

Cross-Border Acquisitions Targeting Emerging Market Firms

- A Study of Acquirer Returns

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ABSTRACT

In this study we use a sample of cross-border control acquisitions, performed by U.S. acquirers targeting emerging market and developed market firms, divided into two sub-periods represented by 1998-2002 and 2003-2007. We show that there exists a difference in acquirer returns, amounting to 198 basis points, favoring companies targeting emerging market firms during the first sub-period. We also show that no statistically significant evidence indicates that such a premium is present in the more recent time period. Additionally, we conclude that these results hold to the inclusion of several deal specific as well as acquirer specific characteristics. Furthermore, we find evidence suggesting that this difference in acquirer returns is shown to have been, to some extent, explained by dissimilarities in country specific factors between the regions. More specifically we show that the level of country governance as well as the extent of shareholder protection, in the target country, has a significantly negative correlation with acquirer returns. Our findings show no evidence to support a relationship between economic development in the target country and acquirer returns.

Key words: M&A; Cumulative abnormal return; Cross-border acquisitions; Emerging markets

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1 Introduction

Cross-border mergers and acquisitions (henceforth “cross-border M&As”¹ or “cross-border transactions”) targeting emerging market firms have seen a vast increase since the end of the 1990’s. The rise in the number of acquisitions started out as a result of the 1997 East Asian crisis, causing several countries to lift their restrictions on foreign control ownership, as well as the ongoing corporate privatization in Latin America (see Henry, 2000; Chari, Ouimet & Tesar, 2010). With the exception of the years following the IT bubble and the financial crisis, the cross-border M&A activity targeting emerging market firms have continued to increase steadily. Although acquisitions targeting emerging markets represent a large part of today’s total cross-border M&A activity, research studying its shareholder value creation is limited. Until now, most research has focused on cross-border M&A in general, regardless of where the target firm is located. However, there exist many reasons for why investments in emerging markets are very different from investments in developed markets, indicating a need to make a distinction between those target countries for research purposes. In their 1991 article, Harris & Ravenscraft suggest that acquirer shareholder returns should not differ between domestic acquisitions and cross-border acquisitions citing that product, factor and capital markets are not globally segmented. However, it is well known that market imperfections exist and are particularly prominent in emerging markets (Bekaert & Harvey, 2003). For example, Scholes & Wolfson (1991) argue that dissimilarities in tax rates among countries can increase the gains from acquisitions, while Froot & Stein (1991) suggest that foreign companies utilize differences in exchange rates through engaging in cross-border acquisitions. Moreover, Bekaert (1995) argues that the existence of investment barriers associated with country specific risks, information asymmetry and regulations result in market segmentation. Kang (1993) suggests that foreign investors can gain a competitive advantage from those imperfections by acquiring undervalued assets that are incorrectly priced, suggesting that cross-border acquisitions could yield higher acquirer returns as compared to domestic acquisitions. However, and in contrast to this, research on value creation has shown that domestic acquisitions have historically outperformed cross-border acquisitions (see Eckbo & Thorburn, 2000; Moeller & Schlingemann, 2005). Denis, Denis & Yost (2002) even suggest that international diversification results in shareholder value destruction of similar magnitude as for industrial diversification. On the contrary, recent studies suggest that this difference in acquirer returns between domestic and cross-border acquisitions is no longer present in today’s market, partly as a result of an increase in cross-border acquisitions targeting emerging

¹ According to UNCTAD World Investment Report (2000) “In a cross-border acquisition, the control of assets and operations is transferred from a local to a foreign company, the former becoming an affiliate of the latter”. Cross-border acquisitions can be divided into minority (10 to 49 percent of the voting shares) and control (>50 percent) ownership. This thesis solely considers control ownership acquisitions.

market firms throughout the past decade (see Francis, Hassan & Sun, 2008; Ellis, Moeller, Schlingemann & Stulz, 2011).

Turning to the topic of emerging market acquisitions it is clear that those transactions differ from cross-border acquisitions targeting developed markets almost as much as domestic acquisitions differ from cross-border acquisitions. It is well known that emerging markets are associated with strong economic growth and high risks. For example, Kaufmann, Kraay & Mastruzzi (2009) show that emerging markets have higher macroeconomic and political uncertainties compared to developed markets. Moreover, most developed market countries have well-functioning legal systems that protect the rights of the shareholders, whereas many emerging market countries suffer from poor legal systems and weak law enforcement (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1999). The same authors argue that corporate governance is heavily related to the development of countries financial markets and domestic companies. More specifically it can be said that poor corporate governance results in lower firm valuations (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2002). Wang & Xie (2009) argue that corporate governance can be transferred from the acquiring firm to the target firm creating synergistic gains to both parties of the transaction. This would suggest that a developed market acquirer should, by exploiting differences in country governance, be able to generate value to its shareholders when acquiring an emerging market firm.

The purpose of this thesis is therefore to attempt to bridge the gap between studies on value creation in cross-border M&A and the effect of emerging market development on shareholder returns. We aim to achieve this purpose by first investigating if cross-border acquisitions made by developed market acquirers targeting emerging market firms have historically yielded higher returns compared to acquisitions targeting developed market firms. Subsequently, we strive to establish if such a potential difference in returns can be explained through dissimilarities in country governance and/or economic development between emerging markets and developed markets.

We have constructed two samples of control acquisitions made by U.S. firms between the years 1998 and 2007. The first sample consists of 217 deals where the target firms are situated in emerging markets, while the second sample includes 1,273 deals where the target firms are located in developed markets. The inclusion of target countries in the different samples is based on the MSCI Barra indices. Moreover, we investigate if a difference in acquirer returns between the two samples is more or less prominent in the earlier or latter part of our sample period. This is done by dividing the entire samples into two equally sized sub-periods, namely 1998 to 2002 and 2003 to 2007. The first sub-period reflects the historical increase in cross-border emerging market acquisitions following the East Asian crisis, the de-regulation of foreign corporate ownership in Asia, and the ongoing

corporate privatization in Latin America. The latter sub-period is meant to represent a more stabilized time period when such radical changes were not present in those regions.

To examine if acquirer returns are associated with country characteristics we perform several OLS regressions using indices of country governance (Kaufmann, Kraay & Mastruzzi, 2009), shareholder protection (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2005), creditor rights (Djankov, McLiesh & Shleifer, 2007) and economic development (World Data Bank) as independent variables.

The empirical contribution derived from our thesis displays a clear difference in shareholder value creation between cross-border acquisitions targeting emerging market firms as compared to developed market firms during the first sub-period. Specifically, we find that cross-border acquisitions targeting emerging market firms yield, on average, 1.98 percent more returns to the shareholders of the acquiring firm than do acquisitions targeting developed market firms. We also show that no statistically significant evidence indicates that such a premium is present in the more recent time period. Furthermore, we show that the findings holds to the inclusion of several controlling factors expected to affect shareholder returns. We can also conclude that the historical difference in returns is not a result of discrepancies in economic development but rather a consequence of poor governance and weaker shareholder protection in emerging market countries. Each of those factors has a significantly negative correlation with acquirer returns. In other words, cross-border acquisitions targeting firms residing in countries characterized by low shareholder protection and poor governance yield, on average, higher returns.

To arrive at those results we have not only needed a throughout understanding of the value driving factors behind cross-border M&As as well as an outline of previous research on the subject, but also an empirical method to handle our data. For this purpose, our thesis is structured as to first give a background of cross-border M&As in emerging markets followed by a review of previous research on the subject of value creation in cross-border M&A. The section is followed by a presentation of our expectations and the subsequent hypotheses. Our choice of empirical method is the event study methodology where the event date is set to the announcement date of the acquisition. The outline of this methodology along with the gathering and filtering of the data is presented in chapter 3 followed by a chapter presenting the empirical findings. The thesis is concluded with chapter 6 where we discuss the main takeaways from our results and their implications as well as suggestions for future research. Chapter 7 and chapter 8 present the reference list and the appendix, respectively.

2 Background and Literature Review

2.1 Cross-border Acquisitions Targeting Emerging Markets

In the late 1990's the cross-border M&A activity surged, with a particularly rapid increase in acquisitions targeting emerging market firms. In 1998, the total value of control cross-border acquisitions reached \$411 billion, almost two times as much compared to the level in 1997 and nearly three times as much compared to the 1995 level². The rapid increase in M&A activity during the late 1990's was partly fuelled by the East Asian crisis in 1997, causing international firms to acquire distressed assets in East Asia. Prior to the crisis in 1997 the number of cross-border control acquisitions in this region was very low. However, this would dramatically change. In the middle to late 1997 several countries in East Asia lifted its restriction on foreign control ownership, allowing outside investors to take control of domestic corporations. Shortly thereafter the M&A activity in those regions peaked and in 1998 cross-border acquisitions in East Asia doubled compared to the 1997 level³. A similar scenario took place in Eastern Europe, subsequent to the Russian crisis in the late 1998. In the end of 1999, the quarterly cross-border acquisition inflow to this region had doubled⁴. This shows evidence that crisis only influencing emerging market regions also increases the overall cross-border acquisition inflow from developed countries. While the emerging market firms have financial constraints due to the crisis, developed market acquirers still have access to capital and can make favorable acquisitions.

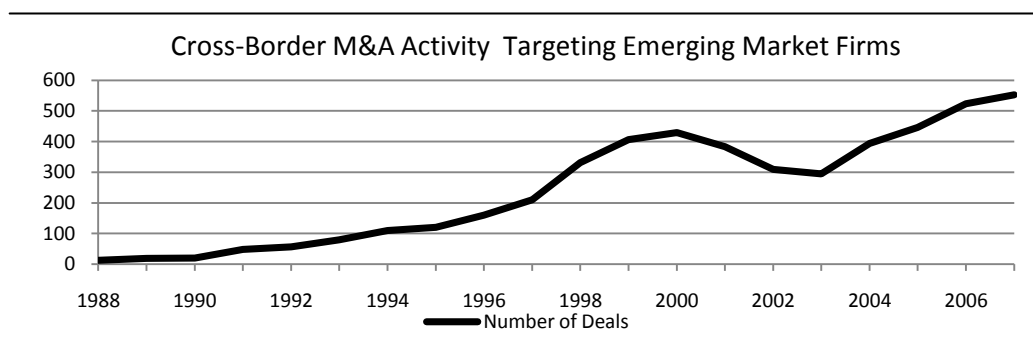


Figure 1 – Graph showing the evolution of cross-border M&As, targeting emerging market firms presented as total yearly number of transactions. The data is sourced from Thomson Reuters SDC Platinum, including only control acquisitions.

The largest regions consisting of emerging markets are Asia and Latin America. Even though both of those regions began to undertake capital market liberalizations during the late 1980's and early 1990's the degree of the countries openness would vary for many years (Chari, Ouimet & Tesar, 2010). The number of cross-border acquisitions in Latin America have increased over time since the

² Data from UNCTAD World Investment Report, see <http://www.unctad.org/Templates/Page.asp?intItemID=1465>

³ Ibid.

⁴ Data from World Bank, see <http://siteresources.worldbank.org/INTLAC/Resources/crisisFDI.pdf>

beginning of the 1990's, with a particularly vast increase in the late 1990's and the beginning of 2000's⁵. In contrast to the increase of M&A activity in East Asia during the same period, this was partly a consequence of privatization programs carried out in several Latin American countries as compared to the fire sale of distressed assets created by the East Asian crisis (see Henry, 2000; Chari, Ouimet & Tesar, 2010). In 2001 and 2002, the M&A activity fell across the globe due to the bursting of the IT bubble. The activity slowly started to pick up again in 2003 and reached another high in 2007, before the recent financial crisis.

There exist several factors separating cross-border acquisitions targeting emerging market firms from those targeting developed markets firms. Emerging markets are associated with relatively poor economic conditions and a rapid economic growth, setting the economic climate in which the target firms operate apart from the rest of the world. Kaufmann, Kraay & Mastruzzi (2009) show that emerging market countries also have higher macroeconomic and political uncertainties in terms of poorer regulatory quality, control of corruption and legal system as well as less political stability. All these country characteristics are associated with unique risks faced by cross-border acquirers targeting emerging markets. Since the East Asian crisis in 1997, several emerging market economic crisis have occurred, with Russia in 1998, Brazil in 1999, Turkey in 2000, Argentina in 2001 and Brazil again in 2002, giving further evidence to that the economic risks in those regions can be extensive.

Moreover, through several studies La Porta, Lopez-de-Silanes, Shleifer & Vishny (see 1999; 2000; 2002) analyze how a country's legal system and shareholder protection is connected to its financial development. La Porta, Lopez-de-Silanes, Shleifer & Vishny (2000) argue that a country's financial development in terms of for example, dividend policy, ownership structure, and market efficiency can be explained by the extent to which laws of the country protect investors. Among the different existing legal traditions, La Porta, Lopez-de-Silanes, Shleifer & Vishny (1999; 2000; 2002) suggest that countries which apply English common law⁶ have the highest shareholder protection, most widely dispersed ownership structures, most liquid stock markets and highest firm valuations. Rossi & Volpin (2004) finds that firms located in emerging market countries with poor shareholder protection are more likely to be acquired, whereas firms located in developed market countries with high shareholder protection are more likely to be the acquirer. The authors of the article also argue that the enhancement of shareholder protection in emerging market target firms by developed market acquirers may be a strategic rationale for cross-border acquisitions in these regions. These results are supported by the findings of Bris & Cabolis (2008) whom suggest that a developed market acquirer from a country with better shareholder protection can increase the value of the target firm by

⁵ Data from World Bank, see <http://siteresources.worldbank.org/INTLAC/Resources/crisisFDI.pdf>

⁶ There exist four different legal traditions as defined by David & Brierley (1985); (1) French Civil Law (2) German Civil Law (3) English Common Law (4) Scandinavian Law.

transferring its corporate governance. Similarly, Wang & Xie (2009) suggest that corporate governance can be transferred from the acquiring firm to the target firm creating synergistic gains to both parties of the transaction. At the same time, cross-border acquisitions can allow an emerging market target firm to exit from an environment associated with poor governance and shareholder protection (Rossi & Volpin, 2004).

While capital inflows to emerging markets increased during the 1990's there still existed barriers that limited foreign investments resulting in market segmentation (Bekaert & Harvey, 2003). Bekaert (1995) has recognized three different investments barriers; legal barriers, indirect barriers and risk barriers. The legal barriers arise from laws separating foreign investors from domestic investors in terms of taxes and ownership restrictions. The indirect barriers are associated with differences in investor protection, accounting standards and available information. Finally, the risk barriers arise from the unique and strong uncertainties that are associated with emerging markets which includes, but are not limited to; economic risk, political risk, liquidity risk and currency risk. Bekaert (1995) also shows that indirect barriers such as a lack of regulatory systems, poor credit ratings and investor protection are most related to integration measures. Overall, investment barriers to emerging market integration lead to market segmentation, higher cost of capital and consequently lower firm valuations. The above discussion would indicate that emerging market firms should, in general, have a lower valuation compared to developed market firms. Figure 2 illustrates valuation differences (measured by the P/E ratio) between firms included in the MSCI Barra Emerging Markets Index and firms included in the MSCI World Index.

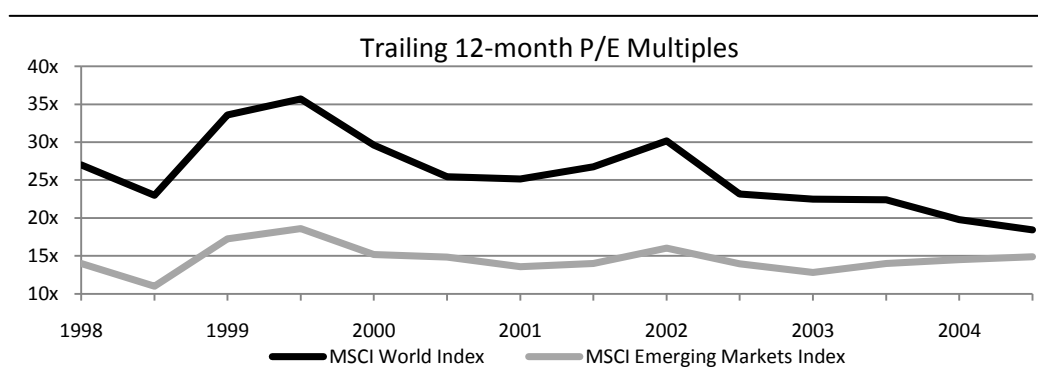


Figure 2 – Graph showing trailing 12-month price/earnings multiples for firms included in the MSCI World index and firms included in the MSCI Emerging Markets index between the years 1998 and 2004. Data is sourced from MSCI Barra.

It is particularly prominent during the period of 1998 to 2002 that firms listed on the MSCI Barra Emerging Markets Index show a considerably lower valuation compared to the rest of the world. However, it can also be seen that these valuation differences have had a decreasing tendency during the 2000's.

2.2 The Wealth Effect of M&A

2.2.1 Managerial Rationality in M&A

From a shareholder value perspective the most important objective for the manager of a firm is to maximize the shareholder value. The value of the firm is driven by profit margins, capital turnover, growth and cost of capital (Kollar, Goedhart & Wessels, 2010). Consequently, to create value by engaging in M&A, those value drivers need to be taken into consideration. Managers seeking acquisitions on the basis of those value drivers could be said to have a rational approach, while managers making acquisitions for other reasons are most often considered to act irrationally. According to Bruner (2004), rational managers use M&A to create a competitive advantage, realize synergies and respond rationally to any external shock. Moreover, when in periodically irrational markets, those managers are expected to use M&A as a tool for exploiting information asymmetry and incorrect valuation of firms. Alternatively, managers with an irrational behavior are instead often assumed to be overconfident. Roll (1986) refers to this phenomenon as the hubris hypothesis. In a rational market these managers can overvalue target firms or be overoptimistic in terms of the potential synergies and their ability to realize them. Another well-documented irrational behavior is managerial empire building presented by Halpern (1982). Those managers aim to build a conglomerate by pursuing diversifying strategies, rather than acting in the interest of the firm's shareholders. One cause of managerial empire building is the free cash flow problem explained by Jensen (1986). More specifically, research within the field of M&A has also showed evidence that the free cash flow problem is associated with managerial empire building (see e.g. Stulz & Walkling, 1991; Servaes, 1991). In addition, Bruner (2004) argues that irrational managers can cause mass behavior and market manias. This behavior can, through constant overvaluation or undervaluation of target firms, be the source to bubbles, fads and crashes. The following section will carefully review the shareholder value creation attributable to corporate acquisitions, also referred to as the wealth effect of M&A.

2.2.2 Shareholder Gains from M&As

There exists a large literature base focusing on the wealth effect of M&A. While few studies on the subject aim to investigate the long-term wealth effect, a majority of the research focuses on the short-term effect by studying the stock price movements in connection to the announcement date of the particular deal. Although the short-term perspective does not consider the long-term operating performance of the combined firm, nor if any value is in fact realized, there are many valid reasons for why this is the most commonly used approach (Chari, Ouimet & Tesar, 2010). First of all, the approach implicitly assumes semi-strong market efficiency as explained by Fama (1970). This suggests that the price reaction in the acquiring firm's stock represents the expected value creation

of the acquisition based on the market beliefs and is immediately observable upon the announcement. It can still be argued that measuring the long-term performance is a more desirable way of estimating the value effect of acquisitions as the process of integration can span over several years. However, this approach will, compared to measuring the short-term performance, increase the risk for undesirable biases. According to Barber, Lyon & Tsai (1999), methods for measuring ex-post performance are highly sensitive to the sample period and the benchmark for expected return calculation.

Previous research has focused on examining the wealth effect both for the shareholders of the acquiring firm and the target firm as well as the combined value effect of the transaction, attributable to all parties. The theory has found footing in empirical studies made on U.S. data indicating combined, positive, abnormal returns in the range of 1.4% to 2.6% with an average of 1.8% (Andrade, Mitchell & Stafford, 2001). The findings were considered to be consistent and statistically significant throughout the 80's and 90's. However, the study also showed that shareholders of the target firm were undoubtedly the winners in those transactions. According to Andrade, Mitchell & Stafford (2001), 16% of abnormal return accrue to the shareholders of the target firm, while no abnormal return for shareholders of the acquiring firm is recognized. Overall it can be concluded that previous research focusing on the target firm find significant, positive, abnormal returns as the result of an acquisition announcement (see e.g. Dodd, 1980; Servaes, 1991; Kaplan & Weisbach, 1992; Andrade, Mitchell & Stafford, 2001). The results are robust over different sample periods and different type of acquisitions. There is however discrepancies between results achieved through studies focusing on the value creation for the acquiring firm, as shown in a comprehensive review of both domestic and cross-border acquisitions by Bruner (2004). Bruner finds that one fourth of the studies shows significantly negative acquirer returns (see e.g. Mitchell & Stafford, 2000; Walker, 2000), while about one half of the research finds acquirer returns that are not statistically significant (see e.g. Andrade, Mitchell & Stafford, 2001) and the remaining one fourth of the studies find significantly positive acquirer returns (see e.g. Schwert, 1996; Maquiera, Megginson & Nail, 1998; Eckbo & Thorburn, 2000; Fuller, Netter & Stegemoller, 2002; Moeller, Schlingemann & Stultz, 2004). This concern has lead researches to investigate the effect of different deal characteristics.

The acquiring firm is typically larger than the target firm. From this we can draw the conclusion that if the synergy gains from the acquisition are divided equally among the two parties, the wealth effect will be larger for the smaller party of the transaction, namely the target firm (Bruner, 2004). A majority of the research finds that the relative size of the acquiring firm and the target firm has a positive correlation for the shareholder value creation in the acquiring firm (Bruner, 2004). Some studies (see e.g. Fuller, Netter & Stegemoller, 2002) show that the value of the deal is of the highest

importance, whereas other studies (see e.g. Moeller, Schlingemann & Stultz, 2004) show that the market capitalization of the acquiring firm plays a bigger role. According to Moeller, Schlingemann & Stultz (2004) acquisitions performed by smaller firms result, on average, in positive abnormal returns, while acquisitions done by large firms, on average, result in negative abnormal returns. Research also shows that the ownership status of the target firm is a decisive factor for value creation (see Fuller, Netter & Stegemoller, 2002; Moeller, Schlingemann & Stultz, 2004). According to Moeller, Schlingemann & Stultz (2004) acquisitions of subsidiaries and private firms generate on average positive significant abnormal returns for the shareholders of the acquiring firm, while acquisitions of public firms tend to destroy shareholder value.

The existing literature on M&A has found a large variety of value drivers. First of all, transactions financed with cash have proved to generate higher abnormal returns compared to transactions financed with equity for both the acquiring firm and the target firm (see e.g. Franks & Harris, 1989; Huang & Walking, 1989; Schwert, 2000; Andrade, Mitchell & Stafford, 2001; Moeller, Schlingemann & Stultz, 2004). This result goes hand-in-hand with the early findings of Myers & Majluf (1984) who argued that the management of the firm is assumed to have inside information of the firm value, while outside investors interpret the management's actions rationally. Hence, in theory the management of the firm is more willing to issue new shares when the share price is perceived to be over-valued. Consequently, the investors will trade down the share price. According to Moeller, Schlingemann & Stultz (2004) this is especially apparent when both equity payments and public firms are clustered. Together, the two factors show a statistically significant negative correlation with abnormal returns. According to Andrade, Mitchell & Stafford (2001) it is important to separate transactions with regard to the method of payment. Transactions that include equity or which are solely equity-based can have a negative share price reaction due to the fact that the own share is perceived as over-valued, which is not necessary a response to the acquisition initiative itself, but rather a correction of the current market value. Another value driver that has been identified in M&A research is the approach of the buying firm. More specifically, whether or not the deal is classified as a hostile acquisition. Research indicates that a hostile approach to a transaction is generally financed with cash and requires a higher bid premium (Schwert, 2000). This suggests that the acquiring firm should experience less abnormal return as the price paid will be higher. However, Schwert (2000) finds no relationship between value creation and a friendly approach. Instead, previous research shows that hostile takeovers generate higher returns both for the acquirer and the target compared to friendly acquisitions (see e.g. Lang, Stultz & Walking, 1989; Loughran & Vijh, 1997). It should on the other hand be noticed that very few acquisitions are considered to be hostile.

Moreover, most research concludes that corporate diversification strategies, or conglomerate strategies, works as shareholder value destroyers (see e.g. Berger & Ofek, 1995; Maquiera, Megginson & Nail, 1998; Walker, 2000). Research has also showed that the free cash flow problem (see Jensen, 1986) leads to managerial empire building and conglomerate strategies (see e.g. Stulz & Walking, 1991; Servaes, 1991).

2.2.3 Shareholder Gains from Cross-Border M&As

The amount of cross-border deals increased significantly during the mid-1990's and early 2000's. The increase can be described, partly, as being a result of a shift from traditional greenfield investments and partly as a product of growth in international financial markets (Francis, Hassan & Sun, 2008). As for the conclusions drawn about value creation for acquiring firms in domestic acquisitions, the results regarding cross-border transactions are also mixed. In their 1988 article, Doukas & Travlos argue that cross-border transactions, involving a U.S. bidder, are value enhancing for the acquiring firm only when the firm has no prior presence in the target country. Although Doukas & Travlos (1988) could not find significant evidence to support their hypothesis, the study indicated that the abnormal returns are higher when firms expand into new geographic markets. In a comprehensive study, Moeller & Schlingemann (2005) compared the wealth effect between cross-border acquisitions and domestic acquisitions over the sample period of 1985 to 1995. Over the entire sample period the shareholders of the acquiring firms involved in cross-border transactions obtained positive abnormal returns of 0.3 percent whereas the shareholders of the acquiring firms involved in domestic transactions gained positive abnormal returns of 1.2 percent. The difference is economically and statistically significant. When dividing the sample into two equally sized sub-periods, the first period shows no difference in abnormal returns. The gains are in this sub-period, in fact, close to zero and no significant abnormal returns are found. This result is consistent with earlier research (see e.g. Doukas & Travlos, 1988; Schwert, 1996). However, for the sub-period between 1991 and 1995 the difference between domestic and cross-border acquisitions is highly significant and reaches 1.3 percent in favor for domestic acquisitions. In addition, Eckbo & Thorburn (2000) also found that cross-border acquirers underperformed compared to domestic acquirers. Moreover, in a study by Denis, Denis & Yost (2002) it was reported that global diversification, on average, results in a discount of similar magnitude as reported for industrial diversification. The study by Moeller & Schlingemann (2005) also concludes that transactions which increase the level of global diversification reveal lower returns. In addition, the abnormal returns are further decreased when both the global diversification and the industrial diversification increases. In a recent study by Ellis, Moeller, Schlingemann & Stultz (2011), including acquirers and targets from several different countries, it was reported that both domestic and cross-border acquisitions generate, on average, an

abnormal return of about 1.50 percent. Consequently, the difference that was earlier report between the two samples is no longer present.

There exist very few articles that study the wealth effect of M&As targeting emerging market firms. A study performed by Francis, Hassan & Sun (2008) finds that domestic acquisitions have a significantly higher abnormal return than cross-border acquisitions using a sample period of 1990 to 2003. This is also in line with the findings by Moeller & Schlingemann (2005) based on a sample period between 1985 and 1995 indicating a significant discount. However, when Francis, Hassan & Sun (2008) divide its sample into two sub-periods, 1990 to 1995 and 1996 to 2003, they find that the discount is only present in the first period. This supports their hypothesis that such a cross-border discount has been phased out as the result of an increased number of acquisitions targeting segmented markets. More to the point, Chari, Ouimet & Tesar (2010) study emerging market acquisitions performed by developed market acquirers over the time period of 1986 to 2006. The study shows that emerging market control acquisitions generate, on average, a positive abnormal return of 1.16% for the acquiring firm. Moreover, Chari, Ouimet & Tesar (2010) also find that the acquisition of majority control in emerging markets increases acquirer return. Furthermore, and in contrast to the study by Ellis, Moeller, Schlingemann & Stultz (2011), they find evidence that acquisitions in develop markets do not yield any significant acquirer returns. Based on the discrepancies in the findings of these two articles and considering the limited level of cross-border acquisitions targeting emerging markets over the first half of the sample used by Chari, Ouimet & Tesar (2010) it is difficult to establish if there exist a difference in acquirer returns between acquisitions in emerging markets and developed markets. It is also unknown if such a potential difference have been present throughout different time periods.

As earlier discussed, over the last decade several indices that aim to capture the governance, shareholder protection, laws and creditor rights for different countries across the globe have been developed (see Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2005; Djankov, McLiesh & Shleifer, 2007; Kaufmann, Kraay & Mastruzzi, 2009). Although this data has more recently been applied in the research of M&A, there exist few studies that seek to investigate if country specific data can be a source of acquirer returns. Ellis, Moeller, Schlingemann & Stultz (2011) show evidence that acquirer returns are negatively correlated with the governance and shareholder protection indices in the target country and positively correlated with the governance and shareholder protection indices in the acquirer country. Moreover, Ellis, Moeller, Schlingemann & Stultz (2011) could not find any evidence that the measures of economic development are correlated with acquirer returns.

3 Hypotheses

The purpose of this thesis is to examine if cross-border control acquisitions, made by developed market acquirers (U.S. firms), targeting emerging market firms have historically yielded higher acquirer returns compared to similar acquisitions of developed market firms. On the basis of the surge in M&A activity towards emerging markets originated in the late 1990's until today we have constructed a ten year sample period from 1998 to 2007, stretching from the end of the East Asian crisis in 1997 to the start of the financial crisis of 2008. The time period is further divided into two sub-periods, namely 1998 to 2002 and 2003 to 2007. The first sub-period aims to capture the historical increase in cross-border emerging market acquisitions that started as a result of the East Asian crisis, the de-regulation of foreign corporate ownership in Asia, and the ongoing corporate privatization in Latin America. The latter sub-period aims to capture a more normalized time period when such dramatic changes did not take place in those regions. Based on the background, theory and literature review we have formulated the following three hypotheses, further explained below.

H1: Cross-border acquisitions made by developed market acquirers targeting emerging markets firms yield, on average, positive returns to the shareholders of the acquiring firm

H2: Developed market acquirers gain higher returns when acquiring target firms in emerging markets compared to developed markets

H3: The acquirer returns from cross-border acquisitions are negatively correlated with the target countries level of governance and shareholder protection

La Porta, Lopez-de-Silanes, Shleifer & Vishny (2002) argue that countries with poor legal systems and weak shareholder protection are associated with lower firm valuations due to a lack in corporate governance. Those results in combination with the findings of Ellis, Moeller, Schlingemann & Stultz (2011) leads us to expect that acquisitions made by developed market acquirers, targeting emerging market firms yield higher acquirer returns as compared to acquisitions of developed market firms. We also expect to see that this difference is particularly prominent in the first sub-period when several emerging market countries opened up for foreign control ownership. Furthermore, and with footing in the findings by Wang & Xie (2007) regarding transfer of corporate governance, we expect to find that a potential difference in returns between acquisitions in emerging markets and developed markets can be partly explained by differences governance and shareholder protection. Based on the findings by Ellis, Moeller, Schlingemann & Stultz (2011) we do not expect to see that economic development nor creditor rights, in the target country, are associated with acquirer returns.

4 Methodology and Data Description

The following section covers the methodological approach to the study as well as a discussion regarding the extent of reliability and validity held by the methods applied and the subsequent results. The chapter also explains the event study used to derive the cumulative abnormal returns. Furthermore, the chapter contains a section explaining the multi-factor regressions where we control for deal- and firm-specific variables using the cumulative abnormal return as the dependent variable. The methodology chapter also describes the single-factor regressions focusing on country specific variables and their respective correlation with abnormal return.

4.1 Research Approach, Reliability and Validity

Our study is utilizing a deductive research approach where we build on existing theory in order to form hypotheses that are later tested using empirical methods with the purpose of determining whether or not a set of null hypotheses can be rejected with a certain confidence level. The research has been performed using purely quantitative data.

It is important that a purely quantitative study holds a certain level of validity and reliability in order to give credibility to its findings. The concept of reliability builds on the idea that, in order for a study to be considered reliable, the observations and results has to be replicable (Bryman & Bell, 2003). This definition can be even further explained as done by Kirk & Miller (1986) who identifies three different types of reliability: (1) The degree to which a measurement, given repetitions, remains the same (2) the stability of a certain measurement over time; and (3) the similarity of measurements within a given time period. In order to determine the degree of reliability that our study holds, we evaluate our data sample and methodology applying the previously mentioned definition of reliability. Starting with the initial sample of transactions which has been collected from the Securities Data Company's (SDC) global mergers and acquisitions database we deem it reliable based on two fundamental arguments: (1) It has been widely used in previous studies of mergers and acquisitions such as the ones performed by Moeller & Schlingemann (2004) and Andrade, Mitchell & Stafford (2001) and (2) We have performed spot checks comparing the SDC data to the data stated in press releases referring to specific deals. Some manual filtering has been applied to the data following its extraction from SDC. However, all such filters have been carefully documented along with their resulting decline in observations (see Table 2, Panel A for a complete list of filters).

Additional data has been collected from the Center of Research in Security Prices (CRSP) which is a database maintained by the Chicago Booth business school and is widely considered as a reliable source of data. CRSP has been used to obtain stock price data and index data. As with the SDC data, all filters applied to the dataset extracted from CRSP have been documented and can be seen in

Panel A of Table 2. Firm specific data has been sourced from the COMPUSTAT database maintained by Capital IQ⁷. Country specific governance and economic factors used in the explanatory regressions were obtained from the World Data Bank which is maintained and administrated by the World Bank and is considered one of the more extensive sources on emerging market data. Previous research studying cross-border acquisitions employ the same database (see Ellis, Moeller, Schlingemann & Stulz, 2011). For the purpose of calculating cumulative abnormal returns as well as running explanatory regressions we have relied solely on the statistics software STATA which is widely used in financial research and we have no reason to doubt the reliability of the program.

The concept referred to as validity is explained by Bryman & Bell (2003) by dividing it into internal- and external validity. The first type measures whether or not the study manages to measure what was intended. In our case; can we conclude that one variable affects another? Brewer (2000) states that cause-effect relationships based on a specific study holds external validity if they can be generalized from the unique setting and procedures to other populations and other conditions.

Our study's main intent is to measure the potential existence of a difference in abnormal return between emerging markets acquisitions and developed markets acquisitions. With regard to the first type of validity we could therefore start by asking if stock price reactions are a correct measure of value creation. Secondly, we need to determine whether or not the reaction seen around the announcement date is actually due to the merger announcement or rather a result of exogenous factors. To mitigate the uncertainties surrounding this we have, for our primary estimations, chosen a narrow event window of only 5 [-2, +2] days, intended to exclude any abnormal return that is not attributable to the specific event. The model used for estimating expected returns over the event window is the well-known market model. The model used, as well as the choice of event window, has been utilized throughout a vast amount of previous studies giving additional validity to our research.

4.2 The Event Study

For the reasons of clarity and simplicity we have chosen to divide this chapter into five steps designed to outline the different processes in our event study. The steps are in the following order; Event Definition and Event Window, Sample Selection and Data filtering, Calculating Abnormal Returns, Calculating Cumulative Abnormal Returns, Hypothesis Testing. The section covering the calculation of abnormal returns presents two different techniques yielding the same result with the purpose of strengthening the validity of our research.

⁷ Due to limitations in the data availability sourced from COMPUSTAT, regressions where firm specific variables are included show a notable drop in observations.

4.2.1 Event Definition and Event Window

As we intend to measure the short-term impact on stock returns generated by acquisitions we have defined the event as the announcement day of a bid. Aside from being in line with arguments surrounding semi-strong market efficiency, our choice of event is widely used in event studies focusing on M&A (see Brown & Warner, 1985). Closely related to the choice of the event is the framing of an event window. The event window consists of days surrounding the event and is chosen as to capture the entire, short-term, effect of the event. The semi-strong market efficiency theorem suggests that only the event date is needed in order to capture the full effect of the announcement. However, it has been accustomed to expand this window when examining stock price movements resulting from acquisition announcements. MacKinley (1997) gives two arguments for expanding the window. He suggests that by including trading days subsequent to the event date, the study will capture the price movements assumed to take place after the closure of the stock market. In other words, including days following the event allows us to capture the effect of over-the-counter (OTC) trading. MacKinley (1997) also recommends including days prior to the announcement in the event window with the purpose of controlling for trading due to information leakage. Andrade, Mitchell & Stafford (2001) argues that the use of short event windows tend to give the most statistically reliable results when using daily stock data. In this study we have, as earlier mentioned, chosen to focus on a five [-2, +2] day event window as we consider this to be sufficient for capturing the bulk of the announcement effect (see Figure 4 and 5 in the appendix for a graphical argument). Similar studies, such as the one performed by Ellis, Moeller, Schlingemann & Stulz (2011) also applies a five day event window. In order to increase the validity of our study we also present results based on a three [-1, +1], seven [-3, +3] and nine [-4, +4] day windows. However, discussions and conclusions regarding our findings are solely based on the five day event window.

4.2.2 Sample Selection and Data Filtering

The following section outlines our choice of sample period as well as the criteria's applied when filtering data in order to arrive at our samples. It also lists the databases used as well as the methodology for merging data from the respective sources.

We have chosen to study the effect on the stock price of companies performing cross-border acquisitions, targeting emerging market firms. In order to be able to put this potential effect into perspective we acquired two initial datasets, both containing U.S. acquirers⁸. The first set consisted of cross-border acquisitions targeting emerging market firms, with target countries defined by the

⁸ We have chosen to narrow our sample to only include U.S. acquirers. This approach has been used in previous research (see e.g. Moeller & Schlingemann, 2005). Hence, the term U.S. acquirer is used synonymously with developed market acquirer throughout this thesis. Although we are aware that this puts limitations on our study, recent research has shown that the explanatory power of the acquirer country with respect to shareholder return is very small (see Ellis, Moeller, Schlingemann & Stulz, 2011).

MSCI Barra emerging markets index. The second dataset included deals targeting developed market firms, using the MSCI Barra developed markets index classification for consistency purposes. Furthermore, throughout both datasets we have enforced a requirement that each country must have been included in the respective indices over the entire time period of 1998 to 2007 (please see Panel A. of Table 2 for a list of countries included in the respective indices along with their deal intensity in each sample). This time period also constitute our entire sample period and has been delimited, firstly, by the rapid increase in emerging market M&As initiated in 1998 allowing us to obtain a significantly larger emerging markets sample than what would have been possible before this time period. Secondly, the upper limit of the sample is chosen as to exclude the impact on the M&A industry induced by the financial crisis, spawned in 2008. Another argument for the 1998 lower limit is that country specific data (see Kaufmann, Kraay & Mastruzzi, 2009) is not available prior to 1997. To allow for further analysis of our results, we have chosen to divide our samples into two equally sized sub-periods, namely 1998 to 2002 and 2003 to 2007. The first sub-period is set as to capture the rapid increase in emerging markets M&A activity in the late 1990's and early 2000's caused by the capital market liberalization and deregulation in several of the emerging market regions. Furthermore, the period reflects an era of undervaluation of emerging market firms (please see the theoretical background section for a more in-depth explanation of this phenomenon). The chronological distribution of deals can be seen in Panel C. of Table 3. The initial datasets were acquired through Thomson Reuters SDC database. The following restrictions were imposed when retrieving the data from SDC and are similar to previous research performed on cross border acquisition (see Moeller & Schlingemann, 2005; Francis, Hassan & Sun, 2008).

- **Target Nation:** MSCI Barra emerging markets index for EM sample and MSCI Barra developed markets index for DM sample
- **Acquirer Nation:** USA
- **Acquirer Public Status:** Publicly traded
- **Target Public Status:** Private, Public, Subsidiary
- **Percentage owned post-transaction:** 50% - 100%
- **Deal Value:** Where information is available
- **Deal Status:** Completed

Three additional filters were subsequently applied to the resulting datasets. We have chosen to state those filters separately as they were not part of the initial SDC filtering. Firstly, observations where the acquiring firm held a stake above 49 percent in the target company, prior to the announcement date, were excluded as to ensure acquisition of control. Secondly, deals where the transaction value was below one percent of the acquiring firm's market capitalization, three months prior to the

announcement date, were excluded. This argument is based on recommendations made by Asquith, Bruner & Mullins (1983), suggesting that the abnormal return associated with *too small* deals will not be statistically significant. Finally, observations where the same acquirer have performed several transactions within the maximum defined event window $[-4, +4]$ days) are excluded as to avoid distortion of the abnormal return estimates.

The resulting datasets represent our two samples and include 217 observations with emerging market targets and 1273 observations with developed market targets. The difference in sample size is obviously due to that the frequency of cross-border transactions involving developed market targets is higher compared to transactions involving emerging market targets.⁹

In order to retrieve stock data for the parameter estimation window as well as for the event window we proceeded by merging the SDC generated samples with the CRSP database for daily stock data. We favor the use of CRSP to the more commonly used Thomson Datastream (TDS) based on recommendations made by Porter & Ince (2006). The merging process was performed by taking the CUSIP numbers¹⁰, used to identify each individual acquirer stock in SDC and convert those into the CRSP identification format called PERMNO. The PERMNO numbers are then used to retrieve stock data from CRSP over the estimation window for each observation. The size of the estimation window differs among previous studies on the subject. Andrade, Mitchell & Stafford (2001) use a window of -20 to -142 days whereas Moeller & Schlingemann (2005) uses -6 to -205 days for their estimations. We have chosen to use the larger range, setting our estimation window to -11 to -210 days, in order to incorporate an even 200 days into the window. For the purpose of having sufficient data to cover our estimation window *as well* as our event window we therefore retrieve stock price data within the range of +4 to -210 days surrounding the announcement day.

4.2.3 Calculating Abnormal Returns

In this step we proceed by calculating the abnormal return for each acquiring firm's stock, where the abnormal return is defined as the difference between the expected return ($E[R_i]$) and the actual return (R_i). The expected return can be said to be the return that would have been observed given that the event had not taken place whereas the actual return is the return observable in the acquired stock data.

The starting point is, hence, to calculate the actual return for each event window. CRSP provides return data directly allowing us to skip the step of converting prices into returns. The return data

⁹ Previous research comparing, for instance, cross-border and domestic acquisitions has shown similar discrepancies in sample size (see Moeller & Schlingemann, 2005; Francis, Hassan & Sun, 2008).

¹⁰ CUSIP stands for Committee on Uniform Security Identification Procedures and is represented by a nine-character alphanumeric code used to identify North American securities.

represents simple returns and has been adjusted for dividends, stock issues and splits. As seen later on, our cumulative abnormal return calculation sums daily abnormal returns within the event window. To be able to do this we first have to convert the simple returns into log returns in order to make them additive.

Following the calculation of actual returns we need to calculate the expected return in order to subtract it from the actual returns. A recurring model in similar research is the market model, which builds on the same concept as the more commonly known Capital Asset Pricing Model (CAPM) where the expected return is a function of the market return. Note however that the model, as seen in equation 1, is not the actual CAPM model but rather a way of estimating the beta coefficient to be used in our prediction of expected returns. This model is for example employed by MacKinley (1997) and Brown & Warner (1985). An alternative approach is to assume that the mean or expected return, of a specific stock is constant through time, unconditional on the market return. A closely related issue is the choice of data frequency. Merton (1980) argues that the accuracy of the beta estimation is positively correlated with the increase in data frequency. However, Scholes & Williams (1977) claims that nonsynchronous trading can result in biased estimations when using daily stock data. They find that the beta estimation for assets which are infrequently traded will see a downward biased whereas frequently traded assets will have an upward biased. Brown & Warner (1985) further elaborates on the findings by Scholes & Williams. They conclude that the effect of nonsynchronous trading will not cause misspecifications in event studies where the OLS regression is used for estimating the beta parameter. By definition, the OLS regression forces the residuals to sum to zero by including the intercept, alpha. The biased beta will thus be compensated with offsetting biasness in the alpha.

Since we use log returns, we implicitly assumes stationary in our returns which leads us to assume that the excess return of any specific asset has a zero mean unconditional on the market return. Though the excess return on a given asset may be biased, it does not necessarily imply a misspecification of the event study itself since the overall average bias should be zero as shown by Brown & Warner (1985). With footing in the above discussion we have decided to use daily frequency on our return data. The model of choice for estimating the expected return is the latter of the two mentioned above, i.e. the market model which has the following representation:

$$E[R]_{i,t} = \alpha_i + \beta_i R_{M,t} + \varepsilon_{i,t} \quad (1)$$

Where $E[R]_{i,t}$ is the expected return on asset i , expressed as a function of the return on the market, $R_{M,t}$. The alpha represents the part of the expected return that is unexplained by changes in the market return. The beta has the following representation:

$$\beta_i = \frac{Cov(R_i, R_M)}{Var(R_M)} \quad (2)$$

We have used CRSPs equally-weighted index as the regressor in the market model. Similar studies, performed on U.S. data (see Moeller & Schlingemann, 2004), employ the same index.

The abnormal returns can now be calculated using the following technique:

$$AR_{i,t} = R_{i,t} - \hat{\alpha}_i - \hat{\beta}_i R_{M,t} \quad (3)$$

Where $AR_{i,t}$ is the abnormal return on stock i at time t of the event window. $R_{i,t}$ and $R_{M,t}$ is the actual return on stock i and the return on the market index respectively. $\hat{\alpha}_i$ and $\hat{\beta}_i$ are the OLS parameters based on the estimation window. As mentioned earlier the parameters are estimated using an estimation window of -11 to -210 days prior to the announcement day. The set of abnormal returns are winsorized at the 0.5% level and the 99.5% level in order to reduce the effect of outliers on the central tendency calculation.

4.2.3.1 Alternative Method for Calculating Abnormal Returns

An alternative way of calculating abnormal returns, widely used in event studies, is clearly laid out by Thompson (1985) and further explained by Kramer (2000). The method is based on a multi-factor regression where a dummy variable (D_{it}), or in our study [DUM_EM_i], is assigned to the observations representing the event window. Specifically, the dummy variable is assigned a value of +1 for the event days and zero otherwise. A market model is then estimated for each of the acquiring firms using the estimation window and the event window as the parameter estimation range similar to the previous method. The model is best summarized in the following way:

$$R_{it} = \alpha_{i0} + \beta_{i1} M_{it} + \beta_{iD} D_{it} + \varepsilon_{it}, \quad i = (1, \dots, N) \quad (4)$$

Where, R_{it} is the return on firm i and $i = (1, \dots, N)$, M_{it} is the return on the equally weighted index portfolio and ε_{it} is the error term. The dummy variable coefficient, β_{iD} , captures the abnormal return aggregated over the event window.

4.2.4 Calculating Cumulative Abnormal Returns

In order to successfully test the existence of abnormal return we calculate what is commonly known as Cumulative Abnormal Return or CAR. This is done in three steps. Step one consists of averaging the abnormal returns (\overline{AR}_τ) in vector τ where $[\tau_1, \tau_2, \dots]$ represents the horizontal vector of abnormal returns in each day of the event window. If, the alternative method was used for calculating abnormal returns, this can be skipped as the dummy variable coefficient is a substitute for \overline{AR}_τ .

$$\overline{AR}_\tau = \frac{1}{N} \sum_{i=1}^N AR_{i\tau} \quad (4)$$

The Cumulative Abnormal Returns are then calculated by summarizing the average abnormal returns for each observation i :

$$\overline{CAR}(\tau_1 \dots \tau_2) = \sum_{\tau=1}^{\tau_2} \overline{AR}_\tau \quad (5)$$

This procedure is repeated for each of the four different event windows; [-1, 1], [-2, 2], [-3, 3], [-4, 4].

4.2.5 Hypothesis Testing

In order to establish whether or not the null hypothesis can be rejected we perform a student's t-test. This requires us to estimate the variance in the sample returns. Using historical estimations of variance in the respective asset prices would inherit the assumption that the event does not induce additional variance. Despite this rather blunt assumption, many previous studies, such as Brown & Warner (1985) have chosen to estimate the sample variance using their estimation window. As we have strong reason to believe that the event do induce additional variance in the returns and we are only interested in the value creating mean effect, we may, incorrectly reject the null hypothesis by basing our variance estimates on past returns. A solution to this problem is suggested by Campbell, Lo & MacKinlay (1997) who recommends using a cross-sectional approach to estimating variance. We have chosen to follow the latter method and therefore estimate our sample variance in the following way:

$$\widehat{Var}[\overline{CAR}(\tau_1, \tau_2)] = \frac{1}{N^2} \sum_{i=1}^N ((CAR_i(\tau_1, \tau_2)) - \overline{CAR}(\tau_1, \tau_2))^2 \quad (6)$$

This approach implicitly assumes that the observations of abnormal returns are uncorrelated. It is shown by Brown & Warner (1985) that this assumption holds as long as the event windows do not occur simultaneously in the sample. We therefore accept this assumption given the spread in our sample data. Subsequently we test the null-hypothesis using the central limit theorem for a normal distribution and formulate the test statistic as follows:

$$t = \frac{\overline{CAR}(\tau_1, \tau_2)}{\sqrt{\widehat{Var}[\overline{CAR}(\tau_1, \tau_2)]}} \quad (7)$$

4.3 Explanatory Regressions

We intend to give an explanation to the potential difference in abnormal return between emerging market transactions and developed market transactions upon announcement of a deal. In doing so we first have to establish that such a potential discrepancy between the two samples is not a product of factors influencing returns on a deal-by-deal basis but rather a result of the target firm's country of origin and that country's characteristics. We have therefore performed cross-sectional regressions using the abnormal returns as the dependent variable and an emerging market dummy [DUM_EM_i] as the independent variable controlling for several deal specific as well as acquirer specific factors expected to affect bidder returns. Given that the emerging market dummy still holds statistical significance *over and above* the controlling factors we turn to the task of trying to identify country specific factors driving the occurrence of abnormal returns. The set of country specific factors that we have acquired is separated into governance factors and economic factors. It is important to notice that the regressions based on country specific factors are kept completely isolated from the previous regressions due to the high correlation between the emerging market dummy and the country specific factors (see Panel E of Table 4 for a correlation matrix). Another way of looking at it is therefore to interpret the country specific factors as a breakdown of the emerging market dummy variable into economic and governance related factors. The strong differences in the country specific factors between the two samples, as shown in the descriptive statistics section, will work as the basis for interpreting the results generated by the explanatory regressions. Panel A to Panel E of Table 1 presents a summary of the independent variables used along with their respective sources.

4.3.1 Dependent Variable

As stated above, we use the cumulative abnormal return (CAR_i) as the dependent variable in the cross-sectional regressions since this abnormal return is what we seek to explain. Each regression has been performed using the five [-2, +2] day event window as this has shown to capture most of the announcement effect (see Figure 4 and 5 in the appendix).

4.3.2 Independent Variables

The first of the deal specific control factors is relative size [REL_SIZE_i]. The factor is meant to capture the potential relation between deal size and abnormal return. We have defined relative size as the deal value divided by the acquiring firm's market capitalization one day prior to the event window. Following relative size is the factor referred to as industrial diversification [DUM_INDDIV_i]. The variable is meant to capture the expectation that conglomerate deals are negatively correlated with abnormal returns. The factor is a dummy variable based on the SIC code classification further

categorized into 48 sub-categories as defined by Fama & French¹¹. We classify deals where the SIC codes differ between acquirer and target as industrial diversification, or conglomerate deals which are assigned a value of 1. Transactions where the SIC codes match are considered pure geographical diversification and holds a value of 0. Non-public status [DUM_NONPUB_i] refers to the public status of the target. That is, whether or not its stock is publicly traded. The variable is a dummy variable that separates the deals into two categories depending on the SDC classification of the targets public status. Transactions where the target is non-public are assigned a value of 1 whereas observations where the target is publicly traded are assigned a value of 0. Cash in payment [DUM_CASHINPAY_i] intends to capture the potential effect of the consideration composition on the abnormal return. The factor is created as a dummy variable based on the structure of consideration data from SDC. Deals where the consideration is made up solely by securities are assigned a value of 0 whereas deals that are partly financed with cash holds a value of 1. Based on findings from previous research we have created two additional dummy variables combining the public status and method of payment factors. Both variables focus on deals financed with equity but differ in the public status aspect. The first of the two factors is a combination of publicly traded targets and deals financed with equity [DUM_PUBEQ_i] which is assigned a value of 1 if the target is public and the deal is financed with equity and otherwise a 0. The second variable contains deals where the target is private and the transaction is financed with equity [DUM_PRIVREQ_i] and is assigned a value of 1 if the target is private and the deal is financed with equity and otherwise a 0.

Turning to the firm specific factors, the first variable is the acquirer market capitalization [ACQ_MRKTCAP_i]. As the name conveys, the variable aims to control for acquirer size through its market capitalization one day prior to the announcement date. The second firm specific factor is the market-to-book factor [MRKT_BOOK_i]. It is defined as the acquiring firm's market capitalization one day prior to the announcement date divided by its book value of equity as stated on the closing prior to the announcement date. The factor is meant to capture the potential effect on abnormal returns due to the classification of companies as growth companies or value companies. The variable called return-on-assets [RET_ASS_i] constitutes the acquiring firm's net income divided by its book value of total assets at closing for the year prior to the announcement of the transaction. The factor is meant to capture the potential effect on the abnormal return stemming from a firms historical performance. Following return-on-assets is the debt-to-equity factor [DEBTTO_EQ_i]. The variable is an accounting measure intended to help control for default risk due to high leverage. The factor is based on data from COMPUSTAT and is assigned the value of the acquiring firm's debt-to-equity ratio defined as interest bearing debt divided by common equity. Liquidity [LIQ_i] is defined as the average

¹¹ http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

trading volume of the acquiring firm's stock divided by the, at the time, prevailing share price based on stock data for the estimation window. The factor is intended to capture the effect on abnormal return induced by liquidity risk. Closely related to the liquidity factor are the standard deviation [STD_DEV_i], passed returns [PSSD_RET_i] and beta [BETA_i] factors. Each of those factors are based on stock data for the estimation window and are intended to control for momentum effects as well as the systemic risk faced by the acquiring firm's stock holders.

GDP per Capita [GDP_PCAP_i] is the first of the economic country specific factors. It is defined as the gross domestic product of the target country in the year of the announcement date divided by the population of the target country. As emerging markets are partly defined by the level of GDP per capita the factor is, as stated earlier, highly correlated with the emerging market dummy variable and will therefore not be used as a controlling factor. This is true for all of the country specific factors. The GDP growth [GDP_GROWTH_i] variable is defined as the annual percentage growth rate of GDP, based on constant local currency. Aggregates are based on constant 2000 U.S. dollars. Inflation [INFL_i] is measured by the consumer price index and reflects the annual percentage change in the cost to the average consumer of acquiring a predetermined basket of goods. The lending interest rate [LEND_INT_i] factor is defined by the average interest rate charged by banks in the target country to its prime customers. The market capitalization as percentage of GDP [MRKTCAP_PGDP_i] is, as its name implies, defined as the target countries total value of the traded stock of domestic companies divided by the countries aggregated gross domestic product in the respective year.

Included in the country specific factors are also six governance factors sourced from the World Databank intended to reflect the overall governance level in the target country. Although the factors are maintained by the World Databank, they were originally developed by Kaufmann, Kraay & Mastruzzi (2009).¹² The first of those factors is Control of Corruption [CTRL_CORR_i]. The variable measures the perception about the extent that public power is exercised for private gain. The factor takes on values based on units of the standard normal distribution, i.e. ranging from approximately -2.5 to 2.5 where a higher value indicates a greater control of corruption. The second governance related factor named Government Effectiveness [GOV_EFF_i] intends to capture the perception of the quality of public service and its independence from political pressure. It is assigned values in the same way as the control of corruption factor meaning that the factor can take on continuous values between -2.5 and 2.5. The third governance factor is referred to as Political Stability [POL_STAB_i] and intends to capture the perception of the likelihood that there will be a destabilization of the government as the result of unconstitutional or violent means. As with the previous governance

¹² As the governance factors sourced from the World Databank are presented semi-annual between 1997 and 2001 we have extrapolated between the surrounding years in order to create an annualized data set.

factors, political stability takes on continuous values between -2.5 and 2.5. Regulatory Quality [REG_QUAL_i] is the fourth governance factor and has the same structure as the three previous factors. The variable measures the ability of the target country government to formulate and implement sound policies and regulations allowing for private sector development. Voice and Accountability [VOICE_ACC_i] captures perceptions of the extent to which the citizens of the target country are able to participate in choosing their government, as well as their freedom of expression and autonomy of media. The last of the governance factors is Rule of Law [RULE_LAW_i] which captures perceptions of the extent to which agents have assurance in and abide of society rules and in particular the quality of contract enforcement and property rights as well as likelihood of crime and violence.

In addition to the six governance factors we have also chosen to construct a variable consisting of the average of the governance variables [AVG_GOV_i]. The variable is intended to capture the overall governance level of the target countries.

Finally, we have chosen to include the variables called Anti-Self-Dealing [ANTI_SELF_i], Anti-Director Rights [ANTI_DIR_i], and Creditor Rights [CRED_RIGHT_i] which are all focusing on stakeholder protection in the form of shareholders and debtholders (see Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2005; Djankov, McLiesh & Shleifer, 2007). The first factor measures a country's ability to reduce the risk of managers self-dealing in order to increase investor protection. The second index is based on a collection of variables intended to capture extent of corporate law protecting shareholders whereas the third factor is an index between 0 and 4 where values are assigned on the basis of the extent to which country laws protect secured debtholders.

4.3.3 Cross-Sectional Regression Models – Controlling Factors

In order to see if the potential relationship between abnormal returns and emerging market transactions hold after controlling for factors expected to affect the abnormal return we have developed eight multi-factor regression models. The classification of the controlling factors has resulted in that regression model 2 and 3 contains deal specific factors and that model 4 and 5 contains firm specific factors and acquirer stock specific factors respectively. Model 1 simply assesses the relationship between the abnormal return and the emerging market dummy variable in isolation. Model 6 and 7 contain a combination of factors derived on the basis of theoretical relevance, the magnitude of additional R-square contributed when added to model 1, and a minimum internal correlation limit to reduce the risk of multicollinearity, set to 0.50, based on the correlations shown in Panel E of Table 4. Model 8 includes all variables. On the basis of findings from previous research we have included dummy variables to control for year and industry in each of the models. As

mentioned earlier, the result from those dummy variables is not presented. Each regression is performed using robust standard errors¹³. The mathematical representation for each of the eight models is shown below (see Panel A to Panel E of Table 1 for an explanation of the factors):

Model 1

$$CAR_i = \beta_1 DUM_EM_i$$

Model 2

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 REL_SIZE_i + \beta_3 DUM_INDDIV_i + \beta_4 DUM_NONPUB_i + \beta_5 DUM_CASHINPAY_i$$

Model 3

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 REL_SIZE_i + \beta_3 DUM_INDDIV_i + \beta_4 DUM_PUBEQ_i + \beta_5 DUM_PRIVEQ_i$$

Model 4

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 LIQ_i + \beta_3 STD_DEV_i + \beta_4 PSSD_RET_i + \beta_5 BETA$$

Model 5

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 RET_ASS + \beta_3 DEBTTO_EQ + \beta_4 MRKT_BOOK + \beta_5 ACQ_MRKTCAP$$

Model 6

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 REL_SIZE_i + \beta_3 DUM_NONPUB_i + \beta_4 LIQ_i + \beta_5 STD_DEV_i + \beta_6 PSSD_RET_i$$

Model 7

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 REL_SIZE_i + \beta_3 DUM_PUBEQ_i + \beta_4 LIQ_i + \beta_5 STD_DEV_i + \beta_6 PSSD_RET_i$$

Model 8

$$CAR_i = \beta_1 DUM_EM_i + \beta_2 REL_SIZE_i + \beta_3 DUM_INDDIV_i + \beta_4 DUM_NONPUB_i + \beta_5 DUM_CASHINPAY_i + \beta_6 LIQ_i + \beta_7 STD_DEV_i + \beta_8 PSSD_RET_i + \beta_9 BETA + \beta_{10} MRKT_BOOK + \beta_{11} ACQ_MRKTCAP + \beta_{12} RET_ASS_i + \beta_{13} DEBTTO_EQ_i$$

4.3.4 Omitted Variable Bias

As seen in the previous section we test to see if our results are robust to the inclusion of a vast amount of controlling factors meant to capture deal specific and acquirer specific effects on abnormal returns. Despite this, there is a risk that our estimates are driven by omitted factors leading to a bias in our abnormal return estimates and specifically in the regression coefficient related to the emerging market dummy [DUM_EM_i]. From a practical standpoint, the issue of relevant variable omission not only leads to an incorrectly specified model but it also means that some or all of the estimated parameters may be biased. A simple way of explaining the concept of omitted variable biases is to consider a basic version of the OLS regression:

¹³ The observations are clustered using PERMNO numbers for the deal specific factor regressions and later country codes for the country specific regressions.

$$y_i = \beta_{i,x}X_i + \varepsilon_i \quad (8)$$

The issue surrounds concerns that the model shown in equation 8 may have omitted potentially important factors denoted by W_i that may lead to misperceptions about the influence of X on Y . This concern would suggest that there exist a potentially “true” model which could have the following representation:

$$y_i = \beta_{i,x}X_i + \beta_{i,w}W_i + \varepsilon_i \quad (9)$$

This would indicate that the underlying assumption that $E(\varepsilon_i) = 0$ is false and in fact:

$$E(\varepsilon_i) = \beta_{i,w}W_i \neq 0 \quad (10)$$

In light of this concern we want to emphasize that it is plausible that target firm characteristics similar to the once derived for the acquiring firm contributes to the explanation of abnormal returns. However, given the relatively high segmentation of emerging markets, we deem it unlikely that such characteristics should be correlated with acquirer firm specific variables leading to biases in such factors. It would instead be preferable to investigate the correlation between target firm specific variables and deal specific variables. However, due to the limited nature of emerging market firm specific data such tests lie outside the limitations for this thesis.

4.3.5 Cross-Sectional Regression Models – Explanatory Variables

In section 4.3.1 we test to see that the emerging market dummy holds significance over and above the controlling deal specific and acquirer specific factors. In the following section we try to explain such a potential correlation on the basis of country specific factors. We have already established the difference between the emerging markets sample and the developed markets sample with regard to country specific factors (see Panel B to Panel D of Table 4 regarding descriptive statistics). Regressing the abnormal return on to such factors will therefore provide us with a coefficient that, in conjunction with those differences between the samples, can help us draw conclusions about the relevance of such factors to the creation of abnormal returns. Each of the country specific variables is used individually in cross-sectional regression models with the abnormal return, for the entire sample, as the dependent variable. This results in one model for each of the factors. Empirical findings are summarized in Panel A of Table 7. Similarly to the deal and acquirer specific models, each of the country specific models includes factors controlling for industry and year. Finally, we perform multi-factor regressions where the explanatory power of the average governance factor [AVG_GOV_{*i*}] is made subject to the inclusion of country specific economic, deal specific and acquirer specific control variables (see Panel A of Table 8).

5 Empirical Findings

5.1 Descriptive Statistics

5.1.1 Geographical, Chronological and Industrial Sample Distribution

Panel A to Panel D of Table 3 presents an overview of our observations broken down by geographical presence of target, chronological deal occurrence and industry belonging for the emerging market and developed market samples, respectively. Panel A of Table 3 shows that, for the developed market sample, target firms located in the United Kingdom and Canada are over-represented with 29 percent and 23 percent, respectively, followed by Germany, accounting for 13 percent of the developed market sample.¹⁴ The same table shows that China, Mexico and Israel jointly accounts for nearly half of the target firms in the emerging market sample with 19 percent, 13 percent and 12 percent respectively.¹⁵ Looking at Panel D of Table 3 it is clear that the industrial classification of target firms is vastly spread across the 48 industrial classes developed by Fama & French¹⁶ with no obvious clustering around specific industries.

Turning to the chronological distribution of deals in the emerging market and developed market sample, as presented in Panel C of Table 3, we can conclude that the number of transactions is evenly spread out over the sample period both with regard to emerging market and developed market targets. There is a slight elevation in the number of deals performed between 1998 and 2000 which could be assumed to be in line with the prevailing economic environment at that time. This observation is not to be confused with the vast increase in M&A activity discussed in the theory section as our sample have been filtered using several restrictions applied for the reason of this particular study.

5.1.2 Deal Characteristics

Panel A of Table 4 shows the proportional split of the deal characteristic dummy variables between the emerging market and developed market samples. We have used a two-sample proportion test to evaluate the significance of the statistical difference in arithmetic averages between the two samples. As seen in Panel A. of Table 3, there exists no statistically significant difference between observations where the acquirer targets emerging market firms compared to acquirer's targeting developed market firms with regard to the deal specific dummy variables, aside from the variable combining public status and equity consideration. Apart from the presented variables, it is noticeable

¹⁴ Top ten countries in DM sample (in falling frequency) are: the UK, Canada, Germany, France, Australia, Netherlands, Sweden and Italy and Switzerland (tie) and Belgium.

¹⁵ Top ten countries in EM sample (in falling frequency) are: Israel, Mexico, China, Brazil, Argentina, South Korea, India, Chile, Thailand and Poland.

¹⁶ See http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

that nearly all transactions are classified as non-hostile in both samples. We will therefore be unable to control for the attitude factor in our regressions.

Panel B to Panel D of Table 4 presents descriptive statistics for the non-dummy variables divided into deal specific, acquirer stock specific, acquirer firm specific, country specific – governance, and country specific – economic groups depending on the nature of the variable. Panel B covers the entire time period, whereas Panel C and Panel D cover the first and the second sub-period respectively. Furthermore, we apply the Wilcoxon-Mann-Whitney test to see if there exists any statistically significant difference in the medians between the emerging market sample and developed market sample with regard to the different variables. The only deal specific variable, classified as a non-dummy variable is relative size [REL_SIZE_i]. For the entire time period and for the first sub-period there is a statistically significant difference across the two samples, with regard to relative size, where the developed market sample shows higher relative size. In the latter sub-period the difference is no longer statistically significant.

5.1.3 Acquirer Characteristics

With regard to the acquirer characteristics, we can see, in Panel B to Panel D of Table 4, that there is no statistically significant difference between the emerging market sample and the developed market sample in terms of historical average daily returns [PSSD_RET_i], levered beta [BETA_i] or market-to-book [MRKT_BOOK_i]. On the other hand, there is a statistically significant difference in stock volatility [STD_DEV_i] between the acquirers in the two samples for the entire time period and the first sub-period, where the acquirers in the emerging market sample show higher stock volatility. In the latter sub-period the difference in stock volatility is no longer statistically significant.

Furthermore, there is no statistically significant difference between the two samples with regard to market capitalization [ACQ_MRKTCAP_i] over the entire time period and the latter sub-period. However, there is a statistically significant difference between the two samples for the first sub-period, where the acquirers in the emerging market sample has higher market capitalization. This is to be expected, as larger companies often have easier access to capital and more of a global presence, thus might have been in a better position to enter emerging markets as a first mover during the increase in M&A activity in the late 1990's and early 2000's. Moreover, there is a statistically significant difference in stock liquidity [LIQ_i] between the two samples across the entire time period and the two sub-periods, where the emerging market sample shows higher liquidity.

With regard to the leverage of the acquirers we have used the previously mentioned debt-to-equity ratio [DEBTTO_EQ_i]. There is no statistically significant difference between the two samples over the entire time period and the first sub-period. However, for the latter sub-period the difference is

statistically significant, where the acquirers targeting emerging market firms show higher leverage. Finally, the return-on-assets [RET_ASS_i] show a statistically significant difference between the two samples for the entire time period and the first sub-period, where the acquirers in the developed market sample show higher return-on-assets. In the latter sub-period the difference is no longer statistically significant.

5.1.4 Country Characteristics

The country specific variables as presented in the methodology section are divided into governance factors and economic factors depending on their nature. The descriptive statistics for all country specific factors can be found in Panel B to D of Table 4. As to be expected, differences in the mean of those factors between the emerging market sample and the developed market sample are highly statistically significant across the board, aside from GDP growth [GDP_GROWTH_i], where the difference is not statistically significant in the first sub-period. In other words, the factors can be assumed to define whether or not a country is classified as a developed market or an emerging market. The MSCI Barra index, which has been used as our framework for choosing emerging market countries, uses similar criteria's for the inclusion of countries. For example, with regard to GDP we see that the average GDP growth is higher in the emerging market sample as compared to the developed market sample over the entire time period which is to be expected. Furthermore, the average GDP per capita [GDP_PCAP_i] in the developed market sample is nearly four times as high as the in the emerging market sample. In general, our findings with regard to differences in country specific factors between the samples are in line with our prior beliefs.

Their apparent high correlation with the classification of emerging markets and developed markets makes us unable to use the country specific characteristics in conjunction with the EM dummy variable [DUM_EM_i] in our explanatory regressions. Furthermore, in line with arguments made by Ellis, Moeller, Schlingemann & Stulz (2011) we assume strong multicollinearity between the country specific factors leading us to restrain from performing multifactor regressions including more than one country specific variable at a time (please see Panel E of Table 4 for the complete correlation matrix).

5.2 Acquirer Returns

Based on the discussion in the methodology section we have chosen to focus on the five [-2, +2] day event window throughout this study. Figure 3, covering the entire time period, illustrates that the designated event window of five days effectively captures most of the abnormal return over each sample. Please see Figure 4, in the appendix, for more detailed illustrations of the daily distribution in abnormal return.

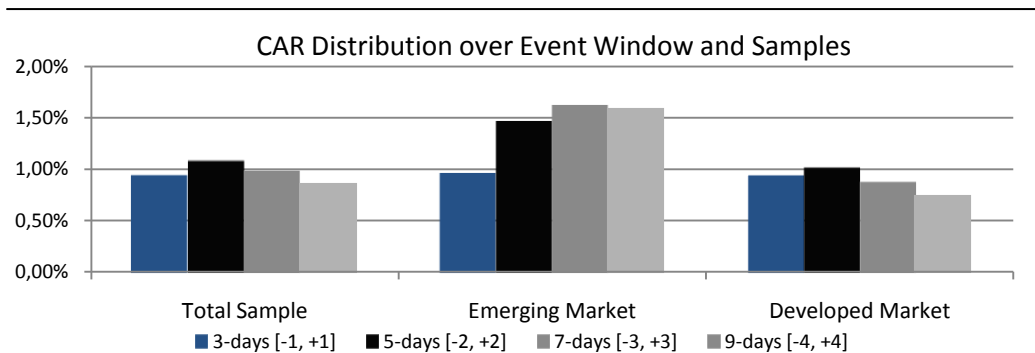


Figure 3 – Graph of the cumulative abnormal return captured for each of the event windows; 3-days [-1, +1], 5-days [-2, +2], 7-days [-3, +3] and 9-days [-4, +4]. The five day event window used for discussion purposes is presented in black.

In Panel A to Panel C of Table 5 the market adjusted abnormal return is presented for the emerging market sample, the developed market sample, and the total sample, across the entire time period (1998 to 2007) as well as for the two sub-periods (1998 to 2002 and 2003 to 2007), respectively. Over the entire time period the abnormal return is positive and statistically significant for each individual sample¹⁷.

For the total sample we report an abnormal return of 1.08 percent. The magnitude of the return is in line with earlier studies on cross-border acquisitions based on recent time periods (see Francis, Hassan & Sun, 2008; Moeller, Schlingemann & Stulz, 2011). For the emerging market sample and the developed market sample we report an abnormal return of 1.46 percent and 1.01 percent, respectively. This positive return in the emerging market sample supports our first hypothesis [H1]. Although this result indicates that emerging market acquisitions yield higher returns compared to developed market acquisitions over the entire time period, the difference between the two samples is not statistically significant. Hence, we cannot find support for the second hypothesis [H2] with regard to the entire time period.

When dividing the entire time period into our two sub-periods we find that, for the first sub-period, the abnormal return for the developed market sample is 0.54 percent but not statistically significant. The abnormal return for the emerging market sample, during the same time period, is 2.52 percent and significant at a one percent confidence level suggesting a clear difference in the return, favoring shareholders of firms acquiring targets in emerging markets as compared to developed markets. The incremental difference of 1.98 percent is statistically significant on a five percent level. This result gives support to our second hypothesis [H2] with regard to the first sub-period. Turning to the latter sub-period the scenario changes, the abnormal return for the emerging market sample, equal to 0.41

¹⁷ The results discussion solely refers to the five [-2, +2] day event window. The three [-1, +1] day, seven [-3, +3] day and nine [-4, +4] day results are presented in Panel A. of Table 4 of the appendix. The abnormal return is positive and significant over all event windows and samples for the entire time period.

percent, is not statistically significant, while the return for the developed market is 1.56 percent and significant at a one percent level. However, we find that the difference between the two samples is not statistically significant. The findings in the latter sub-period suggest that the emerging market premium¹⁸ attributable to the shareholders of the acquiring firm, found in the first sub-period, is no longer present in the more recent time period. This strengthens our belief that an emerging market premium was only prominent in the late 1990's and early 2000's due to the vast increase in M&A activity during this period and the potential undervaluation of emerging market assets. As discussed in the theory section, even though it still exists many differences between emerging markets and developed markets, the M&A activity and asset valuation have in recent years become more similar.

5.3 Cross-Sectional Regression Results

5.3.1 Controlling Variables and Robustness

As presented in the previous section, our study shows that there exists a statistically significant difference in abnormal returns between the emerging market sample and the developed market sample for the first sub-period. Hence, in support of our hypothesis, we show that emerging market acquisitions have historically yielded higher abnormal returns compared to developed market acquisitions. In the latter sub-period we also showed that the incremental difference between the two samples changes sign but is no longer statistically significant. By regressing abnormal returns onto the emerging market dummy variable [DUM_EM_{*i*}] (see Panel A of Table 6, model 1), controlling for year and industry, we can see that the difference between the two samples in the first sub-period is statistically significant on a five percent confidence level. The coefficient shows that emerging market acquisitions yield, on average, 2.21 percent higher return compared to a developed market acquisitions.¹⁹ To conclude that this result is robust to the inclusion of other variables, expected to affect acquirer return, we have performed several controlling multifactor regressions. Each regression includes the emerging market dummy variable as well as controlling variables for calendar year and industry. Furthermore, the regressions test for the inclusion of deal characteristic variables, acquirer stock characteristic variables and acquirer firm characteristic variables (see Panel A of Table 6).

As seen in Panel A of Table 6, the second model includes the deal characteristic variables relative size [REL_SIZE_{*i*}], cash in payment [DUM_CASHINPAY_{*i*}], non-public status [DUM_NONPUB_{*i*}] and industrial diversification [DUM_INDDIV_{*i*}]. When including those variables we find that the difference between

¹⁸ Our definition of an emerging market “premium” is that the shareholders of the acquiring firms targeting emerging markets gain higher abnormal returns than those targeting developed markets.

¹⁹ When not controlling for year and industry, the coefficient is 1.98 percent which is the same number that was derived in the event study and presented in the abnormal return section.

the emerging market sample and the developed market sample in the first sub-period is still statistically significant but drops to a ten percent confidence level. The third model is identical to the second model with the exception that cash in payment [DUM_CASHINPAY_i] and non-public status [DUM_NONPUB_i] is replaced by our two variables combining equity with either non-public ownership status [DUM_PRIVEQ_i] or public ownership status [DUM_PUBEQ_i]. This regression also shows that the difference in abnormal return between the samples in the first sub-period is still statistically significant on a ten percent level.

The fourth model tests if our findings in the first sub-period are robust to the inclusion of the acquirer stock characteristic variables; historical average daily stock return [PSSD_RET_i], stock volatility [STD_DEV_i], beta [BETA_i] and stock liquidity [LIQ_i]. The difference between the two samples in the first sub-period remains statistically significant on a five percent confidence level. The fifth model shows that this relationship is also statistically significant to the inclusion of the acquirer firm characteristic variables market capitalization [ACQ_MRKTCAP_i], market-to-book [MRKT_BOOK_i], debt-to-equity [DEBTO_EQ_i] and return-on-assets [RET_ASS_i].

Furthermore, model 6 and model 7 contain a combination of factors derived on the basis of theoretical relevance, magnitude of additional R-square contributed and a minimum correlation limit. When including those variables the difference in abnormal return between the emerging markets sample and the developed markets sample in the first sub-period is significant on a five percent confidence level. Lastly, when including all controlling variables, as seen in model 8, the difference between the two samples is still significant on a five percent confidence level.

From what have been presented in this section we can conclude that our findings showing that emerging market acquisitions yield, on average, higher abnormal returns compared to developed market acquisitions in the first sub-period holds to the inclusion of several controlling variables, both deal specific and acquirer specific. This result allows us to further strengthen our second hypothesis [H2].

Moreover, and in line with previous research within the field of cross-border M&A (see Fuller, Netter & Stegemoller 2002; Moeller & Schlingemann, 2005; Francis, Hassan & Sun, 2008), we find that the relative size of the acquiring firm and the target firm as well as the ownership structure of the target firm are important factors in explaining abnormal returns (see Panel A of Table 6). It can be noticed that these further findings are also present when considering the entire time period. First of all, we show that the relative size factor has a statistically significant, positive, correlation with abnormal returns. While previous research also show that acquisitions performed by smaller firms result, on average, in positive abnormal return, this effect is not consistent in our samples. This can partly be

explained by the fact that the acquirers that initially targeted emerging markets were significantly larger compared to the acquirers that targeted developed markets. Furthermore, we show that acquisitions of target firms that are not publicly traded are associated with higher acquirer returns. Moreover, when combining the factors of publicly traded target firms and equity payment we find that the combined factor is negatively correlated with abnormal returns. As explained by Andrade, Mitchell & Stafford (2001) acquisitions of publicly traded firms, financed with equity, can have a negative share price reaction due to the fact that the own share is perceived as over-valued. Thus, this is not necessarily a response to the acquisition itself, but may rather be a correction of the current market valuation. However, the proportion of transactions involving publicly traded firms and equity consideration are very small in both the emerging market and developed market sample (see Panel A of Table 4).

5.3.2 Country Specific Regressions

As presented in the previous sections, our study shows a statistically significant difference in abnormal returns between the emerging market acquisitions and developed market acquisitions for the first sub-period. We further prove that the result holds to the inclusion of several deal specific and acquirer specific factors. For the entire time period and the latter sub-period there is no statistically significant difference in abnormal return between the two samples. In the following section, we therefore aim to explain the observed difference in abnormal return between emerging market acquisitions and developed market acquisitions in the first sub-period using country specific characteristics. As shown in Panel B to Panel D of Table 4, and discussed in the descriptive statistics section 4.1.4, the difference in the median of those factors between the emerging market sample and the developed market sample is highly statistically significant across the board, aside from GDP growth [GDP_GROWTH_i], where the difference is not statistically significant in the first sub-period. In other words, the factors can be assumed to influence the classification of emerging market and developed market countries. Regressing the abnormal return on to such factors will therefore provide us with a coefficient that, in conjunction with those differences between the samples, can help us draw conclusions about the relevance of such factors to the formation of abnormal returns. As earlier stated, and in accordance with previous research, the multicollinearity between the country specific variables makes it difficult to perform multifactor regressions including more than one country specific variable at a time. Hence, the regressions found in Panel A of Table 7 consider each factor in isolation while controlling for year and industry. The robustness of those findings is later tested in a multivariate environment (see Panel A of Table 8). In similarity with the results surrounding the emerging market dummy variable [DUM_EM_i], the findings in the first sub-period

with regards to the country specific variables also holds to the inclusion of several deal and acquirer specific control variables.

We start by considering the governance indices developed by Kaufmann, Kraay & Mastruzzi (2009). Similar to the emerging market dummy [DUM_EM_i], we find that most of these factors are significant during the first sub-period. Furthermore, during this time period all of the governance indices are negatively correlated with abnormal returns, indicating that poor governance in the target country is related to positive acquirer returns.

Firstly, we consider the rule of law index [RULE_LAW_i]. We find that acquisitions in countries with poor legal systems yield, on average, higher acquirer abnormal return compared to acquisitions in countries with well-established legal systems. With a standard deviation of 0.57 and a coefficient of -0.018 we can establish that a decrease by one standard deviation in the rule of law index increases the abnormal return with 103 basis points. Thus, we consider the result to be both statistically and economically significant. As with the rule of law index [RULE_LAW_i] we find similar results for the regulatory quality index [REG_QUAL_i], government effectiveness index [GOV_EFF_i], control of corruption index [CTRL_CORR_i] as well as the voice and accountability index [VOICE_ACC_i] over the first sub-period. All those factors are statistically significant on a five percent confidence level. Noticeable is that the political stability index [POL_STAB_i] is not statistically significant during the first sub-period. However, similar to the other governance indices, the index has a negative correlation with abnormal returns. In line with the previous findings, the average governance index [AVG_GOV_i], which represents the arithmetic mean of the other six governance indices, has a statistically significant coefficient negatively related to abnormal returns. A decrease by one standard deviation in the average governance index increases the abnormal return with 97 basis points. Overall we can conclude that during the first sub-period acquisitions in countries with poor governance are positively correlated with acquirer returns, which provide support to our third hypothesis, [H3]. We believe that this can be partially explained by a transfer of corporate governance between the acquiring firm and the target firm (see Rossi & Volpin, 2004; Bris & Cabolis, 2008; Wang & Xie, 2009) which may be, directly or indirectly, a result of country wide governance. Our results during the first sub-period are also in line with the recent findings of Ellis, Moeller, Schlingemann & Stulz (2011). It should be noted that over the entire time period the coefficient remains negative for all factors, yet only the political stability and regulatory quality indices are significant. In the latter sub-period a few of those factors also change to a small, yet positive, coefficient. In lighting of our previous findings, this is to be expected since we have only established a difference in abnormal returns between acquisitions targeting emerging markets and developed market in the first sub-period. Furthermore, Panel B to Panel D of Table 4 show that the difference across the country governance factors

between emerging market countries and developed market countries has decreased in the latter sub-period.

In addition to the governance factors developed by Kaufmann, Kraay & Mastruzzi (2009), we consider the anti-self-dealing index [ANTI_SELF_{*i*}] and the anti-director rights index [ANTI_DIR_{*i*}] (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2005) which intends to capture the shareholder protection of each country (see Panel A of Table 7). In similarity with the governance indices, the shareholder protection indices are statistically significant and negatively correlated with abnormal returns in the first sub-period. A decrease by one standard deviation in the anti-self-dealing index and the anti-director rights index increases the abnormal return with 45 basis points and 70 basis points respectively. This leads us to conclude that the variables also hold economic significance, to a certain extent. La Porta, Lopez-de-Silanes, Shleifer & Vishny (1999) argue that most developed market countries have well-functioning legal systems that protect the rights of the shareholders, whereas many emerging market countries suffer from poor legal systems and weak enforcement of laws. Moreover, as earlier stated, research suggests that a developed market acquirer can increase the value of an emerging market target firm by transferring its corporate governance. Our findings show that acquisitions by developed market acquirers (from countries with high shareholder protection) targeting emerging market firms (from countries with poor shareholder protection) are associated with positive abnormal returns. This, again, suggests that the positive acquirer stock price reaction during the first sub-period may derive from a transfer of corporate governance from the developed market acquirer to the emerging market target. Over the entire time period the coefficients for the shareholder protection indices are very small and neither statistically nor economically significant. Again, this is to be expected in view of our previous findings. Finally, we test the correlation between abnormal returns and creditor rights [CRED_RIGHT_{*i*}] (see Djankov, McLiesh & Shleifer, 2007). Although the variable significantly differ between the emerging market sample and developed market sample (see Panel B to Panel D of Table 4) we cannot find any evidence to suggest that the variable is in any way associated with abnormal returns in the first sub-period. There could still be a possibility that creditor rights and access to capital in the target country are associated with acquirer returns, yet the creditor rights variable developed by Djankov, McLiesh & Shleifer (2007) provides no indication of this in our sample.

In line with recent research (see Ellis, Moeller, Schlingemann & Stulz, 2011) we are unable to find any evidence that country specific economic variables in the target country are related to abnormal returns. As to be expected, GDP per capita [GDP_PCAP_{*i*}] and market capitalization to GDP [MRKTCAP_PGDP_{*i*}] show negative coefficients, whereas inflation [INFL_{*i*}] and lending interest rate [LEND_INT_{*i*}] show positive coefficients over the first sub-period. It is noticeable that GDP growth

[GDP_GROWTH_i] has a negative correlation with abnormal return. However, this is not surprising as we could not establish a statistically significant difference in GDP growth between emerging markets and developed markets during this period. Even though the country specific economic factors show no significant correlation with abnormal return in isolation we find interesting results when combining the variables with country specific governance variables. Our first regression (see Panel A of Table 8) regress abnormal return on to the average governance index [AVG_GOV_i], GDP per capita [GDP_PCAP_i] and lending interest rate [LEND_INT_i] intended to act as proxies for country governance, economic development and cost of capital. After controlling for the economic variables the average governance index remains significant on a five percent confidence level in the first sub-period. GDP per capita and lending interest rate are still not significant. However, the coefficient changes sign for both of the economic variables. GDP per capita now has a positive coefficient, whereas lending interest rate shows a negative coefficient. These findings further strengthen our belief that the difference in abnormal returns between acquisitions in emerging markets and developed markets in the first sub-period may be partially explained by differences in governance rather than economic discrepancies. After extending the regression (see Panel A of Table 8, model 2 to 5) with a set of deal, acquirer firm and acquirers stock controlling factors the average governance index is still significant. The same results hold for each of the individual significant governance factors in the first sub-period.

6 Conclusion

In this thesis we have presented evidence showing that cross-border acquisitions, made by U.S. firms, targeting emerging market firms have historically yielded higher acquirer returns compared to acquisitions of developed market firms. The decision to divide our sample into two sub-periods has led to findings suggesting that there existed a first mover premium, attributable to the shareholders of the acquiring firms during the late 1990's and early 2000's. This time period was characterized by a rapid increase in cross-border emerging market acquisitions, as a result of the East Asian crisis, the de-regulation of foreign corporate ownership in Asia and the ongoing corporate privatization in Latin America. The findings are robust to the inclusion of several deal specific, acquirer firm specific as well as acquirer stock specific factors expected to affect acquirer returns. Furthermore, our study shows that the difference in abnormal returns between acquisitions targeting emerging markets and acquisitions targeting developed markets is not present in more recent data suggesting that such a premium has been phased out. In addition to the limited research on emerging market M&A, existing today, our findings provide insight on the evolution of acquirer returns from cross-border acquisitions targeting those regions.

Our results show evidence that the historical difference in abnormal returns between acquisitions targeting emerging markets and acquisitions targeting developed markets can be partly explained by differences in country characteristics. We conclude that this difference in returns is not a result of discrepancies in economic development, but rather a consequence of poor governance and weaker shareholder protection in emerging market countries. Each of those factors has a significantly negative correlation with acquirer returns. In other words, cross-border acquisitions targeting firms residing in countries characterized by low shareholder protection and poor governance yield, on average, higher returns. The disappearance of the acquirer premium in later years may therefore be the result of a transfer of corporate governance from developed market firms to emerging market firms through means of acquisitions. This theory also finds support in research on foreign direct investments, showing that when a developed market firm invests in an emerging market firm, the entire target industry is subject to an increase in corporate governance.

6.1 Suggestions for Further Research

The findings presented in this thesis holds to the inclusion of several controlling factors that are expected to explain acquirer returns. However, although we have considered a variety of variables related to M&A deals as well as the acquiring firm there can still exist omitted factors that are correlated with our proxies for country characteristics. Such factors could be additional features of the acquiring firm as well as for the target firm. In terms of the acquiring firm we believe that it

would be highly relevant to test the evolution of goodwill on the balance sheet as a proxy for the firm's historical M&A activity. On the topic of previous M&A activity one might also like to take it to an individual level by quantifying the acquiring firm's managerial experience of M&A. This would require theory or previous research showing that prior M&A experience is correlated with future success in the task of acquiring firms. In terms of the target firm it is more difficult to test for controlling factors since it requires that the sample exclusively considers public target firms. Even though this would considerably decrease the sample size, it would be interesting to apply the same factors that have been used for the acquiring firms in this study on the target firms.

In addition to our findings, it would be interesting to see if there exist regional differences across the emerging market countries that are associated with acquirer returns. This could be made possible by including additional developed market acquirers from Europe and Asia, which would further extend the sample of emerging market acquisitions allowing the author to divide the emerging markets into several sub-categories. Furthermore, in light of the recent financial crisis and its impact on the world economy it would be relevant to repeat our study on a sample of acquisitions taking place subsequent to the crisis. This is especially interesting from a governance perspective as the aftermath of the financial crisis has led to a regulatory increase in the developed markets possibly further widening the gap between emerging markets and developed markets.

7 References

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8 Appendix

Table 1
Variable Definition

The table presents a short description of each acquirer firm specific [Panel A], acquirer stock specific [Panel B], country specific – governance [Panel C], country specific – economic [Panel D] and deal specific [Panel E] variables used in the study along with its source and yearly data availability.

Panel A. Acquirer Firm Specific Variables			
Variable Name	Definition	Source	Data Year
RET_ASS	Return-on-Assets is defined as the acquiring firm's net income divided by its book value of total assets for the prior year.	Center for Research in Security Prices (CRSP) and COMPUSTAT	1998 – 2007
DEBTO_EQ	Debt-to-Equity ratio is calculated by dividing the acquirer's total interest bearing debt by its common equity as stated for the fiscal year ending prior to the announcement day.	COMPUSTAT	1998 – 2007
MRKT_BOOK	Market-to-book is based on the acquiring firm's market cap., one day prior to the announcement day, divided by its book value of equity as stated for the most recent fiscal year.	Center for Research in Security Prices (CRSP) and COMPUSTAT	1998 – 2007
ACQ_MRKTCAP	Acquirer market cap. is defined as the acquiring company's share price in USD, one day prior to the announcement day times its total number of common shares outstanding.	Center for Research in Security Prices (CRSP)	1998 - 2007
Panel B. Acquirer Stock Specific Variables			
LIQ	Liquidity is defined as the average of the acquiring firm's daily trading volume divided by the, at the time prevailing, share price.	Center for Research in Security Prices (CRSP)	1998 – 2007
STD_DEV	Standard deviation is calculated based on the log returns for the acquiring firm during the estimation period.	Center for Research in Security Prices (CRSP)	1998 – 2007
PSSD_RET	Passed return is calculated as the average of the daily log returns for the acquiring firm during the estimation period.	Center for Research in Security Prices (CRSP)	1998 – 2007
BETA	Beta is defined as the levered beta for the acquiring firm estimated as the regression coefficient in an OLS regression of the stock returns on to the market return during the estimation window.	Center for Research in Security Prices (CRSP)	1998 – 2007
Panel C. Country Specific - Governance Variables			
VOICE_ACC	Voice and Accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.	World Governance Indicator (World Databank)	1998 – 2007
RULE_LAW	Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	World Governance Indicator (World Databank)	1998 – 2007

Panel C. Continued - Country Specific - Governance Variables

ANTI_SELF	Anti-Self-Dealing index is defined as the index developed by Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer, (2005). It measures a countries ability to reduce the risk of managers self-dealing in order to increase investor protection.	Djankov et al. (2005)	2003
ANTI_DIR	Anti-Director Rights index is based on a collection of variables that captures the extent of corporate law toward shareholder protection.	Djankov et al. (2008)	2008
CTRL_CORR	Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.	World Governance Indicator (World Databank)	1998, 2000, 2002 -2007
GOV_EFF	Government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressure, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	World Governance Indicator (World Databank)	1998, 2000, 2002-2007
POL_STAB	Political Stability and Absence of Violence/Terrorism captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.	World Governance Indicator (World Databank)	1998, 2000, 2002-2007
REG_QUAL	Regulatory quality measures the ability of the government in the target country to formulate and implement sound policies and regulations that permit and promote private sector development.	World Governance Indicator (World Databank)	1998, 2000, 2002-2007
AVG_GOV	Average governance is calculated as the arithmetic mean of the six world databank governance indices; Voice and Accountability, Rule of Law, Control of Corruption, Government Effectiveness, Political Stability and Regulatory Quality.	World Governance Indicator (World Databank)	1998, 2000, 2002-2007
CRED_RIGHT	Creditor rights is represented by an index developed by Djankov et al. (2007) following the method of La Porta et al (1998). The index assigns a country specific score between 0 and 4 depending on the rights of secured lenders defined in the laws and regulations of the specific country.	Djankov et al. (2007)	2003

Panel D. Country Specific - Economic Variables

GPD_PCAP	GDP per capita measured in 2007 USD.	World Development Indicator (World Databank)	1998 - 2007
GDP_GROWTH	GDP growth is defined as the annual percentage growth rate of GDP, based on constant local currency. Aggregates are based on constant 2000 USD.	World Development Indicator (World Databank)	1998 - 2007

Panel D. Continued - Country Specific - Economic Variables			
INFL	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.	World Development Indicator (World Databank)	1998 - 2007
LEND_INT	Lending interest rate is the rate charged by banks on loans to prime customers.	World Development Indicator (World Databank)	1998 - 2007
MRKTCAP_PGDP	Market capitalization as percentage of GDP , measured as the share price times the number of shares outstanding, for all domestic listed companies divided by the total GDP.	World Development Indicator (World Databank)	1998 - 2007
Panel E. Deal Specific Variables			
REL_SIZE	Relative size measures the size of the deal as percentage of acquirer market capitalization one day prior to announcement date.	Center for Research in Security Prices (CRSP)	1998 - 2007
DUM_INDDIV	Industrial diversification refers to industrial or geographic acquisition strategy based on the target country and industry SIC Code. Deals that are considered industrial diversification are assigned a value of 1, otherwise 0.	Thomson Reuters SDC Database	1998 - 2007
DUM_NONPUB	Non-public status is defined by observations where the shares of the target firm are not publicly traded. The factor is created as a dummy variable where the value of 1 is assigned to deals where the target is non-public and 0 otherwise.	Thomson Reuters SDC Database	1998 - 2007
DUM_CASHINPAY	Cash in payment separates deals into two categories based on the structure of the consideration. The factor is thus a dummy variable with deals where the consideration consists partly of cash are assigned a value of 1 and 0 otherwise.	Thomson Reuters SDC Database	1998 - 2007
DUM_PUBEQ	Public Status & Equity Consideration is based on two dummy variable combining the public status variable with the Method of Payment variable. Both variables focus on deals financed with equity but differ in the public status aspect. The DUM_PUBEQ variable is assigned a value of 1 if the target is public and the deal is financed with equity, otherwise 0. The DUM_PRIVEQ variable is assigned a value of 1 if the target is non-public and the deal is financed with equity, otherwise 0.	Thomson Reuters SDC Database	1998 - 2007
DUM_PRIVEQ			

Table 2
Data Filtering

The table presents a description of the filters applied when deriving the sample data along with the reduction in observations for each filter [Panel A]. The data has been collected from the Securities Data Company's (SDC) Global Mergers and Acquisitions database and the Center of Research in Security Prices (CRSP) database.

Panel A. Data Filtering					
Application	Filter	Description	# of Observations		
			<u>EM</u>	<u>DM</u>	<u>Total</u>
SDC Platinum	Target Nation	MSCI EM Index (excl. Greece incl. Venezuela) / MSCI DM Index (excl. Greece)	70 553	186 852	257 405
SDC Platinum	Aquiror Nation	USA	5 123	13 052	18 175
SDC Platinum	Acquiror Public Status	Public	2 697	6 846	9 543
SDC Platinum	Target Public Status	Investor, Private, Public, Subsidiary, Unknown	2 482	6 670	9 152
SDC Platinum	% Owned Post-Transaction	50% to 100%	1 342	4 898	6 240
SDC Platinum	Deal Value	Where info is available	610	2 473	3 083
SDC Platinum	Deal Status	Completed	609	2 469	3 078
Excel	% Owned Pre-transaction	0% to 49%	549	2 391	2 940
CRSP	CUSIP to PERMNO	Drop if PERMNO is missing	459	2 036	2 495
CRSP	PERMNO to Stock Price and # of Shares (on Announcement)	Drop if data is unavailable	434	1 979	2 413
Excel	Minimum Transaction Value as % of acq. Market Cap.	Minimum 1%	242	1 448	1 690
CRSP/STATA	Multiple Transactions Within the Same Event Window	Remove observations with more than one trans. in event window	241	1 402	1 643
CRSP/STATA	Stock Return for CAPM/CAR Estimation	Estimation window: 200 days (-11 to -210), Event window: 9 days (+/- 4)	217	1 273	1 490
			217	1 273	1 490

Table 3
Descriptive Statistics for Samples

The table reports descriptive statistics for the full sample of 1,490 acquisitions as well as for the emerging markets sub-sample of 217 acquisitions and the developed markets sub-sample of 1,273 acquisitions. The data has been collected from the Securities Data Company's (SDC) Global Mergers and Acquisitions database and is presented by target country for the developed markets sample [Panel A] and the emerging markets sample [Panel B], year of acquisition [Panel C] and target industry classification [Panel D] based on classifications developed by Eugene F. Fama and Kenneth R. French.

Panel A. Sample Distribution by Target Country - Developed Markets Sample			
Target Country	N	DM	% of sample
			Total
Australia	60	5%	4%
Austria	5	0%	0%
Belgium	16	1%	1%
Canada	294	23%	20%
Denmark	13	1%	1%
Finland	15	1%	1%
France	109	9%	7%
Germany	163	13%	11%
Greece	0	0%	0%
Hong Kong	15	1%	1%
Ireland	13	1%	1%
Italy	29	2%	2%
Japan	12	1%	1%
Netherlands	48	4%	3%
New Zealand	10	1%	1%
Norway	15	1%	1%
Portugal	3	0%	0%
Singapore	6	0%	0%
Spain	14	1%	1%
Sweden	29	2%	2%
Switzerland	29	2%	2%
United Kingdom	375	29%	25%
United States	0	0%	0%
Total	1273	100%	85%

Panel B. Sample Distribution by Target Country - Emerging Markets Sample			
Target Country	N	% of Sample	
		EM	Total
Argentina	17	8%	1%
Brazil	19	9%	1%
Chile	7	3%	0%
China	26	12%	2%
Colombia	1	0%	0%
Czech Republic	5	2%	0%
Egypt	2	1%	0%
Hungary	5	2%	0%
India	8	4%	1%
Indonesia	2	1%	0%
Israel	42	19%	3%
Jordan	0	0%	0%
Malaysia	4	2%	0%
Mexico	29	13%	2%
Morocco	0	0%	0%
Pakistan	0	0%	0%
Peru	0	0%	0%
Philippines	1	0%	0%
Poland	5	2%	0%
Russian Fed	3	1%	0%
South Africa	3	1%	0%
South Korea	13	6%	1%
Thailand	6	3%	0%
Taiwan	16	7%	1%
Turkey	0	0%	0%
Venezuela	3	1%	0%
Total	217	100%	15%

Panel C. Sample Distribution by Year						
Announcement Year	EM		DM		Total	
	N	% of sample	N	% of sample	N	% of sample
1998	25	12%	184	14%	209	14%
1999	25	12%	135	11%	160	11%
2000	25	12%	131	10%	156	10%
2001	17	8%	125	10%	142	10%
2002	16	7%	107	8%	123	8%
2003	13	6%	91	7%	104	7%
2004	19	9%	138	11%	157	11%
2005	22	10%	133	10%	155	10%
2006	37	17%	114	9%	151	10%
2007	18	8%	115	9%	133	9%
Total	217	100%	1273	100%	1490	100%

Panel D. Sample Target Firm Distribution by Industry (SIC Classification)

Industry	<u>EM</u>		<u>DM</u>		<u>Total</u>	
	N	%	N	%	N	%
Agriculture	0	0%	0	0%	0	0%
Food Products	5	2%	17	1%	22	1%
Candy & Soda	3	1%	5	0%	8	1%
Beer & Liquor	0	0%	5	0%	5	0%
Tobacco Products	1	0%	8	1%	9	1%
Entertainment	0	0%	9	1%	9	1%
Printing and Publishing	1	0%	10	1%	11	1%
Consumer Goods	6	3%	63	5%	69	5%
Apparel	3	1%	4	0%	7	0%
Healthcare	0	0%	5	0%	5	0%
Medical Equipment	6	3%	47	4%	53	4%
Pharmaceutical Products	8	4%	42	3%	50	3%
Chemicals	2	1%	23	2%	25	2%
Rubber and Plastic	4	2%	13	1%	17	1%
Textiles	2	1%	6	0%	8	1%
Construction Materials	2	1%	15	1%	17	1%
Construction	3	1%	3	0%	6	0%
Steel Works Etc	5	2%	18	1%	23	2%
Fabricated Products	0	0%	6	0%	6	0%
Machinery	5	2%	74	6%	79	5%
Electrical Equipment	2	1%	21	2%	23	2%
Automobiles and Trucks	12	6%	31	2%	43	3%
Aircraft	0	0%	5	0%	5	0%
Shipbuilding, Railroad Equipment	0	0%	4	0%	4	0%
Defense	0	0%	0	0%	0	0%
Precious Metals	0	0%	0	0%	0	0%
Non-Metallic and Industrial	11	5%	5	0%	16	1%
Coal	0	0%	0	0%	0	0%
Petroleum & Natural Gas	13	6%	51	4%	64	4%
Utilities	11	5%	22	2%	33	2%
Communication	9	4%	29	2%	38	3%
Personal Services	4	2%	40	3%	44	3%
Business Services	23	11%	170	13%	193	13%
Computer Hardware	26	12%	71	6%	97	7%
Computer Software	14	6%	174	14%	188	13%
Electronic Equipment	10	5%	31	2%	41	3%
Measuring and Control	3	1%	40	3%	43	3%
Business Supplies	1	0%	17	1%	18	1%
Shipping Containers	2	1%	13	1%	15	1%
Transportation	3	1%	22	2%	25	2%
Wholesale	5	2%	54	4%	59	4%
Retail	2	1%	24	2%	26	2%
Restaraunts, Hotels, Motels	1	0%	15	1%	16	1%
Banking	2	1%	10	1%	12	1%
Insurance	3	1%	19	1%	22	1%
Real Estate	2	1%	18	1%	20	1%
Trading	0	0%	4	0%	4	0%
Almost Nothing	0	0%	5	0%	5	0%
Total	217	100%	1273	100%	1490	100%

Table 4
Descriptive Statistics for Variables

The table reports multivariate statistics for the dummy variables [Panel A] and descriptive statistics for the non-dummy variables over the entire sample, the emerging markets sample and the developed markets sample during the entire time period [Panel B], the first sub-period [Panel C] and the second sub-period [Panel D]. It also reports variable correlations listed in a correlation matrix [Panel E]. The p-values in Panel A show the confidence level for a comparison of the proportional distribution of each dummy variable between the emerging markets sample and the developed markets sample. The p-values presented in Panel B to Panel D represent the confidence level for a comparison test between the medians in the emerging markets sample and the developed markets sample for each of the variables.

Panel A. Distribution of Dummy Variables by Sample					
Variable	<u>EM</u> (%)	<u>DM</u> (%)	<u>Total</u> (%)	<u>Difference</u> (%)	<u>P-Value</u>
Industrial Diversification	19.82	22.86	22.42	-3.04	<i>0.321</i>
Non-Public Status	45.62	48.23	47.85	-2.61	<i>0.477</i>
Cash in Payment	92.17	90.57	90.81	1.59	<i>0.451</i>
Public Status & Equity Consideration	0.92	3.30	2.95	-2.38*	<i>0.056</i>
Private Status & Equity Consideration	5.07	4.63	4.70	0.43	<i>0.777</i>

Panel B. Descriptive Statistics for Non-Dummy Variables (1998 - 2007)

Variable	Total						EM				DM				P-Value
	N	Mean	Std. Dev	Min	Median	Max	N	Mean	Std. Dev	Median	N	Mean	Std. Dev	Median	
<u>Deal Specific (Non-Dummy)</u>															
Relative Size	1490	17.64%	55.50%	1.01%	5.30%	1200.81%	217	13.85%	45.68%	4.39%	1273	18.28%	57.00%	5.52%	0.015
<u>Acquirer Stock Specific</u>															
Levered Beta	1 490	1.34	0.84	-0.98	1.21	4.91	217	1.4	0.9	1.3	1 273.0	1.3	0.8	1.2	0.318
Passed Returns (Daily Average)	1 490	0.03%	0.26%	-1.27%	0.03%	1.13%	217	0.03%	0.30%	0.03%	1 273	0.03%	0.25%	0.03%	0.997
Standard Deviation	1 490	3.41%	1.95%	0.36%	2.87%	15.07%	217	3.70%	2.26%	3.11%	1 273	3.36%	1.89%	2.86%	0.080
Liquidity ¹	1 221	53.68	180.75	0.00	12.83	2 300.00	179	75.46	223.51	21.30	1 042	49.94	172.19	11.71	0.000
<u>Acquirer Firm Specific</u>															
Acquirer Market Cap. ¹	1 490	4 123	14 674	1	796	335 789	217	4 988	18 764	1 009	1 273	3 975	13 861	750	0.191
Market-to-Book	1 191	2.68	11.05	-257.11	2.32	69.22	158	2.06	21.46	2.48	1 033.00	2.78	8.40	2.32	0.267
Debt-to-Equity Ratio	1 185	0.66	2.29	-21.75	0.33	38.53	156	0.86	3.65	0.26	1 029	0.63	2.00	0.34	0.405
Return on Assets	1 298	-1.84%	24.92%	-324.66%	3.76%	37.24%	185	-8.64%	41.55%	2.69%	1 113	-0.71%	20.73%	3.91%	0.008
<u>Country Specific - Governance</u>															
Anti-Self Dealing Index	1 490	0.61	0.26	0.09	0.65	1.00	217	0.52	0.23	0.55	1 273	0.62	0.26	0.65	0.000
Anti-Directory Index	1 490	3.80	1.00	0.00	4.00	5.00	217	3.31	1.23	3.50	1 273	3.89	0.93	4.00	0.000
Political Stability	1 474	0.77	0.54	-2.04	0.94	1.58	201	-0.26	0.65	-0.22	1 273	0.93	0.27	0.98	0.000
Control of Corruption	1 474	1.64	0.68	-1.06	1.91	2.47	201	0.23	0.66	0.29	1 273	1.86	0.32	1.94	0.000
Regulatory Quality	1 474	1.39	0.50	-1.08	1.55	2.03	201	0.39	0.58	0.42	1 273	1.54	0.24	1.56	0.000
Government Effectiveness	1 474	1.59	0.55	-0.76	1.80	2.19	201	0.46	0.55	0.58	1 273	1.77	0.25	1.85	0.000
Rule of Law	1 474	1.44	0.57	-1.12	1.69	1.96	201	0.37	0.79	0.24	1 273	1.61	0.27	1.71	0.000
Voice and Accountability	1 474	1.26	0.61	-1.72	1.49	1.83	201	0.25	0.93	0.34	1 273	1.42	0.32	1.50	0.000
Average Governance Index	1 474	1.35	0.51	-0.92	1.54	1.83	201	0.24	0.54	0.32	1 273	1.52	0.18	1.57	0.000
Creditor Rights	1 490	2.30	1.38	0.00	3.00	4.00	217	1.83	1.04	2.00	1 273	2.39	1.41	3.00	0.000
<u>Country Specific - Economic</u>															
GDP per Capita	1 474	27.32	11.00	0.45	25.60	82.29	201	8.38	6.51	6.49	1 273	30.31	8.24	27.17	0.000
GDP Growth	1 474	3.08%	2.25%	-10.89%	2.95%	14.20%	201	4.58%	4.62%	4.70%	1 273	2.84%	1.44%	2.85%	0.000
Lending Interest Rate	1 474	6.73%	7.68%	0.00%	5.81%	86.36%	201	15.94%	17.17%	10.03%	1 273	5.28%	2.55%	5.52%	0.000
Inflation	1 474	2.42%	2.13%	-3.96%	2.13%	35.78%	201	4.45%	4.72%	3.88%	1 273	2.10%	1.00%	2.00%	0.000
Total Market Cap. As % of GDP	1 474	107.96%	58.23%	6.94%	107.17%	561.44%	201	55.41%	40.29%	38.84%	1 273	116.25%	56.27%	116.07%	0.000

¹ Values are divided by 1000 for presentation purposes.

Panel C. Descriptive Statistics for Non-Dummy Variables (1998 - 2002)

Variable	N	Mean	Std. Dev	Total			N	Mean	EM		N	Mean	DM		P-Value
				Min	Median	Max			Std. Dev	Median			Std. Dev	Median	
<u>Deal Specific (Non-Dummy)</u>															
Relative Size	790	17.52%	54.92%	1.02%	5.54%	1200.81%	108	14.78%	55.18%	4.48%	682	17.95%	54.91%	5.79%	0.077
<u>Acquirer Stock Specific</u>															
Levered Beta	790	1.30	0.93	-0.98	1.10	4.91	108	1.3	1.0	1.1	682.0	1.3	0.9	1.1	0.898
Passed Returns (Daily Average)	790	0.01%	0.29%	-1.27%	0.02%	1.05%	108	0.01%	0.35%	0.02%	682	0.01%	0.28%	0.02%	0.925
Standard Deviation	790	4.01%	2.12%	0.36%	3.45%	15.07%	108	4.39%	2.37%	3.92%	682	3.95%	2.08%	3.40%	0.051
Liquidity ¹	635	29.10	96.17	0.02	9.24	1 900.00	88	66.53	218.24	16.67	547	23.08	53.75	8.25	0.000
<u>Acquirer Firm Specific</u>															
Acquirer Market Cap. ¹	790	3 897	12 314	1	747	264 198	108	6 985	25 994	1 084	682	3 408	8 233	698	0.053
Market-to-Book	639	2.79	10.31	-229.46	2.34	44.99	77	3.85	5.97	2.72	562.00	2.65	10.77	2.33	0.241
Debt-to-Equity Ratio	635	0.68	2.04	-21.75	0.41	14.84	76	0.84	2.67	0.51	559	0.66	1.94	0.40	0.222
Return on Assets	677	-4.06%	28.42%	-290.01%	2.87%	37.24%	92	-12.44%	44.29%	2.00%	585	-2.75%	24.82%	3.01%	0.023
<u>Country Specific - Governance</u>															
Anti-Self Dealing Index	790	0.61	0.26	0.09	0.65	1.00	108	0.50	0.24	0.48	682	0.63	0.26	0.65	0.000
Anti-Directory Index	790	3.85	0.96	0.00	4.00	5.00	108	3.47	1.16	3.50	682	3.91	0.92	4.00	0.001
Political Stability	786	0.87	0.52	-1.87	0.99	1.57	104	-0.23	0.60	-0.18	682	1.04	0.20	1.10	0.000
Control of Corruption	786	1.72	0.66	-1.06	2.03	2.42	104	0.34	0.67	0.32	682	1.93	0.32	2.03	0.000
Regulatory Quality	786	1.39	0.49	-1.08	1.55	2.03	104	0.45	0.55	0.42	682	1.53	0.28	1.56	0.000
Government Effectiveness	786	1.64	0.55	-0.76	1.87	2.17	104	0.43	0.54	0.58	682	1.82	0.23	1.89	0.000
Rule of Law	786	1.46	0.54	-1.12	1.67	1.94	104	0.43	0.77	0.32	682	1.61	0.24	1.71	0.000
Voice and Accountability	786	1.29	0.53	-1.38	1.51	1.74	104	0.33	0.74	0.26	682	1.44	0.28	1.57	0.000
Average Governance Index	786	1.39	0.49	-0.80	1.62	1.83	104	0.29	0.49	0.31	682	1.56	0.18	1.63	0.000
Creditor Rights	790	2.27	1.41	0.00	3.00	4.00	108	1.79	1.13	2.00	682	2.35	1.43	3.00	0.000
<u>Country Specific - Economic</u>															
GDP per Capita	786	22.27	6.86	0.45	23.66	42.29	104	7.95	6.16	5.93	682	24.46	3.51	24.51	0.000
GDP Growth	786	3.01%	2.30%	-10.89%	3.47%	10.65%	104	2.50%	4.73%	3.54%	682	3.09%	1.64%	3.47%	0.866
Lending Interest Rate	786	8.44%	8.83%	1.86%	6.60%	86.36%	104	20.68%	20.03%	12.87%	682	6.57%	1.68%	6.55%	0.000
Inflation	786	2.36%	2.61%	-3.96%	1.82%	35.78%	104	5.18%	5.88%	5.03%	682	1.93%	1.10%	1.73%	0.000
Total Market Cap. As % of GDP	786	105.99%	56.99%	6.94%	97.95%	373.03%	104	43.06%	31.97%	35.08%	682	115.59%	53.78%	108.94%	0.000

¹Values are divided by 1000 for presentation purposes.

Panel D. Descriptive Statistics for Non-Dummy Variables (2003 - 2007)

Variable	Total						EM				DM				P-Value
	N	Mean	Std. Dev	Min	Median	Max	N	Mean	Std. Dev	Median	N	Mean	Std. Dev	Median	
<u>Deal Specific (Non-Dummy)</u>															
Relative Size	700	17.77%	56.18%	1.01%	4.89%	1105.20%	109	12.93%	33.98%	4.24%	591	18.66%	59.35%	5.23%	0.103
<u>Acquirer Stock Specific</u>															
Levered Beta	700	1.39	0.72	-0.95	1.31	3.92	109	1.5	0.8	1.3	591.0	1.4	0.7	1.3	0.217
Passed Returns (Daily Average)	700	0.05%	0.21%	-0.69%	0.04%	1.13%	109	0.06%	0.25%	0.04%	591	0.05%	0.20%	0.04%	0.933
Standard Deviation	700	2.73%	1.46%	0.64%	2.43%	13.95%	109	3.02%	1.92%	2.44%	591	2.68%	1.36%	2.43%	0.267
Liquidity	586	80.32	238.20	0.00	18.91	2 300.00	91	84.09	229.37	25.54	495	79.62	240.01	17.32	0.037
<u>Acquirer Firm Specific</u>															
Acquirer Market Cap.	700	4 377	16 953	4	866	335 789	109	3 010	5 180	955	591	4 630	18 308	860	0.813
Market-to-Book	552	2.56	11.85	-257.11	2.26	69.22	81	0.36	29.38	2.32	471.00	2.93	4.07	2.25	0.637
Debt-to-Equity Ratio	550	0.64	2.55	-5.18	0.26	38.53	80	0.88	4.40	0.05	470	0.60	2.08	0.29	0.022
Return on Assets	621	0.58%	20.19%	-324.66%	4.72%	32.63%	93	-4.87%	38.53%	3.84%	528	1.54%	14.64%	4.76%	0.111
<u>Country Specific - Governance</u>															
Anti-Self Dealing Index	700	0.60	0.26	0.18	0.65	1.00	109	0.53	0.22	0.56	591	0.62	0.27	0.65	0.001
Anti-Directory Index	700	3.75	1.05	1.00	4.00	5.00	109	3.14	1.28	3.00	591	3.87	0.96	4.00	0.000
Political Stability	688	0.64	0.54	-2.04	0.76	1.58	97	-0.30	0.71	-0.36	591	0.80	0.29	0.88	0.000
Control of Corruption	688	1.55	0.69	-0.98	1.83	2.47	97	0.12	0.64	0.22	591	1.79	0.31	1.86	0.000
Regulatory Quality	688	1.38	0.52	-0.80	1.55	1.96	97	0.33	0.61	0.50	591	1.55	0.20	1.57	0.000
Government Effectiveness	688	1.54	0.53	-0.52	1.72	2.19	97	0.49	0.57	0.57	591	1.71	0.25	1.73	0.000
Rule of Law	688	1.42	0.61	-0.95	1.69	1.96	97	0.31	0.82	0.19	591	1.60	0.30	1.73	0.000
Voice and Accountability	688	1.23	0.68	-1.72	1.47	1.83	97	0.16	1.09	0.43	591	1.40	0.36	1.49	0.000
Average Governance Index	688	1.29	0.53	-0.92	1.51	1.82	97	0.19	0.59	0.34	591	1.48	0.17	1.53	0.000
Creditor Rights	700	2.34	1.34	0.00	3.00	4.00	109	1.87	0.94	2.00	591	2.43	1.39	3.00	0.000
<u>Country Specific - Economic</u>															
GDP per Capita	688	33.09	11.98	0.56	35.25	82.29	97	8.83	6.88	7.18	591	37.07	6.83	36.78	0.000
GDP Growth	688	3.16%	2.18%	-0.22%	2.82%	14.20%	97	6.81%	3.29%	5.70%	591	2.56%	1.11%	2.81%	0.000
Lending Interest Rate	688	4.79%	5.51%	0.00%	4.65%	55.38%	97	10.87%	11.55%	7.44%	591	3.79%	2.58%	4.40%	0.000
Inflation	688	2.49%	1.39%	-0.41%	2.21%	13.68%	97	3.66%	2.84%	3.51%	591	2.30%	0.83%	2.21%	0.000
Total Market Cap. As % of GDP	688	110.20%	59.58%	17.50%	118.67%	561.44%	97	68.65%	44.07%	53.49%	591	117.02%	59.05%	127.85%	0.000

¹Values are divided by 1000 for presentation purposes.

Panel E. Variable Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)	(29)	(30)
(1) DUM_EM	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) DUM_INDDIV	-0.03	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(3) DUM_CASHINPAY	0.02	-0.08	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(4) DUM_NONPUB	0.03	0.02	0.14 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(5) DUM_PUBEQ	-0.05	0.02 **	-0.55 ***	-0.41 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(6) DUM_PRIVEQ	0.01	0.06	-0.70 ***	0.10 *	0.04 *	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(7) REL_SIZE	-0.03	-0.02	-0.09 *	-0.10 *	0.10 *	0.02 *	1.00 **	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(8) ACQ_MRKTCAP	0.02	-0.04	-0.03 *	-0.15 *	0.10 *	-0.03 **	-0.05 **	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(9) MRKT_BOOK	-0.02	0.02 *	-0.08 ***	-0.04 ***	0.04 ***	0.07 ***	-0.01 ***	0.05 ***	1.00 **	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(10) BETA	0.03	0.04	-0.22 ***	-0.01 ***	0.08 ***	0.18 ***	-0.08 ***	-0.03 ***	0.07 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(11) PSSD_RET	0.00 **	0.01 ***	-0.03 **	0.01 *	0.00 ***	0.10 ***	-0.10 ***	0.04 ***	0.13 ***	0.07 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(12) STD_DEV	0.06 *	0.08 **	-0.34 **	0.05 **	0.11 **	0.28 **	0.12 ***	-0.14 ***	0.01 ***	0.40 ***	-0.10 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(13) LIQ	0.05	-0.03 *	-0.07 *	-0.02 *	0.03 *	-0.01 ***	-0.01 ***	0.12 *	0.02 ***	0.17 **	-0.03 ***	0.16 ***	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(14) DEBTTO_EQ	0.03 ***	-0.04 ***	0.06 ***	-0.01 ***	-0.04 ***	-0.03 ***	0.11 ***	0.05 ***	0.21 ***	-0.06 ***	0.05 ***	-0.09 ***	-0.04 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(15) RET_ASS	-0.11 **	-0.08 **	0.21 **	-0.06 **	-0.04 **	-0.17 **	-0.12 **	0.07 **	0.00 **	-0.17 **	0.18 **	-0.45 **	-0.09 **	0.06 *	1.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(16) ANTI_SELF	-0.15 ***	0.03 ***	-0.06 **	-0.06 *	0.05 *	0.04 *	0.00 *	-0.01 **	-0.04 **	0.02 **	0.00 **	0.04 **	-0.02 **	-0.06 **	-0.02 **	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(17) POL_STAB	-0.76 ***	0.00 ***	-0.03 ***	-0.04 **	0.04 **	0.00 **	0.04 **	-0.02 **	0.03 **	-0.05 **	-0.01 **	0.00 **	-0.06 **	0.04 **	0.07 ***	-0.12 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-	-
(18) CTRL_CORR	-0.82 ***	0.00 ***	-0.04 **	-0.09 **	0.07 *	0.02 *	0.05 *	-0.02 *	0.06 *	0.02 *	0.00 **	-0.02 **	-0.05 **	0.00 **	0.07 ***	0.23 ***	0.71 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-	-
(19) REG_QUAL	-0.78 ***	0.01 ***	-0.03 ***	-0.06 **	0.05 **	0.01 **	0.05 **	-0.03 **	0.05 **	0.01 **	0.01 **	-0.06 **	-0.03 **	0.01 **	0.09 ***	0.33 ***	0.64 ***	0.92 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-	-
(20) GOV_EFF	-0.83 ***	0.00 ***	-0.04 ***	-0.08 **	0.07 **	0.01 **	0.05 **	-0.03 **	0.04 **	0.01 **	0.01 **	-0.01 **	-0.04 **	0.00 **	0.08 ***	0.20 ***	0.73 ***	0.96 ***	0.90 ***	1.00 ***	-	-	-	-	-	-	-	-	-	-
(21) RULE_LAW	-0.74 ***	0.01 ***	-0.03 ***	-0.09 ***	0.06 ***	0.01 ***	0.05 **	-0.02 **	0.05 **	0.04 **	0.00 **	-0.01 **	-0.04 **	0.02 **	0.06 ***	0.35 ***	0.47 ***	0.82 ***	0.82 ***	0.85 ***	1.00 ***	-	-	-	-	-	-	-	-	-
(22) VOICE_ACC	-0.67 ***	0.02 ***	-0.02 ***	-0.10 ***	0.07 ***	0.00 **	0.01 *	-0.05 **	0.09 **	0.05 **	0.03 **	-0.02 **	-0.05 **	0.01 **	0.08 ***	0.30 ***	0.39 ***	0.73 ***	0.73 ***	0.72 ***	0.82 ***	1.00 ***	-	-	-	-	-	-	-	-
(23) AVG_GOV	-0.86 ***	0.01 ***	-0.04 ***	-0.09 **	0.07 **	0.01 **	0.05 **	-0.03 **	0.06 **	0.02 *	0.01 **	-0.02 **	-0.05 **	0.02 **	0.08 ***	0.24 ***	0.73 ***	0.96 ***	0.94 ***	0.97 ***	0.90 ***	0.83 ***	1.00 ***	-	-	-	-	-	-	-
(24) GDP_PCAP	-0.68 ***	0.04 ***	0.07 ***	0.02 ***	-0.02 ***	-0.05 ***	0.03 **	0.00 **	0.05 **	0.05 **	0.04 **	-0.22 **	0.06 **	-0.01 **	0.13 ***	0.08 ***	0.41 ***	0.61 ***	0.63 ***	0.60 ***	0.60 ***	0.44 ***	0.62 ***	1.00 ***	-	-	-	-	-	-
(25) GDP_GROWTH	0.26 ***	0.00 ***	-0.11 ***	-0.03 ***	0.03 ***	0.11 ***	0.01 **	-0.01 **	-0.07 ***	0.04 ***	0.05 ***	0.04 ***	-0.02 ***	0.01 ***	-0.01 ***	0.18 ***	-0.19 ***	-0.21 ***	-0.21 ***	-0.16 ***	-0.17 ***	-0.23 ***	-0.22 ***	-0.25 ***	1.00 ***	-	-	-	-	-
(26) LEND_INT	0.48 ***	-0.02 ***	0.01 ***	0.00 ***	0.00 ***	0.00 ***	-0.02 ***	0.00 ***	0.00 ***	-0.07 ***	-0.03 ***	0.04 ***	-0.04 ***	0.02 ***	-0.03 ***	-0.11 ***	-0.31 ***	-0.41 ***	-0.41 ***	-0.47 ***	-0.46 ***	-0.28 ***	-0.44 ***	-0.46 ***	-0.04 ***	1.00 ***	-	-	-	-
(27) INFL	0.38 ***	-0.01 ***	0.04 ***	0.02 ***	-0.01 ***	-0.03 ***	0.01 **	0.02 **	-0.04 ***	-0.07 ***	-0.01 ***	0.01 ***	0.02 ***	0.04 **	-0.04 **	0.01 ***	-0.33 ***	-0.34 ***	-0.31 ***	-0.36 ***	-0.32 ***	-0.20 ***	-0.35 ***	-0.26 ***	-0.04 ***	0.40 ***	1.00 ***	-	-	-
(28) MRKTCAP_PGDP	-0.36 ***	0.01 ***	-0.05 ***	-0.02 **	0.02 *	0.07 **	0.06 **	0.00 **	-0.01 **	-0.02 **	0.03 **	-0.02 **	-0.03 **	-0.04 **	0.05 ***	0.49 ***	0.23 ***	0.40 ***	0.48 ***	0.41 ***	0.42 ***	0.22 ***	0.40 ***	0.35 ***	0.14 ***	-0.19 ***	-0.15 ***	1.00 ***	-	-
(29) CRED_RIGHT	-0.14 ***	-0.00 ***	0.02 ***	0.07 **	-0.04 *	0.01 **	-0.02 **	0.00 **	-0.01 **	0.03 **	-0.00 **	-0.04 **	-0.03 **	0.01 **	0.03 ***	0.55 ***	-0.10 ***	0.26 ***	0.40 ***	0.16 ***	0.15 ***	0.20 ***	0.20 ***	0.17 ***	-0.06 ***	-0.11 ***	0.02 ***	0.28 ***	1.00 ***	-
(30) ANTI_DIR	-0.20 ***	0.02 ***	-0.01 ***	-0.08 ***	0.05 **	0.01 **	-0.00 **	0.01 **	0.04 **	-0.01 **	0.03 **	-0.01 **	-0.05 **	-0.04 **	0.07 ***	0.76 ***	-0.03 ***	0.35 ***	0.44 ***	0.31 ***	0.46 ***	0.48 ***	0.38 ***	0.16 ***	-0.01 ***	0.08 ***	0.06 ***	0.52 ***	0.44 ***	1.00 ***

Table 5
Cumulative Abnormal Returns

The table presents cumulative abnormal returns for the emerging markets sample [Panel A], the developed markets sample [Panel B] and the total sample [Panel C] over each of the time periods measured over the three day [-1, +1], five day [-2, +2], seven day [-3, +3] and nine day [-4, +4] event window, and comparison statistics between the emerging markets sample and the developed markets sample [Panel D]. A positive value in Panel D indicates that the cumulative abnormal return is higher for the emerging markets sample whereas the opposite holds for negative values. The confidence level is denoted with *, **, *** for p-values below ten percent, below five percent and below one percent respectively.

Panel A. CAR Summary Statistics - Emerging Markets Sample											
Period	# Obs	Event		CAR (%)	t-statistic	P-Value	Std. Dev.	Min	Max	Skewness	Kurtosis
		Window									
1998-2007	217	3		0.95*	1.774	0.078	0.079	-0.358	0.321	-0.362	9.991
		5		1.46**	2.404	0.017	0.089	-0.318	0.376	0.540	7.550
		7		1.62**	2.457	0.015	0.097	-0.293	0.486	1.177	8.392
		9		1.59**	2.020	0.045	0.116	-0.271	0.543	1.239	7.087
1998-2002	108	3		1.50*	1.699	0.092	0.092	-0.358	0.321	-0.384	7.119
		5		2.52**	2.533	0.013	0.103	-0.318	0.376	0.612	6.059
		7		2.52**	2.353	0.021	0.111	-0.293	0.486	1.305	7.423
		9		3.35**	2.532	0.013	0.137	-0.271	0.543	1.180	5.678
2003-2007	109	3		0.40	0.660	0.511	0.063	-0.358	0.321	-0.534	17.133
		5		0.41	0.591	0.556	0.072	-0.318	0.292	-0.198	8.999
		7		0.73	0.949	0.345	0.080	-0.293	0.352	0.425	7.419
		9		-0.16	-0.194	0.846	0.086	-0.271	0.312	0.322	5.305

Panel B. CAR Summary Statistics - Developed Markets Sample											
Period	# Obs	Event		CAR (%)	t-statistic	P-Value	Std. Dev.	Min	Max	Skewness	Kurtosis
		Window									
1998-2007	1273	3		0.92***	4.418	0.000	0.075	-0.251	0.343	0.640	6.978
		5		1.01***	4.151	0.000	0.087	-0.307	0.351	0.228	5.881
		7		0.88***	3.219	0.001	0.097	-0.333	0.449	0.435	6.620
		9		0.74**	2.464	0.014	0.106	-0.380	0.410	0.025	5.386
1998-2002	682	3		0.64**	2.076	0.038	0.081	-0.251	0.343	0.616	6.069
		5		0.54	1.503	0.133	0.093	-0.307	0.351	0.192	5.165
		7		0.08	0.186	0.853	0.107	-0.333	0.449	0.378	5.888
		9		0.01	0.015	0.988	0.118	-0.380	0.410	0.050	4.805
2003-2007	591	3		1.25***	4.561	0.000	0.066	-0.251	0.343	0.739	8.530
		5		1.56***	4.812	0.000	0.079	-0.307	0.351	0.376	7.046
		7		1.80***	5.237	0.000	0.084	-0.333	0.449	0.772	7.680
		9		1.58***	4.243	0.000	0.090	-0.380	0.410	0.159	5.978

Panel C. CAR Summary Statistics - Total Sample											
Period	# Obs	Event		CAR (%)	t-statistic	P-Value	Std. Dev.	Min	Max	Skewness	Kurtosis
		Window									
1998-2007	1490	3		0.93***	4.760	0.000	0.075	-0.358	0.343	0.474	7.508
		5		1.08***	4.761	0.000	0.087	-0.318	0.376	0.277	6.155
		7		0.99***	3.912	0.000	0.097	-0.333	0.486	0.541	6.894
		9		0.86***	3.075	0.002	0.108	-0.380	0.543	0.247	5.785
1998-2002	790	3		0.76**	2.592	0.010	0.082	-0.358	0.343	0.440	6.277
		5		0.81**	2.393	0.017	0.095	-0.318	0.376	0.281	5.403
		7		0.41	1.066	0.287	0.108	-0.333	0.486	0.517	6.199
		9		0.46	1.071	0.284	0.122	-0.380	0.543	0.303	5.247
2003-2007	700	3		1.11***	4.473	0.000	0.066	-0.358	0.343	0.573	9.691
		5		1.38***	4.693	0.000	0.078	-0.318	0.351	0.316	7.310
		7		1.64***	5.203	0.000	0.083	-0.333	0.449	0.726	7.661
		9		1.31***	3.846	0.000	0.090	-0.380	0.410	0.186	5.855

Panel D. CAR Comparison Between Samples					
Period	# Obs	Event Window	Difference [EM-DM] (%)	t-statistic	P-Value
1998-2007	217	3	0.02	0.043	0.966
		5	0.45	0.696	0.487
		7	0.74	1.034	0.302
		9	0.85	1.073	0.284
1998-2002	108	3	0.86	1.005	0.315
		5	1.98**	2.022	0.044
		7	2.44**	2.185	0.029
		9	3.34***	2.664	0.008
2003-2007	109	3	-0.85	-1.237	0.217
		5	-1.15	-1.423	0.155
		7	-1.08	-1.241	0.215
		9	-1.74*	-1.858	0.064

Table 6
Multi-Factor Regression Analysis

The table presents regression coefficients from OLS regressions using the cumulative abnormal return, over the five day [-2, +2] event window, as the dependent variable while the independent variables are proxies for deal specific and acquirer firm specific characteristics [Panel A]. The robustness of the emerging markets dummy variable [DUM_EM_i] is tested for the first sub-period (1998 to 2002). Each regression controls for year and industry based on 48 industry categories developed by Eugene F. Fama and Kenneth R. French. The regression residuals are clustered by CRSP identification numbers (PERMNO). Significance in the regression coefficients is denoted with *, **, *** for p-values below ten percent, below five percent and below one percent respectively.

Panel A. Cross-Sectional Regression Analysis - Controlling Models								
Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
DUM_EM								
Coefficient	0.022**	0.021*	0.021*	0.028**	0.026*	0.028**	0.028**	0.033**
P-Value	0.044	0.058	0.053	0.030	0.072	0.030	0.031	0.039
REL_SIZE								
Coefficient		0.028***	0.028***			0.017**	0.017**	0.016
P-Value		0.000	0.000			0.027	0.038	0.288
DUM_INDDIV								
Coefficient		0.005	0.010					0.001
P-Value		0.605	0.590					0.897
DUM_NONPUB								
Coefficient		0.034***				0.028***		0.030***
P-Value		0.000				0.004		0.005
DUM_CASHINPAY								
Coefficient		0.017						0.009
P-Value		0.199						0.587
DUM_PUBEQ								
Coefficient			-0.076***				-0.073***	
P-Value			0.000				0.003	
DUM_PRIVEQ								
Coefficient			-0.005					
P-Value			0.790					
LIQ								
Coefficient				-1.7E-07***		-2E-04***	-2E-04***	-1E-04***
P-Value				0.000		0.000	0.000	0.002
STD_DEV								
Coefficient				0.648**		0.341	0.429	0.703*
P-Value				0.025		0.216	0.110	0.050
PSSD_RET								
Coefficient				-3.438*		-3.639*	-3.807**	-3.886*
P-Value				0.063		0.050	0.040	0.052
BETA								
Coefficient				-0.008				-0.004
P-Value				0.270				0.558
MRKT_BOOK								
Coefficient					-0.001*			-5.0E-04
P-Value					0.060			0.299
ACQ_MRKTCAP								
Coefficient					-3.6E-07			-1.9E-07
P-Value					0.284			0.258
RET_ASS								
Coefficient					0.016			0.042**
P-Value					0.493			0.037
DEBTTQ_EQ								
Coefficient					0.003*			9.0E-04
P-Value					0.079			0.647
Intercept								
Coefficient	-0.020*	-0.070***	-0.028*	-0.045**	-0.018	-0.072***	-0.051**	-0.086***
P-Value	0.058	0.001	0.073	0.022	0.143	0.001	0.010	0.001
N	790	790	790	635	635	635	635	579
R2 (%)	6.38	10.11	10.13	12.76	8.70	14.17	14.24	17.13

Table 7

Single-Factor Country Characteristic Regression Analysis

The table presents the regression coefficients from country specific single factor regressions where the dependent variable is the cumulative abnormal return, over the five day [-2, +2] event window, and the independent variables are proxies for country governance, level of shareholder protection and economic development in the target country [Panel A]. Each regression includes control factors for year and industry based on 48 industry categories developed by Eugene F. Fama and Kenneth R. French. The regression residuals have been clustered by target country. Significance in the coefficients is denoted by *, ** and *** for p-values below ten percent, below five percent and below one percent, respectively.

Panel A. Cross-Sectional Regression Analysis - Explanatory Models			
	1998-2007	1998-2002	2003-2007
VOICE_ACC			
Coefficient	-0.004	-0.020**	0.006
P-Value	<i>0.316</i>	<i>0.011</i>	<i>0.127</i>
R2	0.032	0.067	0.054
RULE_LAW			
Coefficient	-0.003	-0.018**	0.008**
P-Value	<i>0.422</i>	<i>0.023</i>	<i>0.036</i>
R2	0.031	0.065	0.055
ANTI_SELF			
Coefficient	0.001	-0.018*	0.019*
P-Value	<i>0.928</i>	<i>0.072</i>	<i>0.066</i>
R2	0.031	0.060	0.054
ANTI_DIR			
Coefficient	0.001	-0.007*	0.006**
P-Value	<i>0.743</i>	<i>0.078</i>	<i>0.039</i>
R2	0.031	0.062	0.056
CTRL_CORR			
Coefficient	-0.003	-0.013**	0.006*
P-Value	<i>0.420</i>	<i>0.032</i>	<i>0.098</i>
R2	0.031	0.063	0.055
GOV_EFF			
Coefficient	-0.005	-0.015**	0.006
P-Value	<i>0.246</i>	<i>0.041</i>	<i>0.176</i>
R2	0.032	0.063	0.053
POL_STAB			
Coefficient	-0.008**	-0.007	-0.009*
P-Value	<i>0.046</i>	<i>0.377</i>	<i>0.069</i>
R2	0.033	0.057	0.055
REG_QUAL			
Coefficient	-0.008*	-0.021**	0.005
P-Value	<i>0.087</i>	<i>0.014</i>	<i>0.331</i>
R2	0.033	0.067	0.053
AVG_GOV			
Coefficient	-0.006	-0.019**	0.006
P-Value	<i>0.151</i>	<i>0.020</i>	<i>0.230</i>
R2	0.032	0.065	0.053
CRED_RIGHT			
Coefficient	0.002	9.6E-05	0.004*
P-Value	<i>0.117</i>	<i>0.959</i>	<i>0.075</i>
R2	0.032	0.058	0.055
GPD_PCAP			
Coefficient	-7.1E-08	-7.6E-07	1.6E-07
P-Value	<i>0.726</i>	<i>0.193</i>	<i>0.385</i>
R2	0.031	0.059	0.052

Panel A. Continued - Cross-Sectional Regression Analysis - Explanatory Models

GDP_GROWTH				
Coefficient	-0.139	-0.279	0.040	
P-Value	<i>0.205</i>	<i>0.201</i>	<i>0.621</i>	
R2	0.032	0.059	0.052	
INFL				
Coefficient	0.040	0.095	-0.110	
P-Value	<i>0.681</i>	<i>0.475</i>	<i>0.580</i>	
R2	0.031	0.057	0.052	
LEND_INT				
Coefficient	0.030	0.036	-0.014	
P-Value	<i>0.191</i>	<i>0.318</i>	<i>0.688</i>	
R2	0.032	0.057	0.052	
MRKTCAP_PGDP				
Coefficient	0.001	-0.006	0.007	
P-Value	<i>0.798</i>	<i>0.342</i>	<i>0.140</i>	
R2	0.031	0.057	0.054	

Table 8
Multi-Factor Regression Analysis: Governance Robustness

Panel A presents regression coefficients from OLS regressions using the cumulative abnormal return, over the five day [-2, +2] event window, as the dependent variable while the independent variable is the average governance factor. The robustness of the average governance factor for the first sub-period (1998 to 2002) is made subject to the inclusion of country specific economic variables as well as deal and acquirer specific control variables, combined in five models. Each regression model also controls for year and industry based on 48 industry categories developed by Eugene F. Fama and Kenneth R. French. The regression residuals have been clustered by target country. Significance in the regression coefficients is denoted with *, **, *** for p-values below ten percent, below five percent and below one percent respectively.

Panel A. Cross-Sectional Regression Analysis -Explanatory Models					
Model	(1)	(2)	(3)	(4)	(5)
AVG_GOV					
Coefficient	-0.029**	-0.026*	-0.027*	-0.026*	-0.024*
P-Value	0.025	0.051	0.064	0.069	0.093
GDP_PCAP					
Coefficient	7.12E-07	5.38E-07	1.56E-07	1.25E-07	-4.42E-07
P-Value	0.418	0.555	0.892	0.893	0.727
LEND_INT					
Coefficient	-0.021	-0.025	-0.050	-0.051	-0.072*
P-Value	0.485	0.374	0.100	0.149	0.067
REL_SIZE					
Coefficient		0.029***			0.018
P-Value		0.000			0.160
DUM_INDDIV					
Coefficient		0.002			-0.003
P-Value		0.811			0.738
DUM_NONPUB					
Coefficient		0.032***			0.030***
P-Value		0.000			0.001
DUM_CASHINPAY					
Coefficient		0.016			0.005
P-Value		0.189			0.759
LIQ					
Coefficient			-2E-07***		-2E-07***
P-Value			0.000		0.002
STD_DEV					
Coefficient			0.537**		0.584**
P-Value			0.041		0.045
PSSD_RET					
Coefficient			-4.284**		-4.954**
P-Value			0.027		0.018
BETA					
Coefficient			-0.007		-0.004
P-Value			0.200		0.472
MRKT_BOOK					
Coefficient				-7.1E-04*	-4.86E-04
P-Value				0.065	0.331
ACQ_MRKTCAP					
Coefficient				-3.3E-07	6.03E-07
P-Value				0.228	0.271
RET_ASS					
Coefficient				0.019	0.045**
P-Value				0.429	0.018
DEBTO_EQ					
Coefficient				0.003*	0.002
P-Value				0.074	0.477
Intercept					
Coefficient	0.011	-0.034	0.001	0.026	-0.025
P-Value	0.600	0.322	0.966	0.324	0.567
N	786	786	631	631	575
R2 (%)	6.60	10.26	12.39	9.20	17.91

Figure 4
Cumulative Abnormal Return Distribution by Event Day

The figure shows the level of observed cumulative abnormal return in each of the event window days surrounding the announcement date for the entire sample, the emerging markets sample and the developed markets sample during the entire time period.

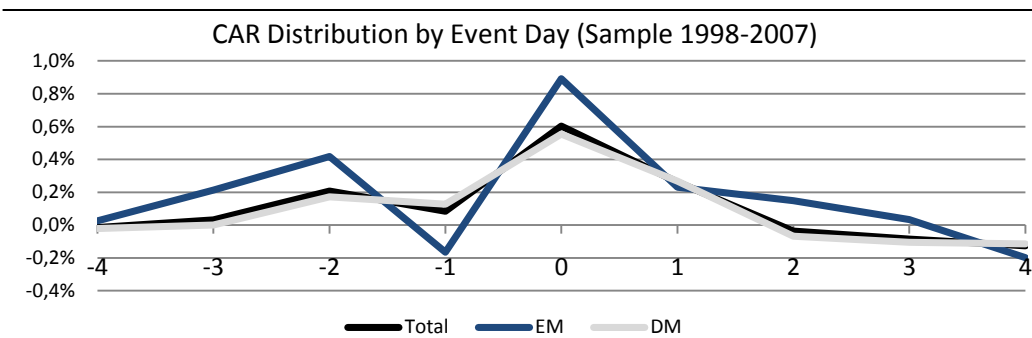


Figure 4 – Graph of the distribution of mean cumulative abnormal return for each of the event days. The figure is based on results achieved using the entire time period of 1998 to 2007 and presents the distribution of returns for each of the individual samples.

Figure 5
Cumulative Abnormal Return Distribution by Event Window

The figure shows the level of observed mean cumulative abnormal return for the total sample, the emerging markets sample, and the developed markets sample displayed on the basis of the three day [-1, +1], five day [-2, +2], seven day [-3, +3] and nine day [-4, +4] event window.

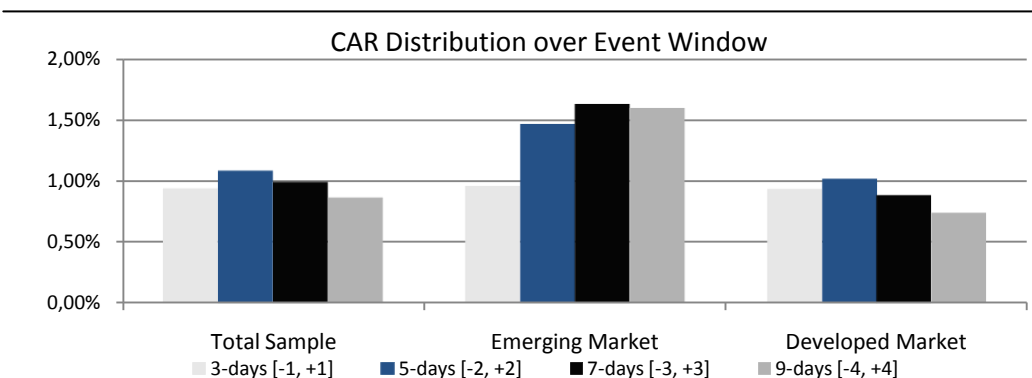


Figure 5 – Graph of the cumulative abnormal return captured for each of the event windows; 3-days [-1, +1], 5-days [-2, +2], 7-days [-3, +3] and 9-days [-4, +4]. The five day event window used for discussion purposes is presented in dark blue.