

Bidder Excess Control, Private Benefits and Acquisition Premium: Evidence from France

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Abstract

This article investigates the effect of French acquirer’s control on acquisition premiums. Using a sample of 169 transactions initiated by French listed companies during a sample period of 2000-2015, we examine the effects of controlling shareholder entrenchment on acquisition premium. Our findings reveal, first, a positive relation between the control–ownership wedge of the ultimate controlling shareholder and target overpayment, second, a negative impact of the presence of other large shareholders on target overpayment. Thus, we show that ultimate shareholders owning an excess of voting rights use to overpay for targets when they control more than 20% of French bidders. The other large shareholders play a crucial monitoring governance role by discouraging ultimate owner to overpay for targets. Academic literature show that premium can reflect private benefits of control in private block transactions; we argue that acquisition premium can reflect private benefits even in public transactions.

1. Introduction

During the last decades, Mergers & Acquisitions (M&A) have been considered as the most important corporate investment form. Moreover, M&A have deeply transformed the economical worldwide landscape. However, a large documented literature show that M&A are well-suited events for an agency problem framework. Managers may seek acquisitions allowing them to pursue personal objectives (e.g., diversify their employment risk; increase company size; consume perquisites such as increased prestige and executive remuneration in the post-M&A period) rather than maximization corporate value (Shleifer et Vishny, 1997); Grinstein and Hribar 2004; Harford and Li 2007). Therefore, managers may overpay in acquisitions, which induce a negative reaction of the bidder's share price. In concentrated ownership structures, large or controlling shareholders are mostly involved in the process of corporate strategy and can influence management decisions. This can have mixed effects on firm's valuation. Large shareholders have the incentives and the power to monitor and discipline management; hence, they offer a protection to minority shareholders against the deviation from the maximization value rule. However, controlling shareholders can influence management and adopt an opportunistic behavior in order to seek private benefits. Besides, they can make sub-optimal decisions to pursue some personal motives like acquiring targets, which allow illegitimate transfer of corporate resources, empire building or even social reputation.

To examine whether a bidder's controlling shareholder extracts private benefits from M&A transactions, many previous studies focus on the negative impact of ultimate shareholder ownership on bidder's performance around the merger announcement date (Bae et al., 2002; Holmen and Knopf, 2004; Ben-Amar and André, 2006; Faccio and Stolin, 2006, Craninckx and Huyghebaert, 2014). This paper attempts to analyze the impact of bidder's controlling shareholding on takeover overpayment. Our contribution aims to examine mainly the relation between control-ownership wedge (as a proxy for bidder controlling shareholder's entrenchment) and the overpayment bidding behavior (as a proxy for private benefits of control). The French context offers an ideal setting to investigate this relation. France is characterized by greater ownership concentration (Ginglinger, 2002), weaker investor protection environment (La Porta et al. 1998) and higher level of expropriation (Nenova, 2003; Hamza and Lakhal, 2010). For instance, we carry out our analysis in one country, i.e. France, in order to obtain homogeneous sample. Furthermore, no studies have examined the effect of controlling shareholder's private benefits on acquisition premium in French framework.

Using a sample of 169 deals initiated by 70 French listed companies during the period of 2000-2015, we find first, that, overpayment bidding is positively associated with control-ownership wedge of bidder controlling shareholder showing that the excess of control provides more incentives to bidder controlling shareholder to overpay for targets. This finding is accurate only for French bidders with a level of control higher than 20% and lower than 50%. Second, the presence of other large shareholders is negatively associated with overpayment behavior for all the levels of control.

The remainder structure of this paper is organized as follows: Section 2 reviews prior literature, giving a summary of empirical findings allowing to setting our research hypothesis. Section 3 presents research design including data, sample selection and variables used in our analysis. Section 4 reports results and discussion. The last section concludes our findings.

2. Theoretical background and hypothesis development

2.1. Ownership structure and M&A

Many studies find evidence of strong positive association between ownership concentration and expropriation practices (Grossman and Hart, 1988; Burkart et al. 1997; La Porta et al. 1999; Holderness, 2003; Dyck and Zingales, 2004, Caprio et al. 2011). These studies show that concentrated ownership structure provides more incentives to controlling shareholder to pursue tunneling behavior and extract private benefits. Using its large fraction of control rights, controlling shareholder may act for his own interests and divert corporate resources. This self-serving behavior occurs more in countries with a weak investor protection and less developed capital markets (La Porta et al., 1999). Other studies (Shleifer and Vishny, 1986), Kaplan and Minton (1994), Boubakri et al., 2005, Craninckx and Huyghebaert 2014) find opposite results suggesting that concentrated ownership structures can have positive effects on firm performance and M&A announcement as well. Shleifer and Vishny (1986) were among the first to discuss the role of large shareholders as monitors that create benefits to all equity holders. When the controlling owner is holding a significant stake in firm's equity, he is less likely to invest in unprofitable projects to avoid large losses and he can play an important governance role in monitoring and disciplining firm management in order to maximize corporate value (Kaplan and Minton, 1994). Boubakri et al., (2005) argues that the large financial stake held by family owners may form a substitute for the weaker investor protection in Continental Europe.

However, a common outcome from all these studies is that the self-serving behavior associated with concentrated ownership structure is more pronounced when the voting rights exceed the cash-flow rights (Grossman and Hart, 1988; Morck et al., 1988; Claessens et al., 2002; Dyck and Zingales, 2004; Villalonga and Amit, 2006). Claessens et al. 2002, show that control-ownership wedge can exacerbates agency problems between controlling and minority shareholders. Morck et al., (1988) argue that over a certain level of ownership, controlling shareholder becomes more able to seek his own interests and extract private benefits at the expense of minority shareholders. Bebchuk (2000) claimed that disproportional ownership structure arising from ownership and control separation increase the risk of minority expropriation especially in weaker shareholders protection countries. Holderness (2003) finds evidence that a significant fraction of control rights increases the deviation from wealth maximization objective and provides more expropriation practices.

Thus, control-ownership wedge is driven by a wide use of control enhancing mechanisms such as dual class shares and pyramidal groups (La Porta et al., 1999; Ben Nasr et al., 2015). In fact, these control enhancing devises increase controlling shareholder's incentives to pursue

private benefits and expropriate minority shareholders. Bebchuk et al. (2000), Bae et al. (2002), Bertrand et al. (2002), among others argue that pyramid structure provides controlling shareholder with an excessive control and facilitate the expropriation of minority wealth. In addition, Johnson et al. (2000) and Bigelli and Mengoli (2004) confirm that pyramidal groups amplify the transfer of wealth and provide controlling shareholder motivation (lower cash flow rights) and power (substantial control) to expropriate minority shareholders situated at the bottom of the pyramid. Furthermore, Claessens et al. (2002) and Hossain (2014) show that dual class shares are associated with value destroying acquisitions. Holmen and Knopf (2004) find that Swedish dual owners use dual class shares as a tool to extract private benefits of control. They argue that those dual owners tend to improve their participation in voting rights in order to avoid any opposition from minority shareholders. Cronqvist and Nilson (2003) and Holmen and Knopf (2004) mention that holding a full control despite a small fraction of ownership increase controlling shareholder's incentives to undertake empire-building acquisitions in order to extract private benefits, without supporting the full costs. Thereby, at lower level of ownership, controlling shareholder may not be interested by firm performance and the acquisition process is a tool used to reach private benefits. Bigelli and Mengoli (2004) argue that higher separation between ownership and control increases the overbidding likelihood. Therefore, holding lower cash flows rights comparing to high levels of voting rights, controlling shareholders are more likely to overpay for targets.

To conclude, the concentration of voting rights compared to cash flow rights may fail the effectiveness of controlling shareholders monitoring function, then, they are more inclined to make sub-optimal acquisition decisions in order to extract private benefits of control such as empire building, illegitimate transfer of resources or even reputation.

2.2. Acquisition overpayment

Academic literature documents a large list of factors can force bidders to overpay targets. Such factors are toeholds (i.e bidder with a toehold will optimally overbid) (Burkart, 1995; Betton and Eckbo, 2000; Betton et al., 2009), jump-bidding through auctions (i.e., offering a higher premium if we expect competition) (Fishman, 1988), overbidding as a consequence of the winner's curse (Roll, 1986), CEO' overestimation of synergies (Husbris factor), the target run up (i.e., the higher the run up, the higher the offer premium) Schwert (1996); M&A waves (Rhodes-Kropf and Viswanathan, 2004); the acquirer's status (i.e., public acquirers pay higher premiums), the deal type (i.e., premiums are lower for tender offers than for mergers), successive acquisitions (i.e., Firms increase their bidding aggressiveness from deal to deal after positive market reactions) (Aktas et al., 2011); termination agreements (i.e., premiums are higher in the presence of termination agreements) (Bates and Lemmon (2003)); methods of payment (i.e., cash deals are associated with higher premiums) (Hansen, 1987; DeMarzo et al., 2005); target size (i.e., the smaller the target, the higher the offer premium) Betton et al.'s (2008).

Another view of overpayment is that managers of bidding firms pursue personal objectives other than maximization of shareholder value. To the extent that acquisitions serve these objectives, managers of bidding firms are willing to pay more for targets than they are worth to

bidding firms' shareholders. Managers will overpay for targets with high private benefits. (Morck, 1990). Hence, higher takeover premiums can reflect the managers' opportunistic behavior.

A similar view of overpayment associated with private benefits comes from private block transactions of voting shares. Barclay and Holderness (1989) assume that the trading parties forecast rationally the effect of their trade on the stock's exchange price. Thus, any private benefits will be reflected in the difference between the block-trade price and the post-announcement exchange price. Many studies use this approach to examine private benefits through block transactions (Bebchuk (1994), Burkart et al., (2000), Nicodano et Sembenelli (2004), Dyck et Zingales (2004), Atanasov (2005), Poulsen (2011), Boubaker et al. (2014). Atanasov (2005) shows that the magnitude of the control premium imply a strong preference on the part of majority shareholders for expropriating value rather than adding value through monitoring. Poulsen (2011) find that the selling shareholders in block transactions attaches more value to private benefits than the buyers. Boubaker et al. (2014) find that shareholder wealth gains from going private are greater when the pre-transaction target firm exhibits a higher separation of cash-flow rights and control rights of its ultimate owner. Dyck and Zingales (2004) find higher private benefits of control associated with less developed capital markets, more concentrated ownership, and more privately negotiated privatizations. The authors find evidence that legal institutions and extra-legal mechanisms are most important in curbing private benefits. In our study, we use overpayment to examine private benefits in French public transactions with bidders having concentrated ownership structures

2.3. The presence of other large shareholders

Various studies show that the presence of other large shareholders can limit the illegitimate diversion of corporate resources by the controlling shareholder. The other large shareholders can form coalitions with large equity stakes that improve firm governance (Bennedsen and Wolfenzon, 2000). They can also limit the potential for expropriation of minority shareholders through competition for corporate control. A number of studies have empirically documented the governance role of the other large shareholders. For instance, Berglöf and Burkart (2003) argue that, independently of their connection with the controlling shareholder, other large shareholders play a crucial role in shaping the dynamics of corporate governance. Maury and Pajuste (2005) and Laeven and Levine (2008) focus on the role of the other large shareholders in corporate governance and show that it can affect corporate valuations. In a similar vein, Attig et al. (2008) argue that the other large shareholders alleviate firm agency and information problems driven by the separation of ownership and control of the largest shareholder, thereby reducing the cost of equity financing. Accordingly, the presence of those other large shareholders is likely to mitigate the information asymmetry between corporate insiders and outsiders, which reduces the incentives of the controlling owner to insulate herself from frequent monitoring by debt markets. Furthermore, the different typology of other large shareholders (i.e., families, financial institutions) helps to complement monitoring skills that may limit the diversion of corporate resources and prevent sub-optimal decisions (Zaabar (2005)). The other large shareholders may have positions on the firm's board of directors (Mishra, 2011). In this case, they can vote against bad anticipated acquisitions.

This article focuses first on the relation between control-ownership wedge of the controlling shareholder and acquisition overpayment, second, on the role of other large shareholders in reducing conflicts due to the overpayment problem. In light of all these arguments, we assume the following hypotheses:

Hypothesis 1: Ownership–control wedge is positively associated with acquisition premium.

Hypothesis 2: The presence of other large shareholders is negatively associated with acquisition premium.

3. Research design

3.1. Data sources and sample selection

Our initial sample includes all French acquisitions available in Thomson Financial's M&A database (SDC). We restrict our sample to the following criteria: (1) the announcement date of the deal takes a place between January 1st 2000 and October 31, 2015; (2) Both acquirer and target are publicly listed firms and (3) the transaction is entirely completed. Ownership and control data are hand-collected from companies' annual reports published by the “Autorité du Marché Financier” (AMF) or available on firms' websites. Financial data on M@A transactions are obtained from Thomson Financial database. We restricted the sample to transactions deals where there was a reported transaction value or price per share. We exclude exchange offers, repurchases, recapitalizations, self-tender offers and spin-offs (29). Second, we exclude acquisitions of minority interests (less than 10%). Fourth, we exclude deals which are linked to the exercise of a call option on the target's shares (3) because, in these cases, the acquisition premium is likely to have been determined by factors prevailing at the time period the option was underwritten. Fifth, we exclude transactions with a relative deal value lower than 1%. After eliminating firms with missing ownership financial data, our final sample is composed by 169 transactions initiated by 70 French listed firms.

3.2. Measures of ownership and control data

In order to measure the ownership and control of the controlling shareholder, we follow the same methodology reported by La Porta et al. (1999), Claessens et al. (2000) and Faccio and Lang (2002), among others. Ownership is measured by cash-flow rights and control is measured by voting rights. In accordance with large stream of research, we require 10% as the minimum threshold of voting rights by which the ultimate controlling shareholder can exercise substantial control (La Porta et al. 1999; Claessens et al. 2002; Faccio and Lang, 2002; Caprio et al. 2011; Martynova and Renneboog, 2011; Craninckx and Huyghebaert, 2014). In order to estimate the percentages of cash flows rights and voting rights owned directly and/or indirectly by the ultimate controlling shareholder, we consider the cash-flow rights as the product of the ownership stakes along the chain of firms and we consider the voting rights as the weakest link along the control chain (see Faccio and Lang, 2002 for detailed explanations).

3.3. Dependent variable

According to Surendrana et al. (2016), we compute the premium as the excess of the offer price over the target stock price four weeks prior to the M&A announcement (expressed in percentage). 28 days before the announcement date is a perfect window to avoid informational leakage (Nathan and O'Keefe, 1989), the effects of the effects run-up in the target's stock price prior the announcement (Schwert, 1996) and contamination effect (Flanagan and O'Shaughnessy, 2003). Hence, our measure of acquisition premium is calculated as follows:

$$Premium = 100 * \frac{Price\ per\ share - Target\ stock\ price\ 4\ weeks\ before\ the\ announcement\ date}{Target\ stock\ price\ 4\ weeks\ before\ the\ announcement\ date}$$

3.4. Control variables

According to previous studies, we add some control variables that may affect the acquisition premium. These variables are associated with bidder characteristics, target characteristics or transaction characteristics.

3.4.1 Bidder & target characteristics

dpr is the Dividend Payout Ratio. Since bidder pay dividend to their shareholders; controlling shareholders does not has enough financial resources to pay large premium. Consequently, we expect a negative association between DPR and premium.

Rel_size is the relative size of the target. This variable is measured by the ratio of transaction value divided by the equity market capitalization of the acquirer four weeks prior to the acquisition announcement

Toehold corresponds to the percentage of target's equity holding by bidder firm before the announcement of the transaction. Betton and Eckbo (2000), Betton et al. (2009) and Simonyan (2014) show that that holding large part of target's shares, prior the deal, allows to a substantial control. Thereby, bidder firm may impose target shareholders to accept lower premium. Therefore, we expect a negative effect of toehold on acquisition premium.

Target_invpro is a proxy for the level of investor protection of the target country. Starks and Wei (2004) observe that bidders pay higher premiums for acquisition targets domiciled in investor protection regimes that are more sophisticated.

3.4.2 Transactions characteristics

Diver is employed to show the effect of diversification strategies on premium. According to Bae et al. (2002) and Holmen and Knopf (2004), unrelated acquisitions is positively associated with minority expropriation. Consequently, we look for a positive link between diversification transactions and acquisition premium.

Cash is used to control for the method of payment. Since Rossi and Volpin (2004) and Kim (2012), stock payment lead to the dilution of control, particularly under weaker shareholders protection environment. In fact, for a reason of keeping his control, controlling shareholder preferred cash payment. Combined with this view, Simonyan (2014) report that cash-offers are associated with large premiums. Therefore, we assume positive association between cash payment and premium.

Successive is used to measure the number of successive acquisitions. The higher is the number of transactions undertaken by bidder, the more the controlling shareholder is able to expropriate minority shareholders through entrenched acquisitions. Supporting this idea, we expect positive effect of successive deals on acquisition premium. Firms increase their bidding aggressiveness from deal to deal after positive market reactions. (Aktas et al., 2011).

Table 1: Summary of variables, definitions and expected sign

Variables	Descriptions	Expected sign
Dependent variable		
Premium	the excess of the offer price over the target stock price four weeks prior to the announcement, divided by the price four weeks prior to announcement	
Explanatory variables		
Wedge	The control–ownership wedge of the ultimate owner (at the 10% threshold), defined as the difference between the controlling shareholder’s voting rights and cash flow rights, all divided by her voting rights .	+
Wedge high1	A dummy variable that equals one if the control–ownership wedge of the largest owner exceeds the median control–ownership wedge (0.2001) and zero otherwise	+
Separation	Dummy variable which equals to one if cash-flows rights and voting rights holding by controlling shareholder are different and 0 otherwise.	+
Excess	The percentage of cash-flows rights held by controlling shareholder minus the percentage of voting rights held by controlling shareholder	+
Other	Dummy variable which equals to one if there is other shareholder that controls at least 10% of voting rights and 0 otherwise.	+
Others	The number of other shareholder that controls at least 10% of voting rights and 0 otherwise.	+
Control variables		
DPR	Dividends / net income (in the fiscal year before a deal)	-
Relative size	The ratio of transaction value divided by the equity market capitalization of the acquirer four weeks prior to the acquisition announcement	-
Target_invpro	Target investor protection index developed by La Porta et al. (2006). This index represents the principal component of three dimensions: disclosure requirements, liability standards and anti-director rights. Scale from 0 to 1.	+
Diver	Dummy variable which equals to one if the acquiring and target firms not active in the same four-digit SIC industry and 0 otherwise.	+
Toehold	The percentage of shares held by the bidder in the target prior the transaction and 0 otherwise.	-
Cash	Dummy variable which equals to one if the transaction is financed with cash and 0 otherwise.	+
Successive	The number of successive acquisitions occurring in the last 12 months before the announcement date.	+

3.5. Model specification

In order to detect the effect of controlling shareholder's private benefits on acquisition premium during the last fifteen years, we estimate the following regressions model:

$$Premium = \alpha + \sum_{i=1}^m \beta_i Ownership + \sum_{k=1}^p \beta_k Control + \varepsilon_i$$

Where:

- ❖ Premium is the amount proposed by bidder to target shareholders at the announcement date.
- ❖ Ownership is the vector of variables related to the ultimate controlling shareholder's ownership and control.
- ❖ Control corresponds to the vector of control variables linked to bidder, target and deals characteristics.

3.1. descriptive statistics

Table 2 shows the distribution of our sample deals, the mean and the standard deviation of premiums per year (panel A) and per industry (panel B). 2000 and 2007 have the highest number of deals in our sample (26 deals) as they represent respectively the fifth and six merger waves. Regarding the activity sector, the high technology sector has the highest number of deals (24 deals); Energy, industrial and financial sectors come on the second place with 20 deals each. Table 3 provides summary descriptive statistics of all variables used in our analysis. The average premium in our sample is about 29 %. More than 77% ($\frac{131}{169}$) of our deals are initiated by concentrated ownership bidders (at the 10% threshold). The cash payment represents more than 65% of the sample. Corporate control incentives to choose cash are particularly strong in bidder firms with relatively concentrated ownership structures (Faccio and Masulis, 2005).

4. Empirical analysis

In this section, we examine in univariate and multivariate settings, mainly the relation between control-ownership wedge of the controlling shareholder and target overpayment, second, the impact of other large shareholders on acquisition premium.

4.1 Univariate analysis

Panel 1 shows no significant difference between premiums paid by dispersed ownership bidders and premiums paid by concentrated ownership bidders for all the used levels of control (+10%, +20%, + 33.33%, 50%, 66.66%¹). Dispersed ownership bidders offer premiums with

¹ The blocking minority (33.33%), the majority (50%) and the absolute majority (66.66%) are the most important control thresholds in the French context.

Table 2: Distribution of premiums

This table shows the distribution of our sample deals, the mean and the standard deviation of premium per year (Panel A) and per industry (Panel B), and this for both the whole sample composing by 169 transactions initiated by 112 French bidders, and the sub-sample of controlled firms during the sample period 2000-2015.

Panel A: Premium by year

year	N	mean	Stand.Dev
2000	26	0.38	0.2746197
2001	10	0.324	0.2064623
2002	12	0.2491667	0.2569209
2003	7	0.2957143	0.2286815
2004	5	0.216	0.1110405
2005	14	0.3257143	0.2769258
2006	15	0.23	0.2632489
2007	26	0.285	0.2215807
2008	9	0.4988889	0.3711281
2009	7	0.2342857	0.1752006
2010	7	0.3257143	0.1538243
2011	7	0.2942857	0.1457003
2012	6	0.1533333	0.1995662
2013	8	0.47125	0.2727866
2014	8	0.4025	0.1759667
2015	2	0.085	0.0919239
Total	169	0.3149704	0.2472952

Panel B: Premium by industry sector

Industry sector	N	mean	Stand.Dev
Consumer Product	9	0.33	0.3331291
Consumer Staples	4	0.2	0.2122891
Energy and Power	20	0.423	0.2824535
Financials	20	0.269	0.2035449
Healthcare	15	0.366	0.2886619
High Technology	24	0.3204167	0.2314694
Industrials	20	0.327	0.2574184
Materials	9	0.3166667	0.21
Media	15	0.284	0.2657012
Real Estate	17	0.1870588	0.1718926
Retail	10	0.381	0.2792231
Telecommunication	6	0.3	0.1129602
Total	169	0.3149704	0.2472952

Table 3: Descriptive statistics

This table shows the mean, the median, the standard deviation, the min and the max of each variable used in our study. Our sample includes 169 deals initiated by 112 French bidders between 2000 and 2015. See table 1 for variable definitions.

variable	N	mean	median	Stand.dev	min	max
premium	169	0.3149704	0.29	0.2472952	-0.02	1.09
wedge	131	0.1746031	0.114	0.1898163	-0.076	0.676
wedgehigh	131	0.4961832				
separation	131	0.7709924				
excess	131	0.0674504	0.046	0.0760968	-0.021	0.4
others	131	0.6641221	0	0.9414448	0	4
dpr	169	0.2934935	0.227	0.5284581	-0.34	5.465
rel_size	169	0.3608385	0.091998	0.6930957	0.0105421	4.893985
toehold	169	0.1927456	0	0.2792292	0	0.892
investor_pro	169	0.3602701	0.2867187	0.2158607	0	1
diver	169	0.4023669				
cash	169	0.6508876				
rel_size	169	0.3608385	0.091998	0.6930957	0.0105421	4.893985
successive	169	0.2662722	0	0.551069	0	3

an average of 30% while bidders with controlling shareholders offer premiums with an average of 31% or 32%. These results show that overpayment phenomenon is not restricted only to bidders with high levels of control. Managers of both sides are able to overpay depending on their motivations.

Panel 2 shows that premiums are higher at least by 8% when the voting rights of the bidder's largest owner exceed broadly its cash flow rights (the control-ownership wedge is higher than the median 0.114) for all the used levels of control (+10%, +20%, + 33.33%, 50%, 66.66%). The difference tests show significant results for the three first levels (+10%, +20%, + 33.33%) with a significance threshold of 5%. These findings validates our main hypothesis that bidders with large control-ownership use to overpay for targets.

Table 4 : Univariate analysis**Panel 1: Premium & Control**

	N	Premium		Difference tests	
				t-stat	Z-stat
Dispersed Control (1)	38	0.30	(2) - (1)	0.43	0.392
Control +10% (2)	131	0.32			
Control +20% (3)	110	0.31	(3) - (1)	0.15	0.057
Control + 33.33% (4)	80	0.31	(4) - (1)	0.28	0.14
Control + 50 % (5)	56	0.31	(5) - (1)	0.21	0.13
Control + 66.66% (6)	30	0.32	(6) - (1)	0.35	0.09

Panel 2 : Premium & Wedge

Control level	Wedge level	N	Premium	Difference tests
Control +10%	<i>High</i>	65	0.34	2.03**
	<i>low</i>	66	0.25	
Control +20%	<i>High</i>	52	0.34	2.20**
	<i>low</i>	58	0.26	
Control + 33.33%	<i>High</i>	36	0.38	2.15**
	<i>low</i>	44	0.26	
Control + 50 %	<i>High</i>	24	0.36	1.05
	<i>low</i>	32	0.28	
Control + 66.66%	<i>High</i>	12	0.39	1.13
	<i>low</i>	18	0.27	

4.2. Correlation table

Table 4 reports the correlation matrix for all variables used in our various regressions models. Obviously, the correlation coefficients between the wedge-related variables (wedge, wedgehigh, separation and excess) are relatively high. This table reports low correlation coefficients among control variables, which mitigates the concern that multicollinearity could affect our regression results.

4.3. Multivariate analysis

In our paper, we use cross-sectional regressions analysis. Since the number of our deals is greater than the number our companies, OLS regression can be biased because of the dependence of observations within each company that have been the subject of several transactions. In order to overcome this problem, we estimate the standard errors using Huber/

White/ Sandwich (Cluster²) technic, which control the dependence of observations in each group. In addition, this method provides a robust standard error and help to correct heteroscedasticity problems. For our analyses, we use samples that include only concentrated ownership firms (at the 10%, 20%, 33.33%, 50 % control thresholds) to focus on the effects of controlling owners holding an excess of control rights on acquisition premium.

Table 5: Correlation Matrix

This table reports correlation matrix of dependent, independent and control variables used in multivariate regressions analysis. See table 2 for variable definitions.

	premium	wedge	Wedgehigh	separation	excess	others	dpr	rel_size	toehold	investor_pro	diver	cash	successive
premium	1.00												
wedge	0.14	1.00											
wedgehigh	0.18	0.85	1.00										
separation	0.16	0.50	0.54	1.00									
excess	0.12	0.78	0.78	0.48	1.00								
others	-0.16	-0.11	-0.10	-0.12	-0.14	1.00							
dpr	-0.04	-0.12	-0.12	0.05	-0.08	0.02	1.00						
rel_size	0.02	-0.02	0.01	-0.02	0.03	-0.06	0.04	1.00					
toehold	-0.11	-0.04	-0.10	-0.07	-0.03	0.04	0.08	-0.22	1.00				
investor_pro	0.27	0.20	0.25	0.09	0.17	-0.02	0.07	0.08	-0.16	1.00			
diver	-0.20	-0.06	-0.06	-0.04	0.05	0.04	0.02	-0.04	0.02	-0.16	1.00		
cash	-0.05	0.13	0.10	0.07	0.09	-0.11	0.08	-0.29	0.04	0.05	0.05	1.00	
successive	0.07	0.04	0.00	-0.04	-0.12	0.09	0.10	-0.08	0.14	-0.06	0.20	0.06	1.00

4.3.1. Control-ownership wedge and acquisition premium

Table 5 provides empirical analyses of the relation between ownership structure and acquisition premium. The cross-sectional regression analyses reveals significant and positive impact of control-ownership wedge on premium particularly for 20% and 33.33% control thresholds. Holding more than 20% of the voting rights allows the ultimate owner to exercise substantial control over the main strategic decisions (Faccio and Lang 2002). When its cash-flow rights are lower than the voting rights, he can make sub-optimal decisions without bearing the full costs (Claessens et al. (2002)). Our empirical result confirm this outcome: Ultimate shareholders owning an excess of voting rights use to overpay for targets when they control more than 20% of French bidders. This result is consistent with the view that control-ownership wedge involves potential agency problems in case of M&A announcement. Bae et al. (2002) and Bigelli and Mengoli (2004) show that M&A returns are significantly lower when the

² Cluster analysis is a statistical technic that identifies clusters of stocks whose returns are highly correlated within each cluster and relatively uncorrelated across clusters.

separation of ownership and control in the bidder is high. Yen and André (2007) find that separation lead to negative operational performance of the bidder.

With more than 50% of control, the impact of control-ownership wedge is no longer significant. We assume that the level of cash-flow rights is relatively higher (compared to the three first levels 10%, 20% and 33.33%). This result is consistent with the view that higher cash flow rights limit the ultimate owner's incentives to extract private benefits.

Table 5: Control-ownership wedge and acquisition premium

This table provides cross-sectional regressions analysis. Our sample period is from 2000 to 2015. The sample includes only concentrated ownership firms (at the 10% %, 20%, 33.33%, 50% thresholds). The dependent variable is the acquisition premium computed as excess of the offer price over the target stock price four weeks prior to the announcement, divided by the price four weeks prior to announcement. The robust t statistics are reported between parentheses bellow each coefficient estimates. The standard errors are adjusted for heteroscedasticity and correlation between observations in each cluster. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. . See table 1 for detailed variable definitions for all the variables used in our analyses.

Variables	(1)	(2)	(3)	(4)
	premium 10% threshold	premium 20% threshold	premium 33.33% threshold	premium 50% threshold
wedge	0.113 (1.232)	0.215** (2.311)	0.264** (2.060)	0.247 (1.043)
dpr	-0.00637 (-0.236)	0.00243 (0.0915)	0.0229 (0.572)	-0.00417 (-0.0926)
rel_size	-0.00977 (-0.363)	-0.00323 (-0.126)	-0.0122 (-0.457)	-0.0592** (-2.319)
toehold	-0.0721 (-1.020)	-0.0270 (-0.352)	-0.130 (-1.627)	-0.133 (-1.267)
investor_pro	0.261** (2.404)	0.290** (2.301)	0.355** (2.276)	0.408** (2.096)
diver	-0.0711 (-1.097)	-0.0783 (-0.935)	-0.102 (-1.090)	-0.0852 (-0.564)
cash	-0.0382 (-0.601)	-0.0377 (-0.553)	-0.0750 (-0.979)	-0.143 (-1.358)
successive	0.0303 (0.808)	0.0746** (2.240)	0.0614 (1.665)	0.101*** (3.268)
Constant	0.272*** (3.686)	0.218*** (3.058)	0.252*** (3.301)	0.309*** (3.159)
Observations	131	110	80	56
N cluster	51	47	41	29
R ²	0.118	0.158	0.230	0.228
Adjusted R ²	0.0596	0.0918	0.143	0.0967
F	2.657	3.487	3.868	3.245

4.3.2. Other large shareholders and acquisition premium

Outside the US, controlling shareholders are seldom surrounded by atomistic shareholders. Over one-third of publicly listed firms in Europe and in France have more than one large owner. According to the corporate governance literature, blockholders may play an active monitoring role. Lehman and Weigand (2000), Maury and Pajuste (2005) and Laeven and Levine (2008) show that firm valuations decrease when the difference between the ownership stakes held by the largest and the second shareholder grows. Other studies (Bolton and Van Tadden, 1998; Zwiebel, 1995) show however that the presence of other large shareholders might not be sufficient to overcome controlling shareholders' sub-optimal decisions or to reduce expropriation of minority shareholders. Moreover, shareholders can sign agreements with the controlling shareholder and create a coalition of control allowing common decisions at the expense of minority shareholders. Faccio et al. (2001) find evidence that large shareholders collude in expropriating outside shareholders in Eastern Asia. In Table 6, we examine whether the other large shareholders play a governance role and limit the illegitimate diversion of corporate resources by the controlling shareholder or make coalitions with decision makers to extract private benefits of control. All regression models show a significant and negative relation between the presence of other large shareholders and acquisition premium for all control thresholds. This negative relation means that those other large shareholders use to deter ultimate owner to overpay for targets and prevent a potential value destruction. By this way, they protect minority shareholder interests. This finding is also in line with studies showing the crucial monitoring governance role of other large shareholders (Bennedsen and Wolfenzon, 2000; Berglöf and Burkart, 2003; Maury and Pajuste, 2005 and Laeven and Levine (2008); Attig et al. (2008)).

4.3.3. Robustness tests

We check the sensitivity of our findings to using alternative proxies for control–ownership wedge. The first proxy is the simple difference between the controlling shareholder voting rights and its cash flow rights that measure the excess of control “Excess” (Claessens 2002). We then use a second variable “wedgehigh”, that equals one if the control–ownership wedge of the largest owner exceeds the median wedge (0.114) and zero otherwise (Ben-Nasr et al. 2015). The results of this sensitivity are reported in tables 7. The core evidence of the relation between control–ownership wedge and overpayment remains approximatively the same as table 5. For both additional variables, the relation is positive and significant at the 5% level regarding the control thresholds of 20% and 33.33%, and there is no significant relation when the voting rights exceeds 50%. Moreover, the coefficient of the variable “wedgehigh” is positively significant at 10% level.

Table 6: Other large shareholders and acquisition premium

This table provides cross-sectional regressions analysis. Our sample period is from 2000 to 2015. The sample includes only concentrated ownership firms (at the 10% %, 20%, 33.33%, 50% thresholds). The dependent variable is the acquisition premium computed as excess of the offer price over the target stock price four weeks prior to the announcement, divided by the price four weeks prior to announcement. The robust t statistics are reported between parentheses bellow each coefficient estimates. The standard errors are adjusted for heteroscedasticity and correlation between observations in each cluster. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See table 1 for detailed variable definitions for all the variables used in our analyses.

Variables	(1)	(2)	(3)	(4)
	premium	premium	premium	premium
	10% threshold	20% threshold	33.33% threshold	50% threshold
others	-0.0437** (-2.406)	-0.0461** (-2.455)	-0.0470** (-2.457)	-0.0803** (-2.322)
dpr	-0.00814 (-0.287)	-0.00264 (-0.0884)	-0.0270 (-0.640)	-0.0494 (-1.141)
rel_size	-0.0147 (-0.484)	-0.00947 (-0.300)	-0.0125 (-0.405)	-0.0587** (-2.202)
toehold	-0.0724 (-1.053)	-0.0268 (-0.356)	-0.105 (-1.336)	-0.116 (-1.183)
investor_pro	0.282** (2.619)	0.317** (2.542)	0.414** (2.618)	0.457* (2.028)
diver	-0.0667 (-1.054)	-0.0752 (-0.918)	-0.0917 (-0.987)	-0.0654 (-0.516)
cash	-0.0456 (-0.720)	-0.0462 (-0.667)	-0.0887 (-1.174)	-0.137 (-1.346)
successive	0.0397 (1.155)	0.0740** (2.396)	0.0588* (1.983)	0.0811** (2.365)
Constant	0.316*** (3.966)	0.284*** (3.554)	0.312*** (3.603)	0.345*** (3.573)
Observations	131	110	80	56
N cluster	51	47	41	29
R ²	0.137	0.168	0.239	0.243
Adjusted R ²	0.0803	0.102	0.154	0.114
F	3.155	3.580	2.985	4.900

Table 7: Alternative measures for the control–ownership wedge

This table provides cross-sectional regressions analysis. Our sample period is from 2000 to 2015. The sample includes only concentrated ownership firms (at the 10% %, 20%, 33.33%, 50% thresholds). The dependent variable is the acquisition premium computed as excess of the offer price over the target stock price four weeks prior to the announcement, divided by the price four weeks prior to announcement. The robust t statistics are reported between parentheses bellow each coefficient estimates. The standard errors are adjusted for heteroscedasticity and correlation between observations in each cluster. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. See table 1 for detailed variable definitions for all the variables used in our analyses.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	premium 10% threshold	premium 20% threshold	premium 33.33% threshold	premium 50% threshold	premium 10% threshold	premium 20% threshold	premium 33.33% threshold	premium 50% threshold
wedgehigh	0.0560*	0.0886**	0.105**	0.102				
excess				(1.113)	0.350	0.524**	0.520**	0.361
dpr	-0.00504	0.00554	0.0408	0.0206	-0.00641	0.00424	0.0243	-0.00403
rel_size	-0.0100	-0.00316	-0.0113	-0.0575**	-0.0113	-0.00657	-0.0122	-0.0604**
toehold	-0.0664	-0.0153	-0.110	-0.124	-0.0748	-0.0253	-0.120	-0.134
investor_pro	0.250**	0.272**	0.323**	0.380*	0.260**	0.282**	0.348**	0.405**
diver	-0.0713	-0.0838	-0.114	-0.104	-0.0751	-0.0847	-0.113	-0.0843
cash	-0.0386	-0.0354	-0.0676	-0.127	-0.0385	-0.0403	-0.0769	-0.142
successive	0.0312	0.0768**	0.0644*	0.104***	0.0371	0.0804**	0.0632*	0.101***
Constant	0.266***	0.214***	0.242***	0.291***	0.270***	0.221***	0.253***	0.311***
Observations	131	110	80	56	131	110	80	56
N cluster	51	47	41	29	51	47	41	29
R ²	0.122	0.165	0.238	0.240	0.121	0.162	0.232	0.227
Adjusted R2	0.0646	0.0992	0.152	0.111	0.0637	0.0961	0.145	0.0958
F	2.138	2.658	3.119	3.839	2.273	3.726	3.865	3.168

Other important result in our empirical analyses is the coefficient of the number of successive acquisitions occurring in the last 12 months before the announcement “successive”, which is significantly positive for bidders with owners holding more than 20% of the voting rights. Apparently, these firms use to bid more aggressively from deal to deal. One major implicit assumption is that hubris factor (Roll, 1986) grows from deal to deal (Billett and Qian (2008)).

According to Moeller and Schlingemann, (2005) and Starks and Wei (2004), we find that higher premiums are associated with higher investor protection regimes. Moeller and Schlingemann, (2005) argue that advanced investor protection environments with more developed capital markets and with more hostile takeovers, drive up acquisition premiums. Starks and Wei (2004) argue that bidders have to pay higher premiums for targets located in relatively more sophisticated protection environments.

5. Conclusion

This paper provides empirical evidence that premiums in M&A transactions can be affected by the bidding firm shareholding. Commonly argued by the literature that the self-serving behavior associated with concentrated shareholding structure is more pronounced when the controlling shareholder voting rights exceed its cash-flow rights. Furthermore, this control-ownership wedge involves potential agency problems in case of M&A announcement. For instance, after controlling for firm characteristics and transaction characteristics, our main finding is that this control-ownership wedge is positively associated with target overpayment. Controlling shareholders with high discrepancy between ownership and control are more likely to overpay for targets in order to extract private benefits such as illegitimate transfer of resources, empire building or reputation. Therefore, French legislation should be more vigilant toward M&A initiated by concentrated ownership bidders with a controlling shareholder owning only a minority of the cash flow rights. This paper shows also a negative relation between the presence of other large shareholders and acquisition premium. This negative relation means that those other large shareholders discourage ultimate owner to overpay for targets and prevent consequently potential agency problems. Thus, they play a crucial role in protecting minority shareholder interests.

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