

Diversity of Institutional Investors and Foreign Blockholdings in France: The Evolution of an Institutionally Hybrid Economy

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INTRODUCTION

Institutional investors have become major actors in the corporate governance of liberal market economies.¹ They have increasingly engaged in numerous corporate governance activities (Gillan & Starks, 2007). Through public criticisms or private negotiations, they have exercised tremendous pressures on corporate executives for the implementation of changes in the strategy of the firm – such as the release of cash flows to shareholders in the form of dividends or share repurchases, and the focus on core activities via the buyouts or sales of divisions. The existing literature in financial economics has provided extensive empirical support for the effectiveness of the activism of institutional investors in terms of shareholder value creation, the improvement in operating performance, the increase in leverage and payouts (while cash holdings are reduced), and corporate governance remedies (Boyson & Mooradian, 2010; Brav, Jiang, Partnoy, & Thomas, 2008; Klein & Zur, 2009). Nonetheless, the greater prominence of institutional investors in the corporate governance of liberal market economies has also been interpreted as a negative development (Davis, 2009; Whitley, 2009). The current financial crisis, and the two preceding decades prior to its occurrence, have highlighted the shortcomings associated with the unbridled pursuit of shareholder value by American firms in the context of the heightened influence of institutional investors. Financial objectives (i.e. stock market valuation) have become the guiding

star for listed companies at the expense of other goals. What then happens when these same shareholder value oriented funds invest in different corporate governance institutional settings?

Previous research on the evolution of national systems of corporate governance has generated important insights for the study of the intersection between national and global financial markets (Aguilera & Jackson, 2010, 2003; Ahmadjian & Robbins, 2005; Gourevitch & Shinn, 2005; Jackson, 2005). The rise in importance of foreign shareholders is associated with the increased propensity of firms to implement strategies of shareholder value enhancement but, at the same time, subject to the strong mediating role of domestic corporate governance features – ownership structure of companies, institutional arrangements of employment relations, identity of major domestic shareholder groups, and background of top corporate executives (Aguilera & Jackson, 2003; Fiss & Zajac, 2004; Tuschke & Sanders, 2003). These studies highlight the importance of the interaction between external stimuli (global) and domestic features of corporate governance systems (national and/or firm-level) with the implication that the impact of the former is contingent upon the specifics of its interaction with the latter. National systems of corporate governance are changing, but in different ways and without a strategic process of convergence (see e.g., Hall & Gingerich, 2009). In a similar vein, studies in economic sociology have emphasized how the specific content of the interaction between global forces and national features often reflects the strategic selection and reinterpretation by domestic actors of specific aspects of the external development to be imported (Djelic, 1998).

Other streams of studies on the interaction between domestic features of national systems of corporate governance and global financial markets have highlighted the importance of institutional “proximity” on the investment allocation and portfolio performance of institutional investors in foreign settings (Chan, Corvig, & Ng, 2005; Portes & Rey, 2005). Portfolio managers may often bring to other systems of corporate governance a set of expectations that challenge

prevailing modes of firm governance (see Kahan & Rock, 2007; Morin, 1998), but the effectiveness of active investment strategies that seek out companies likely to implement strategies of shareholder value enhancement (or pressure portfolio companies to implement such changes) is significantly influenced by features of the local context, namely the process by which firms coordinate their activities and the extent to which the circulation of information is primarily internal to important stakeholders (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Wójcik, 2009). Shareholder value oriented funds can secure their strategic goal of earning superior returns on their investments in foreign markets through the use of expertise and the deployment of resources for the acquisition of non-publicly available information.

We build on the prior literature on the strategy of international investment of foreign shareholders by exploring a specific interaction between domestic (firm-level) features of corporate governance and global forces, namely the blockholding acquisitions by the UK/US-based institutional investors in institutionally hybrid economies. Specifically, we investigate the characteristics of targeted firms and their performance after the acquisition of blockholding stakes by foreign investors in the context of France, the largest institutionally hybrid market economies with Italy and Spain among advanced capitalist countries. The institutionally hybrid character of these economies has been characterized by two features.

The first one is the overall lack of institutional complementarities between the different spheres of the economy (corporate governance, employment relations, and skill formation) at the national aggregate level (Hall & Gingerich, 2009). France, alongside Italy and Spain, constitutes the key representative of advanced capitalist economies in Europe where the domestic institutional configuration does not enable companies to rely on supporting institutional complementarities across the spheres of the economy to coordinate their activities (Hall, 2006; Molina & Rhodes, 2007). The presence of rigid labor laws combined with the absence of

in-firm training result in the lack of institutional support for strategic patterns of coordination found in coordinated market economies. The presence of general skills combined with the absence of labor market flexibility leads to the lack of institutional support for market patterns of coordination found in liberal market economies (Soskice, 1999). The second feature of institutionally hybrid economies has been the importance of the state in the process by which firms coordinate their activities: regulation of the financial sector designed to influence the allocation of flows in the economy, instauration of controls over inward/outward flows of capital, presence of state ownership in the banking and non-financial sectors, periodic use of currency devaluations to stimulate the economy, and reliance on the regulation of the minimum wage as a system of wage indexation (Eichengreen, 2007: 113-118; Hall, 1986: 139-191; Lukauskas, 1994). The prominence of the state in the process by which companies coordinated their activities in institutionally hybrid economies also resulted in the non-introduction of firm-level co-determination institutional arrangements, currently found in coordinated market economies, since policy-makers sought to exercise influence over large companies and avoided giving legal rights to employees that would have acted as constraints on managerial autonomy (Hall, 1986: 155-159; Lange & Ross, 1982; Molina & Rhodes, 2007).

The French case, and those of large institutionally hybrid market economies, is highly interesting for the analysis of the strategy of international investment by UK/US-based institutional investors. Institutionally hybrid market economies have experienced important changes in the last twenty years that have increased the vulnerabilities of domestic companies to the pressures of UK/US-based institutional investors for the implementation of strategies of shareholder value. A first important development has been the withdrawal of the state from many areas of economic activities (Barca & Trento, 1997; Hancké, 2002; Lukauskas, 1994; Schmidt, 1996). The reduced role of the state in institutionally hybrid market economies is significant since

the coordination of activities in corporate networks in these countries was largely dependent upon state intervention (Hall, 2006; Lukauskas, 1994). A second interesting development that has increased the vulnerabilities of domestic companies in institutionally hybrid economies to the pressures of UK/US-based institutional investors has been the introduction of important changes in corporate governance. From the starting point of a classic insider model (ownership concentration, importance of long-term patient capital in the form of banks loans, lack of financial transparency, and tight corporate networks organized around large private and state-owned corporations), firms in institutionally hybrid economies have adopted several institutional features associated with the UK/US model of corporate governance: greater focus on core competencies, declining importance of bank loans as a source of finance, adoption of international accounting standards, increased legal protection for minority shareholders during takeover contests, rise in relative importance of variable compensation for top executives, growing ownership diffusion for important numbers of listed companies, and introduction of codes of good governance (Bauer, Braun, & Clark, 2008; Cioffi & Höpner, 2006; Ferraro, Schnyder, Heemskerk, Corrado, & Del Vecchio, 2012; Lukauskas, 1994; McKean, 2003).

These two developments are significant since the withdrawal of the state from many areas of economic activities and the adoption of UK/US-inspired institutional arrangements of corporate governance have not taken place in an institutional vacuum; but interact with existing institutional arrangements in the other spheres of the economy (Hall & Gingerich, 2009). Corporate governance reforms in France, and in other large institutionally hybrid market economies, are taking place in a context characterized by the absence of most firm-level labor co-determination laws and institutional arrangements that have provided employees with significant influence in coordinated market economies (Hall, 2006; Molina & Rhodes, 2007). The greater

institutional proximity between institutional hybrid market economies and liberal market economies has increased the attractiveness of the former to shareholder value oriented institutional investors from the United Kingdom and the United States.

What factors facilitate the acquisition of concentrated equity stakes (>5%) by Anglo-American institutional investors in French companies? Under which conditions would the withdrawal of the state and the introduction of institutional changes in corporate governance translate into strategic changes for French companies? Building on the characteristics of the setting of French corporate governance, this article analyzes the strategic investment allocation of UK/US-based funds in a study of the top 130 French publicly listed non-financial companies from 1998 to 2007. We perform three empirical tests on the investment allocation of UK/US-based funds in France. The first test evaluates the contribution of the legal perspective on the protection of minority shareholders to account for the acquisition of blockholding stakes by foreign investors (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Shleifer & Vishny, 1997). The prediction of this perspective is that foreign investors should primarily target firms with ownership diffusion given that corporate law in non-liberal continental European economies provides greater legal protection against the shareholder value destruction of managers rather than those of large owners (Enriques & Volpin, 2007; Schmidt, 1999). Our results suggest that the level of ownership concentration is negatively related to the acquisitions of blockholding stakes by foreign investors in French companies, thereby being consistent with the prediction of the law and economics perspective. We, however, also note the high mean ownership concentration (23.4%) of targeted French companies. This figure suggests that the presence of controlling owners does not discourage foreign investors from venturing into institutionally hybrid economies even if they still prefer firms with greater ownership diffusion. Moreover, additional analyses using firm-level institutional features that violate the one share-one vote

principle also highlight the shortcomings of the legal perspective. The empirical evidence presented in this article suggests that the use of double vote rights and/or shareholders' agreements are insignificant in predicting foreign block share purchases, contrary to the legal perspective that emphasizes the importance of the legal protection of minority shareholders.

The second test examines whether, and if so how, the social capital of CEOs in France, developed through elite educational backgrounds and career patterns, influence foreign blockholding acquisitions. For the first dimension of social capital, our empirical findings uncover the presence of a negative and statistically significant relationship between elite educational backgrounds and block stakes purchase by foreign investors. This relationship, however, is mainly driven by the investments of long-term funds when breaking down the analysis by categories of investors. For the second dimension of social capital, our results suggest that there is no significant relationship between civil service background and foreign blockholding acquisitions. These empirical findings contribute to the literature on institutional holdings and shareholder activism (see e.g., Gillan & Starks, 2007; Holderness, 2003) by using social capital as a measure of CEOs' power – an issue largely ignored by financial economists. The social capital of CEOs is particularly important to corporate governance in institutionally hybrid market economies, thereby highlighting the insights associated with the incorporation of sociological features of elite formation for the study of foreign blockholding acquisitions in such economies.

The third test study highlights how the presence of significant differences among foreign institutional investors constitutes an important causal variable for the study of their blockholding purchases. We split UK/US-based institutional investors into two broad categories of shareholder value oriented funds: long-term/passive investors (passively managed mutual funds) versus short-term/active investors (actively managed mutual funds and hedge funds). We believe that a

sophisticated differentiation between categories of institutional investors is crucial to account for the characteristics of firms they target and the changes undertaken by companies after being targeted. It follows because these two categories of shareholder value oriented funds differ on three important dimensions regarding their internal organization: the set of incentives of fund managers, their investment horizons and the extent to which the strategy of funds is driven by performance concerns versus risk diversification/reduction of management fees (Brown, Goetzmann, & Park, 2001; Del Guercio & Hawkins, 1999; Kahan & Rock, 2007). These internal features provide them with different incentives for the acquisition of firm-specific information about the business strategy of companies as well as for the undertaking of shareholder activism. The organizational features of short-term funds provide significant incentives for fund managers to acquire firm-specific information regarding the business strategy of corporations and translate into a wide range of preferred corporate policies that enhance shareholder value as compared to long-term funds. The organizational features of long-term funds, in contrast, militate against the development of specific knowledge about the operations of individual portfolio companies and provide fund managers with limited incentives for shareholder activism.

In support of this argument, our results suggest that short-term institutional investors are more likely to target undervalued companies for which this category of investors could profit from the implementation of strategic and operational changes, while long-term institutional investors target well-governed companies already paying high dividends and with lower discretionary spending. Long-term oriented funds are less likely to acquire a large equity stake in firms governed by a powerful CEO with an elite education background, whereas a powerful elite CEO does not deter short-term investors from acquiring a large share in the firm. Additional empirical result is provided via the analysis of the performance of targeted companies. We focus on dividend policy and operational performance to examine the performance of companies after

being targeted by foreign institutional investors. We find that the upward increase in operating performance is more rapid in short-term investors' targets as compared to those by long-term investors, suggesting for a more aggressive activism by short-term investors. In short, the opportunities provided by the changing context of the institutionally French economy (reduced role of the state and introduction of new corporate governance practices) have been exploited most forcefully by short-term funds. Thus, the extent of foreign ownership is less important in influencing corporate governance outcomes than the objectives and time horizons of foreign funds with important policy implications for the regulation of institutional investors (see also Gospel, Pendleton, Vitols, & Wilke, 2011).

The rest of the article is organized as follows. The next three sections review the literature on the empirical tests on the investment allocation of UK-US-based funds in France -- legal protection of minority shareholders, the dimensions of social capital in the French corporate sector, and the internal features of different categories of institutional investors -- and develop the hypotheses to be tested. The following section details the sample and the variables used. The paper continues by presenting the test results, followed by a concluding discussion.

THEORETICAL FRAMEWORK AND HYPOTHESES

Legal Perspective and the Protection of Minority Shareholders

The field of corporate governance has long been dominated by the principal-agent problem in the financial economics literature. The analytical starting point is that the provision of equity capital by small investors and other groups of shareholders requires the presence of legal protection against the potentially shareholder value destroying actions of controlling executives (La Porta et

al., 2000). Shareholders face two types of agency costs. The fundamental issue in economies characterized by the dominance of firms with ownership diffusion is to alleviate misalignment between interests of minority investors versus those of powerful managers (Jensen & Meckling, 1976). Managers might decide to pursue their own self-interest at the expense of shareholders – an issue made prominent by the free riding problems and the impossibility of writing complete contracts to cover all contingencies. Unchecked executives can pursue a panoply of shareholder value destroying policies ranging from actions that enable them to profit personally – embezzlement, misappropriations of resources – to empire building or shirking. In ownership concentrated settings, in contrast, large owners could seek to take advantage of their control over the strategy of the firm to extract private benefits of control (Shleifer & Vishny, 1997). Large owners possess both the incentives and means to monitor management, but may wish to extract value from their control over the strategic direction of the company at the expense of non-controlling investors. The control over corporate policies by a large shareholder may be detrimental to the interests of minority investors since the former can transfer value and receive benefits that are not shared with the latter. The law and economics literature also emphasizes the contingency of prevailing ownership structures as the determining factor that accounts for the efficacy of institutional arrangements in protecting non-controlling shareholders (Coffee, 2005). Institutional arrangements that lessen the problems of managerial opportunism are likely to fail to effectively monitor large owners, and vice-versa. Thus, the willingness of shareholders to acquire equity stakes in companies is contingent upon the extent to which they are protected from shareholder value destroying actions from either managers or large controlling owners.

What are the predictions of the law and economics perspective regarding the investment strategies of foreign investors in the largest three institutionally hybrid market economies among advanced industrialized countries?² The expectations are that companies with diffused ownership

should be targeted rather than companies characterized by ownership concentration. Legal institutional arrangements of corporate law in institutionally hybrid market economies are better suited to protect the interests of minority shareholders from the value destroying actions of managers, as compared to wealth diverting moves by the controlling owner. Legal institutional arrangements aim at constraining managerial opportunism in large institutionally hybrid market economies (Conac, Enriques, & Gelter, 2007; Schmidt, 1999). First, the fiduciary duties of care are strongly enshrined. Directors, and top executives, must carry their task with proper diligence and are responsible individually or as a group to shareholders for violations of laws applicable to corporations as well as for errors committed in the course of management. The actions of corporate officials that would impair the interests of shareholders constitute a breach of the duty of care and the interested parties are subject to serious liabilities (Fanto, 1997: 51-54; McKean, 2003: 110; Ruggiero, 1998: 103-104; Schmidt, 1999: 283).

Second, the concept of the duty of loyalty stipulates that directors abstain from taking any action in which they have a conflict of interest with the corporation; and that they must inform the board of the nature of the conflict of interest associated with a potential transaction subject to criminal sanction in the event of non-compliance (Fanto, 1997: 59-63; McKean, 2003: 110; Ruggiero, 1998: 103-104; Schmidt, 1999: 30-33). The duty of loyalty is not hierarchically subordinated to the preferences of the large owner or the assembly of shareholders who appointed directors; it requires directors to disregard and even oppose attempts by the large owner at self dealing in the spirit of overall equal treatment for all shareholders (Conac et al., 2007: 500-501). The actions of corporate officials that would favor the interests of some shareholders at the expense of others constitute a breach of the duty of loyalty and have been applied mainly in the areas of the attribution of specific advantages by the firm to oneself, and the financial structure connecting the firm and its subsidiaries in the event of a merger.

Third, corporate law in France and Italy provides shareholders with significant powers over important corporate decisions (Cools, 2004: 44; Hansmann & Kraakman, 2004; Ruggiero, 1998: 95). For instance, directors can be removed without cause by simple majority either at the annual general meeting or at any other shareholder meetings – in contrast to Delaware’s statutes where such action is reserved for the board of directors. The implication is that the allocation of power in shareholders would be more conducive to shareholder value in the absence of a controlling owner – i.e. under ownership diffusion (Enriques & Volpin, 2007). Some controlling owners might prefer to secure private benefits of control rather than pursuing strategies of shareholder value. The efforts of shareholder value oriented minority investors to effectively use legal powers are likely to be more effective if they do not have to confront shareholder value recalcitrant large owners.

The main shortcoming with legal arrangements in these three large institutionally hybrid market economies is that they are substantially less suited to tackle problems of self-dealing by the controlling shareholder (Conac et al., 2007; Enriques & Volpin, 2007). Institutionally hybrid market economies are characterized by the presence of a system of corporate law that has largely failed to protect to minority shareholders against self-dealing transactions involving a dominant shareholder (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2008). First, firms in these institutionally hybrid economies are relying heavily on the presence of significant deviations from the one share-one vote principle and other mechanisms that have created a gap between cash flow and control rights. These deviations have protected companies from unsolicited takeover bids and have increased the ability of the dominant owner to influence the strategy of the firm without the effective opposition of countervailing forces. Some of these mechanisms are the issue of non-voting shares and double voting rights in these three institutionally hybrid market economies; the use of voting rights ceiling capped at 10% in France and Spain; and the

presence of pyramidal groups in France and Italy whereby large owners can exert control over several (often listed) firms with a minimum amount of invested capital (Enriques & Volpin, 2007: 118; Melis, 2000; Nenova, 2003). Second, the enforcement mechanisms against controlling shareholders' self-dealing have been limited in scope. The enforcement practices of courts have traditionally focused on cases dealing with bankruptcy flowing from the actions of the dominant shareholder (Conac et al., 2007; McKean, 2003: 110-113). Third, the doctrine of corporate opportunities – which states that directors, executives, and controlling shareholders have a fiduciary obligation to exploit all business opportunities resulting from information acquired in their corporate role for the exclusive benefit of the firm – does not exist in French corporate law (Shleifer & Vishny, 1997: 752). The implication is that large shareholders can exploit information acquired in the running of the corporation for their own gain. Fourth, the duties of care and loyalty do not even apply to the controlling shareholder for Italian and Spanish companies (McKean, 2003: 110; Stanghellini, 1995).

The preference of foreign investors for widely-held corporations is further underlined by a complementary, but not substituting, factor in addition to the legal perspective. The preference of foreign blockholders for widely-held corporations also reflects the size of the free float of targeted companies. Free float is the proportion of shares not held by strategic shareholders and without sales restrictions. Foreign investors dislike companies with a low free float since attempts to acquire a blockholding position are likely to drive up the price per share. Investing in less liquid stocks makes it difficult for investors to withdraw when necessary.

In short, non-controlling shareholders are not as well placed as insiders. They do not run companies, they do not have access to insider information, and their means of intervention are limited. In the absence of legal protection for minority shareholders, the preferences of governing executives – managers in ownership diffused settings; controlling owners in ownership

concentrated settings – might differ from those of non controlling shareholders. Legal-institutional arrangements in corporate law in the largest three institutionally hybrid market economies are better suited to dealing with one type of agency costs, namely managerial opportunism. The degree of legal protection of UK/US based institutional investors is, in turn, lower in companies run by controlling owners in such economies, so that foreign investors are more likely to target ownership-diffused companies. The above discussion on legal arrangements suggests the following hypothesis:

Hypothesis 1. Foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies are more likely to target companies with dispersed ownership.

Social Capital of CEOs and the Institutionalization of Economic Elites in Institutionally Hybrid Economies

At the core of the theory of social capital is the idea that relationships are important as people are connected to a series of networks that constitute a resource for the pursuit of goals (Putnam, 2000). The development of social capital is based on a series of interpersonal interactions and number of connections that facilitate the coordination of actions building from the experiences of participants. The extant literature has highlighted how social capital of actors, conceptualized as a “relational asset” that are embedded in networks of social ties, contributes to economic outcomes (see e.g. Burt, 2005; Geletkanycz, Boyd, & Finkelstein, 2001; Lin, 2001; Uzzi, 1996). Cohen and co-authors (2008), for example, find that mutual fund managers and sell-side equity analysts gain an informational advantage through their educational networks. Similarly, in an analysis of venture capital firms, Hochberg and others (2007) find venture capital firms form networks based on their syndication histories and better-networked firms are

associated with better fund performance. Overall, studies of social capital suggest that CEOs with a high level of social capital are potentially better placed to manage uncertainty and cope with different constituencies in the firm due to its benefits from the aspect of “information”, “influence”, and “solidarity”. The social capital of CEOs provides potential access to private information through board membership or other mechanisms (Finkelstein, 1992). CEOs’ social capital also serves as a contributor to the enhancement of trust and behavioral coordination (Frank & Yasumoto, 1998), as well as for attracting strategic partners and generating new alliance opportunities (Uzzi, 1996).

While CEOs’ social capital is highly relevant to firm governance and performance in liberal market economies, as shown in the above instances, it may be even more influential in institutionally hybrid market economies (and in coordinated market economies) (Ferraro et al., 2012; Kogut, 2012). It follows because firms in institutionally hybrid market economies have relied on strategic modes of coordination with other actors (suppliers, providers of finance, and other firms in corporate networks) sustained by state intervention, rather than relying on competitive markets, characterized by arms-length relations and formal contracting (Hall & Gingerich, 2009). Credible commitments, including support for effective information sharing, reputational monitoring, sanctioning, and inter-firm collaboration, is often important for the successful coordination of activities in institutionally hybrid market economies, and the social capital of CEOs plays a crucial role in forming such credible commitments among economic actors. Moreover, high levels of social capital in institutionally hybrid economies can serve as a source of leverage for elite/insider CEOs in coalition formation inside and outside the firm as well as dealing with state officials (Barca & Trento, 1997; Lukauskas, 1994; Schmidt, 1996; Suleiman, 1978; for a more general overview, see also Useem, 1979).

However, the social capital of elite CEOs may not accrue value for their firms for the following reasons. First, it may render CEOs prestigious power to maximize specific goals, sometimes at the expense of shareholders, thereby impairing corporate governance. CEOs having interpersonal relations with their own board members are more likely to be in position to influence board decision making processes, i.e., generating managerial entrenchment and undermining board monitoring capacity. Recent studies on executive pay suggest that the presence of CEOs with extensive social connections to their own board members results in higher total CEO compensation and weaker relationship between compensation and performance (Hwang & Kim, 2009; Larcker, Richardson, Seary, & Tuna, 2006). Westphal and Zajac (1995), for example, find that greater demographic or social similarity between a CEO and board members, namely age, insider/outsider status, functional experience, and educational background, results in both greater total compensation and less contingent compensation. Second, the power associated with CEOs' social capital enables them to be more effective at consistently influencing strategic decisions despite opposition from outside shareholders or negative reaction of financial markets. Such CEOs may not be sensitive to firm performance or shareholder value, which is detrimental to interests of foreign investors. In a study on acquisitions in France, Chikh and Filbien (forthcoming) find that CEOs, members of elite networks, are more likely to complete a acquisition deal in spite of a negative market reaction on acquisition announcement. Insensitive response of such CEOs towards firm performance may be a more serious concern for foreign investors in the case of hybrid market economies. The high levels of social capital of elite CEOs have enabled them to enjoy greater protection from layoffs and hostile takeover bids through interlocking directorates and cross-share ownership (Aguilera, 1998; Barca & Trento, 1997; Nguyen, 2009a). In short, as social capital of CEOs in hybrid market economies has

negative effects on interests of foreign institutional investors, we expect foreign investors are less likely to target CEOs with high level of social capital.

Studies in economic sociology have emphasized the importance of significant differences between advanced capitalist economies regarding the process of formation of economic elites (Windolf, 2002). The presence of differentiated standardized paths of access to top executive positions across countries reflects national differences across varieties of capitalism (Kogut, 2012). The prestigious educational background of CEOs constitutes an important factor in the differentiated standardized paths of access to top executive positions across countries – such as the centrality of graduates from the University of Tokyo in Japan, the importance of the CFO and finance specialists in the United States, and the crucial role of advanced university degrees in scientific/technical subjects for the non-financial sector in Germany (Bauer & Bertin-Mouro, 1999; Whittington & Mayer, 2000; Windolf, 2002). Attending an elite institution also provides CEOs with valuable social networks by which they can build their social capital because elite schools train a disproportionate number of CEOs and directors (Engelberg, Gao, & Parsons, 2009). Thus, we consider CEOs with prestigious educational background, which is part of the highly standardized career path of economic elite formation, as those having the high level of social capital (see the Measures section for the operationalization of the concept of elite CEO educational backgrounds).

Moreover, it also important to regard the characteristics of CEOs' career trajectories as standardized paths of access to top executive positions, thereby providing opportunities to develop their social capital. In the case of institutionally hybrid economies, the importance of the state in the process by which firms coordinate their activities has influenced the characteristics of CEOs' career trajectories as standardized paths of access to top executive positions (Schmidt, 1996; Suleiman, 1978). The prominent role of the state may firstly reflect the late

industrialization character of these economies whereby government officials took an important role in economic development through the nationalizations of banks and large financial companies as well as via the regulation of the financial sector in order to facilitate the provision of long-term capital in the form of banks loans (Hall, 1986: 266-268; Lukauskas, 1994; Molina & Rhodes, 2007). Secondly, the institutionally hybrid market economies traditionally exhibit low level of social trust and civic norms (Knack & Keefer, 1997). The influence of the state in the coordination of activities among economic actors has served as a mechanism aimed at compensating for the presence of low trust (Burt, Hogarth, & Michaud, 2000; Lee & Yoo, 2008). As a result, dense linkage between tightly integrated large private and state-owned corporations is an important feature of corporate networks in these economies, in turn, increases the importance of top corporate executives having access to the government (Barca & Trento, 1997; Ferraro et al., 2012; Windolf, 2002: 77-96). Moreover, the prominent role of the state testifies to the importance of the social capital of CEOs relying on interpersonal relations to acquire valuable information. There are many existing studies that present evidence that political connections can create value for firms in such economies (e.g., Faccio, Masulis, & McConnell, 2006). The above arguments lead us to suggest the following two hypotheses:

Hypothesis 2a. Foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies are less likely to target companies governed by CEOs who graduated from schools part of the highly standardized career path of economic elite formation.

Hypothesis 2b. Foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies are less likely to target companies governed by CEOs who have politically connected career trajectories.

Varieties of Institutional Investors: Incentive Structure, Investment Horizon, and Investment Strategy

The focus of this section is on the characteristics of shareholder value oriented foreign institutional investors. We argue that an account of the acquisition of block stakes by Anglo-American funds in listed companies in institutionally hybrid economies requires an analysis of the diversity of the incentives structure of fund managers, the extent to which performance concerns are important, and an incorporation of the significant differences in the investment horizons of institutional investors. How do incentives and investment horizons translate into investment allocation?

The presence of significant heterogeneity between institutional investors matters for their strategic investment allocation in these three large institutionally hybrid economies. Shareholder value oriented funds are substantially different from each other on several dimensions. For instance, managers of passively managed mutual funds (henceforth long-term investors) pursue strategies of risk reduction by gaining broad exposure to stock markets at low costs (Malkiel, 2003; Woidtke, 2002). Their investment strategy is based on the assessment that it is difficult to beat the market through active trading, thereby resulting in significantly longer time horizons as compared to hedge funds and actively managed mutual funds. The business strategy of passively managed mutual funds is based on the reduction of management fees, not on the timing of buying and selling of shares. The niche of passively managed mutual funds – Vanguard being a

prominent example – lies in the provision of broad access to financial markets through low management fees for their investors. The acquisition of concentrated blockholding positions does at times occur but is not of a short duration since trading is less frequent. The remuneration of fund managers is formally based on the overall size of financial assets under management, but the turnover rates of portfolio stocks are relatively low and diversification prevails over the timing of buying and selling of shares (Woitke, 2002).

Managers of hedge funds and actively managed mutual funds (henceforth short-term investors), in contrast, are driven by significantly different performance concerns than those of passively managed mutual funds (Chevalier & Ellison, 1997; Fung & Hsieh, 1997). They possess heightened incentives to surpass financial benchmarks (actively managed mutual funds) or reap the maximum possible absolute returns (hedge funds). This focus on relative performance for actively managed mutual funds, and on absolute performance for hedge funds, flows from two factors (Brown et al., 2001; Chevalier & Ellison, 1997; Kahan & Rock, 2007). The first results from the importance of variable pay for fund managers. For actively managed mutual funds, managerial remuneration is based on the volume of assets under management and the returns on investment associated with the composition of the portfolio. The presence of high profile league tables and the importance of variable pay entail that fund managers face both constraining scrutiny and enabling inducement to beat market benchmarks. For hedge funds, managerial compensation derives from the amount of assets under management (1-2%) and, to a substantial extent, from incentive fees (20% of profits earned). These incentive fees are paid only in the event of the returns on the portfolio exceeding pre-established returns. The second factor is the considerably shorter holding period for hedge funds and actively managed mutual funds. Fund managers possess shorter term horizon, since they face greater liquidity concerns from investors for short-term return on their investments as compared to the emphasis on low management fees

for passively managed mutual funds. Short-term investors often seek to profit from changes in the stock value of portfolio companies; they do not aim to gain from the reduction of risks through a long-term index strategy.

We argue that the presentation of a sophisticated differentiation between categories of institutional investors is crucial for the analysis of foreign blockholding acquisitions in firms located in institutionally hybrid economies. Differences in incentive structures, time horizons and performance objectives matter for the characteristics of targeted companies (and their performance after being targeted). Long-term oriented passively managed mutual funds have focused on various aspects of corporate governance rules such as poison pills, confidential voting, dividend policies, executive compensation and board structure. This category of institutional investors have largely refrained from attempts to influence the business strategy and management of portfolio corporations in areas where highly specific company knowledge is needed (Black, 1992). The limited sets of incentives for long-term fund managers and a longer-term horizon militate against the development of detailed and specific knowledge about the operations of individual portfolio companies.

Short-term investors (hedge funds and actively managed mutual funds), by contrast, are highly interested in the business strategy and management of corporations (Kahan & Rock, 2007; Klein & Zur, 2009). The investment strategies of short-term oriented funds highlight defined preferences regarding specific corporate policies that enhance shareholder value: refocusing on core activities and spin-off of noncore assets, asset divestitures, mergers and acquisitions, share buy-backs, dividend policies, and firm leverage (Brav et al., 2008: 1731-1745; Kacperczyk, Sialm, & Zheng, 2008). The criteria and processes by which short-term oriented investors select portfolio companies often involve the acquisition of firm-specific information. This focus on the strategic direction of companies reflects sharp and heightened

incentives of variable compensation for fund managers, short-term horizons, and investment objectives of high returns rather than reduction of management fees. Moreover, short-term oriented foreign institutional investors acquiring blockholding positions in firms located in these three institutionally hybrid economies face no conflict of interest in the form of managing the retirement funds of potential portfolio corporations as opposed to the observable behavior of mutual funds in the United States (Kahan & Rock, 2007).

We expect significant variations in the characteristics of companies targeted by different groups of institutional investors. Due to their limited expertise in firm-level strategy and reduced incentives to engage in shareholder activism, long-term investors acquiring blockholding stakes in firms from institutionally hybrid economies are more likely to target well-governed companies already paying high dividends and with lower discretionary spending – the latter being operationalized as capital expenditures (see e.g. Klein & Zur, 2007: 201). In fact, their undertaking of shareholder activism has been infrequent and invariably *ex post* – i.e. after selected portfolio companies start experiencing difficulties while the activism of hedge funds can occur *ex ante* (Kahan & Rock, 2007: 35). The relatively limited role of variable compensation and long-term horizons of passively managed mutual funds do not favor the undertaking of confrontational tactics with corporate executives over the implementation of short-term oriented policies for which detailed firm-specific knowledge is needed.

The incentives and investment goals of short-term investors entail that they are more likely to target undervalued companies in institutionally hybrid economies as compared to long-term oriented funds. An important aspect of the strategy of short-term oriented funds consists in the “selection” of portfolio firms from which they could then profit either from the implementation of strategic and operational changes (via shareholder activism) or from timing the buying and selling of shares by correctly anticipating market movements (via selection

ability) (Brown et al., 2001). The identification of undervalued firms of which stock price does not reveal yet their potential for improvement is crucial for short-term investors. Hedge funds and actively managed mutual funds seek to maximize assets under their management or outperform rival asset managers by picking firms currently undervalued on financial markets.

Hypothesis 3a. Short-term foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies are more likely to target undervalued companies as compared to long-term foreign institutional investors.

Finally, we also expect different types of relationships between blockholding acquisitions and the improvement in performance of targeted companies across issue areas. Financial economists have presented substantial empirical evidence highlighting that companies performed better after being targeted by shareholder value oriented Anglo-American investors (Kahan & Rock, 2007). These studies have pointed out the range of possible motivations, and at times shareholder activism, of institutional investors. For instance, some financial economists have analyzed the investment strategy of short-term funds as one of targeting more financially profitable and healthy firms with large cash flows and high dividends (Klein & Zur, 2009). In this case, the main goal is to encourage companies to release more dividends and/or implement more share buybacks. Thus, short-term funds could contribute to the reduction of agency costs between shareholders and controlling executives (managers or large owners) by reducing excess cash on hand. In contrast, others have emphasized how funds select undervalued firms with superior growth potential. Bethel and his colleagues (1998) found that blockholders predominantly target poorly performing companies and that their investments are associated with improvements in profitability. Brav and his colleagues (2008) highlight how the performance of portfolio

companies experience significant improvement after hedge funds undertake shareholder activism in the form of the implementation of strategic and operational changes.

The range of motivations, and potential activist tactics, differ across categories of institutional investors. An important difference between short-term investors and passively managed mutual funds is that the former monopolize certain types of motivating factors and modes of activism (Kahan & Rock, 2007: 1029). In fact, short-term investors possess a wide range of preference (and activist tactics): forcing the release of excess cash in the form of dividends and/or share buybacks, encouraging the spinoff of non-core divisions and the development of a strategic focus on core competencies, influencing outcomes on mergers and acquisitions, and promoting the implementation of operational efficiency measures (Brav et al., 2008: 1741-1745). Short-term investors can enhance shareholder value by pushing for the issue of dividends and/or share buybacks (Klein & Zur, 2009) as well as selecting undervalued firms with superior growth potential (Bethel et al. 1998). These investment strategies derive from the incentive structures of fund managers, the time horizons of funds, and the importance performance objectives.

Long-term oriented funds, in contrast, do not possess the full range of preferences, and activist tactics, as compared to their short-term counterparts (Black, 1992; Del Guercio & Hawkins, 1999). Limited managerial incentives, long-term horizons, and a market niche strategy based on low management fees result in the underdevelopment of firm-specific knowledge of the business strategy of companies and in the greater reluctance to engage in shareholder activism. We do not expect passively managed mutual funds to bring about a significant change in the operating performance of targeted firms. The issue of dividend payments, in contrast, is different since it does not involve the acquisition of detailed, firm-specific knowledge (Da Silva, Goergen,

& Renneboog, 2004). Higher dividends can reduce the monitoring efforts of shareholders, and thus mitigate agency costs arising from financial slack.

In short, we expect that companies targeted either by short- or long-term investors are more likely to experience an upward increase in dividend payments as compared to non-targeted companies. By contrast, we expect the increase in operating performance of firms targeted by short-term investors to be more rapid than that of firms targeted by long-term investors.

Hypothesis 3b. There is a positive association between the entry of foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies and the increase in dividend payments by the targeted companies during the following two years.

Hypothesis 3c. There is a positive association between the entry of short-term foreign institutional investors acquiring blockholding positions in firms in institutionally hybrid market economies and the improvement in operating performance of the targeted companies during the following two years.

METHODS

The Institutionally Hybrid Environment of the French Variety of Capitalism

The French variety of capitalism, along Italy and Spain, constitutes the largest representative of institutionally hybrid economies among advanced capitalist countries. The institutionally hybrid character of these economies has been characterized by two features. The first one is the overall lack of institutional complementarities between the different spheres of the economy (corporate governance, employment relations, and skill formation) at the national aggregate level (Hall & Gingerich, 2009). The concept of institutional complementarities refers to a situation whereby

specific institutional arrangements found in one sphere of the economy increase the effectiveness of institutions in other spheres as compared to a situation where the latter would operate on their own. The implication is that the process by which firms coordinate their activities is dependent on a bundle of institutional arrangements rather than being conditioned by the presence of any one institution (Hall & Soskice, 2001). The Varieties of Capitalism perspective identifies two alternatives, but equally effective, modes of coordination characterized by the presence of institutions in one sphere of the economy supporting analogous forms of coordination in other spheres: market and strategic coordination (Soskice, 1999). The institutional configuration of institutionally hybrid economies, in contrast, does not provide support for either market coordination (liberal market economies) or strategic coordination (coordinated market economies) (Hall, 2006; Molina & Rhodes, 2007). The overall lack of institutional complementarities at the macro level in institutionally hybrid market economies has often been presented as the long-standing lack of fit between the institutions in the spheres of employment relations and education/skill formation. The institutional setting of hybrid market economies displays the presence of rigid labor laws (employment relations) that protect employees with open-ended contracts, but without supporting institutional arrangements of in-firm training needed for the development of firm-specific skills in niches of incremental innovation. The institutional setting of hybrid market economies is also characterized by the prominence of general education degrees for the selection of employees (skill formation), but without supporting institutional arrangements of labor market flexibility needed for the development of transferable skills in niches of radical innovation.

The second feature of institutionally hybrid economies has been the importance of the state in the process by which firms coordinate their activities. State officials implemented policies designed to modernize the economy from above from the late 1940s onward in order to overcome

bottlenecks in the economy and problems associated with the destruction of economic infrastructure (Eichengreen, 2007: 113-118; Hall, 1986: 139-191; Lukauskas, 1994). Among the most important modernization policies were the regulation of the financial sector designed to influence the allocation of flows in the economy, the instauration of controls over inward/outward flows of capital, the presence of state ownership in the banking and non-financial sectors, the periodic use of currency devaluations to stimulate the economy, and the reliance on the regulation of the minimum wage as a system of wage indexation. The importance of the state in the process by which companies coordinated their activities in institutionally hybrid economies also precluded the introduction of firm-level labor co-determination institutional arrangements that would have strengthened the position of employees inside companies. The adoption of employee-friendly institutional arrangements, currently found in coordinated market economies, would have impaired state influence over companies as a mechanism of economic policy (Hall, 1986: 155-9; Lange & Ross, 1982; Molina & Rhodes, 2007). As a result, the type of institutional arrangements that seriously reduced the scope for unilateral managerial actions in coordinated market economies were not introduced in these three large institutionally hybrid market economies.

Institutionally hybrid market economies are highly interesting for the analysis of the strategy of international investment by UK/US-based institutional investors because these economies have experienced important changes in the last twenty years that have increased the vulnerabilities of domestic companies to the pressures of UK/US-based institutional investors for the implementation of strategies of shareholder value. The first important development has been the withdrawal of the state from many areas of economic activities, most notably, although not exclusively, through privatizations, the removal of capital controls, and the deregulation of the financial sector (Barca & Trento, 1997; Hancké, 2002; Lukauskas, 1994; Schmidt, 1996). The

reduced role of the state in institutionally hybrid market economies is significant since the coordination of activities in corporate networks in these countries was largely dependent upon state intervention (Hall, 2006; Lukauskas, 1994). The importance of the advent of privatizations and financial deregulation in France, Italy and Spain is not simply an issue of the extensive character of the implemented liberalization measures, but also highlights the vulnerabilities of these economies to “moves to the market” given the lack of institutional foundations for strategic coordination that are found in coordinated market economies (Hall & Thelen, 2009: 24-26).

The second development that make these economies potentially more receptive to strategies of shareholder value (and vulnerable to the demands of foreign institutional investors) has been the introduction of important changes in corporate governance. The institutional arrangements found in the sphere of corporate governance in France, Italy and Spain corresponded rather well to an insider model until the early 1990s: ownership concentration, importance of long-term patient capital in the form of banks loans, lack of financial transparency, and tight corporate networks organized around large private and state-owned corporations (Barca & Trento, 1997; Lukauskas, 1994; Lee & Yoo, 2008, Melis, 2005, Morin, 1998). Institutionally hybrid economies previously differed in a sharp fashion from liberal market economies as a result of the presence of labor market rigidities interacting with an “insider” model of corporate governance (Aguilera, 1998; Djelic & Zarlowski, 2005; Stanghellini, 1995).

By contrast, corporate governance in these three institutionally hybrid market economies is characterized by the introduction of important institutional features and practices associated with the UK/US model of corporate governance: greater focus on core competencies, declining importance of bank loans as a source of finance, adoption of international accounting standards, increased legal protection for minority shareholders during takeover contests, rise in relative importance of variable compensation for top executives, growing ownership diffusion for

important numbers of listed companies, and introduction of codes of good governance (Bauer, Braun & Clark, 2008; Cioffi & Hoepner, 2006; Ferraro et al., 2012; Lukauskas, 1994; McKean, 2003; Morin, 1998). These developments are significant since the evolution of corporate governance does not operate on a blank slate; the impact of institutional change in the system of corporate governance of institutionally hybrid market economies highlights the importance of the interaction between new institutional arrangements and existing institutions (see Hall & Thelen, 2009 for a theoretical overview). Corporate governance reforms in France, and in other large institutionally hybrid market economies, are taking place in a context characterized by the absence of most firm-level labor co-determination laws that have provided employees with significant influence in coordinated market economies (Hall, 2006; Molina & Rhodes, 2007). The type of institutional arrangements that act as constraints on managerial autonomy have not been introduced with the consequence that institutionally hybrid economies have become particularly vulnerable to the pressures of shareholder value oriented institutional investors from the United Kingdom and the United States.

Data and Samples

The sample consists of the member of the Paris Stock Exchange SBF120 index. The decision to focus on the member of SBF120 index reflects the fact that large firms constitute the primary targets of Anglo-American institutional investors (Clark & Wójcik, 2007: 120). In order to avoid self-selection issues, we used historical information on the members of the SBF120 index. That is, a firm is selected in our sample if it belonged for at least one year to the SBF120 index between 2001 and 2007.³ Among 173 companies drawn from this procedure, 22 financial firms are excluded as their financial statements are difficult to compare with the statements of industrial firms. Another 21 companies were also excluded due to several reasons, such as being foreign

subsidiaries (12), being listed for less than two years (5), and missing data (4). Our final sample is thus made up of 130 French companies. The observation period begins in 1998 and ends in 2007.

We collected data on foreign blockholding acquisitions in the sample firm between 1998 and 2007 from a database provided by the French Financial Supervisory Authority (AMF). Pursuant to Section L233-7 of the French Commercial Code, an institution or person has to report his shareholding to the AMF and the issuer if it exceeds or falls below certain threshold values of 5%, 10%, 15%, and so on. The database lists the underlying share, the reporting data of the transaction, the identity of shareholders, their location of incorporation and the fraction of shares held after the respective transaction. We excluded blockholding acquisitions lasting less than one month because those shareholdings can be related to activities, such as short selling, other than those we are interested in. Figure 1 shows the number of foreign blockholding acquisitions over time. Total foreign blockholding acquisitions are 146 out of about 900 total firm-year observations (firm-year observations vary according to each model specification due to data availability of variables). Foreign blockholding acquisitions are not equally distributed across the years with a considerable increase since 2004.

Insert Figure 1 about here

Ownership structure and governance arrangements such as double voting rights and shareholders' agreement were hand-collected from annual reports and supplemented by the Dafsaliens database. Data on CEO characteristics, such as age, educational background, and career history, was mainly collected from *who's who in France*. Missing information was collected from companies' web sites or the Factiva database. Other information used to measure

control variables, such as data on stock and accounting information, and Standard Industrial Classification (SIC) codes were downloaded from Datastream.

Measures

This section describes all of the variables and how they were measured. All independent and control variables were lagged by one year.

Dependent variables. In a similar vein to previous studies (Brav et al., 2008; Mietzner & Schweizer, 2008), we used a dichotomous variable -- foreign blockholding acquisitions -- to indicate whether a firm was targeted by foreign investors. If a foreign institutional investor acquires at least five percent stake in a publicly listed company during the course of a calendar year, the variable was coded 1 and 0 otherwise. To test whether there are differences in investment strategies between actively versus passively managed mutual funds, we created a new dependent variable to account for investment horizons. Using the median turnover rate of American mutual funds from 1998 to 2007 (57%), we split investors into two categories; investors are classified as short-term investors if their turnover rates are above the median (see Investment Company Institute, various years).⁴ We then coded firms targeted by short-term investors as the value of 1, targets by long-term counterparts as 2, and non-targeted firms as 0.

Independent variables. To assess the influence of the ownership structure of companies targeted by foreign investors, we measured *ownership concentration* as the portion of stakes held by the largest shareholder of a firm's shares outstanding, which is the most common way of operationalizing the ownership base of a firm (see Dahlquist & Robertsson, 2001; Hambrick & Finkelstein, 1995). *Market to book ratio* is defined as market value of equity divided by the following element, namely the difference in the book value of total assets and total liabilities. The

market to book ratio constitutes an indicator of the evaluation of the firm, that is, whether it is undervalued or overvalued in financial markets (Klein & Zur, 2009).

To investigate the impact of social capital of CEOs, we identified the two main features of the process of economic elite formation in France –i.e. a context-specific and highly standardized career path that differs from other countries. The pluralistically dominant, and thus non-exclusive, pattern of access to top executive positions inside French companies is characterized by two key dimensions: attendance at one of the top two educational state-run institutions outside the university system (*grandes écoles*); and initial employment in an important position in the civil service (*grands corps*) (Bauer & Bertin-Mourot, 1999; Schmidt, 1996: 285-343; Suleiman, 1978; Windolf, 2002: 77-96). To characterize the educational background of French CEOs, we created two variables. The first dichotomous variable we created, *ena or x* which indicates whether a firm’s CEO graduated from the two most prestigious French elite school, *École Nationale d’Administration* (ENA) or *École Polytechnique* (X).⁵ The variable was coded 1 if the CEO graduated from either ENA or X and 0 otherwise. To characterize the elite career trajectory of top French corporate executives, we created a dichotomous variable to identify whether a firm’s CEO had worked within one of the prestigious civil service corps, i.e. the *Grands Corps d’État*. The variable, *formal bureaucrat*, was coded 1 if a firm’s CEO is from one of the following corps: *Conseil d’État* (Supreme Administrative Court), *Inspection des Finances* (Inspection of Finance), *Cour des Comptes* (Audit of Public Finance), *Ponts et Chaussées* (Civil Engineering), and *Mines* (Engineering and Industrial Policies) (Nguyen, 2009b).⁶

Control variables. Six control variables related to the financial status of companies were included to address issues raised by financial economists. We included a control for *firm size* (the natural logarithm of firm market value or revenue). Larger firms might be less likely to be targeted because of the large amount of capital an investor would need to invest in order to obtain

a meaningful stake (Finkelstein & Hambrick, 1990). We control for operating performance by using variable *ROA* defined as EBITDA divided by lagged total assets. The view that extraordinary actions by institutional investors are triggered by poor company performance is generally supported by findings reported in the financial economics literature (Becht, Franks, Mayer, & Rossi, 2010). We also controlled for capital structure by using *cash holdings* defined as the ratio of (cash plus short-term investment) to total assets. A firm with excess cash positions is more likely to be targeted as the symptom indicates agency problems (Jensen, 1986). In addition, high amount of free cash flow makes it easier for foreign blockholders to reap some benefits from their targets, e.g., either in terms of stock repurchases or stock dividends. We included a control for *dividend yield* defined as dividends per share - ex date. Dividends mitigate agency costs arising from financial slack because they present a means by which cash from operations is returned to shareholders on a regular basis (Da Silva et al., 2004). Dividends may be a bonding mechanism and hence a substitute for other internal governance mechanisms. Contrary to excess cash holdings, activist blockholders are thus apt to target a firm with lower dividend payment as the symptom indicates agency issues. We controlled for two discretionary expenses, *research and development* and *capital expenditure* defined as capital expenditure divided by lagged total assets. *Research and Development* was coded 1 if a company had R&D expenditure and 0 otherwise. Becht and others (2010) find that in a clinical study of the Hermes U.K. fund, the fund frequently seeks significant changes in the company's strategy including large asset sales, divestments, reductions in capital expenditure.

Building on the literature on strategic leadership, we controlled for three variables related to CEO power which may have an influence on the frequency of a firm being targeted by foreign investors; one of them is *ceo tenure*, indicating the number of years served in his/her quality of CEO in the firm. Long managerial tenure with a successful track record usually increases CEOs'

confidence, and thus it may lead to further commitment to the status quo, maintaining past business patterns. Hambrick and co-authors (1993) highlight the extent to which executive tenure constitutes a good predictor of the degree to which firms remain locked into their strategy and organizational profile. Moreover, agency costs may be positively associated with the length of time the CEO is in office. Long tenured executives may know better how to manipulate communications, e.g. by withholding unfavorable information about performance. CEOs can also build strong relationships with board members over the long-term, thereby diluting their independence. The next indicator variable we created is *founder*, to indicate whether a CEO is one of the company's founders. A CEO was coded 1 if s/he is a founder of the firm and 0 otherwise. Consistent with the existing literature, we consider a CEO who is a founder to be more influential (Finkelstein, 1992). The last variable related to CEO characteristics is *dual position*, a dichotomous variable. CEOs were coded as 1 when the CEOs hold positions both the CEO as well as the Chair of the board of directors, and 0 otherwise. The accumulation of both titles can be seen as a negative structural arrangement to investors because it may lead to excessive unchecked power centralization.

Two other control variables are included to account for the response of foreign investors toward French institutional-legal arrangements. We included *double vote rights* and *shareholders' agreement* to control for two of the most widely used anti-takeover provisions in France. LaPorta et al. (1999) found that in continental Europe the controlling shareholder exercises control without owning a large fraction of the cash flow rights through pyramidal ownership, shareholder agreements, and dual classes of shares. The discrepancy between voting rights and cash flow rights arising from the use of these arrangements has been highly criticized as lying at the root of extraction of the private benefits of being the controlling shareholder at the

expense of minority shareholders. The indicator variables were respectively coded 1 if the provision exists in the firm and 0 otherwise.

We also controlled for possible industry differences and year differences by using *industry* and *year dummy* variables. To conserve space, we do not show the year and industry dummy variables in the tables, but they were included in the underlying analyses.

Analysis

We used discrete-time event history methodology (Allison, 1984), using logit models of dichotomous outcomes to estimate the hazard of a foreign blockholding acquisition in a given year for a pooled sample of each firm observed during each of the nine years studied. Pooling data allows us to take advantage of the greater degree of freedom and to capture dynamic information of time series and the variation due to cross-sections. Except for some time-invariant variables, all variables were updated annually, resulting in annual spells with time-varying covariates. Because foreign blockholding acquisitions were repeated events and different odds of a firm being targeted may be attributable to a lack of independence of observation and/or unobserved firm-specific factors, coefficient estimates could be incorrect. That is, observations of the same company in different year create serial correlation in the error term; our models cannot control for all potential factors that might affect the frequency of block share purchases by foreign investors. This results in the deflated standard errors and, therefore, inflated *t*-statistics. Thus, we estimated panel robust standard errors using the cluster option in STATA (Petersen, 2009).

In addition, we employed two alternative model specifications, namely a random-effects and a two-year time lag estimator. These model specifications yielded a qualitatively similar

result to logit analyses with panel robust standard errors. We, however, were unable to use fixed-effects regression models because a large percentage of firms in the sample were never targeted by foreign investors during the study period, and these firms would be dropped in a fixed-effect procedure. Moreover, as independent variables such as CEOs' educational backgrounds, their career pattern, and ownership structure are highly stable over time, within-firm variation in these variables is very small, which also weakens the applicability of a fixed effects estimator in our study (Zhou, 2001).

In the test of the difference in characteristics of firm targeted by short-term and long-term investors we used a multinomial logistic regression. The multinomial logit model is appropriate when a dependent variable has two or more outcomes and data are case specific; that is, each independent variable has a single value for each case of the dependent variable.

RESULTS

Table 1 presents descriptive statistics and a correlation matrix for the variables used in this study across all periods. Table 2 shows the results of the event history analyses of the likelihood of a firm being targeted by foreign blockholders. Model 1 reports the estimated results using financial variables, while in models 2 through 4; we enter the predicted effects to test our hypotheses. Model 5 presents the full model with all independent and control variables.

Insert Table 1 about here

Consistent with hypothesis 1, the investment decisions of institutional investors are positively associated with the degree of ownership diffusion ($p < .001$).⁷ This result corresponds and builds from studies based on firms outside the United States (Judge, Gaur, & Muller-Kahle, 2010). Nonetheless, the empirical evidence cannot be said to be fully supportive of the legal perspective with its focus on the concerns of foreign (minority) shareholders about the extraction of private benefits by controlling shareholders (La Porta et al., 2000) because targeted firms also show highly concentrated ownership structure. Mean (median) ownership concentration in targets is 23.40 (19.05) while that of non-targets is 33.72 (31.3).⁸ The presence of a large blockholder, and the associated lower degrees of legal protection, do not deter Anglo-American institutional investors from acquiring large equity stakes in France even if they still prefer companies with greater ownership diffusion. Moreover, variables related to shareholder protection measures such as double voting rights, and shareholders' agreements proved to be insignificant to predict the likelihood of foreign blockholding acquisitions. This result is compatible with two, non-mutually exclusive, scenarios. First, the preferences of foreign investors may be, to some extent, adjusted to the French institutional context as these features are widespread in France, but more restricted in liberal market economies (Bebchuk, Cohen, & Ferrell, 2009). Second, institutional investors care as much about the process by which firms coordinate their activities, if not more, as compared to the extra degree of legal protection in the advanced capitalist economies of Continental Europe (Hall & Soskice, 2001). Investors are often more concerned about whether strategies of shareholder value can be introduced without lengthy negotiations with employees and other stakeholders than about the degree of legal protection (See Goyer, 2006). Therefore, the investment allocation of foreign investors cannot be accounted for entirely by the law and economics perspective with its focus on the superior protection of minority shareholders in diffusely-held companies in the French legal context (Aguilera & Williams, 2009).

Insert Table 2 about here

With respect to CEO characteristics, and consistent with our expectation (hypothesis 2a), educational background (*ENA or X*) is negative and significant at 5% and 1% significance level in the model 4 and 5 respectively.⁹ This result supports our argument that foreign investors tend to prefer French companies run by non-elite CEOs since shareholder activism might be more difficult to pursue in the presence of elite CEOs powerful enough not to listen to foreign investors' requests. Contrary to the expectation of hypothesis 2b, however, the coefficient on *former bureaucrat* proves not to be significantly different from zero. Foreign investors do not value, either negatively or positively, a firm managed by politically connected CEOs. This result may indicate the reduced advantages associated with being an insider in the context of the liberalization of the French economy (Hall, 2006) and the decline in the tightness of corporate networks in France (Culpepper, 2005).

Another possible explanation for our result concerning CEOs' educational backgrounds is that companies run by elite CEOs underperform their counterparts. To tackle this issue, we re-ran regression model 5 in table 2 by including the interaction term of educational backgrounds and stock evaluation (*Market to book ratio*) or the interaction term of educational backgrounds and operating performance (*ROA*) respectively. In both cases, the coefficient on the interaction term is not significantly different from zero (p -value = 0.95 and 0.22, respectively). We thus suggest that there is no systemic difference in firm performance between companies run by elite CEOs and their counterparts.

In addition, one may argue that the lower frequency of foreign blockholding acquisitions in elite CEO-controlled firms is not related to *who* runs them, but reflects the fact that elite CEOs

are likely to run firms directly or indirectly closer to the French state. Such firms might be less likely to be the recipient of foreign block purchases because investors typically do not like their portfolio firms to serve other aims than the maximization of shareholder value. We used privatized companies as a proxy for close relationship with the French state. We found 23 privatized companies in our sample. While the correlation between elite CEO-controlled companies and the privatized companies equals to 0.39, mean (median) comparison tests reported there is a strong association between them (t -statistic = -13.48, z -statistics = -12.44). When we entered a variable accounting for the privatized companies in the fully specified model 5 in table 2, however, the coefficient on this variable is negative yet statistically insignificant while the coefficient on CEO education background still remains statistically significant. The result is virtually the same even if we re-ran the regression without the variable (*ENA or École Polytechnique*). Lastly, we also checked if the effect of CEO education on foreign blockholding acquisitions varies according to whether the company they serve was privatized or not, using the interaction term between privatized companies and educational background. We find the interaction term is not statistically significant. Accordingly, the negative relation between foreign blockholding acquisitions and elite CEO-controlled firms remains intact even when considering a firm's relation with the state.

Regarding the control variables, our results indicate that foreign investors are apt to target smaller firms and/or firms that spend less discretionary spending measured by *capital expenditure*. This result is consistent with previous researches that highlight the positive reactions of investors to reductions in capital expenditure, and (thus) lower capital expenditure leads to higher market valuation and stock market performance (for European cases, see Bauer et al., 2008; Titman, Wei, & Xie, 2004).

Insert Table 3 about here

Table 3 reports the results for the tests of hypothesis 3a that expects different investment strategies between short-term investors and their long-term counterparts. Model 1 reports the estimated results using financial variables and model 2 includes all variables. Both models use firms not being targeted by foreign investors as the comparison group.

When compared to non-targeted firms, consistent with hypothesis 3a, our findings suggest that short-term investors are apt to target undervalued firms. The coefficient on *market to book ratio* is negative and statistically significant. A recent study done by Brav and his colleagues (2008) reports similar results, and considers undervalued targets as an important factor by which short-term oriented blockholders profit from the improvement of the companies' operations and strategies.

We find that CEO educational background for long-term investors is negative and significant while the coefficient on CEO educational background for short-term investors is not statistically different from zero. From this result, we infer that the deterrent character of CEO educational background found in table 2 is mainly driven by long-term investors, not short-term funds. Another interesting result is that while the ownership concentration level is negative and significant at the conventional significance level for both categories of funds, there is higher statistical significance between ownership concentration and foreign blockholding acquisitions for long-term investors.

For the control variables, our results indicate that short-term investors seem to target smaller firms and/or firms in which the CEO has a shorter tenure. The mean (median) market value for firms targeted by short-term investors is €2340.119 (€584.08) million while those of

non-targeted firms is €5229.99 (€2270.21) million ($p < .001$ for difference). On the other hand, the targets of long term investors are different from non-targeted firms in terms of *dividend yield* and *capital expenditure*: long-term investors tend to target firms that pay higher dividend payment to their shareholders and have lower level of capital expenditure, namely lower discretionary spending.

In sum, short-term investors tend to focus on undervalued firms where immediate benefits can occur from, for example, changes in the corporate strategy of firms, whereas long-term counterparts seem to prefer well-governed companies managed by less powerful CEOs, spending less discretionary expenditure and (instead) paying higher dividends to their shareholders.

Insert Table 4 about here

Table 4 reports the post-effect of a firm being targeted by foreign investors on dividend policy and operating performance. Panel A highlights that targeted firms distribute more dividends to their shareholders after their being targeted as expected by hypothesis 3b. The mean (median) difference in dividend payment in year-1 is 0.401 (0.231) and the difference is significant. There is an increase in dividend payment in targeted firms and the difference is insignificant in mean difference and marginally significant in median difference in year 0, +1, +2. This result is consistent with Brav and his colleagues (2008) whereby an increase in a total payout measure, including dividends and share repurchases, occurs soon after the hedge fund's intervention. Panel B reports that there is no significant difference in changes in dividend policy between the firms targeted by short- and long-term investors.

As shown in panel C, targeted firms experience underperformance relative to non-targeted firms prior to being targeted. Mean (median) difference is 0.297 (0.017) for the year before being

targeted (year-1), and the difference is significant. After being targeted, however, the difference subsequently decreased and was no longer significant in the subsequent two years (year+2). Panel D shows change in ROA between long-term investors' targets and those targeted by short-term investors. In the year prior to being targeted, long-term targets perform slightly better than their counterparts. Short-term targets, however, continuously improve their performance and are better than long-term targets in the two years after being targeted ($p < .006$), as expected by hypothesis 3c. This may be another indicator of potential aggressive activism by short-term investors.

As robustness checks, we used alternative measures of variables to avoid errors caused by a subjective choice of variables. Ownership structure is measured in a different way by summing all stakes held by inside shareholders¹⁰, but all of our results are qualitatively unchanged. We used alternative variables for a firm's financial attributes: instead of *ROA* (operating performance) and *cash holdings* (financial structure), *Funds from Operations* and *Leverage ratio* were used respectively. The main findings do not alter except that the coefficient on CEO dual position become significant.

DISCUSSION, LIMITATIONS, AND INSIGHTS FOR COMPARATIVE RESEARCH

Foreign institutional investors have (apparently) become important actors in contemporary French capitalism. The presence of significant differences between categories of institutional investors, as highlighted in the empirical evidence presented in this article, constitutes an important factor for the analysis of the interaction between global forces and domestic features of French corporate governance with implications for other large institutionally hybrid economies. The empirical findings on the investment allocation of UK/US-based institutional investors in

France are largely consistent with results of studies of American companies (Brav et al., 2009; Klein & Zur, 2009). An important insight is that the empirical findings strongly suggest the importance of the organizational features (set of incentives of managers, investment horizons, and criteria of fund performance) of these different categories of institutional investors. The internal governance and sets of incentives of foreign institutional investors does matter for the characteristics of targeted French companies. The investment allocation of passively managed mutual funds is characterized by a marked preference for well-governed companies. Short-term oriented institutional investors, by contrast, are more likely to target undervalued companies as compared to long-term funds. Moreover, the social capital of top corporate executives matters in an asymmetrical fashion according to the investment horizon of foreign investors. An educational background based on elite school constitutes an important feature of the social capital of “insider” corporate executives, a possible indicator for the extent of managerial entrenchment. This specific dimension of social capital acts as a constraint on blockholding acquisitions by foreign funds investing in France. This statement, however, is attributable primarily to the investment behavior of long-term investors. Short-term investors are not deterred from acquiring blockholding stakes in companies run by CEOs with an elite educational background, thereby suggesting the importance of shareholder activism.

Our results also document the presence of significant changes in companies after being targeted by foreign investors in terms of dividend policy and operating performance, and that the extent of change in operating performance varies according to the categories of institutional investors. These empirical findings are also largely consistent with results found in similar studies of American companies (Brav et al., 2009; Klein & Zur, 2009). Should we interpret these empirical findings as the proof of an uneventful transformation of French corporate governance? What lessons do these empirical findings hold for other large institutionally hybrid economies?

These questions raise the issue of generalization across contexts. As discussed above, the increased prominence of institutional investors in French corporate governance needs to be reconciled with the presence of institutional diversity across advanced capitalist economies -- and with the presence of institutional hybridization in France (Hall & Soskice, 2001; Whitley, 1999). Previous studies have highlighted the importance of institutional compatibility and proximity on the strategy of international diversification of institutional investors (Chan et al., 2005; Portes & Rey, 2005; Wójcik, 2009). Foreign institutional investors, especially when acquiring blockholding stakes in companies outside of their home market, attach great importance to the acquisition of knowledge about the functioning of the institutions of “local” markets and the context-specific process by which portfolio companies coordinate their activities that, in turn, enable them to achieve superior returns (Clark & Wójcik, 2007; Hau, 2001). That is, the strategy of international diversification of funds does not take place in an institutional vacuum.

We argue that empirical findings presented in this article, which is largely consistent with US studies, have been influenced by recent changes in the institutionally hybrid French economy that increasingly looks similar to liberal market economies, the home base of UK-US institutional investors (Hall, 2006: 21). France represents an institutionally hybrid economy that sits midway between two institutional end points: liberal market economies (UK/US) and coordinated market economies (Germany/Japan) (see Hall & Soskice, 2001; Soskice, 1999). The French economy is characterized by the presence of non-liberal institutional arrangements in the sphere of employment relations, namely extensive labor market protection for core employees (OECD, 1999). At the same time, however, the organization of work inside French companies highlights the importance of transferable skills and the concentration of power in top management (Hancké, 2002). France, as well as other large institutionally hybrid market economies, have refrained from implementing most firm-level labor co-determination laws that have provided employees with

significant influence in coordinated market economies (Hall, 2006; Molina & Rhodes, 2007; Palier & Thelen, 2010). As a result, the occurrence of significant institutional changes in French corporate governance combined with the relatively important concentration of power at the top of managerial hierarchy inside French companies fit well with the preferences of foreign institutional investors for the implementation of strategies of shareholder value since fewer stakeholders are involved (Goyer, 2006). The design and implementation of strategies of shareholder value are undertaken by a small group of top executives with significant concentration of power around them – thereby facilitating the speed of adjustment. Therefore, the successes associated with the investment allocation of foreign shareholder value-oriented funds in France cannot be interpreted as a guarantor for the unlocking of shareholder value across other national systems of corporate governance. An incorporation of the specific institutional arrangements of the varieties of capitalism is important for the analysis of the evolution of corporate governance system in the wake of emergence of foreign institutional investors.¹¹

We conclude with the use of a cautionary note on the implications of our findings for the study of UK/US-based blockholdings in institutionally hybrid economies and for comparative research with other national systems of corporate governance. This note highlights the limitations of this article and calls for further investigations. The empirical findings about the improved performance of targeted French companies (dividend payments and operating performance) can be consistent with two opposing perspectives: the influence hypothesis versus the selection hypothesis. The direction of causality goes from a foreign blockholding acquisition to changes in corporate policies as a result of shareholder activism under the first hypothesis. Under the second hypothesis, in contrast, the process of the logic of inference is characterized by institutional investors selecting firms that are most likely to adopt shareholder value enhancing corporate policies. We cannot, however, make this issue clearer because information on investors' intention

on their investments is not available in France, as opposed to the U.S. where one may refer to 13F filings in Securities and Exchange Commission (SEC). In addition, we examined limited aspects of corporate policies and performance. Important insights associated with future research could be generated by increasing the range of instances of shareholder activism of institutional investors. For future research, it would be highly interesting to investigate more extensive instances of UK/US-based institutional investors involvement (e.g., merger & acquisitions, corporate restructuring activities, and CEO compensation) in France and other large European institutionally hybrid market economies.

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NOTES

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² The following discussion unless otherwise indicated applies to France, Italy and Spain, the world's three largest institutionally hybrid market economies among advanced capitalist countries with established "rule of law" and high levels of economic development.

³ Historical information on the constituents of the SBF 120 index is available since 2001 in Datastream.

⁴ Hedge funds are classified as short-term investors due to the heightened incentive structure of managers in the form of variable compensation as well as for their high turnover rates (Fung and Hsieh, 1997).

⁵ Attendance at *École Nationale d'Administration* (ENA) and *École Polytechnique* (X), the two dominant *grandes écoles* in regard to the supply of CEOs in France, has been crucial for assisting (or impeding) access to top corporate positions. Admission to these two schools is highly competitive. It involves the successful undertaking of rigorous tests and admission numbers are sharply capped at a relatively low level. Although meritocratic in the sense of admission to these two *grandes écoles* is based on rigorous selection procedures and competitive examination which are theoretically open to all, top corporate executives originate from the upper middle to upper class, thereby facilitating further the development of shared experiences outside education (Kadushin, 1995). These two schools train students primarily for positions in the civil service. The content of their curriculum strives for the provision of polyvalent skills whereby graduates are effective at grasping the essential of any issues associated with decision-making at a high level (Gaillard, 1995; Suleiman, 1978).

⁶ After graduation from ENA or X, securing employment (first job) in the civil service with one of the prestigious civil service corps, commonly called the *grands corps*, has also been important for access to top corporate executive positions at later stages of one's career. The annual number of new hires is relatively small and these *grands corps* concentrate their recruitment activities in a few (if not one) *grandes écoles*. In other words, graduation at the top of one's cohort is essential for securing employment with a *grands corps*. In turn, membership of a *grands corps* provides a significant advantage, namely the basis for the development of a long career in the high echelons of the civil service before being parachuted in to a company as CEO (Bauer and Bertin-Mouro, 1999). Moreover, CEOs with *grands corps* membership are more likely to have a better, and more privileged, relationship with state officials not only because of their prior employment history in the top echelons of the French civil service, but also given the

importance of ENA and X graduates in government (Schmidt, 1996; Suleiman, 1978). Thus, the important issue regarding the relationship with the state is not so much attendance at ENA or X since only a few graduates from these two schools make it to one of the *grands corps*. In our sample, membership in the *grands corps* is a subset of elite education thereby illustrating the more exclusive character of the former. The disentanglement of educational background and employment trajectory of economic elites highlights the importance of *grands corps* membership and close connection with the French state before accession to the top echelons of French firms.

⁷ In the unreported test of the effect of the largest shareholder identity such as family, government, corporation, and financial institution on the likelihood of a firm being targeted, corporate-controlled firms prove to be less likely to be targeted by foreign investors. This result may be due to the fact that they are under high protection from each other. The firms having other companies as the largest shareholders are considered as one belonging to “hard-core” ownership in France (Harbula, 2007).

⁸ Studies on the impact of large owners with substantial control over the strategic direction of the firm employ an equity stake of 20 percent or more as an indicator of ownership concentration (Enriques & Volpin, 2007: 118; Gourevitch & Shinn, 2005: 17).

⁹ We also test the effect of business school graduates and those holding MBA certification, but they do not predict foreign blockholding acquisitions (unreported).

¹⁰ We considered inside shareholders as family members, (executive) directors, French government, and other domestic, friendly shareholders.

¹¹ Interestingly, short-term investors (actively managed mutual funds and hedge funds) have acquired twice as much blockholding stakes in French companies as compared to German firms (Goyer, 2006); and companies targeted by hedge funds in Germany have not experienced positive market reactions (Mietzner & Schweizer, 2008). In other words, shareholder value oriented institutional investors with short-term horizons have displayed a marked preference for a system of corporate governance characterized by greater institutional “proximity” with that of the home country. Firms in coordinated market economies, particularly but not exclusively in Germany, are characterized by the imposition of substantially greater institutional constraints on managerial autonomy as well as by the participation of the workforce in important aspects of the decision-making process (Hall & Soskice, 2001; Whitley, 1999). Strategies of shareholder value are significantly more difficult to implement, especially those that fit with the investment horizons of short-term institutional investors, since the presence of institutional constraints impedes on the ability of top executives to act unilaterally (see e.g. Crossland & Hambrick, 2007; Sorge, 2005; Thelen, 2004). The institutional context in which companies are embedded does shape the process by which they coordinate their activities and constitutes an important aspect of “proximity” in the investment decisions of funds across borders.

FIGURE 1

Foreign Blockholding Acquisitions, 1999-2007

The figure plots the number of foreign blockholdings in France in each year. Foreign blockholding events are culled from shareholding disclosures published in the database of the AMF.

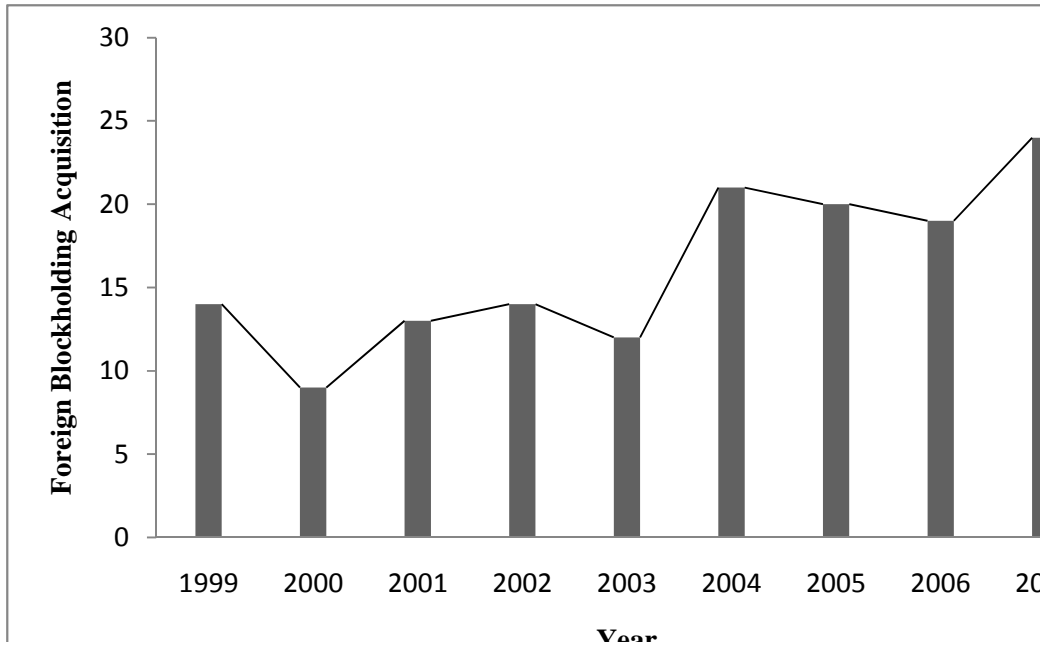


TABLE 1**Pearson Correlation Coefficients and Descriptive Statistics^a**

Variable	Mean	s.d	1	2	3	4	5	6	7	8
1. Foreign Blockholdings	0.15	0.36								
2. ENA or Ecole Polytechnique	0.32	0.47	-0.06							
3. Business school	0.28	0.45	-0.01	-0.42						
4. MBA	0.17	0.38	0.00	-0.03	-0.01					
5. Grands Corps	0.24	0.43	0.00	0.72	-0.34	-0.18				
6. Ownership concentration	31.49	21.59	-0.15	-0.14	0.13	0.03	-0.06			
7. Log of Market value	7.63	1.69	-0.07	0.33	-0.22	0.06	0.29	-0.19		
8. Market-to-book ratio	3.20	3.21	-0.09	-0.11	-0.05	-0.03	-0.12	0.12	0.11	
9. ROA	0.14	0.10	-0.08	-0.17	0.07	0.04	-0.14	0.22	0.03	0.43
10. Cash holdings	0.12	0.10	-0.01	-0.05	-0.06	-0.12	-0.08	-0.01	-0.07	0.35
11. Dividend yield	0.74	1.02	-0.03	0.12	-0.03	0.02	0.22	0.18	0.31	-0.12
12. Research and development	0.46	0.50	0.05	0.14	-0.22	0.11	0.12	-0.23	0.36	0.00
13. Capital expenditure	0.06	0.06	-0.09	-0.12	0.17	-0.01	-0.07	0.05	-0.04	0.14
14. CEO tenure	8.70	8.59	-0.09	-0.06	0.08	-0.06	-0.18	0.04	-0.15	0.08
15. Founder	0.23	0.42	-0.06	-0.12	0.04	-0.13	-0.24	0.11	-0.25	0.30
16. Dual positions	0.63	0.48	0.03	0.08	-0.04	0.06	0.04	0.03	0.00	0.06
17. Double vote rights	0.70	0.46	-0.04	-0.06	0.04	0.05	-0.15	0.01	0.04	-0.06
Variable	9	10	11	12	13	14	15	16	17	
10. Cash holdings	0.15									
11. Dividend yield	0.02	-0.12								
12. Research and development	-0.10	0.02	0.07							
13. Capital expenditure	0.31	0.03	-0.11	-0.12						
14. CEO tenure	0.11	-0.04	-0.06	-0.18	0.01					
15. Founder	0.04	0.17	-0.23	-0.17	0.01	0.52				
16. Dual positions	-0.02	-0.05	-0.06	0.25	-0.02	0.26	0.09			
17. Double vote rights	0.14	-0.02	0.00	-0.03	0.02	0.25	0.13	-0.03		

^a n = 861. Pearson Correlations greater than 0.061 are significant at .05 (two-tailed test)

TABLE 2**Results of Discrete-Time Event History Analysis for Foreign Blockholding Acquisitions**

This table reports the effects of covariates on the probability of being targeted by foreign blockholders. All data are winsorized at the 1% and 99% levels. The robust standard error was estimated using the cluster option in STATA. All covariates are lagged by one year. Industry and year dummies were included in all models.

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Ownership concentration			-0.02*** (0.01)	-0.02*** (0.01)	-0.02*** (0.01)
ENA or Ecole Polytechnique				-0.60* (0.26)	-1.12** (0.42)
Former Bureaucrat					0.77 (0.49)
CEO tenure		-0.02 (0.02)	-0.03* (0.02)	-0.03* (0.02)	-0.03* (0.02)
Founder		-0.34 (0.35)	-0.10 (0.31)	-0.12 (0.33)	-0.07 (0.33)
Dual position		0.23 (0.27)	0.30 (0.24)	0.39† (0.23)	0.41† (0.23)
Double vote rights		-0.05 (0.27)	0.06 (0.25)	0.05 (0.27)	0.14 (0.25)
Shareholders' agreement		-0.09 (0.29)	0.21 (0.28)	0.12 (0.28)	0.11 (0.28)
Market to book ratio	-0.11* (0.05)	-0.08† (0.05)	-0.07 (0.05)	-0.09† (0.05)	-0.08† (0.05)
Log of market value	-0.13† (0.07)	-0.14† (0.07)	-0.19** (0.07)	-0.14† (0.07)	-0.14† (0.07)
ROA	-1.52 (1.51)	-0.92 (1.53)	0.05 (1.48)	-0.11 (1.58)	0.04 (1.64)
Cash holdings	0.29 (1.05)	0.08 (1.08)	0.04 (1.14)	0.10 (1.13)	0.14 (1.16)
Dividend yield	0.00 (0.12)	-0.01 (0.12)	0.07 (0.11)	0.08 (0.11)	0.05 (0.11)
Research and development	0.26 (0.26)	0.14 (0.26)	-0.08 (0.23)	-0.11 (0.26)	-0.11 (0.24)
Capital expenditure	-3.94† (2.23)	-5.52* (2.44)	-5.73* (2.63)	-6.42* (2.80)	-6.73* (2.94)
Constant	-0.33 (0.81)	-0.24 (0.79)	0.90 (0.79)	0.80 (0.87)	0.72 (0.86)
N	917	900	900	861	861
Log-likelihood	-360.78	-352.86	-339.74	-324.20	-322.41

†p < .10, *p < .05, **p < .01, ***p < .001

TABLE 3

Results of Multinomial Logistic Regression Analysis for Foreign Blockholding Acquisitions

This table reports the results for the tests on the different investment strategies between short-term and long-term investors using a multinomial logistic model. All data are winsorized at the 1% and 99% levels. The robust standard error was estimated using the cluster option in STATA. All covariates are lagged by one year. Industry and year dummies were included in all models.

Variables	Model 1		Model 2	
	short-term vs. non-targeted	long-term vs. non-targeted	short-term vs. non-targeted	long-term vs. non-targeted
Ownership concentration			-0.02† (0.01)	-0.03*** (0.01)
ENA or Ecole Polytechnique			-0.28 (0.33)	-0.74† (0.41)
CEO tenure			-0.04† (0.03)	-0.02 (0.02)
Founder			-0.02 (0.49)	-0.13 (0.46)
Dual position			0.31 (0.33)	0.57† (0.32)
Market to book ratio	-0.17** (0.07)	-0.1 (0.06)	-0.12† (0.07)	-0.09 (0.06)
Log of market value	-0.31** (0.11)	-0.04 (0.09)	-0.35** (0.12)	-0.04 (0.10)
ROA	-0.98 (2.20)	-0.53 (1.70)	0.4 (2.06)	0.19 (1.76)
Cash holdings	0.42 (1.22)	0.45 (1.54)	-0.3 (1.38)	0.37 (1.60)
Dividend yield	-0.17 (0.26)	0.06 (0.12)	-0.14 (0.27)	0.18† (0.10)
Research and development	0.22 (0.29)	0.27 (0.36)	-0.15 (0.33)	-0.21 (0.40)
Capital expenditure	-1.61 (2.30)	-7.57* (3.00)	-2.13 (2.42)	-8.57*** (2.67)
Constant	-1.13 (1.37)	-1.06 (0.92)	-0.37 (1.53)	-0.15 (1.00)
N	917		863	
Log-likelihood	-424.29		-391.45	

†p < .10, *p < .05, **p < .01, ***p < .001

TABLE 4**Changes in Firm Performance after being Targeted by Foreign Blockholders**

This table reports the results for the tests on effects of a firm being targeted by foreign investors in terms of dividend payments, and operating performance. Value in bracket is median.

Panel A : Dividend Payment between non-targets and targets				
	Non-Targeted Firms	Targeted Firms	Difference	P-value
Year -1	1.373 [0.938]	0.972 [0.708]	0.401** [0.230]**	0.005 [0.009]
Year 0	1.461 [1.007]	1.246 [0.824]	0.215 [0.183]*	0.165 [0.030]
Year 1	1.603 [1.120]	1.304 [0.879]	0.298† [0.241]*	0.082 [0.032]
Year 2	1.640 [1.157]	1.360 [0.941]	0.280 [0.216]†	0.134 [0.064]
Panel B: Dividend Payment between short-term targets and long-term targets				
	Long-term targets	Short-term targets	Difference	P-value
Year -1	1.092 [0.881]	0.827 [0.523]	0.265 [0.358]*	0.136 [0.026]
Year 0	1.263 [1.022]	1.226 [0.420]	0.037 [0.602]*	0.901 [0.020]
Year 1	1.266 [1.053]	1.353 [0.654]	-0.087 [0.399]	0.770 [0.208]
Year 2	1.353 [1.107]	1.370 [0.719]	-0.017 [0.388]	0.960 [0.399]
Panel C : Operating Performance (ROA) between non-targets and targets				
	Non-Targeted Firms	Targeted Firms	Difference	P-value
Year -1	0.147 [0.132]	0.118 [0.115]	0.029*** [0.017]***	0.000 0.000
Year 0	0.146 [0.129]	0.111 [0.109]	0.035*** [0.020]***	0.000 0.000
Year 1	0.141 [0.126]	0.120 [0.117]	0.021* [0.009]*	0.034 0.043
Year 2	0.133 [0.122]	0.125 [0.110]	0.008 [0.012]	0.447 0.137
Panel D : Operating Performance (ROA) between short-term targets and long-term targets				
	Long-term targets	Short-term targets	Difference	P-value
Year -1	0.118 [0.117]	0.118 [0.113]	0.000 [0.004]	0.992 0.871
Year 0	0.116 [0.114]	0.104 [0.093]	0.012 [0.021]	0.418 0.207
Year 1	0.114 [0.112]	0.128 [0.120]	-0.014 [-0.008]	0.411 0.280
Year 2	0.110 [0.097]	0.147 [0.120]	-0.037† [-0.023]	0.062 0.140

†p < .10, *p < .05, **p < .01, ***p < .001