

Cross-Border M&As of European Targets by Chinese and Indian Firms: Focus on Automotive Deals

TIM DANIS and KONSTANTIN SCHMAHL

Abstract: We examine 334 cross-border deals with European targets of Chinese, Indian and European acquirers in the period between 2000 and 2012. The paper is contributing to the growing research field of outbound emerging market cross-border acquisitions, in particular from China and India. We measure how these countries' companies' acquisitions of European targets perform in comparison to intra-European deals. Moreover, we investigate which factors influence the value creation of these deals for acquiring company shareholders. Conducting an event study, we find that all geographical subsamples show significant positive cumulative abnormal returns (CARs). Moreover, we find that intra-European automotive deals create more value for acquirers than ones involving Chinese or Indian bidders. Through a cross-sectional regression analysis, we can furthermore confirm previous literature that finds significant influence on value creation of (relative) company size, GDP related measures, and differences in openness to international trade between target and acquirer countries. We are furthermore able to explain parts of our results using the tentative model of "*Hypothesized Impact of Cultural Differences on M&A Performance*" set forth by Stahl and Voigt (2008). Finally, we find evidence suggesting that Chinese acquirers could benefit from positive spillover effects generated by targets residing in countries that have strong legal protection of outside investors. Martynova and Renneboog (2008) and Khanna and Palepu's (2004) call this the "*bootstrapping hypothesis*".

Acknowledgements: The authors would like to thank their tutor, Katerina Hellström, and Per-Olov Edlund for their valuable comments and support during the writing process.

Table of Contents

1	Introduction	2
2	M&A Theories.....	4
2.1	Industry-independent Theories.....	4
2.1.1	Synergy Theory.....	4
2.1.2	Transaction Cost Theory.....	5
2.1.3	Strategic and Tactical Reasons.....	5
2.2	Automotive Specific Theories.....	6
2.2.1	Automotive Industry at a Glance	6
2.2.2	Development of New Vehicle Models.....	7
2.2.3	Decreasing Vertical Range of Manufacture	7
2.2.4	Changing Supply Chain Integration.....	8
3	Emerging Countries and the BRICS: Focus on China and India.....	8
3.1	Definitions.....	8
3.1.1	China's and India's Economic Shape at a Glance	9
3.1.2	Chinese and Indian CB M&A expansion: Developments to the Current State	10
3.2	Motives for Emerging Market Cross-Border M&A	11
3.2.1	Resource Based View and Internalization	11
3.2.2	Institutional Motives	12
3.2.3	Market Entry.....	12
3.2.4	Diversification	13
3.3	Cross-Border M&A Performance	13
3.4	Factors Influencing M&A Performance	15
3.4.1	Deal Specific Factors.....	15
3.4.2	Industry Specific Factors	16
3.4.3	Economic, Institutional and Governance Factors	17
3.4.4	Cultural distance.....	17
3.4.5	Corporate governance.....	20
4	Methodologies for Value Creation Analysis	20
4.1	Common Research Methods.....	21
4.2	Different Method's Advantages and Shortcomings	22
5	Value Creation in Cross-Border M&As of European Targets: Intra-European, Chinese, and Indian Acquirers.....	22
5.1	Analytical Framework.....	23
5.1.1	Factors Potentially Influencing Cross-Border Acquisition Value Creation	23
5.2	Research Design.....	26
5.2.1	Event Study: Market Model and CARs.....	26
5.2.2	Multivariate Regression Analysis.....	27
5.3	Data Set	29

6	Results and Discussion.....	30
6.1	Event Study Results.....	31
6.2	Discussion	35
6.3	Multivariate Regression Results and Interpretation of Combined Findings	36
6.3.1	Results.....	36
6.3.2	Discussion.....	39
7	Conclusions and Remarks.....	44
	Reference List.....	45
	Appendix.....	51

List of Tables

Table 1: Supplier Types based on the Pyramid Shaped Supply Chain Integration.....	7
Table 2: Literature Finding Positive Performance of Bidding Firms in Cross-Border Transactions	14
Table 3: Literature Finding Negative Performance of Bidding Firms in Cross-Border Transactions	15
Table 4: Advantages, Shortcomings and Limitations of different Research Methods.....	22
Table 5: Summary of Hypotheses.....	26
Table 6: Description of Variables Used in the Regression	28
Table 7: Data Set Characteristics	30
Table 8: Comparison of CARs for different (sub-)samples	32
Table 9: Findings from the Event Study	34
Table 10: Test For Significant Difference in Means.....	35
Table 11: Regression Output.....	37
Table 12: Description of Variables Used in the Regression.....	38
Table 13: Summary of Hypotheses Tests and Interpretations of Results	43

List of Figures

Figure 1: Trend growth slowing in BRIC.....	9
Figure 2: 5Y Average Growth China vs. India	9
Figure 3: Population as % of Global Population	9
Figure 4: Global PMI Scores (Oktober 2012 vs August 2012).....	10

1 Introduction

The 2008 financial crisis jointly with big losses in the US automotive industry gave Chinese automotive manufacturer Geely Group an opportunity that its founder Li Shufu compared to “the marriage of a world famous movie star to a Chinese peasant”: the acquisition of Swedish carmaker Volvo. Remarkably, at this time no large western corporation had shown serious effort in buying the struggling company.

At the very latest, this was one of the remarks for the end of China’s role as hidden player in the global economic arena and is representative for the rising importance of the economies of Brazil , China, India and China (BRICs)¹ with regards to the world economy in general and for outbound Mergers and Acquisitions (M&A) activity in particular. The fact that China has the world’s largest foreign exchange reserves enables the country to strategically invest in companies, commodities and countries across the globe (Vogel, 2011). Likewise, Indian’s largest companies are “cash-rich and well-established” to trophy details and hence can be classified as “the new global capital players” (Ernst & Young, 2011). And there is no end in sight as even more buying opportunities emerge in Europe and the US. Amid a slide growth slowdown in these regions, China is hitting a 7-year-record of M&A outbound activity in 2012. Furthermore, India’s outbound cross-border acquisition activity is already accounting for over half of total Indian M&A transactions, despite a weak local currency (Financial Times, 2012).

The academic community has for a long time assessed wealth effects of domestic and cross border M&A transactions on acquiring companies’ share price reactions. Regarding domestic deals, literature either suggests that such M&A activity yield normal returns, i.e. is in line with general market returns around the announcement date (see for instance: Asquith et al., 1983), or results in value destruction (see for instance: Jensen and Ruback, 1983). Quite to the contrary, a more diverse picture is drawn for cross-border deals. Despite the general theoretical benefits of acquisitions, i.e. particularly synergies from economies of scale and scope, the unique nature of cross-border deals potentially allows to take advantage of various market imperfections (Kohli & Mann, 2011). General conclusions are yet difficult to make as academic literature on cross-border M&A deals is split into two opposing camps, those who argue in favor of value creation through these transactions (see Boateng, 2007; Bhagat, Malhotra & Zhu, 2011; Chakrabarti et al., 2009; Gubbi et al., 2010; Kohli and Mann, 2011; Markides and Ittner, 1994; Kang, 1993; Morck and Yeungm, 1992; Soongswang, 2010) and those who argue against it (Aybar & Ficici, 2009; Datta and Puia, 1995; Danbolt, 1995; Eun et al., 1996; Marthur et al., 1994; Malhotra, Sivakumar & Zhu, 2011).

Furthermore, academic literature has traditionally analyzed the case of capital-inflow to emerging countries, i.e. outbound M&A activity from a developed industry nation’s point of view. However, the past years have underlined China’s and India’s increasing outbound M&A activity with double digit growth figures compared to stagnating figures for the US and European markets (Financial Times, 2011). It is thus not surprising that scholars have acknowledged the growing importance of this trend, which lead to a rapidly increasing body of research. However the findings remain inconclusive up to this point.

Therefore, in our thesis we aim to contribute to filling the research gap from three perspectives. Firstly, we will analyze to which degree cross-border transactions with Chinese and Indian acquirers create value for the acquiring company. Secondly, we analyze these wealth effects in comparison to intra-European deal activity. Furthermore we examine the role of a set of previously identified variables that are commonly found to be determinant on acquiring companies’ shareholder wealth generation in cross-border M&A transactions. In this undertaking, we emphasize the effect of variations in cultural, economic, institutional factors, and deal specification related factors.

¹ The term BRICs is an abbreviation for the countries Brazil, Russia, India, and China, the origin of which will be explained later in this paper in more detail.

Following an event study method, we examine 334 cross-border deals involving European targets and Chinese, Indian and European acquirers in the period between 2000 and 2012. Our first goal is to identify differences in value creation among these acquirer groups. In order to explore which factors influence the observed wealth creation and its variations we estimate a cross-sectional multivariate regression. One focus of our study furthermore lies on the automotive industry. It is a highly competitive industry characterized by increased globalization and active M&A deal flow (Deloitte, 2012), which is assumed to yield valuable insights. Furthermore, it represents the largest industry group within the target company sample, which is why we additionally consider industry specific issues in interpreting our findings.

Considering the findings in previous research of multiple M&A related theories, we propose a set of hypotheses that we test for in our analysis. These hypotheses are related to the effect of variations in a number of variables. We specifically focus on the influence of deal-related, economic, corporate governance, and cultural factors.

Employing the market model, we find that cross-border deals within our sample of European targets are overall creating value for acquirer shareholders. Moreover, we show that intra-European automotive deals create more value for acquirers than ones involving Chinese or Indian automotive bidders. Secondly, through our regression analysis, we can confirm previous literature in its findings of significant influence of a number of explanatory variables. The results indicate that factors found to influence M&A value creation for a long time, such as Gross Domestic Product (GDP) related measures and (relative) company size, also impact emerging market cross border acquisitions. We also found lower value creation for Chinese and Indian automotive deals involving European targets compared to intra-European deals. We link this result to M&A theories specifically addressing dynamics in the automotive sector. Among other things, we test the hypothesis that the high level of integration in this industry combined with divergent cultural differences could be explanatory of our results.

Furthermore, we find support for research that emphasizes the role of corporate governance and cultural distance in measuring acquirer wealth creation. These variables significantly explain differences in returns to our distinct acquirer groups. We can explain part of our results by using the “Hypothesized Impact of Cultural Differences on M&A Performance” set forth by Stahl and Voigt (2008). Additionally, we find evidence suggesting that Chinese acquirers can benefit from positive spillover effects generated by targets residing in countries that have strong legal protection of outside investors. Martynova and Renneboog (2008) propose a hypothesis stating that there might be the possibility of acquirers voluntarily “bootstrapping” themselves to higher corporate governance standards of the target country in order to create value for their shareholders. Our results to some degree lend support to this theory, as has previous research in this area (Bhagat et al., 2011; Khanna and Palepu, 2004).

The remainder of the thesis is structured as follows: The next chapter provides the theoretical framework, describing the motives for M&As in general as well as for automotive-related transactions in particular. Chapter three focuses on emerging markets. We explain the phenomenon of the BRICs and the reason why China and India are considered major players in the emerging market cross-border M&A arena. Also, we complement the previously included motives for M&A activity with ones that can explain the rationale for emerging market cross-border deals. The focus lies on value creation implications for acquirers and the question, which factors influence wealth effects for their shareholders. Previous research on cross-border M&A activity is discussed in this regard, too. Chapter 4 gives an overview of theoretical ways to measure post acquisition performance describing the different methods and briefly summarizing their advantages and drawbacks. Chapter 5 introduces our analysis providing the analytical framework, explaining the event study and the multivariate regression methodologies as well as the data sample. In chapter 6, we show the results and discuss links to previous research. Furthermore, we provide potential explanations for the observed patterns. Chapter 7 briefly concludes with the main findings of our analysis and identifies future research areas.

2 M&A Theories

Different schools of thoughts are applicable to explain the rationale of M&A transactions. In this section, we differ between general M&A theories (*Industry-independent Theories*) and *Industry-specific* M&A theories, i.e. explain the specific deal flow in the automotive industry. The “mainstream” reasons provided in section 2.1 are important to identify as they also hold in the context of our research topic.

2.1 Industry-independent Theories

Past research has shown that there are several reasons for companies to consider horizontal, vertical or conglomerate M&A transactions. Horizontal transactions usually occur if the target’s business model is similar to the buyer’s, leading to scale effects and higher market shares. Vertical M&A is often considered performance enhancing and potentially transaction cost decreasing. Finally, conglomerate M&A refers to diversification effects, for instance when a company tries to expand outside its natural industry (Brealey et al., 2008). The next section gives an overview of the relevant industry-independent theories explaining M&A transactions.

2.1.1 Synergy Theory

Synergy theory describes the increase in competitiveness and the resulting additional profit or cash flow, which arises beyond what two or more firms achieve individually if they combine their operations. In simple words, synergies arise when the sum is bigger than the accumulated parts on a stand-alone basis (Sirower, 1997). Research has acknowledged synergies as one of the main reasons for M&A (Kerler, 2000). For the purpose of the thesis, we focus on the three main synergy types: operating, financial, and tax synergies, which are defined below.

Operating synergies refer either to revenue-enhancements or cost-reductions (Gaughan, 2002). Revenue-enhancing operating synergies are harder to achieve than cost reductions since they are not immediately identifiable and are defined as “newly created or strengthened product or service that is formulated by the fusion of two distinct attributes of the merger partners and which generates immediate and/or long-term revenue growth” (Berk & DeMarzo, 2007, p. 877). The potential reasons for revenue growth can be considered deal-dependent and vary from being a result of an extended product line, which enables each firm to sell more to their customer base, to deriving from cross-marketing of the individual products or services from the respective partner. Another reason might be the combination of two favorable factors. For instance, one firm has products with high market potential and merges with another company that has a highly developed distribution network but no special product (Gaughan, 2002).

Growth is also a further motive since the increase in market power also increases revenue. This is due to the fact that competition is eliminated and therefore prices can be increased (Ross et al., 2008). The desire to increase market power is a typical example for horizontal M&A (Gaughan, 2002). Cost-reduction synergies are seen as the main source for operating synergies as they are more quantifiable and easier to identify and track (PWC, 2010). Based on the concepts of Economies of Scale and Economies of Scope, they typically refer to such actions as headcount reduction, elimination of surplus facilities, reduced overhead and increased purchasing power. While revenue synergies require third party commitment, i.e. customers, resellers, and competitors, that kind of commitment required for the thus easier-to-achieve cost synergies. As Houston, James and Ryngaert (2001) have shown this is also acknowledged by market-participants: While expected synergies are generally discounted by the market to the deal’s announcement day, the market applies a greater discount to revenue-enhancing synergies while a smaller one is applied on cost-reduction synergies.

Financial synergies refer to reductions of the cost of capital. According to literature, inorganic growth comes with two side-effects: new sources of capital become available and the firm can borrow at cheaper cost (Trautwein, 1990). Additionally, in absence of perfectly correlated cash flows, risk can be lowered via a

merger or initial consolidation. Lower risk reduces expected default costs. Leverage can potentially be increased, with greater tax benefits, as first suggested by Lewellen (1971).

Tax synergies and the associated tax savings are a further reason for M&A (Jarrell, Brickley, and Netter, 1988, p. 302). Unused debt capacity provides the opportunity for tax synergies. One major finding of the corporate finance literature, based on the Modigliani and Miller propositions about cost of capital, is the fact that interest expenses for debt are tax deductible and therefore debt should be used as a tax shield to maximize firm value (Ross et al., 2005). The reason is that some of the increases in equity risk and related returns are offset by the interest tax shield. This effect is limited by the risk of bankruptcy, which appears when the firms' obligations are not met. The costs associated with financial distress lower the firm value (Ross et al., 2008). "The optimal level of debt occurs when the marginal cost of financial distress equals the marginal tax shield" (Ross et al., 2008). Not all companies achieve this optimal level of debt. This is the point where M&A comes in. A firm can be a potential target if the debt level lies under the optimal rate. After the acquisition the buyer can increase debt and with it the tax shield and lastly the firm value.

2.1.2 Transaction Cost Theory

Transaction cost theory relates mainly to M&A on a vertical level and involves a target in the same industry that is either closer to the source of supply, or to the end consumer (Brealey et al.). Vertical M&A can be split into forward- and backward integration. Forward integration describes the merger with a purchaser, whereas backward integration is the merger with a supplier (Picot & Franck, 1993, p. 180). When separate units have business relationships, different types of transaction costs occur, and their magnitude is unclear (Picot, 1982).

If the independent contractual party is acquired and the long-term conditions for the source of supply or demand are fixed, transaction costs are reduced since the uncertainty factor and coordination effort is eliminated (Brealey et al., 2008; Gaughan, 2002). Depending on the type of relationship, transaction costs can account for a significant amount, particularly if the underlying good is specialized, technologically advanced and requires a customized production flow. In this case, price discovery can cause problems since no market with comparable products is available. In addition, the purchaser is highly depended on the supplier since he cannot easily switch to other firms. Dependability on the supplier is an important factor since it ensures quality and timely delivery for just-in-time management (Gaughan, 2002). Quality control is a major benefit of vertical integration. If correctly implemented, technologically advanced products can be produced at significantly cheaper cost (Reed et al., 2007, p. 19). An external firm that manufactures specialized products might require long-term contracts and a fixed compensation for the initial costs (Gaughan, 2002). For the supplier, this bears opportunities and risks at the same time. On the one hand, he faces the risk of high dependency towards one major client, on the other hand he sets high entrance barriers for potential competitors. For the customer, high dependency towards the supplier's Research & Developments (R&D) capabilities, resource management and long-term business interest exist (McIvor et al., 1998, p. 87; Mentz, 2005).

2.1.3 Strategic and Tactical Reasons

M&A transactions can also have a strategic rationale to support long-term business goals. A strategic rationale is more like an "opportunity to take advantage of the competitive environment if certain situations materialize" (Ross et al., 2005). Even if the effect of the M&A deal does not have an immediate influence on efficiency, market power, or even causes negative returns, it can still make sense to undertake a transaction. One example is given by Akdogu (2009) and the Competitive-Advantage-Theory which states: "The main implication is that if the alternative of not making the acquisition is worse in the sense that it brings more negative returns, then value maximizing managers may rationally "overpay" for their targets in order to earn less negative returns" (p. 101). The essence is that sometimes it will be beneficial for a company to buy another firm at a purchase price higher than justifiable at first glance. This is the case when the target offers a high competitive advantage gain towards the direct competitors and therefore, it would be more value

destructive to not buy the firm than doing so (Akdogu, 2009). Besides of strategic reasons, M&A can also enhance tactical advantages of the buyer. For instance, it might be reasonable to buy a resource supplier in order to control resource allocation of the market and therefore restrict competitors in their actions (Newbould, 1970). Another tactical reason is the combination of complementary resources. Each firm has a potentially successful characteristic but is missing another one to achieve its goals. If two firms have what the other needs, it makes sense to merge since new opportunities can arise (Brealey et al., 2008).

Based on the above explanations, we briefly outline how these theories are related to our company sample: It is acknowledged by literature that despite the fact that there are cross-border specific theories, the broader formulated general M&A theories also apply for this deal nature. Since a considerable amount of our thesis focusses on deals *within* one industry, especially theories related to vertical M&A transaction are of high importance to explain and challenge our findings. Another important factor for China and India is growth. While we have outlined the growth in these countries from an overall economic perspective, this can be done from a more narrow perspective, too: Car manufacturers from India and China often increase their unit size sustainably through their acquisition of their developed-country counterparts. Geely's (415,286 sold units; Company Information, 2012) acquisition of Volvo's automotive business unit (420,608 sold units; Company Information 2012) serves as a highly relevant example.

2.2 Automotive Specific Theories

2.2.1 Automotive Industry at a Glance

The automotive industry can be split into automotive companies, auto components suppliers, and automotive sales. For the automotive companies, the so called Original Equipment Manufacturers (OEMs) are a relevant part in the value chain (Wei & Chen, 2008). Mentz (2005) defines automotive supplier as an economic entity which is directly or indirectly involved in the production process of automobiles by delivering products, services, or both to the OEM, which are either included in the production steps or become an element of the final vehicle. The component which the supplier delivers does not need to be an end product since it can be further modified by the OEM. Automotive suppliers' costumers are mainly industrial companies and not end-users. Within the scope of this thesis, automotive suppliers are distinguished from firms which deliver raw materials to the OEM.

The automotive supply sector can be divided into seven main categories in accordance with the type of component manufactured: engine system, air conditioning system, sheet metals system, chassis system, steering system, electro mechanism, and other parts (Wei & Chen, 2008). It is however acknowledged, that a more practical approach would classify according to the proportion of value added. Correspondingly, there are three types of supplier-tiers which are based on the pyramid shaped supply chain integration, introduced mainly by the Japanese automotive industry (Corswant, Wynstra, and Wetzels, 2003). Table 1 presents the different supplier types.

<i>Supplier Type</i>	<i>Descriptions</i>	<i>References</i>
First-tier Supplier	Consist of system developers that add the highest value to the final vehicle. They design and develop entire systems with (often) unique functionality. These are significant for the assembly process and require high R&D contribution by suppliers. <u>Product examples:</u> braking systems, navigation and locking systems, and fuel injection system. Overall, first-tier suppliers have taken on an increasing level of responsibility for developing and producing components rather than simply making predesigned parts	Laabs (2009); Abrescia (1998); Mentz (2005); Lockströmet al. (2010)
Second-tier supplier	Refer mainly to component specialists who manufacture less technological advanced products like chassis components, complete seats or fasteners. These products are often directly delivered to first-tier suppliers which include them in the final system or module. In most cases, R&D remains with the end manufactures.	Laabs (2009); Mentz (2005)
Third-tier supplier	These supplier types manufacture mainly standardized mass-products with low technological complexity like tires or batteries	Corswant et al. (2003)

Table 1: Supplier Types Based on the Pyramid Shaped Supply Chain Integration (*Source: see above*)

2.2.2 Development of New Vehicle Models

Automotive suppliers are increasingly integrated in the whole process of developing new vehicle models and all related components (Mentz, 2005). The suppliers that are able to set up a strong relationship with their OEM customers, by delivering specified components, create important entry barriers for potential competitors (Laabs, 2009). This requirement generates two problems for automotive suppliers. They need to finance the whole R&D phase in advance but are often limited in their financing options due to their small enterprise size. Additionally, the OEM does not always guarantee the definite purchase of the innovation (Gehrke, 2003). The resulting high risks cause high costs of capital (Mentz, 2005). One solution to partly overcome these problems is the horizontal merger with suppliers on the same level. The company size increases and thus broadens the financing options. As a result, the cost of capital will decrease and the risk of unsuccessful R&D projects is spread among both firms (Mentz, 2005). Another common practice in the automotive industry is the concept of Simultaneous Engineering. It is based on the idea to shorten the time-to-market period, which is the time between the development and introduction of a new model to the market, by simultaneous steps in the development (Gierhardt, 2001). Automotive suppliers are an integrated part of this process. M&A activity among them, therefore, decreases the cost caused by interaction between individual suppliers.

2.2.3 Decreasing Vertical Range of Manufacture

This concept is based on the transaction cost theory explained earlier. As previously mentioned, system integration is an increasing trend in the automotive industry, as OEMs lower their own vertical range of manufacturing. Suppliers can reduce their cost if they produce an entire system instead of single components due to the decreasing coordination effort and associated transaction costs with other supply firms (Gersbach,

1996). Additionally, the supplier can foster his relationship to the OEM since he becomes a significant part of the OEMs value chain. System integrators can react faster towards changes in the automotive assembly process or the introduction of new vehicle models and accumulate important know-how (Larsson, 2002). As a consequence of this, an M&A transaction between suppliers, who produce individual system components, might be value increasing (Mentz, 2005).

2.2.4 Changing Supply Chain Integration

The automotive industry is an international business. Due to global consolidation of the industry, OEMs face the problem of complex supply chain integration of their various components manufacturers around the globe. To face this problem, OEMs tend to source the respective component, worldwide, from only one single firm. This is called Single-Sourcing (Larsson, 2002; Sadler, 1997). Successful suppliers need to be able to adapt their operations towards the OEM's changing requirements very fast. Therefore they need to set up production facilities in developing markets and follow the internationalization of their OEM customers (Laabs, 2009; Sadler 1999). Those who are early enough can gain a beneficial situation in today's predatory competition (Hemerling, Momin, and Rupf, 2002). A M&A transaction with an experienced local supplier is often faster than setting up new operations from scratch and hence represents an established method to quickly achieve these goals (Wang & Boateng, 2007). Especially China represents one important developing market for automotive suppliers, since OEMs increasingly penetrate this market.

3 Emerging Countries and the BRICS: Focus on China and India

3.1 Definitions

Emerging Countries stand in contrast to developed countries and hence can be best defined in distinction to its developed counterparts. While developed countries are characterized by "significant and sustainable per capita economic growth, globally integrated capital markets, a well-defined legal system, transparent financial statements, currency convertibility, and a stable Government", emerging countries "have a growth rate in per capita gross domestic product significantly below that of developed countries" (DePamphilis, 2010,). In this regard, research, media as well as politicians often refer to the *BRICs* as the best in class of emerging nations.

The term BRIC was prominently first used in the Goldman Sachs *Global Economics Paper* "Dreaming With BRICS: The Path to 2050" and refers to the economies of Brazil, Russia, India, and China. In this paper, Wilson and Purushothaman (2003) project that by 2050 - due to favorable GDP growth, income per capita, an currency movements - the BRIC economies could be larger than most developed countries economies. Among the established economies as of today, "only the US and Japan may be among the six largest economies in US dollar terms in 2050" (Wilson and Purushothaman, 2003). More precisely, their BRIC thesis posits that China and India will become the world's dominant suppliers of manufactured goods and services while Brazil and Russia will become similarly dominant as suppliers of raw materials. Nearly a decade after first mentioned, some cast doubt on the BRIC predictions, which Sharma (2012) labels as "blue-sky predictions". In his book *Breakout Nations*, Sharma (2012) reviews the economies of the BRICs individually for each country and find that at least Brazil and Russia will not play such a major role in future as indicated by Wilson and Purushothaman (2003). Their growth was mainly on the back of the past decade's rise in commodities prices and assuming advancements in modern technology, the reliance on raw materials will be reduced. This is in line with the growth figures over the last 12 years which are summarized in Figure 2 below. While all BRICs economies were affected by the financial crisis from 2008 onwards, Brazil and Russia struggle to sustain the still relatively high growth levels set by China and India.

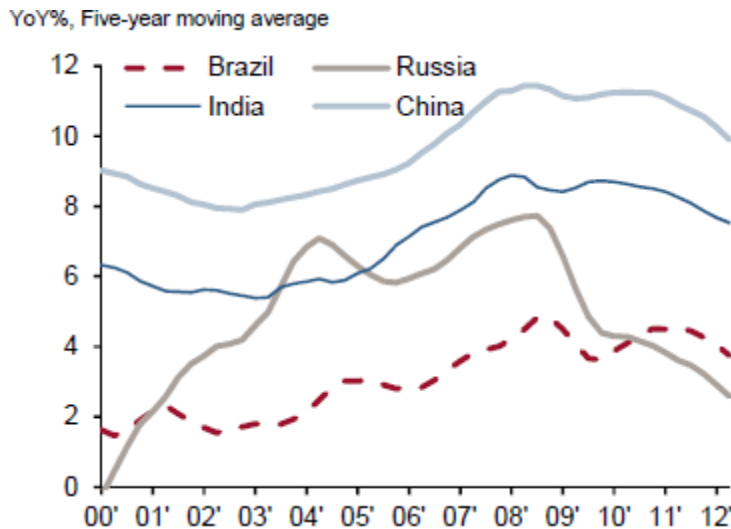


Figure 1: Trend growth slowing in BRIC (Thomson Reuters Data, 2012)

For further reasons explained below, we will from heron focus on China and India.

3.1.1 China's and India's Economic Shape at a Glance

In 2008, Srivastava acknowledged that China and India clearly are the “star growth performers among the worlds’ major economies” (p.9) yet one still has to be aware of the differences between the two economies. This is to a large degree due to the fact that they follow different economic and political models: While China is a closed society run by a communist party, India is an open democratic society with independent judiciary. In the following we briefly outline the two economies characteristics, provide key performance measurers and present estimates for their future performance.

With regards to growth, China outperformed India clearly by a 10.5 % average growth over the last 5 years vs. 6.25% average growth in the Case of India (Figure 2). However, the latter will benefit from a faster rising population which in turn will support economic growth in India (Figure 3).

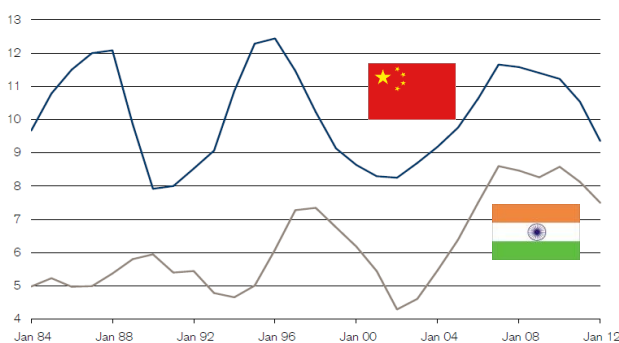


Figure 2: 5Y Average Growth China vs. India

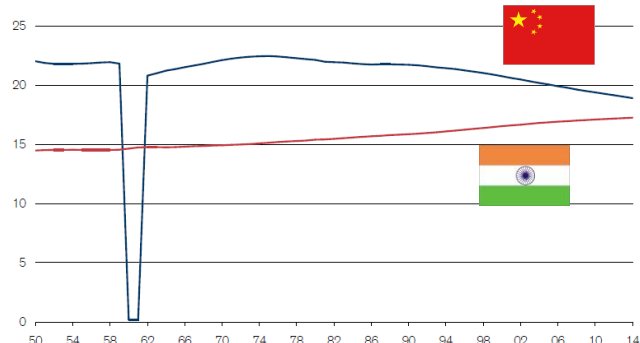


Figure 3: Population as % of Global Population

Even though China and India are the largest economies among their emerging counterparts, they also differ substantially in size: China's economy is approximately 3 times as big as India's (Financial Times, 2012), however both provide similar (high quality) performance indicators. When economists are concerned that the economy may be about to change direction, one of the indicators to which they give special scrutiny is the *Performance Mannagers Index* (PMI) which measures a countries economies health (Koenig, 2002). Monthly released by the *Institute for Supply Management* (ISM), the PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50

represents expansion of the manufacturing sector compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change (Investopedia, 2012). Below the PMI scores of various emerging and developed countries are provided (Figure 4).

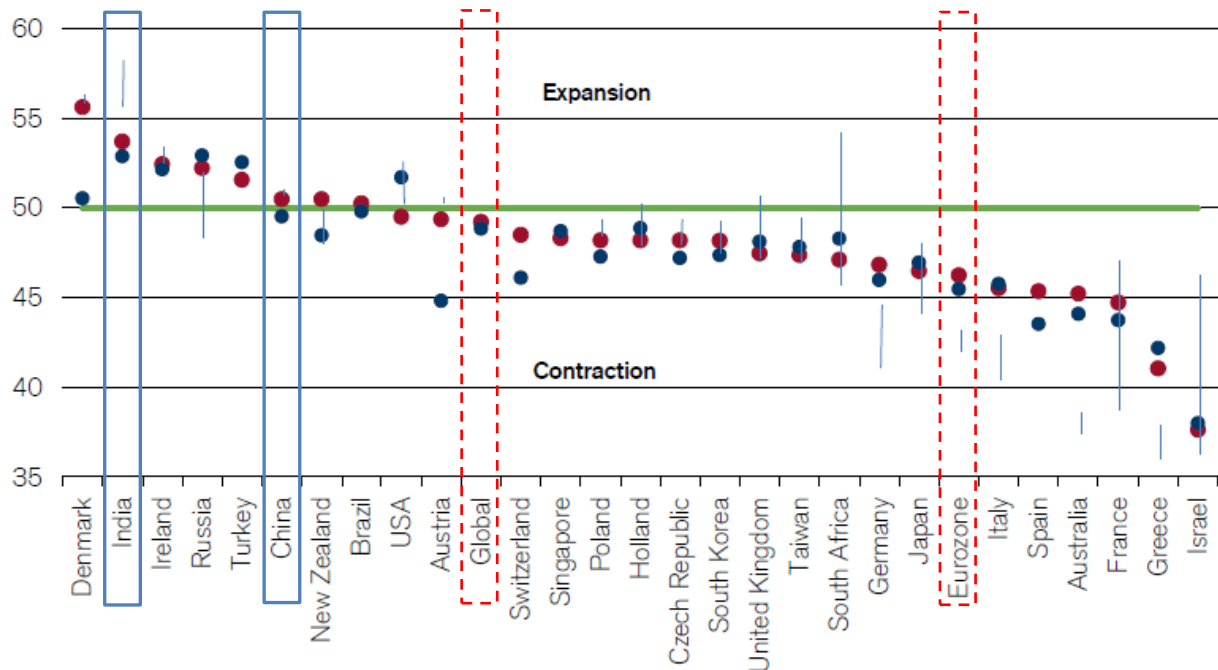


Figure 4: Global PMI Scores (October 2012 vs August 2012)

Figure 4 shows the respective PMI index for August 2012 (blue dots) in comparison to October 2012 (red dots) across 27 major economies, as well as the respective global and Eurozone figures. As Figure 4 indicates, both China and India's manufacturing sectors can be considered among best of class with scores of 51 (i.e. 1% expansion) and 53 (i.e. 3% expansion), respectively. Compared to the global score (49 i.e. 1% contraction) can be or the Eurozone (46, i.e. 4% contradiction.), these figures underline China's and India's special role with regards to manufacturing output and real GDP compared to global economy (Koenig, 2002).

Not only their economies are among the fastest growing in the world, so are their companies: Chinese and Indian multinationals are on their way of becoming global leaders in several industries globally (Afsharipur, 2011; N.Y. Times, 2009; Pradhan, 2009). Along with these growth figures and economic progress comes significant expansion in terms of outbound foreign direct investment, especially cross-border M&As. Chinese cross-border M&As have been growing to \$42.6bn at the end of 2009 and over the last years, China has been the third largest outbound cross-border M&A economy globally (Tan, 2011). In a similar manner, Indian outbound cross-border M&A volume has been rising at a very high pace since the early 2000s. In 2007, Indian outbound cross-border M&A reached a peak of \$33bn and for 2007 and 2008 it is assumed that aggregate outbound M&A volume was larger than inbound investments by foreign companies (Afsharipur, 2011).

3.1.2 Chinese and Indian CB M&A expansion: Developments to the Current State

China passed a number of reforms to open its market in the late 1970s and has become increasingly open to outbound Foreign Direct Investments (FDI) until the late 1990s when it faced severe losses in foreign operations (Wong and Chang, 2003; Pradhan, 2009). In India there was an emphasis on domestic markets in the 1970s and 1980s and international expansion has come with a shift in regulatory import restrictions in the 1990s. With the beginning of the new century, Chinese officials enacted the so called 'go-global' policy which

caused Chinese outbound M&A to grow by more than 200% in the period from 2000 to 2006 (Pradhan, 2009). A similar development was also apparent for India's outbound foreign direct investment which grew from \$1bn in 2001 to \$10bn in 2006 (Pradhan, 2009).

Up to this point in time, the developments have been quite similar but with emergence of the global financial crisis, one major difference between China and India became apparent. Indian outbound foreign direct investment fell by 6.3% in 2008, just in line with the global average. However, Chinese outbound foreign direct investment in the same time practically doubled from \$26.5bn in 2007 to \$52.2bn (Pradhan, 2009). This development is distinctive for the difference in the economic system that both countries have. Indian foreign direct investment is, with a few exceptions, mainly driven by private companies whereas Chinese investment activities are regulated, approved and encouraged by the state. Chinese decision makers thus saw a chance to make use of their foreign exchange reserve almost reaching \$2tn and use the opportunity to buy assets abroad at a discount.

Considering these developments and the larger figures of Chinese outbound foreign direct investment, one could expect Chinese corporations to be more international than Indian ones. This observation seems to be true looking at survey data by Pradhan (2009) who finds that comparing the 18 largest Chinese and Indian MNEs with foreign operations, the Chinese MNEs are significantly larger than their Indian counterparts. However, looking into the ratio of foreign assets or sales to domestic ones, the author finds higher ratios indicating a larger degree of international operations for Indian companies. He concludes that Indian MNEs might lack behind in terms of absolute size of foreign operations but supersede Chinese MNEs in terms of degree of foreign operations.

Another determinant in Pradhan's (2009) comparison is the sectors of operations of foreign target firms. Both China (36%) and India (40%) show a dominant pattern of conglomerates, i.e. multi-industry MNEs, holding foreign assets. However, the Chinese MNEs appear to put more focus on the service sector with manufacturing coming next. The Indian counterparts do not value service related targets that much, but focus on the oil and gas industry to a larger extent. Finally, the manufacturing sector is more or less equally important for both countries' MNEs.

3.2 Motives for Emerging Market Cross-Border M&A

In addition to the general industry independent theoretical reasons for M&As we have laid out in section 2, research on cross border acquisitions has identified additional motives for acquiring firms to commit significant resources on these deals. Underneath, we provide a brief discussion of the additional reasons for M&A specifically for emerging markets and discuss the most important drivers that have been identified. Furthermore, we emphasize factors that are specifically relevant to emerging market acquirers.

3.2.1 Resource Based View and Internalization

Theory suggests that competitive advantage is driven by access to and utilization of strategic assets. These assets are a combination of tangible and intangible assets, which are converted into final products (Amit & Schoemaker, 1993; Glaister, 2004; Hamel, 1991). Examining the rationale for emerging market cross-border acquisitions, scholars have argued that emerging market firms are searching for strategic assets internationally in order to become more competitive. Many emerging countries lack these assets because historical conditions hindered the time consuming development of these. The purchase of foreign corporations embodying strategic assets provides a quick way to fill this gap. The most valuable strategic assets are often times considered to be intangible and preferably tradable, such as licenses and patents (Shimizu, 2004), and are complemented by financial and physical assets as well as human capital.

Another accompanying factor that drives cross border acquisitions by emerging market companies are firm-specific capabilities. Amit & Schoemaker (1993) define capabilities as the ability of a firm to successfully utilize its assets in combination with firm-specific operations. Capabilities are not tradable and have to be

developed and transferred by the firm's human capital. Marketing and management skills as well as the ability to learn and constantly improve are good examples for firm-specific capabilities (Wang & Boateng, 2007).

Combining the resource based view with internalization theory provides a strong rationale for emerging market cross border acquisitions. Internalization is the process of adopting host country firm-specific factors. Research contends that in case of lacking domestic resources, positive abnormal returns can be extracted by internalizing host-country factors in the home market. By linking the resource based view and internalization theory, it becomes evident that emerging market cross border acquisitions can benefit from foreign market specific capabilities by integrating these into their home markets, which in the case of India and China are very large and face significant growth.

Wright et al. (2005) argue that Chinese firms need to enter developed countries as they want to acquire strategic assets and can learn from their mature targets. In due course the acquirer can improve its technology and operations and can instantly gain competitive advantages in its home market, while at the same time stepping up against global competitors as well.

This represents a substantial difference to developed market based cross border acquirers as their focus lies on exploitation of their own resources and capabilities and exporting this competitive advantage to foreign markets. EM firms on the other hand focus on M&A to a substantial degree because it endows them with foreign resources; often times intangible strategic assets they do not yet have in their home country (Wang & Boateng, 2007).

3.2.2 Institutional Motives

The strategic actions of firms are generally dependent on the institutional environment they find themselves in. Firms need to interact with society and state when they are operating and need to consider requirements posited by these. When establishing a strategic plan, these factors play a significant role and influence the range of possible actions to be implemented (Oliver, 1997; Tsui et al., 2004). In emerging markets like China for instance, economic reforms in the recent decade focused on improving firms' innovatory capacity in an attempt to spur the institutional transition from planned to market economy (Hitt et al., 2004). Deng (2009) argues that China's requirement to comply with the unique institutional environment, such as the "go global" strategy, in this regard forced Chinese firms to employ strategic asset-seeking M&As to moderate domestic institutional constraints (Boateng, 2012). Zhang, Zou and Ebberts (2011) furthermore found home and host institutions to exert significant influence on the completion likelihood of Chinese cross-border acquisitions.

The comprehensive set of institutional aspects includes additional factors apart from state, political system, society, etc. Ramamurti and Singh (2009) detected a range of factors that have significant negative influence on EMFs' competitive positioning in the global economy, such as unsophisticated customers/suppliers, weak infrastructure, uneducated workforce, etc. They argue that these factors, which they call "liability of emergingness", jointly create institutional deficits that cause competitive disadvantages in the global market. Hence, acquisitions of developed market firms through internalization could spur the transition towards efficient operations and help overcoming the liability of emergingness that results from asymmetries compared to developed market firms (Madhok and Keyhani, 2012).

3.2.3 Market Entry

Cross-border M&As are often thought of as providing the fastest way to enter new geographic markets (UNCTAD, 2000). Generally, cross-border M&As are frequently used to increase distribution channels into new and lucrative markets for already produced goods (Changqi & Ningling, 2010; Shimizu, 2004). In this way, cross-border acquisitions enable the acquirer to obtain sales by expanding the markets it serves (Martin et al., 1998).

There are however also other modes of market entry; either by organic expansion such as greenfield investments or by joint ventures with other companies. An important drawback among the alternative forms of market entry is that they are not as time-efficient as an acquisition of a foreign target. As Aktas et al. (2003) showed, timely setup of overseas operations is the driving factor in order to set up barriers of entry for competitors through a first-mover advantage, a finding the author confirmed in a study of the automotive sector. Stahl and Voigt (2008) also find that cross-border acquisitions enable acquirers to access foreign markets more quickly than utilizing other entry modes and that they are less risky. Furthermore, Wang and Boateng (2007) point out the fact that cross-border acquisitions provide instant access to previously established business networks and stakeholders such as customers, suppliers, etc. as well as target-specific strategic assets.

3.2.4 Diversification

Deng (2004) in his study found that especially large Chinese enterprises invest in overseas acquisitions for the benefit of diversification. In this regard, diversification advantages can include multiple elements, such as lower variances of capacity utilization due to offsetting geographic factors like varying demand and growth patterns for different target regions, an international manufacturing footprint that can reduce input factor risks, portfolio diversification by entering new industries, etc. Diversification is thus generally seen as a value-enhancing factor in cross-border acquisitions. It furthermore provides opportunities for tax regime arbitrage, better exchange rate risk composition and greater market power as measured by the degree of internationality (Manzon et al. (1994). In this regard, by examining the motives of cross-border acquisitions for Chinese acquirers, Boateng et al. (2008) documented diversification as the most important feature.

The key insight of the aforementioned benefits is that if the cash flows of acquirer and target are not perfectly correlated, then the joint cash flows of the merged firm will be characterized by lower variance and lower cost of debt than the separate stand-alone entities (Boateng, 2012, Bhagat et al., 2011).

3.3 Cross-Border M&A Performance

The performance of M&As can be measured in different kinds of ways. These are explained in greater detail in chapter 4 of this paper.

So the question prevails if (emerging market routed) cross-border M&A is creating value for the acquiring firm's shareholders. The answer is not clear-cut, as there is a very broad stream of literature examining various kinds of samples within different geographies, industries, time horizons, etc. and hence deeper analysis of this issue is required. Furthermore, studies for cross-border acquisitions with developed country based firms have been carried out for a long time, whereas the body of research for emerging market based acquirers is still relatively young, but nevertheless already representing a significant research stream.

In order to provide a brief overview of the key findings, we have summarized a selection of papers in the table underneath that report either positive or negative cross-border acquisition value creation. These are furthermore split into papers that investigate emerging market acquirers (grey shading) and ones that look at acquirers from developed markets, or both (no shading).

Considering developed country based acquirers, Morck and Yeung (1992) find abnormal returns for US based acquirers and so does Kang (1993) find that acquisitions with US targets showed significant positive value creation for Japanese acquirers, too.

Turning to emerging market based acquirers, Boateng et al. (2008) find significant positive CARs for their sample of 27 acquiring firms from China in the period from 2000 until 2004. Furthermore, Bhagat, et al. (2011) find significant positive CARs on the announcement day of 1.09% for emerging market acquirers. They furthermore perform a cross-sectional analysis and find evidence for the "*bootstrapping hypothesis*" put forward by Martynova and Renneboog (2008) and Khanna and Palepu (2004), which is stating that acquirers

voluntarily bootstrap themselves to targets that are characterized by higher corporate governance. We will discuss this issue in more detail later in this chapter. Chakrabarti et al. (2009) find significant positive CARs for the (-1, +1) period of 0.71%. The authors also found positive correlations with cultural distance, which we will also discuss later in this chapter. In a similar vein, Gubbi et al. (2009) reported CARs of 2.58% over an eleven day window for 425 Indian cross-border acquisitions. In their regression they found that value creation is higher when target companies are based in countries with advanced institutional and economic infrastructures.

Literature finding *positive* performance of bidding firms in cross-border transactions

<i>Author(s)</i>	<i>Analysis</i>	<i>Underlying Theory</i>	<i>Method</i>	<i>Key Findings</i>
Bhagat, Malhotra & Zhu (2011)	Returns for emerging country cross-border acquisitions	Diversification, operational efficiency and market power	Event study: CAR & BHAR	Emerging country acquirers' CAR: 1.09% on t=0. Positive Factors: (Better) corporate governance measures in target country
Boateng et al. (2008)	Strategic motives and performance of Chinese cross-border M&As	Resource-based view, Diversification, Efficiency theory	Event study: CAR	Chinese cross-border M&As create value for acquiring firms. CARs for overall sample 1.32% in (event window: 0 to +1 days) and acquiring firms enjoy average CAR of 4.4%.
Chakrabarti et al. (2009)	Returns for emerging country cross-border acquisitions	Cultural Distance Corporate Governance Resource-based view	Event Study: CAR & BHAR	Significant positive returns of 0.71% in the (-1, +1) window Higher long-term and short-term returns for more culturally distant acquisitions
Gubbi et al. (2010)	Returns from international acquisitions in India	Resource-based view, Institutional Theory	Event Study: OLS Regression	International acquisitions facilitate internalization of tangible and intangible resources that are difficult to access in market transactions. Value creation is higher when the target firms are from advanced economic and institutional environments
Kang (1993)	Returns from Japanese acquisitions of US Firms	Agency Theory; Transaction Cost Economics	Event Study: CAR	Japanese acquisitions of US firms create a significant wealthgain for acquirer and target
Kohli & Mann (2011)	Value creation in Indian domestic and cross-border acquisitions	Internalization Theory	Event study: CAR & Regression	Cross-border acquisitions have created significantly higher wealth gains than domestic ones. Cross-border acquisitions in technology intensive sectors create superior wealth gains
Markides and Ittner (1994)	Cross-border returns from a variety of countries	Transaction Cost Economics; Industrial Organization Economics	Event Study: CAR & Regression	International acquisitions create value for acquiring firms. Important factors: industry relatedness, bidding firm industry characteristics (e.g., concentration level, advertising intensity), bidding experience of acquirer, and macroeconomic environments (e.g., tax regulation, currency strength)
Morck and Yeung (1992)	Motives and results of US acquirer cross border deals	Internationalization Theory	Event Study: CAR	US-bidders acquiring foreign companies earn on average positive abnormal returns
Soongswang (2010)	Value creation of thai M&As	Economies of Scale and Scope, Diversification	Event Study: CAR & BHAR	Positive CARs of ca. 17% and 10% - due to leakage very early
Note:	Denotes emerging market based	Denotes developed market based acquirer		

Table 2: Literature Finding Positive Performance of Bidding Firms in Cross-Border Transactions

Moving to studies that found negative CARs for developed country based acquirers, Datta and Paul (1995) found insignificant CARs for their overall sample of cross-border acquisitions and negative CARs in case of culturally distant targets, which is confirmed by the findings in Malhatra et al. (2011). This is in contrast to the findings of Chakrabarti et al. (2009) mentioned earlier who find positive effects of cultural distance. We will elaborate on this point in section 6 further below.

Aybar and Ficici (2009) find significant negative CARs for half of their sample of 433 acquisitions over the period from 1991 to 2004 for acquirers from 14 emerging economies. They also tested factors traditionally also examined in domestic M&A studies and found that industry relatedness and belonging to a high-tech sector negatively influenced returns whereas international experience and enhanced corporate governance had a positive effect. We discuss these and other issues influencing M&A performance later in this chapter.

Literature finding *negative* performance of bidding firms in cross-border transactions

Author(s)	Analysis	Underlying Theory	Method	Key Findings
Aybar & Fici (2009)	Cross-border acquisition returns of emerging market acquirers	Internalization Framework	Event study: CAR and Cross-sectional Regression	Negative CARs for half of observations. Target size, ownership structure of the target and structure of the bidder positively affect the bidder value. Negative factors: High-tech nature of the bidder, industry relatedness; Positive factors: International experience & enhanced corporate governance
Danbolt (1995)	Results of US based cross border deal targets	Internationalization Theory	CARs: Index Model and Market Model	Bidders from different countries acquiring US companies earn significant negative abnormal returns (event window: - 15 days to +15 days)
Datta and Puia (1995)	Influence of culture on cross-border deals' value creation	Ressource Based View; Transaction Cost Economics; National Cultural Differences	Event Study: CAR & Regression	Cross-border acquisitions on average do not create value for acquiring firm shareholders. While the influence of acquisition relatedness on value creation is unclear, acquisitions characterized by high cultural distance were accompanied by lower wealth effects for acquiring firm shareholders
Eun, Kolodny, and Scheraga (1996)	Results of US based cross-border deal targets	Internationalization Theory	CAR from Market Model	Bidders from different countries acquiring US companies earn significant negative abnormal returns (event window: - 5 days to +5 days)
Malhatra, Sivakumar & Zhu (2011)	Role of national culture on foreign market acquisitions by US firms and emerging countries firms	Market selection influenced by cultural distance	Poisson Regression	Developed and emerging firms target culturally closer countries. Different cultural dimensions have an effect on entry strategies of developed and emerging country firms
Note:	Denotes emerging market based	Denotes developed market based acquirer		

Table 3: Literature Finding Negative Performance of Bidding Firms in Cross-Border Transactions

3.4 Factors Influencing M&A Performance

This section summarizes factors traditionally recognized in business related literature that influence the post-acquisition performance of acquiring firms. These factors are grouped into deal specific factors, economic factors, geographic factors, and industry specific factors.

3.4.1 Deal Specific Factors

(Relative) Firm Size

The firm size of acquiring firms is considered to potentially influence the CARs of M&A deals. A variable that measures the acquirer's size is the equity market capitalization. Research suggests that large firms may have more resources at hand to stem acquisitions efficiently (Boateng, 2012), which should enhance CARs. Aybar and Fici (2009) in their study found supporting evidence for higher CAR's in cross-border acquisitions if the acquirer is a large company. But there is also opposing evidence; in a performance study of Indian cross-border acquisitions Kohli and Mann (2011) for instance found that small and medium sized enterprises have higher CARs than large companies. Moeller et al. (2004) furthermore found that managers of large firms pay higher premiums than those of smaller ones, suggesting that the agency costs of free cash flows, which is measured by a cash flow multiple, are higher for larger firms as these deals have higher cash flow multiples.

Regarding target company size, the consideration paid to acquire the company is a good approximation. Consideration paid is commonly referred to as deal value and thus measures the equity size of the target company. Ferris and Park (2002) in their study of value creation in the telecommunication industry found a positive relation of abnormal returns to transaction size, subsequently arguing that larger deals might be more likely to generate economies of scale in research and production facilities. Finally, large deal value could be perceived by investors as a proxy for meaningfulness of the respective acquisitions and hence draw more attention to the event itself, which could influence the timeliness in which the stock market reacts to the

announcement. There are also findings of negative CARs related to higher deal values documented by Jensen (1986) who states empire building of managers, a term in business literature that explains observations of managers that want to acquire as many companies as possible in order to get personal satisfaction from leading larger companies. The argument is that investors believe that they should rather be paying out the cash used in the acquisition and not engage in potentially value destructive acquisitions for personal reasons.

Furthermore, the larger an acquisition is, the more significant it should *ceteris paribus* be for the acquiring company, a factor that is essentially driven by the relative size of acquirer and target. Asquith et al. (1983) illustrate this with an example: Assume that the net present value in excess of the deal value accruing to the bidding firm is equal to 10% of the target firm's equity value. If target and bidder have equal equity values, the abnormal return to the bidder is 10%. If the bidder is twenty times the size of the target, only a 0.5% abnormal return should be observed. In both cases the absolute gain is the same, abnormal returns might be insignificant in the latter case, however. Asquith et al. (1983), Moeller et al. (2004), and Bhagat et al. (2005) find positive relationships for relative size of targets and acquirers. Other proxy variables apart from the ratio of deal value and the acquirer's market capitalization used in research are relative equity values if target and acquirer are listed firms as well as relative turnover figures, (net) asset values, number of employees, etc.

The empirical results described above indicate that research dealing with (relative) size remains essentially inconclusive.

Previous Deal experience

Previous deal experience is another factor that could potentially influence post acquisition performance as experienced acquirers might be more effective in integrating target companies. Furthermore, experience in the M&A process might also be reducing the risk of disruptions or distraction from the day-to-day business that might lead to negative performance. Halebian and Finkelstein (1999) found a positive correlation between the number of completed transactions and reason that acquirers gain target-integrating experience, which can be used to more efficiently integrate acquired companies in subsequent acquisitions. Another effect could be that a track record of successfully closed transactions is a positive signal that could potentially imply target-picking skills, too. Laabs et al. (2009) hypothesize positive CARs for bidders in the automotive supply sector that previously acquired other companies because of issues related to the aforementioned. On the other hand, Fuller, Netter, and Stegemoller (2002) find evidence for significant negative returns for acquirers that execute more than five transactions within three years prior to the announcement date. Jensen's (1986) above-mentioned argument of empire building was linked to this issue by Bayazitova et al. (2009) who find that particularly large acquisitions show the most negative market response. Finally, McCardle and Vishwanathan (1994) and Jovanovic and Braguinsky (2002) hypothesize that high deal activity could be interpreted as a signal of a lack of internal projects worth pursuing, which can be interpreted negatively by the market as this could indicate the inability of the management to grow the company organically.

3.4.2 Industry Specific Factors

Sector of operation

Industry specific factors can play a major role in post announcement returns. Industry life cycles, regulatory changes, commodity prices, new technologies and the likes are commonly known to potentially severely affect a group of firms or industries as a whole. Literature also found evidence for the importance of a firm's sector of operation in relation to value creation (Markides and Ittner, 2004; Shimzu et al., 2004). A good example of differences in post-acquisition returns specifically addressable to industries is the industrial dichotomy study carried out by Aybar and Ficici (2009). The authors studied emerging market cross-border acquisitions and separated their sample into high-tech/non-tech acquisitions and found negative CARs for the high-tech subsample. This was confirmed by additional cross-sectional regressions and the authors argued that information asymmetries between targets and acquirers associated with target company specific assets

acquired could result in high premiums paid in high-tech industries and furthermore lead to incompatibility issues.

Industry Relatedness

A traditional argument in management research is that relatedness increases possibilities to extract operating synergies, which in itself is considered to be one of the major reasons to pursue M&As in general (Porter, 1987; Lubatkin, 1983). As previously discussed, synergies often appear in form of economies of scale and scope and firms try to secure cost advantages by being able to spread out costs for activities such as R&D, marketing or general overhead over its organization as a whole (Harris and Ravenscraft, 1991). Previously discussed strategic assets also often require industry relatedness in order to be transferable to the acquirer, examples are technological know-how, patents, licenses and the likes. Another issue mentioned by Datta and Puia (1995) is that market power is more likely to emerge from related acquisitions, as the acquirer is already familiar with the industry and thus more adept in integrating the target company in a satisfactory manner.

Theoretical arguments for positive impact of un-relatedness is diversification, which brings advantages such as the co-insurance effect (Boateng 2012) stating that combined cash-flows of non-related businesses will be less volatile. We see a critical argument to this notion however as shareholders *ceteris paribus* should not necessarily value the diversification effect itself as they are able to (re) balance their portfolio themselves.

Prior research on relatedness shows mixed findings; Singh and Montgomery (1987) and Shelton (1988) find supporting evidence but studies by Lubatkin (1987), Seth (1990) found no effects. Datta and Puia (1995) specifically looked into cross-border acquisitions but could not find significant effects either. Aybar and Ficici (2009) and Bhagat et al. (2011) found that emerging market cross-border acquisitions were more value destructive if they were in related industries.

3.4.3 Economic, Institutional and Governance Factors

Emerging market based firms can benefit from acquisitions in developed markets through access to strategic resources and assets that they can in turn integrate in their home market, previously referred to as internalization theory. By setting up foreign operations, issues labeled “liability of foreignness”, which will be dealt with in greater detail later in this chapter, and “liability of newness” can emerge however, causing problems of perceived lower quality and fewer capabilities for the acquirers (Aulakh et al., 2000). These issues can potentially be circumvented by entering new markets through an acquisition as market-based relational assets, e.g. network of customers and suppliers or know-how, are part of the acquired firms and help mitigate reputational, cultural or legal barriers (Cuervo-Cazzura et al., 2007). Gubbi et al. (2010) in a similar manner argue that the extents to which cross-border acquisitions are value creating is dependent on geographical presence and institutional and economic factors of the host country. Studying CARs of 425 India-outbound cross border acquisitions, they find evidence suggesting that the target country’s economic advancement plays a significant role for post announcement CARs. Chakrabarti et al. (2009) test for the openness of a target’s host country by including a measure computed as the sum of exports and imports divided by GDP. The intuition is that this measure might be a good indicator as to how easily manageable an acquired company is in the respective country. The results show a low but significant effect that suggests that gains in cross-border acquisitions are higher when there is less openness, potentially implying that the advantages of cross-border acquisitions are higher when there is less competition from trade. Another variable they control for is the relative difference in per capita GDP of acquirer and target countries. The reasoning is that differences in per capita income are often a good indicator of a broader set of socio-economic differences between countries and could shed light on significance of these. The results are only marginally significant, however.

3.4.4 Cultural distance

It has been documented in research that owing to their international nature, cross-border acquisitions involve distinctive cultural challenges. In fact, as the literature on cross-border acquisitions is growing, research on

cultural differences' implications has witnessed huge progression likewise. The meaning of cultural discrepancies has been highlighted by the academic world for a long time, also for domestic M&A transactions (e.g. Jemison and Sitkin, 1986; Datta, 1991; Datta and Puia, 1995).

Scholars refer to Hofstede (1980, 2001) as benchmark when analyzing cultural issues (Fernandez, Carlson, Stepina, and Nicholson, 1997). He defines culture as "collective programming of the human mind that distinguishes the members of one human group from those of another" (Hofstede, 1980). Previous researchers have furthermore documented that organizational cultures, which are the relevant variable as closer to foreign based firms - the point of our investigation - is in fact influenced by national cultures (Langlois and Schlegelmilch, 1990). Van der Stede (2003) has been arguing for intra-corporate isomorphism, which implies that foreign operations adapt the company specific culture and thus suggests that the country dimension might be less important than often thought because the company culture dominates the country related culture. In announcement effect studies, short-term event window effects are however measured and we argue that differences between countries are hence the appropriate measure to investigate.

In Hofstede's well-known contribution to research he examined dissimilarities in work-related values among different nations. The cultural difference can be computed by looking at Hofstede's four cultural dimensions: power distance, uncertainty avoidance, individuality, and masculinity/femininity. Power distance refers to the degree of hierarchical structures and the way power is distributed within the organization. Uncertainty avoidance relates to the degree a country shows intolerance for uncertainty or ambiguity. Individualism measures how an individual sees herself within the rest of collectivity or other people in its surroundings. Femininity refers to a preference in society for "achievement, heroism, assertiveness and material reward for success" (Hofstede, 1980). Hofstede also developed indices to measure the four dimensions. These dimensions are seen to be the standard tool for calibrating cultural differences in several business disciplines including, but not limited to, accounting (Cohen, Pant, Sharp, 1993) and management (Kogut & Singh, 1988).

Likewise, Zaheer (1995) in his study examined the existence of a "liability of foreignness", i.e. that multinational enterprises (MNEs) have to devote financial resources to overcome unacquainted local peculiarities relating to culture, politics, the economy and the likes. He tested predictions of a paired sample of US and Japanese banks and found that the liability of foreignness exists and that firms in turn have to endow their foreign business units with "some firm specific advantages, often in the form of organizational or managerial capabilities" (Zaheer, 1995, p. 341) in order to overcome these challenges. Barkema et al. (1996) also found evidence for cultural adjustment costs when firms are entering foreign markets and suggest that there is a learning curve when going abroad and that cultural tensions can more easily be overcome when choosing expansion paths in the same countries or the same cultural settings. Other factors have also been found to be of help in cases of great cultural distance, especially with regards to Chinese outbound acquisitions (see Klossek et al., 2010). Suggested measures include conducting thorough preparatory analyses (i.e. 'Due Diligence') in order to reduce uncertainty prior to an acquisition. Furthermore, "reputation building and reliability enhancement" (Klossek et al., 2010) can help to build trust among local stakeholders. Sharing control with local management can additionally mitigate the liability of foreignness as different management cultures and styles can spur dynamic tensions leading to an improved working atmosphere.

With the exception of Markides and Oyon (1998, p.132), who find that "acquisitions in culturally diverse countries are not valued any differently from acquisitions in culturally similar countries", a lot of the studies on cultural differences in cross-border acquisitions in the past found that differences in (organizational) culture have a significant negative impact on the acquirer's performance (Datta and Puia, 1995; Danbolt, 1995; Kang, 1993; Wang and Boateng, 2007; Eun, Kolodny, and Scheraga, 1996; Mathur, Rangan, Chachhi, and Sundaran, 1994). The lack of cultural fit in cross border M&As results in administrative conflicts, feeling of discomfort, and finally leads to negative post-merger performance (Datta, 1991; Datta and Puia, 1995). Kogut and Singh (1998) argue that post-merger integration is a challenging task itself, even in domestic

acquisitions, and that integrating foreign management brings up even more problems which can be reinforced by management's resistance to cooperate with the foreign acquirer.

As research regarding cross-border acquisitions has been growing significantly over the last few years, especially in connection with bidders from emerging market acquiring developed market targets, there have been several more recent studies focusing on cultural aspects. Chakrabarti et al. (2009) for instance challenged the common perception of negative correlation between cultural distance and value creation. Using the Hofstede index to compute cultural distance, they find better performance if target and acquirer come from countries that are culturally more disparate. They cite recent discussions in the academic literature positing that culturally distant mergers provide the opportunity to get access to unique capabilities and spur innovation and learning by challenging rigidities. The findings seem to suggest that cultural differences can enhance merger synergies through the aforementioned factors, however this comes with higher integration costs. Another observation posited by Slangen (2006) is that low integration levels tend to work well for culturally distant mergers, whereas high integration levels are a bane. Chakrabarti et al. (2009) argue that not only do culturally distant mergers strengthen organizational strengths but also create pre-deal awareness of challenges involved in the integration process. This supposedly leads to stricter target selection criteria and more emphasis on due diligence, which can mitigate many problems that would be overlooked otherwise and finally result in only closing deals that provide sufficient economic potential, an observation also made by Aguilera et al. (2004).

Stahl and Voigt (2008) conducted a meta-analysis of 46 studies and a combined sample size of 10,710 M&As. They have found multiple and contingency dependent effects of cultural distance on post-merger value creation. Their first result is that aggregation of effect sizes across all studies would have resulted in a mean of zero. They argue that researchers are essentially comparing apples and oranges with regards to cultural influence in cross-border acquisitions as the samples and methodologies are not consistent.

By performing more detailed analysis, the authors however found factors that indicate when M&As are more heavily affected by cultural issues. The authors divide M&A performance into two distinctive processes of synergy realization and shareholder value creation. The former is measured by accounting-based performance improvements, whereas the latter can be measured by computing CARs. With regards to the latter, a two-phased process is suggested by which cultural distance effects shareholder wealth. In the short term, cultural distance influences investors' expectations about future performance; in the longer term, culture affects the likelihood of reaping synergies and thus creating economic benefit. Ultimately the integration process plays a major role in reaping the long-term benefits. One major determinant of successful integration are management styles. If these are too opposed, the likelihood to efficiently absorb strategic capabilities are lowered considerably (Slangen, 2006). The benefits of cultural tensions mentioned earlier thus seem to be opposing the effort it takes to manage the integration process, which can be seen as a trade-off relationship. Secondly, integration intensity plays a role as cultural distances only come into play when there is actual interaction, a fact pointed out by Shenkar (2001, pp. 527-528) by saying that "how different one culture is from another has little meaning until those cultures are brought into contact with one another." Integration is commonly seen to be dependent on relatedness of target and acquirer (Buono and Bowditch 1989, Datta 1991, Larsson and Finkelstein 1999, Schweiger 2002) and in turn calls for more interaction between the merging entities. Thus the potential for cross-cultural conflict *ceteris paribus* could be expected to increase with stronger target-acquirer relatedness and conversely be lower when acquired firms are granted more autonomy which reduces interaction, post-acquisition stress and ultimately culture related problems.

Stahl and Voigt (2008) were able to confirm this theory in their findings. Higher levels of integration, essentially driven by industry relatedness, create problems in the post-merger integration phase. Accordingly, cross-border acquisitions requiring lower integration levels show positive effects of cultural difference as projected synergies can be achieved more easily and without causing major cultural integration problems.

3.4.5 Corporate governance

Another measure that has drawn attention to cross-border M&A studies (see for example Bhagat et al. (2011) and Chakrabarti et al. (2009)) is corporate governance. La Porta et al. (1998) define it as the set of policies and procedures that provide outside investors with a fair return on their investment. Governance has country and company specific dimensions. We recognize that it would be ideal to incorporate both dimensions, however as pointed out by Doidge et al. (2007), differences among countries are much greater than differences among companies within a country. We are considering Van der Stede's (2003) previously mentioned observation of intra-corporate isomorphism as well but think it is not a concern for the same reasons as mentioned earlier.

The analysis carried out by La Porta et al. (1997, 1998, 1999, 2000, 2002) in a series of papers sheds light upon the relationship of legal systems and investor protection rights. Their essential argument is that crucial determinants of countries' financial systems are dependent, both conceptually and empirically, upon legal protection of outside investors. They found significant influence on factors such as capital market liquidity and size, the pace of new security issues, corporate ownership structures, dividend policies, and investment allocation efficiency. Furthermore, also general market capitalization of economies seem to be positively related to higher investor protection. As is noted by Bhagat et al. (2011), their work has not been left uncriticized but the influence it has exerted in academic literature and beyond is a good indicator of their findings' relevance, indicated for instance by the fact that the IMF and World Bank focus on corporate governance in their policy toward emerging markets.

Furthermore, La Porta et al. have computed the so-called *antidirector* index which is a measure of variances in investor protection for different countries. The index is composed of five components, all of which add one point if the requirements are met. The components are (1) possibility for shareholders to mail proxy votes, (2) no requirement to deposit shares prior to the shareholders' meeting, (3) existence of cumulative voting possibilities, (3) existence of oppressed minority rights protection, (4) the minimum percentage ownership requirement to call for an extraordinary shareholder's meeting is below 10%.

La Porta et al.'s (1998) country classification has been used by researchers in the cross-border M&A related fields to consider differences in countries' legal systems in their analyses. One example is Rossi and Volpin's (2004) paper that uses the antidirector index to study volume and characteristics of cross-border acquisitions and conclude that takeover targets are typically characterized by low investor protection environments. Their suggestion is that acquirers from high investor protection countries can create value by enhancing their targets' corporate governance, a notion that Martynova and Renneboog (2008) call positive spillover effects. Following this reasoning, one would expect negative spillover effects if acquirers have lower investor protection relatively to their targets. Considering this setup however, Martynova and Renneboog (2008) build the hypothesis that there might be the possibility of acquirers voluntarily bootstrapping themselves to higher corporate governance standards of the target company and thereby generate positive CARs and call this the bootstrapping hypothesis.

Bhagat et al. (2011) test this hypothesis in a cross-sectional analysis and find evidence for it. Furthermore, Khanna and Palepu (2004), in a clinical study of the Indian software company Infosys, also find evidence supporting the hypothesis.

4 Methodologies for Value Creation Analysis

In this section, it is our aim to describe the commonly used research methods for analysis of corporate takeover performance used in this research field. We also include a brief discussion on the respective advantages and limitations of the different research methods and finally explain which method we will use and why we decided to do so.

Most of the content of these sections stems from the theoretical discussions on methods provided in Bild (1998).

4.1 Common Research Methods

The most widely spread and generally accepted theoretical framework used to value companies is the discounted cash flow method (DCF). It assumes that the value to an owner is constituted by the cash flows that she can expect to receive during the period of possession.

Value implications of particular investments, in our case corporate takeovers, can hence theoretically be assessed by looking at the incremental effect of a particular investment, i.e. the “incremental cash flows” (Bild, 1998) of each investment separated from a stand-alone case of the parent company. These cash flows are discounted by an appropriate rate, taking into account the time value of money and riskiness of the cash flows. A merit of the incremental approach often mentioned is that it is applicable ex-ante as well as ex-post and can thus be used to compare target and actual performance of investments and takeovers. In the corporate takeover literature, the theoretical approach to corporate valuation is hence described as the ideal research method (Bild, 1998; Halpern, 1983; Mueller, 1987).

However, there are limitations to this theoretically sound approach. Problems for instance arise when incremental cash flows from a particular takeover cannot be separated from cash flows arising from other parts of a business (Gold, 1976; Segelod, 1995). We believe that a good example of separation issues can be found in situations in which synergies are evaluated. Synergies are not always mutually exclusive, i.e. they arise in different levels of organizational entities, and are hence hard to allocate to different investment decisions.

Literature on capital budgeting generally points out that this separation problem is substantial and hence it can be understood that many studies focus on the role of accounting ratios relating to combined companies. This is especially the case when comparing ex-ante appraisals and ex-post audit. As Ingham et al. (1992) point out, incremental cash flows are most commonly used for ex-ante capital appraisals but accounting ratios are dominant in assessing the ex post outcome of corporate takeovers. By using accounting ratios, the separation issue is circumvented, as the focus no longer lies on assessing particular isolated investments but rather measuring the joint development on the parent level.

Adding to the separation issue described above is the lack of access to internal company data, which hinders researchers from statistically evaluating the success or failure of takeovers using the incremental cash flow method. As Bild (1998) describes, this has historically lead researchers to predominantly use second-best methods in analyzing corporate takeovers, which are not always theoretically sound and furthermore show a lack of comparability.

More generally, studies that do not use incremental cash flows to evaluate takeovers fall into three main groups, which can be characterized as follows (e.g. see Bild, 1998)

- Accounting studies draw their conclusions on either (see Ikeda and Doi, 1983)
 - i) Absolute performance studies: the post-merger returns of a combined entity are compared to the weighted average returns of the individual entities prior to the merger;
 - ii) Relative performance studies: aggregated data related to entirely merged companies is compared to a control sample of companies that have not experienced takeovers, thereby trying to distinguish incremental effects of corporate takeovers (e.g. Mueller, 1980; Cosh et al, 1980; Healey et al., 1992, or Manson et al., 1994);
- Interview studies focus on the acquiring and acquired managers’ opinions concerning the success or failure of acquisitions they experience (e.g. Kitching, 1973; Hunt et al., 1987);
- Market studies observe the stock market’s reaction (abnormal return) to the acquirer’s share price after a takeover announcement, which is under the assumption of efficient capital markets in the semi strong form used to conclude about the expected outcome of takeovers (e.g. Eckbo, 1983;

Dodds and Quek, 1985; Sudarsanam et al., 1996). The efficient capital market hypothesis in the semi strong form states that share prices reflect all public information immediately and implies that neither fundamental nor technical analysis can be used to achieve superior returns

4.2 Different Method's Advantages and Shortcomings

In order to provide for the most important aspects of each method and explain our choice of research method, in the table underneath we provide a short overview of advantages, shortcomings, and limitations of the different methods (Table 4).

<i>Method</i>	<i>Advantages</i>	<i>Disadvantages</i>
Incremental Cash Flow Method	Theoretical soundness and compliance with regards to generally accepted definitions of appropriate corporate valuation methods	Difficulty to separate incremental cash flows and investments in general must be considered alongside their environment and sometimes become part of an "entirety" as part of which their incremental cash flows are hard, or sometimes impossible, to identify (Honko, 1971)
Accounting Method	Data verifiability and availability due to publicly available nature	Accounting performance measures might not always be accurately conveying success of an acquisition (Bild, 1998)
	Accrual nature of accounting measures provides link to cash flows (i.e. first-best alternative) (Bild, 1998)	Relative performance studies: Assumption that carrying on without the acquisition was a real option for the acquirer. However, this need not always be the case (Bild, 1998)
	Possibility to compare and contrast inter- and intra-industrial samples as well as national and international patterns	Absolute performance studies: Lack of 'through-cycle'-comparability and merger waves lead to artificially higher pre-merger performance indicators (Brealey and Myers, 1988, p. 817) Dependence on, and arguably, often lack of comparable accounting standards across industries and geographies
Market Method	Data availability and verifiability, both in terms of general sample size and time periods. Given the assumption of efficient markets, very high accuracy of results	Efficient market hypothesis may not hold, e.g. investors could not fully and correctly assess implications of a takeover and the reaction is a wrong approximation of the net present value of the takeover to equity holders (Bild, 1998)
	Possibility to compare and contrast inter- and intra-industrial samples as well as national and international patterns	Information leakage, lack of liquidity in the market, potentially failing tender offers among others may distort the market pricing prior and subsequent the announcement date (Bild, 1998)
Interview Method	Potentially more insightful than quantitative studies due to possibilities to: i) Examine culture related issues ii) Apply longer time horizon iii) Explore different hierarchy levels iv) Contrast target's and acquirer's perceptions	Narrow focus of classifications as either success or failure of takeovers can lead to problems, e.g. if pre-merger goals were unrealistic or if the general business climate developed worse than expected (Bild, 1998), Systematic distortion in results due to potential of only well performing post-merger companies willing to participate in interviews (Newbould, 1970)

Table 4: Advantages, Shortcomings and Limitations of different Research Methods

As we do not have the necessary access to internal company data, we are bound to use second-best methodologies. Considering the above-mentioned aspects and data access, we employ the market study approach. The accounting method is not applicable as Chinese and Indian acquirers often do not follow the same reporting standards and hence comparability issues would arise within our sample of companies and takeovers. The interview method is not applicable due to lack of access.

5 Value Creation in Cross-Border M&As of European Targets: Intra-European, Chinese, and Indian Acquirers

In this section we seek to analyze the patterns and determinants of value creation in cross-border acquisitions of European targets with a focus on the automotive sector. Therefore we include a sample comprising intra-European automotive as well as Chinese and Indian outbound automotive deals. We seek to establish, which geographical acquirer region generated the highest CARs and furthermore investigate a set of factors that influence this value creation.

We have furthermore included non-automotive cross-border acquisitions of European targets from Chinese and Indian acquirers. By combining these deals with the automotive ones, we include the full sample of cross-border acquisitions of European target firms acquired by listed Chinese and Indian companies in the time from 2000 until 2012, across all industries. The rationale is to be able to increase our sample size and find general characteristics of Chinese and Indian outbound acquisitions of European targets. Furthermore, it opens the possibility to compare the non-automotive deals to the automotive ones, and we hope to find differences that can be attributed to developments in the automotive sector itself.

5.1 Analytical Framework

Our analysis is twofold: First, we employ an event study to assess, which of our sub-samples shows the highest value creation in cross-border acquisitions. Secondly, in order to investigate which factors influence the value creation patterns found in the previously carried out event study, we run regressions on our European, Chinese, and Indian samples.

We included a set of variables that we test for in our event study and regression analysis. The next section briefly describes the variables that are part of our analytical framework.

Following this, we briefly lay out the methodology of event studies and our regression analysis. Then we provide our findings: First we measure the CARs for our different sub-samples and subsequently analyze (through the regression), which factors influence the observed pattern. By doing this, we can trace the coefficients of our explanatory variables and deduce information about their sign (positive, negative), magnitude, and significance. We conclude this section with a discussion of our findings.

5.1.1 Factors Potentially Influencing Cross-Border Acquisition Value Creation

We include a set of explanatory variables that we have identified according to the previously discussed related research within event studies of CARs after the announcement of takeovers. Underneath we provide a short description of the variables in our regression. Furthermore, we state our hypothesis about those variables' influence on the observed CARs.

Deal Specific Factors

Hypothesis 1: We expect positive correlations between CARs for all sub-samples and the deal specific factors.

Deal specifications have been identified to have significant influence on future success of M&As and we included the ones that we were able to obtain given our data.

Deal_Count is a numerical variable measuring the amount of deals completed by the acquirer within our sample. We included that variable as it has been tested for in previous research. Laabs et al. (2009) hypothesize positive CARs for bidders in the automotive supply sector that previously acquired other companies, which comprises a big part of our sample. Furthermore, it could be seen as a proxy for integration experience and skills. We hypothesize that this variable has positive influence on CARs.

Log_Deal_Value is the natural logarithm of the consideration transferred. Logarithms can be used to test for nonlinear relationships between explanatory and dependent variables. Ferris and Park (2002) found a positive relation of abnormal returns to transaction size, arguing that larger deals might be more likely to generate economies of scale. As these activities present a significant part of the companies included in our sample, we expect a positive coefficient for this variable.

Log_MCAP is the natural logarithm of the equity market capitalization of the respective acquiring company one month before announcement date. The month before is chosen in order not to create a circularity as the market capitalization would be used to explain itself partly if we used the announcement date values. We expect a positive sign of this variable, essentially following research arguing that large companies have more resources at hand to execute acquisitions efficiently.

Deal_Value_MCAP is the ratio of the both aforementioned variables (not logarithmized). The deal value could be perceived by investors as a proxy for meaningfulness of the respective acquisitions and hence draw more attention to the event itself. Considering the aforementioned hypotheses for Deal Value and MCAP, the result is dependent on which factor is considered more important. We hypothesize a positive sign because we believe that relative size is an indicator of relevance.

Economic Factors

An additional group of variables that can potentially affect post acquisition performance are economic variables, both for target and/or acquirer countries as a 'stand-alone' but also in relative terms to one another.

Target_GDP_Growth and *Acquirer GDP growth* are control variables for the yearly growth in the gross domestic product for both target and acquirer firms. By including these variables we test whether M&As are more value creative in times of higher growth. We would expect both variables to have positive coefficients as M&As are generally undertaken in times of economic prosperity (so called waves). We recognize the possibility that some investors might value anticyclical behavior, though, which could lead to negative coefficients.

Hypothesis 2: Target and Acquirer GDP growth are positively related to CARs.

Target_PCI is the per capita income of the respective target countries. The intention to include it is that it should serve as a proxy for economic condition of target countries. The variable has been calculated as

$$Target_PCI = \frac{GDP_{target\ nation}}{Population_{target\ nation}}$$

Hypothesis 3: The target's per capita income has negative coefficients in regressing CARs for European acquirers and positive coefficients in regressing CARs for Indian and Chinese acquirers.

This hypothesis is based on the previously mentioned theory that developed market acquirers, i.e. European acquirers, are looking to export their competitive advantage into less developed target markets. Hence we expect European companies to create higher CARs by exporting their competitive advantage the lesser target countries are developed. Emerging market acquirers on the other hand look to internalize strategic assets from developed countries. Emerging market acquirers should thus have higher CARs when being able to exploit strategic assets of the target, which we assume to be more likely the more advanced the target country is developed economically.

Openness_Target is a proxy variable for the target country's openness to foreign trade. It measured by

$$Openness_Target = \frac{Imports_{target} + Exports_{target}}{GDP_{target\ nation}}$$

The measure is a proxy for the degree to which the acquirer can control and support the foreign firm and transfer its profits. The general openness is supposed to indicate the target's nations economic interaction with trade partners, which could be an important factor for the merged business.

In order to relate this measure to the acquirer nation we furthermore included

$$Openness_{diff} = Openness_{target} - Openness_{acquirer}$$

for which positive values indicate higher openness for the target nation and vice versa.

Hypothesis 4: Openness diff has negative coefficients for intra-European cross-border acquisitions and positive coefficients for Chinese and Indian cross-border acquisitions.

The reasoning for this is the previously mentioned difference in the rationale for acquisitions between developed and emerging countries. Lower target country openness as compared to its own country's openness is beneficial for a developed market acquirer as he can export its competitive advantage into a

relatively more closed market, which is seen to be an indicator of less developed target market based competitors. This is assumed to be positive for the developed country acquirer as he comes from a relatively more open country. Hence he already faces more international competition than target country competitors and is assumed to have competitive advantages because of the competition against foreign companies in its own and other foreign markets. For emerging market acquirers, relatively bigger target openness is a good factor as it could indicate international competitive advantages of the target. The reasoning is the same, namely that openness comes with increased international competition as foreign companies can more easily access the domestic market and furthermore home companies can compete in the global markets easier, too. The competition with international companies forces the target company to develop unique capabilities that could in turn be internalized by the emerging market acquirer.

Corporate Governance

Target_Corp_Gov is a proxy for corporate governance quality of the target company. As previously discussed, governance has country and company specific dimensions. We recognize that it would be ideal to incorporate both dimensions, however as pointed out by Doidge et al. (2007), differences among countries are much greater than differences among companies within a country. Thus, in order to account for corporate governance, we include a variable utilizing the antidirector index established by La Porta et al. (1998) as discussed before. *Target_Corp_Gov* resembles the target country specific value of the index.

Corporate governance has drawn attention to cross-border M&A studies (see for example Bhagat et al. (2011) and Chakrabarti et al. (2009). Bhagat et al. (2011) found positive impacts of higher corporate governance in his study as this could be related to the bootstrapping hypothesis put forward by Martynova and Renneboog (2008).

Hypothesis 5: Target_Corp_Gov has positive effects on cross-border acquisitions' CARs.

Culture_Dist is a proxy variable for the cultural distance between acquirer and target country. We use Hofstede's (1980) indices to measure cultural distance and adopt the methodology of Kogut and Sing (1988), Erramilli (1991), Shane (1992), and Datta and Puia (1995) that have computed an index of cultural difference in order to measure the potential effects. The index is calculated as follows:

$$CD_j = \sum_{i=1}^4 \{(I_{ij} - I_{iu})^2 V_i\} / 4$$

where:

I_{ij} = index of the i th cultural dimension and the j th country at time t ;

V_i = variance of the index of the i th dimension;

CD_j = cultural difference of the j th acquired firm country;

If the index value is low, the cultural difference is low as well. For acquisitions that happen within the same country in the European sample, the value is hence zero.

Culture_Dist is included as dummy variable that equals one if the respective deal specific country difference is larger than the mean within the sub-sample, and zero if below. The mean has been weighted by the number of observations between two countries in the Chinese, Indian and European sub-samples.

Hypothesis 5: Cultural distance has a negative effect on CARs.

Regional and Industry Factors

We also include interaction terms for dummy variables that will equal one if *Culture_Dist* and the respective country dummy equal one (*Europe_Culture_Dist*, *India_Culture_Dist*, *China_Culture_Dist*). We computed these

variables in order to test for different effects of cultural distance for distinct acquirer regions within our sample.

We include interaction terms for acquirer-country specific dummy variables and whether the deal is part of the automotive or the non-automotive sub-samples (*China_Autom*, *China_Non_Autom*, *India_Autom*, *India_Non_Autom*). These variables are supposed to measure effects that are both country specific but also account for dissimilarities in different industries, in our case specifically the automotive industry.

Furthermore, we have created interaction terms between the automotive and non-Automotive dummies, the Culture_Dist variable and the India or China dummies respectively. Thus we can measure the impact of cultural distance on the automotive or non-automotive sector specifically in India or China. (*China_CD_Autom*, *India_CD_Autom*, *China_CD_Non_Autom*, and *India_CD_Non_Autom*)

Hypothesis 5 (cont'd): Cultural distance has a negative effect on all industry and regional specific CARs.

Hypothesis	Description
Hypothesis 1	Positive correlations between CARs for all sub-samples and the deal specific factors
Hypothesis 1 a	Positive correlations with Relative Value (Deal_Value / MCAP)
Hypothesis 1 b	Positive correlations with Deal_Value
Hypothesis 1 c	Positive correlations with MCAP
Hypothesis 1 d	Positive correlations with Deal_Count
Hypothesis 2 a	Cross-border acquisitions' CARs are positively related to target GDP growth
Hypothesis 2 b	Cross-border acquisitions' CARs are positively related to acquirer GDP growth
Hypothesis 3	PCI target has negative coefficients in regressing CARs for European acquirers and positive coefficients in regressing CARs for Indian and Chinese acquirers
Hypothesis 4a	Openness_diff has negative coefficients for intra European CBAs
Hypothesis 4b	Openness_diff has positive coefficients for Chinese and Indian CBAs
Hypothesis 5	Target_Corp_Gov has positive effects on CBA's CARs.
Hypothesis 6	Cultural distance has a negative effect on all industry and regional specific CARs

Table 5: Summary of Hypotheses

5.2 Research Design

5.2.1 Event Study: Market Model and CARs

In our analysis we use the standard event study methodology to compute abnormal stock market returns after the announcement date of the acquisition. In order to detect the firm specific abnormal returns, we estimated the market model for each firm:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}$$

Where R_{jt} = return on security of firm j at time t ; R_{mt} = return on market portfolio at time t ; α_j & β_j = parameters of the relationship between the return on individual security j and that of the market; ε = random error term. The abnormal return for each acquiring firm is calculated as:

$$AR_{jt} = R_{jt} - (\bar{\alpha}_j + \bar{\beta}_j R_{mt}) + \varepsilon_{jt}$$

Where R_{jt} = return on security of firm j at time t ; $\bar{\alpha}_j$ & $\bar{\beta}_j$ = estimated security specific parameters; R_{mt} = return on market portfolio at time t . This regression is performed over the estimation window of 150 trading days (between 170 and 21 trading days before the announcement date, i.e. (-170, -21). For each observation we have used the respective country specific index that is suggested by the Datastream's Benchmarks at a Glance function, which includes the most commonly cited stock market indices per country, as a proxy variable for the market portfolio.

The daily abnormal return, \overline{AAR}_j , and the cumulative average abnormal return \overline{CAR}_j for firm j over the event window are calculated as follows:

$$\overline{CAR}_j = \sum_{j=1}^N \overline{AAR}_j; \text{ where: } \overline{AAR}_j = \frac{1}{N} \sum_{j=0}^N \overline{AR}_{jt}$$

5.2.2 Multivariate Regression Analysis

Underneath we include the regression equations for our different sub-samples. Table 6 also includes a summary of all the variables included underneath.

European Sample

For the European sample, which includes only automotive deals, we estimated following regression – **Regression 1:**

$$\begin{aligned} CAR_j = & \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) \\ & + \beta_6(\text{Acquirer_GDP_Growth}_j) + \beta_7(\text{Target_PCI}_j) + \beta_8(\text{Openness_Diff}_j) + \beta_9(\text{Europe_Culture_Dist}_j) \\ & + \beta_{10}(\text{Target_Corp_Gov}_j) \end{aligned}$$

Combined Chinese and Indian Sample (“Emerging Market Sample”)

For the Indian and Chinese combined sub-sample, we have estimated our regression with the CARs across different event windows as follows – **Regression 2:**

$$\begin{aligned} CAR_j = & \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) \\ & + \beta_6(\text{Acquirer_GDP_Growth}_j) + \beta_7(\text{Target_PCI}_j) + \beta_8(\text{Openness_Diff}_j) + \beta_9(\text{India_Culture_Dist}_j) \\ & + \beta_{10}(\text{China_Culture_Dist}_j) + \beta_{11}(\text{Target_Corp_Gov}_j) + \beta_{12}(\text{China_Autom}_j) + \beta_{13}(\text{India_Autom}_j) \\ & + \beta_{14}(\text{India_Non_Autom}_j) \end{aligned}$$

Country Specific Chinese and Indian Sample

The Indian and Chinese country specific samples were estimated as **Regression 3 (China)** and **Regression 4 (India):**

$$\begin{aligned} CAR_j = & \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) \\ & + \beta_6(\text{Target_PCI}_j) + \beta_7(\text{Openness_Diff}_j) + \beta_9(\text{India_Culture_Dist}_j) + \beta_{10}(\text{China_Culture_Dist}_j) + \beta_8(\text{Target_Corp_Gov}_j) \\ & + \beta_9(\text{India/China_Autom_Culture_Dist}_j) + \beta_{10}(\text{India/China_Non_Autom_Culture_Dist}_j) \end{aligned}$$

Description of variables included in the study and their sources; Variable names provided in parentheses as reported in data tables

Category & Variables	Description & Sources
Deal-level variables	
Deal Value in Euro millions	Total consideration transferred
Deal Value	Sources: mergermarket
Deal Value in Euro millions	Natural logarithm of Deal Value
(Log Deal Value)	Sources: mergermarket
Disclosure of Deal Value	Dummy variable that equals one if the deal value is disclosed
Deal Value Dummy	Source: mergermarket
Relative acquisition significance	Ratio of deal value and market capitalization
(Deal Value MCAP)	Sources: mergermarket; DataStream
Acquirer market value	Natural logarithm of the equity market capitalization of the respective acquiring company one month before announcement date
(Log MCAP)	Sources: DataStream
Number of observations of previously executed acquisitions within the sample	Numerical variable measuring the amount of deals completed by the acquirer within the sample
(Deal Count)	Sources: mergermarket
Tertile distribution of deal count	Splitting the sample into three waves of acquisitions
Deal Value Tertile	Sources: mergermarket
Deal date thresholds according to the tertile distribution	Splitting the sample into three waves of acquisitions
Deal Date Distribution	Sources: mergermarket
Year Dummy	Dummy variable that is one if the deal was announced in the respective
(Year)	Source: mergermarket
Economic variables	
Target countries growth in gross domestic product	Yearly growth in the gross domestic product for target firms
(Target GDP Growth)	Sources: Eurostat, IMF
Acquirer countries growth in gross domestic product	Yearly growth in the gross domestic product for target firms
(Acquirer GDP Growth)	Sources: Eurostat, IMF
Target corporate governance variable	Measures investor protection by including the respective country specific values of the antidirector indeces obtained from La Porta et al. (1998)
(Target_Corp_Gov)	Sources: La Porta et al. (1998)
Per capita income target	Target nation's income per person is measured as GDP divided by population.
(PCI Target)	Sources: Eurostat, IMF
Openness of target nation	Extent to which the target nation's economy is open, measured by the ratio of its trade (export plus imports) to GDP
(Openness Target)	Sources: Eurostat, IMF
Relative Openness of target and acquirer nations	Difference of the target's trade to GDP ratio and the acquirer's trade to
(Openness diff)	Sources: Eurostat, IMF
Geographic variables	
European Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in Europe
Europe	Sources: Respective company website; mergermarket
Indian Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in India
India	Sources: Respective company website; mergermarket
Chinese Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in China
China	Sources: Respective company website; mergermarket

Table 6: Description of Variables Used in the Regression

Description of variables included in the study and their sources; Variable names provided in parentheses as reported in data tables (cont'd)

Category & Variables	Description & Sources
Cultural variables	
Hofstede distance	Natural logarithm of Cultural distance between the acquirer and the target nation, as measured by the Logarithm of the weighted Cartesian distance between Hofstede's four different cultural dimensions. Data are obtained from Dr. Geert Hofstede's website.
Log_Culture_Dist	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)
Hofstede distance dummy	Dummy variable with value equal to one if the weighted Hofstede distance is above the weighted sample average
(Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)
Interaction Term between Hofstede Index Dummy and European Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the European dummy equal one
(Europe_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)
Interaction Term between Hofstede Index Dummy and Indian Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the Indian dummy equal one
(India_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)
Interaction Term between Hofstede Index Dummy and Chinese Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the Chinese dummy equal one
(China_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)
Interaction Term between Hofstede index dummy, Chinese dummy, and automotive dummy	Dummy variable with value equal to one if the Hofstede distance dummy, the Chinese or Indian dummy, and the automotive equal one
China/India_CD_Autom	see above
Interaction Term between Hofstede index dummy, Chinese dummy, and non-automotive dummy	Dummy variable with value equal to one if the Hofstede distance dummy, the Chinese or Indian dummy, and the non-automotive equal one
China/India_CD_Autom	see above
Industry variables	
Automotive sector identifier	Dummy variable with value equal to one if both target and acquirer are active in the automotive sector
Automotive	Sources: mergermarket, company information
Non-automotive sector identifier	Dummy variable with value equal to one if the Automotive dummy is equal to one and neither target nor acquirer are active in the automotive sector
Non_Automotive	Sources: mergermarket, company information
Interaction term between the Automotive dummy and the China dummy	Dummy variable with value equal to one if both the Automotive dummy and the Chinese dummy equal one
(China_Autom)	Sources: mergermarket, company information
Interaction term between the Automotive dummy and the India dummy	Dummy variable with value equal to one if both the Automotive dummy and the Indian dummy equal one
(India_Autom)	Sources: mergermarket, company information
Interaction term between the Non_Automotive dummy and the China dummy	Dummy variable with value equal to one if both the Non_Automotive dummy and the China dummy equal one
(China_Non_Autom)	Sources: mergermarket, company information
Interaction term between the Non_Automotive dummy and the India dummy	Dummy variable with value equal to one if both the Non_Automotive dummy and the Indian dummy equal one
(India_Non_Autom)	Sources: mergermarket, company information

5.3 Data Set

The data set comprises 334 observations of announced acquisitions in the time span from January 2000 until November 2012. We have limited the scope of deals to European companies that were targeted by stock exchange listed companies. The data consists of three main subsamples of Chinese, Indian and European bidders. Furthermore, for the Chinese and Indian acquisitions we have also included non-automotive deals in order to be able to increase our sample size and test for country specific, cultural and economic factors. The

deals were looked up through Mergermarket, a commonly used source in research and by firms in the M&A industry. Share prices and market capitalizations have been downloaded from Datastream.

In the table underneath we present a breakdown of our dataset by countries. The sample is almost equally split between automotive and non-automotive deals. The combination of the respective Chinese and Indian automotive and non-automotive samples yields the complete sample of deals with listed Chinese and Indian acquirers of European targets since January 2000 until November 2012.

We included the non-automotive samples in order to investigate the question whether Indian and Chinese acquirers as a whole generate shareholder wealth by acquiring European companies. In order to draw automotive industry specific conclusions, we furthermore included all intra-European deals with listed acquirers from January 2000 until November 2012.

It is evident that within the Chinese and Indian sub-samples, the non-automotive deals represent a higher fraction than the automotive deals. For the total sample however, the two industry specific deal groups have almost equal amounts of observations.

Looking at the frequency distribution for target nations, Germany, United Kingdom and Italy account for more than half of the deals. Considering that our sample has half of its observations in the automotive sector, this distribution is sensible as these countries have traditionally been focusing on the automotive sector.

Target Nation	China (# of Deals)			India (# of Deals)			Europe (# of Deals)	Aggregate (# of Deals)		
	Automotive	Non-Automotive	Total	Automotive	Non-Automotive	Total	Automotive	Automotive	Non-Automotive	Total
Austria	1	0	1	0	2	2	1	2	2	4
Belgium	0	3	3	0	4	4	4	4	7	11
Bulgaria	0	0	0	0	1	1	0	0	1	1
Czech Republic	0	1	1	1	0	1	3	4	1	5
Denmark	0	2	2	0	1	1	5	5	3	8
France	0	8	8	2	5	7	22	24	13	37
Finland	0	1	1	0	2	2	2	2	3	5
Germany	5	10	15	8	17	25	42	55	27	82
Hungary	0	1	1	0	1	1	0	0	2	2
Ireland	0	0	0	0	2	2	1	1	2	3
Italy	1	8	9	2	5	7	21	24	13	37
Netherlands	0	4	4	2	4	6	2	4	8	12
Norway	0	2	2	0	1	1	1	1	3	4
Poland	1	0	1	0	1	1	3	4	1	5
Portugal	0	1	1	0	1	1	1	1	2	3
Romania	0	0	0	0	3	3	2	2	3	5
Slovenia	0	0	0	0	0	0	2	2	0	2
Spain	0	2	2	1	4	5	5	6	6	12
Sweden	1	0	1	1	2	3	7	9	2	11
Switzerland	1	4	5	0	3	3	1	2	7	9
United Kingdom	1	28	29	6	32	39	8	15	60	76
Sum	11	75	86	23	91	115	133	167	166	334

Table 7: Data Set Characteristics

6 Results and Discussion

In this section we present the results of our event study. Our event windows are $(-1; 0)$, $(-1, +1)$, $(-5, +5)$, $(-10, +10)$, and $(-20, +20)$, whereas the former figure within the parenthesis measures the amount of trading days previous to the announcement date, which is depicted by 0, and the latter measures the amount of trading days after the announcement date.

As a first step, we examine different levels of CARs for each time period and show for which periods these CARs are significantly different from zero for the whole sample. We then iterate our sub-samples for the different time periods, selectively dropping and adding parts of the sample (e.g. if we want to compare Indian

vs. Chinese deals, we first only include Chinese deals and compute “China-CARs”; then we only include Indian deals to compute “Indian-CARs”; finally we compare the results.)

In doing so, we follow a widespread approach used by Bhagat et al. (2011), Chen and Lin (2009), Nagar (2008) and Wang and Boateng (2007), to name the most recent studies. The results are used to draw conclusions about value creation within the respective sub-samples and to point out dissimilarities between the different regional (India, China, Europe) and industry (automotive versus non-automotive) samples. Furthermore, we analyze the interaction terms of these categorizing variables (i.e. China-Automotive-CARs vs. India-Automotive-CARs, etc.). Finally, we test for the significance in mean differences between the sub-sector CARs we have found to be statistically different from zero.

Our second step is the estimation of a multivariate cross-sectional regression model for the Chinese and Indian samples respectively. We use this method to test the hypothesis previously put forward for the variables’ influence on value creation in cross-border acquisition.

6.1 Event Study Results

As a first step we calculate different CARs for the combined European, Indian and Chinese subsamples (labeled 1. in the table below), including both automotive and non-automotive deals. Then we drop the European deals and are thus comparing Indian with Chinese deals (labeled 2.). Calculations 3. and 4. compute CARs for Chinese respectively Indian deals. Iteration 5. calculates European Automotive CARs, 6. Calculates Chinese and Indian Automotive CARs, and in 6. and 7. We calculate CARs for Chinese automotive and Indian automotive deals. We continue this procedure for our whole sample. The results are summarized below. Furthermore, tables 8 and 9 summarize the findings and provide the relevant t-statistics for the significance in difference of means.

Cross-Border M&As of European Targets by Chinese and Indian Firms: Focus on Automotive Deals

Comparison of CARs for different (sub-)samples											
Event Window		Findings ¹	1. China, India & Europe All		2. China & India All			3. China All		4. India All	
			CAR	t-statistic	CAR	t-statistic		CAR	t-statistic	CAR	t-statistic
(-1, 0)	All Sectors	1. & 2: China & India All > Total Sample > 0 3. & 4: India All > China All > 0	0.87%	4.12***	1.17%	4.01***		0.86%	2.08**	1.45%	3.48***
(-1, +1)		1. & 2: China & India All > Total Sample > 0 3. & 4: India All > China All > 0	1.11%	4.35***	1.47%	4.16***		1.53%	2.05**	1.94%	3.71***
(-5, +5)		1. & 2: Total Sample > China & India All > 0	1.05%	2.42**	0.79%	1.27		0.49%	0.55	1.02%	1.19
(-10, +10)		Not Significant	0.56%	0.96	0.06%	0.07		0.20%	0.18	-0.04%	-0.04
(-20, +20)		Not Significant	0.98%	1.2	0.31%	0.28		0.96%	0.56	-0.16%	-0.11
	Automotive		5. Europe Automotive		6. China & India Automotive			7. China Automotive		8. India Automotive	
(-1, 0)		Not Significant	CAR	t-statistic	CAR	t-statistic		CAR	t-statistic	CAR	t-statistic
(-1, +1)		Not Significant	0.32%	1.2	0.70%	0.87		1.73%	1.13	0.14%	0.15
(-5, +5)		5. & 6. Europe Automotive > China & India Automotive	0.60%	1.67	0.73%	0.88		3.28%	1.45	-0.25%	-0.28
(-10, +10)		Not Significant	1.35%	2.45**	0.33%	0.27		4.78%	1.46	-1.38%	-0.99
(-20, +20)		Not Significant	1.28%	1.61	-0.85%	-0.62		1.03%	0.29	-1.60%	-1.33
		Not Significant	1.94%	1.68*	1.29%	0.51		0.48%	0.11	1.81%	0.56
	Automotive / Non-Automotive		9. China & India Automotive		10. China & India Non-Automotive			11. China - Non-Automotive		12. India Non-Automotive	
(-1, 0)		9. & 10: China & India Non-Automotive > China & India Automotive 11. & 12: India Non-Automotive > China Non-Automotive	CAR	t-statistic	CAR	t-statistic		CAR	t-statistic	CAR	t-statistic
			0.70%	0.87	1.36%	4.17***		0.90%	2.01**	1.77%	3.75***
(-1, +1)		Automotive 11. & 12: India Non-Automotive > China Non-Automotive 8. & 12: India Non-Automotive > India Automotive	0.73%	0.88	1.69%	4.27***		0.90%	1.76*	2.44%	4.05***
(-5, +5)		Not Significant	0.33%	0.27	1.00%	1.42		0.34%	0.34	1.69%	1.64
(-10, +10)		Not Significant	-0.85%	-0.62	0.20%	0.22		0.08%	0.07	0.27%	0.2
(-20, +20)	Not Significant	1.29%	0.51	0.20%	0.16		1.06%	0.57	-0.44%	-0.26	

Note: * indicates statistical significance at the 1% level; ** indicates statistical significance at the 5% level; *** indicates statistical significance at the 10% level;

Table 8: Comparison of CARs for different (sub-)samples

I. Chinese and Indian All Sector Sample

Combining the Indian and Chinese samples, we find highly significant positive CARs for the of 1.17% and 1.47% in the (-1, 0), (-1, +1) periods respectively;

Comparing the Indian and Chinese all sector samples, we find significant positive CARs for both samples in the (-1, 0), (-1, +1) periods and that Indian deals have higher and more significant CARs than Chinese ones.

From I. - Result 1: The joint sample of Chinese and Indian cross-border acquisitions in Europe shows highly significant positive CARs shortly after the announcement date.

From I. - Result 2: Indian deals have higher CARs than Chinese deals.

II. Chinese and Indian Automotive Sector Samples (Non-automotive deals excluded)

The combined Chinese and Indian automotive sample's CARs are partly negative and insignificant. Comparing separately the Chinese and Indian deals, the Chinese CARs are higher in all periods, however not statistically significant. Furthermore, Chinese CARs are always positive and Indian CARs are mostly negative.

III. Chinese and Indian Non-Automotive Sector Samples (Automotive deals excluded)

Results indicate significant positive CARs for the joint non-automotive samples in the (-1, 0) and (-1, +1) periods. Looking at the Chinese and Indian non-automotive samples separately, we find significant positive CARs in the (-1, 0) and (-1, +1) periods for both samples. The Indian sub-sample exhibits higher and more significant CARs than the Chinese, however.

This means that the joint non-automotive sample exhibits higher and more significant CARs in the (-1, 0) and (-1, +1) periods than the joint automotive sample.

From III. - Result 3: Indian non-automotive deals have higher CARs than Chinese non-automotive deals.

From III. – Result 4: Non-automotive deals have higher CARs than automotive deals in India

IV. Comparing Country Specific Industry Samples

When comparing the automotive samples to the non-automotive samples for China and India separately, we find higher and more significant CARs for Indian non-automotive deals as compared to the automotive ones in the (0, +1) and (-1, +1) periods. For the Chinese deals we cannot draw reliable conclusions as the results are not sufficiently significant.

From IV. - Result 5: Indian non-automotive deals have higher CARs than Indian automotive deals.

V. Comparing Chinese and Indian Samples to European Automotive Deals

As mentioned under I., combining the Indian and Chinese samples, we find highly significant positive CARs of 1.17% and 1.47% in the (-1, 0), (-1, +1) periods respectively; the European sample's CARs are not significant for these periods.

However, in the (-5, +5) and (-20, +20) periods, the European sample's CARs are higher than the joint cross industries Indian and Chinese sample and the automotive Indian and Chinese sample.

We thus cannot conclude, which sample provides the higher value creation. Under the assumption that investors fully price in all relevant factors until the (-5, +5) period however, the combined Chinese and Indian samples show higher CARs than the intra-European one.

VI. Comparing Chinese and Indian Automotive Deals to European Automotive Deals

Our intra-European sample only includes automotive deals. Hence we drop all Chinese and Indian non-automotive deals in order to be consistent.

Within the intra-European automotive sample, there are only positive CARs, which are significant in the (-5, 5) and (-20, +20) periods. As previously stated in II., the combined Chinese and Indian automotive sample's CARs are partly negative and insignificant. Also the country specific automotive samples are partly negative and insignificant.

From V. – Result 6: European automotive deals have higher CARs than both the combined Chinese and Indian automotive deals and country specific ones.

Results Summary

Summarizing our results, we find that Chinese and Indian cross-border acquisitions of European targets show significant positive CARs of 1.17% and 1.47% in the (-1, 0), (-1, +1) windows respectively. Furthermore, Indian deals generated higher overall positive CARs than Chinese ones. The same holds for non-automotive deals in India.

Automotive deals did not show significant CARs in India nor in China.

For the intra-European sample, which is solely including automotive deals, we found significant positive CARs. From that and the aforementioned we can deduce that intra-European automotive deals have higher CARs than Chinese or Indian automotive deals with European targets. The picture for the cross-sector Chinese and Indian sample compared to the European automotive sample is mixed. Table 9 underneath summarizes our findings.

Event Study Results		
Sample	Findings	Description
Europe vs India vs China	Europe > (India & China)_Automotive	European automotive deals have higher CARs than both the combined Chinese and Indian automotive deals and country specific ones.
China versus India	India > China > 0	Chinese and Indian deals generated positive CARs; Indian deals generated higher overall positive CARs than Chinese ones
China versus India	India_Non_Automotive > China_Non_Automotive > 0	Non-automotive deals have positive CARs. Indian non-automotive deals have higher CARs than Chinese non-automotive deals
India & China (Jointly)	India > (China & India) > China > 0	The joint sample of Chinese and Indian CBAs in Europe shows highly significant positive CARs shortly after the announcement date. Significant positive CARs of +1.17% and +1.47% the (-1, 0), (-1, +1) in windows
India	Non_Automotive > Automotive	Non-automotive deals have higher CARs than automotive deals in India

Table 9: Findings from the Event Study

In order to verify that our differences in subsample specific CARs are statistically significant, we calculated the respective t-statistics measuring the impact of variations for the relevant variables, thus testing if the difference in the mean is significantly different from zero. Table 10 underneath shows the test statistic for the significance of the above findings. The respective significance-level is denoted by the amount of *'s next to the t-value.

Test for significant difference in means

Event Window (-1, +1)	Europe > (India & China)_Autom		India > China		India_Non_Autom > China_Non_Autom		India > (China & India)		India_Non_Autom > India_Autom	
	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic
China_India_Autom	-0.009	-1.65*								
China			-0.006	-1.8*						
China_Non_Autom					-0.009	-2.39**				
India							0.006	1.8*		
Non_Automotive										
India_Non_Autom									0.018	3.28***

Note: * indicates statistical significance at the 1% level; ** indicates statistical significance at the 5% level;*** indicates statistical significance at the 10% level;

Table 10: Test For Significant Difference in Means

6.2 Discussion

In our previous review, we have provided ample of theoretical motives specifically for emerging market cross-border acquisitions, from resource based arguments, strategic asset seeking to diversification, etc. Furthermore, the results obtained from our event study suggesting significant positive CARs for Chinese and Indian acquirers is in line with recent studies. We have furthermore summarized a selection of the research stream studying emerging market acquirers' CARs that finds similar effects in chapter 3 (Boateng, 2007; Bhagat, Malhotra & Zhu, 2011; Chakrabarti et al., 2009; Gubbi et al., 2010; Kohli and Mann, 2011; Soongswang, 2010).

In our analysis, we thus want to shift the focus to the differences between our subsamples' CARs, a pattern for which we include suggested explanations underneath.

Our results show higher value creation for intra-European automotive deals than for the Chinese and Indian samples. There can be various reasons for this result. One issue could be that the integration process of European automotive targets into the supply chain is harder due to greater geographical distance of Chinese and Indian acquirers. Considering the high degree of vertical integration in the automotive industry, along with supply chain integration and the Single-Sourcing trend (Larsson, 2002), the interaction between target and acquirer can reasonably be expected to be higher than in other industries. Furthermore, one has to consider that many of the intra-European deals in our sample are within the same country, which is why their cultural distance is lower than for Chinese or Indian acquirers. By applying Stahl and Voigt's (2008) finding that industry relatedness and high degrees of integration pose stress for culturally more distant targets and acquirers, we can conclude that this could be an explanation for the outperformance of intra-European deals compared to peer acquisitions by Chinese or Indian companies.

The fact that the automotive industry has substantial barriers to entry could also be linked to lower returns for foreign acquirers. Specifically, Aulakh et al.'s (2000) concept of liability of newness can have negative effects of perceived lower quality and fewer capabilities associated with foreign firms if the target firm is perceived as part of a new and foreign entrant. Klossek et al., (2010) argue for the need of "reputation building and reliability enhancement" in order to build trust among local stakeholders to overcome such issues. Another measure that can help in that undertaking is to share control with local management that is experienced in handling regional or industry specific issues. Jointly with the previously discussed concept of liability of foreignness this could have negative effects on value creation for cross-border automotive deals as it involves higher amounts of coordination. Using Zaheer's (1995) insights, we argue that acquirers hence sometimes need to devote significant resources to make adjustments that assure the use of the already existing customer and supplier networks as well as firm-specific capabilities of their newly integrated foreign

operations in order to become acquainted with local peculiarities related to culture, politics, economy, etc. This is also reflected in cultural adjustment costs found by Barkema et al. (1996) who argues that these have to be considered when entering foreign markets, thus *ceteris paribus* generating outflow of financial resources leading to lower value creation.

Results also show significantly lower return for automotive deals compared to non-automotive ones in the Indian sample. The above reasoning could thus similarly be applied here if the degree of integration is higher for Indian automotive deals than for Indian non-automotive ones. Consistently lower returns could thus potentially come from generally worse prospects for the Indian automotive industry as a whole. A few factors indicating pressure on the industry have been described before, such as higher costs of capital (Mentz, 2005), which is due to constant pressure to innovate that comes along with high upfront R&D costs. Horizontal mergers are suggested to help overcoming this problem. If these however do not create the necessary risk diversification, or do so only after spending financial resources due to integration problems, we would *ceteris paribus* expect to see lower returns for automotive deals compared to non-automotive ones.

Finally, considering potential differences between India and China to explain the higher Indian returns, we would like to draw on a few factors found by Pradhan (2009). In his study of outward foreign direct investment by Chinese and Indian multinational enterprises, he finds a number of differences between these two countries. He runs a regression analysis in order to determine, which factors characterize the cross-border acquisition patterns of the respective countries. One factor that could potentially explain different value creation is for instance that Indian multinationals have more experience in investing in more developed countries and countries that are characterized by a skilled workforce. Chinese deals on the other hand are relatively more often characterized by investments in countries with low growth, have a low share of skilled workforce and that are natural resource endowed. Our argument is that, considering the characteristics of European countries, the target companies in our sample fit better into India's sweet spot. It could thus be reasonable to find higher returns for Indian companies.

6.3 Multivariate Regression Results and Interpretation of Combined Findings

6.3.1 Results

As event window we chose the (-1, +1) period as we have the highest amount of significant CARs in this event window from our event study. Furthermore, this event window showed most significant results in terms of R^2 . We have however included all results for the different sub-samples in the Appendix. In this regression we included two dummy variables that equal one if the respective country, industry, and cultural distance variables equal one. These are denoted *CD_Autom* and *CD_Non_Autom* for the regressions involving either Chinese or Indian observations. Furthermore, we again included the respective regression formulas as well as an overview of all variables included in the regression.

Regression number	1		2		3		4		
Event Window (-1, +1)	Europe		China & India		Event Window (-1, +1)	China		India	
Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic	Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.003	0.97	0.005	2.65***	Log_Deal_Value	0.005	1.70*	0.003	0.860
Log_MCAP	-0.005	-1.14	-0.013	-4.74***	Log_MCAP	-0.008	-1.57	-0.016	-4.51***
Deal_Value_MCAP	0.039	2.16**	0.001	0.46	Deal_Value_MCAP	-0.001	-0.37	0.006	2.24**
Deal_Count	0.000	-0.19	-0.001	-1.04	Deal_Count	-0.001	-1.44	0.001	0.550
Target_GDP_Growth	1.041	2.16**	0.056	1.51	Target_GDP_Growth	-0.062	-0.72	0.132	2.97***
Acquirer_GDP_Growth	-0.506	-1.94*	0.513	2.85***	Acquirer_GDP_Growth	(Omitted)		(Omitted)	
Target_PCI	-0.066	-2.03**	0.059	1.72*	Target_PCI	0.056	1.02	-0.067	-0.990
Openness_dif	-0.037	-2.15**	0.008	1.32	Openness_dif	0.031	3.00***	-0.005	-0.540
Target_Corp_Gov	-0.008	-1.59	0.005	3.09***	Target_Corp_Gov	0.007	2.06**	0.006	3.17***
China_Culture_Dist			0.021	3.01***	CD_Autom	0.019	1.59	-0.016	-1.66*
India_Culture_Dist			-0.009	-1.06	CD_Non_Autom	0.023	2.27**	-0.035	-3.63***
Europe_Culture_Dist	0.022	2.3**							
China_Non_Autom			0.002	0.27					
India_Autom			0.013	1.10					
India_Non_Autom			0.030	2.67***					
R ² (%)	29.6%		20.6%		R ² (%)	16.8%		30.7%	
Number of observations	396		588		Number of observations	255		333	

Table 11: Regression Output

Regression 1 (Europe):

$$CAR_j = \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) + \beta_6(\text{Acquirer_GDP_Growth}_j) + \beta_7(\text{Target_PCI}_j) + \beta_8(\text{Openness_Diff}_j) + \beta_9(\text{Target_Corp_Gov}_j) + \beta_{10}(\text{Europe_Culture_Dist}_j)$$

Regression 2(China and India):

$$CAR_j = \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) + \beta_6(\text{Acquirer_GDP_Growth}_j) + \beta_7(\text{Target_PCI}_j) + \beta_8(\text{Openness_Diff}_j) + \beta_9(\text{Target_Corp_Gov}_j) + \beta_{10}(\text{India_Culture_Dist}_j) + \beta_{11}(\text{China_Culture_Dist}_j) + \beta_{12}(\text{China_Autom}_j) + \beta_{13}(\text{India_Autom}_j) + \beta_{14}(\text{India_Non_Autom}_j)$$

Regression 3 (China) and Regression 4 (India):

$$CAR_j = \beta_1(\text{Log_Deal_Value}_j) + \beta_2(\text{Log_MCAP}_j) + \beta_3(\text{Deal_Value_MCAP}_j) + \beta_4(\text{Deal_Count}_j) + \beta_5(\text{Target_GDP_Growth}_j) + \beta_6(\text{Target_PCI}_j) + \beta_7(\text{Openness_Diff}_j) + \beta_8(\text{Target_Corp_Gov}_j) + \beta_9(\text{India/China_Autom_Culture_Dist}_j) + \beta_{10}(\text{India/China_Non_Autom_Culture_Dist}_j)$$

Table 12: Description of Variables Used in the Regression

Description of variables included in the study and their sources; Variable names provided in parentheses as reported in data tables

<i>Category & Variables</i>	<i>Description & Sources</i>	<i>Included in Regression</i>
Deal-level variables		
Deal Value in Euro millions	Total consideration transferred	
Deal Value	Sources: mergermarket	
Deal Value in Euro millions	Natural logarithm of Deal Value	
(Log Deal Value)	Sources: mergermarket	1, 2, 3, 4
Disclosure of Deal Value	Dummy variable that equals one if the deal value is disclosed	
Deal Value Dummy	Source: mergermarket	
Relative acquisition significance	Ratio of deal value and market capitalization	
(Deal Value MCAP)	Sources: mergermarket; DataStream	1, 2, 3, 4
Acquirer market value	Natural logarithm of the equity market capitalization of the respective acquiring company one month before announcement date	
(Log MCAP)	Sources: DataStream	1, 2, 3, 4
Number of observations of previously executed acquisitions within the sample	Numerical variable measuring the amount of deals completed by the acquirer within the sample	
(Deal Count)	Sources: mergermarket	1, 2, 3, 4
Tertile distribution of deal count	Splitting the sample into three waves of acquisitions	
Deal Value Tertile	Sources: mergermarket	
Deal date thresholds according to the tertile distribution	Splitting the sample into three waves of acquisitions	
Deal Date Distribution	Sources: mergermarket	
Year Dummy	Dummy variable that is one if the deal was announced in the respective	
(Year)	Source: mergermarket	1, 2, 3, 4
Economic variables		
Target countries growth in gross domestic product	Yearly growth in the gross domestic product for target firms	
(Target GDP Growth)	Sources: Eurostat, IMF	1, 2, 3, 4
Acquirer countries growth in gross domestic product	Yearly growth in the gross domestic product for target firms	
(Acquirer GDP Growth)	Sources: Eurostat, IMF	1, 2
Target corporate governance variable	Measures investor protection by including the respective country specific values of the antirector indices obtained from La Porta et al. (1998)	
(Target Corp Gov)	Sources: La Porta et al. (1998)	1, 2, 3, 4
Per capita income target	Target nation's income per person is measured as GDP divided by	
(PCI Target)	Sources: Eurostat, IMF	1, 2, 3, 4
Openness of target nation	Extent to which the target nation's economy is open, measured by the ratio of its trade (export plus imports) to GDP	
(Openness Target)	Sources: Eurostat, IMF	
Relative Openness of target and acquirer nations	Difference of the target's trade to GDP ratio and the acquirer's trade to	
(Openness diff)	Sources: Eurostat, IMF	1, 2, 3, 4
Geographic variables		
European Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in Europe	
Europe	Sources: Respective company website; mergermarket	
Indian Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in India	
India	Sources: Respective company website; mergermarket	
Chinese Dummy	Dummy variable with value equal to one if the respective deal's acquirer is headquartered in China	
China	Sources: Respective company website; mergermarket	

Description of variables included in the study and their sources; Variable names provided in parentheses as reported in data tables (cont'd)

Category & Variables	Description & Sources	Included in Regression
Cultural variables		
Hofstede distance	Natural logarithm of Cultural distance between the acquirer and the target nation, as measured by the Logarithm of the weighted Cartesian distance between Hofstede's four different cultural dimensions. Data are obtained from Dr. Geert Hofstede's website.	
Log_Culture_Dist	Sources: http://geert-hofstede.com/countries.html (obtained November 30th 2012)	
Hofstede distance dummy	Dummy variable with value equal to one if the weighted Hofstede distance is above the weighted sample average	
(Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained	1, 2
Interaction Term between Hofstede Index Dummy and European Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the European dummy equal one	
(Europe_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained	
Interaction Term between Hofstede Index Dummy and Indian Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the Indian dummy equal one	
(India_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained	1, 2
Interaction Term between Hofstede Index Dummy and Chinese Dummy	Dummy variable with value equal to one if both the Hofstede distance dummy and the Chinese dummy equal one	
(China_Culture_Dist)	Sources: http://geert-hofstede.com/countries.html (obtained	1, 2
Interaction Term between Hofstede index dummy, Chinese dummy, and automotive dummy	Dummy variable with value equal to one if the Hofstede distance dummy, the Chinese or Indian dummy, and the automotive equal one	
China/India_CD_Autom	see above	3, 4
Interaction Term between Hofstede index dummy, Chinese dummy, and non-automotive dummy	Dummy variable with value equal to one if the Hofstede distance dummy, the Chinese or Indian dummy, and the non-automotive equal	
China/India_CD_Autom	see above	3, 4
Industry variables		
Automotive sector identifier	Dummy variable with value equal to one if both target and acquirer are active in the automotive sector	
Automotive	Sources: mergermarket, company information	
Non-automotive sector identifier	Dummy variable with value equal to one if the Automotive dummy is equal to one and neither target nor acquirer are active in the automotive	
Non_Automotive	Sources: mergermarket, company information	
Interaction term between the Automotive dummy and the China dummy	Dummy variable with value equal to one if both the Automotive dummy and the Chinese dummy equal one	
(China_Autom)	Sources: mergermarket, company information	1, 2
Interaction term between the Automotive dummy and the India dummy	Dummy variable with value equal to one if both the Automotive dummy and the Indian dummy equal one	
(India_Autom)	Sources: mergermarket, company information	1, 2
Interaction term between the Non_Automotive dummy and the China dummy	Dummy variable with value equal to one if both the Non_Automotive dummy and the China dummy equal one	
(China_Non_Autom)	Sources: mergermarket, company information	1, 2
Interaction term between the Non_Automotive dummy and the India dummy	Dummy variable with value equal to one if both the Non_Automotive dummy and the Indian dummy equal one	
(India_Non_Autom)	Sources: mergermarket, company information	1, 2

6.3.2 Discussion

In this section we examine our previously stated hypotheses by comparing these with the regression output.

Deal Specific Variables

Hypothesis 1: Positive correlations between CARs for all sub-samples and the deal specific factors.

For our combined Indian and Chinese sample, we have found that the deal value's relation is positively correlated to CARs, suggesting that bigger deals tend to create more value. This is also the case for the Chinese sub-sample. Usually drawn conclusions are that transaction size correlates positively with synergies such as economies of scale (Ferris and Park, 2002). We did however not find significant results for the Indian or European samples.

Relative size, as measured by deal value divided by market capitalization follows our hypothesis, indicating higher CARs for relatively more important transactions for European cross-border acquisitions as well as

Chinese and Indian cross-border acquisitions taken together. As mentioned earlier, this is in line with findings of Asquith et al. (1983), Moeller et al. (2004), and Bhagat et al. (2005). The coefficient for stand-alone Chinese deals is not significant, however.

A finding that does not confirm our hypothesis is the negative coefficient for acquirer market capitalization. This is negative for all observations and highly significant for the Indian sample. This observation might be linked to Moeller et al. (2004), who found that managers of large firms pay higher premiums. Linking it specifically to the Indian results, one common interpretation might be empire building of managers that is negatively valued by investors.

The amount of deals previously undertaken has not been significant in any of the regressions, thus we cannot confirm the hypothesis that track-record in deal execution is valued positively by the market.

Economic, and Institutional Variables

Hypothesis 2: Cross-border acquisitions' CARs are positively related to target and acquirer GDP growth.

Both Indian and European cross-border acquisitions have significant positive coefficients for target GDP growth, suggesting that investors value good prospects for the target companies in their home market. For Indian acquirers, this might indicate that not only the internalization aspect is important but that the possibility to expand markets is also a viable application for cross-border acquisitions. This also holds true for European acquirers. Chinese coefficients are not significant.

The acquirer's GDP growth is negatively associated with CARs within the intra-European sample. One interpretation could be that for acquirers in countries facing recession, expanding into more prosperous foreign markets is a viable strategy. This argument is reasonable considering the positive coefficient of target GDP growth, too.

Hypothesis 3: PCI target has negative coefficients in regressing CARs for European acquirers and positive coefficients in regressing CARs for Indian and Chinese acquirers

Our proxy variable measuring the per capita income of the target country has significantly negative influence on the acquirer's CARs for intra-European deals. This means that the higher the per capita income, the lower the acquirer's CAR. This supports our hypothesis and the previously mentioned motive for developed acquirer nations to utilize their home market competitive advantages and export these into less developed target countries.

Also in line with our hypothesis and previous research is the positive coefficient for target per capita income for the combined Indian and Chinese sub-sample. Contrary to developed country acquirers, theory suggests that emerging market acquirers seek strategic assets that they can internalize in their home market. This provides a rationale to acquire developed country targets, a motive which would coincide with higher per capita GDP figures, as is found in our regression.

Hypothesis 4: Openness_diff has negative coefficients for intra-European cross-border acquisitions and positive coefficients for Chinese and Indian cross-border acquisitions

The findings are in line with our hypothesis. The negative coefficient for the difference between target and acquirer country openness for European countries supports our thesis that there is higher value creation if the acquirer country is more open than the target country for European deals. We argue that this is related to the abovementioned factor of exporting competitive advantage, but in this case into countries that are more protected from international competition, at least relatively to the acquirer's home market. This can thus be a good source of value creation by expanding into lucrative markets.

Furthermore, the opposite sign for emerging market acquirers lends support to the fact that acquisitions in open market could go in hand with valuable knowledge and technology transfer as these targets ceteris

paribus can be expected to be internationally competitive. Furthermore, potential benefits could be related to generally easier manageable foreign operations in these markets as suggested by Chakrabarti et al. (2009).

Corporate Governance

Hypothesis 5: Target_Corp_Gov has positive effects on cross-border acquisitions' CARs.

We find significant positive impacts of high levels of target corporate governance in our regressions for the joint sample of Chinese and Indian companies. This is in line with La Porta et al. (2002) that argue that good governance of target countries is correlated with higher market capitalization, more efficient capital allocation, and a generally better functioning economy. Bhagat et al. (2011) moreover found evidence for the bootstrapping hypothesis that suggests that acquiring firms will look for higher quality governance targets as this has positive spillover effects for their own valuation. Our results confirm this notion. However looking at Indian deals specifically, the coefficients are insignificant. Gubbi et al. (2009) found that value creation for Indian outbound cross-border acquisitions is higher in target countries with advanced institutional and economic infrastructures. We did not find this with our data. However, Gubbi et al. (2009) use different measures for institutional factors, which might explain the differences.

The insignificant coefficient for intra-European deals might point to the fact that governance is not an issue in most European countries and that there is no need to “boot-strap” oneself to targets scoring high on the antidirector index.

Cultural Variables

Hypothesis 6: Cultural distance has a negative effect on all industry and regional specific CARs.

As mentioned previously, research on cultural impacts for post-merger value creation has inconclusive findings. Our results indicate that cultural factors play a significant role, however we also have differing results within our regression.

Considering the European cultural dummy there is a positive effect apparent in intra-European cross border transactions in the automotive sector. This can be related to the findings of Stahl and Voigt (2008) that argue that as long as the distance is below a certain threshold, which could arguably be the case because of closer geographical proximity, cultural distance creates value by imposing better learning experience on the combined entity without causing too much post-acquisition stress to the related parties.

The Chinese dummy also has highly significant positive signs which indicates higher value creation for culturally more distant acquisitions. As previously mentioned, arguments for this pattern are that culturally distant mergers provide the opportunity to get access to unique capabilities and spur innovation and learning by challenging rigidities. Another factor that could explain the coefficient would be if Chinese acquisitions in Europe are characterized by relatively low levels of integration. Thus, the combined entity could profit from internalization benefits and at the same time would minimize the integration hassle that can be a disruptive experience (Stahl and Voigt, 2008). In this way, the target company could continue to reap the benefits of its strategic assets as well as organizational capabilities and the Chinese acquirer could gradually import these factors into its home market, by that gaining significant know-how to become competitive in the global markets.

The dummy variable for Indian culturally distant acquisitions on the other hand shows negative correlation to value creation. This essentially means that Indian acquisitions in Europe, which are relatively to the whole sample of Indian-European deals culturally distant, create less value than those who show more balanced Hofstede scores. This is in line with the research stream arguing that issues such as the liability of foreignness and newness can impact post acquisition CARs negatively (Aulakh et al., 2000).

Tiwari and Herstatt (2009) in their study of trends of Indian foreign FDI in Germany also suggests cultural differences as a major issue. Conducting a survey with experts from 10 different institutions helping Indian

firms to conduct FDI in Germany, they found that the biggest challenge among nine possible answers for their cross-border investment is the difference in work culture.

One standard recommendation is to conduct more detailed due diligence in these cases in order to guarantee that the acquisition is sensible, as mentioned earlier.

Industry dependent cultural dummies

Having included dummy variables for the automotive and non-automotive sectors, we can estimate the different implications of culture on the automotive CARs, too. Using Stahl and Voigt's (2008) tentative model, we want to test if different industries show varying results when controlling for cultural distance. If this is the case, it could be interpreted as a signal that some industries require more intense integration processes than others. Stahl and Voigt (2008) would in this case suggest that higher cultural distance poses more risks on industries that have more intense integration. We will come back to this issue underneath.

The regression results show less significant and also lower coefficients for the automotive industry related cross-border acquisitions with European targets for Chinese and Indian deals respectively. In the case of China, the benefits resulting from higher cultural distance are lower than for the sample including other sectors. Following the logic of Stahl and Voigt (2008), this could imply that relatively to other industries there is a higher degree of interaction that could potentially cause more cultural related post-acquisition stress, ultimately resulting in lower CARs for the acquirer. However on an absolute basis, there is still a potential indication of benefits associated with cultural distance in the Chinese automotive sector when acquiring European targets, due to the almost significant positive coefficient.

For Indian cross-border acquisitions, the effect for the automotive industry is less negative than for the cross-industry sample. This is in line with Tiwari and Herstatt (2009) who found working culture generally to be the biggest problem in a survey, however after having split the sample in automotive and IT related industries, the automotive score has dropped significantly, whereas it rose for the IT cluster. Furthermore, higher cultural distance has a less negative effect on the Indian automotive sector, which could be an indication that integration is less intense and therefore causes fewer disruptions between targets and acquirers.

Applying Stahl and Voigt (2008) accordingly to Chinese cross-border acquisitions, one could argue that there is less hassle involved in culturally distant automotive deals as compared to the cross-industry sample. This might then, *ceteris paribus*, point towards more freedom for the acquired businesses and thus less post-acquisition stress.

Comparing Indian and Chinese results for the different industries, it is obvious that the automotive sector is in both countries showing less influence by cultural distance than the cross-industry sample. This could be interpreted as showing that automotive deals require less interaction than in other industries. This weakens one potential interpretation of our findings in the event study which was that automotive deals' lower returns could potentially be linked to higher integration levels that would in turn cause more post-acquisition stress. In this regard, there could thus be other factors explaining the observed value creation patterns, which might open up possibilities for further research.

Turning back to the country comparison, we argue that the results indicate more post acquisition stress for Indian companies than for Chinese ones. This can in a similar vein be interpreted as a signal that Indian companies tend to integrate their acquired targets more intensively, ultimately leading to too high frictions in case of cultural distant deals. The advice would thus be to lead the targets be more independent in order to avoid negative effects from cultural distance.

In order to provide an overview of our findings of the regression analysis, we included the table 13 below that summarizes the previously discussed factors.

Hypothesis	Description	Observation	Potential Interpretation
Hypothesis 1	Positive correlations between CARs for all sub-samples and the deal specific factors	Partly confirmed	
Hypothesis 1 a	Positive correlations with Relative Value (Deal_Value / MCAP)	Partly confirmed - not for Chinese deals	Transaction size correlates with synergies, however insignificantly for Chinese deals
Hypothesis 1 b	Positive correlations with Deal_Value	Partly confirmed - Deal Value positively related to CARs in Chinese and joint Chinese and Indian Acquisitions	Indian and Chinese deals: higher deal value is signal for economies of scales (Ferris and Park; 2002) Empire building seems not to be a problem
Hypothesis 1 c	Positive correlations with MCAP	Not confirmed - Negative coefficient	Large firms overpay for size-premium agency cost (Moeller et al., 2004)
Hypothesis 1 d	Positive correlations with Deal_Count	Not confirmed - Negative coefficient	Lack of internal projects providing sufficient returns (Jovanovic and Braguinsky, 2002) Empire building (Bayazitova et al., 2009)
Hypothesis 2a	Cross-border acquisitions' CARs are positively related to target GDP growth	Partly confirmed - Insignificant coefficients for Chinese deals	Indian companies look to expand into growing market
Hypothesis 2 b	Cross-border acquisitions' CARs are positively related to acquirer GDP growth	Partly confirmed - European deals have negative coefficient	For European countries facing recession, expanding into growing markets is a viable strategy Chinese and Indian firms have higher CARs with more home market growth
Hypothesis 3	PCI target has negative coefficients in regressing CARs for European acquirers and positive coefficients in regressing CARs for Indian and Chinese acquirers	Confirmed	Developed country acquirers: utilize their home market competitive advantages and export these into less developed target countries Emerging market acquirers: seek strategic assets they can internalize in their home market
Hypothesis 4a	Openness_diff has negative coefficients for intra European CBAs	Confirmed	Developed country acquirers: exporting competitive advantage to countries that are more protected from international competition is a viable strategy
Hypothesis 4b	Openness_diff has positive coefficients for Chinese and Indian CBAs	Partly Confirmed (Indian Deals insignificant)	Chinese acquirers: acquisitions in open market go in hand with valuable knowledge and technology transfer as these targets are more competitive internationally
Hypothesis 5	Target_Corp_Gov has positive effects on cross-border acquisition CARs.	Confirmed	Evidence for bootstrapping hypothesis
Hypothesis 6	Cultural distance has a negative effect on all industry and regional specific CARs	Not confirmed	European and Chinese acquirers profit from higher value creation by culturally more distant deals because they reap the benefits associated with better cultural learning as well as know-how and capability transfer If Indian acquirers are culturally distant, they encounter post acquisition stress as they integrate their targets too intensively

Table 13: Summary of Hypotheses Tests and Interpretations of Results

7 Conclusions and Remarks

The aim of our paper was to find different patterns of value creation in our sub-samples; to identify variables that influence the observed patterns; and finally to test hypotheses that we deduced from previous research.

We have found significant differences in-between the subsamples of cross-border acquirers of European targets. Our results join the findings by scholars that found positive value creation of cross-border acquisitions in general and emerging market cross-border acquisitions in particular.

Furthermore, our results indicate that a model based on a meta-analysis conducted by Stahl and Voigt (2008) can to some degree explain findings that might seem contradictory at first glance. We also showed that Chinese acquiring firms can profit from the so called bootstrapping hypothesis. And we hypothesize a link between cultural, M&A specific, industry-specific, legal, and emerging market specific theories.

Considering the range of our results for different subsamples, we believe that there is still a great number of factors that could be found to explain motivations and implications of cross-border acquisitions. Given the rising importance of cross-border acquisitions by Indian and Chinese companies, we believe that this research area will be prospering in the coming years. Considering this, we expect a growing body of research looking for “off-the-wall” ways to gaining insight into this very complex, diverse and exciting research field.

Considering our study, we sense that there are a lot of areas that call for closer attention. First of all, the link between post-merger integration intensity and cultural difference calls for deeper investigation. This could be examined by looking into a broader set of acquiring countries, possibly expanding the sample to the BRICs. Secondly, it would be of interest to test a symmetrical sample, which would also include European non-automotive deals in order to point out differences for other industries, too. In this regard, an analysis comparing integration intensity, industrial area of operation, and cultural distance in cross border acquisitions could generate intriguing insights. Finally, we also believe that integrating other methodologies used in M&A performance measurement, such as the incremental cash flow model or interviews with managers could yield further findings.

Reference List

- Afsharipour, A.** (2011). Outbound Mergers and Acquisitions by Indian Firms. *The Conference Board Of Canada*.
- Amit, R., & Schoemaker, P. J. H.** (1993). Strategic Assets and Organizational Rent. *Strategic Management Journal*, 14, 33–46.
- Akdogu, E.** (2009). Gaining a Competitive Edge Through Acquisitions: Evidence from the Telecommunication Industry. *Journal of Corporate Finance*, 15, 99–112.
- Aktas, N., Bodt, E., & Derbaix, A.** (2003). Horizontal, Downstream and Upstream Effects of Merger & Acquisition Operations in the Car Industry. *Banque et Marché. Mars-Avril, 1-24*. Retrieved November 23, 2012, from: <http://edoc.bib.ucl.ac.be/>
- Asquith, P., Bruner R. F., & Mullins, D. W.** (1982). The Gains to Bidding Firms From Merger. *Journal of Financial Economics*, 11(1–4), 121–139
- Aulakh, P.S., Kotabe, M. & Teegen, H.** (2000). Export strategies and performance of firms from emerging economies: Evidence from Brazil, Chile, and Mexico, *The Academy of Management Journal*, 43, 3, 342–361.
- Aybar, B. & Ficici, A.** (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals, *Journal of International Business Studies*, 40, 1317–1338.
- Barkema, H. G., Bell, J. J., & Pennings, J. M.** (1996). Foreign Entry, Cultural Barriers, and Learning. *Strategic Management. Journal*, 17, 151–166.
- Barkema, H. G., & Vermeulen, F.** (1997). What Differences in the Cultural Backgrounds of Partners Are Detrimental for International Joint Ventures? *Journal of International Business Studies*, Vol. 28, No. 4 (4th Qtr., 1997), pp. 845–864.
- Barkema, H. G., & Vermeulen, F.** (1998). International Expansion Through Start up or Acquisition: A Learning Perspective. *The Academy of Management*, 41, 7–26.
- Berk, J. B., & DeMarzo, P. M.** (2007). Corporate Finance. *Boston: Pearson Education, Inc.*
- Bhagat, S., Malhotra, S., & Zhu, P.C.** (2011). Emerging country cross-border acquisitions: Characteristics, acquirer returns and cross-sectional determinants, *Emerging Markets Review*, 12, 3, 250–271.
- Bild, M.** (1998). Valuation of Takeovers. Stockholm School of Economics. *EFI, The Economic Research Institute*.
- Boateng, A., Wang, Q.,** (2007). Cross-Border M&As by Chinese Firms: An Analysis of Strategic Motivation and Performance. *International Management Review*, 3, 1929.
- Brealey, R. A., Myers, S. C., & Allen, F.** (2008). Principles of Corporate Finance. *New York: McGraw-Hill*.
- Boateng, A.** (2012). Cross-Border Mergers & Acquisitions By Emerging Market Firms: A Review And Future Direction, *ACRN Journal of Entrepreneurship Perspectives*, Vol. 1, Issue 2, 24–54.
- Caves, R. E.** (1971). International Corporations: The Industrial Economics of Foreign Investment. *Oxford: Economica*, New Series, Vol. 38, No. 149 (Feb., 1971), pp. 1–27.
- Buono, A. F., Bowditch, J. L., & Lewis, J.** (1985). When cultures collide: The anatomy of a merger. *Human Relations*, 38(5): 477–500.
- Chakrabarti, R., Gupta-Mukherjee, S. & Jayarama, N.** (2009). Mars–Venus marriages Culture and cross-border M&A. *Journal of International Business Studies* (2009), 40, 216–236.
- Changqi, W., & Ningling, X.** (2010). Determinants of Cross-Border Merger & Acquisition Performance of Chinese Enterprises. *Procedia - Social and Behavioral Sciences*, 2, 6896–6905.
- Cohen, J. R., Pant, L. W., & Sharp, D. J.** (1993). Culture-based ethical conflicts confronting multinational accounting firms. *Accounting Horizons*, 7(3): 1–13.
- Clemente, M. N., & Greenspan, D. S.** (2008). Winning at mergers and acquisitions: The Guide to Market-Focused Planning and Integration. *New York: John Wiley and Sons Ltd.*

- Cuervo-Cazurra, A., Maloney, M.M. & Manrakhan, S.** (2007). Causes of the difficulties in internationalization, *Journal of International Business Studies*, 38, 5, 709-725.
- Von Corswant, F., Wynstra, J.Y.F., Wetzels, M.,** (2003) In Chains? Automotive Suppliers and Their Product Development Activities. *ERIM Report Series Reference No. ERS-2003-027-LIS*
- Danbolt, J.** (1995). An Analysis of Gains and Losses to Shareholders of Foreign Bidding Companies Engaged in Cross-Border Acquisitions into the United Kingdom: 1986–1991. *European Journal of Finance*, 1(3), 279–309.
- Danbolt, J.** (2004). Target company cross-border effects in acquisitions into the UK. *European Financial Management*, 10(1), 83–108.
- Datta, D. K.** (1991) Organizational fit and acquisition performance: Effects of post-acquisition integration, *Strategic Management Journal*, 12, 4, 1991, pp. 281-298.
- Datta, D. K., & Puia, G.** (1995). Cross-Border Acquisitions: An Examination of the Influence of Relatedness and Cultural Fit on Shareholder Value Creation in U.S. Acquiring Firms. *MIR: Management International Review*, Vol. 35, No. 4 (4th Quarter, 1995), pp. 337-359.
- Deng, P.** (2009). Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business*, 44, 1, 74-84.
- DePamphilis, D. M.** (2010). Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions. *Burlington: Elsevier*.
- Doidge, C., Karolyi, C.A., Stulz, R.M.,** (2007). Why do countries matter so much for corporate governance? *Journal of Financial Economics* 86 (1), 1–39.
- Dunning, J. H.** (1973). The Determinants of International Production. *Oxford: Oxford Economic Papers*, New Series, Vol. 25, No. 3, pp. 289-336.
- Eckbo, B.E.** (1983), 'Horizontal mergers, collusion, and stockholder wealth', *Journal of Financial Economics*, Vol. 11 (Special Issue), pp. 241-273.
- Ernst & Young.** (2012). Transactions 2012; maturing M&A Markets Study. *Ernst & Young*.
- Erramilli, M. K.,** (1991). The experience factor in foreign market entry behavior of service firms, *Journal of International Business Studies*, 22, 3, 1991, 479-501.
- Eun, C. S., Kolodny, R., & Scheraga, C.** (1996). Cross-border Acquisitions and Shareholder Wealth: Tests of Synergy and Internalization Hypotheses. *Journal of Banking and Finance*, 20, 1559–1582.
- Fernandez, D. R., Carlson, D. S., Stepina, L. P., & Nicholson, J. D.** (1997). Hofstede's country classification 25 years later. *The Journal of Social Psychology*, 137(1): 43–54.
- Ferris, S., Kwangwoo, P.,** (2002). How different is the long-run performance of mergers in the telecommunications industry? *Volume Advances in Financial Economics issue 7. 127 - 144*
- Fuller, K., Netter, J. & Stegemoller, M.** (2002). What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions, *Journal of Finance*, 57, 1763-1794.
- Gaughan, P. A.** (2002). Mergers, Acquisitions and Corporate Restructurings. *New York: John Wiley and Sons Ltd.*
- Gehrke, G.** (2003). Kundenbindungsstrategien Industrieller Zulieferer. Eine empirische Studie in der Automobilzulieferindustrie. *Aachen: Shaker*.
- Gersbach, H.** (1996). Vertical Relationships in the Automotive Industry: Do They Matter? *International Journal of the Economics of Business*, 3, 343-350.
- Gierhardt, H.** (2002). Global verteilte Produktentwicklungsprojekte. Ein Vorgehensmodell auf der operativen Ebene. *Muenchen: Verlag Dr. Hut.*
- Glaister, K. W.** (2004). The Rationale for International Equity Joint Ventures. *European Management Journal*, 22, 493–507

- Gold, B.** (1976), 'The Shaky Foundations of Capital Budgeting', *California Management Review*, Vol. 19, No.2, pp. 51-60.
- Gubbi, S., Aulakh, P., Ray, S., Sarkar, M.B. & Chittoor, R.** (2010). Do international acquisitions by emerging economy firms create shareholder value? The case of Indian firms, *Journal of International Business Studies*, 41, 397-418.
- Halebian, J., Finkelstein, S.** (1999). The Influence of Organizational Acquisition Experience on Acquisition Performance: A Behavioral Learning Perspective. *Administrative Science Quarterly*, 29-56
- Halpern, P.** (1983), 'Corporate Acquisitions: A Theory of Special Cases? A Review of Event Studies Applied to Acquisitions', *The Journal of Finance*, Vol. 38, No.2, pp. 297-317.
- Hamel, G.** (1991). Competition for Competence and Interpartner Learning Within International Strategic Alliances. *Strategic Management Journal*, 12, 83-103.
- Harris, R. S. and Ravenscraft, D.,** (1991). The role of acquisitions in foreign direct investment: Evidence from the U.S. stock market, *The Journal of Finance*, 46, 3, 825-844.
- Hemmerling, J., Momin, Z., & Rupf, I.** (2002). Opportunities for Action in the Automotive Industry: Rethinking "Made in China" Cars and Parts[Study. *The Boston Consulting Group*.
- Hennart, J., & Park, Y.** (1993). Greenfield vs. Acquisition: The Strategy of Japanese Investors in the United States. *Management Science*, 39, 1054-1070.
- Higgins, R., & Schall, L.** (1975). Corporate Bankruptcy and Conglomerate Mergers. *Journal of Finance*, 30, 93-113.
- Hille, K.** (2012, December 4). China: After the storm. *Financial Times*. Retrieved December 6, 2012, from <http://www.ft.com/cms/s/0/ed50a6e4-3315-11e2-aa83-00144feabdc0.html>
- Hitt, M.A., Ahlstrom, D., Dacin, M.T., Levitas, E. & Svobodina, L.** (2004). The institutional effects on strategic alliance partner selection in transition economies: China vs. Russia, *Organization Science*, 15, 2, 173-185.
- Hofstede, G.** (1980). Culture's consequences: International differences in work-related values. *Beverly Hills, Cal., and London: Sage*.
- Houston, J.F., James, C.M., Ryngaert, M. D., (2001).** Where do merger gains come from? Bank mergers from the perspective of insiders and outsiders. *Journal of Financial Economics*, 60, 285-331
- Hymer, S. H.** (1976). The International Operations of National Firms: A Study of Direct Foreign Investment. *Cambridge: The MIT Press*.
- Ikeda, K. and Doi, N.** (1983), 'The Performance of Merging Firms in Japanese Manufacturing Industry: 1964-75', *The Journal of Industrial Economics*, Vol. 31, No.3, pp. 257-266.
- Ingham, H., Kran, I. and Lovestam, A.** (1992), 'Mergers and Profitability: A Managerial Success Story?', *Journal of Management Studies*, Vol. 29, No.2, pp. 195-208.
- Jamison, D.B., & Sitkin, S.B.** (1986). Corporate acquisitions: A process perspective. *Academy of Management Review*, 11 (1) (1986), pp. 145-163.
- Jarrell, G., Brickley, J., & Netter, J.** (1988). The Market for Corporate Control: The Empirical Evidence Since 1980. *Journal of Economic Perspectives*, 2, 46-68.
- Jensen, M. C., & Ruback, R. S.** (1983). The market for control. *Journal of Financial Economics*, 11(1-4), 329-349
- Jovanovic, Boyan and Serguey Braguinsky** (2004). Bidder Discounts And Target Premia In Takeovers. *American Economic Review*, 2004, v94(1,Mar), 46-56.
- Kang, J.-K.** (1993). The International Market for Corporate Control: Mergers and Acquisitions of US Firms by Japanese Firms. *Journal of Financial Economics*, 34, 345-371.

- Khanna, T., Palepu, K. (2004).** Globalization and convergence in corporate governance: evidence from Infosys and the Indian software industry. *Journal of International Business Studies*, 35, 484–507.
- Kohli, R. & Mann, B.J.S. (2011).** Analyzing determinants of value creation in domestic and cross-border acquisitions in India, *International Business Review*, in Press
- Kerler, P. (1999).** Mergers & Acquisitions und Shareholder Value. Bern: Verlag P. Haupt.
- Kogut, B., & Singh, H. (1988).** The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3): 411–432.
- Klossek, A., Linke, B. M., & Nippa, M. (2010).** Chinese Enterprises in Germany: Establishment Modes and Strategies to Mitigate the Liability of Foreignness. *Journal of World Business*. Article in Press. Retrieved October 10, 2012, from <http://www.sciencedirect.com/science>.
- Koenig, Evan F. (2002).** Using the Purchasing Managers' Index to Assess the Economy's Strength and the Likely Direction of Monetary Policy, *Federal Reserve Bank of Dallas, Economic and Financial Policy Review*, vol. 1, no. 6.
- Kohli, R., & Jit Singh Mann, B. (2011).** Analyzing determinants of value creation in domestic and cross border acquisitions in India, *International Business Review*, 21, 6, 998-1016.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., Vishny, R., (1998).** Law and finance. *Journal of Political Economy* 106, 1113–1155
- Laabs, J. P. (2009).** The Long-Term Success of Mergers and Acquisitions in the International Automotive Supply Industry. Wiesbaden: Gabler.
- Langlois, C. C., Schlegelmilch, B. B. (1990).** Do corporate codes of ethics reflect national character, *Journal of International Business Studies*, 21,4, 1990, 519-540.
- Larsson, A. (2002).** The Development and Regional Significance of the Automotive Industry: Supplier Parks in Western Europe. *International Journal of Urban and Regional Research*, 26, 767–784.
- Langlois, C. & Schlegelmilch, B. (1990).** Do Corporate Codes of Ethics Reflect National Character? Evidence from Europe and the United States. *Journal of International Business Studies*, Vol. 21, No. 4 (4th Qtr., 1990) pp. 519-539.
- Lewellen, W. (1971).** The Ownership Income of Management. *National Bureau of Economic Research and Columbia University Press*, New York.
- Leung, K., Bhagat, R.S., Buchan, N. B., Erez, M., Gibson, C. B (2005).** Culture and international business: recent advances and their implications for future research. *Journal of International Business Studies* (2005) 36, 357–378.
- Lubatkin, M., & Shrieves, R. E. (1986).** Towards reconciliation of market performance measures to strategic management research, *Academy of Management Review*, 11, 497—512.
- Lui, G. & Nueno, P. (2011, December 19).** How Geely waited for Volvo. Financial Times. Retrieved December 6, 2012, from <http://www.handelsblatt.com/politik/international/china-von-der-geldmacht-zurweltmacht>.
- Madhok, A. & Keyhani, M. (2012).** Acquisition as Entrepreneurship: Asymmetries, opportunities, and the internationalization of multinational from emerging economies, *Global Strategy Journal*, 2, 26-42.
- Malhotra, S., K. & Zhu, P. (2011).** Curvilinear relationship between cultural distance and equity participation: An empirical analysis of cross-border acquisitions, *Journal of International Management*, In Press.
- Mann, B.J.S. & Kohli, R. (2011).** Target shareholders' wealth creation in domestic and cross-border acquisitions in India, *International Journal of Commerce & Management*, 21, 1, 63-81.
- Manzon, G. B., Sharp, D. J. & Travlos, N. G. (1994).** An empirical study of the consequences of US tax rules for international acquisitions by US firms, *Journal of Finance*, 49, 1893-1904.
- Markides, C., & Ittner, C. D. (1994).** Shareholders benefit from corporate international diversification: Evidence from US international acquisitions. *Journal of International Business Studies*, 25, 343–366.

- Markidesa, C. & Oyonb, D.** (1998). International Acquisitions: Do They Create Value for Shareholders?, *European Management Journal*, Volume 16, Issue 2, April 1998, pp. 125–135.
- Martin, X., Swaminathan, A., & Mitchell, W.** (1998). Organizational Evolution in the Interorganizational Environment: Incentives and Constraints on International Expansion Strategy. *Administrative Science Quarterly*, 43, 566–601.
- Martynova, M., Renneboog, L.** (2008). Spillover of corporate governance standards in cross-border mergers and acquisitions. *Journal of Corporate Finance* 14, 200–223.
- Marthur, I., Rangan, N., Chhachhi, I., & Sundaram, S.** (1994). International Acquisitions in the United States: Evidence from Returns to Foreign Bidders. *Managerial and Decision Economics*, 15(2), 107–118.
- McCardle, K.F., Viswanathan, S.** (1994). The Direct Entry Versus Takeover Decision and Stock Price Performance Around Takeovers The Journal of Business , Vol. 67, No. 1 (Jan., 1994), 1-43
- McIvor, R.T., Humphreys, P.K., & McAleer, W. E.** (1998). European Car Makers and Their Suppliers: Changes at the Interface. *European Business Review*, 98, 87–99.
- Mentz, M.** (2005). Mergers & Acquisitions in der Automobilzulieferindustrie. Wertschöpfungspotentiale durch internationale Positionierung. *Wiesbaden: Deutscher Universitätsverlag*.
- Moeller, S.B., Schlingemann, F.P. and Stulz, R.M.** (2004), Firm size and the gains from acquisitions. *Journal of Financial Economics*, Vol. 73, 201-228.
- Morck, R. & Yeung, B.** (1992). Internalization: An event study test, *Journal of International Economics*, 33, August, 41-56.
- Mueller, D.C.** (1987), 'The Corporation: Growth, Diversification and Mergers', *Fundamentals of Pure and Applied Economics*, Vol. 16. Chur: Homewood Academic Publishers.
- Newbould, G.D.** (1970), Management and Merger Activity. *Dronfield near Sheffield: Guthstead*.
- Niederdrenk, R.** (2001). Strategien für Zulieferunternehmen. Optionen für den Mittelstand. *Wiesbaden: Deutscher Universitätsverlag*.
- Oliver, R.L.** (1997). Satisfaction: A Behavioral Perspective on the Consumer, *New York: The McGraw-Hill Companies, Inc.*
- Otchere, I., & Ip, E.** (2006). Intra-industry Effects of Completed and Cancelled Cross Border Acquisitions in Australia: A Test of the Acquisition Probability Hypothesis. *Pacific-Basin Finance Journal*, Volume 14, Issue 2, April 2006, pp. 209–230.
- Picot, A.** (1982). Transaktionskostenansatz in der Organisationstheorie: Stand der Diskussion und Aussagewert. *Die Betriebswirtschaft*, 42, 267–284.
- Picot, A., & Franck, E.** (1993). Vertikale Integration, in: Ergebnisse empirischer betriebswirtschaftlicher Forschung. Zu einer Realtheorie der Unternehmung. *Stuttgart: Schäffer-Poeschel*.
- Porter, M. E.** (1987). From Competitive Advantage to Corporate Strategy. *Harvard Business Review*, May/June 1987, 43–59.
- Pradhan, J.** (2009). Emerging Multinationals from India and China Origin, Impetus and Growth. *Sardar Patel Institute of Economic & Social Research*. Paper prepared for Hosei University International Workshop on International competitiveness, globalization and multinationalization of firms: a comparison of China and India, November 14, 2009. and multinationalization of firms: a comparison of China and India. ICES, Hosei University, Tokyo
- Ravenscraft, D.J., Scherer, F.M.** (1987). Mergers, Sell-Offs, and Economic Efficiency. *Brookings Institution*, Washington, DC.
- Ramamurti R and Singh J.V.** (2009). Emerging Multinationals in Emerging Markets. *Cambridge University Press*: Cambridge, UK.
- Reed, S. F., Lajoux, A. R., & Nesvold, H. P.** (2007). The Art of M&A: A Merger, Acquisition, Buyout Guide. *New York: McGraw Hill*.

- Ross, S. A., Westerfield, R., & Jaffe, J. F.** (2005). *Corporate Finance*. New York: McGraw-Hill/Irwin.
- Ross, S. A., Westerfield, R. W., Jaffe, J. F., & Jordan, B. D.** (2008a). *Modern Financial Management*. New York: McGraw-Hill/Irwin.
- Ross, S. A., Westerfield, R. W., & Jordan, B. D.** (2008b). *Corporate Finance Fundamentals*. New York: McGraw-Hill/Irwin.
- Rossi, S., Volpin, P.,** (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics* 74, 277–304.
- Sadler, D.** (1997). Internationalization and Specialization in the European Automotive Components Sector. Implications for the Hollowing-out Thesis. *Regional Studies*, 33, 109–119.
- Goulet, P. K., & Schweiger, D. M.** (2006). Managing culture and human resources in mergers and acquisitions. In G. K. Stahl & I. Bjorkman (Eds), *Handbook of research in international human resource management*: 405–429.
- Segelod, E.** (1995). Resource Allocation in Divisionalized Groups. *Aldershot: Avebury*.
- Sharma, Ruchir** (2012): Breakout Nations: In Pursuit of the Next Economic Miracles. New York.
- Shimizu, K.** (2004). Theoretical Foundations of Cross-Border Mergers and Acquisitions: A Review of Current Research and Recommendations for the Future. *Journal of International Management*, 10, pp. 307-353.
- Sirower, M. L.** (1997). The Synergy Trap: How Companies Lose the Acquisition Game. New York: Free Press.
- Slangen, A. H. L.** (2006). National cultural distance and initial foreign acquisition performance: The moderating effect of integration. *Journal of World Business*, 41(2): 161–170.
- Soongswang, A.** (2010). M&A for value creation: The experience in Thailand, *Interdisciplinary Journal of Contemporary Research in Business*, 1, 11, 28-50.
- Shenkar, O., & Luo, Y.** (2003). *International business*. New York: Wiley.
- Stahl, G. K., Voigt, A.** (2008). Do Cultural Differences Matter in Mergers and Acquisitions? A Tentative Model and Examination. *Organization Science*, 19 No. 1, pp. 160-176
- Tiwari, R., Herstatt, C.** (2009). The Emergence of Indian Multinationals - An Empirical Study of Motives, Status-Quo and Trends of Indian Investments in Germany. *Technology and Innovation Management*. Working Paper No. 59.
- Trautwein, F.** (1990). Merger Motives and Merger Prescriptions. *Strategic Management Journal*, 11, 283–295.
- United Nations Conference on Trade and Development (UNCTAD).** (2000). World investment report 2000: Cross-border mergers and acquisitions and development. New York and Geneva: United Nations.
- Unsel, K.** (2000). Erfolgsfaktoren zur nachhaltigen Erzielung von profitablen Wachstum in Automobilzulieferunternehmen. Aachen: Shaker.
- Van der Stede, W.A.** (2003). The effect of national culture on management control and incentive system design in multi-business firms: evidence of intracorporate isomorphism. *European Accounting Review*, 12, 2, 263-285
- Vogel, H.** (2011, January 18). Von der Geldmacht zur Weltmacht. Handelsblatt. Retrieved December 6, 2012, from <http://www.handelsblatt.com/politik/international/china-von-der-geldmacht-zurweltmacht>.
- Villalonga, B., & McGahan, A. M.** (2005). The Choice Among Acquisitions, Alliances, and Divestitures. *Strategic Management Journal*, 26, 1183–1208.
- Wang, Q., & Boateng, A.** (2007). Cross-Border M&As by Chinese Firms: An Analysis of Strategic Motivation and Performance. *International Management Review*, 3, 19–29.
- Wei, C.M., & Chen, C.Y.** (2008). An Empirical Study of Purchasing Strategy in Automotive Industry. *Industrial Management & Data Systems*, 108, 973–987.
- Wilson, D., Purushothaman, R.,** (2003). “Dreaming with BRICS: The Path to 2050” *Goldman Sachs Global Economics Paper* No. 99. Retrieved December 1, 2012, from www.gs.com/insight/research/reports/99.pdf.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy Research in Emerging Economies - Challenging the Conventional Wisdom. *Journal of Management Studies*, 42, 1–33.

Zaheer, S. (1995). Overcoming the Liability of Foreignness. *The Academy of Management Journal*, Vol. 38, No. 2 (Apr., 1995), pp. 341–363.

Zhang, J., Zhou, C., & Ebberts, H. (2010). Completion of Chinese Overseas Acquisitions: Institutional Perspectives and Evidence. *International Business Review*. Article in Press. Retrieved November 04, 2012, from <http://www.sciencedirect.com/science>

Appendix

Full Set of Results For Regressions (1-4):

1. Europe

Europe										
Event Windows	(-1, 0)		(-1, +1)		(-5, +5)		(-10, +10)		(-20, +20)	
Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.00	-0.23	0.00	0.97	0.00	2.19**	0.00	2.48**	0.00	1.13
Log_MCAP	0.00	-0.26	-0.01	-1.14	0.00	-1.8*	-0.01	-2.79***	-0.01	-6.01***
Deal_Value_MCAP	0.02	3.44***	0.04	2.16**	0.04	5.4***	0.04	7.79***	0.04	8.56***
Deal_Count	0.00	1.04	0.00	-0.19	0.00	-0.52	0.00	1.53	0.00	9.36***
Target_GDP_Growth	-0.08	-1.00	1.04	2.16**	0.65	2.9***	0.58	3.74***	0.47	4.42***
Acquirer_GDP_Growth	0.09	0.83	-0.51	-1.94*	-0.22	-1.68*	0.06	0.54	0.38	3.91***
Target_PCI	-0.01	-1.13	-0.07	-2.03**	-0.05	-3***	-0.05	-4.19***	-0.07	-7.39***
Openness_dif	0.00	-0.55	-0.04	-2.15**	-0.04	-4.92***	-0.04	-5.6***	-0.03	-5.81***
Target_Corp_Gov	0.00	-0.64	-0.01	-1.59	0.00	-1.10	-0.01	-2.79***	0.00	-2.02**
Europe_Culture_Dist	0.01	1.15	0.02	2.3**	0.02	4.67***	0.03	6.73***	0.01	3.34***
R ² (%)	37.1%		29.6%		21.4%		19.0%		17.8%	
Number of observations	132		396		1,452		2,772		5,412	

2. China and India

China and India										
Event Windows	(-1, 0)		(-1, +1)		(-5, +5)		(-10, +10)		(-20, +20)	
Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.01	1.84*	0.00	2.65***	0.00	2.26**	0.00	1.03	0.01	4.51***
Log_MCAP	-0.01	-2.05**	-0.01	-4.74***	-0.01	-5.24***	-0.01	-5.45***	0.00	-0.03
Deal_Value_MCAP	0.00	-1.37	0.00	0.46	0.00	-0.18	-0.01	-5.66***	0.02	6.71***
Deal_Count	0.00	-0.49	0.00	-1.04	0.00	1.01	0.00	3.76***	0.00	-1.73*
Target_GDP_Growth	0.05	1.01	0.06	1.51	0.00	-0.05	-0.05	-1.75*	-0.13	-3.99***
Acquirer_GDP_Growth	0.12	0.55	0.51	2.85***	0.42	2.19**	0.39	2.73***	0.91	5.75***
Target_PCI	0.01	0.14	0.06	1.72*	0.01	0.39	0.00	-0.13	0.07	2.49**
Openness_dif	0.00	0.46	0.01	1.32	0.04	5.06***	0.04	7.04***	0.05	6.86***
Target_Corp_Gov	0.00	0.70	0.00	3.09***	0.00	2.74***	0.01	5.84***	0.01	5.81***
India_Culture_Dist	0.01	0.54	-0.01	-1.06	-0.02	-3.34***	-0.05	-6.62***	-0.03	-5.51***
China_Culture_Dist	0.02	1.59	0.02	3.01***	0.01	1.43	0.03	4.73***	0.05	8.67***
China_Non_Autom	0.00	0.02	0.00	0.27	0.00	-0.70	-0.02	-4.43***	0.03	4.89***
India_Autom	0.00	-0.30	0.01	1.10	-0.01	-0.97	0.02	2.41**	0.11	10.77***
India_Non_Autom	0.01	0.53	0.03	2.67***	0.02	2.01**	0.03	3.15***	0.08	8.43***
R ² (%)	15.7%		20.6%		9.2%		7.9%		8.6%	
Number of observations	196		598		2,156		4,116		8,036	

3. China

China										
Event Windows	(-1, 0)		(-1, +1)		(-5, +5)		(-10, +10)		(-20, +20)	
Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.01	1.30	0.01	1.70*	0.00	-1.11	0.00	-0.45	0.01	2.7***
Log_MCAP	0.00	-0.30	-0.01	-1.57	0.01	1.78*	0.00	-0.61	0.00	0.58
Deal_Value_MCAP	-0.01	-1.78*	0.00	-0.37	-0.01	-2.6***	0.00	-0.97	0.00	0.80
Deal_Count	0.00	-0.97	0.00	-1.44	0.00	-4.78***	0.00	2.28**	0.00	-3.96***
Target_GDP_Growth	0.11	0.78	-0.06	-0.72	0.08	1.05	-0.28	-3.65***	-0.65	-7.95***
Target_PCI	0.04	0.34	0.06	1.02	0.09	2.27**	0.11	2.52**	-0.08	-1.91*
Openness_dif	0.00	-0.23	0.03	3.00***	0.07	5.75***	0.09	9.92***	0.10	10.17***
Target_Corp_Gov	0.00	-0.03	0.01	2.06**	0.01	2**	0.01	5.07***	0.03	9.38***
China_CD_Autom	0.01	0.71	0.02	1.59	0.02	1.78*	0.04	4.73***	0.06	6.2***
China_CD_Non_Autom	0.02	1.10	0.02	2.27**	0.01	0.81	0.03	4.15***	0.08	8.32***
R ² (%)	17.4%		16.8%		13.8%		17.2%		16.0%	
Number of observations	85		255		935		1,785		3,485	

4. India

India										
Event Windows	(-1, 0)		(-1, +1)		(-5, +5)		(-10, +10)		(-20, +20)	
Independent Variable	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic	Coeff.	t-statistic
Log_Deal_Value	0.00	0.90	0.00	0.86	0.01	3.43***	0.00	1.92*	0.00	1.29
Log_MCAP	-0.02	-3.54***	-0.02	-4.51***	-0.02	-7.87***	-0.02	-6.2***	0.00	-0.12
Deal_Value_MCAP	0.00	0.03	0.01	2.24**	0.00	1.55	-0.01	-2.62***	0.05	15.35***
Deal_Count	0.00	1.23	0.00	0.55	0.01	3.19***	0.00	-2.55**	0.01	4.26***
Target_GDP_Growth	0.10	1.87*	0.13	2.97***	0.00	-0.12	0.07	1.52	0.04	0.79
Target_PCI	-0.16	-2.97***	-0.07	-0.99	0.00	0.04	-0.31	-5.26***	-0.04	-0.78
Openness_dif	0.01	0.54	0.00	-0.54	0.01	1.14	0.01	0.76	0.01	1.34
Target_Corp_Gov	0.00	1.40	0.01	3.17***	0.00	2.2**	0.01	5.07***	0.01	4.27***
China_CD_Autom	-0.01	-0.54	-0.02	-1.66*	-0.03	-3.88***	-0.07	-8.16***	-0.04	-4.92***
China_CD_Non_Autom	-0.02	-1.98**	-0.03	-3.63***	-0.06	-7.19***	-0.07	-8.15***	-0.01	-0.74
R ² (%)	30.4%		30.7%		13.5%		11.7%		12.0%	
Number of observations	111		333		1,221		2,331		4,551	

Stata Output: All Deals' CARs Over Time

