatedness. In particular, we investigate the role of industry relatedness in the association between the target's EM practices and the premium offered by the acquirer.

Several studies report benefits for acquirer firms involved in intra-industry deals. In contrast, inter-industry takeovers are associated with higher agency costs that result in managers performing more value-destroying deals. In general, overvaluation is found to be lower in intra-industry mergers (Gregory, 1997; Maquieira, Megginson, & Nail, 1998; Moeller and Schlingemann, 2005; Singh & Montgomery, 1987; Walker, 2000). This can be a consequence of acquirers in the same industry being able to understand the target's EM practices to boost earnings, and discount them in the premium offered, more easily than in industry-unrelated M&A. The argument is consistent with the results of research in the financial reporting literature suggesting that firms in the same industry are more likely to follow similar accounting policy choices and procedures (Ballas & Hevas, 2005; Gu, Lee, & Rosett, 2005; Jaafar & McLeay, 2007).

We test our prediction in a sample of 913 M&A announced in Europe in the period 1997-2017. The European market for corporate control is a growing and dynamic market that is relatively under-explored. Moreover, Europe is an attractive setting for global M&A research, as it comprises several jurisdictions with different legal systems and financial markets (Faccio & Masulis, 2016; Humphery-Jenner, 2012; Moschieri & Campa, 2009, 2014).

In the empirical tests, we express the premium offered in the M&A announcement as a function of several characteristics of the deal, the target's financial condition before the announcement, as well as its EM practices, which is our variable of interest. We employ signed discretionary accruals, estimated using the performance-matched model proposed by Kothari, Leone, and Wasley (2005), to proxy for accounting manipulation, and the measures of sales manipulation and overproduction proposed by Roychowdhury (2006) as proxies of EM via real activities.³

The results indicate that, on average, none of the EM measures considered are significantly related to the bid premium. However, a more refined cross-sectional analysis where we assess the role of industry relatedness on the association of interest reveals that the target's discretionary accruals are negative (positive) and significantly associated with the bid premium in industry-related (industry-unrelated) takeovers. Additionally, none of our estimations validate a significant association between the bid premium and the proxies of EM via real activities. These results are robust to several alternative model specifications.

Overall, the evidence confirms our prediction. It seems that in industry-related deals, acquirers can take advantage of their knowledge of the industry, detect the upward earnings manipulation via discretionary accruals and reduce the premium offered to the target accordingly. Thus, industry familiarity helps acquirers untangle the complex mix between the real economic value of synergies and the noise that management discretion incorporates in the target's financial statements. In other words, our results imply that due diligence is a useful tool to identify accounting manipulation, since acquirers diminish bid premiums due

³ The literature differentiates between EM and real EM (see for example, Healy & Whalen, 1999; Dechow & Skinner, 2000). The former refers to earnings manipulation using accruals, while the second is done by manipulating cash flows through economic transactions, such as delaying research and development activities or cutting discretionary expenses.

to upward earnings manipulation through accruals. However, this only occurs when the acquirer has a good knowledge of the target's industry.

On the contrary, the evidence suggests that the target's real activities manipulation does not relate to the premium offered by the acquirer. This result is in line with the widespread belief that real EM practices are less pervasive than accounting manipulation because they affect cash flows, so they are more costly (e.g., Bagnoli & Watts, 2000; Graham, Harvey, & Rajgopal, 2005; Cohen, Dey, & Lys, 2008). Although recent research points out to a shift from accruals to real EM in the USA, this is not the case in other settings (Evans, Houston, Peters, & Pratt, 2015).

This paper contributes to the literature in a number of ways. Firstly, although prior research widely confirms that acquirers perform EM before stock-for-stock deals to lower their acquisition costs (Botsari & Meeks, 2008; Erickson & Wang, 1999; Higgins, 2013; Louis, 2004), little is known about the effects of the target's EM activity on M&A negotiations (Anagnostopoulou & Tsekrekos, 2015; Campa & Hajbaba, 2016). This contrasts with two facts: 1) EM is a widespread phenomenon, which companies use in a pervasive manner (Bagnoli & Watts, 2000); and 2) although acquirers invest plenty of resources in the due diligence process (Angwin, 2001; Very & Schweiger, 2001), flaws still take place. This paper provides new insights into the due diligence process, as it delves into the target's accounting information, which is a key source to estimate the benefits of the takeover, but could be contaminated with EM practices (Raman, Shivakumar, & Tamayo, 2013). Disentangling this complex mix is a desirable goal of the pre-acquisition process that enhances its value for acquirers. In this sense, this paper relates to recent research examining the economic value of due diligence (Cumming & Zambelli, 2017). However, this research differs from prior US papers that refer to the impact of FRQ on the bid premium, since it focuses on EM and considers the role of industry relatedness. Similarly, this paper differs from recent evidence on target's EM and bid premiums in completed deals in the USA (Farooqi, Jory, & Ngo, 2020), because we focus on deal announcements to examine how acquirers use financial statements in M&A negotiations.

Secondly, our results are linked to some of the intriguing outcomes concerning the post-acquisition performance of M&A, which indicate that acquirers do not benefit from those

deals. Our findings suggest that the knowledge of the business accounting practices may help acquirers to achieve a better position to negotiate the terms of the deal and diminish the risk of overestimating the target's value.

Finally, this study is related to the literature on the role of industry in evaluating the economic effects of accounting information. Although this role has already been studied in the equity valuation setting (Ballas & Hevas, 2005; Barth, Beaver, Hand, & Landsman, 1999), it has not been considered in M&A so far. Furthermore, the paper contributes to the calls claiming for more research on industry-related accounting differences (Jaafar & McLeay, 2007).

The remainder of the study is as follows. The next section reviews the related literature and develops the hypotheses. Section 3 presents the methodology, section 4 discusses the results, and section 5 synthesizes the conclusions.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Related literature

2.1.1. Earnings management and M&A

Although neither the incentives nor the ability of the acquirers or the targets to manipulate earnings before a M&A are clear *a priori*, some studies have investigated this issue.

Several US-based studies provide evidence that acquirers manipulate earnings before takeovers. Erickson and Wang (1999) show that acquiring firms increase the price of their stock through upward EM in stock-for-stock transactions, and Louis (2004) suggests that the negative post-takeover returns of acquiring companies could be attributable to the reversal in share prices of prior EM practices. Based on these studies, Baik, Cho, Choi, and Kang (2007) provide evidence that acquirers performing stock-for-stock deals are more prone to carry out EM before the deal when acquiring private companies; and Gong, Louis, and Sun (2008) find that EM performed by the acquirer before the merger is positively related to post-takeover lawsuits. However, Heron and Lie (2002) do not confirm that the payment method correlates with the acquirer's EM activity before the deal, nor with its subsequent underperformance. More recently, Baik, Cho, Choi, and Kang (2015) find that in cross-border stock swaps, US acquirers manipulate earnings before the deal as a strategy to offset risks from targets located

in lower institutional quality settings. Besides, Louis and Sun (2016) show that bidders with inflated earnings are more likely to announce stock swaps on Fridays, when markets are distracted; otherwise, they are penalized by investors who anticipate that their shares are overvalued.

Although scarcer, the US-based literature has also studied the EM activity of target firms. Early studies support the thesis that acquired companies perform EM before hostile transactions (Easterwood, 1998) and stock-for-stock deals (Erickson & Wang, 1999). More recently, Chen, Thomas, and Zhang (2016) suggest that the target's EM activity before the merger is not always at the expense of the acquirer, since they provide evidence of downward EM to transfer profits to future years, which helps bidders justify the premium paid. Campa and Hajbaba (2016) show that targets carry out real EM activities before cash deals, and that this activity is related to the subsequent poor performance of the acquirer. Additionally, Farooqi et al. (2020) find that bid premiums are lower the higher the level of the target's EM via real activities, but that they are not related to accruals manipulation. In the authors' view, this might occur because there has been a switch from accrual-based to real earnings management methods.

A few related papers show that the FRQ of the target influences the terms and the completion of the takeover. Skaife and Wangerin (2013) corroborate that when the target FRQ is poor, the probability that the deal will not be completed increases. These authors use an index that entails different dimensions of FRQ,⁴ and find that the target's poor FRQ is associated with higher premiums, which in turn are usually renegotiated in a later stage of the M&A process. Raman et al. (2013) find that bidders prefer negotiated deals when the target's FRQ is poor, and that the private information arising in the negotiations leads to higher bid premiums. Additionally, they show that acquirers prefer to pay with equity when faced with poor FRQ targets. Marquardt and Zur (2015) show that targets with low FRQ are more prone to be involved in auctions, and that high FRQ targets require less time to reach an agreement and thus ensuring that the merger is more likely to go ahead. Finally, McNichols and Stubben

⁴ The index comprises the absolute value of discretionary accruals, the weakness of internal control, the off-balance-sheet liabilities, and the absolute value and the dispersion of analyst forecast errors.

(2015) analyze the stock returns around the deal's announcement and observe that the better the target's FRQ, the larger the acquirer's returns.

There are also some studies in non-US settings that focus on EM practices in M&A. Koumanakos, Siriopoulos, and Georgopoulos (2005) find that Greek acquirers exhibit signs of EM before cash-financed takeovers. Ben-Amar and Missonier-Piera (2008) observe that target firms perform downward EM before friendly M&A in Switzerland. Regarding stock-for-stock deals, Francoeur, Ben-Amar, and Rakoto (2012) confirm that acquirers carry out EM in Canada. Botsari and Meeks (2008) show that UK bidders artificially increase earnings through the working capital component of accruals up to one year before the deal's announcement. Higgins (2013) suggests that Japanese acquirers do the same in stock swaps, but they use long-term accruals (e.g., depreciation or deferred taxes) due to the low level of scrutiny around such items in the country. Also, in the UK, Lehmann (2015) provides evidence contrary to the common claim that good governance constraints EM practices. He finds that UK well-governed acquirers are more prone to carry out EM in stock swaps. Finally, for stock deals with private targets in Europe, Alsharairi, Black, Hofer, and Al-Hamadeen (2015) show that acquirers' EM practices have a positive effect on their abnormal stock returns.

In sum, most of the EM-related literature in M&A focuses on acquirers performing stock swaps in the US. Additionally, despite the growing interest in analyzing the target's EM activity before the takeover, most of the evidence on this issue is setting-specific (i.e., negotiated deals, auctions, or stock swaps).

2.1.2. Industry relatedness in M&A

The more similar the firms involved in an M&A, the easier it is to integrate knowledge and combine operations. Therefore, expected synergies such as economies of scale and cost cuts are higher (Ahuja & Katila, 2001; Capron, 1999; Helfat & Eisenhardt, 2004; Nesta & Saviotti, 2005). The literature has found that the acquirers' market value is higher after M&A in intra-industry deals (Maquieira et al., 1998), and that industry relatedness positively affects the success of M&A (PwC, 2016). Accordingly, prior studies reveal higher bid premiums for intra-industry than for inter-industry deals (Walkling & Edmister, 1985; Tuch & O'Sullivan, 2007). Also, some studies indicate that overvaluation is lower in intra-industry mergers, as

they achieve higher returns than inter-industry takeovers, both in the short and in the long term (Gregory, 1997; Maquieira et al., 1998; Moeller & Schlingemann, 2005; Singh & Montgomery, 1987; Walker, 2000).

The role of industry relatedness in mitigating information asymmetries and adverse selection problems concerning the target's value will also influence the choice between the joint-venture and M&A. Given the difficulties in valuing the targets' assets, the most efficient way to exploit synergies might be to pursue a joint venture rather than a takeover. However, if the acquirer and the target are industry-related, the information asymmetries, and in particular the adverse selection problem, might be less severe than the conflicts arising from administering the joint venture (Balakrishnan & Koza, 1993). Similarly, there is evidence that public acquirers avoid buying private firms in unrelated industries due to the risk of overvaluation, which is aggravated by the private status of the target (Capron & Shen, 2007; Shen & Reuer, 2005).

The literature has also explored the role of industry relatedness in reducing the information risk in M&A. As indicated by Raman et al. (2013), when targets have low earnings quality, bidders make decisions intending to share the information risk with them, such as choosing negotiated deals or paying with equity; and these results are stronger in inter-industry takeovers. These authors posit that concerns over asymmetric information are greater in inter-industry than in intra-industry takeovers; in the latter, bidders have a better understanding of the key risks and the economic drivers of targets. This is because both companies compete in the same business, have access to confidential industry reports, and regularly share information that keeps them well informed about the activities of their industry peers (e.g., industry association conferences, CEO-level meetings).

In brief, the literature regarding the role of industry relatedness in M&A suggests that determining the target's value is easier in industry-related takeovers, which in turn benefits acquirers.

2.1.3. Industry and financial reporting

The academic literature supports the notion that industry affiliation is one of the main drivers of accounting policy choices and, therefore, of FRQ. In other words, firms tend to follow their industry peers when adopting accounting practices (Reppenhagen, 2010).

Bagnoli and Watts (2000) develop a theoretical model that leads to conclude that firms commonly engage in EM. The rationale underlying their thesis is that companies compete for resources, and investors compare the financial statements of potential investments to allocate their funds. These authors argue that the industry affiliation is a relevant factor behind EM choices, since a firm follows its rivals, which generally are industry peers. Their reasoning relies on two assumptions: 1) firms in similar industries face similar costs of EM practices; and 2) investors/creditors focus on specific components of earnings when analyzing an industry.

Gu et al. (2005) examine the variability of accounting accruals and its implications for EM, and find that the accepted accounting procedures and management choices (e.g., inventory valuation or bad debt provisions) vary across industries. These authors also state that the volatility of some financial figures depends on the industry. In this line, Barth et al. (1999) find a considerable variation of the earnings components —accruals and cash flows— between industries, which has different implications for firm valuation. Thus, the ability of acquirers to detect the target's EM probably depends on their understanding of the industry dynamics regarding accruals. More recently, Chen, Collins, Kravet, and Mergenthaler (2018) conclude that the ability to compare the target's financial statements improves M&A efficiency, which is not likely in inter-industry acquisitions.

In Europe, Ballas and Hevas (2005) use a valuation framework to examine how the perception about some figures from the financial reports differ in four capital markets, namely France, Germany, the Netherlands, and the UK. They conclude that industry-specific valuation multiples are more accurate than country-specific ones when using accounting variables to forecast market values. In line with this rationale, their results show convergence in financial reporting practices within industries, including timeliness and conservatism. In the same vein, Jaafar and McLeay (2007) examine the accounting policies concerning inventory, depreciation, and goodwill in a sample of European companies before IFRS

implementation, concluding that country differences are more significant than industry differences.

Finally, research shows that auditors tend to specialize in specific industries (Rhode, Whitsell, & Kelsey, 1974); and that auditors who are industry specialists better constrain EM and financial fraud (Balsam, Krishnan, & Yang, 2003; Carcello & Nagy, 2004; Krishnan, 2003).

In sum, academic research supports the notion that accounting policies are similar for companies in the same industry and differ among industries, and that the techniques used to perform EM are similar among firms in the same industry.

2.2. Hypotheses

This study investigates how acquirers incorporate the target's EM when deciding the deal premium to be offered. The bid premium is determined during the due diligence preliminary review before the acquisition agreement is signed.⁵ This is why we focus on M&A announcements. At this stage of the negotiations, their valuation relies primarily on the publicly available financial statements (Lajoux & Elson, 2009).⁶

We do not make any assumption about the potential incentives of target companies to carry out EM due to the M&A. Instead, we assume that the target's EM before the takeover is exogenous, since many other motivations may underlie these practices. Bagnoli and Watts (2000) provide support to this assumption: they consider EM as a non-cooperative game where similar firms compete for funding using financial information, prompting them to engage in EM regularly. Similarly, Dechow, Ge, and Schrand (2010) sustain that external factors such as capital requirements or earnings-based objectives induce firms to engage in EM practices. Moreover, despite these potential motivations, the targets are not usually the

⁵ For an in-depth review of the acquisition due process see Chen et al. (2018), Marquardt and Zur (2015), or Wangerin (2019).

⁶ The due diligence does not conclude at this point. Acquirers can request more (private) information from targets subsequently, which may lead to completion, withdrawal or renegotiation of their initial bid. Nonetheless, our focus on deal announcements allows us to analyze how acquirers use publicly available financial information in the M&A process.

deal initiators (Anagnostopoulou & Tsekrekos, 2015), so that they generally lack the time to window-dress their financial statements.

Farooqi et al. (2020) argue that the association between the target's EM practices and the bid premium offered by the acquirer should be negative. However, *a priori* this association is unclear. As pointed out by Skaife and Wangerin (2013), this depends on the ability of the acquirer to detect or not the upward EM of the target with the limited resources and time available during the due diligence process. Indeed, evidence indicates that more than half of M&A lead to substantial losses for acquirers in the post-M&A period because they usually overpay for targets (Kumar, 2009; PwC, 2016). It is therefore questionable whether acquirers can detect the target's EM at the time of the deal announcement and reduce the bid premium accordingly. We pose that industry relatedness is a crucial determinant of such ability, and expect that the association between bid premiums and target's EM differs between inter-industry and intra-industry deals. In particular, we posit that acquirers operating in the targets' industry have an advantage derived from their knowledge of the industry; indeed, they are aware of the accounting practices, as well as the standard techniques to carry out EM. Accordingly, acquirers should be able to detect EM practices in the target's financial statements before the deal announcement, and bid lower for the target shares, the higher the income-increasing EM practices. The opposite is expected in inter-industry deals, where acquirers are not expected to disentangle EM practices, thus offering higher premiums to targets with higher EM. Therefore, we formulate the two following hypotheses:

H1: In inter-industry M&A, the greater the target's income-increasing EM practices (before the deal announcement), the larger the deal premium offered by the acquirer.

H2: In intra-industry M&A, the greater the target's income-increasing EM practices (before the deal announcement), the smaller the deal premium offered by the acquirer.

3. METHODOLOGY

3.1. Earnings management measures

The vast majority of M&A studies analyzing EM employ measures of accruals quality. Discretionary accruals (*DA*) estimated through the performance-matched model proposed by

Kothari et al. (2005) is the most commonly used measure (e.g., Alsharairi et al., 2015; Baik et al., 2015, 2007; Botsari & Meeks, 2008; Chen et al., 2016; Francoeur et al., 2012; Gong et al., 2008; Lehmann, 2015; Louis, 2004). Related studies on FRQ of target firms also use *DA* adjusted to performance (Skaife & Wangerin, 2013).

Following prior studies, we measure accounting EM in year *t-1* (i.e., one year before the deal announcement) by estimating the model in equation (1) for each combination of industry and year, where samples (industry-year) comprise targets and peer firms listed in the leading stock exchanges in the EU, and we require a minimum of 15 observations per regression. Following our definition of industry-related deals, industries are defined using the Fama-French 48-industry classification. The adjusted discretionary accruals (*DA_{pa}*) are the residuals of the OLS estimation of equation (1), and we use the quintile ranks of *DA_{pa}* as the EM proxy via discretionary accruals (*EM-Accruals*).

$$\begin{aligned}
 TA_{i,t-1}/Assets_{i,t-2} &= \beta_0 + \beta_1 \left(\frac{1}{Assets_{i,t-2}} \right) + \beta_2 (\Delta Rev_{i,t-1} - \Delta AR_{i,t-1}) / Assets_{i,t-2} \quad (1) \\
 &+ \beta_3 PPE_{i,t-1} / Assets_{i,t-2} + \beta_3 ROA_{i,t-2} + \varepsilon_{i,t-1}
 \end{aligned}$$

where: *TA* stands for total accruals (i.e., net income less cash flow from operations); ΔRev is the change in net sales; ΔAR is the change in accounts receivable; *PPE* is the level of property, plant and equipment; *ROA* is the return on assets (i.e., net income over total assets); and *Assets* is total assets.

For the sake of completeness, we also include two proxies of EM through real activities. Following Roychowdhury (2006), we calculate sales manipulation (*RA_{sales}*) and overproduction (*RA_{prod}*) using a cross-sectional approach consistent with our *DA_p* measure, as expressed in equations (2) and (3).

$$\begin{aligned}
 CFO_{i,t-1}/Assets_{i,t-2} &= \beta_0 + \beta_1 \left(\frac{1}{Assets_{i,t-2}} \right) + \beta_2 Rev_{i,t-1} / Assets_{i,t-2} \quad (2) \\
 &+ \beta_3 \Delta Rev_{i,t-1} / Assets_{i,t-2} + \varepsilon_{i,t-1}
 \end{aligned}$$

$$\begin{aligned}
& PROD_{i,t-1}/Assets_{i,t-2} \\
& = \beta_0 + \beta_1\left(\frac{1}{Assets_{i,t-2}}\right) + \beta_2 Rev_{i,t-1}/Assets_{i,t-2} \\
& + \beta_3 \Delta Rev_{i,t-1}/Assets_{i,t-2} + \beta_4 \Delta Rev_{i,t-2}/Assets_{i,t-2} + \varepsilon_{i,t-1}
\end{aligned} \tag{3}$$

where: *CFO* stands for cash flow from operations; *Rev* is the net sales; and *PROD* is the level of production, which is equivalent to the cost of goods sold plus the change in inventory; the remaining variables are detailed in equation (1).

The levels of sales manipulation (RA_{sales}) and overproduction (RA_{prod}) are the residuals of the OLS estimation of equations (2) and (3), and we use their quintile ranks as the EM proxies via real activities (*EM-Sales* and *EM-Overproduction*).

3.2. Empirical model

To test the hypotheses, we estimate the model specified in equation (4), where the bid premium is expressed as a function of the target's EM practices before the M&A. We also include a set of control variables identified in prior literature as determinants of the premium, which capture several characteristics of the deal and the target firm.

$$\begin{aligned}
Premium_t = \alpha_0 + \sum_{i=1}^3 \alpha_i EM_{i,t-1} + \sum_{j=1}^{11} \beta_j Deal. Controls_{j,t} \\
+ \sum_{k=1}^7 \gamma_k Target. Controls_{k,t-1} + \varepsilon_t
\end{aligned} \tag{4}$$

where: *Premium* is the ratio of the price offered to the target's share price four weeks before the deal's announcement date minus one; EM_i stands for *EM-Accruals*, *EM-Sales* or *EM-Overproduction*, which are calculated as described in section 3.1.; control variables are explained below, and also refer to the year before the merger.

In line with our first (second) hypothesis, we expect a negative (positive) coefficient for *EM-Accruals* and *EM-Overproduction* in intra-industry (inter-industry) transactions, while for *EM-Sales* we expect the opposite sign, since lower RA_{sales} indicate increases in sales. We split the sample into inter-industry and intra-industry transactions to test our hypotheses, where

we consider that the acquirer and the target are industry-related if both belong to the same industry using the Fama-French 48-industry classification, in other words, if they are horizontal M&A. We did not consider vertical M&A (between suppliers and clients) as intra-industry since they usually involve the combination of businesses with different activities that probably do not share accounting procedures.⁷

The model includes two sets of controls: the characteristics of the deal (*Deal.Controls*), and those of the target firm (*Target.Controls*).

Regarding the deal controls, consistent with prior research, we expect the bid premium to be higher: when the acquirer is public (*Public-Bidder*), the takeover is hostile (*Hostile*), there are multiple bidders (*Multibid*), the offer is public (*Tender*), and the deal is financed with cash (*Cash*); whereas the prior acquirer's ownership on the target (*Toehold*), the stock swaps (*Stock*) and the size of the target (*Size*) are expected to lower the premium (Bargeron, Schlingemann, Stulz, & Zutter 2008; Betton & Eckbo, 2000; Schwert, 2000; Walkling & Edmister, 1985). The set of controls also includes a dummy representing cross-border takeovers (*Cross-Border*); in line with prior evidence for Europe finding that premiums are higher in cross-border compared to local deals (e.g., Moschieri & Campa, 2009; Bozos Ratnaik, & Alsharairi, 2014), we expect a positive sign. Furthermore, recent empirical studies indicate that institutional characteristics (such as governance and regulation) of target and acquirer countries exert an effect on the bid premium offered (Hagendorff, Hernando, Nieto, & Wall, 2012; Rossi & Volpin, 2004). Consequently, the model considers the institutional differences between the countries of the two firms. To do so, we follow prior literature (Andriosopoulos & Yang, 2015; Baik et al., 2015; Humphery-Jenner, 2012), and use the Worldwide Governance Indicators (WGI) developed by the *World Bank*.⁸ Specifically, we perform a principal component analysis to cluster the six WGI into a single

⁷ Consider the hypothetical scenario where *Volkswagen* (German automaker) is planning the acquisition of *Toyota* (Japanese automaker) or *Bridgestone* (Japanese tire manufacturer). Likely, before the M&A announcement, *Volkswagen* might have a good picture of the financial position and performance of *Toyota* by analyzing its financial statements, due to its knowledge of the automaker industry and the particular accounting practices (e.g., bad debt provisions or impairment of inventories). This would not be the case with *Bridgestone*, since no matter the degree of interrelation, the cost structure, profit margin, financing policies, and accounting practices are likely different between the two industries.

⁸ The WGI project provides information for six indexes of institutional governance: 1) voice and accountability; 2) political stability; 3) government effectiveness; 4) regulatory quality; 5) rule of law; and 6) control of corruption (Kaufmann, Kraay, & Mastruzzi, 2009).

index—first principal component— per country and then calculate the difference between the acquirer and the target indexes, which is included as an additional variable in the model (*Institutional-Differences*).⁹

The literature also indicates that some financial characteristics of the target firm determine the bid premium (Bargeron et al., 2008; Schwert, 2000; Walkling & Edmister, 1985). Hence, the following variables make up our set of target controls: market to book (*MTB*), liquidity (*Liquidity*), return on equity (*ROE*), price to earnings (*P/E*), sales growth (*Growth*), and leverage (*Leverage*). In turn, prior research finds that profitability, leverage, and growth also affect the firm's FRQ (Dechow et al., 2010). We do not expect a specific effect of these variables on the deal premium because the findings in prior literature are non-conclusive.

Additionally, we pay attention to the differences between the UK and continental Europe in terms of investors' protection and M&A activity (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Rossi & Volpin, 2004; Moschieri & Campa, 2009). Thus, we include an indicator variable that takes the value of 1 if the target is located in the UK, and 0 otherwise (*UK-Indicator*). Finally, the model includes year fixed effects (*Year-Indicators*).

Table 1 summarizes the definitions of the variables.

[INSERT TABLE 1 HERE]

3.3. Sample

We collected data on all the mergers, completed and withdrawn, announced in Europe (28 member states) between 1997 and 2017 from the *Thomson One Banker* M&A database. WGI were gathered from the *World Bank*. Financial information of target companies comes from *Worldscope*, therefore targets are public companies. Following prior studies (e.g., Botsari & Meeks, 2008; Chen et al., 2016; Marquardt & Zur, 2015; McNichols & Stubben, 2015; Raman et al., 2013; Skaife & Wangerin, 2013), the transactions included in the sample meet the following criteria:

⁹ This procedure provides a comprehensive measure of the institutional environment per country to help us cope with the high correlations among the WGI indexes (Baik et al., 2015; Dang, Henry, Nguyen, & Hoang, 2018; Davies, Desbordes, & Ray, 2018; Hur, Parinduri, & Riyanto, 2011).

1. Neither the targets nor the acquirers belong to the utilities or financial industries.
2. The deal value is higher than 1 million USD.
3. Acquirers seek to gain control of the target after the completion of the deal (i.e., own at least 50%).

The sample selection process described resulted in a final sample of 913 observations.¹⁰ Figure 1 shows the number and average value of the M&A per year in our sample. The average merger is USD 1.3 billion, and deal announcements are clustered over time in waves. Coinciding with the burst of the *.com* bubble, the number of takeovers dropped by 40% (from 67 to 35) after 1999, while their value suffered an even sharper decrease (83%) in 2002, from 84 to less than USD 15 billion. Later, M&A activity recovered and gradually grew to reach a peak in 2006, with 54 announcements priced at USD 148 billion. Around 2008, the number of takeovers plummeted as a result of the *subprime* crisis, and in 2013 the activity was comparable to that of 2002 (33 deals priced at USD 20.7 billion). The number of deals exhibited a slight recovery in 2014 with 54 announcements. Yearly values also improved and climbed to a new peak with USD 211 billion in 2015. This evidence is consistent with prior research on takeovers and business environment shocks in Europe (Martynova & Renneboog, 2008, 2011).

[INSERT FIGURE 1 HERE]

4. RESULTS

4.1. Descriptive statistics and correlations

Table 2 provides information on the country of origin of acquirers and targets, while Table 3 shows the distribution of the sample according to the target's industry. Targets from the UK (39%) and France (16%) comprise more than half of the sample, followed by Germany

¹⁰ The sample size is smaller than in US-based related studies but is in line with EU-based ones. Concerning the US studies, McNichols and Stubben (2015) have 2,427 observations corresponding to 1990-2010, Raman et al. (2013) use 4,716 observations corresponding to 1977-2005 and Skaife and Wangerin (2013) have the smallest sample, consisting of 1,468 observations for the period 2002-2008. However, related research in Europe exhibits smaller sample sizes. For instance, Botsari and Meeks (2008) use 147 British observations for the period 1997-2001, and Bozos et al. (2014) analyze a sample of 973 observations corresponding to European M&A during 2000-2011.

(13%), Sweden (6%), the Netherlands (6%), and Italy (4%). These five countries represent more than 80% of the targets. There is a similar pattern for acquirers, where the aforementioned six countries represent 82% of the sample. As for industry distribution, Table 3 shows that three sectors make up half of the sample: business equipment (23.6%), manufacturing (16%), and wholesale and retail (11.2%).

[INSERT TABLES 2 & 3 HERE]

Table 4 provides the descriptive statistics of the research variables for the full sample and the inter-industry and intra-industry subsamples, together with the differences between the two. All the continuous variables are winsorized at 1%. The average premium of the deal announcement in the sample is about 33%, most transactions are tender offers (67%) and are made by public acquirers (60%). Targets belong to the same industry as bidders in 61% of the sample deals, and acquirers are willing to pay all in cash in 64% of the transactions. Furthermore, M&A in Europe are not often cross-border (28%), or hostile (6%), and on average acquirers own about 22% of the target's shares before the deal. These sample characteristics are similar to those considered in recent research on M&A in Europe (e.g., Alcalde & Pérez-Soba, 2016; Humphery-Jenner, 2012; Martynova, Oosting, & Renneboog, 2007; Martynova & Renneboog, 2011; Moschieri & Campa, 2014).

Focusing on our measures of manipulation, DA_{pa} exhibits a mean value close to zero (-0.0062) and has a standard deviation of 0.1039, which is quite similar to RA_{prod} . The average of RA_{sales} is 0.0113, and the standard deviation is 0.1133. Regarding the characteristics of the target firms, on average, sales growth is 7.5%, return on equity is 0.3%, and MTB and price-to-earnings ratios are 2.5 and 14.4, respectively. Additionally, an average target in the sample has 0.51 cents in debt per dollar in common equity, and its working capital represents almost 15% of total assets. These figures also compare well with those in prior related studies (e.g., Raman et al., 2013; Skaife & Wangerin, 2013; Campa & Hajbaba, 2016).

As for the comparison between inter-industry and intra-industry deals, the last column of Table 4 provides the t -statistic of the corresponding t -test. Results show that the difference in the average bid premium of the two samples is not statistically significant. However, the two subsamples show significant differences in some characteristics of both the deal and the target. In particular, acquirers in industry-unrelated deals use significantly more cash than

stocks to make bids compared to those involved in industry-related mergers. Conversely, acquirers in intra-industry takeovers bid for larger targets, have more competition, and are more prone to perform cross-border deals compared with acquirers in inter-industry deals. In terms of target features, targets in intra-industry M&A are significantly more leveraged but exhibit less liquidity than inter-industry targets.

[INSERT TABLE 4 HERE]

Table 5 shows the Pearson product-moment and the Spearman rank-order pair correlations between the variables of interest, as well as the characteristics of the deal and the target. Since both offer similar results, we focus the discussion on Pearson product-moment correlations. Bidder premiums are positively correlated with tender offers and the presence of multiple bids, while negatively correlated with the acquirer's toeholds, stock payments, and public bidders. Premiums are also significantly correlated with some characteristics of the targets such as *Liquidity* (+), *Size* (-), *MTB* (-), *Leverage* (-), and *EM-Sales* (-). The latter aspect implies that observations with larger EM based on sales are associated with lower bid premiums.

Concerning *EM-Accruals*, Table 5 indicates that the more EM based on accruals, the greater liquidity, price to earnings, and return on equity. The contrary occurs for the target's leverage, toehold, and for the presence of stock-swaps, which show a negative association with *EM-Accruals*. Furthermore, there is a negative relation between *EM-Accruals* and *EM-Sales*, as well as between *EM-Sales* and *EM-Overproduction*. *EM-Sales* is negatively related to the presence of intra-industry deals, but it is positively associated with sales growth before the M&A, while toeholds and cash deals are positively associated with *EM-Overproduction*. Furthermore, the higher (lower) the levels of target size, MTB, and ROE, the higher (lower) the level of *EM-Sales* (*EM-Overproduction*).

Overall, the evidence provided in this section suggests that there are specific deal and target characteristics that could shape the relation between the deal premium offered by acquirers and the target's level of EM before the takeover announcement. Therefore, multivariate analysis is needed to obtain valid conclusions on the relation of interest. Finally, although there are some high correlations between independent variables, we discard multicollinearity

concerns since the variance inflation factors (VIFs) are below the suggested threshold value of 10.

[INSERT TABLE 5 HERE]

4.2. Regression analysis

Table 6 shows the results of the regression analysis. Column (1) presents the estimation of the model (4) for the whole sample, where an additional independent variable that captures the industry relatedness, *Intra-Industry*, has been added; it takes the value of 1 for intra-industry deals and 0 otherwise. Columns (2) and (3) exhibit the results of the estimation when the sample is divided into two groups, inter-industry and intra-industry sub-samples, respectively.¹¹ The model explains more than 12% of the deal premium variability in the full sample but shows a better fit when we estimate it separately in industry-related (23%) and industry-unrelated deals (18%).

The results in column (1) indicate that, on average, there is no effect of the target's pre-EM measures on the bid premium since none of the three coefficients of the different proxies of *EM* are statistically significant. However, in line with the hypotheses, the coefficient of *EM-Accruals* is significantly positive (negative) in the subsample of inter-industry (intra-industry) M&A. Acquirers in intra-industry deals seem to be able to detect, and discount from their bids, the EM practices of the target firm before the M&A announcement; while in inter-industry deals, acquirers will pay more as the target's discretionary accruals are greater, thus increasing their bids. These results are not only statistically but also economically significant: the coefficient of *EM-Accruals* (0.0142 [-0.0114] in column (2) [(3)]) indicates that in inter-industry [intra-industry] deals, the premium offered increases [decreases] by 4.8 [4.5] percentage points when the target's *EM-Accruals* is one standard deviation above the mean in the sample. Bearing in mind that the average value of the deal premium in the inter-industry [intra-industry] sample is 32.3% [32.8%], the economic significance of our results

¹¹ We use robust standard errors to test the significance of our coefficients. Results are qualitatively the same using standard errors clustered by target firms.

is considerable. In contrast, none of our measures of EM via real activities, *EM–Sales* and *EM–Overproduction*, significantly relate to the bid premium in any estimation.

Regarding the control variables, the results in column (1) for *Toehold*, *Stock*, and *Size* are in line with those expected. *Growth* has a negative association with premiums in column (3). *Cross-Border* has a positive effect on bid premiums (columns (1) and (3)), indicating that cross-border deals exhibit higher bid premiums than domestic ones as expected. The results in columns (2) and (3) indicate that the associations between the bid premiums and the independent variables of the model are different when we consider different types of M&A.

[INSERT TABLE 6 HERE]

4.2.1. Discussion

The evidence for the whole sample does not support the notion that the targets' EM practices affect the bid premium offered by acquirers. Although this result appears to contradict recent evidence on target's EM (Farooqi et al., 2020), as well as prior FRQ literature (Raman et al., 2013; Skaife & Wangerin, 2013), this deserves some considerations.

Firstly, considering the evidence on accruals manipulation, similar to Farooqi et al. (2020), we do not find that targets' EM practices via discretionary accruals affect bid premiums. We only find a significant association when we distinguish between inter-industry and intra-industry deals. Besides, regarding the results of prior FRQ studies, it should be noticed that FRQ is a broader construct of which EM is just a dimension. These studies use unsigned proxies of discretionary accruals in their FRQ constructs, which intend to capture not only intentional but also unintentional errors in financial reporting. In contrast, we use signed measures since it is more appropriate for our objective (i.e., gauging the effects of accounting distortions by managers trying to boost earnings, with the risk of overpayment by acquirer firms).

Secondly, as regards the evidence on real earnings manipulation, Farooqi et al. (2020) find a negative association with bid premiums. They attribute the results to the greater use of this type of manipulation. However, as Evans et al. (2015) show, this may depend on the reporting environment. These authors show that the shift towards real EM occurs in the US but not in

other settings. Moreover, Farooqi et al. (2020) concentrate on completed deals while our study focuses on announced deals. This is relevant because by considering completed deals, the results are probably capturing how acquirers process sources of (private) information about the target's value beyond financial reports, and so relegating their interest in EM. It is widely known that before the deal announcement acquirers have limited access to the target's information, and then mainly rely on financial reports to make their bids. However, once negotiations move on to the next stage, acquirers have access to private information about the targets that may lead to renegotiate the terms or even withdraw the deal (Marquardt & Zur, 2015, Wangerin, 2019). Indeed, results from both studies suggest that acquirers may need such additional information to detect the manipulation via real activities.¹²

Following the discussion, our result is consistent with the claim that firms prefer to carry on EM via accruals since real activities are more costly (Bagnoli & Watts, 2000). The manipulation of real activities involves real production decisions, which compromise firms' cash flows and ultimately have adverse effects on the firm's long term objectives, financial health and future performance (e.g., Graham et al., 2005; Cohen et al., 2008; Zang, 2012; Kothari et al., 2016). Therefore, EM via real activities is probably less pervasive than accounting manipulation via accruals, and this could underlie the lack of significance of our proxies for EM via real activities.

Even though the evidence does not suggest that EM influences the bid premium when the model is estimated in the whole sample, the results do not contradict the idea that accounting information is relevant to deal negotiations. It might be the case that a more refined analysis is needed to better understand how acquirer firms assimilate the target's EM practices, particularly the accrual manipulation. It is likely that the two conflicting explanations about the impact of the target EM practices on the bid premiums compensate each other. Indeed, after splitting the sample into inter-industry and intra-industry, the results support the argument that industry familiarity conditions the relation between the bid premium offered

¹² In non-tabulated results, we perform our empirical analysis exclusively with completed deals (our sample drops to 794 observations), but we found no association between the target's EM and bid premiums, even when separating inter-industry and intra-industry deals. We consider that this setting may bias the results of the empirical analysis since the cases in which the acquirers decide to withdraw their bids —probably because they spotted target's EM— are eliminated from the analysis. So, we focus on deal announcements (rather than completed deals) to analyze how acquirers digest financial reports and EM in M&A negotiations.

and the target's discretionary accruals. As expected, the evidence indicates that bidders need background on the target's industry to discount its income-increasing EM practices. These results suggest that acquirers take advantage of the knowledge about their business, specifically the accounting practices and EM techniques, to untangle the complex mix between the real economic value of synergies and the noise of the upward EM practices carried out by target firms.

Overall, our results are compatible with prior research on M&A. The literature analyzing the association between the target's FRQ, the M&A terms, and the post-merger efficiency, discussed in section 2.1.1., indicates that *ceteris paribus* high-quality accounting information reduces uncertainty and facilitates the target's valuation (McNichols & Stubben, 2015; Skaife & Wangerin, 2013; Raman et al., 2013). Consequently, the poorer the target's FRQ, the lower the bid premium (Skaife & Wangerin, 2013). Given that EM by discretionary accruals indicates poor FRQ (Dechow et al., 2010), a negative association between the target's income-increasing EM and the bid premium in intra-industry takeovers (*H2*) is in line with this research. Also, the positive association between the target's income-increasing EM via discretionary accruals and bid premiums in inter-industry takeovers (*H1*) relates to prior research validating negative results for acquirers in M&A. Particularly, as reviewed in section 2.1.2., some studies indicate that the risk of overvaluation is higher in inter-industry deals compared to intra-industry takeovers, and several papers report value-destroying M&A associated with overpayments (Fu, Lin, & Officer, 2013; Harford, Humphery-Jenner, & Powell, 2012; Malmendier & Tate, 2008; Morck, Shleifer, & Vishny, 1990; Rau & Vermaelen, 1998; Roll, 1986).

4.3. Additional analysis

In this section, we replicate the analyses above after dividing the sample into those deals where acquirers use cash as the payment method (cash deals) and those using other means of payment, such as stocks or combinations of stocks and cash (non-cash deals). We posit that in cash takeovers acquirers should perform a more in-depth analysis of the target's financial information to detect overvaluation compared to non-cash deals, since in cash deals the acquirer assumes higher risks regarding the outcome of the transaction (Mantecon, 2009). In

non-cash mergers, the acquirer and target shareholders share the risk of potential wealth losses in the post-takeover period if targets are overvalued, and synergies are not met. However, in cash-deals, this risk is only undertaken by acquirers because, once they receive their payment, the target shareholders are no longer exposed to future wealth losses as a result of the merger.

Thus, *a priori*, the cost of not performing a thorough analysis of the target's financial statements to avoid overpaying is higher in cash-deals compared to non-cash takeovers. Then, acquirers in cash deals have stronger incentives to carry out a more detailed analysis of the target's financial information.

Table 7 presents the results after splitting the sample into cash and non-cash deals, where we see that the prior findings are confirmed only in the cash deals subsample. The coefficient of *EM-Accruals* is negative (positive) when the acquirers and targets are (are not) in a related industry, while the proxies of real EM are not statistically significant in any case. However, none of the EM proxies significantly relate to the bid premium in the non-cash deals subsample, except for *EM-Sales*, which is negative and weakly significant, at a level of 10%, in the inter-industry subsample.

In sum, these results suggest that when the acquirers have strong incentives to perform a detailed analysis of the target's financial information, the background of the industry is still a crucial factor to help detect EM in the target's financial statements.

[INSERT TABLE 7 HERE]

4.4. Robustness tests

To corroborate the robust nature of our findings, we performed several tests. Table 8 exhibits the results.

Firstly, it is possible that our aggregate proxy for the institutional differences between the acquirer and target nations (*Institutional-Differences*) does not capture what is essential for the takeover market. To alleviate this concern, we used the Rule of Law index (RL) of the

WGI, since it could be the primary source of discrepancies between institutional settings.¹³ The results, included in Panel A, basically confirm the differences between inter-industry and intra-industry transactions regarding the association between the bid premium and the target's EM. Additionally, in non-tabulated tests, we control for other institutional proxies in the target's country such as the RL, as well as the first principal component of the WGI, and our results prevail.

Secondly, we consider the regulatory changes that might have affected M&A activity. In 2006, the EU attempted to foster M&A in the region by harmonizing regulations with the implementation of the European Takeover Directive (ETD) (European-Commission, 2007).¹⁴ We included an additional indicator variable that controls for the implementation of the ETD and its effect on M&A activity in the EU (1: after 2006; 0: before 2006). The results, shown in Panel B, confirm a different sign in the relation between *EM-Accruals* and *Premium* in the inter- and intra-industry subsamples, as well as the lack of significance of *EM-Sales* and *EM-Overproduction*.

Thirdly, the EU adopted IFRS in 2005, and prior literature indicates that both EM and M&A activity were affected by the IFRS implementation (Bozos et al., 2014; Doukakis, 2014; Francis, Huang, & Khurana, 2016). Thus, the change in the accounting model could bias our results. Given this concern, we included in the model (4) a new indicator variable that takes into account if the target's financial information is prepared under IFRS (1: after 2005; 0: before 2005). Results are shown in Panel C, and conclusions remain unchanged.

Finally, we performed additional estimations, excluding the M&A announcements where the targets' EM variables are measured using financial information around the IFRS adoption (i.e., 2006 and 2005). The rationale for this check is that the estimations of the EM measures might have been affected by the change in the accounting standards. As shown in Panel D, although this analysis reduces our sample by about 10%, the results remain fairly consistent.

[INSERT TABLE 8 HERE]

¹³ This index measures the level of confidence and abidance that agents in the society have concerning contract enforcement and property rights (Kaufmann et al., 2009).

¹⁴ Some papers exploring the European takeover reform and its effects for the M&A market are: Alcalde and Pérez-Soba (2016), Humphery-Jenner (2012) and Clarke (2009).

5. CONCLUSIONS

This study examines the relation between the target's EM practices and the deal premium offered by the acquirer. In particular, we argue that industry relatedness is a crucial factor that influences this association, as operating in the same industry helps the acquirer to identify the target's income increasing manipulation practices in the due diligence process, and, consequently, discount them from the premium offered. In other words, the due diligence is more effective for bidders in industry-related deals because they can better understand the public financial information of target firms, and isolate the expected synergies from the managers' discretion.

The evidence is based on a sample of European M&A announcements during the twenty-year period 1997-2017. We show that, on average, there is no association between the target's EM and the bid premium. However, a more detailed analysis indicates that such association depends on whether the deals are inter-industry or intra-industry. Acquirers pay lower bid premiums under the presence of upwards EM of targets via discretionary accruals in intra-industry M&A, while we find the opposite effect in inter-industry deals. The lack of significance of our proxies for EM via real activities can be due to the fact that this way of manipulating earnings is less prevalent than the manipulation through accruals, because it implies higher costs. The measures taken by the EU to foster regional economic integration by setting common rules for different aspects, including takeovers (ETD) and financial reporting (IFRS) do not affect our results.

The results provide some insights on how bidders incorporate the targets' management discretion into the pre-acquisition due process. By disentangling upward EM from the value of synergies in the target's accounting information, acquirers mitigate the risks of overstating those synergies in intra-industry deals. Our findings suggest that business insight can help acquirers to complete a more valuable due diligence process, as well as to gain a better position when negotiating the merger. Thus, we pose that, based on their knowledge of the industry, and, in particular of accounting practices, acquirers in industry-related takeovers can see through the target's EM, while this is not the case in un-related transactions.

Indeed, our results for the un-related transactions are consistent with prior studies finding evidence that stock returns surrounding deal announcements are positive for target firms but

insignificant, or even negative in the long run, for acquirers. This enhances our understanding of some widely known facts of the acquirer's financial performance after the M&A, such as the prevalence of value-destroying takeovers. Although according to the literature the overvaluation risk is higher in inter-industry deals than in intra-industry deals, our results cannot confirm, however, that value-destroying activities, such as management hubris (Roll, 1986), overconfidence (Malmendier & Tate, 2008) and entrenchment (Harford et al., 2012), are associated with unidentified EM practices of targets and subsequent overpayments. This opens new avenues for research.

Our results are in line with the growing body of research that looks at the influence of FRQ on M&A deals; but, unlike other studies, our study focuses on EM practices and considers the influence of industry relatedness. The evidence suggests that by relying on their background in the sector, in industry-related mergers, acquirers can counteract the dominant negotiation power that targets have in the M&A process, and achieve better terms in the takeover.

To conclude, we highlight future research opportunities within the M&A scenario. Indeed, there are other outcomes from M&A negotiations, such as the likelihood of completion, the percentage of shares used as the payment method, and the timing of the deals that future investigations can explore. Indeed, the relatively un-explored EU setting offers many opportunities for future studies.

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Table 1. Variable definitions

Variable	Definition
<u>Dependent variable</u>	
<i>Premium</i>	Ratio of the offer price to the target's share price four weeks before the deal's announcement date, minus one
<u>Experimental variables</u>	
<i>EM</i>	See sub-section 3.1. for details
<u>Deal characteristics</u>	
<i>Intra-Industry</i>	Takes the value of 1 if acquirer and target industries are the same (using the Fama-French 48-industry classification) (0 otherwise)
<i>Hostile</i>	Takes the value of 1 if the deal is classified as hostile or unsolicited (0 otherwise)
<i>Multibid</i>	Takes the value of 1 if there are multiple bidders (0 otherwise)
<i>Toehold</i>	% of common shares outstanding held by the acquirer at the date of announcement
<i>Tender</i>	Takes the value of 1 if a tender offer for the target is made (0 otherwise)
<i>Stock</i>	Takes the value of 1 for transactions in which the only consideration offered is stock (0 otherwise)
<i>Cash</i>	Takes the value of 1 for transactions in which the only consideration offered is cash (0 otherwise)
<i>Cross-Border</i>	Takes the value of 1 if the acquirer and target countries are the same (0 otherwise)
<i>Inst-Diff</i>	Difference between the first principal components, from the principal component analysis of the <i>World Governance Indicators</i> (from the <i>World Bank</i>), of the acquirer and target nations in year t
<i>Public-Bidder</i>	Takes the value of 1 if the acquiring firm is a public company (0 otherwise)
<i>Size</i>	Natural log of the market capitalization of the target in year $t-1$
<u>Target characteristics</u>	
<i>MTB</i>	Market to book ratio in year $t-1$
<i>Liquidity</i>	Ratio between the working capital (current assets - current liabilities) over assets in year $t-1$
<i>ROE</i>	Return on equity ratio in year $t-1$
<i>P/E</i>	Price to earnings ratio in year $t-1$
<i>Growth</i>	Natural logarithm of the ratio between sales in year $t-1$ and sales in year $t-2$
<i>Leverage</i>	Ratio between total debt and common equity in year $t-1$
Note: t stands for the year of the deal announcement.	

Figure 1. Number and volume of deal announcements in the sample over time

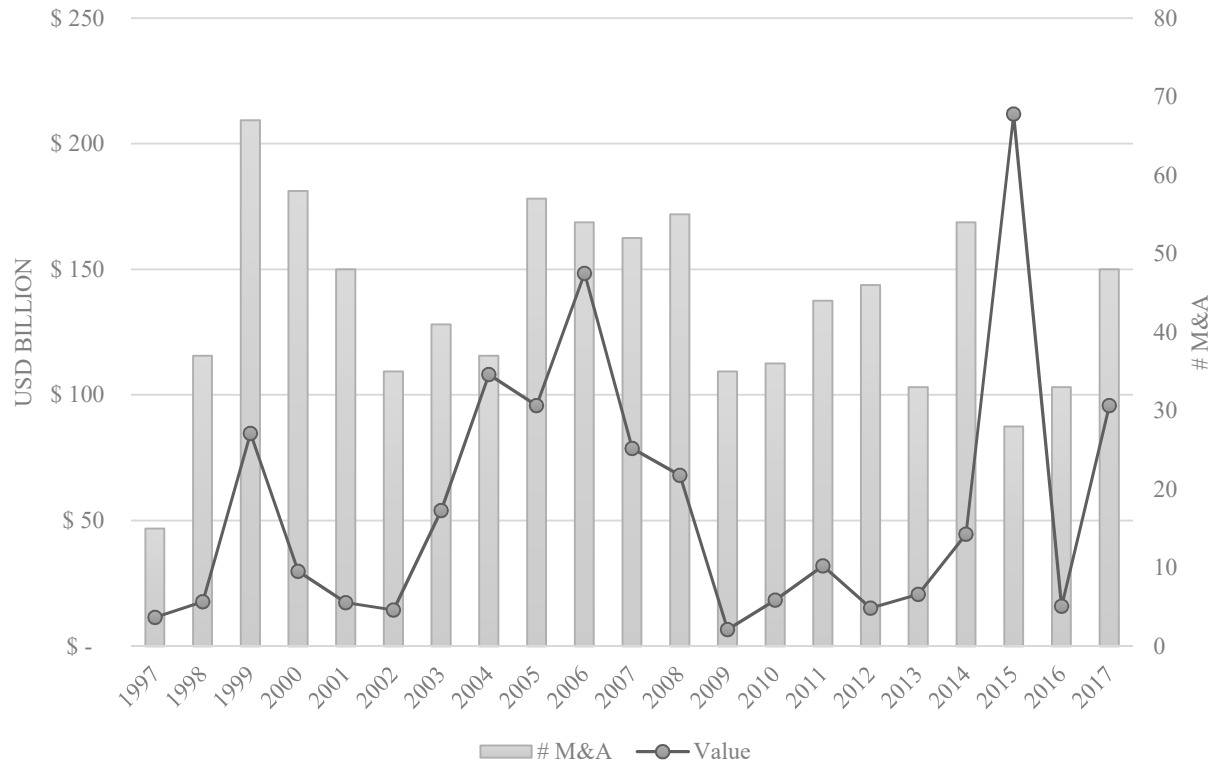


Table 2. Sample distribution by acquirer's and target's domicile country

<i>Panel A. Acquirer country</i>				<i>Panel B. Target country</i>			
Country	Freq.	Percent	Cum.	Country	Freq.	Percent	Cum.
United Kingdom	322	35.3	35.3	United Kingdom	356	39.0	39.0
France	156	17.1	52.4	France	150	16.4	55.4
Germany	128	14.0	66.4	Germany	116	12.7	68.1
Netherlands	55	6.0	72.4	Sweden	58	6.4	74.5
Italy	43	4.7	77.1	Netherlands	52	5.7	80.2
Sweden	43	4.7	81.8	Italy	37	4.1	84.2
Finland	27	3.0	84.8	Poland	22	2.4	86.6
Spain	22	2.4	87.2	Finland	21	2.3	88.9
Belgium	18	2.0	89.2	Spain	20	2.2	91.1
Denmark	17	1.9	91.0	Belgium	19	2.1	93.2
Ireland-Rep	17	1.9	92.9	Denmark	14	1.5	94.7
Poland	16	1.8	94.6	Greece	13	1.4	96.2
Luxembourg	15	1.6	96.3	Austria	7	0.8	96.9
Austria	12	1.3	97.6	Czech Republic	6	0.7	97.6
Greece	11	1.2	98.8	Ireland-Rep	6	0.7	98.3
Portugal	5	0.6	99.3	Portugal	6	0.7	98.9
Cyprus	2	0.2	99.6	Luxembourg	4	0.4	99.3
Czech Republic	1	0.1	99.7	Hungary	3	0.3	99.7
Estonia	1	0.1	99.8	Lithuania	2	0.2	99.9
Hungary	1	0.1	99.9	Malta	1	0.1	100.0
Malta	1	0.1	100.0				
<i>Total</i>	<i>913</i>	<i>100.0</i>		<i>Total</i>	<i>913</i>	<i>100.0</i>	

Table 3. Sample distribution by the target's industry*

Description	Freq.	Percent	Cum.
Consumer NonDurables -- Food, Tobacco, Textiles, Apparel, Leather, Toys	77	8.4	8.4
Consumer Durables -- Cars, TV's, Furniture, Household Appliances	27	3.0	11.4
Manufacturing -- Machinery, Trucks, Planes, Off Furn, Paper, Com Printing	146	16.0	27.4
Oil, Gas, and Coal Extraction and Products	14	1.5	28.9
Chemicals and Allied Products	37	4.1	33.0
Business Equipment -- Computers, Software, and Electronic Equipment	215	23.6	56.5
Telephone and Television Transmission	44	4.8	61.3
Wholesale, Retail, and Some Services (Laundries, Repair Shops)	102	11.2	72.5
Healthcare, Medical Equipment, and Drugs	49	5.4	77.9
Other	202	22.1	100.0
<i>Total</i>	<i>913</i>	<i>100.0</i>	

Note: * Using the Fama-French 12-industry classification.

Table 4. Descriptive statistics of the research variables

	Full Sample [N=913]		Inter-industry [N=353]		Intra-industry [N=560]		Inter-industry vs. Intra-industry	
Dependent variable	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Difference	t
<i>Premium</i>	0.3263	0.3833	0.3231	0.3824	0.3283	0.3842	-0.0052	-0.2016
Interest variables	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Difference	t
<i>EM-Accruals</i>	2.9978	1.4150	3.0283	1.4749	2.9786	1.3769	0.0498	0.5092
<i>DA_{pa}*</i>	-0.0062	0.1039	-0.0031	0.1022	-0.0081	0.1050	0.0051	0.7223
<i>EM-Sales</i>	2.9978	1.4150	3.1161	1.4185	2.9232	1.4090	0.1929 ^b	2.0066
<i>RA_{sales}*</i>	0.0113	0.1133	0.0182	0.1117	0.0069	0.1142	0.0113	1.4797
<i>EM-Overproduction</i>	2.9967	1.4146	3.0142	1.4010	2.9857	1.4242	0.0285	0.2969
<i>RA_{prod}*</i>	-0.0000	0.2856	0.0065	0.2620	-0.0042	0.2997	0.0107	0.5687
<i>Intra-Industry</i>	0.6134	0.4872	0.0000	0.0000	1.0000	0.0000		
Deal characteristics	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Difference	t
<i>Hostile</i>	0.0635	0.2440	0.0680	0.2521	0.0607	0.2390	0.0073	0.4332
<i>Multibid</i>	0.1030	0.3041	0.0822	0.2750	0.1161	0.3206	-0.0339 ^a	-1.7007
<i>Toehold</i>	0.2238	0.3229	0.2360	0.3274	0.2162	0.3201	0.0198	0.8954
<i>Tender</i>	0.6725	0.4696	0.6629	0.4734	0.6786	0.4674	-0.0157	-0.4898
<i>Stock</i>	0.1588	0.3657	0.1360	0.3433	0.1732	0.3788	-0.0372	-1.5331
<i>Cash</i>	0.6364	0.4813	0.6997	0.4590	0.5964	0.4911	0.1033 ^c	3.2222
<i>Cross-Border</i>	0.2815	0.4500	0.2323	0.4229	0.3125	0.4639	-0.0802 ^c	-2.6870
<i>Inst-Diff</i>	-0.0012	1.6850	-0.0295	1.5013	0.0167	1.7923	-0.0463	-0.4203
<i>Public-Bidder</i>	0.5991	0.4903	0.5722	0.4955	0.6161	0.4868	-0.0438	-1.3106
<i>Size</i>	12.2339	1.9821	11.9478	1.7774	12.4143	2.0823	-0.4665 ^c	-3.6107
Target characteristics	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Difference	t
<i>MTB</i>	2.5189	2.6611	2.4612	2.3852	2.5552	2.8227	-0.0940	-0.5395
<i>Liquidity</i>	0.1464	0.2092	0.1667	0.2130	0.1336	0.2060	0.0331 ^b	2.3137
<i>ROE</i>	0.0031	0.4885	0.0243	0.3989	-0.0102	0.5373	0.0346	1.1118
<i>P/E</i>	14.3539	34.1879	14.2669	36.7813	14.4088	32.4808	-0.1419	-0.0593
<i>Growth</i>	0.0746	0.2458	0.0734	0.2428	0.0754	0.2479	-0.0020	-0.1192
<i>Leverage</i>	0.5065	0.9170	0.4426	0.8413	0.5468	0.9601	-0.1043 ^a	-1.7253

Note: * descriptive statistics of *DA_{pa}*, *RA_{sales}*, and *RA_{prod}* are reported just for information purposes since these variables are used to estimate the EM measures. a, b, c denote significance at 10%, 5% and 1% respectively. See Table 1 for variable definitions.

Table 5. Pairwise Pearson/Spearman correlations matrix

	1	2	3	4	5	6	7	8	9	10	11
1 <i>Premium</i>		0.041	-0.024	-0.023	0.090	-0.005	0.004	0.086	-0.267	0.116	-0.165
2 <i>EM-Accruals</i>	0.050		-0.326	0.002	0.048	-0.017	0.035	0.049	-0.058	0.053	-0.065
3 <i>EM-Sales</i>	-0.067	-0.326		-0.273	-0.011	-0.066	-0.009	0.021	0.024	-0.047	-0.042
4 <i>EM-Overproduction</i>	-0.010	0.002	-0.273		-0.011	-0.010	-0.041	-0.025	0.053	-0.005	0.031
5 <i>Inst-Diff</i>	-0.017	-0.013	0.015	0.021		0.030	-0.014	-0.033	-0.030	0.050	-0.018
6 <i>Intra-Industry</i>	0.007	-0.017	-0.066	-0.010	0.013		-0.015	0.054	-0.037	0.016	0.050
7 <i>Hostile</i>	-0.009	0.035	-0.009	-0.041	-0.053	-0.015		0.193	-0.068	-0.038	0.034
8 <i>Multibid</i>	0.055	0.049	0.021	-0.025	-0.077	0.054	0.193		-0.189	-0.002	-0.009
9 <i>Toehold</i>	-0.162	-0.056	0.028	0.066	0.096	-0.030	-0.116	-0.198		0.097	-0.077
10 <i>Tender</i>	0.094	0.053	-0.047	-0.005	-0.056	0.016	-0.038	-0.002	0.074		-0.265
11 <i>Stock</i>	-0.107	-0.065	-0.042	0.031	-0.016	0.050	0.034	-0.009	-0.078	-0.265	
12 <i>Cash</i>	0.001	-0.009	-0.001	0.061	0.061	-0.105	0.001	-0.044	0.288	0.152	-0.575
13 <i>Public-Bidder</i>	-0.070	-0.028	0.037	-0.034	-0.009	0.044	0.030	0.057	-0.089	-0.137	0.331
14 <i>Cross-Border</i>	0.047	-0.030	0.006	0.019	0.051	0.087	0.037	-0.012	0.089	0.016	-0.045
15 <i>Size</i>	-0.156	0.005	0.200	-0.065	-0.007	0.115	0.107	0.122	0.135	-0.110	0.087
16 <i>MTB</i>	-0.066	-0.047	0.133	-0.165	-0.008	0.017	-0.012	0.007	-0.019	0.014	0.059
17 <i>Liquidity</i>	0.062	0.081	-0.012	-0.011	0.007	-0.077	-0.050	-0.057	0.017	0.087	-0.066
18 <i>ROE</i>	0.032	0.170	0.264	-0.065	0.003	-0.035	0.022	0.035	0.057	0.017	-0.094
19 <i>P/E</i>	0.028	0.056	0.035	0.029	-0.001	0.002	-0.064	0.033	0.087	-0.009	0.029
20 <i>Growth</i>	-0.042	0.035	0.101	0.015	0.046	0.004	-0.053	0.003	-0.004	-0.006	0.067
21 <i>Leverage</i>	-0.074	-0.066	-0.031	-0.003	0.037	0.055	0.062	0.036	0.035	-0.117	0.085

Note: Pearson (Spearman) correlation coefficients are reported in the lower left (upper right) portion of the table. **Bold** text indicates that correlations are statistically significant at least at 10% level (p-value < 0.10).

	12	13	14	15	16	17	18	19	20	21
1 <i>Premium</i>	0.014	-0.069	0.038	-0.128	-0.078	0.077	0.059	-0.026	-0.044	0.005
2 <i>EM-Accruals</i>	-0.009	-0.028	-0.030	0.017	-0.058	0.087	0.164	0.124	0.027	0.038
3 <i>EM-Sales</i>	-0.001	0.037	0.006	0.191	0.184	-0.015	0.350	0.166	0.130	-0.072
4 <i>EM-Overproduction</i>	0.061	-0.033	0.019	-0.048	-0.164	-0.021	-0.166	-0.019	-0.008	0.062
5 <i>Inst-Diff</i>	-0.032	-0.033	0.024	-0.036	0.005	0.060	0.055	-0.016	0.027	-0.036
6 <i>Intra-Industry</i>	-0.105	0.044	0.087	0.098	-0.007	-0.096	0.005	0.005	0.015	0.042
7 <i>Hostile</i>	0.001	0.030	0.037	0.107	-0.015	-0.051	0.043	-0.032	-0.038	0.064
8 <i>Multibid</i>	-0.044	0.057	-0.012	0.133	0.052	-0.054	0.049	0.083	0.046	0.048
9 <i>Toehold</i>	0.290	-0.086	0.085	0.106	-0.036	0.018	-0.028	0.060	-0.042	-0.026
10 <i>Tender</i>	0.152	-0.137	0.016	-0.104	0.006	0.090	0.040	-0.022	0.000	-0.100
11 <i>Stock</i>	-0.575	0.331	-0.045	0.086	0.005	-0.068	-0.084	-0.005	0.033	0.060
12 <i>Cash</i>		-0.460	0.088	-0.077	-0.034	0.098	-0.019	0.031	-0.048	-0.042
13 <i>Public-Bidder</i>	-0.460		0.100	0.144	-0.014	-0.067	0.006	0.023	0.092	0.019
14 <i>Cross-Border</i>	0.088	0.100		0.222	0.058	-0.057	0.025	0.048	-0.061	0.114
15 <i>Size</i>	-0.091	0.157	0.235		0.355	-0.119	0.255	0.317	0.078	0.270
16 <i>MTB</i>	-0.037	0.002	0.029	0.220		-0.074	0.346	0.312	0.167	0.077
17 <i>Liquidity</i>	0.079	-0.063	-0.067	-0.110	-0.101		0.046	-0.017	0.016	-0.351
18 <i>ROE</i>	0.061	0.002	0.043	0.235	0.010	0.106		0.288	0.225	0.013
19 <i>P/E</i>	0.029	0.013	0.023	0.104	0.087	0.037	0.141		0.186	0.016
20 <i>Growth</i>	-0.068	0.101	-0.012	0.084	0.080	0.007	0.206	0.079		-0.028
21 <i>Leverage</i>	-0.045	0.039	0.085	0.204	0.336	-0.262	-0.157	-0.022	0.033	

Note: Pearson (Spearman) correlation coefficients are reported in the lower left (upper right) portion of the table. **Bold** text indicates that correlations are statistically significant at least at 10% level (p-value < 0.10).

Table 6. Regression analysis of bid premiums and earnings management considering the industry relatedness between acquirer and target firms

	(1)	(2)	(3)
Sample:	All	Inter- industry	Intra- industry
Independent variables	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0063 [-0.63]	0.0325 ^b [2.09]	-0.0330 ^b [-2.57]
<i>EM-Sales</i>	-0.0137 [-1.21]	-0.0044 [-0.22]	-0.0177 [-1.25]
<i>EM-Overproduction</i>	-0.0009 [-0.09]	0.0003 [0.02]	-0.0021 [-0.16]
<i>Intra-industry</i>	0.0018 [0.07]		
<i>Hostile</i>	-0.0330 [-0.75]	0.0799 [0.97]	-0.0776 [-1.55]
<i>Multibid</i>	0.0556 [1.48]	0.1104 [1.43]	0.0471 [1.07]
<i>Toehold</i>	-0.1456 ^c [-3.01]	-0.0321 [-0.44]	-0.2153 ^c [-3.26]
<i>Tender</i>	0.0289 [1.01]	0.0262 [0.57]	0.0163 [0.48]
<i>Stock</i>	-0.0921 ^b [-1.99]	-0.0766 [-0.81]	-0.1271 ^b [-2.41]
<i>Cash</i>	-0.0451 [-1.19]	-0.0603 [-0.87]	-0.0344 [-0.73]
<i>Cross.Border</i>	0.0857 ^c [3.14]	0.0623 [1.31]	0.1038 ^c [2.92]
<i>Inst.Diff</i>	-0.0026 [-0.40]	-0.0012 [-0.11]	-0.0048 [-0.57]
<i>Public.Bidder</i>	-0.0407 [-1.45]	-0.0299 [-0.72]	-0.0452 [-1.18]
<i>Size</i>	-0.0258 ^c [-3.30]	-0.0190 [-1.49]	-0.0282 ^c [-2.80]
<i>MTB</i>	-0.0058 [-1.12]	-0.0098 [-1.26]	-0.0050 [-0.77]
<i>Liquidity</i>	0.0647	0.0519	0.0632

	[1.04]	[0.51]	[0.74]
<i>ROE</i>	0.0481	0.0648	0.0561
	[1.39]	[1.13]	[1.34]
<i>P/E</i>	0.0006	0.0014	-0.0002
	[0.99]	[1.36]	[-0.28]
<i>Growth</i>	-0.0620	0.0897	-0.1478 ^a
	[-1.00]	[0.87]	[-1.89]
<i>Leverage</i>	0.0016	0.0209	0.0036
	[0.11]	[0.88]	[0.21]
<i>UK-Indicator</i>	0.0403	0.0681	0.0093
	[1.29]	[1.40]	[0.23]
<i>Cons</i>	0.6572 ^c	0.5283 ^b	0.6731 ^c
	[4.35]	[2.25]	[3.76]
<i>Year-Indicators</i>	Included	Included	Included
<i>UK-Indicator</i>	Included	Included	Included
Obs.	913	353	560
R ²	0.129	0.229	0.175

Note: Coefficients for indicator variables are omitted for brevity. Standard errors are robust while a, b, and c denote significance at 10%, 5%, and 1%, respectively. See Table 1 for variable definitions.

Table 7. Regression analysis of bid premiums and earnings management considering the industry relatedness between acquirer and target firms – Cash vs. Non-cash deals

Sample	CASH DEALS			NON-CASH DEALS		
	(1) All	(2) Inter- industry	(3) Intra- industry	(4) All	(5) Inter- industry	(6) Intra- industry
Independent variables	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0007 [-0.05]	0.0368 ^b [2.06]	-0.0380 ^b [-2.07]	-0.0094 [-0.53]	0.0108 [0.24]	-0.0192 [-0.96]
<i>EM-Sales</i>	0.0000 [0.00]	0.0221 [1.04]	-0.0203 [-1.05]	-0.0346 ^a [-1.71]	-0.1005 ^a [-1.77]	-0.0140 [-0.62]
<i>EM-Overproduction</i>	0.0071 [0.58]	0.0183 [1.15]	-0.0005 [-0.03]	-0.0035 [-0.19]	-0.0191 [-0.43]	-0.0039 [-0.17]
<i>Intra-industry</i>	0.0233 [0.80]			-0.0452 [-0.84]		
<i>Hostile</i>	-0.0623 [-1.01]	0.0981 [0.78]	-0.1528 ^b [-2.44]	-0.0289 [-0.39]	-0.0382 [-0.28]	0.0580 [0.54]
<i>Multibid</i>	0.0888 ^a [1.72]	0.1336 [1.49]	0.0526 [0.85]	0.0489 [0.79]	0.0391 [0.17]	0.0742 [1.04]
<i>Toehold</i>	-0.1169 ^b [-2.27]	-0.0464 [-0.64]	-0.1607 ^b [-2.04]	-0.1761 [-1.23]	0.2507 [0.75]	-0.2183 [-1.51]
<i>Tender</i>	0.0607 ^a [1.75]	0.0630 [1.24]	-0.0002 [-0.00]	-0.0279 [-0.54]	-0.0071 [-0.05]	0.0516 [0.89]
<i>Stock</i>				-0.1687 ^c [-3.28]	-0.2462 [-1.57]	-0.1732 ^c [-3.01]
<i>Cash</i>						
<i>Cross.Border</i>	0.0689 ^b [2.28]	0.0627 [1.38]	0.0794 ^b [2.00]	0.1413 ^b [2.03]	0.0222 [0.12]	0.1423 ^a [1.73]
<i>Inst.Diff</i>	-0.0060 [-0.91]	-0.0094 [-0.91]	-0.0113 [-1.27]	0.0106 [0.64]	-0.0877 [-1.26]	0.0178 [0.95]
<i>Public.Bidder</i>	-0.0438 [-1.42]	-0.0360 [-0.80]	-0.0451 [-1.04]	-0.0982 [-1.39]	0.1364 [1.10]	-0.1805 ^b [-2.08]
<i>Size</i>	-0.0083 [-0.93]	-0.0097 [-0.72]	-0.0050 [-0.40]	-0.0588 ^c [-3.92]	-0.0196 [-0.62]	-0.0649 ^c [-3.69]
<i>MTB</i>	-0.0061 [-1.26]	-0.0104 [-1.29]	-0.0052 [-0.75]	-0.0022 [-0.22]	-0.0093 [-0.30]	0.0008 [0.07]

<i>Liquidity</i>	0.1019 [1.34]	0.1555 [1.30]	0.1086 [1.01]	-0.0275 [-0.25]	-0.4257 [-1.49]	-0.0100 [-0.07]
<i>ROE</i>	0.0454 [0.85]	0.1703 [1.64]	0.0508 [0.78]	0.0702 [1.45]	0.0752 [0.67]	0.0952 ^a [1.78]
<i>P/E</i>	0.0000 [0.05]	0.0003 [0.32]	-0.0005 [-0.76]	0.0013 [0.97]	0.0012 [0.39]	-0.0001 [-0.06]
<i>Growth</i>	-0.0563 [-0.75]	-0.0219 [-0.20]	-0.1562 [-1.43]	-0.0855 [-0.79]	0.2178 [0.95]	-0.1940 ^a [-1.70]
<i>Leverage</i>	0.0025 [0.13]	0.0262 [0.99]	-0.0049 [-0.21]	0.0036 [0.16]	0.0853 [0.93]	0.0120 [0.49]
<i>UK-Indicator</i>	0.1409 ^c [3.72]	0.1146 ^b [2.18]	0.1302 ^c [2.67]	-0.1110 ^b [-2.00]	-0.0335 [-0.26]	-0.1748 ^c [-2.68]
<i>Cons</i>	0.3850 ^b [2.39]	0.2522 [0.82]	0.7180 ^c [3.43]	1.4448 ^c [4.48]	0.6118 [1.03]	1.2723 ^c [3.89]
<i>Year-Indicators</i>	Included	Included	Included	Included	Included	Included
<i>UK-Indicator</i>	Included	Included	Included	Included	Included	Included
Obs.	581	247	334	332	106	226
R ²	0.141	0.284	0.187	0.221	0.460	0.314

Note: Coefficients for indicator variables are omitted for brevity. Standard errors are robust while a, b, and c denote significance at 10%, 5%, and 1%, respectively. See Table 1 for variable definitions. Columns (1) – (3) include deals paid only in cash while columns (4) – (6) include deals paid only with stocks or with a combination between stocks and cash.

Table 8. Robustness test regressions

Panel A. Rule of Law – Distance

Sample:	<i>ALL DEALS</i>			<i>CASH DEALS</i>			<i>NON-CASH DEALS</i>		
Sub-sample:	(1) All	(2) Inter- industry	(3) Intra- industry	(4) All	(5) Inter- industry	(6) Intra- industry	(7) All	(8) Inter- industry	(9) Intra- industry
Independent variables	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0063 [-0.62]	0.0326 ^b [2.09]	-0.0331 ^b [-2.57]	-0.0008 [-0.06]	0.0372 ^b [2.07]	-0.0380 ^b [-2.07]	-0.0102 [-0.57]	0.0139 [0.32]	-0.0209 [-1.05]
<i>EM-Sales</i>	-0.0136 [-1.20]	-0.0044 [-0.22]	-0.0177 [-1.25]	0.0001 [0.01]	0.0226 [1.06]	-0.0202 [-1.04]	-0.0348 ^a [-1.73]	-0.1013 ^a [-1.82]	-0.0138 [-0.62]
<i>EM-Overproduction</i>	-0.0010 [-0.10]	0.0002 [0.01]	-0.0021 [-0.16]	0.0070 [0.58]	0.0179 [1.12]	-0.0007 [-0.04]	-0.0028 [-0.15]	-0.0146 [-0.33]	-0.0021 [-0.09]
<i>Intra-industry</i>	0.0018 [0.07]			0.0236 [0.81]			-0.0458 [-0.85]		
<i>Hostile</i>	-0.0330 [-0.75]	0.0798 [0.97]	-0.0760 [-1.53]	-0.0621 [-1.01]	0.0971 [0.77]	-0.1499 ^b [-2.41]	-0.0253 [-0.34]	-0.0311 [-0.23]	0.0679 [0.64]
<i>Multibid</i>	0.0557 [1.48]	0.1102 [1.43]	0.0482 [1.09]	0.0892 ^a [1.73]	0.1339 [1.50]	0.0551 [0.89]	0.0518 [0.84]	0.0422 [0.19]	0.0778 [1.09]
<i>Toehold</i>	-0.1462 ^c [-3.03]	-0.0325 [-0.45]	-0.2167 ^c [-3.29]	-0.1176 ^b [-2.29]	-0.0487 [-0.68]	-0.1620 ^b [-2.06]	-0.1685 [-1.17]	0.1864 [0.59]	-0.2116 [-1.45]
<i>Tender</i>	0.0289 [1.01]	0.0263 [0.57]	0.0173 [0.51]	0.0601 ^a [1.73]	0.0627 [1.23]	0.0006 [0.01]	-0.0280 [-0.54]	-0.0303 [-0.23]	0.0497 [0.86]
<i>Stock</i>	-0.0918 ^b [-1.99]	-0.0762 [-0.81]	-0.1271 ^b [-2.40]				-0.1726 ^c [-3.32]	-0.2700 ^a [-1.79]	-0.1810 ^c [-3.10]

<i>Cash</i>	-0.0450 [-1.18]	-0.0600 [-0.86]	-0.0353 [-0.74]						
<i>Cross.Border</i>	0.0856 ^c [3.14]	0.0623 [1.31]	0.1032 ^c [2.91]	0.0691 ^b [2.29]	0.0615 [1.35]	0.0784 ^b [1.98]	0.1440 ^b [2.06]	0.0024 [0.01]	0.1444 ^a [1.75]
<i>Inst.Diff</i>	-0.0153 [-0.40]	-0.0018 [-0.03]	-0.0161 [-0.31]	-0.0466 [-1.20]	-0.0412 [-0.67]	-0.0696 [-1.26]	0.1017 [1.04]	-1.0665 ^b [-2.11]	0.1480 [1.40]
<i>Public.Bidder</i>	-0.0408 [-1.45]	-0.0299 [-0.73]	-0.0459 [-1.20]	-0.0441 [-1.43]	-0.0367 [-0.82]	-0.0461 [-1.06]	-0.0971 [-1.37]	0.1359 [1.10]	-0.1785 ^b [-2.05]
<i>Size</i>	-0.0257 ^c [-3.30]	-0.0190 [-1.48]	-0.0281 ^c [-2.79]	-0.0082 [-0.93]	-0.0096 [-0.72]	-0.0049 [-0.38]	-0.0591 ^c [-3.94]	-0.0114 [-0.36]	-0.0652 ^c [-3.71]
<i>MTB</i>	-0.0058 [-1.12]	-0.0098 [-1.27]	-0.0049 [-0.76]	-0.0061 [-1.28]	-0.0106 [-1.32]	-0.0053 [-0.76]	-0.0022 [-0.21]	-0.0155 [-0.51]	0.0009 [0.08]
<i>Liquidity</i>	0.0645 [1.04]	0.0521 [0.52]	0.0622 [0.73]	0.1003 [1.32]	0.1561 [1.30]	0.1062 [0.99]	-0.0290 [-0.26]	-0.4300 [-1.50]	-0.0086 [-0.06]
<i>ROE</i>	0.0480 [1.38]	0.0646 [1.12]	0.0563 [1.34]	0.0452 [0.85]	0.1670 [1.61]	0.0506 [0.77]	0.0700 [1.45]	0.0714 [0.64]	0.0945 ^a [1.77]
<i>P/E</i>	0.0006 [1.00]	0.0014 [1.35]	-0.0002 [-0.27]	0.0000 [0.06]	0.0003 [0.32]	-0.0005 [-0.72]	0.0013 [0.95]	0.0010 [0.34]	-0.0001 [-0.08]
<i>Growth</i>	-0.0620 [-1.00]	0.0895 [0.87]	-0.1483 ^a [-1.90]	-0.0546 [-0.73]	-0.0223 [-0.20]	-0.1524 [-1.40]	-0.0849 [-0.79]	0.2494 [1.14]	-0.1897 ^a [-1.65]
<i>Leverage</i>	0.0015 [0.10]	0.0208 [0.88]	0.0032 [0.19]	0.0022 [0.12]	0.0265 [1.00]	-0.0056 [-0.25]	0.0029 [0.13]	0.1018 [1.12]	0.0116 [0.48]
<i>UK-Indicator</i>	0.0399 [1.28]	0.0683 [1.41]	0.0086 [0.21]	0.1389 ^c [3.66]	0.1143 ^b [2.17]	0.1280 ^c [2.62]	-0.1092 ^b [-1.98]	-0.0634 [-0.50]	-0.1732 ^c [-2.67]
<i>Cons</i>	0.6569 ^c	0.5285 ^b	0.6743 ^c	0.3875 ^b	0.2531	0.7157 ^c	1.4638 ^c	0.5968	1.2937 ^c

	[4.35]	[2.25]	[3.76]	[2.41]	[0.82]	[3.42]	[4.52]	[1.02]	[3.93]
<i>Year-Indicators</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
<i>UK-Indicator</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
Obs.	913	353	560	581	247	334	332	106	226
R2	0.129	0.229	0.175	0.142	0.284	0.187	0.222	0.483	0.317

Panel B. European Takeover Directive

Sample:	<i>ALL DEALS</i>			<i>CASH DEALS</i>			<i>NON-CASH DEALS</i>		
Sub-sample:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Independent variables	All	Inter-industry	Intra-industry	All	Inter-industry	Intra-industry	All	Inter-industry	Intra-industry
	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0022 [-0.22]	0.0356 ^b [2.35]	-0.0283 ^b [-2.13]	-0.0001 [-0.01]	0.0393 ^b [2.36]	-0.0377 ^b [-2.04]	-0.0026 [-0.15]	0.0140 [0.40]	-0.0159 [-0.76]
<i>EM-Sales</i>	-0.0134 [-1.17]	-0.0061 [-0.32]	-0.0160 [-1.12]	-0.0029 [-0.20]	0.0199 [1.00]	-0.0243 [-1.28]	-0.0308 [-1.53]	-0.0659 [-1.65]	-0.0087 [-0.38]
<i>EM-Overproduction</i>	-0.0028 [-0.28]	-0.0022 [-0.14]	-0.0040 [-0.31]	-0.0005 [-0.04]	0.0146 [0.96]	-0.0089 [-0.54]	0.0007 [0.04]	-0.0129 [-0.30]	0.0070 [0.32]
<i>Intra-industry</i>	0.0049 [0.19]			0.0180 [0.62]			-0.0301 [-0.59]		
<i>Hostile</i>	-0.0211 [-0.50]	0.0466 [0.59]	-0.0478 [-1.00]	-0.0567 [-0.94]	0.0615 [0.50]	-0.1231 ^b [-2.22]	0.0113 [0.17]	0.0141 [0.14]	0.1340 [1.38]
<i>Multibid</i>	0.0562 [1.49]	0.1471 ^b [2.00]	0.0303 [0.68]	0.0858 ^a [1.70]	0.1538 ^a [1.88]	0.0424 [0.72]	0.0474 [0.76]	0.0119 [0.07]	0.0545 [0.76]
<i>Toehold</i>	-0.1526 ^c [-3.16]	-0.0514 [-0.70]	-0.2191 ^c [-3.44]	-0.1178 ^b [-2.26]	-0.0562 [-0.79]	-0.1730 ^b [-2.28]	-0.1870 [-1.41]	-0.0304 [-0.09]	-0.1993 [-1.65]

<i>Tender</i>	0.0447 [1.59]	0.0411 [0.87]	0.0460 [1.33]	0.0718 ^b [2.09]	0.0917 ^a [1.71]	0.0281 [0.61]	-0.0070 [-0.13]	-0.0960 [-0.66]	0.0592 [1.03]
<i>Stock</i>	-0.0980 ^b [-2.15]	-0.1051 [-1.25]	-0.1112 ^b [-2.07]				-0.1627 ^c [-3.14]	-0.2694 ^b [-2.02]	-0.1726 ^c [-2.94]
<i>Cash</i>	-0.0567 [-1.50]	-0.0909 [-1.37]	-0.0375 [-0.79]						
<i>Cross.Border</i>	0.0919 ^c [3.25]	0.0747 [1.62]	0.1055 ^c [2.92]	0.0732 ^b [2.44]	0.0541 [1.16]	0.0857 ^b [2.21]	0.1412 ^b [2.00]	0.1489 [0.88]	0.1526 ^a [1.96]
<i>Inst.Diff</i>	0.0007 [0.11]	0.0042 [0.48]	-0.0004 [-0.05]	-0.0013 [-0.19]	0.0039 [0.43]	-0.0071 [-0.78]	0.0192 [1.18]	0.0116 [0.30]	0.0381 ^a [1.86]
<i>Public.Bidder</i>	-0.0526 ^a [-1.91]	-0.0369 [-0.95]	-0.0552 [-1.45]	-0.0583 ^b [-1.98]	-0.0593 [-1.43]	-0.0510 [-1.25]	-0.0926 [-1.28]	0.0255 [0.30]	-0.1482 [-1.56]
<i>Size</i>	-0.0273 ^c [-3.58]	-0.0273 ^b [-2.04]	-0.0283 ^c [-2.93]	-0.0117 [-1.32]	-0.0187 [-1.38]	-0.0098 [-0.81]	-0.0575 ^c [-4.04]	-0.0427 [-1.50]	-0.0597 ^c [-3.53]
<i>MTB</i>	-0.0051 [-1.06]	-0.0053 [-0.71]	-0.0040 [-0.66]	-0.0060 [-1.30]	-0.0049 [-0.64]	-0.0059 [-0.94]	-0.0007 [-0.07]	-0.0200 [-0.67]	0.0044 [0.43]
<i>Liquidity</i>	0.0729 [1.20]	0.0587 [0.60]	0.0766 [0.95]	0.1155 [1.60]	0.1610 [1.42]	0.0952 [0.98]	-0.0227 [-0.21]	-0.1324 [-0.53]	0.0261 [0.18]
<i>ROE</i>	0.0571 [1.61]	0.0449 [0.70]	0.0703 [1.60]	0.0469 [0.90]	0.1022 [0.97]	0.0634 [1.01]	0.0825 [1.65]	0.0011 [0.01]	0.1017 ^a [1.70]
<i>P/E</i>	0.0006 [1.02]	0.0016 [1.40]	-0.0002 [-0.43]	0.0002 [0.33]	0.0005 [0.65]	-0.0004 [-0.57]	0.0012 [0.81]	0.0040 [1.21]	-0.0006 [-0.68]
<i>Growth</i>	-0.0552 [-1.00]	0.1006 [1.22]	-0.1372 ^b [-2.00]	-0.0503 [-0.75]	0.0120 [0.13]	-0.1274 [-1.43]	-0.0841 [-0.89]	0.2052 [1.21]	-0.1797 ^a [-1.84]
<i>Leverage</i>	-0.0001 [-1.00]	0.0137 [1.22]	-0.0029 [-2.00]	0.0042 [0.33]	0.0167 [0.65]	-0.0095 [-0.57]	-0.0046 [-0.89]	-0.0003 [1.21]	-0.0060 [-1.84]

<i>UK - Indicator</i>	[-0.01] 0.0380	[0.56] 0.0811 ^a	[-0.17] -0.0038	[0.23] 0.1305 ^c	[0.59] 0.1270 ^b	[-0.43] 0.1069 ^b	[-0.21] -0.1031 ^a	[-0.00] 0.0613	[-0.24] -0.1781 ^c
<i>ETD - Indicator</i>	[1.23] -0.0112	[1.74] 0.0248	[-0.09] -0.0331	[3.44] -0.0330	[2.46] -0.0121	[2.14] -0.0469	[-1.88] 0.0170	[0.50] 0.0498	[-2.71] 0.0062
<i>Cons</i>	[-0.40] 0.7579 ^c	[0.60] 0.5424 ^b	[-0.93] 0.9151 ^c	[-1.01] 0.4247 ^c	[-0.26] 0.1959	[-1.04] 0.7066 ^c	[0.30] 1.3561 ^c	[0.47] 1.1388 ^b	[0.10] 1.3760 ^c
	[5.73]	[2.48]	[5.62]	[3.19]	[1.08]	[3.77]	[5.52]	[2.22]	[4.81]
<i>ETD - Indicator</i>	[1: > 2006; 0: o.w.]			[1: > 2006; 0: o.w.]			[1: > 2006; 0: o.w.]		
<i>UK - Indicator</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
Obs.	913	353	560	581	247	334	332	106	226
R2	0.090	0.137	0.117	0.100	0.157	0.123	0.157	0.265	0.220

Panel C. IFRS Adoption – IFRS Indicator

Sample:	<i>ALL DEALS</i>			<i>CASH DEALS</i>			<i>NON-CASH DEALS</i>		
Sub-sample:	(1) All	(2) Inter- industry	(3) Intra- industry	(4) All	(5) Inter- industry	(6) Intra- industry	(7) All	(8) Inter- industry	(9) Intra- industry
Independent variables	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0022 [-0.22]	0.0356 ^b [2.35]	-0.0285 ^b [-2.15]	0.0003 [0.03]	0.0398 ^b [2.34]	-0.0378 ^b [-2.05]	-0.0024 [-0.13]	0.0142 [0.39]	-0.0156 [-0.74]
<i>EM-Sales</i>	-0.0131 [-1.14]	-0.0057 [-0.30]	-0.0151 [-1.04]	-0.0012 [-0.08]	0.0211 [1.03]	-0.0223 [-1.16]	-0.0306 [-1.51]	-0.0658 [-1.66]	-0.0074 [-0.32]
<i>EM-Overproduction</i>	-0.0027 [-0.27]	-0.0015 [-0.10]	-0.0035 [-0.27]	0.0003 [0.03]	0.0150 [0.98]	-0.0077 [-0.46]	0.0010 [0.06]	-0.0105 [-0.23]	0.0077 [0.35]
<i>Intra-industry</i>	0.0051 [0.20]			0.0185 [0.64]			-0.0301 [-0.59]		
<i>Hostile</i>	-0.0203	0.0450	-0.0470	-0.0532	0.0635	-0.1190 ^b	0.0109	0.0149	0.1303

<i>Multibid</i>	[-0.48] 0.0562	[0.56] 0.1475 ^b	[-0.98] 0.0305	[-0.88] 0.0869 ^a	[0.53] 0.1537 ^a	[-2.11] 0.0469	[0.17] 0.0481	[0.15] 0.0048	[1.35] 0.0582
<i>Toehold</i>	[1.49] -0.1529 ^c	[2.00] -0.0519	[0.69] -0.2193 ^c	[1.73] -0.1179 ^b	[1.88] -0.0570	[0.80] -0.1711 ^b	[0.77] -0.1903	[0.03] -0.0451	[0.82] -0.2055 ^a
<i>Tender</i>	[-3.16] 0.0444	[-0.71] 0.0406	[-3.43] 0.0446	[-2.26] 0.0716 ^b	[-0.80] 0.0920 ^a	[-2.24] 0.0280	[-1.42] -0.0095	[-0.13] -0.1027	[-1.68] 0.0496
<i>Stock</i>	[1.57] -0.0974 ^b	[0.86] -0.1035	[1.27] -0.1108 ^b	[2.08]	[1.72]	[0.61]	[-0.18] -0.1624 ^c	[-0.72] -0.2682 ^a	[0.83] -0.1736 ^c
<i>Cash</i>	[-2.13] -0.0559	[-1.22] -0.0895	[-2.06] -0.0360				[-3.13]	[-1.97]	[-2.97]
<i>Cross.Border</i>	[-1.46] 0.0918 ^c	[-1.33] 0.0756	[-0.76] 0.1059 ^c	0.0718 ^b	0.0532	0.0848 ^b	0.1430 ^b	0.1499	0.1594 ^b
<i>Inst.Diff</i>	[3.25] 0.0007	[1.64] 0.0041	[2.93] -0.0006	[2.39] -0.0013	[1.13] 0.0039	[2.19] -0.0072	[2.03] 0.0192	[0.88] 0.0104	[2.02] 0.0387 ^a
<i>Public.Bidder</i>	[0.11] -0.0527 ^a	[0.47] -0.0391	[-0.07] -0.0560	[-0.20] -0.0602 ^b	[0.43] -0.0611	[-0.81] -0.0538	[1.19] -0.0910	[0.27] 0.0246	[1.90] -0.1454
<i>Size</i>	[-1.91] -0.0272 ^c	[-1.00] -0.0273 ^b	[-1.46] -0.0280 ^c	[-2.03] -0.0113	[-1.46] -0.0186	[-1.31] -0.0089	[-1.27] -0.0577 ^c	[0.29] -0.0430	[-1.53] -0.0605 ^c
<i>MTB</i>	[-3.55] -0.0051	[-2.03] -0.0052	[-2.89] -0.0040	[-1.28] -0.0058	[-1.37] -0.0047	[-0.75] -0.0056	[-4.04] -0.0008	[-1.52] -0.0188	[-3.55] 0.0042
<i>Liquidity</i>	[-1.05] 0.0729	[-0.70] 0.0591	[-0.66] 0.0782	[-1.25] 0.1146	[-0.63] 0.1595	[-0.90] 0.0954	[-0.08] -0.0218	[-0.65] -0.1371	[0.41] 0.0341
<i>ROE</i>	[1.20] 0.0567	[0.61] 0.0447	[0.96] 0.0689	[1.59] 0.0434	[1.41] 0.0995	[0.99] 0.0586	[-0.20] 0.0828 ^a	[-0.55] 0.0005	[0.24] 0.1033 ^a
	[1.60]	[0.69]	[1.57]	[0.82]	[0.93]	[0.92]	[1.65]	[0.00]	[1.72]

<i>P/E</i>	0.0006	0.0016	-0.0002	0.0002	0.0005	-0.0004	0.0012	0.0040	-0.0007
	[1.02]	[1.40]	[-0.47]	[0.34]	[0.67]	[-0.61]	[0.81]	[1.20]	[-0.73]
<i>Growth</i>	-0.0538	0.0951	-0.1319 ^a	-0.0459	0.0110	-0.1146	-0.0856	0.1930	-0.1796 ^a
	[-1.00]	[1.18]	[-1.96]	[-0.71]	[0.12]	[-1.34]	[-0.92]	[1.18]	[-1.85]
<i>Leverage</i>	-0.0003	0.0144	-0.0033	0.0037	0.0167	-0.0104	-0.0040	-0.0005	-0.0042
	[-0.02]	[0.60]	[-0.19]	[0.20]	[0.60]	[-0.47]	[-0.18]	[-0.01]	[-0.17]
<i>UK - Indicator</i>	0.0384	0.0795 ^a	-0.0034	0.1331 ^c	0.1291 ^b	0.1090 ^b	-0.1041 ^a	0.0569	-0.1825 ^c
	[1.24]	[1.70]	[-0.08]	[3.52]	[2.49]	[2.17]	[-1.89]	[0.46]	[-2.74]
<i>IFRS - Indicator</i>	-0.0121	0.0138	-0.0370	-0.0453	-0.0225	-0.0624	0.0072	0.0228	-0.0198
	[-0.43]	[0.34]	[-1.00]	[-1.36]	[-0.46]	[-1.37]	[0.13]	[0.22]	[-0.29]
<i>Cons</i>	0.7562 ^c	0.5453 ^b	0.9114 ^c	0.4205 ^c	0.1962	0.6988 ^c	1.3590 ^c	1.1504 ^b	1.3948 ^c
	[5.67]	[2.47]	[5.54]	[3.14]	[1.07]	[3.73]	[5.52]	[2.26]	[4.84]
<i>IFRS - Indicator</i>	[1: > 2005; 0: o.w.]			[1: > 2005; 0: o.w.]			[1: > 2005; 0: o.w.]		
<i>UK - Indicator</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
Obs.	913	353	560	581	247	334	332	106	226
R2	0.090	0.136	0.118	0.102	0.158	0.126	0.156	0.264	0.220

Panel D. IFRS Adoption – Excluding observations using financial data around mandatory adoption (2005 and 2006)

Sample:	<i>ALL DEALS</i>			<i>CASH DEALS</i>			<i>NON-CASH DEALS</i>		
Sub-sample:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Independent variables	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]	Coef. / [t]
<i>EM-Accruals</i>	-0.0094	0.0216	-0.0299 ^b	-0.0034	0.0352 ^a	-0.0459 ^b	-0.0139	-0.0175	-0.0134
	[-0.91]	[1.40]	[-2.14]	[-0.24]	[1.81]	[-2.25]	[-0.73]	[-0.35]	[-0.58]
<i>EM-Sales</i>	-0.0172	-0.0038	-0.0283 ^a	-0.0097	0.0204	-0.0385 ^a	-0.0304	-0.0718	-0.0243
	[-1.42]	[-0.18]	[-1.86]	[-0.62]	[0.87]	[-1.83]	[-1.44]	[-1.33]	[-0.92]

<i>EM-Overproduction</i>	-0.0017 [-0.16]	-0.0011 [-0.07]	-0.0046 [-0.31]	0.0082 [0.62]	0.0207 [1.23]	-0.0021 [-0.11]	-0.0085 [-0.42]	-0.0280 [-0.67]	-0.0082 [-0.31]
<i>Intra-industry</i>	0.0181 [0.69]			0.0233 [0.75]			0.0067 [0.14]		
<i>Hostile</i>	-0.0242 [-0.46]	0.1313 [1.49]	-0.0926 [-1.52]	-0.0504 [-0.67]	0.2144 [1.52]	-0.2131 ^c [-2.82]	-0.0250 [-0.30]	-0.0456 [-0.36]	0.0440 [0.37]
<i>Multibid</i>	0.0607 [1.40]	0.0799 [0.92]	0.0584 [1.14]	0.0943 [1.52]	0.1229 [1.21]	0.0496 [0.63]	0.0525 [0.76]	-0.1143 [-0.55]	0.0995 [1.27]
<i>Toehold</i>	-0.1781 ^c [-3.79]	-0.0487 [-0.72]	-0.2500 ^c [-3.52]	-0.1309 ^b [-2.42]	-0.0383 [-0.49]	-0.1920 ^b [-2.30]	-0.2527 ^b [-2.11]	0.1747 [0.58]	-0.2851 ^a [-1.70]
<i>Tender</i>	0.0440 [1.47]	0.0538 [1.19]	0.0156 [0.42]	0.0706 ^a [1.88]	0.0648 [1.17]	-0.0009 [-0.02]	-0.0107 [-0.20]	-0.0980 [-0.82]	0.0660 [1.01]
<i>Stock</i>	-0.1213 ^b [-2.49]	-0.1343 [-1.46]	-0.1457 ^b [-2.46]				-0.1805 ^c [-3.36]	-0.2938 ^b [-2.07]	-0.1905 ^c [-2.91]
<i>Cash</i>	-0.0459 [-1.11]	-0.0099 [-0.14]	-0.0583 [-1.07]						
<i>Cross.Border</i>	0.0886 ^c [3.01]	0.0811 ^a [1.66]	0.1004 ^b [2.55]	0.0643 ^a [1.96]	0.0746 [1.61]	0.0615 [1.39]	0.1779 ^b [2.42]	0.1070 [0.66]	0.1737 ^a [1.93]
<i>Inst.Diff</i>	-0.0020 [-0.29]	-0.0087 [-0.83]	-0.0044 [-0.49]	-0.0056 [-0.76]	-0.0081 [-0.67]	-0.0121 [-1.29]	0.0194 [1.15]	-0.0124 [-0.21]	0.0230 [1.14]
<i>Public.Bidder</i>	-0.0410 [-1.33]	-0.0126 [-0.30]	-0.0490 [-1.13]	-0.0496 [-1.44]	-0.0329 [-0.68]	-0.0501 [-1.01]	-0.0712 [-0.96]	0.0883 [0.76]	-0.1504 [-1.53]
<i>Size</i>	-0.0266 ^c [-3.29]	-0.0094 [-0.83]	-0.0342 ^c [-3.00]	-0.0129 [-1.35]	-0.0125 [-0.91]	-0.0086 [-0.60]	-0.0564 ^c [-3.75]	-0.0209 [-0.69]	-0.0733 ^c [-3.81]
<i>MTB</i>	-0.0046	-0.0086	-0.0044	-0.0064	-0.0192 ^a	-0.0009	-0.0010	0.0042	0.0000

<i>Liquidity</i>	[-0.76] 0.0715	[-0.87] 0.0764	[-0.58] 0.0549	[-1.12] 0.1026	[-1.73] 0.1672	[-0.11] 0.1407	[-0.09] 0.0126	[0.15] -0.2538	[-0.00] -0.0400
<i>ROE</i>	[1.06] 0.0603	[0.72] 0.0682	[0.58] 0.0640	[1.21] 0.0801	[1.23] 0.1815	[1.13] 0.0956	[0.11] 0.0821 ^a	[-1.00] 0.0990	[-0.25] 0.0963 ^a
<i>P/E</i>	[1.63] 0.0002	[1.14] 0.0004	[1.39] 0.0001	[1.23] 0.0003	[1.53] 0.0009	[1.18] -0.0002	[1.72] -0.0005	[1.12] -0.0036	[1.75] 0.0000
<i>Growth</i>	[0.31] -0.0635	[0.40] 0.0102	[0.20] -0.1334	[0.52] -0.0365	[0.98] -0.0188	[-0.31] -0.1477	[-0.46] -0.1256	[-1.42] -0.2132	[0.02] -0.1829
<i>Leverage</i>	[-0.98] 0.0007	[0.11] 0.0302	[-1.57] -0.0019	[-0.44] 0.0002	[-0.17] 0.0294	[-1.21] -0.0087	[-1.18] 0.0026	[-0.96] 0.0532	[-1.54] 0.0081
<i>UK - Indicator</i>	[0.04] 0.0566	[1.11] 0.1374 ^c	[-0.10] 0.0034	[0.01] 0.1572 ^c	[1.01] 0.1445 ^b	[-0.33] 0.1482 ^c	[0.11] -0.0890	[0.68] 0.0789	[0.28] -0.1890 ^b
<i>Cons</i>	[1.63] 0.6761 ^c	[2.90] 0.3295	[0.07] 1.0007 ^c	[3.70] 0.4765 ^c	[2.53] 0.4075 ^b	[2.62] 0.5247 ^b	[-1.50] 1.3778 ^c	[0.65] 0.3378	[-2.57] 1.3343 ^c
	[4.40]	[1.57]	[4.77]	[2.97]	[2.12]	[2.58]	[4.22]	[0.39]	[3.42]
<i>Year - Indicators</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
<i>UK - Indicator</i>	Included	Included	Included	Included	Included	Included	Included	Included	Included
Obs.	807	320	487	513	223	290	294	97	197
R2	0.155	0.254	0.193	0.158	0.313	0.215	0.256	0.428	0.331

Note: Coefficients for Year indicators and some control variables are omitted for brevity. Columns (1) – (3) include all deals. Columns (4) – (6) include deals paid only in cash while columns (7) – (9) include deals paid only with stocks or with a combination between stocks and cash. In Panel A, the variable *RL-Diff* measures the distance between the Rule of Law indexes between the acquirer and target nations. Standard errors are robust to heteroskedasticity, and a, b, and c denote significance at 10%, 5%, and 1% respectively. See Table 1 for variable definitions.