

Essays on Ownership and Control

**Shareholder Wealth Effects in Takeovers and the
Measurement of Ownership Concentration**

**Essays on ownership and control: Shareholder wealth effects
in takeovers and the measurement of ownership
concentration**

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To Katarina

Preface

Only my name appears on the cover of this dissertation. This is highly misleading. The fact of the matter is that the dissertation would not have been possible without the support and the advice that family and colleagues have given so generously. I want to mention some of the countless debts I have obtained in writing this dissertation.

First and foremost, the love and the support of my wife Katarina is more than anyone could hope for. I dedicate this work to you Katarina. You know better than anyone else what it has cost.

During this work I have also started another and more important journey - I have become father. My sons Ludvig and Arvid have given me an extra sense of purpose, and for this I am truly grateful.

I am grateful, also, for the invaluable support given to me by my supervisors Ted Lindblom and Mattias Hamberg. Ted certainly has had a challenge in both promoting independent thinking and getting me not to pursue all the things I find interesting. Mattias and I have worked closely together and I have learned tremendously from this; his generosity and concern adds further to that debt.

To the degree I have progressed, three other persons deserve special recognition for their contributions to that end. They are Anders Sandoff, Taylan Mavruk and Stefan Sjögren. Anders was the one who first got me interested in this trade. He has been an important interlocutor to me, and it has been a privilege working with him in various contexts. Taylan, formerly a fellow PhD student, is the best possible travel companion when going to courses and conferences, and he has been an inexhaustible source of knowledge on methodological issues. Stefan has been both an intellectual provocateur and a motivational impetus. His support has been imperative for the completion of this dissertation.

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Introduction

This thesis deals with ownership and control of corporations. The corporate governance literature deals with how financiers ensure that managers add value (Shleifer and Vishny, 1997), and ample research suggests that the structure of ownership is important in this quest. The essays in this dissertation add to that research by studying bidder characteristics in takeovers, as well as analyzing the measurement of ownership concentration in empirical research.

The first essay analyzes the role of insider ownership in cross-border acquisitions for the determination of returns to bidding firms. The second essay looks instead on returns to the owners of target firms, and how they are related to whether bidders are foreign or domestic, as well as whether they are publicly traded companies or private firms. The last essay analyzes the various measures of ownership concentration used in previous empirical research. We analyze how measures differ and whether the measures capture similar or different aspects of ownership concentration.

The essays are related to at least two areas of research, which can be denoted *Ownership structure* and *The market for corporate control*. The former analyze how firms are owned and how that relates to firm behavior. The latter relates to the transfers of control over companies through takeovers, as opposed to marginal share holdings not associated with any power over business activities. The two overlap, where takeovers often are used to study the role of ownership structure (Moeller, 2005).

In this introductory chapter I will try to sketch these two strands of literature and give a short description of the Swedish setting. In the description of the Swedish setting I focus on the legal aspects and provide with a description of how ownership structures have evolved in Swedish corporations. The part on ownership structures is at the same time a summary of the licentiate thesis (Overland, 2008) that preceded this dissertation, and which forms part of my doctoral formation. Finally, I will summarize the papers included in this dissertation.

Ownership structure

Corporations have over time become large and are today owned by large numbers of shareholders. This dispersion of ownership has consequences for owners' ability to control firms. To own an asset is typically perceived as being synonymous with controlling it. Ownership gives the owner a right to decide what to do with an asset and who is allowed to use it (Pejovich, 1990). Control emanates from ownership. However, in corporations with multiple owners ownership is decoupled from control.

The separation of ownership and control is emphasized by Berle and Means (1932) who argue that this form of economic organization has created the "quasi-public corporation", where property has been split into nominal ownership and the power once coupled with it. The separation of ownership and control allows corporations to grow larger by adding on large numbers of investors, it also creates a secondary market for firm securities where beneficial property rights are traded efficiently. Berle and Means (1932) claim, however, that as ownership becomes dispersed the control instead becomes concentrated to the managers in the corporations.

Portfolio theory (Markowitz, 1952; Tobin, 1958; Sharpe, 1964) strengthens the view of increasing ownership dispersion by suggesting that rational investors prefer diversified holdings to reduce unsystematic risk. The preference for risk diversification is further emphasized by the efficient markets literature (Fama, 1965, 1970). In efficient markets it is not possible to consistently earn abnormal returns and rational investors should therefore replicate the market portfolio. Thus, well diversified investors imply that control shifts from owners to firm managers.

Agency theory contrasts the view of highly dispersed firms (Ross, 1973; Jensen and Meckling, 1976). An agency relation is a relation between two (or more) parties where one, the agent, acts on behalf of the other, the principal (Ross, 1973). Jensen and Meckling (1976) analyze agency relationship between owners (principals) and management (agent) that follows from the separation of ownership (Berle and Means, 1932). In the presence of moral hazard (Arrow, 1963) and asymmetric information (Akerlof, 1970) agency theory predicts that the managers in dispersed firms will maximize his or her own utility rather than the utility of principals. The agency costs that follow from managerial self-dealing gives reason for the

presence of large shareholders (Shleifer and Vishny, 1986). These shareholders are more incentivized to engage in costly monitoring, as they will receive a larger share of the efficiency gains that follow. In companies with only small owners free-rider problems curb such monitoring.

In accordance with the predictions of agency theory, empirical research shows that large shareholders are present in firms (LaPorta et al., 1999; Claessens et al.; 2000; Faccio and Lang, 2002). Large owners are present even in countries with the most dispersed ownership in the world. In the US, as of 1995, four out of the 20 largest listed firms have ultimate owners that hold 20 percent or more of outstanding shares (La Porta et al., 1999). According to the same study, the corresponding figures vary across countries, between all 20 owners in Argentina and none in the UK. In explaining differences in ownership concentration the legal systems of countries have been identified to be of importance. In a series of articles LaPorta et al. (1998, 1999, 2000a, 2000b, 2002) evaluate legal aspects such as the protection for shareholders and creditors, the origin of legal rules as well as the quality of legal enforcement. They find that stronger legal protection is associated with less concentrated firms – as shareholders enjoy credible legal protection the need for large control positions diminishes.

Much of the previous research on ownership structure has emphasized concentration, or what size of shareholdings that is to be associated with being able to control firms. Many studies define large, or controlling, shareholders to hold some predetermined share of company stock (Berle and Means, 1932; LaPorta et al., 1999; Claessens et al., 2002; Faccio and Lang, 2002); and others use continuous measures such as the size of the largest shareholder (Thomsen and Pedersen, 2000) or Shapley- Shubik indices (Rydqvist, 1996; Zingales, 1994, 1995). For both approaches, large shareholders should indicate a better monitoring of managers' performance.

Another branch of research concerns the identity of owners, where characteristics of owners are of interest rather than the size of their shareholdings. Among the owner categories that have been studied one find, for instance, family owners (Anderson and Reeb, 2003; Villalonga and Amit, 2006), state owners (Shleifer, 1998), institutional owners (Bhide, 1993; Gompers and Metrick, 2001) and foreign owners (Dahlquist and Robertsson 2001). Institutional ownership has increased substantially over time (Gompers and Metrick, 2001, Overland, 2008), and contrast

controlling owners as they typically adopt exit strategies over voice strategies. Institutional investors are characterized as being sophisticated investors that uphold market discipline (Bhide, 1993).

From this overview it is clear that the literature on ownership structure has analyzed not only the interplay between managers and owners, but also the relations between owners. Emphasis has typically been placed on controlling shareholders or ownership concentration, but the characteristics of owners have also been identified to have an impact on firm decision making. All essays in this dissertation connect to this literature. The first two essays study how bidder characteristics also found in literature on ownership structures (e.g. whether the bidder is foreign or domestic) relate to takeover returns. The third essay has a direct bearing on the ownership structure literature, as it empirically analyzes measures of ownership concentration that have been used in the literature.

The market for corporate control

Manne (1965) introduces takeovers as a governance mechanism, where small shareholders in dispersed firms are not as unprotected from managerial expropriation as suggested in Berle and Means (1932). When firms perform poorly due to lacking managerial effort it opens up for an investor to make a public bid to acquire a controlling stake in the company. Once the investor gains control the incumbent management is replaced with a new and more efficient management which adds value. This implies a market for corporate control, where the control has a value that is not mirrored in continuous stock trading.

Grossman and Hart (1980) disagree with the view that the takeover threat is a good governance mechanism by showing that in firms with atomistic shareholders the analysis of Manne (1965) might not hold. For a bidder to lay a control bid the post-takeover value of his or her position must exceed the bid value. For a small shareholder in a target company, who does not affect the probability of takeover success, it makes little sense to accept the tender if the value of the bid is smaller than the post-takeover value. He or she has the option to await the value increase accomplished by the new management and enjoy the full value increase by selling afterwards. Thus, shareholders in target firms do not sell if the bid value is smaller than the post-takeover value, and for an investor to make a takeover offer the post-

takeover value must exceed the bid value. These incompatible incentives hinder efficient takeovers, unless there are some other mechanisms that outweigh this problem.

Grossman and Hart (1980) suggest that a way to overcome this free-rider problem is to build in the possibility for a potential raider to dilute minority shareholders in the corporate charter. By allowing the acquirer to dilute to some degree, e.g. by selling company assets to other companies in his or her control at a discount, free-riding minority shareholders will not get the full value enhancement and efficient transfers of control are facilitated.

Shleifer and Vishny (1986) propose that the problem of the free-riding small shareholders can be mitigated with the presence of large minority shareholders. If a change in management is warranted a large shareholder can make a takeover offer, pay small shareholders according to the post-takeover value and yet make a net benefit. The large shareholder will enjoy the value increase that follows from improved management for the shares he or she already holds. Therefore, the probability of a takeover will increase as the potential value creation from a takeover or the shares held by the large shareholder increase.

The empirical evidence on takeover gains and how they are distributed between shareholders of bidding firms and target firms is quite clear. Total takeover gains are on average positive, where shareholders of target firms gain substantial wealth whereas the returns to bidding firms are moderate (Jensen and Ruback, 1983; Eckbo, 2009). The finding that target shareholders receive most of the gains is in accordance with the analysis of Grossman and Hart (1980). However, Eckbo (2009) argues that there might be other reasons that better explain why takeover gains are accrued to target shareholders. For instance, bidder returns might be pushed down by competition among bidders, rather than by free-riding target shareholders.

The empirical evidence does not only show that takeovers on average generate combined value increases; it also shows that takeover gains, as well as the distribution of takeover gains, differ among acquisitions. Several factors have been suggested for explaining differences in combined takeover returns. Jensen and Ruback (1983) list four main sources of takeover gains; synergies, financial motivations, increased market power in product markets and the elimination of inefficient management in target

firms. There should be a covariance between to what degree these sources are present in takeovers and the resulting takeover gains.

Eckbo (2009) argues that both bidder returns and target returns co-vary with factors related to i) bidder characteristics, ii) target characteristics and iii) deal characteristics. Bidder characteristics that have been analyzed in previous studies include whether bidders are foreign (Eckbo and Thorburn, 2000; Moeller and Schlingemann, 2005), if bidders have toeholds in the target firms (Betton et al., 2009), if bidders are public companies (Bargeron et al., 2008) and whether the bidder is in the same industry as the target (Doukas et al., 2002). Research on characteristics of target firms include analyses of the targets' market-to-book ratios (Rhodes-Kropf and Viswanathan, 2004) and the usage of poison pills and staggered boards (Heron and Lie, 2006).

Concerning deal characteristics the method of payment (Huang and Walkling, 1987) and whether there are multiple bidders (Betton and Eckbo, 2000) are among the variables analyzed in previous research. From international comparisons of takeover gains it is clear that institutional factors are important, such as legal shareholder protection, accounting standards, governance structures and rules on takeover bids (Rossi and Volpin, 2004; Moeller and Schlingemann, 2005).

In sum, takeovers create positive net benefits on average and these benefits are split between shareholders in bidding firms and target firms. Shareholders in the target firms get the lion part of the value that is added from the takeover whereas returns to bidder firms are modest. The size of returns depends on various factors related to the bidder-, the target- and the deal characteristics, as well as to legal and other institutional factors. The first two essays in this dissertation relate to this strand of research as they analyze the relationship between on the one hand bidder returns or target returns, and on the other hand bidder characteristics. The third essay relates indirectly, as it should have implications for studies of takeovers in the context of ownership concentration.

The case of Sweden

All three essays in this dissertation, as well as the licentiate thesis I wrote prior to this (Overland, 2008), have in common that they are empirical

studies on Swedish data. I have noticed that this almost automatically raises the question of why one should study Swedish companies. At first this question puzzled me, but I have come to realize that it is a question that needs to be addressed, repeatedly.

There are number of reasons to why studies should be conducted on how Swedish companies are owned and controlled. It should be important to Swedish researchers and practitioners alike that we take the findings found for other countries and see if they are applicable also in Sweden. However, also non-Swedes should take an interest in research findings from a country as Sweden as it offers a different setting than, for instance, the ones in the US and the UK. Sweden is a small country which is considered to have weaker legal corporate governance systems (La Porta et al., 1998) but stronger extralegal institutions (Dyck and Zingales, 2004), and where ownership concentration is considerably larger compared to the Anglo-Saxon countries (La Porta et al., 1999). Finally, Sweden offers favorable conditions for studying ownership due to the good access to data.

I will sketch an overview of the Swedish institutional setting and how it has evolved over time. This will be done by first describing legal factors in Sweden relevant to the formation of ownership structure and takeovers. Moreover, I take the opportunity to describe my licentiate thesis, in which I analyze how controlling ownership and institutional ownership have changed in Swedish listed companies from 1985 to 2005. I present the main findings, but also the data in some detail as it has been used for the essays in this dissertation, and because the work with collecting and marshalling data has constituted an essential element of the work.

The Swedish legal framework

Legal factors are important for how ownership structures in companies are formed as well as for a functioning market for corporate control. The regulatory framework affecting ownership in Swedish companies has changed substantially during the past three decades. Beginning in the late 1980s Sweden, like other countries, went through with liberalizations of various markets. In this process the Swedish capital market were opened up for investor groups that previously had limited possibilities to invest in Sweden.

Foreign investors were for a long time legally constrained to invest in Sweden, as were Swedish investors that wanted to invest abroad (Didner, 1993). In the *Exchange Control Act* and the *Corporate Purchase Act* Swedish investors' acquisitions of foreign securities, as well as the ownership of Swedish stocks by foreigners, were limited. These laws have been present for the most part of the last century, but were abolished in the early 1990s. The last hinder for foreigners to invest was dismantled in 1993. Until then foreign owners were, in principle, not allowed to buy and sell Swedish securities. Foreigners that already owned shares in Swedish firms were allowed, though, to buy securities provided that they at the same time sold other securities. These "switch rights" were transferable. From 1979 a firm could apply for export of its own securities if it was beneficial for the export of goods or for the supply of capital. From 1986 listed companies were given such permits automatically when they applied for it. In 1988 the permit requirement was abolished.

To protect Swedish natural resources, foreigners were not allowed to own real property or mines. Moreover, Swedish corporations could not own such assets unless they inserted restrictions in their articles which prevented foreigners to hold more than 40 percent of the capital and 20 percent of the votes. In 1983 this changed so that authorization was needed for a foreign investor to acquire more than 10, 20, 30, 40 or 50 percent of the shares in a Swedish company. Consequently, practically all companies prohibited foreign ownership.

Disclosure rules have been implemented and gradually reinforced. In 1983 the Swedish Industry and Commerce Stock Exchange Committee imposed rules on disclosure of major changes in shareholdings (NBK, 1994). In 1993 the law of trade with financial assets was supplemented with rules on disclosure. The current rules stipulate that when passing a 5 percent limit in either capital or voting shares this must be disclosed. These rules also stipulate that insiders must register any changes in their holdings.

Related to disclosure, *accounting standards* have been harmonized with international standards. Since 2005 all listed companies have to follow the IAS rules in their financial reporting. This should facilitate foreign investments as information costs are lowered.

Concerning *institutional investors*, the Mutual Funds Act from 1990 barred mutual funds to hold more than a 5 percent voting share in any one firm. This changed in 2004 with the Investment Fund Act, which stipulates that the value of the securities from one single firm may not exceed ten percent of the portfolio value, and that funds are not allowed to take control positions in firms. Additionally, the Insurance Business Act and the Banking and Financing Business Act impose rules on risk diversification in the banking and insurance sectors.

Takeover rules were originally introduced in the first takeover recommendation in 1971; this bylaw was issued by the Swedish Industry and Commerce Stock Exchange Committee. This made Sweden one of the first European countries to adopt a special takeover code (Berglöf, et al., 2003). Formal takeover legislation did not appear until 2006, when the EU Takeover Directive was enacted.

The Swedish takeover recommendations ensure *pre-bid integration*, i.e. the public bid price must be at least equal to the highest price given for an identical security no earlier than six months prior to the public bid. Moreover, if a bidder increases a bid no more than nine months after a public bid offer, the initial bid must be adjusted accordingly.

For the whole period that is studied in this dissertation it has been possible to *differentiate bid prices* between different classes of shares. Thus, raiders could buy out blockholders with large holdings of multiple voting shares and subsequently offer a lower price for ordinary shares. These rules changed in 2009 and now bid prices of different voting class share may differ “only under very limited circumstances”.

Mandatory bid rules were introduced as late as in 1999. Under these rules, when an acquisition of shares leads to the control of more than 40 percent of the votes, a public offer for the remaining shares has to be made. In 2003, this threshold was lowered to 30 percent of the votes. The mandatory bids are regulated in the same way as ordinary public bids.

Minority squeeze-outs were first regulated in the 1975 Companies Act, which stipulates that an owner with 90 percent of the shares in a firm can redeem the shares from the remaining owners. Reciprocally, minority owners can oblige a majority owner to redeem their shares, and also block

legal mergers. The valuation principles are potentially complicated, but typically when shares are redeemed in conjunction with the takeover of a publicly traded firm, the compensation equals the price paid to other target shareholders.

The great shift in Swedish legislation was the liberalization completed in the early 1990s. The liberalization allowed foreign investors to enter the Swedish capital market, as well as Swedish investors to leave it. Thus, Sweden contributes to the global integration of financial markets. Following the liberalization regulations have become more elaborated in relation to e.g. disclosure, financial reporting, and risk diversification in investment funds. Concerning takeover rules Sweden was one of the early adopters of takeover codes, though no formal legislation was enacted at the time. Legislation came as late as 2006 with the EU takeover directive.

The licentiate thesis

In my licentiate thesis (Overland, 2008) a study is conducted on how ownership structures in Swedish listed firms have changed over time. In particular, based on a sample of 4,158 firm-year observations from 1985 to 2005 I analyze controlling owners and institutional owners. The study is based on data from the booklets “Owners and power”, which are published annually since 1985, and in which the largest owners for all Swedish listed firms are reported.

Controlling owners

Regarding controlling owners my study picks up at the time where the study of Bergström and Rydqvist (1990) ends. They study how ownership concentration has changed in Swedish listed firms corporations between 1968 and 1986. For this time period they document that the average voting share held by the largest shareholder coalition increased from 30 percent to 57 percent. Capital shares increased as well, though not as much, from 25 percent to 43 percent. This implies that the usage of control enhancing mechanisms (CEMs) increased during the time period.

I document a shift in this trend, where the voting share held by controlling owners (owners with ten percent or more of voting rights) did decrease from 62 percent in 1985 to 40 percent in 2005. For the same time period controlling owners’ capital share decreased from 46 percent to 30 percent. This suggests that the use of CEMs was decreasing during this time period. I

find that not only did the average voting shares held by controlling owners decline over time, when splitting the sample into large and small firms I make the observation that shares held by controlling shareholders converge over time in the two classes of firms (see Figure 1). In 1985 the average combined voting share held by controlling shareholders was 54 percent in large firms and 69 percent in small firms – a significant difference of 15 percentage points. In 2005 the corresponding figures were 41 percent and 40 percent – an insignificant difference.

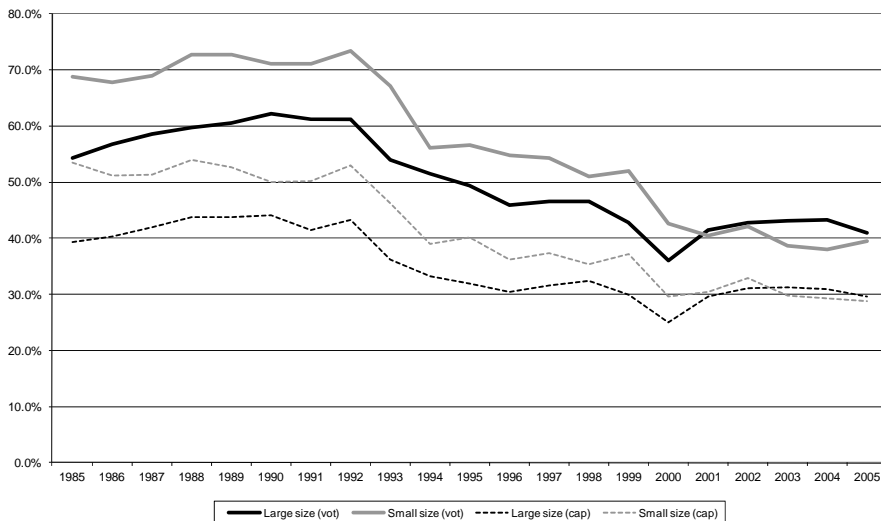


Figure 1

This figure illustrates how mean voting shares and mean capital shares held by controlling owners (owners with voting shares of ten percent or more) have evolved over time in Swedish corporations listed at the Stockholm exchange. Two groups of firms are formed for each year, (1) large size firms and (2) small size firms, based on whether the market capitalization of the firm is above or below the median value. Source: Overland (2008).

These findings contradict previous empirical studies which state that ownership is more concentrated in smaller firms (Demsetz and Lehn, 1985). A tentative explanation to why controlling owners hold less voting shares, as well as to why large and small firms converge, could be that the overall need for controlling owners has decreased as a result of changes in the legal setting.

Institutional owners

Concerning institutional owners I document an increase from 10 percent in 1985 to 16 percent in 2005 (not tabulated). It is also clearly illustrated (Figure 2) that the capital shares held by institutional owners are larger than the voting shares, which indicates that these owners mainly invest in the ordinary shares without multiple voting rights. It is also the case that institutional owners preferred large firms over small firms. In 2005 institutional owners held on average 20 percent of capital shares in large firms, but only 15 percent in small firms. The relation between voting shares and capital shares are mainly constant over time, though a small convergence is discerned for later years. Moreover, regarding differences between large and small firms no real signs of convergence are seen in terms of institutional ownership. This is in accordance with previous research; size is highly associated with liquidity and it is established that institutional investors prefer liquid assets (Gompers and Metrick, 2001).

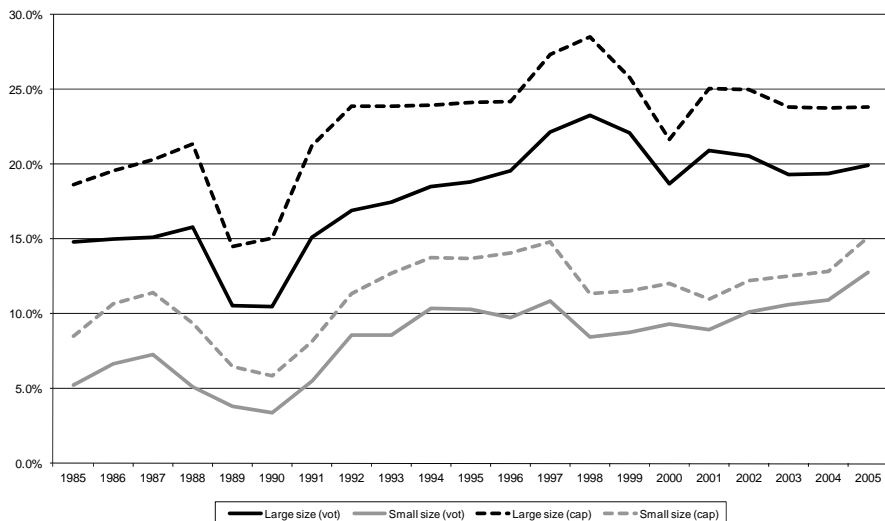


Figure 2

This figure illustrates how mean voting and capital shares held by institutional owners in Swedish corporations listed at the Stockholm exchange have evolved over time. Two groups of firms are formed for each year, (1) large size firms and (2) small size firms, based on whether the market capitalization of the firm is above or below the median value. Source: Overland (2008).

Data

The main effort in working with the licentiate thesis was the collection and arrangement of data. Annual data on ownership for all listed Swedish companies is available in the “Ownership and Power” booklets by Sundqvist et al. (1986-2006). These booklets contain the largest owners in all Swedish listed companies on an annual basis from 1985 onwards. Besides the largest shareholders (which represent the bulk of voting power and cash flow rights), information on relative strength between dual class shares as well as level of foreign ownership is presented. The major contribution of the booklets, however, is the identification of control spheres. For all firms the lines of control through pyramidal and cross-ownership structures are traced so that voting power can be designated to various control spheres such as families and other compounds of common interests.

The collection of data on ownership has been made in two different ways. For the period from 1985 to 1999, data are from the actual books. For the period from 2000 to 2005 data are extracted from a database accessible at the SIS homepage (SIS).

For the period from 1985 to 1999 the data collection process includes photocopying the books by Sundqvist et al. (1986-2000), scanning them into pdf-format and through OCR software, converting the tables into Excel-spreadsheets. For each firm and year the 25 largest owners¹ are listed with their shares and proportion of cash-flow rights and also their voting shares. In the cases where there are more than one class of shares, each class is presented separately. The data also indicates where the company is listed, the names of the managing director and the chairman of the board and also the total number of shares. Further, the relative voting power between dual

¹ N.B. Indeed the 25 largest owners are shown, but in the firms with control spheres present some of the owners are collapsed into larger spheres leaving fewer individual owners visible in the particular company. However, this fact should not endanger the quality of the study. It does not affect the measurement of controlling owners (an owner that controls ten percent of the votes are never excluded). To some degree, the owner category measurement of institutional owners is affected though, but the marginal effect is so small that it is unlikely that the results of the study are affected because the size of the last institutional owner accounted for is small.

class shares is given and information is also provided of the total number of shares that are held by foreign investors.

Since data are collected through optical code recognition the transition from pictures into digital information are sometimes erroneous. The accuracy of the data has been examined and corrected in several ways. First, neither the sum of cash-flow rights nor the sum of voting power should exceed 100 %. Second, as owners are ranked by their voting power, no owner should ever have a voting power exceeding the voting power of the preceding owner. Finally, when summarizing the number of shares, cash-flow rights and voting power of individual shareholders in the table, these sums should equal the sums stated in the booklets (allowing for some slack due to round-off errors and other small discrepancies). Errors are evaluated and corrected. Typically, problems arise due to errors in scanning and/or the optical code recognition; these cases are easily corrected. In other cases there is a misprint in the books and values need to be recalculated based on the total number of shares as well as the number of shares held by the individual owners. In extremely rare cases further investigation outside the books of Sundqvist et al (1986-2000) had to be conducted to get accurate data.

The data that are collected directly from the SIS webpage, covering the period from 2000 to 2005, are unlike the data for earlier years free of the problems associated with scanning and OCR interpretation. The data are not entirely without problems though. In the particular database all firms are included that are *currently* traded, i.e. when a firm is delisted it is also removed from the database. This is probably correct in the sense that practitioners (paying customers) are interested only in the companies that are still traded. For researchers analyzing ownership structures over time it is problematic, because the non-randomly reduced sample creates a survivorship bias. For this reason firm-year observations for each year extracted from the database have been compared with the books for the corresponding years. When finding a company in the books that are not present in the database that firm-year observation was added in the same way as described above.

All in all, through these procedure any analysis of ownership can be based on data that show exceptionally high quality in terms of the time period it stretches, that the sample is not reduced in a non-random fashion and that analysis is not limited to nominal data but instead benefits from the

analytical work that has been done already by Sven-Ivan Sundqvist and colleagues where they collapse related nominal shareholders into control spheres.

The essays

Essay 1

In the first paper, “*Cross-border acquisitions and insider ownership*”, we analyze whether there is a cross-border effect when acquiring Swedish listed firms; i.e. whether bidder returns are lower for foreign bidders when taking over Swedish firms than when takeovers are done by domestic bidders.

As in several other recent studies, we document that investors react more negatively when takeover bids are announced by foreign bidders (c.f. Moeller and Schlingemann, 2005; Mantecon, 2009). In the absence of economic explanations to these differences, such findings cast doubt on the merits of making acquisitions in foreign markets.

We make use of unique hand-collected corporate governance data to examine associations between the acquiring and target firms. Foreign acquirers are often outsiders without access to the target firm’s board and without contact with pre-bid owners of the target firm. These two insider ownership factors are positively associated with bidder announcement returns and explain differences between cross-border and domestic acquisitions. The study is based on a final sample of 240 completed takeovers of Swedish listed firms. The analysis is done through a standard event study approach, in which abnormal returns are calculated for the time surrounding the bid.

We conclude that to be successful as bidder when making acquisitions; foreign or domestic, it is beneficial to have an established link to the target firm. It has been argued in previous research that cross-border acquisitions are associated with lower bidder returns, but we find that once insider ownership is controlled for there is no visible cross-border effect. Foreign bidders are to a lesser degree insider owners, and this explains the lower returns rather than their nationality.

Essay 2

The second paper, “*Foreign bidders, public bidders and gains to target shareholders*”, investigates the impact on returns to target shareholders if bidders are either foreign or themselves publicly listed companies (or both).

Previous research indicates that foreign bidders and public bidders are likely more associated with problems of managerial misbehavior related to agency and hubris. These problems give rise to managers making takeover bids that are not value maximizing, but rather growth seeking or risk reducing.

The study is based on a sample of 379 completed takeovers of companies listed on the Stockholm stock exchange. Target returns are measured in the main regressions as the three-day cumulative abnormal return surrounding the bid date.

I find that although there is a significant difference in the cumulative abnormal returns between foreign and domestic bidders, this inference does not withstand the inclusion of control variables. However, the results are the opposite for the listing status effect; publicly listed bidders offer larger gains to target shareholders than private bidders once the control variables are included.

In robustness tests, I account for temporal transformation, alternative event windows, a bid premium measure and a cash-only sample. After doing so, I determine that the results primarily remain the same.

Essay 3

The third paper, “*Keeping it real or keeping it simple? Ownership concentration measures compared*”, analyze various measures of ownership concentration that are used in previous empirical studies. In particular we explore whether these measures are substitutes, because if they are not there is reason to suspect that empirical studies on the subject are not comparable.

In existent research on ownership concentration different measures are used among studies. Moreover, different studies yield conflicting results and part of the reason to why that is could have to do with the choice of ownership concentration measure. A better understanding of these measures is therefore needed.

Our study is based on a sample of 240 listed firms as of December 2008, where we rely on two data sets. The first is the data that comes from the SIS database (described above). The other data set is provided by Euroclear Sweden and contains all individual shareholders in Swedish listed firms. We merge the two data sets so that we can compare ownership concentration measures using a data set free from non-random omissions.

We find that although measures are significantly correlated, they show different distributional properties. We also identify the best underlying distribution for each concentration measure, and we are able to distinguish between measures in terms of what dimensions of ownership they describe. Finally, we document that inferences regarding the association between ownership concentration and firm performance are contingent on the choice of concentration measure.

Our results suggest that measures can be grouped according to what underlying ownership dimension they relate. For one of these dimensions some substitutability may be discerned, whereas this is not the case for the other dimension.

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