

**DOES HOST COUNTRY SHAREHOLDER PROTECTION CULTIVATE THE WEALTH GAINS IN THE FIRST INTERNATIONAL MERGER WAVE?**

Eric C. Tsai, State University of New York, Oswego, New York, USA

[dx.doi.org/10.18374/JIBE-15-2.11](https://doi.org/10.18374/JIBE-15-2.11)

**ABSTRACT**

The much improved corporate governance favoring shareholders, during the first international takeover wave, has been attributed to the newfound substantial acquiring firm value gain, a noteworthy departure from the previous outcomes. The degree of the overall investor protection certainly is dependent of how the management is monitored and governed by both the internal and external governance structures. It looks as though the greater degree of investor protection has ultimately overcome the previously identified sources of international diversification discount such as agency cost and managing complex system. It is, nevertheless, unclear whether the more favorable market reaction is more a result of superior internal corporate governance mechanism or the effect of more M&A transactions being aligned with tighter external corporate governance. This paper intends to clarify whether acquiring firm value increase derives more from the former such as measured by management ownership and managerial compensation or from the latter as acquirers driving more acquisitions toward countries with better shareholder protection. Regardless of their industry classification, manufacturing firms or not, it is primarily the superior internal corporate governance, rather than the external control such as better host country shareholder protection, that cultivates the shareholder wealth gain during the first international merger wave.

Keywords: *M&A; FDI; Cross-Border Acquisition; Globalization; Cross-Border Diversification; International Takeover; Merger Wave; International Merger Wave; Acquiring Firm Wealth*