Acquiring Control in Emerging Markets: Foreign Acquisitions in Eastern Europe and the Effect on Shareholder Wealth

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ABSTRACT

This paper examines stock market reaction to cross-border acquisition announcements that involve Eastern European emerging-market targets. Using a unique and a manually collected dataset, we identify 125 cross-border acquisitions in which developed-market firms from France, Germany, Netherlands, and the United Kingdom acquire ownership stakes in emerging as well as developed-markets in Europe during the period January 2000 through December 2011. In line with previous findings on foreign cross-border merger and acquisitions (M&As) in emerging-markets, evidence suggests that when the target firm is located in either the Czech-Republic, Hungary, Poland, or Russia, cumulative abnormal return (CAR) to the acquiring developed-market firm shows a statistically significant increase of 1.26% over a three day event window, following the announcement. Thereby, the relative size of the acquirer to the target appears to be the only significant factor that contributes to positive acquirer returns. The result is robust to the inclusion of controls for country, industry, as well as acquirer, target, and firm specific characteristics. Moreover, cross-border M&As involving an emerging-market target result in higher value creation for the acquiring shareholders than cross-border transactions into developed-markets.

JEL Code: G34

Key words: cross border, merger and acquisition, Eastern Europe, cumulative abnormal returns

1 Introduction

Evidence suggests that firms engage in merger and acquisition (M&A) activity if it results in wealth gains for the shareholders of the acquiring company (Aybar and Ficici (2009); Berkovitch & Narayanan (1993); Chari et al. (2010); Moeller et al (2004); Goddard et al. (2012), Manne (1965)). Whether the announcement of such an event will be beneficial for shareholders in the short-term is an essential question for top management. Both managers and investors are keenly interested in knowing as much as possible about the potential impact of M&A announcements. As the probability of such an announcement increases, they might decide to either invest or divest their share in company grounded on the findings of an empirical study (Dalkir & Warren-Boulton, 2001). The literature on the stock price reaction triggered by the announcement of M&A within the boundaries of developed-markets is extensive, whereas it is relatively scarce on cross-border transactions involving an emerging-market target (Mentz & Schiereck, 2008). Mainly, this situation has arisen because emerging-market countries maintained high barriers and restrictions on foreign participation until the 1990s. However, global and cross-border M&A activity has increased hugely over the last 20 years. The number of cross-border transactions involving a European emerging-market target surged from 18 to a record high of 755 from 1990 to 2010 respectively (Thomson One). The increase in deal value for the period from 1990 to 2011 for developed-markets and emerging-markets corresponds to an average growth rate of 5.7% and 15.8%, respectively (Thomson One). Deal value increased from close to zero in 1990 to $29.3 billion in 2011. The U.S. has dominated the market in the early 1990s, but Europe continues to claim a bigger market share, with the share of emerging-market involvement continuing to rise.

This paper makes a contribution to the literature by analysing stock market reaction to cross border acquisition announcements involving Eastern European emerging market targets, which is a relatively under-researched area in the literature. We examine the determinants of positive acquirer returns, controlling for country, industry as well as acquirer, target and firm specific characteristics. We find that, for foreign acquisitions in Eastern Europe, the relative size of the acquirer is the only significant factor that explains positive acquirer returns.

On the basis of recent transaction data, this paper aims at providing evidence for the existence of a positive value effect for acquiring shareholders in cross-border transactions into emerging-markets. In contrast to the majority of previous empirical studies, our research considers only cross-border transactions within the boundaries of Europe and further limits the potential location of targets to emerging-market countries in Eastern Europe. Thereby, the stock market reaction is used to provide an answer to the following two questions:

1. Do cross-border transactions into Eastern European emerging-markets lead to a positive shareholder wealth effect to the acquiring firms from developed-markets during the three days around the announcement date?

2. Do cross-border transactions into Eastern European emerging-markets create higher positive abnormal returns for the acquirers than cross-border transactions into developed-market countries?

Changes in the stock price of the acquirer reveal information about the potential wealth gain/loss from the M&A. Depending on the anticipated magnitude of wealth

creation from the transaction, shareholder returns will go up or down around the announcement date. Event study methodology is used to measure the impact of acquisition announcements on the wealth of the acquiring firms' shareholders. Our paper addresses a research gap linked to relative neglect of wealth effects for target shareholders within the literature. To provide an answer to these central questions and to identify whether the creation/destruction of shareholder value can be put into the context of emerging markets, we further analyse 56 cross-border M&A of the same developed-market acquirers with the difference that the acquisition target is located in a developed-market in Europe. The empirical analysis concentrates on the short-term cumulative abnormal return (CAR) to acquirers from developed-markets and does not look at the ex-post and long-term performance of the firms. In a final step, a suitable multivariate regression analysis is carried out to test determinants of cross-sectional variations.

The primary contribution of this paper is to use novel data and suitable methods to assess the link between foreign acquisitions and effect on shareholder wealth. We investigate how capital markets react to cross-border acquisition announcements involving an emerging-market target in Eastern Europe based on sample data from January 2000 to December 2011. We examine the shareholder wealth effect to the acquiring firms from four developed-markets (France, Germany, Netherlands, United Kingdom) and provides an answer to the question of whether cross-border transactions into Eastern European emerging-markets (Czech Republic, Hungary, Poland, Russia) create higher positive abnormal returns for acquirers than cross-border transaction into developed-market countries.

Following the EU expansion in 2004, our paper provides an insight into the functioning of the single market, especially with respect to three important East European countries that we study (Poland, Hungary and the Czech Republic). Prior empirical research has focused either on the shareholder wealth effect of transactions into distinct emerging countries or emerging-markets with relatively small sample sizes. To our knowledge, there is no such research based on a sample that is limited to emerging-market targets in the European region. In particular, the result is expected to provide insights into anticipated future impact of cross-border M&A in European emerging-markets on the stock price of the acquiring company. We first provide an explanation of the motivation behind M&A and a critical analysis of the existing literature on shareholder wealth creation. The subsequent section summarises the data and elaborates the research methodology. We next present and discuss the results of this empirical study. The final section concludes.

2 Literature Review

2.1 Motives for Mergers and Acquisition

The growing integration of the global market for goods, capital, labour, and services has been driving cross-border M&A. Motives for a transaction depend on the individual company, the respective industry, the current economic environment, and various other influencing factors (DePamphilis, 2012). Empirical evidence strongly suggests that M&A activity leads to significant wealth creation for the combined entity of acquirers and targets. Returns are often not distributed equally between the acquirer and the target. While target firm shareholders seem to benefit in the majority of the cases, regardless of involvement in domestic or cross-border transactions, the

share price reaction of the acquirer firm is often destructive. However, this is not the case in cross-border transactions into emerging-markets. At least in the short-term, acquirers in cross-border transactions involving an emerging-market target tend to outperform acquirers in pure domestic transactions (Chari , Quimet, & Tesar, 2004b).

Synergies

The combination of two firms creates greater value for the shareholders than two entities that are operated separately. Synergies create value as result of increased profitability in either one or both of the businesses due to a transfer of know-how and technology, for example. Chari et al. (2004b) highlight that cost reduction in the combined firm can also lead to synergies and an increase in value of the combined firm. Goergen and Renneboog (2004), Gupta et al. (1997) and Berkovitch and Narayanan (1993) find strong evidence that synergy is the prime motive for M&A.

Access to Capital

Cross-border acquisitions can also create value by lowering the cost of capital through an improved access to capital markets. Firms might be confronted with high capital costs, especially in emerging markets that in turn limit the scope of profitable projects that can be undertaken. Other motives for international expansion include accelerated growth, lower labour costs, avoidance of entry barriers, minimising tax liabilities, and leverage intangible assets (DePamphilis, 2012).

Globalisation

The international integration in areas such as transport, information technology, and communication results in an increasing interconnection of people and countries. In the pursuit of meeting growth expectations, developed-market firms in particular are constantly looking for access to lower production costs and growth opportunities in other countries, that often exist in emerging-markets (Mentz & Schiereck, 2008).

Deregulation

There are still countries with high regulations and barriers that make cross-border transactions very difficult and sometimes even impossible. However, the trend has been towards the elimination of barriers and increased volumes of M&As. Within the European Union more cross-border transactions have been observed in recent years in industries that have been strongly regulated in previous years, e.g. energy, banking (Bruner, 2002) and broadcasting in the UK Gardiner (2006).

Geographic diversification

For emerging-market firms, it has become increasingly important to reduce sovereign exposure and the likelihood of political expropriation by purchasing assets in developed-markets. Hereby, diversification is an integral part of the companies' growth strategies (Chari , Quimet, & Tesar, 2004b). Anticipated benefits are often not achieved because of overpayment due to an overestimation of potential benefits and/or managerial hubris. Hubris and agency problems are frequent motives for acquisitions (Berkovitch and Narayanan, 1993). Management can place self-interest before shareholder wealth maximisation (Goergen & Renneboog, 2004). Yet another reason for failure, is the issue of cultural compatibility, and different corporate and national culture (Schoenberg, 2005). Capital markets, occasionally, perceive cost of cultural integration to be larger than the potential synergies from the acquisition (Camerer and Weber, 2003).

Bargaining Power in Emerging Markets
In a domestic acquisition in developed-markets, the acquirer may have less bargaining power relative to the target than in an acquisition of a firm located in an emerging-market. The improved position in foreign acquisitions might be a direct result of government policies that facilitate foreign acquisitions or simply less domestic interest in the target, resulting in reduced price competition and therefore a lower price. Ultimately, this could lead to a positive abnormal return for the acquiring firm (Fuller, Netter, & Stegemoller, 2002) and (Chari , Quimet, & Tesar, 2004a).

Information Asymmetry
Developed-market acquirers can be in a better position to determine the fundamental value of the emerging-market target than the company itself. If the target lacks the capabilities to come up with an accurate company valuation on a stand-alone basis, it will be in a poor position to negotiate the best possible price for the company. The stock price of listed companies is of less value and significance to developed-market acquirers because of the, generally, less stable economic environment (Chari , Quimet, & Tesar, 2004b). Therefore, enhanced valuation capabilities of developed-market acquirers allow for informational synergies (Goergen and Renneboog, 2003).

Cross-border M&A into emerging-markets usually show a more positive impact on acquiring shareholders value than comparable domestic transactions. Also, cross-border transactions tend to show a negative impact on shareholder value at the announcement date. Denis et al. (2002) analyse cultural and national differences that have to be overcome in cross-border transactions that should incur higher costs for post-merger integration than a comparable transaction within the boundaries of a country. Ceteris paribus, acquirer returns should be higher in domestic transactions. Goergen and Renneboog (2004) provide some evidence of significantly negative abnormal returns, at the 10% level, for bidding companies that are already diversified, based on a sample size of 136 transactions. In contrast to Mago et al. (2008) and Danbolt (2004), they suggest that acquiring companies in the same sector/industry do not have any significant short-term wealth effects on neither the bidder nor the target company. Further arguments against a positive wealth effect in cross-border transactions are provided by Conn et al. (2003). According to them, factors such as: i) imperfect information and ii) management integration point to lower returns for cross-border M&A.

2.2 Value Creation through Cross-Border M&A

Though it is difficult to identify and quantify the driving forces behind particular M&As, the concept of measuring the extent of value creation is relatively straightforward. Under the assumptions that the developed-market acquirer gains majority control of the emerging-market target and certainty about the successful completion of the transaction on the announcement date, the following simplified calculation can be made: the combined company values minus the pre-announcement stand-alone values of the firms, both at the announcement date. In an efficient capital market, stock prices adjust immediately to the merger announcement, incorporating all anticipated value gains and losses (Andrade, Mitchell, & Stafford, 2001). From a statistical point of view, short-term event studies, usually with a three-day event window, are the most reliable approach to determine whether the acquisition creates or destroys shareholder value. Ex-post performance measures are more sensitive to different sample periods and the choice of the market portfolio that is used to

measure risk (Barber, Richard, & Chih-Ling, 1999). Goddard et al. (2012) study M&As in banking in Asia and Latin between 1998-2009 where they conclude that on average M&As result in shareholder value for target firms, but acquirer firms do not lose shareholder value.

Table 2.1: Summary of Recent Empirical Studies on M&A

	Authors	Acquirer Nation - Developed Markets (DM) or Emerging Markets (EM)	Target Nation - Developed Markets (DM) or Emerging Markets (EM)	Domestic (D) or Cross-Border (CB) Analysis	Sample Period	Sample Size
1	Ings and Inoue (2012)	Japan	DM and EM	D, CB	2000 - 2010	381
2	Chari et al. (2010)	DM (9)	EM (43) and DM (9)	CB	1986 - 2006	2218
3	Burns and Liebenberg (2009)	United States	EM (20) and DM (26)	CB	1988 - 2004	779
4	Bris and Cabolis (2008)	DM and EM	DM and EM	CB	1989 - 2002	506
5	Nagano and Yuan (2007)	DM and EM	China and India	CB	1996 - 2006	627
6	Chari et al. (2004)	DM	EM East Asia (5) EM Latin America (4)	CB	1988 - 2002	346
7	Campa and Hernando (2004)	DM Europe (15)	DM Europe (15)	D, CB	1998 - 2000	262
8	Goergen and Renneboog (2004)	DM Europe (18)	DM Europe (18)	D, CB	1993 - 2000	187
9	Lowinski et al. (2004)	Swiss	DM Worldwide	D, CB	1990 - 2001	114
10	Andrade et al. (2001)	United States	United States	D	1990 - 1998	1864

The number in brackets indicates the amount of acquiring/ target nations in the empirical study.

The literature on the stock price reaction triggered by the announcement of M&A within the boundaries of developed markets is extensive (see Table 2.1). However, it is relatively sparse on cross-border transactions, especially with emerging-market involvement (Mentz & Schiereck, 2008).

2.2.1 Developed-Market Acquirers Targeting Developed-Market Firms

Domestic

Empirical evidence suggests that M&A create shareholder value, but returns are not distributed equally among acquirer and target shareholders. Andrade et al. (2001) emphasize that most of the combined gains from domestic transactions accrue to target shareholders, leaving the acquirer with zero or even negative returns. His sample of 1,864 domestic transactions in the United States displayed an announcement return of -1.00% to the bidder firm (see Table 2.2). Similar results have been observed earlier by Brickley et al. (1988) and by Draper and Paudyal (1999) in the UK. The study with the most recent data sample (2000–2010), carried out by Ings and Inoue (2012), on the other hand, indicates positive short-term wealth effects of 0.22% for Japanese acquirers in domestic transactions. Lowinski et al. (2004) have shown earlier that acquiring shareholders benefit from domestic transaction announcements in Switzerland as well. Campa and Hernando (2004) and Goergen and Renneboog (2004) focus on domestic transactions in several developed-markets in Europe. Whereas Campa and Hernando (2004) found evidence for positive CAR for bidders, Goergen and Renneboog's (2004) sample data resulted in a negative CAR. Kirchhoff et al. (2006) sum it up by stating that shareholders of target firms are clearly benefited from domestic M&A activities

whereas there is no clear evidence supporting the argument that domestic M&A results in wealth creation for the acquiring company's shareholders.

Cross-Border

Kang (1993), Mitchell and Stafford (2000), and Eckbo and Thorburn (2000) do not find evidence for significant positive short-term returns for acquirers based on data samples from the 1980s and 1990s. Moeller and Schlingemann (2005) are two of the few who have documented even a negative cross-border effect for acquirer stock returns from the perspective of U.S. acquirers; based on a dataset of 4,430 acquisitions between 1985 and 1995. Nevertheless, some empirical studies find evidence for significant positive announcement returns, most recently, Burns and Liebenberg (2009). A sample of 667 transactions from U.S. firms into 26 different developed countries showed a significant cumulative abnormal return of 0.93% for the three days around the announcement date. Goergen and Renneboog (2004) find a significant CAR of 3.09% for cross-border transactions within Europe.

Table 2.2: CAR to Acquirers within the Boundaries of Developed-Markets

	Authors	Acquirer Nation - Developed Markets (DM)	Target Nation - Developed Markets (DM)	Domestic or Cross-Border	Sample Period	Sample Size	Event Window	Bidder Return	
1	Ings and Inoue (2012)	Japan	Japan	D	2000 - 2010	232	(-1, +1)	0.22%	
2	Chari et al. (2010)	DM (9)	DM (9)	CB	1986 - 2006	1624	(-1, +1)	-0.28%	
3	Burns and Liebenberg (2009)	United States	DM (26)	CB	1988 - 2004	667	(-1, +1)	0.93%	***
							(-2, +2)	1.23%	***
4	Bris and Cabolis (2008)	DM and EM	DM and EM	CB	1989 - 2002	506	(-2, +2)	-1.12%	**
7	Campa and Hernando (2004)	DM Europe (15)	DM Europe (15)	D	1998 - 2000	182	(-1, +1)	0.61%	
				CB	1998 - 2000	80	(-1, +1)	0.05%	-
8	Goergen and Renneboog (2004)	DM Europe (18)	DM Europe (18)	D	1993 - 2000	86	(-1, 0)	-0.45%	
							(-2, +2)	-0.10%	
			DM Europe (18)	CB	1993 - 2000	56	(-1, 0)	2.38%	***
							(-2, +2)	3.09%	***
9	Lowinski et al. (2004)	Swiss	Swiss	D	1990 - 2001	23	(-1, +1)	0.32%	
							(-2, +2)	0.21%	
				CB	1990 - 2001	91	(-1, +1)	1.26%	***
							(-2, +2)	1.36%	***
10	Andrade et al. (2001)	United States	United States	D	1990 - 1998	1864	(-1, +1)	-1.00%	

The number in brackets indicates the amount of acquiring/ target nations in the empirical study.
***, **,and * denote statistical significance at 1%, 5% and 10% level.

As Table 2.2 indicates, CAR are not consistently positive or negative neither for domestic nor cross border M&A. Earlier results, e.g. from Eun et al. (1996) who analysed Japanese and UK firms acquiring companies in the United States, document similar findings. Whereas cross-border transactions originating in Japan showed a significant positive announcement return for acquirers, acquirers from the UK displayed a significantly negative return. Positive announcement returns are the product of certain combinations of acquirer and target countries. Goergen and Renneboog (2004) find similar results when examining the short-term wealth effects of cross-border transactions within the boundaries of Europe between 1993 and 2000. They find higher abnormal returns for acquiring companies headquartered in the UK (1.5%) versus those headquartered in Continental Europe (0.9%) over a five day event window centred on the announcement date. Bidders in domestic

transactions earn marginally negative abnormal returns of -0.7%. From their findings they conclude that institutional differences across the countries might be the cause for the observed results. Citing La Porta et al. (1998) they refer to the higher degree of protection of shareholder rights and higher takeover regulation transparency in the UK versus those in Continental Europe. While Mentz and Schiereck (2008) show that cross-border transactions in the automotive supply industry create value for the acquiring shareholders, Dewenter (1995) did not find evidence that positive announcement returns are connected to industry-specific circumstances.

Empirical evidence on the acquirer's share price reactions from domestic and cross-border transactions are mixed within the sphere of developed-markets. While consensus is reached on the fact that target shareholders profit from M&As, there is disagreement about acquirer returns (Andrade, Mitchell, & Stafford, 2001). However, the majority of the literature suggests that the acquirer is left with zero or even negative returns (Brickley et al. 1988, Draper and Paudyal 1999, Andrade et al. 2001). Any positive acquirer short-term wealth gains are the product of certain combinations of acquirer and target countries (Eun, Kolodny, & Scheraga, 1996).

2.2.2 Developed-Market Acquirers Targeting Emerging-Market Firms

Cross-Border

When an emerging-market target is involved in the transaction, the evidence on acquirer returns is less mixed as compared to pure developed-market transactions. Chari et al. (2004a) concentrate on a sample of emerging-market targets in nine countries across Latin American and East Asia over the period 1988-2002 (see Table 2.3). They found that shareholder returns for acquirer as well as target firms showed a statistically significant increase of 2.4% and 6.9%, respectively, at announcement. The stock market anticipates value creation from cross-border M&A that involve emerging-market targets. A sub-sample of 92 transactions comprising only acquisitions that led to a transfer of majority control to the acquirer showed an even higher statistically significant increase of the CAR by 3.99%. They found value creation to be closely linked to the acquisition of corporate control. In a more extensive study, Chari et al. (2010) analysed 594 cross-border transactions of developed-market acquirers from ten different developed-market countries and target firms from 43 different emerging-markets between 1986 and 2006. Similar to their previous findings, the empirical evidence showed that acquiring majority control in emerging-markets leads to a statistically significant increase in the acquiring firm's stock price of 1.16%, on average, over a three-day event window. Even though significantly lower than for developed-market acquirers, emerging-market acquirers also realised positive returns in transactions involving emerging-market targets. In a study with focus on the Czech Republic, Kocenda and Svejnar (2003) find that foreign ownership improves firm performance in that country.

Nagano and Yuan (2007) examined the consequences of foreign cross-border acquisitions in the two largest emerging-markets, China and India, using transaction data from 1998-2006. Their empirical findings are in line with previous studies. Acquiring control in emerging markets results in a significant abnormal return for the foreign acquirer. Ings and Inoue (2012) differentiate their data sample to analyse acquirer returns in different periods of economic growth. In the years of slow economic growth in G7 countries (from 2008 to 2010), they find that acquisitions involving targets in emerging-markets create a higher abnormal return to the acquirer

than comparable cross-border transactions with targets in developed-markets. The CAR for the period from 2000 – 2010 was 1.38% and significant at the 5% level.

Table 2.3: Average CAR to Acquirers Targeting Emerging-Markets

	Authors	Acquirer Nation - Developed Markets (DM)	Target Nation - Emerging Markets (EM)	Domestic or Cross-Border	Sample Period	Sample Size	Event Window	Bidder Return	
1	Ings and Inoue (2012)	Japan	EM	CB	2000 - 2010	149	(-1, +1)	**1.38%**	**
2	Chari et al. (2010)	DM (9)	EM (43)	CB	1986 - 2006	594	(-1, +1)	**1.16%**	**
3	Burns and Liebenberg (2009)	United States	EM (20)	CB	1988 - 2004	112	(-1, +1)	2.16%	**
							(-2, +2)	2.73%	**
5	Nagano and Yuan (2007)	DM and EM	China	CB	1996 - 2006	484	(-1, +1)	2.47%	***
			India	CB	1996 - 2006	143	(-1, +1)	1.96%	**
6	Chari et al. (2004)	DM	EM East Asia (5)	CB	1988 - 2002	230	(-1, +1)	2.70%	**
			EM Latin America (4)	CB	1988 - 2002	116	(-1, +1)	1.89%	**
			EA and LA (9)[1]	CB	1988 - 2002	92	(-1, +1)	**3.99%**	***

The number in brackets indicates the amount of acquiring/ target nations in the empirical study.
***, **,and * denote statistical significance at 1%, 5% and 10% level.

The shareholder wealth effect to the acquiring firms from emerging-markets is not part of this research. Nevertheless, it is interesting to note that domestic as well as cross-border transactions between emerging-markets have resulted in a positive return throughout all studies under review in this paper. Chari et al. (2010) report a positive and statistically significant median CAR (-1, +1) of 0.13% for a sample of 900 transactions in 17 emerging-markets announced between 1986 and 2006. Nagano and Yuan (2007) focus on China and India and examine a sample with transaction data from 1998 to 2006. For domestic transactions, they report a positive and statistically significant average CAR (-1, +1) of 0.51% and 0.99% in China and India, respectively.

2.3 Our hypotheses

For cross-border transactions into emerging-markets in Europe, we hypothesise a positive shareholder wealth effect to the acquiring firms from developed-markets for the three days around the announcement date, mainly through synergies and other benefits outlined previously. Moreover, because of a higher bargaining power in emerging-markets and information asymmetry in emerging markets, it is expected that cross-border transactions into emerging-markets create a higher positive abnormal return for acquirers than cross-border transactions into developed-markets.

Hypothesis 1: Cross-border transactions into Eastern European emerging-markets lead to a positive shareholder wealth effect to the acquiring firms from developed-markets during the three days around the announcement date.

Hypothesis 2: Cross-border transactions into Eastern European emerging-markets create higher positive abnormal returns for the acquirers than cross-border transactions into developed-markets.

The stock market recognises the positive/negative effect of acquisition announcements. However, it remains difficult for economic researchers to identify the underlying sources of value gains reliably (Andrade, Mitchell, & Stafford, 2001).

Although it is difficult to provide precise tests for each factor that might show an effect on acquirer returns, a number of sensible variables are tested that proxy for those effects. Based on whether the announcement returns systematically co-vary with those proxies, it is possible to draw conclusions to the corresponding factors.

The literature review has revealed a large number of possible determinants that have been subject to extensive testing in previous studies. Only a few of them, including, but not limited to *Relative Size* of the acquirer, have shown repeatedly to cause a significant impact on acquirer returns (see Table 2.4).

Table 2.4: CAR Targeting Emerging-Markets and Explaining Variables

	Authors	Acquirer Nation - Developed Markets (DM)	Target Nation - Emerging Markets (EM)	Sample Period	Event Window	Bidder Return	Explaining Variables
1	Ings and Inoue (2012)	Japan	EM	2000 - 2010	(-1, +1)	1.38% **	Relative Size***
2	Chari et al. (2010)	DM (9)	EM (43)	1986 - 2006	(-1, +1)	1.16% **	Majority Control***
3	Burns and Liebenberg (2009)	United States	EM (20)	1988 - 2004	(-1, +1)	2.16% **	-
					(-2, +2)	2.73% **	-
5	Nagano and Yuan (2007)	DM and EM	China	1996 - 2006	(-1, +1)	2.47% ***	Relative Size***, Majority Control***
			India	1996 - 2006	(-1, +1)	1.96% **	Majority Control***
6	Chari et al. (2004)	DM	EM East Asia (5)	1988 - 2002	(-1, +1)	2.70% **	Majority Control***
			EM Latin America (4)	1988 - 2002	(-1, +1)	1.89% **	
			EA and LA (9)1	1988 - 2002	(-1, +1)	3.99% ***	

The number in brackets indicates the amount of acquiring/ target nations in the empirical study.
***, **,and * denote statistical significance at 1%, 5% and 10% level.

The focus in this paper is placed on transactions within the boundaries of Europe and in particular transactions into European emerging-markets. Prior empirical research has focused either on the shareholder wealth effect of transactions into distinct emerging countries or emerging-markets with sample data on 20 and more countries. To our knowledge, there is no such research based on a sample that is limited to emerging-market targets in the European region. In particular, the result is expected to provide insights into anticipated future impact of cross-border M&A in European emerging-markets on the stock price of the acquiring company.

3 Data and Methodology

3.1 Data

Since previous research on cross-border M&A activity is largely confined to the U.S. and the UK, it is the objective of this empirical study to find out whether cross-border M&A into emerging-markets create value for developed-market acquirers. In particular, we consider a sample of developed-market acquirers from France, Germany, Netherlands, and the United Kingdom and emerging-market targets from the Czech Republic, Hungary, Poland, and Russia for the period from January 2000 to December 2011.

World cross-border M&A activity peaked in the year 2000. Starting from that year, the sample incorporates transaction announcements from periods of a slowing economy and declining M&A activity up to the year 2003. Further, it embraces transactions that have been announced in a booming economy, rising stock markets, low interest rates, and high liquidity in the markets from 2004 to 2007. In addition, it includes data for the most recent years from 2008 onwards which have been under used in prior

empirical research. As a result, the sample is not biased towards a particular macroeconomic environment.

The sample transactions and relevant transaction data is retrieved from ThomsonONE.com Investment Banking (Thomson) that is a reliable and well-regarded source used widely internationally. Thomson Reuters Deal Analytics screens and filters financial data for over 55,000 active public companies globally. In total, we identified a workable sample of 125 M&A announcements between January 2000 and December 2011. For each transaction, Thomson provided the date on which the transaction was announced, company name, the status of the company (private/ public), acquirer/target nation, primary industry code (SIC), percent of shares sought/ owned after transaction, and the value of the transaction. The stock price return data was taken from Thomson Datastream or the respective stock exchange.

We consider two data samples. The first sample includes transactions in which the acquirer is from a developed-market and the target from an emerging-market (sample: DM-EM). The second sample includes observations where both the acquirer and the target are from developed-markets (sample: DM-DM). In addition, the second sample contains only acquirers which also appear in the DM-EM sample. This is necessary in order to examine whether the observed results can be linked to the emerging-market context.

The four acquirer nations are chosen based on their M&A activity in the past. These countries have been most active in European cross-border acquisitions into emerging-markets in Europe between 1990 and 2011. The target nations Czech Republic, Hungary, Poland, and Russia are the only emerging-markets in Europe (Morgan Stanley, 2012). The rationale behind the criteria elaborated above results from the research questions as well as the necessity to have data available for the proposed research methodology. Appropriately filtered data provides the basis for the event study as well as the multivariate regression analysis.

3.2 Event Study Methodology

In an efficient capital market, available information is reflected immediately in current stock prices, incorporating any expected value changes of the company (Neale & Pike, 2009). Thereby, event study methodology has become a standard in the evaluation of stock price reaction to firm specific and economic wide events. It allows researchers to conclude relatively easy whether the event had a positive or negative impact on shareholder wealth (Aybar & Ficici, 2009). Andrade et al. (2001) add that traditional short-term event studies provide the most statistically reliable evidence on value creation or destruction in M&A. Ex-post performance measures are more sensitive to different sample periods and the choice of the market portfolio that is used to measure risk (Barber, Richard, & Chih-Ling, 1999).

This event study examines the impact of acquisition announcements on the wealth of the acquiring firms' shareholders, i.e. the market reaction, by using this classical event study methodology. Because a single day may not show the full impact of an announcement on the company value, the returns are often examined for periods around an event day. At this point, two event windows are defined. The first window

is used for estimation purposes and is 130-days long, from t=-31 to t=-160[1]. Draper and Paudyal (1999) argue that, on average, M&As are anticipated by financial markets 30 days before the public announcement of the transaction. The anticipation will be reflected and incorporated to some degree in the stock price from t=-30 to t=-1. Therefore, this period is not part of the regression. The second window is three days long, from t=-1 to t=1, where t=0 is the event day. It examines the direct impact of the announcement on the stock price.

1. Time ($-T_1$; $-T_2$); the pre-event estimation window

2. Time [$-T_2$; $+T_3$]; the event window

Andrade et al. (2001) argue that statistical precision is reduced as the event window is lengthened; implying narrowly chosen event windows provide the most reliable evidence. Thus, the focus is placed on the three day event window, which is narrow and repeatedly chosen in empirical literature examining short-term wealth effects. Nevertheless, two further event windows, (-2, +2) and (-10, +10), are reported to illustrate the impact of different event windows on empirical findings.

In order to determine the impact of the M&A announcement on the stock price, it is necessary to predict the stock price for the days under consideration, if the transaction had not been announced. Thereafter, the actual returns of the stocks on each day in the second event window are compared with the expected returns that are calculated with the help of the market model. The difference is the abnormal return that can be ascribed to have resulted from the particular event, in this case the M&A announcement (Aybar & Ficici, 2009). The stock price data for the particular firms in the event study does not show evidence for thin-trading or larger periods of subsequent non-trading days. The most frequently used method is to apply the last observed transaction price to the subsequent non-trading days; this results in zero returns (Bartholdy, Olson, & Peare, 2005). Maynes and Rumsey (1993) point out that the numerous zeros in the return data result in an underestimation of the variance of returns and biased inferences. Therefore, any transaction is dropped from the sample that shows more than 20% of zero returns in the estimation window.

3.3 Market Model Using Regression Analysis

Traditionally, the market model is assumed to be the underlying return-generating model that is used in the context of event studies. Elgers and Murray (1982) highlight superiority of market portfolios with a high number of assets whereby a market portfolio can be regarded as a good proxy for any asset included in the respective market portfolio. Each acquiring firm from one of the four developed-market countries under review in this paper is matched to the corresponding national index viz. France (CAC40), Germany (DAX30), Netherlands (AEX) and United Kingdom (FTSE100).

The market model assumes a linear relationship between the return of a security and the return of the corresponding market portfolio. For each security *i*, it is assumed that the returns generated are given by:

$$\mathbf{r_{it}} = \propto_{\mathbf{i}} + \boldsymbol{\beta}_{\mathbf{i}}\mathbf{r_{mt}} + \mathbf{e_{it}} \qquad (3.1)$$

[1] Pre-event estimation windows vary strongly. Bhagat et al. (2011) use t=-31 to t=-120; Aybar and Ficici (2009) use t=-11 to t=-265; Ings and Inoue (2012) use t=-21 to t=-220

Where r_{it} is the expected return to security *i* and r_{mt} the observed market return at time *t*. The security specific parameters α_i and β_i in Equation 3.1 are estimated from the market model regression, using stock price data from the pre-event estimation window. While the return on the market portfolio r_{mt} incorporates market specific impacts on all the securities, β_i is a measure of the systematic risk of the firm *i* with respect to the market (Aybar & Ficici, 2009). Under the assumption of linearity and normality of returns, e_{it} is a random error term for security *i* at time *t*. The standard error of the residuals is calculated as:

$$\boldsymbol{\sigma_i} = \sqrt{\frac{1}{T-2}\sum_{t=1}^{T} \mathbf{e^2}_{it}} \qquad (3.2)$$

where T is the length of the estimation period (T_1 - T_2 + 1). The model expressed in Equation 3.1 makes it possible to determine the return on the stock that would have been expected during the event window if the transaction had not been announced. It follows the calculation of the abnormal return:

$$\mathbf{AR_{it}} = \mathbf{r_{it}} - \alpha_i - \boldsymbol{\beta_i} \mathbf{r_{mt}} \qquad (3.3)$$

where, AR_{it} is the abnormal return to stock *i* at time *t* that equals the observed return r_{it} to stock *i* at time *t* minus the predicted normal return. The abnormal returns are calculated for each day in the event window and for each firm in the sample. In order to make general conclusions about the behaviour of stock returns for a sample of N companies, it is necessary to compute the average abnormal return (AAR) for each day t in the event window:

$$\mathbf{AAR_t} = \frac{1}{N}\sum_{i=1}^{N} \mathbf{AR_{it}} \qquad (3.4)$$

From a statistical perspective it becomes necessary to test whether these abnormal returns are significant or not. T-test's are a precise way of testing a statistical method. (Diamond & Jefferies, 2001). The stock time-series t-statistic for determining statistical significance is:

$$\mathbf{t - stat(AAR_t)} = \frac{1}{\sqrt{N}} \sum_{i=1}^{N} \frac{\mathbf{AR_{it}}}{\sigma_i} \qquad (3.5)$$

Stocks with the highest variance need to have a correspondingly higher abnormal return to make the same contribution to the overall test statistic which is read against normal distribution tables under the null hypothesis that the mean day zero return is not different from zero. We would expect the null to be rejected, if the impact of the acquisition announcement has a significant impact on the returns of the sample firms (Draper & Paudyal, 1999). In line with Aybar and Ficici (2009), cumulative abnormal returns are standardised in order to correct for serial correlation in daily abnormal returns for the same firm. As reported by Coutts et al. (1995), serial correlation might be a problem for longer event windows such as (-5, +5) and (-10, +10). It is less of a problem in three day event windows.

Since the interest in this paper is not the abnormal return of a single day but rather for a period, the second event window [$-T_2$; $+T_3$], the abnormal returns need to be cumulated:

$$\mathbf{CAR_{\gamma}} = \sum_{\mathbf{t=-T_2}}^{\boldsymbol{\gamma}} \mathbf{AR_t} \qquad (3.6)$$

Where $\gamma \in$ of [$-T_2$; $+T_3$]. It follows the test for statistical significance where $D = \gamma+T_2+1$ is the number of days of abnormal returns which are cumulated.

$$\mathbf{t-stat(CAR_{\gamma})} = \frac{\mathbf{1}}{\sqrt{\mathbf{D}}} \sum_{\mathbf{t=-T_2}}^{\boldsymbol{\gamma}} \mathbf{t-stat(AR_t)} \qquad (3.7)$$

Unlike previous empirical work, this paper focuses on transactions into four emerging-market countries in Eastern Europe. Previous empirical work tends to neglect important European emerging markets, particularly during 2000-2011.

3.4 Cross-Sectional Analysis

Changes in the stock price of the acquirer reveal information about the potential wealth gains from the M&A, and event study methodology makes it possible to evaluate this stock market response. Value creation through cross-border M&A depends on a range of firm-, industry-, and country-specific factors. To test determinants of cross-sectional variations, in other words the relationship between cumulative abnormal returns (CAR) and deal characteristics, the following multivariate regression model is used:

$$\mathbf{CAR_i} = \boldsymbol{\alpha} + \boldsymbol{\beta_1 X_1} + \boldsymbol{\beta_2 X_2} + \cdots + \boldsymbol{\beta_k} + \boldsymbol{\gamma_1(D_1)} + \cdots + \boldsymbol{\gamma_k(D_k)} + \boldsymbol{\varepsilon} \qquad (3.8)$$

Since qualitative attributes (Private/ Public Target) are also included, it is necessary to make use of dummy variables. The dependent variable cumulated abnormal return (CAR) is explained by the regression model with k regressors (Xi, i = 1,…,k) and Ɛ is an i.i.d. error term. Dummy variables (Di, i = 1,…,k) include qualitative information. Using ordinary least square estimation (OLS), it is possible to estimate Equation 3.8. Da Graca and Masson (2012) suggest the use of a slightly different method and the use of general least square (GLS) as one alternative to OLS. According to them, most of the published event studies fail to reject the null hypotheses of no event effect because the traditional estimators are not BLUE (Best Linear Unbiased Estimator). This problem is eventually solved by using GLS. However, they also note that as the number of events in the sample increases, their method starts to show potential drawbacks. Alternatively, Mentz and Schiereck (2008) use weighted least squares (WLS) to correct for heteroscedasticity in their cross-sectional analysis. They use the inverse of the standard deviation of the residuals (estimation period) as the weight. However, their robustness checks reveal that results remain unchanged no matter whether they use WLS, OLS, or GARCH(1,1) which, in addition, considers possible misspecification of stock returns. The estimation strategy that is used most often in the empirical papers analysed and reported in our literature review is OLS. Even though many researchers are aware of the problems that might be present with regards to their sample, e.g. heteroscedasticity, most of them assume ideal experiments; econometric problems in their studies are assumed to cancel out (Solibakke, 2002).

The literature review has revealed a large number of potential determinants of returns to cross-border acquirers that have been subject to extensive testing in previous studies. Bhagat et al. (2011) distinguish between two types of factors: i) classical factors and ii) governance factors. The private/public status of the company, industry relatedness, payment method, firm size, and corporate tax difference are typically allocated to classical factors. Governance factors are, including but not limited to: director compensation policies, board structure, minority shareholder rights, and concentration of stock ownership. Due to limited access to required data, it is not possible to include an array of variables. Therefore, the study focuses on a few variables for which data is available.

Previous studies of acquirer returns to U.S. companies have shown evidence that the public listing status of the target firms is one determinant of acquirer returns. Whereas the acquisition announcement of private targets resulted on average in a positive CAR for the acquiring company, it caused zero or even negative returns in the case of publicly listed companies (Fuller et al. 2002; Moeller and Schlingemann 2005; Aybar and Ficici 2009). A binary variable is included for the *Status* of the target companies. In line with these findings it is expected that the acquisition of private targets results in positive CARs. Whether it will be possible to draw conclusions from this and whether results will be significant is questionable since only 7 out of 66 transactions involve a public target.

Table 3.1: Cross-Sectional Determinants

Variables	
Continuous variables	
CAR (-1,+1)	Acquirer's cumulative abnormal return for the three days around the acquisition announcement. The market model is used to calculate the abnormal return.
Mcap	Acquirer's market capitalization at the day of the acquisition announcement in million US dollars. Shares outstanding at the last fiscal year end before the acquisition announcement times the share price at the announcement day.
TransValue	Value of the transaction in million US dollars
RelSize	The relative size of the transaction. Transaction values divided by acquiring companies' market capitalization.
Binary variables	
Industry	Based on the four-digit SIC codes for the acquirer and target, a dummy varibale is assigned: it takes a value of 1 if the companies are in related industries (within 2-digit SIC code) and 0 if otherwise.
Status	A dummy variable taking the value 1 if the target is privately owned, and 0 otherwise. The sample of 66 transactions includes only 7 publicly owned targets.
EM	Emerging-market target. A dummy variable taking the value 1 if the target is located either in Czech-Republic, Hungary, Poland, or Russia, and 0 otherwise.

Moeller and Schlingemann (2005) and Bhagat et al. (2005) further suggest that *Industry* relatedness of the companies and the relative size *(RelSize)* of the target to the acquirer are determining factors. Regarding the former, prior empirical evidence puts forward that acquirer returns are more likely to be positive, if the industries of acquirer and target are related. The common assumption that prevails is that the two firms must be related in some way in order to benefit from synergies that accrue from an acquisition (Bradley, Desai, & Kim, 1988). As a measure of synergies, the

regression includes the industry diversification variable *Industry*. Therefore, it is possible to comment on whether CARs are higher when the acquiring and the target firms are in the same two-digit (SIC-code) industry. Concerning the latter, *RelSize*, large differences in firm size tend to have a positive impact on acquirer returns. Ings and Inoue (2012) and Nagano and Yuan (2007) found empirical evidence for the explaining variable "*RelSize"* at the 1% significance level. Previous empirical studies have included the relative size of the acquirer to the target as possible indicators of a firms bargaining power. Nagano and Yuan (2007) found statistically significant evidence for this in cross-border transactions into China. However, while the sign of the parameter relative firm size is positive in Moeller et al. (2004), it is negative in the empirical study by Nagano and Yuan (2007). In the latter case, negative sign, it means that an acquirer's CAR is statistically lower when the acquirer is a large firm compared with the target. Therefore, large firms obtain a relatively lower synergy effect than small firms. The parameter sign is indeterminate. Table 3.1 provides a brief description of the explaining variables used and tested in this empirical study.

Market capitalisation *(Mcap)* of the acquiring company is included as a proxy for the firm size to analyse whether size as an absolute figure can be linked to positive/negative cumulative announcement returns. Moeller et al. (2004) pointed out that an acquirer's firm size is important in determining shareholder's return based on their review of transactions in the U.S. Small firms tend to create more value in M&A than large firms because the incentives of managers are better aligned with those of shareholders and managers tend to be less prone to hubris.

Although the regression includes controls for a number of determinants, the obtained results may be driven by acquirer specific characteristics that have little to do with the circumstance that the target is located in an emerging-market. For example, one thing to note is the median size of the acquirer and the target in the sample DM-EM. The median size of developed-market acquirers is $1.47 billion and that of emerging-market targets is $67 million and therefore more than 21 times lower. In order to mitigate the risk of drawing wrong inferences from the regression analysis, Chari et al. (2004) suggest to compare the obtained results, in this case from the sample DM-EM, to regression results without the involvement of emerging-markets, in this case the sample DM-DM.

4 Empirical Results

4.1 Reaction to Cross-border M&A Transaction Announcements

Table 4.1 reports the CAR for the three days around the transaction announcement and the corresponding transaction values for each year in the observed period. The average CAR for developed-market acquirers ranges from a low of -1.65% in 2004 to marginally above 4% in 2010.

However, the significance of these values is limited given the low number of transactions in these particular years. The potential to draw wrong inferences is high because the impact of outliers is strong. Bearing this in mind, it is possible to put some emphasis on the four years from 2005 through 2008 in which 37 of the total of 66 transactions in the DM-EM sample were announced. The average CAR for these years spans from 1.30% to 2.67%. Moreover, the average transaction value appears to have increased substantially during that period. Whereas it holds true that average

as well as median transaction values have increased, the extent is far less when adjusting for some of the few transaction values that exceed USD 1 billion.

The average CAR was negative in the three years of the observation period, including the most recent year 2011. Nevertheless, acquiring shareholders obtained a positive CAR in nine out of the 12 observed years. Further, no matter whether adjusted for outliers or not, there is no obvious trend in the average or median transaction size. The wide range of average CAR for the specific years already illustrates what has been observed by Ings and Inoue (2012). Depending on the years which are observed, one might receive positive or negative CAR for a period of a couple years.

Table 4.1: CAR and Deal Values

	CAR (-1, +1)			Deal value in USD		
Year	N	Mean	Median	N	Mean	Median
2011	7	-0.05%	-0.13%	7	123.35	14.26
2010	4	4.06%	3.59%	4	60.48	47.53
2009	1	1.64%	1.64%	1	1113.67	1113.67
2008	14	1.58%	3.17%	14	214.54	15.39
2007	9	2.67%	2.64%	9	429.01	257.10
2006	8	1.55%	1.24%	8	600.06	71.98
2005	6	1.30%	0.60%	6	1003.36	466.86
2004	4	-1.65%	0.44%	4	62.45	63.39
2003	1	4.13%	4.13%	1	5.98	5.98
2002	3	0.98%	2.54%	3	291.81	359.85
2001	6	0.32%	-1.32%	6	130.85	49.59
2000	3	-0.14%	-1.00%	3	72.44	25.00

DM-EM sample, N = 66
CAR (-1, +1) is the three day announcement period cumulative abnormal return.

Table 4.2 reports to which extent the four developed-market acquirers have been involved in cross-border transactions into emerging-market countries in Eastern Europe and the average and median CAR they generated in the past 12 years. The majority of acquisitions (36) were announced by UK firms. Germany, France, and the Netherlands follow with 12, 10, and 8 announcements respectively. Most often, the target was located in Poland (23) and Russia (22). Whereas acquirers from the Netherlands realized merely an average CAR of 0.36%, acquirers from the UK exhibited a significantly higher CAR of 1.64%.

Table 4.2: CAR for Acquiring Countries

	CAR (-1, +1)				Top Target Nation
	N	Mean	Median	S.D.	
Germany	12	0.64%	1.30%	2.45%	CZ (4) ; Russia (4)
France	10	0.38%	-0.39%	2.05%	Poland (7)
Netherlands	8	0.36%	-0.27%	2.66%	Russia (3)
UK	36	1.64%	1.77%	3.76%	Russia (15)

Top target nation: number of transactions from 2000 to 2011 in brackets.

Goergen and Renneboog (2004) find almost identical results when examining the short term wealth effects of cross-border transactions within the boundaries of Europe between 1993 and 2000. They observed higher abnormal returns for acquiring companies headquartered in the UK (1.5%) than in Continental Europe

(0.9%). In contrast to this study, however, they focused on developed-markets and a five day event window centered on the announcement date. Nevertheless, the fact that acquirers from the UK clearly benefit more from the M&A than acquirers from the other three developed-markets supports what has been observed several times before. Repeatedly, the authors conclude that discrepancies in announcement returns between acquiring countries are the product of certain combinations of acquirer and target countries (Eun et al., 1996) and (Goergen and Renneboog, 2004). So far, the results of this study suggest that acquiring companies headquartered in the UK benefit more than acquirers in continental Europe.

Table 4.3: Abnormal Returns to Acquirers in Emerging-Market Transactions

Panel A: Daily abnormal returns (market model, N = 66)

Day	Average	Median	% Positive	t-test	
+5	0.15%	0.10%	53.03%	1.051	
+4	0.07%	0.20%	54.55%	-0.616	
+3	-0.42%	-0.16%	40.91%	-0.819	
+2	0.44%	0.13%	54.55%	0.623	
+1	0.45%	0.11%	53.03%	1.163	
0	0.87%	0.26%	65.15%	2.683	***
-1	-0.06%	0.11%	51.52%	0.922	
-2	0.02%	-0.03%	48.48%	-0.362	
-3	-0.34%	-0.25%	39.39%	-1.182	
-4	-0.17%	0.04%	51.52%	-0.673	
-5	-0.08%	-0.04%	45.45%	-0.803	

Panel B: Cumulative abnormal returns (Market model, N = 66)

Period	Average	Median	% Positive	t-test	
CAR (-1, +1)	1.26%	0.237%	56.57%	2.752866	***
CAR (-2, +2)	1.72%	0.167%	54.55%	2.249115	**
CAR (-10, +10)	1.77%	-0.004%	49.86%	0.406532	

CAR is the acquirer's cumulative abnormal return during the indicated period around the acquisition announcement for the total sample of 66 acquisitions.

* 10% significance level

** 5% significance level

*** 1% significance level

Table 4.3 (Panels A and B) summarises the abnormal returns for developed-market acquirers during 2000-2011 without differentiating between different countries. While Panel A reports daily abnormal returns for the five days preceding and for the five days following the announcement day 0, Panel B highlights the CAR around the announcement. On the announcement day, developed-market acquirers experience an average return of 0.87%. This return is positive and statistically significant at the 1% level. Moreover, the market response is positive in 65.15% of the acquisition announcements. The two days immediately following day 0 also show a positive abnormal return. However, as indicated by the t-test, the returns lack statistical significance. Not so the average CAR during the three and five days around day 0, see Panel B. The return of 1.26% for the three day event window is significant at the

1% level and the return of 1.72% for the five day event window at the 5% level. The CAR for the broadest event window (-10, +10) is positive but it lacks statistical significance; statistical precision is reduced as the event window is lengthened. This is not surprising given the fact that a company's stock price might be changing by the minute, adapting to any information that might have an impact on its future earning capabilities. Many things can happen in a timeframe of 21 days.

The results reported in Panel B are consistent with some of the previous findings. Chari et al. (2010) analysed 594 cross-border transactions of developed market acquirers from ten different developed-market countries and target firms from 43 different emerging-markets between 1986 and 2006. Over a three-day event window, he showed that cross-border transactions into emerging-markets lead to a statistically significant increase in the acquiring firm's stock price of 1.16%. This study stretches across different years than the one carried out by Chari et al. (2010) and even though the sample DM-EM comprises merely four and not 43 different emerging-markets, the CAR differs only by 0.1% points for three days around the announcement day. When comparing the results to an empirical study with more recent transaction data, the findings are still very similar and differ merely by 0.12% points. Ings and Inoue (2012) focused on transactions data into emerging-markets between 2000 and 2010. We exhibit an overlap in the time period of ten years between the two studies, while the acquirers are from different developed-markets and the target countries are different as well.

In summary, on average, developed-market acquirers experience a positive and significant CAR (-1, +1) of 1.26%, supporting Hypothesis 1 that the market reaction to acquisition announcements of emerging-market targets in Eastern Europe are beneficial to acquiring shareholders. In line with previous findings, acquirers from the UK exhibit a positive and higher CAR than acquirers from continental Europe. Further, for samples with transaction data >10 years, the wealth gains for acquiring shareholders from developed-markets under review in this paper are only marginally different to the two most recent empirical studies on cross-border transactions into emerging-markets; no matter whether the sample stretches across the time 1986-2006 or 2000-2010. Studies focusing on older transaction data exhibit even higher CAR. See Table 2.3 for an overview.

4.2 Cross-border Acquisitions into Developed-Markets

So far, the results suggest that cross-border acquisitions into emerging-markets in Eastern Europe create significant positive abnormal returns to acquiring shareholders from developed-markets. However, at the moment it is not clear whether emerging-markets contribute to the results in this study or whether returns are driven by acquirer characteristics. Do acquirer firm returns increase during an acquisition announcement regardless of the target location? To answer this question it is necessary to analyse acquisitions made by the same acquirers as in section 4.1., but with the difference that the target is located in a developed-market. In order to limit the potential sources that can cause discrepancies in announcement returns, domestic transactions are not considered in the sample DM-DM.

Table 4.4 (Panels A and B) summarises the abnormal returns to developed-market acquirers in cross-border transactions into other developed-markets in Europe during 2000-2011. While Panel A reports daily abnormal returns for the five days preceding

and for the five days following the announcement day 0, Panel B highlights the CAR around the announcement.

Table 4.4: Abnormal Returns to Acquirers in Developed-Market Transactions

Panel A: Daily abnormal returns (market model, N = 59)

Day	Average	Median	% Positive	t-test
+5	0.25%	0.09%	57.63%	1.194
+4	-0.21%	-0.12%	47.46%	-0.372
+3	0.35%	0.30%	57.63%	1.124
+2	0.12%	0.00%	49.15%	0.811
+1	0.49%	0.01%	50.85%	1.868 *
0	-0.24%	-0.21%	42.37%	0.176
-1	0.12%	0.33%	54.24%	0.840
-2	0.02%	-0.02%	49.15%	0.068
-3	-0.44%	0.01%	50.85%	-1.504
-4	-0.24%	-0.26%	45.76%	-1.110
-5	-0.10%	-0.08%	49.15%	-0.431

Panel B: Cumulative abnormal returns (Market model, N = 59)

Period	Average	Median	% Positive	t-test
CAR (-1, +1)	0.37%	-0.040%	49.15%	1.66524 *
CAR (-2, +2)	0.50%	-0.008%	49.15%	1.68273 *
CAR (-10, +10)	0.19%	-0.011%	49.23%	0.367177

CAR is the acquirer's cumulative abnormal return during the indicated period around the acquisition announcement for the total sample of 59 acquisitions.

* 10% significance level

** 5% significance level

*** 1% significance level

On the announcement day, developed-market acquirers experience a statistically insignificant daily return of -0.24%. The market response on this day is positive in 42.37% of the acquisition announcements, compared to 65.15% when an emerging-market target is involved. The only statistically significant daily return is observed on the day following the acquisition announcement, 0.49%. Excluding day -1, it is noticeable that median daily returns are marginally above or below 0 for the five days surrounding the acquisition announcement day. However, as indicated by the t-test, the returns lack statistical significance. Not so the average CAR during the three and five days around day 0. The CAR of 0.37% and 0.50% for the three day and five day event window, respectively, is significant at the 10% level. The positive CAR is in line with empirical findings in Campa and Hernando (2004) and Goergen and Renneboog (2004).

The major difference between the studies is the observed period. Campa and Hernando (2004) observed a CAR (-1, +1) of 0.05% from 1998 to 2000. Goergen and Renneboog (2004), on the other side, observed a statistically significant and positive return of 2.38% and 3.09% for the announcement windows (-1, 0) and (-2, +2), respectively, from 1993 to 2000. Reflecting on these big differences between

empirical results one might conclude that the high positive announcement returns are the product of either i) the different timeframes for which the transaction data was gathered or ii) a certain combination of acquirer and target countries. However, the second thought loses its significance since both studies focus to a great extent on the same set of countries; the former mentioned study examines 15 developed-markets in Europe and the latter examines a total of 18, including the 15 countries from the first study. In contrast to the conclusion drawn in the previous section, in this case the difference in CAR might be driven by different time periods. In order to examine the sensitivity of the observed results (DM-EM and DM-DM) to changes in the timeframe, the observed period is split into three periods and separately examined. The periods are chosen in line with the changing economic environment for M&A as indicated in section 1.1, i.e. slowing economy up to the year 2003; booming economy, rising stock markets, low interest rates, and high liquidity in the markets from 2004 to the middle of 2008; and yet again an economic downturn from 2009 onwards.

Table 4.5: CAR to Acquirers for Different Periods

	Average	Median	N	t-test	
2009 - 2011					
CB - Developed	-0.27%	0.09%	10	1.014308	
CB - Emerging	1.46%	0.81%	13	1.24642	
2004 - 2008					
CB - Developed	0.72%	0.35%	38	1.856983	*
CB - Emerging	1.94%	1.33%	41	2.492738	**
2000 - 2003					
CB - Developed	-0.38%	-1.03%	11	-0.56195	
CB - Emerging	-0.62%	-0.71%	12	-1.13042	

CAR (-1, +1) is the three day announcement period cumulative abnormal returns.
CB - Developed: Acquirer from France, Germany, Netherlands, UK involving in cross-border transactions into developed-markets in Europe
CB - Emerging: Acquirer from France, Germany, Netherlands, UK involving in cross-border transactions into Czech-Rep., Hungary, Poland, Russia
***, **,and * denote Statistical significance at 1%, 5% and 10% level.

At first sight, Table 4.5 seems to support the inferences which Ings and Inoue (2012) have drawn from their findings: changes in time are one possible explanation for varying CAR. Though, the observations in this paper have to be interpreted with care and it has to be kept in mind that the results are partially lacking statistical significance.

In general, the CAR seems to be linked to cross-border activity. The steep decline following the dot-com bubble burst goes hand in hand with negative announcement returns in developed- as well as emerging-market cross-border activity from 2000-2003, see Figure 1.2. Thereby, the negative impact was lower in cross-border transactions involving an emerging-market target, as indicated by Table 4.5.

The majority of M&A in the sample were announced in the period of economic boom from 2004 to 2008. The median CAR to acquirers is 0.98% points higher in cross-border transactions into the four emerging-markets than into developed-markets. On average, it is 1.94% and statistically significant at the 5% level. Even though CARs are not significant for 2000-2003 and 2009-2011, the findings highlight the differences that might result from changing the time periods.

Concluding, the average CAR suggests that developed-market acquirers benefit regardless of whether the target is located in an emerging-market or not. Though, the gain of 1.26% is 0.89% points higher with emerging-market involvement. In this case, it might more correct to focus on median returns since the sample size is relatively small and contains a few high positive outliers. Concentrating on median returns, developed-market acquirers experience statistically significant positive wealth gains of 0.237% when the target is located in an emerging-market and a slightly negative CAR (-1, +1) of -0.04% in developed-market cross-border transactions.

The study results support the two constructed hypotheses in section 2.3. Cross-border transactions into Eastern European emerging-markets lead to a statistically significant and positive shareholder wealth effect to the acquiring firms from developed-markets during the three days around the announcement date. Moreover, results suggest that cumulative abnormal returns are higher with emerging-market involvement than in pure cross-border transaction between developed-markets. In the following section the author discusses whether it is possible to identify any specific determinants that might be responsible for the observed results.

4.3 Cross-Sectional Determinants of Foreign Acquirer's Returns

In this section, we explore the determinants of CAR as a function of industry, country, and firm-specific characteristics. Table 4.6 reports the regression results for the cross-sectional determinants of CAR (-1, +1) for three different regression models. Model 1 displays the results for the full sample of 125 transactions into developed- and emerging-markets. Model 2 and Model 3 present the estimates for the DM-EM and DM-DM sample, respectively. Given the lack of significance with respect to most of the variables, I will concentrate on elaborating the findings for the significant variable *RelSize*. While there is a significant positive relation between the CAR to acquirers and the relative size of the transaction in all regression specifications, the other control variables are not significant in any of them.

In the literature, the *RelSize* variable is frequently significant, though the sign of the coefficient differs from finding to finding. While Moeller et al. (2004) reported a significant positive relation, Nagano and Yuan (2007) found statistically significant evidence for a negative sign of this parameter. Asquith et al. (1983) suggest the following explanation for the inconsistent sign. If a single dollar spent on acquisitions results in the exact same positive return regardless of the size of the transaction, the abnormal return should increase with an increase of target size relative to acquirer size. But, if an M&A is paid for with equity, an increasing larger acquisition will result in a bigger upsurge in the number of shares outstanding after the transaction has been completed. In the case of a downward sloping demand curve for the shares of the acquiring firm, ceteris paribus, the abnormal return will decrease with the increasing relative size of the acquisition that results in a negative sign in the coefficient. Since the variable has a positive coefficient, it follows that the relative size

variable falls as bidder size increases, ceteris paribus, the bidder returns are negatively related to bidder size. The *RelSize* coefficient of 0.018 in Model 2 (DM-EM) is significant at the 10% level. When controlling for the other variables, the estimate suggests the relative size of the target to the bidder drives acquirer returns up by 1.8% in the three day event window surrounding the acquisition announcement. Model 2 lacks overall significance as indicated by the F-statistic. The adjusted R^2 states that 3.16% of the variation in returns can be explained with the included variables. The relatively low value is not uncommon and rather typical. Throughout all empirical studies which have been subject to this research, the adjusted R^2 moves between 0.067 and 0.16[2]. Model 1 and Model 3 denote statistical significance of the *RelSize* variable and the entire models at the 1% level.

Table 4.6: Cross-Sectional Regression Results

	Model 1		Model 2		Model 3	
Variables	β	t	β	t	β	t
Constant	0.005433	0.337	0.008744	0.413	0.003042	-0.114
log(Mcap)	0.000206	0.136	-0.000408	-0.188	0.001741	0.703
TransValue	-0.000004	-1.597	-0.000007	-0.989	-0.000005	-1.845
RelSize	0.028150 ***	4.254	0.018100 *	2.113	0.043270 ***	4.104
Industry	-0.000662	-0.102	0.005700	0.643	-0.004372	-0.443
Status	-0.008474	-0.936	0.001745	0.132	-0.014450	-1.12
EM	0.009404	1.464				
N	125		66		56	
Adjusted R^2	0.1376		0.03165		0.2208	
F	4.298 ***		1.425		4.117 ***	

The dependent variable is the three day cumulative abnormal return around announcement date CAR (−1, +1). Other variables are defined in Table 6.
***, **,and * denote statistical significance at 1%, 5% and 10% level.

Moeller et al. (2004) report a significant negative size effect when using a continuous measure of size in their regression (logarithmic market capitalisation). It is meaningful to use the logarithm if the sample is biased towards small or large firms. In this study it is biased towards small firms, therefore, the logarithm of acquirer market capitalisation is used as a size measure to capture meaningful variation in firm size. According to their line of arguments, large firms are more likely to be overvalued and that is why an acquisition announcement might signal to the market that the true market value of the firm is too high at that moment. They found significant and robust evidence for the size effect; smaller firms outperform larger firms in terms of abnormal return associated with acquisition announcements. Even though size is included as one of the possible determinants for returns in the regression analysis in most empirical studies, the results are often insignificant (Chari , Quimet, & Tesar, 2004b). Comparable, this study shows that there is no significant statistical relationship between cumulative abnormal returns to the acquirer and size of the target or acquirer.

Chang (1998), Fuller et al. (2002), and Moeller et al. (2004) provide evidence that the abnormal return for acquirers is higher in the case of acquisition announcements of

[2] See (Mentz & Schiereck, 2008) for extremely low R^2 and Chari et al. (2004b) for significant regression models and high R^2.

private firms. Regression results are marginally negative in Model 1+3 and positive in Model 2 for the variable *Status*, but insignificant. Similarly, the *Industry* coefficient estimate is positive but statistically insignificant. The statistical insignificance suggests that the acquisition announcement of a target in an unrelated line of business does not affect the acquirer's abnormal returns. Further, when a dummy variable for an emerging-market target is introduced into the regression in Model 1, there is no significant evidence that, specifically, emerging-market involvement is driving CAR.

Concluding, as mentioned in section 3.4, many researchers are aware of the fact that econometric problems might be present in their sample and accept them (Da Graca & Masson, 2012). Some of them assume that potential problems cancel out (Solibakke, 2002). We have checked whether our assumptions are satisfied for the meaningful use of regression analysis and the sample data has been checked for robustness before carrying out our regressions. Event study methodology has become a standard in the evaluation of stock price reaction and provides the most statistically reliable evidence on value creation or destruction in M&A (Aybar & Ficici, 2009) and (Andrade et al., 2001).

This paper focuses on the immediate impact of M&A on the stock price around the announcement. Even though stock price changes are a good indicator of how the transaction is perceived by the market, one has to bear in mind that event studies assume that the efficient market hypothesis holds. Further, the methodological approach is limited in the sense that it does not allow to say much about the value generating potential of the combined entity in future periods. M&A might initially be perceived negatively, resulting in a loss in shareholder value at the beginning, but in the long-term, following a successful integration, it is also likely that acquiring shareholders benefit from the M&A. Following the transaction, working capital utilisation, solvency, liquidity, and general profit generating capabilities are all factors that can be utilised to determine whether value was generated for the acquiring shareholders or not. Undoubtedly, improvements of any of these factors might show a positive impact on the stock price. However, these factors have limitations on their own, e.g. accounting based, not frequently updated and available. Consequently, event study methodology and regression analysis remains best practice when examining short-term wealth effects and the literature does not provide an alternative that seems worthwhile using.

5 Conclusions

This paper analyses the cumulative abnormal returns to acquirers from developed-markets in Europe in 125 cross-border M&As during 2000-2011. It provides an answer to the question whether cross-border transactions into Eastern European emerging-markets lead to a positive shareholder wealth effect to the acquiring firms from developed-markets during the three days around the announcement date. Moreover, it suggests whether these returns are higher than the returns to cross-border acquisitions between developed-market countries. The reasoning behind this study is to support executive management which is planning on investing in emerging-markets in Eastern Europe in their decision making process by allowing them to make informed statements about the anticipated future impact of M&A on the stock price. In contrast to other empirical studies, this empirical study considers only cross-border transactions within the boundaries of Europe.

This empirical study has shown that cross-border transactions into Eastern European emerging-markets lead to a positive and significant shareholder wealth effect to the acquiring firms from developed-markets during the three days around the announcement date. Further, the CAR to acquirers is higher than in cross-border transactions between developed-markets. Regression results that control for firm and deal characteristics suggest that CARs are linked and significantly driven by the relative size of the target to the acquirer. This result is robust to the inclusion of a number of controls for industry, country, and firm-specific characteristics. There is no evidence that other variables have a significant impact on the CAR of the 125 transactions under review in this paper. The evidence is consistent with observations made by Ings and Inoue (2012) with a sample period from 2000 to 2010. Regardless of the target location, developed-market acquirers experience a significantly positive average CAR. Median CAR on the other hand is positive only with emerging-market involvement and slightly negative for cross-border transactions between developed-market acquirers.

Results vary greatly among different empirical studies on the stock price reaction of M&A announcements. The variation in empirical results is not surprising since the process of cross border M&A itself can be very complex (DePamphilis, 2012). In addition to the driving forces of M&A activity outlined earlier (section 2.1.3), other factors might have a strong impact on the result in the empirical papers, i.e. firm, industry, country, or time-specific drivers. The particular aspect of time and its influence on shareholder returns has been investigated and found to be of high relevance, especially for periods of 3-4 years. There are a number of possible explanations for the discrepancies in the announcement returns for acquirers from developed-markets and emerging-market targets. Andrade et al. (2001) further highlights the aspect that it is very difficult for firms to make investments decisions that consistently create wealth for shareholders, which is not surprising in an economy with competition and a fairly efficient capital market. In conclusion, in the short-term, the announcement of cross-border transactions into emerging-countries in Europe is beneficial for acquiring shareholders.

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