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How does the takeover of a company in developed markets through a firm coming from emerging countries affect the share price of the acquirer in the short term in comparison to both inbound emerging markets as well as domestic takeovers and how does the impact of a diversification strategy differ from an industry focused strategy in terms of value creation for acquiring companies?

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Abstract (Portuguese)

O objectivo desta tese é de examinar o impacto no preço das ações da empresa adquirente causado pelo anúncio de aquisição de outra empresa, diferenciando entre transações domésticas, de inbound e outbound de mercados emergentes assim como entre transações de diversificação ou focadas numa indústria. Adicionalmente, fatores contextuais que impactam os padrões de criação de valor observados no estudo podem ser determinados. Os resultados, que foram obtidos através de uma amostra de 1,434 transações num periodo de tempo desde Janeiro de 2000 até Janeiro de 2016 e considerando uma janela de acontecimento de 21dias de trading (-10, +10) sobre o anúncio, sugerem que as trasações das empresas alvo e adquirentes em mercados emergentes criam, em média, o maior valor com um CAAR de 2.41% em comparação com M&A outbound e inbound com CAARs de 1.32% e 1.26% respetivamente. Adicionalmente, aquisições de diversificação criam um maior valor para os acionistas do que transações focadas numa indústria tanto para mercados desenvolvidos como emergentes. Finalmente, os resultados da regressão OLS sugerem que existe uma correlação positiva entre a criação de valor para os acionistas da empresa adquirente e a dimensão relativa da transação, o estatuto legal privado da empresa-alvo assim como o método de pagamento (dinheiro e ações). Por outro lado, a percentagem de controlo adquirida não foi comprovada como significante.

Abstract (English)

The aim of this thesis is to examine the value impact on acquiring companies' share prices caused by takeover announcements, differentiating between domestic, inbound and outbound emerging markets transactions as well as between industry diversifying and industry focused M&A. Additionally contextual factors shall be determined that drive the value creation patterns observed in the event study. The results obtained for a total sample of 1,434 transactions in a time period from January 2000 until January 2016 and an event window of 21 trading days (-10,+10) around the announcement day suggest that transactions with target and acquiring companies coming from emerging markets on average create the highest value with a CAAR of 2.41% in comparison to outbound and inbound M&A with CAARs of 1.32% and 1.26% respectively. Additionally, industry diversifying takeovers are equally superior to focused transactions in terms of value creation for both developed and emerging markets acquiring companies engaged in outbound and inbound M&A respectively. Finally, OLS-regression results suggest that there is a positive correlation between acquiring firms' shareholder value creation and relative deal size, non-public legal status of the target company as well as a combined payment method (cash and stock), whereas for the percentage of ownership acquired no statistically significant results are obtained.

List of Keywords

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1. Introduction

In this chapter first information about the background of the subject are provided, followed by a discussion of the problem and the problem statement. Finally, the structure of the thesis is outlined.

1.1 Background

Rapid technological development, globalization as well as increased competition today creates major challenges for companies trying to maintain their competitive position. Therefore, worldwide ongoing industry consolidation can be observed since firms strive to gain competitive advantages through the realization of synergies improving efficiency and thus the overall performance *(Tausfeef & Nishat, 2014)*. Especially mergers & acquisitions (M&A) are popular means of companies searching for business expansion and reacting to the constant change in today's dynamic business environment *(Shah & Arora, 2014)*.

In the period following the global crisis in 2008 a wide range of companies was forced to engage in business restructuring in order to maintain the competitive level leading to a new wave of M&A starting in 2010 indicated by an annual increase in total deal value of 19.0% *(Kengelbach & Roos, 2011; Shah & Arora, 2011)*. However, with difference to previous peaks in M&A activities emerging market firms were increasingly engaged in takeovers indicated by the fact that in 2013 25% of total M&A involved either an emerging market acquiring or target firm. In 2004 emerging market companies participated in only 10% of the worldwide M&A .The described trend is illustrated in *Exhibit 1 (Kengelbach et al., 2013)*.

Exhibit 1 − Distribution of Global M&A Value

7
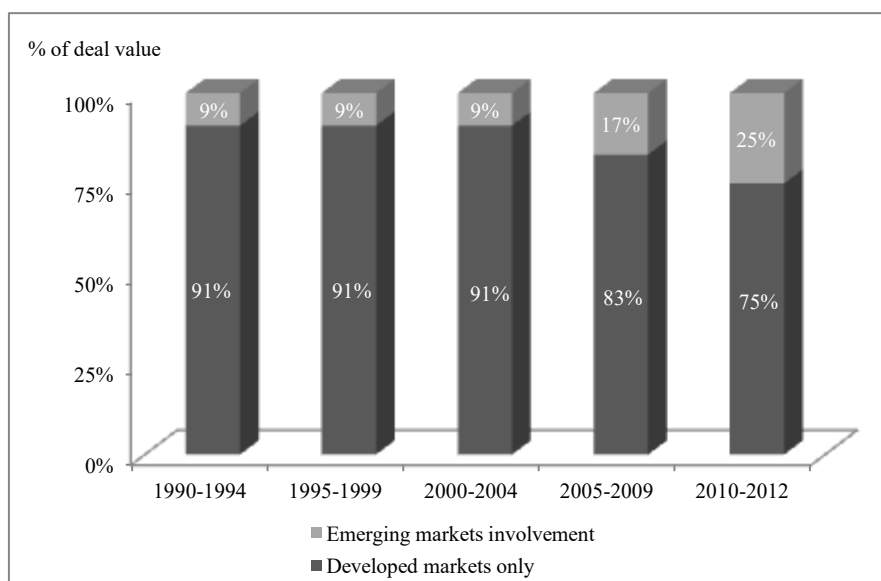
However, recently a different phenomenon concerning the expansion of emerging markets companies can be observed. More precisely, today an increasing number of emerging markets firms is involved in cross-border acquisitions due to the *"shift in the economic axis of the world" (Narayan & Thenmozhi, 2014: 1451).*

Since the 21st century there is an ongoing trend of companies acquiring or merging with companies located outside their home market *(Delios & Beamish, 2004)*. According to *Weisebach & Erel (2012)* the worldwide volume of cross-border acquisitions has been growing from 23% of the total M&A volume in 1998 to 45% in 2007. Originally, primarily U.S. firms used cross-border M&A as a strategic tool for growth and expansion, whereas European M&A activity remained heavily concentrated within national borders. Despite an integration of national economies, privatization of different economic sectors as well as listing of large European corporations, regulatory takeover barriers such as corporate takeover pills, government control or regulatory and antitrust provisions impeded especially inbound cross-border M&A activities in Europe *(Campa & Hernando, 2004)*. Therefore, in 2014 cross-border M&A by European acquiring companies comprise mainly outbound M&A with a volume of $365.8 billion and a particular focus on U.S. targets, whereas intra-European cross-border acquisitions amounts only to $264.5 million in 2014 *(Corte et al., 2015)*.

Cross-border M&A in emerging markets became popular during the 1990s indicated by an increase from 4% in the 1980s to 48% of total foreign direct investment (FDI) in East Asia in the 1990s. Prior to that, primarily green-field investments contributed to FDI in emerging markets *(Chari et al., 2004)*. Especially the realization of several economic reforms in developing countries such as India, China, Brazil, South Africa and Russia led to an increase in inbound cross-border M&A activities in these regions.

In the 1980s and 1990s inbound cross-border M&A from advanced markets such as US, Europe, Japan or newly industrialized economies such as Korea, Singapore and Taiwan dominated over outbound cross-border M&A in emerging markets. Therefore, emerging markets companies benefited from a transfer of technological and organizational skills from developed to developing countries. In the following especially large emerging markets companies started to engage in outward internationalization through cross-border M&A leading to an increase of outward FDI to $83 billion in 2004 or 11% in world stock *(Luo & Tung, 2007)*. Since the late 2000s emerging market companies have shifted their focus to also to developed markets indicated by 100 cross-border transactions annually with an average yearly deal volume of $28 US-Dollars in 2010 *(Cogman et al., 2015). Han et al. (2010)*

illustrate that emerging market governments enthusiastically promote outward FDI. More precisely, China supports domestic companies in cross-border acquisitions applying an outward FDI policy system that comprises specific finance and taxation policies, risk-safeguard mechanisms, information service networks, direction guidance, simplified approval processes and interim measures for joint annual inspection of overseas investment.

In the past the main driver for outbound emerging markets cross-border transactions was the acquisition of strategic resources such as technology, management capabilities or other intangible assets. Due to the ongoing development and maturation of emerging markets firms, M&A today are increasingly used as a mean to tap into new markets and thus to gain new customers *(Cogman et al., 2015)*. *Huaichuan & Yip (2008)* suggest that the extent of strategic intent for the bidding firm is dependent on the company's internal and external conditions, the experience in the home market as well as the capacity of the top management. Since all of these factors have been improved to a large extent in emerging markets recently, a rational way in terms of strategy can be increasingly observed today also for emerging market acquirers.

In 2005, foreign sales and foreign employment for the top 100 emerging markets multinational companies increased by 48% and 73% respectively. The rapid economic development, liberal market policies in combination with the desire to expand into the key international markets and the strategic objective to exploit competitive advantages especially in the cost-effective mass manufacturing industry led to the active participation of emerging markets multinationals in cross-border M&A *(Han et al., 2010; Luo & Tung, 2007; Mathews, 2002; Rui & Yip, 2008)*.

1.2 Problem Discussion

The increasing number of emerging markets companies expanding business operations through international acquisitions in combination with a lack of research in this particular area illustrates the need to question the generalizability of existing literature focusing solely on international M&A with developed markets acquirers. To which extent empirical findings as well as the conceptual framework applied in these studies can be used to analyze cross-border acquisitions with bidding firms coming from emerging markets is not clarified yet *(Bhagat et al., 2011)*. According to *Bruner et al. (2002)* emerging markets firms show significant differences in comparison to firms from developed markets such as financial reporting transparency, liquidity level, corruption, volatility as well as governance and taxation

structure. Therefore, empirical findings on companies from developed countries are expected to have a low relevance for emerging markets firms suggesting further research in this area.

There is a wide range of studies focusing on the short term value creation effect of cross-border M&A. However, as suggested by *Narayan & Thenmozhi (2014)* most of these studies base their empirical findings on samples with acquiring and target firms coming from developed markets such as the United States of America (USA) or Europe. Although increasingly research also shifts towards the analysis of emerging markets acquiring companies (e.g. *Bhagat et al., 2011; Narayan & Thenmozhi, 2014; Tauseef & Nishat, 2014)*, only rarely a comparison between inbound emerging markets acquisitions and outbound emerging markets takeovers is conducted.

Additionally, research on the short term value impact of acquisitions on bidding companies is still inconclusive. Whereas some studies indicate a slightly positive impact on the shareholder value around the acquisition date *(Jain et al., 2014)*, others suggest limited value destruction arising from the takeover announcement *(e.g. Kuipers et al., 2002; Martynova & Renneboog, 2008)*. Therefore further studies are recommended, in order to determine factors explaining the existence of these contradictory results.

Finally, especially among managers and academics there is the widespread belief that the acquisition of strategically related companies increases the bidding firm's economic value. However, existing studies examining these managerial and academic expectations obtain inconclusive results *(Barney, 1988)*. Furthermore, there is a gap in existing research linking the impact of a diversification strategy on acquiring companies' shareholder value with the previously mentioned phenomenon of an increasing trend towards emerging markets outbound M&A activity (refer to *point 1.1*).

1.3 Problem Statement

Based on the background of increasing outbound M&A activity in emerging markets and the previously outlined existing gaps and inconsistencies in research, this thesis analyzes the topic of market reactions around M&A announcements involving emerging markets companies. Furthermore, this study is supposed to contribute to the determination of value drivers in outbound emerging markets and inbound emerging markets M&A activities by quantifying the impact of an industry diversification strategy on the wealth generation of acquiring companies in contrast to a focused non-diversification strategy. Therefore, the following research question is going be addressed:

How does the takeover of a company in developed markets through a firm in emerging countries affect the share price of the acquirer in the short term in comparison to both inbound emerging markets as well as domestic takeovers and how does the impact of a diversification strategy differ from an industry focused strategy in terms of shareholder value creation for acquiring companies?

1.4 Thesis Structure

In the following first an overview about the theoretical framework is provided. More precisely, existing research with focus on M&A objectives is discussed, followed by the introduction of literature on M&A value creation with a special focus on cross-border acquisitions as well as industry diversifying transactions. Based on the theoretical framework a set of hypotheses is developed in order to sufficiently address the problem statement (refer to *point 1.3*).

Then information on the data sources is provided, followed by a description of the data collection process. Additionally, the chosen research approach is justified and discussed, while the analytical framework used in this thesis comprising the event study approach as well as cross-sectional regression analysis is outlined.

In a next step the empirical findings are presented and analyzed. More precisely, descriptive statistics on the samples as well as findings in the event study and the OLS-regressions are illustrated and interpreted.

Finally, an overview about the major findings as well as limitations in this study is provided, followed by recommendations for future research as well as managerial implications of the thesis results.

2. Theoretical Framework

The following chapter starts with the introduction and discussion of M&A objectives. Following this, studies focusing on the value creation in M&A are introduced differentiating between domestic, inbound emerging market as well as outbound emerging markets transactions. Furthermore, different contextual factors affecting the value impact are debated. Finally, research focusing on the effect of industry diversifying M&A on shareholder value creation in the short term is introduced and compared. The theoretical framework is also used to develop a set of hypotheses addressing the problem statement outlined in *point 1.3*.

2.1 Motives for M&A

The reasons of companies to engage in M&A have been discussed extensively in research. According to *Berkovitch & Narayanan (1993),* there are three major motives for corporate takeovers comprising the synergy and the agency motive as well as hubris hypothesis.

2.1.1 Efficiency Theory

According to the efficiency theory, M&A are planned means to achieve synergies *(Trautwein, 1990).* The synergy motive implies that bidding companies are motivated by potential economic gains resulting from merging the resources of the acquiring and the target companies. Therefore, acquisitions occur when the value of the combined firms exceeds the sum of the values of the individual firms (*Seth et al., 2000*). According to *Finkelstein & Sidney (2007)* this economic gain can be associated with financial, operational or managerial synergies. Additionally, *Porter (1980)* and *Knoll (2008)* argue that multi-business firms may be equipped with the ability to leverage market power across business units creating corporate value through market power synergies.

Financial Synergies

Financial synergies may arise from the modification of a company's capital caused by an acquisition or merger *(Lewellen, 1971).* The sources of financial synergies may comprise the following: a reduction of the company's systematic risk, the establishment of a more efficient internal capital market, financial economies of scale as well as tax advantages *(Knoll, 2008).*

The reduction in risk can be achieved either through the construction of a business portfolio with uncorrelated cash flows or through managerial actions which reduce the sensitivity of the company's returns to general economic disturbances *(Knoll, 2008).* From the reduction in systemic risk acquiring companies can derive value in two ways. First, cost of debt can be

reduced significantly through the coinsurance effect referring to a lower bankruptcy risk of marginally profitable multi-business firms due to higher credit ratings *(Ross et al., 2004; Knoll, 2008)*. Second, stakeholders comprising employees, customers and suppliers are more willing to make firm specific investments such as understanding the firm's culture and building relationships within the company *(Barney, 2002*; *Knoll, 2008)*.

The establishment of an internal capital market refers to the central allocation of capital in order to grow existing businesses or to finance new ventures in a multi-business firm. Major benefits are reduced financing costs and higher capital flexibility as well as a more efficient capital allocation *(Liebeskind, 2000; Knoll, 2008)*.

Financial economies of scale may be realized through the issuance of equity and debt securities stemming from lower transaction and floatation costs due to the spread over a greater dollar volume of securities (*Levy & Sarnat, 1970; Knoll, 2008)*.

Tax advantages can be realized through M&A activities in two ways. First, contingent on the allowance of "corporate profit accounting*"*, losses in one business unit can offset profits in other units reducing the overall taxable profit. Second, due to higher debt capabilities of multi-business firms compared to single-business companies, firms engaged in M&A usually take advantage of the fact that interest payments are tax deductible leading to a lower overall tax liability *(Scott, 1977; Stapelton, 1982; Tirole 1988; Knoll, 2008)*.

However, research indicates that there is no evidence for a reduction in systematic risk and a superior internal market, whereas size advantages in the capital market as well as tax advantages seem to exist leading to contrary opinions about the financial synergy hypothesis *(Montgomery & Singh, 1984; Rumelt, 1986; Scherer et al., 1975, Trautwein, 1990)*. According to the theory of *Modigliani & Miller (1958)* financial synergies cannot exist since the market value of a company is independent from its capital structure assuming perfect capital markets. However, in a real world scenario the presence of taxes and bankruptcy costs may result in a reduction of cost of capital benefiting shareholders *(Trautwein, 1990)*. In case of a difference in risks or default costs between the acquiring and the target firm, financial synergies from M&A can even assume negative values *(Leland, 2007)*.

Operational Synergies
Operational synergies stem from reducing the costs of the involved business units or from offering unique products and services by either combining operations of two firms or by transferring knowledge. By weighing potential advantages against the costs of combining or

transferring assets these synergies can be quantified *(Trautwein, 1990)*. Operative synergies can be classified into two major classes namely efficiency synergies and growth synergies. Whereas efficiency synergies relate to the sharing of operative resources across businesses, growth synergies are defined as growth advantages resulting from the (re)combination of complementary operative resources across businesses *(Knoll, 2008)*.

Efficiency synergies mainly relate to the achievement of economies of scope. According to *Huyghebaert & Luypaert, 2013* economies of scope are related to the cost advantage of producing and distributing multiple products through one company rather than by separate firms. According to *Knoll (2008)* economies of scope are realized if the total cost of production for two businesses "Y_1" and "Y_2" within one entity ($C(Y_1, Y_2)$) is below the level of combined costs in case of separated production in two single firms ($C(Y_1) + C(Y_2)$). Therefore, economies of scope between two businesses can be formally expressed as following *(Knoll, 2008)*:

$$C(Y_1, Y_2) < C(Y_1) + C(Y_2)$$

Where:

C = total costs of production, Y_1 = output of business 1, Y_2 = output of business 2

Whereas efficiency synergies are based on the sharing of similar resources, growth synergies may be realized through combining resources such as product components across businesses in order to achieve solutions and create real customer value. Thus, growth synergies are realized when the total revenue generated through utilization of the resource bases of two companies "X_1" and "X_2" together within one company is higher than the value of the combined revenue when employing the distinct resource bases in two separated firms. Therefore, according to Knoll (2008) growth synergies can be formally expressed as following:

$$R(X_1, X_2) > R(X_1) + R(X_2) / \backslash V(R(X_1, X_2) > 0$$

Where:

R = total revenues, V = value, X_1 = resource base business 1, X_2 = resource base business 2

With reference to operative synergies, existing literature also differentiates between revenue and cost synergies. Cost reduction may be achieved through economies of scale, economies of scope or a reduction in assets *(Porter, 1985)*. By spreading fixed costs of operations over a larger number of units, companies can achieve economies of scale. In contrast, an increase in revenues may stem from jointly used marketing and distribution systems *(Simmonds, 1990)*.

According to *Huyghebaert & Luypaert (2013)* cost-based synergies are achieved especially in the first year following the acquisition through economies of scale in spreading selling and administration expenses. However, according to a study conducted by *Chatterjee (1986)* operational synergies tend to create less value than financial synergies or collusive synergies and the ability to charge higher prices.

Managerial Synergies

Through M&A and the associated permutation and combination of management resources, more extensive and efficient resources may arise leading to an improvement of the existing management and finally to an increase in revenues *(Zhang & Zhou, 2011)*. *Hill & Jones (2007)* refer to entrepreneurial capabilities, organizational design knowledge as well as superior strategic skills that can be levered by a company after integrating the target firm leading to value creation.

M&A transactions may lead to executives encouraging risk taking and innovative ideas within the company leading to an increase in entrepreneurial capabilities (*Knoll, 2008)*. Additionally, synergies may be exploited through an increase in the firm's capabilities to *"(1) create structure, culture, and control systems that motivate and coordinate employees, (2) balance exploitation and exploration, and (3) align environment, structure and strategy continuously"* *(Knoll, 2008: 48)*. Finally, multi-business firms might benefit from superior strategic capabilities derived either from the superior ability to enhance performance or from the sophisticated diagnosis of problems sources *(Hill & Jones 2007: 348, Knoll, 2008)*.

According to *Trautwein (1990)* management synergies are especially realized when the target company benefits from superior planning and monitoring abilities of the acquiring firm's management. Especially managerial and operational synergies are often claimed but only rarely realized *(Kitching, 1967; Porter, 1987; Trautwein, 1990)*.

Market Power Synergies

Finally, market power synergies relate to advantages in the performance of multi-business firms due to the leverage of market power across businesses resulting in a reduction of competition and thus in an increase in prices and revenues *(Porter, 1980; Knoll, 2008)*. *Knoll (2008)* distinguishes between four strategies multi-business companies employ in order to extract market power synergies namely "predatory pricing", "bundling", "reciprocal buying and selling" as well as "mutual forbearance".

Predatory pricing refers to the practice of selling products or services below market prices or even costs in order to threaten or drive out competitors with inferior financial capabilities. Since multi-business firms are able to shift profits between their business units they are enabled to engage in predatory pricing practices offsetting short term losses by long-term advantages of higher prices and increasing market share *(Barney, 2007 & Knoll, 2008)*.

Multi-business firms may extract market power synergies by engaging in bundling and the practice of extending monopoly power from one business in a related one through the bundling of two products.

Market power synergies can also be realized through entering in reciprocal buying and selling agreements with companies that are suppliers to some business units but additionally buy services or products from another business unit within the same company.

Finally, mutual forbearance is defined as *"the ceding of control or the ceding of control of one product or geographic market to a competitor in exchange for that competitor's acquiescence in another market (Golden & Ma; 2003: 479)."* Mutual forbearance is observed especially in cases of competitors operating in various common markets while being able to pose a credible threat to each other. As a consequence participating companies prefer to cooperate instead of suffering mutual harm *(Golden & Ma; 2003 & Knoll, 2008)*.

Exhibit 2 summarizes the four outlined categories of synergies, while detailing which means are used by companies to exploit each category of benefits.

Exhibit 2 − Motives for Cross-Border M&A

Financial	Operational	Managerial	Market Power
Reduction of systemic risk	Efficiency synergies (economies of scope)	Entrepreneurial capabilities	Predatory Pricing
Establishment of an internal market	Growth synergies	Organizational design capabilities	Bundling
Financial economies of scale	Economies of scale	Enhancing performance of functions/individuals	Reciprocal buying and selling
Tax advantages	Reduction of assets	Diagnosis of the source of performance problems	Mutual Forbearance

2.1.2 Agency Motive

According to the agency motive companies engage in M&A activities since the management of the acquiring company seeks opportunities to increase its welfare at the expense of the acquirer firm's shareholders (*Berkovitch & Narayanan, 1993*).

Agency can be defined as a relationship between two parties, whereby the agent agrees to act on behalf of the principal. This refers to the relationship between shareholders and management since owners employ the management to run the company and to represent them.

In general, individuals tend to maximize their own expected utility leading to a potential conflict of interest between shareholders and managers (*Schroeder et al., 2009*). *Wang & Moini (2012)* suggest that there are three theories explaining the agency problem namely "empire building", "free cash flow theory" as well as the "excessive managerial risk aversion".

Empire building refers to the tendency of managers to increase the size of the firm beyond the optimum in order to increase the number of resources controlled and thus their power (*Jensen, 1986*). Growth in sales and thus the company's size is positive correlated to an increase in management compensation (*Murphy, 1985*).

The free cash flow theory states that agency problems increase with the amount of free cash held by the company since managers tend to invest excess cash flows even in projects with a negative net present value discounted at the relevant cost of capital instead of paying dividends to the shareholders and thus to maximize stock price and shareholder value. The loss in welfare to the shareholders is classified as agency costs of free cash flow and is positive correlated to the amount of excess cash hold by companies. Therefore, cash-rich companies are recommended to be financial market oriented when funding investments in order to have the potential to pay out all excess cash and to reduce agency costs (*Jensen, 1986*).

Excessive managerial risk aversio*n* relates to the fact that managers in contrast to investors engage in M&A activities to reduce the non diversifiable risk of losing employment and/or the professional reputation (*Amihud & Lev, 1981; Wang & Moini, 2012*).

Agency costs to the principal may limit the conflict of interest by establishing incentives for the agent to reduce a conflict of interest and/or by controlling the behavior of the agent. The principal sometimes pays the agent to expend resources (bonding costs) to prevent actions

harming the principal. However, with agency costs of zero it is impossible to perfectly align interests of both the shareholders and the managers *(Jensen & Meckling, 1976).*

In order to align management incentives with the shareholders' interests, stock and option based management compensation is frequently applied by companies. However, *Bergstresser & Philippon (2006)* argue that this may lead to the unfavorable situation of executives "managing" earnings to keep the stock price up. Their results suggest that CEOs with an overall compensation very sensitive to the firm's share price on average lead companies with a high level of earnings management.

2.1.3 Hubris Hypothesis

According to the hubris hypothesis managers often make mistakes in evaluating potential target companies and wrongly assume the existence of potential future synergies causing value destruction for the acquiring company *(Ahmad, 2011; Berkovitch & Narayanan, 1993; Seth et al., 2000).*

This behavioral theory formulated by *Roll (1986)* implies that managers led by the overconfidence bias systematically evaluate merger opportunities too optimistic and deviate from rational decision making. The results suggest that around the takeover announcement the combined value of the target firm and the bidder firm decreases slightly. More precisely, the average decrease in the market value of the bidding firm offsets the average increase in the target firm's market value. *Roll (1986)* shows that bidder firms on average pay too much for their targets. Bids with a valuation below the current market price are abandoned, whereas only bids exceeding the current market price have the potential of being accepted. Therefore, the takeover premium can be explained by a one-sided random error caused by the bidding firm. By assuming market efficiency and asset prices that reflect all information, according to *Roll (1986)* takeovers can only be caused by managerial hubris and the unrealistic belief that the bidding firm can manage the target firm's assets more efficient. Although a large number of transactions have become regarded as failure over the time, many companies continue to screen the market for potential target companies *(Cai & Vijh, 2007; Malmendier & Tate, 2008; Yang, 2015).*

According to *Malmendier & Tate (2008)* past research focused too much on the average announcement effects to merger bids analyzing hubris hypothesis. In fact, a wide range of research articles have been published that both either support (e.g. *Narayan & Thenmozhi, 2014 ; Roll, 1986)* or contradict (e.g. *Boateng & Du, 2015; Chari et al., 2004)* hubris

hypothesis taking the value creation perspective. Therefore, *Malmendier & Tate (2008)* take the approach to directly measure which CEO can be classified as "overconfident" and to analyze whether these CEOs tend to destroy shareholder value through acquisitions. The results suggest that CEOs classified as overconfident have higher odds of making an acquisition. This effect is stronger if the M&A transaction is diversifying and solely requires internal financing. Additionally, the market reaction on the takeover announcement is significantly more negative for overconfident than for non-overconfident CEOs. Unlike to the agency problem, overconfident managers are convinced of taking value maximizing and rational decisions. Therefore, stock and option based compensations and similar incentives are unlikely to correct their sub-optimal decisions. However, *Malmendier & Tate (2008)* point out that both financing constraints as well as independent directors as counterbalance in decision making are appropriate means to influence overconfident CEOs.

2.1.4 Other Motives

In addition to the three previously outlined three motives for M&A activities, there is a wide range of theories/hypothesis about motivating factors. *Wang & Moini (2012)* differentiate between theories referring to "passive responses to the change of the external environment" and hypothesis relating to "decision making based on a strategic plan". The latter can be further divided into "rational hypothesis" as well as "bounded rational hypothesis", whereas the first comprises theories on both the "country level" as well as on the "industry level". More precisely, both the outlined efficiency theory as well as the explained agency motive relate to "rational hypotheses", whereas hubris theory can be categorized among the "bounded rational hypotheses" (*Wang & Moini, 2012)*. In contrast to that, theories based on "passive responses to a changing environment" are less frequently applied to explain the rationale behind M&A and have minor importance in existing literature. *Exhibit 33 (Appendix; Wang & Moini, 2012)* provides an overview about the extensive selection of theories/hypotheses related to the motives of M&A.

2.2 M&A Value creation

A wide range of research studies is focusing on the implications of M&A on shareholder value creation. On the one hand, event studies analyze the effects of M&A transactions on the stock prices of acquiring and target companies around the announcement day. On the other hand, research suggests what type of firm characteristic or contextual condition makes it more

likely that a particular merger will generate or destroy shareholder value *(Campa & Hernando, 2004)*.

2.2.1 Effects of Objectives on Value Creation

Berkovitch & Narayan (1993) summarized the three major motives for M&A activities (refer to *point 2.1*) and their effect on the abnormal returns of target and acquiring firm around the announcement day. If takeovers are motivated by synergy, abnormal returns for both target and acquiring company are supposed to be positive. In case of takeovers caused by the agency motive, total value to the shareholders of the combined firm is supposed to be negative with negative abnormal returns for the acquiring and positive abnormal return for the target firm. For hubris hypothesis takeovers are expected to result in abnormal returns of zero. More precisely, for the target company hubris motive should lead to positive abnormal returns offsetting the acquiring firm's negative abnormal returns. *Exhibit 3* summarizes the effects of different M&A objectives on value creation.

Exhibit 3 − Effects of M&A Objectives on Value Creation

M&A Motive	Total Gain	Acquirer Gain	Target Gain
Synergy	Positive	Positive	Positive
Agency	Negative	Negative	Positive
Hubris	Zero	Negative	Positive

2.2.2 Target Company

In general, evidence indicates that target shareholders benefit from takeovers by gaining positive abnormal returns around the announcement day. These returns are economically significant independent from variations in time period, type of merger deal, industries, observation period and abnormal returns measurement method.

Mallikarjunappa & Panduranga (2013) examine the stock price responses of target companies to the announcement of takeovers in India. Their results show that target companies' shareholders benefit from cumulative abnormal returns of 37.0%. *Schwert (2000)* showed in an extensive study that in the U.S. targets benefit from both successful and unsuccessful takeover bids by on average cumulative abnormal returns of 20.0%. Although *Akben & Selcuk (2014)* obtain similar results, in their study the cumulative abnormal returns for Turkish target companies are significantly lower with 8.5%. However, both *Akben-Selcuk*

(2014) as well as *Mallikarjunappa & Panduranga (2013)* observed that the major portion of the wealth is created at or prior to the announcement day indicating either an early leakage of information or a market anticipation of the takeover.

Panel A in *Exhibit 34 (Appendix)* summarizes 10 major studies on the impact of takeover announcements on the abnormal returns of target companies. The cumulative abnormal returns are positive in a range from 3.6% to 41.7% in all studies except for event window timeframes that do not include the announcement day. Cumulative abnormal returns for target shareholders are significant and positive despite variations in sample size, time period, industry and geographical scope. To conclude, M&A transactions are expected to deliver premium returns to the shareholders of target companies (*Bruner, 2002)*.

2.2.3 Acquiring Company

For the value impact of M&A on acquiring firms' shareholders research research results are inconclusive. More precisely, a wide range of studies indicates small negative cumulative abnormal returns, whereas others report zero or slightly positive cumulative abnormal returns.

Martynova & Renneboog (2008) analyzed the impact of both domestic and cross-border acquisition announcements on shareholder wealth of European, Russian and British acquiring companies. The results suggest that domestic and cross-border acquiring companies suffer from negative cumulative abnormal returns of -2.5% and -3.6% respectively around the acquisition announcement day. Similar results are published by *Kuipers et al. (2002)* analyzing 138 U.S. acquiring companies over a time period from 1990–1998. Despite variations in the event window period, results show negative cumulative abnormal returns ranging from -1.3% to -2.1% for event windows including the announcement day. *Panel B1* in *Exhibit 34 (Appendix)* summarizes 11 major studies that suggest the existence of negative cumulative abnormal returns ranging from -0.01% to -4.6% despite variations in time period, industry and geographic scope.

On the contrary, *Jain et al.* (2014) observed for both domestic and cross-border acquisitions positive cumulative abnormal returns of 1.6% and 2.7% respectively for Indian acquiring companies and an event window of 11 days around the announcement day. In line with these results, *Beitel et al. (2002)* found very small positive cumulative abnormal returns for the acquisition firm focusing on European banks as acquirer. The research paper of *Moeller et al. (2005)* indicates that merger announcements were profitable for bidding firms' shareholders from 1990–1997, whereas during the period from 1998–2001 merger announcements were

strongly costly for bidding firms' shareholders. More precisely, a few large acquisitions caused strong negative abnormal returns for the bidding firms outweighing the positive impact on the bidding firms' returns of thousands of other acquisitions. *Panel B2* in *Exhibit 34 (Appendix)* illustrates 12 major studies showing mainly positive cumulative abnormal returns for acquiring companies around the takeover announcement day suggesting shareholder value creation for bidding companies.

To summarize, out of the 23 studies listed up in *Panel B* in *Exhibit 34 (Appendix)* 11 suggest value destruction, whereas 12 indicate a small positive wealth creation for the shareholders of the acquisition company. Therefore, there is no strong support for either positive or negative cumulative abnormal returns for the bidding firm suggesting that shareholder wealth more or less remains unchanged. *Schipper & Thompson (1983)* argue that positive abnormal returns for bidding firms occur prior to the announcement of an acquisition reflecting investors' anticipation of future acquisitions. Therefore, around the merger announcement stock price reaction is attenuated explaining the weak and contradictory results for abnormal returns of bidding firms in this timeframe.

Hypothesis Development

With reference to review of previous literature about value creation/destruction through mergers and acquisitions, the first hypothesis developed suggests that cumulative abnormal returns for acquiring companies in both domestic and cross-border transactions are above zero in the short term around the M&A announcement. This hypothesis is based on most recent research focusing on acquiring companies from emerging markets, which predominantly indicates shareholder value creation for bidding firms around the announcement day *(Aybar & Thanakijsombat, 2015; Chari et al., 2004; Jain et al., 2014; Tauseef & Nihast, 2014)*.

Hypothesis 1: *The CAAR for the acquirer in the short term around the announcement date is larger or equal to zero.*

2.2.4 Deal- and Company Specific Factors

According to *Martynova & Renneboog (2008)* both characteristics of the bidding and target companies as well as characteristics of the deal itself have an impact on shareholder value. In the following only the relevant factors are discussed, on which there is consensus in existing literature regarding their impact on post-acquisition wealth of the acquiring company *(Al Masud & Den Hertong, 2014)*.

Characteristics of the Bidding and Target Company

Martinova & Rennebog (2008) suggest that dissimilar corporate governance standards between bidder and target have the potential to generate synergies related to corporate governance improvements. However, negative spillover effects may occur when the acquirer imposes its lower governance standards on the target.

Bradley & Sundaram (2004) show that the legal status of the target firm impacts the post-acquisition valuation of the acquiring company. Their results indicate that privately held target companies negatively influence post-acquisition returns for the bidding company possibly due to information asymmetries arising from lower disclosure requirements.

Deal Specific Factors

According to *Eckbo et al. (1990)* a mix of cash and stock as payment method is superior to either all-stock or all-cash bids in terms of impact on the average abnormal returns. Whereas all-cash bids suffer from taxes on capital gains to be paid by the target shareholders, information asymmetry is the major drawback of all-stock deals. However, all-cash deals seem to be more beneficial than all-equity bids, since information asymmetries cause greater on average value losses *(Feito-Ruiz & Menéndez-Requejo, 2011)*.

The deal value is supposed to be positive correlated with post-acquisition wealth generation, whereas the acquiring company's size is negatively correlated with value creation *(Moeller & Schlingemann, 2005)*. *Feito-Ruiz & Menéndez-Requejo (2011)* suggest that the relative size of the target calculated as the transaction value divided by the market value of the acquirer positively influence value creation in M&A since deals with larger relative value lead to less adverse selection problems.

Another deal factor influencing post-acquisition returns is the percentage of ownership or corporate control acquired by the bidding firm. According to *Chari et al. (2004)* majority control leads to significant value creation for the acquiring firm. *La Porta et al. (1998)* suggest that the positive correlation is based on the fact that the acquirer of majority control is less exposed to weak investor protection and thus there is a lower probability of being expropriated by the management.

2.3 Cross-Border Acquisitions

Due to the ongoing trend of companies acquiring or merging with companies located outside their home market (refer to *point 1.1*) in the following first the motives and challenges of

cross-border acquisitions are discussed followed by the introduction of research focusing on shareholder value creation in this type of M&A.

2.3.1 Motives for Cross-Border M&A

According to *Boateng et al. (2008)* there are four main factors motivating acquiring companies to search for target firms abroad: "access to resources and technologies", "diversification", "market access and expansion" as well as "the efficiency theory".

Access to Resources and Technologies

According to the organizational learning perspective *(Vermeulen & Barkema, 2001)* and the resource based view (RBV) *(Eisehardt & Schoonhoven, 1996 ; Madhok, 1997)* acquiring firms are motivated to engage in cross-border acquisitions in order to adopt new capabilities and knowledge *(Boateng et al., 2008)*. The fact that product life cycles become shorter and new critical technologies frequently challenge existing products and/or business models lead to companies being incapable of maintaining sophistication *(Ohmae, 1989)*. Therefore, the exploitation of external know-how sources becomes crucial explaining the shift from domestic to cross-border M&A activities. According to *Errunza & Senbet (1981)* acquiring companies are incentivized to engage in cross-border M&A in order to obtain managerial and marketing skills as well as to bypass government regulations that create market entry barriers.

Furthermore, *Shimizu et al. (2004)* point out that cross-border M&A may be used as a mean to internalize an acquirer's intangible assets and thus to achieve a reduction of transaction costs by avoiding the costly market mechanism of transferring these assets. Additionally, the acquirer may benefit from the target's intangible assets through reverse internalization. Therefore, according to *Seth et al. (2000, 2002)* and *Boateng et al. (2008)* both internalization and reverse internalization have the potential of avoiding misappropriation of intangible assets while reducing transaction costs and can be seen as major motive for cross-border M&A.

Geographic Diversification

Denis et al. (2002) and *Trautwein (1990)* suggest geographic diversification as a potential motive for cross-border M&A. According to *Boateng & Glaister (2003)* cross-border M&A provide the opportunity for the acquiring firm to limit both the costs and the risk of entering into a foreign market since transaction costs can be reduced by the establishment of an internal capital market. *Seth et al. (2002)* suggest that geographical diversification with the objective to reduce operational and financial risk is one source of value creation in cross-border M&A but not in domestic acquisitions.

Beamish et al. (1989) show that multinational entities pursuing a geographic diversification strategy over an extended period of time benefit from a superior financial performance. Furthermore, their results suggest that there is a positive correlation between the financial performance of a multinational entity and the degree of internationalization but only up to a certain critical threshold value from where on the level of performance diminishes due to the challenge of maintaining a certain profitability level.

The exertion of market power through an international scope is another potential source of value creation for companies engaged in cross-border M&A *(Manzon et al., 1994; Morck & Yeung, 1992; Seth et al. 2000).* Additionally, a more diversified portfolio of economic activities located in imperfectly correlated countries leads in line with the modern portfolio theory to a reduction in earnings volatility and an improvement in investors' risk-return opportunities (*Boateng et al., 2008).*

Market Access and Expansion
Datta & Puia (1995) suggest that a third motive for cross-border M&A is the opportunity to gain instant access to new markets with already established sales volume. Therefore, cross-border M&A have the major advantage of speed and time. Several previous studies pointed out that the establishment of a global organization is costly, time consuming as well as difficult and risky due to barriers in culture, business practices and institutional constraints *(e.g. Barkema et al., 1996; Boateng & Glaister, 2003; Kogut & Singh, 1988). Boateng et al. (2008)* show that acquiring companies enjoy immediate access to a local network comprising suppliers, customers and distributors. Additionally, *Wang & Moini (2012)* point out that acquiring companies engaged in cross-border M&A may be motivated by geographic expansion, rapid growth or the improvement of the product and/or service mix.

Efficiency Theory
According to the efficiency theory firms engaging in M&A activities are incentivized by the achievement of potential synergies as outlined in *point 2.1.1 (Trautwein, 1990).* However, especially cross-border acquisitions provide opportunities to achieve financial synergies by benefiting either from exchange rate differentials *(Kish & Vasconcellos, 1993)* or different tax policies between acquiring and target countries *(Servaes & Zenner, 1994).* More precisely, *McCann (2001)* claims that inbound acquisitions are motivated by lower tax rates in the acquiring company's home country, whereas high tax rates provoke outbound M&A activity. This view is supported in studies from *Manzon et al. (1994)* and *Georgen & Renneborg*

(2004). Di Iorio et al. (2011) suggest that especially in research and development intensive industries acquiring companies benefit from cross border acquisitions. However, the results indicate that these gains are shared between both acquiring and target companies. *Ghauri & Buckley (2003)* suggest that cross-border M&A can be used to exploit operational synergies trough either a reduction of costs by large scale production or the pooling of resources leading to superior products/services and thus higher market share and profitability.

Bounded Rationality

In their study *Wang & Moini (2012)* show that both "overconfidence" as well as "imitation" biases have direct influence on cross-border M&A decisions and thus motivate acquiring companies to engage in these transactions.

The overconfidence bias (refer to *point 2.1.3*) in this context relates to the tendency of the acquiring company to have overoptimistic expectations about the potential benefits of the target company leading frequently to an overpricing of the target firm and thus to value destruction *(Wang & Moini, 2012). Ferris et al. (2009)* suggest that CEO overconfidence is especially an international phenomenon with presence in the international M&A market. The overconfidence bias in cross-border M&A decisions is especially present in young companies headquartered in Christian countries valuing individualism and short term orientation *(Ferris et al. 2009)*.

Furthermore, *Wang & Moini (2012)* empirically show that acquiring companies imitate prevailing behavior of competitors and follow the trend of engaging increasingly in cross-border acquisitions.

Finally, *Wang & Moini (2012)* also mention the "process theory" as well as the "escalating confirmation" bias as possible motivating factors for cross-border M&A. Whereas the process theory states that M&A decision are based on an existing process influenced by limited information processing capabilities and former experience of executives as well as organizational routine, the escalating confirmation bias refers to the tendency of decision makers to escalate commitment to a previously selected course of action even though there is objective evidence that this course is harmful *(Wang & Moini, 2012; Kelly & Milkman, 2013)*. However, so far there is no empirical evidence about the prevalence of both the process theory and the escalating confirmation bias in decisions about cross-border M&A.

Exhibit 4 provides a final overview about the major motivating factors for cross-border M&A.

Exhibit 4 − Motivating Factors for Cross-Border M&A

Resource Based View	Geographic Diversification	Market Access and Expansion	Efficiency Theory	Bounded Rationality
Resource, capability and knowledge transfer	Internal Capital Market (lower transaction costs)	Instant access to new markets and customers	Exploit differences in the tax regimes	Overconfidence bias
Technology and innovation transfer	Superior financial performance	Existing network of local suppliers and distributors	Benefit from exchange rate differentials	Imitation bias (herding theory)
Avoidance of government regulations	Exertion of market power	Established sales volume	Cost reduction through economies of scale	(Process Theory)
Intangible asset (reverse) internalization	Risk-reward optimization (portfolio theory)	Improvement of the service and/or product mix	Pooling of resources across business units	(Escalating confirmation bias)

2.3.2 Challenges in Cross-Border Acquisitions

With reference to existing literature there are two major concepts relating to challenges burdening value creation in cross-border acquisitions namely "liability of foreignness" *(Zaheer, 1995)* as well as "double-layered acculturation" *(Barkema et al., 1996).*

Liability of Foreignness

According to *Hymer (1976)* and *Kindleberger (1969)* liability of foreignness is defined as additional costs incurring for firms operating in overseas markets that local firms do not face *(Zaheer, 1995)*. It can be differentiated between four not necessarily independent sources:

(1) Costs related directly to spatial distance and different time zones comprising travel, transportation as well as coordination costs

(2) Firm-specific costs caused by the company's lack of experience in a local environment

(3) Costs linked to the host country environment including economic nationalism and discrimination of foreign companies

(4) Costs arising from the home country environment such as sales restrictions

According to *Zaheer (1995)* liability of foreignness occurs especially in competitive industries. Furthermore, their study suggests that rather than imitating practices of domestic firms (local isomorphism) multinational companies should import firm-specific capabilities and organizational practices in order to overcome the liability of foreignness. However, *Wu (2016)* suggests that initially local isomorphism may improve a firm's performance but then fails to provide benefits over time indicating that with cumulating experience in a local market a firm specific strategy has to be developed.

Double-layered Acculturation

Barkema et al. (1996) state that acquiring companies engaged in cross-border M&A face cultural differences from two different perspectives and are thus required to achieve "double layered acculturation". On the one hand, bidding companies have to adjust to the national culture which might substantially deviate from the culture in their home country. On the other hand, acculturation is even more challenging when the foreign entry is realized with a partner namely the target company, since both organizational cultures embedded in different national cultures have to be combined. The impact of cultural distance on the value creation in cross-border M&A is controversially debated. *Aybar & Ficici (2009)* show in their study that there is a positive correlation between cultural distance and value creation in cross-border M&A for the acquiring company. This is supported by *Chakrabarti et al. (2004)* suggesting that cross-border acquisitions perform better in the long-run, when acquirer and target companies come from cultural disparate countries potentially due to higher synergies and organizational strengths in the global marketplace. In contrast to that, *Datta (1991)* and *Very et al. (1996)* found a negative correlation between organizational cultural differences and post-acquisition performance.

2.3.3 Value Creation in Cross-Border Acquisitions

In general recent literature suggests that cross-border acquisitions create more value around the announcement day for acquiring companies than domestic acquisitions. Additionally, especially acquiring companies coming from emerging markets may benefit more from cross-border than from domestic acquisitions, while there is a range of additional contextual factors such as company size, ownership or geographical scope of the transaction influencing the value impact of cross-border M&A.

Domestic vs. Cross-Border Acquisitions

The internalization framework suggests that acquiring firms generate value in cross-border M&A by internalizing imperfections in the host-country in case firm-specific assets find no comparable value elsewhere *(Aybar & Ficici, 2009; Morck & Yeung, 1991, 1992; Williamson, 1979)*. However, cross-border effects seem to have turned positive only during the late 1990s and the early 2000s, leading to recent studies suggesting higher value creation for both target and acquiring companies in cross-border acquisitions than in domestic acquisitions *(e.g. Francis et al., 2008; Danbolt & Maciver, 2012)*.

While results of *Eckbo & Thorburn (2000)* suggest that US acquiring companies gain less than Canadian acquiring companies in takeovers of Canadian targets, *Moeller & Schlingemann (2005)* show that US acquiring companies generate higher shareholder value in domestic than in cross-border transactions. Similar results for European acquiring companies where found by *Campa & Hernando (2004)* and by *Aw & Chatterje (2004)* but solely limited to the pre-announcement window.

However, more recent studies conducted by *Feito-Ruiz & Menéndez-Requejo (2011)*, *Danbolt & Maciver (2012)* and *Jain et al. (2014)* find different results suggesting that both target and acquiring company on average achieve significantly higher abnormal returns in cross-border than in domestic acquisitions. In their study *Jain et al. (2014)* compared domestic takeovers with cross-border acquisitions of Indian bidding companies. The results indicate that shareholders of the bidding company benefit from positive cumulative abnormal returns associated with cross-border acquisitions, whereas in domestic acquisitions the acquirer shareholders lose significantly value around the announcement day.

Emerging Markets

According to various recent studies, acquiring companies from emerging markets seem to benefit more from emerging market outbound cross-border acquisitions than from domestic acquisitions in terms of value creation. According to the bootstrapping theory suggested by *Khanna & Palepu (2004)* and *Martynova & Rennebog (2008)* the market positively perceives the emerging markets bidding firm's attempt to bootstrap itself to the higher governance standards of a developed target country through an acquisition. *Bhagat et al. (2011)* analyze the impact of corporate governance measures on the bidding firm's returns around the announcement date of cross-border acquisitions. The study focuses on bidding firms in emerging markets and indicates that the stock market rewards developing country bidding firms, while better corporate governance measures in the target country positively impact the

acquirer's returns. While *Aybar & Thanakijsombat (2015)* and *Boateng & Du (2015)* suggest in their studies that there is a significant value creation in cross-border acquisitions for acquiring companies coming from emerging markets, *Jain et al. (2014)* shows that this value creation is higher for outbound cross-border than for domestic transactions.

Other Contextual Factors

Existing literature indicates a wide range of contextual factors with the potential of positively influencing value creation for acquiring companies in cross-border transactions. *Boateng & Du (2015)* suggest that state ownership supports value creation for bidding firms by encouraging investments in strategic important sectors and by providing opportunities for value-creating activities.

A second factor frequently covered in existing literature is the transaction value. *Aybar & Thanakijsombat (2015)* show that large size cross-border acquisitions lead to a relatively higher value generated through economies of scale and a less intense bidding competition.

Additionally, wealth is more likely created if the bidding firm is equipped with previous experience in the target country, if the target country has a relatively high risk profile and if the cross-border acquisition involves bidding and target firms from regions with distant cultures. According to *Aybar & Ficici (2009)* the extent of control pursued as well as the relative size, private ownership of the target and diversified corporate structure of the acquiring company positively impacts the cumulative abnormal returns of the acquiring company around the acquisition announcement.

Hypotheses Development

By summarizing the reviewed literature about value creation in cross-border transactions, the second hypothesis suggests that there is a larger cumulative abnormal return for acquiring companies from emerging countries engaged in emerging markets outbound cross-border transactions than for acquiring companies from emerging countries conducting domestic emerging markets transactions.

Hypothesis 2: *The CAAR for acquirers engaged in outbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets engaged in domestic emerging markets M&A.*

2.3.4 Inbound vs. Outbound Cross-Border Acquisitions

As outlined in *point 1.1* the volume of cross-border M&A activity with acquiring companies from emerging markets targeting developed countries is increasing rapidly. Therefore, this thesis aims at analyzing the difference on value creation between inbound and outbound cross-border M&A in emerging markets. Inbound cross-border M&A is in the following classified as cross-border M&A activities from acquiring companies established in developed countries targeting developing countries, whereas outbound cross-border M&A refers to acquiring companies coming from developing countries targeting companies in developed countries. According to *Shimizu et al. (2004)* existing research comparing wealth generation for acquiring companies in inbound and outbound cross-border acquisitions is inconclusive.

Outbound M&A

For outbound M&A literature suggests both value creation and value destruction leading to conflicting result. Especially the bootstrapping theory *(refer to point 2.3.3.)* developed by *Khanna & Palepu (2004)* and *Martynova & Rennebog (2008)* indicates that cross-border transactions have a positive impact on the wealth of the acquiring company, since investors appreciate the bidding company's attempt to benefit from the higher governance standards of a target from developed countries. The view of value creation for emerging market cross-border acquiring companies is confirmed by studies from *Aybar & Thanakijsombat (2015), Bhagat et al. (2011), Boateng & Du (2015)* and *Jain et al. (2014).*

However, in their study *Aybar & Ficici (2009)* provide empirical evidence that the bootstrapping theory does not hold true for 433 mergers and acquisitions of emerging-markets multinationals in a time period from 1991–2004. *Narayan & Thenmozhi (2014)* suggest pronounced value destruction for shareholders of bidding firms when emerging market companies acquire developed market target firms mainly due to their limited experience in undertaking cross-border acquisitions. Additionally, their study suggests that emerging market bidding firms are often obliged to engage in tender offer-based acquisitions due to their lower bargaining power in international financial transactions leading to high premium offers and thus value destruction.

Additionally, *Danis & Schmahl (2012)* conducted an event study comparing M&A acquiring firm shareholder value creation of intra-European deals with cross-border transactions of Chinese and Indian acquiring companies. Their results indicate that both samples on average create shareholder value for the acquiring firm, while intra-European transaction acquirers benefit from significant higher abnormal returns.

According to *Aybar & Thanakijsombat (2015)* investors of acquiring companies from emerging markets react positively in a period of up to four days after the cross-border M&A announcement, whereas beyond this time frame abnormal returns of the bidding firm become negative.

Aybar & Ficici (2009) suggest that acquisition announcements of high-tech bidding firms and for target companies in related industries are associated with value destruction for bidding companies from emerging markets, whereas target size, private ownership of the target and a diversified structure of the bidder positively affect the bidder value.

According to *Feito-Ruiz & Menéndez-Requejo (2011)* a weak legal and institutional environment in the country of the acquiring firm leads to higher prices in cross-border M&A burdening the abnormal returns around the announcement date for the bidding company. In contrast to that, a stronger legal and institutional environment in the home country of the acquiring country increases the bidding firm's shareholder gain by reducing the deal price *(Kuipers et al., 2009)*.

Exhibit 35 (Appendix) provides an overview about contextual factors impacting shareholder value for acquiring companies from developing countries engaged in cross-border acquisitions targeting developed countries firms.

Inbound M&A

According to *Chari et al. (2004)* firms from developed markets acquiring targets from emerging markets benefit from a statistically significant increase in returns around the announcement day. Additionally, the study shows that value gains mainly stem from the transfer of majority control from the target to the developed market acquirer indicated by higher abnormal returns for acquiring companies obtaining majority control.

The study of *Kale (2004)* showed that foreign multinational acquirers of Indian targets benefit from significantly higher value in their transaction than acquirers from India. However, this difference in value creation reduces significantly over time and might reflect the multinationals' higher skills and experience in terms of acquisition procedures. In a recent study *Narayan & Thenmozi (2014)* draw similar conclusions suggesting that developed market firms acquiring emerging market targets have a 50 per cent chance of creating value which mainly stems from their experience in undertaking cross-border acquisitions.

Hypothesis Development

Based on the comparison between outbound and inbound M&A in developing markets a third hypothesis is developed suggesting that cumulative abnormal returns for bidding firms from developed countries acquiring developing country targets are higher than for developing markets acquiring firms engaged in outbound M&A:

Hypothesis 3:   *The CAAR for acquirers from developed markets engaged in inbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets in outbound emerging markets acquisitions.*

2.4 Industry Diversification

Existing research shows that there is a difference in the impact on the acquiring firm's share price between an acquisition of a target in a related industry and one in an unrelated business segment *(Aybar & Ficici, 2009)*. *Walker (2000)* considers diversification to be the acquisition of target companies in a different industry measured by the first two digits of the four digits Standard Industrial Classification (SIC), whereas a non-diversified strategy refers to the acquisition of target companies within the same industry.

2.4.1 Relevance of the Topic

There is a widespread belief among managers and academics that strategic relatedness can increase economic value of acquiring companies. However, already *Barney (1988)* points out the importance of analyzing the effect of relatedness on value creation in M&A, since results in studies are not consistent with managerial and academic expectations. Additionally, the fact that since two decades in France, Germany and the U.K. the number of both diversified and non-diversified firms has increased at the expense of single business firms highlights the importance of the topic *(Sudarsanam, 2003)*.

This seems to hold true also for other regions including emerging markets. *Boateng et al. (2008)* show that for Chinese bidding companies engaging in cross-border acquisitions one main strategic objective is diversification. According to *Huaichuan & Yip (2008)* today most of the Chinese bidding companies use acquisitions as mean to achieve strategic objectives. More precisely, acquiring companies strive to achieve competitive advantages by updating their portfolio and thus through diversification. Furthermore, the study suggests that the extent of strategic intent for the bidding firm is dependent on the company's internal and external conditions, the experience in the home market as well as the capacity of the top management. Since there was large progress for these factors in the last years in the emerging markets, it is

expected that there is a rational way in terms of strategy and that diversification is a main incentive to engage in M&A.

2.4.2 Value Impact of Industry Diversification

There is literature with contradicting opinions about the value effect of relatedness between acquirer and target around takeover announcements. However, especially for emerging markets studies consistently suggest that diversification strategies are more valuable to shareholders than non-diversified takeovers.

Value creation

On the one hand literature supports the hypothesis of value creation through industry diversification. According to *Stulz (1990)* risk reduction may be achieved through the co-insurance effect benefiting diversified companies due to a less fluctuating aggregated cash flow leading to a lower bankruptcy risk and higher credit ratings.

Pindyck & Rubinfeld (2005) suggests that value creation through industry diversification may stem from an increase in market power and the ability to affect prices. Additionally, diversified companies have the potential to exert conglomerate power by engaging in cross-subsidization *(Aybar & Ficici, 2009)*. More precisely, *Aybar & Ficici (2009)* argue that presence in different industries yields to additional firm value due to the ability to exploit diverse conditions as long as the costs of maintaining the diversified company network do not exceed a certain threshold. Their results show that in an event window of 15 days around the takeover announcement diversified acquiring firms experience less value destruction than non-diversified.

Furthermore, different studies point out that internal capital markets are less dependent from specific industry segments than external capital markets indicating that resource allocation in diversified companies is expected to be more efficient compared with non-diversified firms *(e.g; Matsusaka & Nanda, 1996; Rieck, 2002; Stein, 1997)*.

Barney (1988) analyzed the effect of strategic relatedness between bidding and target firm on the shareholder value of the acquiring company. The results suggest that strategic relatedness has the potential of being translated into positive abnormal returns for the acquiring firm. However, *Barney (1988)* argues that bidding firms must understand both their own relatedness to the target firm as well as the relatedness of competing bidders to the target. In order to obtain positive abnormal returns other bidders are required to value the target firm at

a lower level. Therefore, the existence of imperfectly competitive markets for corporate control is required to obtain positive abnormal returns.

Value Destruction

On the other hand various studies illustrate potential drawbacks of an industry diversification strategy burdening value creation for acquiring companies and promote strategic relatedness as value driver. Cross-subsidization of failing business segments as well as agency costs might increase through a diversification strategy leading to value destruction *(e.g. Denis et al. 2001; Jensen, 1986; Rieck, 2002; Stein, 1997; Stulz, 1990).*

According to *Scharfstein & Stein (1999)* investors require more information to evaluate diversified companies. However, investors are usually not provided with additional information leading to information asymmetries and to diversified companies being traded to a discount compared to non-diversified firms.

Walker (2000) studies the impact of different strategic objectives for mergers and acquisitions on the shareholder value creation of bidding firms. The results suggest that diversification leads to an on average unfavorable stock market return for bidding firms, since bidding companies usually have other more favorable opportunities around the announcement date of the acquisition.

Martynova & Renneborg (2006) compare cumulative abnormal returns for bidding companies in diversifying takeovers with those in industry-related M&A deals. While the share price decreases by -1.4% preceding a diversifying takeover announcement, it increases by 1.4% for intra-industry takeover announcements.

Developed vs. Emerging Markets

Palich et al. (2000) state that there is not a linear but a curvilinear relationship between the level of industry diversification and market power. Therefore, companies initially seem to increase their market power, whereas beyond a certain level of diversification this power seems to decrease. However, most emerging markets companies engaged in cross-border M&A are supposed to be in an initial stage of diversification benefiting from an increase in market power. This is consistent to the findings of *Khanna & Palepu (1997, 1999)* suggesting that a focused non-diversified strategy is inferior to a diversified strategy in emerging markets acquiring companies. However, *Narayan & Thenmozi (2014)* show in their study that there is no significant difference in value creation for emerging markets bidding companies in terms of diversifying or focused M&A strategy.

Feito-Ruiz & Menéndez-Requejo (2012) show in their study that European developed country acquirers benefit from industry diversification decisions in M&A leading to shareholder value creation dominating over an increase in costs caused by the agency problem or asymmetric information. In contrast to that *Martynova & Rennebog (2008)* show that intra-European diversifying mergers lead to lower abnormal returns than focused mergers. This is confirmed by *Dos Santos et al. (2008)* illustrate that US acquirers engaged in industrial diversified M&A activities destroy value even after controlling the pre-acquisition value of the target.

Generally, diversifying acquisitions are more favored by acquirers belonging to countries with a weak legal and institutional environment indicating that emerging markets acquirers are more likely to engage in diversified M&A *(Feito-Ruiz & Menéndez-Requejo, 2012)*.

Purkayastha et al. (2012) summarized existing literature on the diversification effect on both emerging market acquirers and developed market acquirers. The study concludes that related diversification has the potential to benefit developed market acquiring firms through synergy realization, whereas for emerging market bidding firms unrelated diversification is rather beneficial leading to superior market power and profitability. *Purkayastha et al. (2012)* argue that in developing countries internal growth is limited due to institutional constraints leading to rather network-based/diversified growth, while the absence of financial and market intermediaries triggers the need for diversification in order to internalize these intermediate functions provided by institutions and markets in developed economies. In contrast to that developed countries acquiring firms already benefit from unrelated diversification benefits. Therefore, related diversification and an increase in efficiency are used as an additional mean to create value *(Purkayastha et al., 2012)*.

Hypotheses Development

To summarize, emerging market acquirers being in the initial stage of the diversification process are supposed to benefit from unrelated diversifying acquisitions due to an increase in market power and profitability *(Palich et al., 2000)*. However, for developed market acquiring companies there are conflicting literature results regarding the value impact of diversified M&A. While value creation in unrelated diversifying acquisitions is doubtful, related diversification is expected to create superior value through the realization of synergies. Therefore, the fourth set of hypotheses suggests that acquiring companies from both developing countries and from developed countries achieve higher abnormal returns in diversified than in focused cross-border transactions, whereas the difference between

diversified and focused cross-border transactions is expected to be higher for developing countries acquirers.

Hypothesis 4a: *The CAAR for acquirers from emerging markets engaged in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.*

Hypothesis 4b: *The CAAR for acquirers from developed markets engaged in industry diversifying emerging markets inbound acquisitions is larger than the CAAR in industry focused inbound acquisitions.*

Hypothesis 4c: *The difference between industry diversifying and focused CAARs is larger for outbound acquirers from emerging markets than for inbound bidding companies from developed markets.*

2.5 Synthesis

Exhibit 36 (Appendix) provides an overview over the four sets of hypotheses. While the first hypothesis concerns the general impact of acquisition announcements on value creation, the hypothesis 2 relates to differences in the wealth impact between outbound and domestic emerging market transactions. Finally, hypothesis 3 focuses on the difference in value creation between inbound and outbound M&A in emerging markets, while hypotheses 4a–4c deals with the value impact of an industry diversification strategy. By testing the hypotheses, the outlined research question expressed as problem statement (refer to *point 1.3*) is supposed to be sufficiently addressed.

3. Data

In the following information about the data collection procedure as well as the sources and structure of the data is provided. In order to be able to compare the value impact of domestic and cross-border M&A, inbound and outbound emerging market M&A as well as industry diversifying and industry focused M&A different data samples are required.

3.1 MSCI Classification

In a first step both emerging markets as well as developed markets have to be defined. Therefore, the classification of MSCI Inc. was applied. MSCI Inc. is an independent provider of equity, fixed-income and hedge fund market indexes as well as analytic tools for institutional investors. The choice is justified by the high reputation of the company within and outside of the financial industry indicated by various awards for excellence in the field of index providing *(MSCI, 2016)*. Whereas for developed markets the composition of countries applied for the MSCI World Index was used, emerging markets compose countries included in the MSCI Emerging Markets Index. Therefore, in the following emerging markets and developed markets are classified as illustrated in *Exhibit 5 (MSCI Classification, 2016)*.

Exhibit 5 − Market Classification

MSCI World Index			MSCI Emerging Markets Index		
Developed Markets			**Emerging Markets**		
Americas	Europe & Middle East	Pacific	Americas	Europe, ME&A	Asia
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland UK	Australia Hong Kong Japan New Zealand Singapore	Brazil Chile Colombia Mexico Peru	Czech Rep. Egypt Greece Hungary Poland Qatar Russia South Africa Turkey UAE	China India Indonesia Korea Malaysia Philippines Taiwan Thailand

3.2 Thomson SDC Database

In the next step, the Thomson SDC (Security Data Corporation) Database is used to derive M&A announcement data for a period from 31/01/2000 until 31/01/2016 for the three different samples illustrated in *Exhibit 6* comprising transactions of listed acquiring companies from developed and emerging markets:

Exhibit 6 − Overview Data Samples
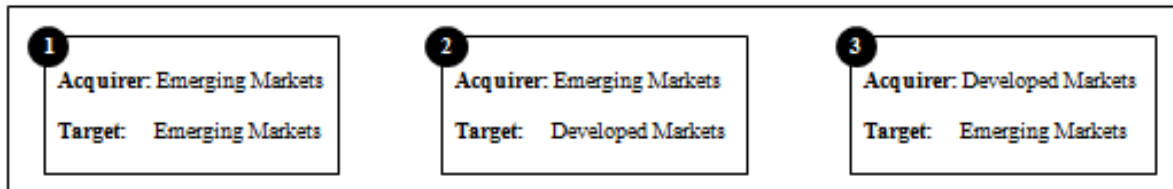
The starting point of the time period was chosen in order to capture the whole effect of the shift from emerging markets acquirers to engage in outbound M&A and not only in domestic M&A which was initiated in the 2000s (refer to *point 1.1*). Furthermore, only M&A announcements with a transaction value higher than $20 million and a "completed" transaction status are considered, while the percentage of shares purchased by the acquirer is required to be above 50% *(Narayan & Thenmozhi, 2014)*. The latter shall ensure that the acquiring company has the ability to monitor and direct the financial performance of the target firm post the acquisition. Additionally, all transactions are excluded for which no datastream code for the acquiring company was available. According to the approach of *Narayan & Thenmozhi (2014)* the effect of compounding mergers was eliminated by removing transactions from the samples in which an acquiring company is engaged in more than one acquisition in the sample within three years following the first transaction. For each of the samples the following information is derived from the SDC database:

- Date of M&A announcement
- Name of acquiring and target companies
- Macro industry name and SIC-code of acquiring and target companies
- Nation of acquiring and target companies
- Market value in $ million at announcement day and datastream code of acquirer
- Percentage of shares acquired
- Value of transaction in $ million
- Payment method used (cash-only, stock-only or combined)
- Legal status of target company (listed or non-listed)

Finally, the three samples are further split into six subsamples differentiating between industry diversifying and industry focused M&A. More precisely, M&A with acquiring and target companies having the same SIC-code are classified as focused, whereas transactions with acquiring and target companies from different industries indicated by different SIC-codes are classified as diversifying. *Exhibit 7* provides an overview about all samples and subsamples.

Exhibit 7 − Overview Data Subsamples
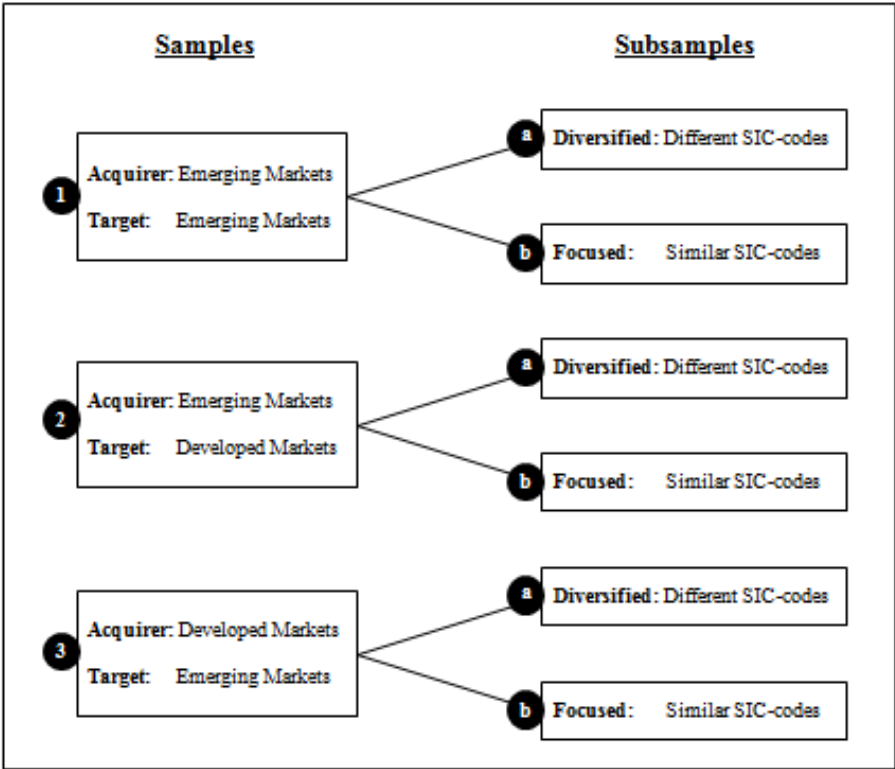
3.3 Thomson Reuters Datastream

The database Thomson Reuters Datastream collects and provides financial information of companies and markets, while additionally containing macroeconomic data collected from the Organization of Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) (*Grønsund, 2013)*. In the following both the daily share prices (dividend adjusted) of the acquiring companies as well as the referring country index prices (dividend adjusted) are retrieved from Thomson Reuters Datastream.

Share Prices Acquirer

For all acquiring companies in the six subsamples Thomson Reuters Datastream is used to source the relevant data namely daily share price and referring share price date. Daily share prices (dividend adjusted) are retrieved at least 265 days prior to the acquisition and 10 days

post the acquisition announcement, while transactions with incomplete share price availability are excluded from the samples.

Total market index

Additionally, the daily prices (dividend adjusted) of the total market index for the referring home country of each acquirer in the same time period pre- and post-acquisition is retrieved. More precisely, Thomson Reuters Datastream provides for most relevant countries its own stock index representing all equities trading in a country's stock market *(Datastream, 2016)*. All the transactions for which daily market index prices are not available over the relevant time period are excluded from the samples.

4. Methodology

The following chapter addresses the chosen research approach and research method. Additionally, the analytical framework comprising the event study methodology as well as OLS-regressions is presented

4.1 Research Approach and Method

First, an overview about the chosen research approach is provided. In a second step common research methods for the analysis of value creation in M&A are briefly discussed.

4.1.1 Research Approach

In this thesis a deductive research approach is chosen *(Bryman & Bell, 2011)*. According to *Wilson (2010)* a deductive approach is characterized by the hypotheses development based on existing theories, while the adequate research strategy has to be designed in order to test the hypotheses. More precisely, *Snieder & Larner (2009)* argue that reasoning in the deductive research approach starts with the existing theory and leads to the development of new hypotheses, which are subject to tests through the confrontation with observations resulting either in the confirmation or the rejection of the hypotheses. *Exhibit 8 (Deductive Approach, 2016)* provides an overview about the different major steps in a deductive research approach.

Exhibit 8 − Deductive Research Approach
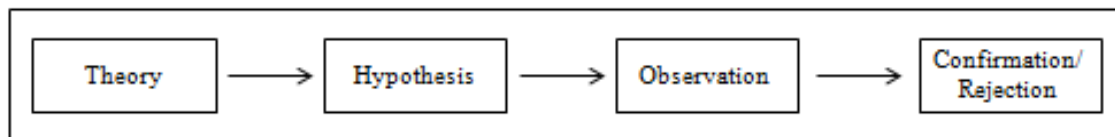
By applying the deductive research approach, hypotheses in this thesis are developed based on existing literature in the field of value creation through M&A for acquiring firms. Especially the comparison between outbound and inbound M&A value creation in emerging markets is not sufficiently addressed by research and thus analyzed. After development of the hypotheses the observations namely the data samples collected are processed and analyzed. Finally, by applying the research methodology and statistics, hypotheses can either be confirmed or rejected (*Exhibit 8*).

4.1.2 Discussion of Research Methods

Bild (1998) distinguishes between four methods that can be applied in order to determine value creation in M&A namely market method, accounting studies, incremental cash flow method, as well as the interview method *(Al Masud & Den Hertong, 2014)*.

Market method

In the context of value creation in M&A event studies mainly rely on the market method and the hypothesis about the efficiency of perfect capital markets. More precisely, *Mandelker (1974)* shows in his study that share prices of both acquiring and target firm reflect all economic gains/losses expected from the acquisition already at the time of the merger. Therefore, the method enables researcher to determine in the short term around the announcement date the value creation potential of M&A activities and is thus considered to be efficient and easy-to-apply indicated by its frequent usage in research. Additionally, all data required such as share prices and announcement dates are usually publicly available as well as easy and fast to obtain. However, the major drawback is the fact that stock market reactions to M&A announcements may reflect various factors independent from the marginal impact of the acquisition *(Al Masud & Den Hertong, 2014; Bild, 1998).*

Accounting Studies

According to accounting studies the value creation of a merger can be examined by assessing different accounting return measures such as return on equity (ROE), return on assets (ROA), return on capital employed (ROCE) or return on sales (ROS) pre- and post-acquisition *(Bild 1998; Bild et al. 2002)*. Accounting studies can be differentiated between absolute performance studies and relative performance studies. Whereas absolute performance studies compare the average performance of the newly consolidated entity during the post-merger period with the average performance of the acquirer and the target during the pre-merger period, relative performance studies compare the average performance of the consolidated entity in the post-merger period to the average performance of a control group comprising comparable companies in the same post-merger period. While it is difficult to find an appropriate control group that has the potential to model the performance development of the consolidated entity in absence of the merger event, the major drawback of accounting studies is that they do not account for the cost of the acquisition, the time value of money and profits earned beyond the analyzed post-acquisition period *(Al Masud & Den Hertong, 2014; Bild, 1998)*. Additionally, accounting performance measures can be easily misstated, while in contrast to the event study firm specific internal accounting data are required that are not always publicly available.

Incremental Cash Flow Method

This approach takes the perspective of financial theory and addresses the key question whether the present value of the financial benefits arising from the acquisition exceeds the

present value of the costs and the initial investment *(Bild et al., 2002)*. Therefore, value creation takes place in case of a higher present value for the financial benefits than for the costs. Furthermore, the discount factor representing the cost of capital considers both the risk of incremental cash flow as well as the time value of money *(Al Masud & Den Hertong, 2014; Bild, 1998)*. However, predictions for both incremental cash flows and cost of capital based on internal company data are usually required, while in line with the accounting studies the risk of misstatement is present.

Interview Method

The approach is based on personal interviews conducted with managers of both the acquiring company as well as the target company, who are asked to classify the transaction either as "success" or as "failure". Therefore, the interviews can only take place a considerable time post the acquisition in order to capture the implications of the decision *(Al Masud & Den Hertong, 2014; Bild et al., 2002)*. Major drawbacks of this method are the time consuming interview process as well as the possibly biased view of certain managers, while additionally researchers are dependent on not publicly available internal data.

Chosen Method

After discussing the four different research methods the market method is applied in the following measuring the value creation of M&A through stock price reactions in the short term around the announcement day. Especially the fact that the remaining methods are very time consuming and require internal data which are in many cases difficult to obtain led to the decision. Additionally, due to its frequent use in research the market method provides a high degree of comparability with results of existing studies. The disadvantage of confounding factors, that might drive the share price independent from the impact of the acquisition is addressed by three main initiatives:

- Elimination of the compounding mergers effect (refer to *point 3.2*).
- Elimination of other major confounding events comprising stock splits, dividends and earnings announcements *(Brown & Warner, 1985)*, administration changes (*Cannella & Hambrick, 1993*) and joint venture announcements *(McConnell & Nantell, 1985)* through manual examination of ad-hoc press releases of the acquiring firm within the event window *(refer to 3.2.3)* as suggested by *DeFond et al. (2010)*.

- According to *Brown & Warner (1985)* and *Nageswara et al. (2014)* a reduced size of the event window *(refer to 4.2.3)* decreases the probability of undetected confounding events.

4.2 Analytical Framework

The analytical framework is twofold. First, the event study methodology is applied in order to determine statistically significant value creation patterns within the samples and subsamples. Second, an OLS-regression analysis shall determine which explanatory factors influenced value creation patterns observed in the event study.

In this chapter the research methodology applied namely the event study methodology is introduced and discussed followed by an explanation of its typical procedural structure, the definition of the event window, an overview of the calculation and aggregation of abnormal returns as well as the discussion of conducted significance tests. Finally, an overview about the OLS-regressions run for each of the three samples is provided.

4.2.1 Introduction of Event Studies

The design of the research strategy in this thesis comprises the application of the event study methodology (*Brown & Warner, 1985)* in order to analyze the short-term reactions of the stock market to M&A announcements. Especially in the field of finance and accounting the event study enjoys a variety of applications comprising firm specific and economy wide events *(MacKinlay, 1997)*. While already *Jarrel & Poulsen (1989)* used the event study methodology to measure the effect of M&A announcements on shareholders' returns, a wide range of other events such as stock splits *(Fama et al., 1969)*, dividend announcements *(Asquith & Mullins, 1983)* as well as earning announcements *(Ball & Brown, 1968)* has been analyzed with the application of this method.

4.2.2 Structure of Event Studies

According to *MacKinlay (1997)* the general flow of analysis within event studies is always following the same procedure, despite various fields of applications. In a first step the event of interest as well as the period for which the share prices of the involved company are examined namely the event window have to be defined. In a next step the sample selection based on specific criteria for the inclusion/exclusion of a given company in the study is conducted. In the following the impact of the event is appraised by the measurement of the abnormal returns. Finally, the firm specific abnormal returns are aggregated and the statistical

significance of the results obtained is tested by using t-statistics. *Exhibit 9* provides an overview about the major steps in a typical event study.

Exhibit 9 − Event Study Process
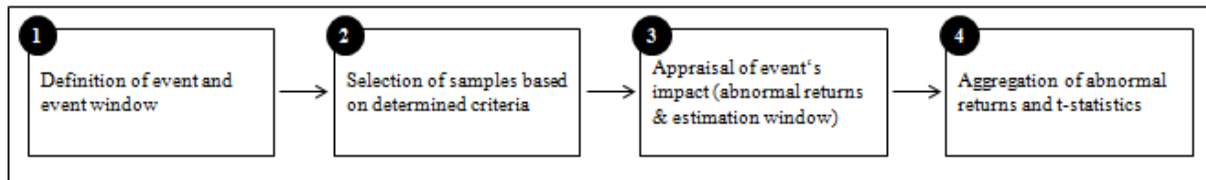
4.2.3 Definition of Event and Event Window

For this study the event of interest is the announcement day of M&A relating to one of the three categories detailed below:

(1) "Outbound emerging markets" M&A announcements: this category comprises M&A announcements with acquiring firms from emerging markets and target companies from developed markets.

(2) "Inbound emerging markets" M&A announcements: the category refers to M&A announcements with acquiring firms from developed markets and target companies from emerging markets.

(3) "Domestic emerging markets" M&A announcements: domestic in this category refers to M&A announcements that comprise both acquiring as well as target companies from emerging markets, whereas it is not required that both firm come from the same country within the emerging markets.

The M&A announcement day is determined by *"the date one or more parties involved in the related M&A transaction makes the first public disclosure of common or unilateral intent to pursue the transaction (no formal agreement is required)" (Definitions Thomson, 2016)* and retrieved from the Thomson SDC Database. Furthermore, the date of each M&A announcement in the following is defined as "event date" or classified as "day zero". For an announcement happening on a non-trading day, the next following trading day is considered to be the event day.

The event window or the period for which the share prices of the involved company are examined has to be defined. Existing research about M&A value creation is characterized by a wide range of different event windows covering both short term as well as long term even windows. Whereas the latter may comprise months or even years around day zero, short term event windows only include days or a few months around the event date *(Al Masud & Den*

Hertong, 2014; Tuch & O´Sullivan, 2007). However, the event window is supposed to be larger than the event period allowing the examination of the period surrounding the event *(MacKinlay, 1997).*

According to *Shah & Arora (2014)* the event window should comprise both the pre-event and the post-event period. While the pre-event period takes into account potential leakage of information, the post-event period considers delays in the information dissemination *(Peterson 1989).*

In this thesis a short term event window is applied, in order to improve validity of the results obtained. Furthermore, a considerable long pre-event period is included in the event window to take into account market anticipation to the takeover and potential information leakage, which is more likely to occur in transactions involving emerging market parties due to a weaker legal and institutional environment. Short term event windows are preferred to long term event windows since according to *Andrade et al. (2001)* the results are characterized by higher statistical significance, while there is less probability that confounding events may influence results within the short time period. The event window chosen with reference to the approach of *Aybar & Ficici (2009)* covers 21 trading days comprising the event trading day, 10 pre-event trading days and 10 post-event trading days (-10,+10). *Exhibit 10* illustrates the composition of the event window.

Exhibit 10 − Event Window
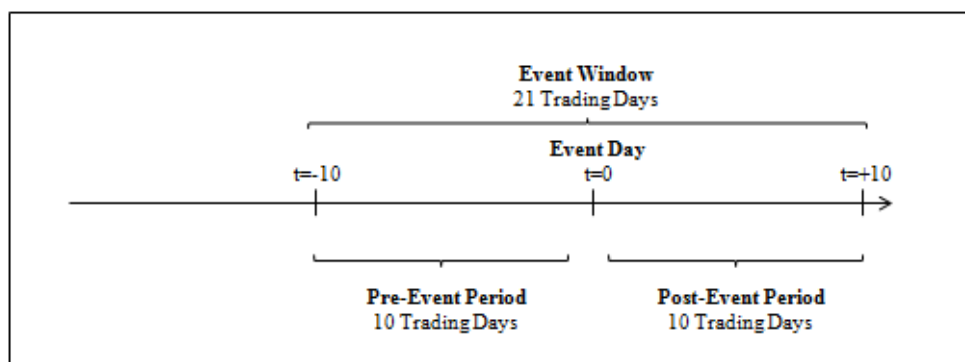
4.2.4 Sample Selection

The detailed process of deriving the samples and subsamples from the data sources is outlined in the *points 3.2* and *3.3*. However, the following criteria are applied in order to determine whether a transaction is included or excluded from the samples:

- Transaction has to be classified as either outbound emerging market, inbound emerging market or domestic emerging market M&A (*Exhibit 6*)

- The time period considered comprises 31/01/2000 until 31/01/2016
- Thomson SDC Database has to provide: date of M&A announcement, SIC-code and nation of acquirer and target, transaction volume in $ million, percentage of shares acquired, datastream code of acquirer
- Thomson Reuters Datastream has to provide: daily share prices (dividend adjusted) and dates for the acquirers 265 days pre- and 10 days post-acquisition, daily prices (dividend adjusted) of the total market index for the referring home country of each acquirer 265 days pre- and 10 days post-acquisition
- The acquiring company has to be listed
- The transaction volume has to be equal or higher than $20 million.
- The acquired percentage of shares has to be higher than 50%
- No compounding merger effects three years following the included transaction
- No confounding events within the event window period
- No overlap to existing event window

4.2.5 Abnormal Return Measurement

The appraisal of the event's impact is achieved through the calculation and analysis of the abnormal returns for the acquiring company in the event window. The abnormal return equals the difference between the actual return of the stock over the event window and the predicted normal return, which *"is defined as the expected return without conditioning the event taking place" (MacKinlay, 1997:15)*. For company i and the event date t the abnormal return can be expressed as:

$$AR_{it} = R_{it} - E(R_{it}|X_t)$$

Where:

- R_{it} is the actual return
- $E(R_{it}|X_t)$ is the predicted normal return for the period t.

Logarithmic Return

The logarithmic return is used in this thesis to convert daily share and index prices to daily returns. More precisely, the return at day t for the security of firm i is computed as the difference between the natural logarithm of the closing share price P_{it} for the security of firm i at the day t and the natural logarithm of the closing share price $P_{i\,t-1}$ for the security of firm i at the previous day t-1 *(Hudson & Gregoriou, 2010):*

$$R_{it} = \ln \left(\frac{P_{it}}{P_{i\,t-1}}\right)$$

The application of logarithmic returns in contrast to ordinary returns based on simple interest over the period leads to several advantages. Logarithmic returns are also interpreted as continuously compounded returns. Thus, for non-stochastic processes the frequency of compounding is irrelevant enabling an easy comparison of returns across assets. Additionally, logarithmic returns are symmetric and contrary to ordinary returns in case of equal magnitude but opposite sign cancel each other out *(Hudson & Gregoriou, 2010)*. Finally, *Roll (1983)* shows that the estimation of returns over longer periods based on simple returns leads to unsatisfactory results, whereas logarithmic returns are time additive and time series properties can easier be derived for additive than for multiplicative processes *(Hudson & Gregoriou, 2010)*.

Estimation Window

To determine the abnormal return and thus the impact of the event, the normal or the expected return within the event window assuming the absence of the event needs to be predicted. Therefore, the definition of an estimation window is required which usually comprises a period prior to the event excluding day zero in order to prevent the event from influencing the normal return performance parameter estimates *(MacKinlay, 1997)*.

In line with the approach of *Aybar & Ficici (2009)* the estimation window is chosen to start 265 trading days prior to the event day until the beginning of the event window. Therefore, the estimation windows includes an interval of 255 trading days ranging from t=-265 to t=-11 (-265,-11). *Exhibit 11* provides an overview about both the estimation and the event windows.

Exhibit 11 − Estimation and Event Windows
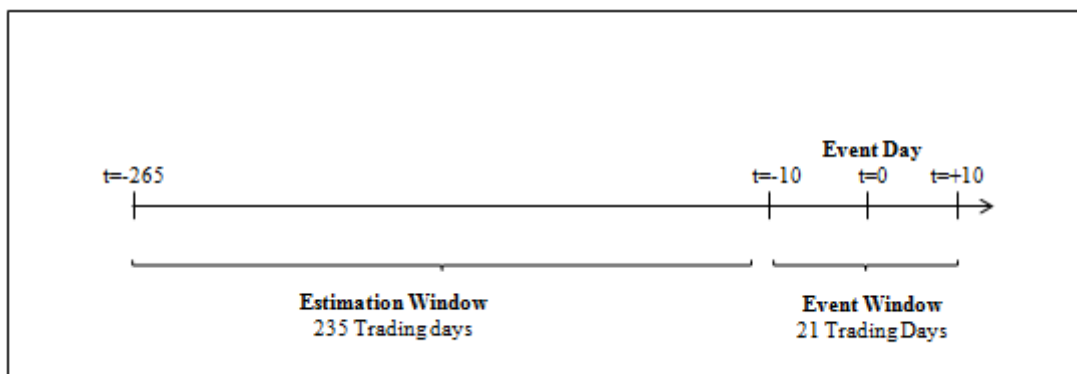
Market Model

The prediction of normal returns is achieved either through the constant mean or the market model *(MacKinlay, 1997)*. In the market model introduced by *Fama (1976)* the return of a security is related to the return of a market portfolio assuming a linear relation between the security return and the market return as well as joint normality of asset returns. Usually broad based stock indices represent the market portfolio. As explained in *point 3.3* for each home country of the acquirer the referring total market index provided by Thomson Reuters Datastream is used as relevant market portfolio. According to the market model the normal or expected return can then be expressed as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

Where:

- R_{it} and R_{mt} are the period-t returns on security of firm i and the market portfolio m
- α_i and β_i are relationship parameters between individual share and market returns
- ϵ_{it} is the zero mean disturbance term: $E(\epsilon_{it} = 0)$, $\mathrm{Var}(\epsilon_{it}) = \sigma^2_{\epsilon_i}$

As outlined by *Bunkanwanicha et al. (2013)* in the following the actual returns of the referring acquiring company are regressed on the returns of the relevant total market index during the estimation window in order to obtain the ordinary least squares (OLS) estimates of the market model parameters $\hat{\alpha}_i$ and $\hat{\beta}_i$. Therefore, as next step the abnormal return (AR$_{it}$) for the stock of firm i at the time t can be calculated by applying the following formula:

$$AR_{it} = R_{it} - \left(\hat{\alpha}_i + \hat{\beta}_i R_{mt} \right)$$

Where:

- $\hat{\alpha}_i$ and $\hat{\beta}_i$ are the OLS estimates of the market model parameters.

Constant Mean Return Model

In addition to the market model *MacKinlay (1997)* suggests the constant mean return model in order to calculate the abnormal return (AR) for the acquiring company and thus to assess the share price impact of the transaction. According to *Brown & Warner (1980, 1985)* the constant mean return model often leads to results similar to more sophisticated models, although it is supposed to be very simple. The main assumption of the constant mean return model is that the mean return of the acquiring firm's shares calculated in the estimation period remains stable over time. Therefore, the normal or expected return can be expressed as:

$$R_{it} = \mu_i + \zeta_{it}$$

Where:

- R_{it} is the period t-return on the security of firm i
- μ_i is the mean return for the security of firm i in the estimation window
- ζ_i is the time period t zero mean disturbance term: $E(\zeta_i = 0)$, $Var(\zeta_i) = 6^2_{\zeta_i}$

Therefore, the abnormal return (AR$_{it)}$ for each acquiring company i at the time t is computed with the difference of the actual period t-return (R$_{it)}$ on the security of company i and the normal expected return ($\overline{R}_i$) on security i derived from the mean return (μ_i) over the estimation window:

$$AR_{it} = R_{it} - \overline{R}_i$$

In accordance with *MacKinlay (1997)* the market model is considered to be superior to the constant mean return, since it excludes the portion of the return that is related to the variation in the market's return. However, in order to conduct a solid and comprehensive data analysis in this thesis the results of both models are analyzed and compared.

Aggregation of Abnormal Returns

In order to be able to draw inferences for the M&A announcement events, observations of abnormal returns have to be aggregated *(MacKinlay, 1997)*. Aggregation can take place on two levels namely through time and across securities of different firms. Aggregation through time and for one individual security is achieved through the concept of cumulative abnormal return addressing a multiple period event window. Therefore, the cumulative abnormal return (CAR$_{T1T2}$) between days T$_1$ and T$_2$ is the sum of the abnormal returns of the security of firm i between the days T$_1$ and T$_2$:

$$CAR_i(T_1 T_2) = \sum_{t=T_1}^{T_2} AR_{iT}$$

Aggregation across securities of different firms requires independence of the individual cumulative abnormal returns. Therefore, according to *MacKinlay (1997)* no overlap in the event windows of included securities should exist. This is ensured in the sample selection by the exclusion of transactions leading to overlapping event windows. Furthermore, the following distributional assumptions have to be maintained *(MacKinlay, 1997)*:

$$CAR_i(T_1 T_2) \sim \text{N}(0, 6_i^2, (T_1 T_2))$$

After forming all CAR's security by security aggregation across different securities for N events (M&A announcements) through the time period T_1 to T_2 can be performed to derive the cumulative abnormal average return CAAR($T_1 T_2$) for the referring time period :

$$CAAR(T_1 T_2) = \frac{\sum_{i=1}^{N} CAR_i(T_1, T_2)}{N}$$

4.2.6 Significance Tests

Results obtained through the event study methodology are tested for their statistical significance in order to determine the robustness of the results.

Parametric vs. Nonparametric

The impact of an event on the returns of companies can be gauged with both parametric as well as non-parametric tests which are broad classifications of statistical procedures. Whereas parametric tests are based on a set of assumptions about the distribution of the sample population, nonparametric tests are not relying on assumptions about the shape or parameters of the distribution *(Hoskin, 2011)*.

The most common parametric assumption is that observations are normally distributed. Due to the large size of the total aggregated sample (N = 1434 M&A announcements) and of each subsample (N ≥ 102) the assumption of normality is deemed to be valid *(Hoskin, 2011)*. Additionally, the mean, minimum, maximum, skewness and excess kurtosis is calculated and analyzed for the average daily return of each subsample indicating a normal distribution with a stable mean across the subsamples ranging from 0.07% and 0.23%, skewness with no significant deviation from 0 and kurtosis centered around 3 (Exhibit *37*). Therefore, in this thesis a parametric test was chosen. In contrast to nonparametric tests, parametric tests are statistically more "powerful" since they have higher probability that the procedure indicates association between two variables when they are truly associated. Furthermore, nonparametric test results are usually more difficult to interpret than results obtained through parametric tests, since the nonparametric approach frequently relies on rankings of values in the data and not on the actual data *(Hoskin, 2011)*.

Parametric test

Significance tests are applied in order to verify the confirmation or rejection of a null hypothesis. More precisely are parametric test suggested by *Brown & Warner (1985)* is used

relying on the assumption that individual company's abnormal returns are distributed normally. The test accounts for cross-sectional dependence (crude adjustment) and thus considers dependence across firms' average residuals the in event time. Due to its easy application it is frequently used in several event studies comprising *Holthausen (1981)* and *Leftwich (1981)* or more recently *Georgen and Renneboog (2004)* and *Bunkanwanicha et al. (2013)*. By assuming independent, identical and normal distribution of abnormal returns the test statistics is distributed student-t under the null hypothesis of abnormal returns equal to zero.

Average Abnormal Returns (AARs)

The null hypothesis to be tested is that cross-sectional average abnormal returns (AARs) are equal to zero implying that the M&A announcement has no effect on the acquirer's returns. The test statistics is the ratio of AAR_t for each day t surrounding the event and its standard deviation denoted as 6_{AAR_t}. The standard deviation can be estimated from the time series of AARs. The AAR_t on day t in the event window can be expressed as *(Mallikarjunappa & Panduranga, 2013)*:

$$AAR_t = \frac{\sum_{i=1}^{N} AR_{it}}{N}$$

Where :

- AAR_t is the average abnormal return on day t in the event window
- AR_{it} is the abnormal return on security of firm i on day t
- N is the total number of securities
- t represents the days surrounding the event day
- 6_{AAR_t} is the standard deviation of AAR_t that can be expressed as:

$$6_{AAR_t} = \sqrt{\frac{\sum_{t=1}^{T}(AAR_t - \overline{AAR})^2}{(T-d)}}$$

Where :
- $\overline{AAR}$ is the mean of AARs in the estimation period:

$$\overline{AAR} = \frac{\sum_{i=1}^{T} \frac{\sum_{i=1}^{N} AR_{it}}{N}}{T} \qquad \text{t= -265 to -11 days}$$

- AAR_t is the average abnormal return on day t in the estimation period
- T-d are the degrees of freedom or values in calculation of a statistic free to vary
- T is the number of days in the estimation period, which is equal to 255

Cumulative Average Abnormal Returns (CAARs)

The null hypothesis to be tested is that the cumulative average abnormal returns (CAARs) are statistically equal to zero. Therefore, the test statistics to determine the statistical significance of CAARs can be expressed as the following ratio *(Mallikarjunappa & Panduranga, 2013)*:

$$Test\ statistics = \frac{CAAR}{(6_{AAR_t} * \sqrt{T})}$$

Where :

- T is the number of days over which AARs are cumulated in the event window
- CAAR is the cumulative average abnormal return: $CAAR = \sum_{t=1}^{T} AAR_t$
- 6_{AAR_t} = standard deviation of AAR_t (T here equals the number of estimation period days):

$$6_{AAR_t} = \sqrt{\frac{\sum_{t=1}^{T}(AAR_t - \overline{AAR})^2}{(T-d)}}$$

Critical Discussion

Especially event date clustering causing cross-sectional correlation is supposed to negatively influence test results *(Boehmer et al., 1991)*. However, as mentioned in *point 4.2.4* overlapping event windows have been excluded from all samples benefitting the test assumptions that residuals are uncorrelated and that event induced variance is insignificant. Furthermore, as the event window with 21 trading days is relatively short in comparison to the estimation period with 255 trading days time series dependence can be considered as a rather unimportant factor *(Binder, 1998)*. Finally, in accordance to the approach of *Bhagat et al. (2011)* winsorization was conducted at the 1% level. More precisely, the top 1% extreme values obtained were excluded from the sample and the calculation of AARs, CAARs and 6_{AAR_t} in order to reduce the harmful effect of spurious outliers.

4.3 OLS-Regression

A regression analysis is conducted in order to determine which contextual factors influence the value creation patterns observed in the event study in each of the three samples namely "domestic emerging markets", "outbound emerging markets" as well as "inbound emerging markets" (*Exhibit 6*). In the following an overview about cross-sectional regressions is provided, followed by the introduction of the dependent variable as well as the description of the selected explanatory variables. Finally, the combined regression model is presented.

4.3.1 Cross-Sectional Regression Model

In order to examine the association of the abnormal return magnitude and specific characteristics of the event observation a cross-sectional regression model can be applied. Therefore, a cross-sectional regression of the abnormal returns on the characteristics of interest is conducted *(MacKinlay, 1997)*. For a sample comprising N abnormal return observations and M characteristics of interest the regression model can be described as *(MacKinlay, 2000)*:

$$CAR_j = \mathit{6}_0 + \mathit{6}_{1x_{lj}} + \ldots + \mathit{6}_{M^xMj} + \eta_j$$

Where :

- CAR$_j$ is the jth cumulative abnormal return observation
- x$_{mj}$,m = 1, . . . , M, are M characteristics for the jth observation
- η_j is the zero mean disturbance term uncorrelated with x's
- $\mathit{6}_m$, m = 0,...,M are the regression coefficients

4.3.2 Dependent Variable

The dependent variable in the cross-sectional regression model is the cumulative abnormal return (CAR) obtained at day ten post the acquisition in the event window comprising 21 trading days around the event date (-10,+10).

As described in *point 4.2.5* the cumulative abnormal return (CAR$_{T1T2}$) between days T$_1$ and T$_2$ is the sum of the abnormal returns of the security of firm i between the days T$_1$ and T$_2$:

$$CAR_i(T_1T_2) = \sum_{t=T_1}^{T_2} AR_{iT}$$

4.3.3 Explanatory Variables

The choice of explanatory variables is mainly based on the analysis of previously discussed research focusing on the value impact of M&A announcements on acquiring companies (refer to *point 2.2.4*). Additionally, the choice is limited to variables for which the necessary input data is accessible in the Thomson SDC Database (refer to *point 3.2*). In the following a short description of the variables included in the regression model is provided, while the expected influence of these variables on the value creation is expressed in hypotheses.

Relative Deal Size

The variable "relative deal size" is defined as the announced deal value divided by the market value of the acquiring firm as of the event day. According to *Moeller & Schlingemann (2005)* and *Feito-Ruiz & Menéndez-Requejo (2011)* there is a positive correlation between the value of the deal and post-acquisition value creation for acquiring companies (refer to *point 2.2.4*). Therefore, it is assumed that a higher value transaction in relation to the bidding company's market value lead on average to a higher CAR for the acquirer.

Hypothesis 5:   *There is a positive correlation between CAR and relative deal size.*

Corporate Control

The explanatory variable "corporate control" is defined as the announced percentage of ownership acquired by the bidding firm. As previously discussed in *point 2.2.4* a positive correlation between the ownership stake and bidding firm's value creation is suggested due to less risk for the acquiring company to be expropriated by the management in case of high corporate control *(Chari et al. 2004, La Porta et al., 1998)*. Therefore, hypothesis 6suggests that higher percentage of ownership obtained leads also to higher CAR for the acquiring firm.

Hypothesis 6:   *There is a positive correlation between CAR and corporate control.*

Payment Method

A distinction is made between three different payment methods namely "cash", "stock" and "combined" (stock and cash). Therefore, a categorical variable comprising three categories is established where one of the three categories is classified as control group and for the remaining two categories dummy variables are defined. Through the obtained regression coefficients a decision can be made whether the impact of each dummy on the CAR is higher or below the influence of the control group *(Al Masud & den Hertog, 2014)*. The dummy variables can be defined as illustrated in *Exhibit 12*:

Exhibit 12 – Dummy Variables Payment Method

"Cash"	**1** if only cash as payment method
	0 if otherwise
"Stock"	**1** if only stock as payment method
	0 if otherwise

As discussed in *point 2.2.4* a combined payment method is expected to be superior in terms of acquiring company's shareholder value generation in comparison to all-cash or all-stock bids (*Eckbo et al., 1990)*. Whereas all cash-bids suffer from taxes on capital gains to be paid by the target shareholders, information asymmetry is the major drawback of all-stock deals *(Feito-Ruiz & Menéndez-Requejo, 2011)*. Therefore, it is assumed that deals with a combined payment method have a more positive influence on the CAR than r cash-only and stock-only bids.

Hypothesis 7a: *For M&A announcements with cash as payment method the CAR is lower than for announcements with the combined payment method.*

Hypothesis 7b: *For M&A announcements with stock as payment method the CAR is lower than for announcements with the combined payment method.*

Legal Status of Target Company

To test the impact of the legal status of the target company a categorical variable is established where a dummy variable for public listed firms is defined with the control category consisting of non-public target entities as indicated in *Exhibit 13*.

Exhibit 13 – Dummy Variable Legal Status

"Public"	**1** if public listed target company at event day
	0 if otherwise

According to *Bradley & Sundaram (2004)* the legal status of the target company has an influence on the post-acquisition valuation of the acquiring firm. More precisely, a privately held target company on average negatively influences the shareholder value of the acquirer possibly due to information asymmetries arising from lower disclosure requirements (refer to *point 2.4.2*). Therefore, it is assumed that the acquisition of a public listed target has a more positive influence on the CAR than the acquisition of a non-public listed target.

Hypothesis 8:   *For M&A announcements with public listed target companies the CAR is higher than for announcements with non-listed target companies.*

Exhibit 38 (*Appendix*) provides an overview about all stated hypotheses in this thesis.

4.3.4 Final Regression Model

The following multiple regression model is applied in order to determine the impact of the explanatory factors described in *point 4.3.2* on the dependent variable CAR:

$$CAR_j = \alpha + \beta_1\, Rel.\, DealSize + \beta_2 Corp.\, Control + \beta_3 Cash + \beta_4 Stock + \beta_5 Public + \eta_j$$

Additionally, similar to the approach of *Bhagat et al. (2011)* winsorization was conducted at the 5% level. More precisely, statistics were transformed through the limitation of extreme values in order to reduce the effect of spurious outliers.

5. Empirical Findings and Analysis

The following chapter first presents and analyzes descriptive statistics about the samples and subsamples. In a second step, the empirical findings with reference to the developed hypotheses are illustrated, discussed and interpreted. Finally, the results obtained in the OLS-regressions are presented and debated.

5.1 Descriptive Statistics

Descriptive statistics was performed for each of the three individual samples *(Exhibit 6)*. More precisely, first the sample size for the three samples and the six subsamples is provided. Then the distribution per country is explained and illustrated, followed by the distribution per industry. Finally the deal time period as well as the distribution between industry diversifying and focused transactions is presented.

5.1.1 Sample Size

After consolidating all samples 1,434 M&A announcements are included in the aggregated total sample. As specified in *Exhibit 14* a distinction is made between three samples which are further decomposed into six subsamples.

Exhibit 14 – Sample and Subsample Size
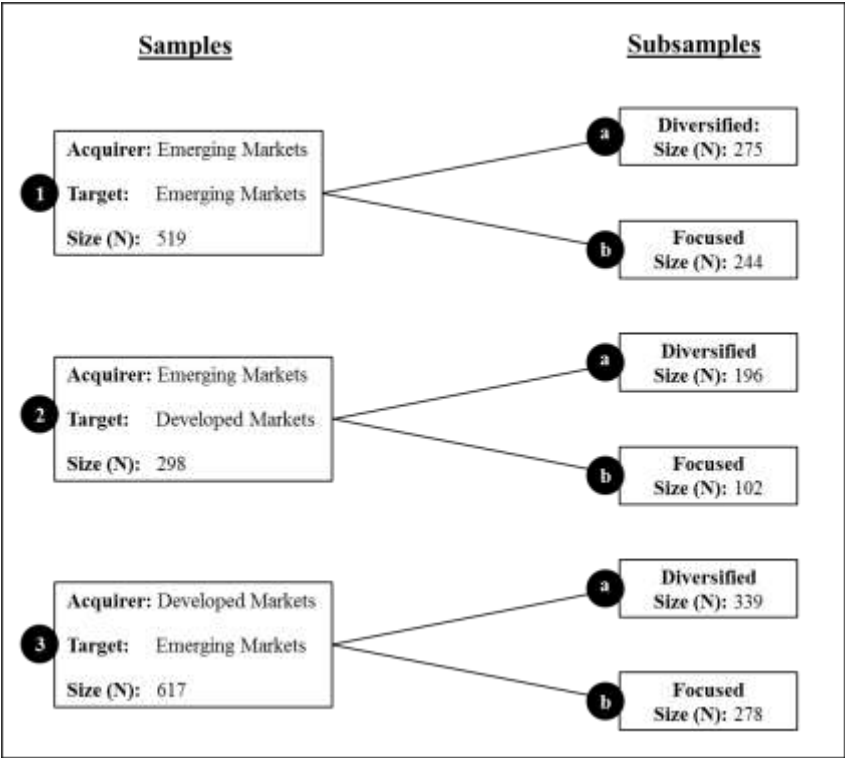
Samples

For sample 1 with acquiring and target companies coming from emerging markets, also classified as "domestic emerging market" sample, 519 transaction announcements are considered. Sample 2 with acquiring company coming from emerging countries and target companies from developed countries, classified as "outbound emerging market" sample, contains 298 takeover announcements. Furthermore, sample 3 with acquirers from developed countries and target companies from emerging countries, classified as "inbound emerging market" comprises 617 M&A announcements (*Exhibit 14*).

Subsamples

By further decomposing the three samples into six subsamples through differentiation between industry diversifying and focused transactions, subsample 1a referring to "diversifying domestic emerging market" and subsample 1b classified as "focused domestic emerging market" comprise 275 and 244 takeover announcements respectively. Subsample 2a classified as "diversifying outbound emerging market" and subsample 2b referring to "focused outbound emerging market" include 196 and 102 transaction announcements respectively. Finally, subsample 3a classified as "diversifying inbound emerging market" and sample 3b or "focused inbound emerging market" sample contain 339 and 278 M&A announcements respectively (*Exhibit 14*).

Critical Discussion

According to *Kengelbach et al. (2013)* in key emerging markets such as Brazil, Russia, India and China (BRIC) the number of inbound cross-border deals exceeded the number of outbound cross-border deals in the period from 2010 until 2012 supporting the sizes obtained in our outbound sample 2 and inbound sample 3. However, while in India the number of inbound transactions in the period of 2010 until 2012 also exceeded local transactions supporting the larger size of outbound sample 3 in contrast to the domestic sample 1, in Brazil, Russia and China local transactions are the predominant M&A type contradicting our findings. Especially the fact that in this thesis domestic transactions are defined as transaction with both parties coming from emerging market countries but not necessarily from the same country might explain this deviation. Furthermore, the exclusion of deals below $20 million transaction value is likely to negatively affect the size of the "domestic emerging market" sample 1, whereas "inbound emerging markets" M&A contained in sample 3 are supposed to have a larger transaction value and thus are less affected. According to *Khandewal et al. (2015)* the average deal value for a domestic Indian transaction amounted to $14.1 million in

2013, whereas the average inbound cross-border transaction value was almost five times larger with $67.7 million in 2013.

5.1.2 Average Daily Returns

Exhibit 37 provides an overview about descriptive statistics for acquiring companies' daily returns across all samples and subsamples for both the estimation and the event window.

Domestic vs. Inbound vs. Outbound

Exhibit 37 illustrates that on an aggregated basis both "domestic emerging markets" (*Panel A*) acquiring firms as well as "inbound emerging markets" (*Panel C*) acquiring firms achieve within the event window a higher mean daily average return than in the estimation period. More precisely, the mean daily average return for *Panel A* and *Panel C* acquiring companies in the estimation period is 0.09% and 0.07% respectively, whereas the referring mean daily return in the event window assumes a value of 0.22% and 0.12% respectively. In contrast to that "outbound emerging markets" (*Panel B*) acquiring firms achieve on an aggregated basis a mean daily average return in the event window of 0.07%, whereas in the estimation period the referring mean daily average return with 0.06% is slightly lower.

Furthermore, for acquiring firms of *Panels A,B* and *C* on a aggregated basis the minimum average daily return within the the estimation period is with -0.36%, -0.35% and -0.32% respectively more negative than in the event window with -0.11%, -0.21% and -0.23% respectively. Additionally, on an aggregated basis the maximum daily average return within the event window for acquiring companies in *Panels A−C* is with 0.64%, 0.67% and 0.96% respectively higher than in the estimation period with 0.57%, 0.63% and 0.38% respectively.

Moreover, *Exhibit 37* illustrates that on average the skewness coefficient of the daily average returns in the estimation period for acquiring companies of *Panel A, B* and *C* is 0.00, 0.01 and -0.08 respectively, indicating a very small right-skewed distribution for *Panel B* daily average returns and a slightly left-skewed distribution for *Panel C* daily average returns. In contrast to that daily average returns in the event window for *Panels A, B* and *C* follow a slightly right-skewed distribution and the skewness coefficient assumes positive values with 0.13, 1.19 and 1.87.

Exhibit 37 reveals that on average, excess kurtosis is smaller than 3 (negative excess kurtosis) for *Panel A, B* and *C* acquiring companies' daily average returns in the estimation period with 0.05, -0.12 and 0.07 indicating a platykurtic distribution. In the event window negative excess

kurtosis with -0.81 and 0.84 is also obtained for *Panel A* and *B*, whereas a slightly leptokurtic distribution is obtained for *Panel C* daily average returns with a value of 4.62.

In the following the question is addressed how these descriptive statistics can be interpreted in relation to the first three hypotheses formulated. However, since descriptive statistics relates to average daily returns while abnormal returns are addressed only in *point 5.2* no final conclusion can be drawn and merely assumptions on the following analysis are provided:

Hypothesis 1:   *The CAAR for the acquirer in the short term around the announcement date is larger or equal to zero.*

While the descriptive statistics presented in *Exhibit 37* support this hypothesis for *Panel A* and *Panel C* acquiring companies, *Panel B* acquiring firms engaged in *"outbound emerging markets"* acquisitions seem to destroy shareholder value indicated by a decrease in the mean daily average return of 0.07% in the estimation period to 0.06% in the event window.

Hypothesis 2:   *The CAAR for acquirers engaged in outbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets engaged in domestic emerging markets M&A.*

According to the results obtained in *Exhibit 37* the opposite has to be assumed. Whereas for acquiring companies engaged in "domestic emerging markets" (*Panel A*) bidding firms the mean daily average return increases from the estimation period with 0.09% to 0.22% in the event window, for "outbound emerging markets" acquiring firms a decrease from 0.07% to 0.06% in referring period can be observed.

Hypothesis 3:   *The CAAR for acquirers from developed markets in inbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets in outbound emerging markets acquisitions.*

Descriptive statistics of the referring samples in *Exhibit 37* supports the hypothesis. Whereas for "outbound emerging markets" acquiring companies the mean daily average return decreases from the estimation to the event window, for "inbound emerging markets" acquiring firms from developed countries a small increase from 0.07% in the estimation period to 0.12% in the event window is observed.

Diversifying vs. Focused

Whereas for acquiring companies in *Panels A,B* and *C* engaged in an industry diversifying takeover the mean daily average return increases from 0.11%, 0.07% and 0.07% respectively in the estimation window to 0.23%, 0.10% and 0.16% respectively in the event window, a similar pattern for focused transactions can only be observed for acquirers engaged in "domestic emerging markets" transactions with an increase from 0.08% to 0.20%. For industry focused takeovers and *Panel B* and *C* acquiring companies a decrease in the mean daily average return from the estimation period with 0.08% and 0.06% respectively to -0.01% and 0.04% occurs (*Exhibit 37*).

Furthermore, for acquiring companies, independent on the *Panel* and on a diversifying or focused M&A strategy, the minimum daily average return increases from the estimation to the event window (*Exhibit 37*).

For industry diversifying M&A strategies the maximum daily average return increases only for emerging markets inbound and outbound acquirers from 0.76% and 0.64% respectively in the estimation window to 1.10% and 1.35% respectively in the event window, whereas for domestic emerging markets bidding firms the maximum daily average return decreases from 0.83% to 0.68% (*Exhibit 37*).

For industry focused M&A strategies the maximum daily return behaves exactly the opposite. More precisely, while for domestic emerging markets acquiring companies engaged in industry focused transactions the maximum daily average return increases from 0.70% in the estimation window to 0.77% in the event window, for *Panel B* and *C* acquirers engaged in emerging market inbound and outbound focused M&A it decreases from 0.83% and 0.88% respectively to 0.58% and 0.74% respectively (*Exhibit 37*).

In the following it is outlined how these finding relate to the hypotheses developed focusing on the value impact of industry diversifying and focused takeovers.

Hypothesis 4a: *The CAAR for acquirers from emerging markets engaged in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.*

Based on the results presented in *Exhibit 37* hypothesis 4a can be supported. Whereas for outbound emerging markets acquirers following an industry diversifying M&A strategy mean daily average return increase from 0.07% in the estimation window to 0.10% in the event

window, for the referring acquiring firms following a focused M&A strategy the referring return decreases from 0.08% to -0.01%.

Hypothesis 4b: *The CAAR for acquirers from developed markets engaged in industry diversifying emerging markets inbound acquisitions is larger than the CAAR in industry focused inbound acquisitions.*

The descriptive statistics illustrated in *Exhibit 37* supports hypothesis 4b. While for inbound emerging markets acquirers following an industry diversifying M&A strategy the mean daily average return increases from 0.07% in the estimation window to 0.16% in the event window, for the referring acquiring companies engaged in a focused M&A strategy the referring return decreases from 0.06% to 0.04%

Hypothesis 4c: *The difference between industry diversifying and focused CAARs is larger for outbound acquirers from emerging markets than for inbound bidding companies from developed markets.*

Based on the results from the descriptive statistics in *Exhibit 37* it is difficult to make further assumptions regarding hypothesis 4c. However, for inbound emerging markets bidding firms the increase for the diversifying M&A strategy in the mean daily average return from estimation to event window is larger with 0.09% than for outbound emerging markets acquirers with 0.03%. However, the decrease for the focused strategy is with -0.02% smaller than in the case of outbound emerging markets bidders with -0.09%. Therefore, the difference between diversifying and focused M&A announcements in the mean daily average returns increased for outbound bidding firms from -0.01% (=0.07-0.08%) in the event window to 0.11% (=0.10% - (-0.01%)), whereas for inbound acquirers from 0.01% (0.07%-0.06%) to 0.12% (0.16%-0.04%). Therefore, by referring to the "difference-in-difference", described by *Ashenfelter & Card (1985)* as the observation of outcomes for two groups comparing two periods, it can be stated that the difference between diversifying and focused M&A announcements in the mean daily average return for outbound acquirers rose by 0.12% (0.11%-(-0.01%)) from estimation to event window, whereas the referring difference for inbound acquirers rose to a slightly smaller extent by 0.11% (0.12%-0.01%) indicating that hypothesis 4c potentially cannot be rejected in the following (*Exhibit 37*).

5.1.3 Distribution per Target Country

Exhibit 15 provides an overview about the target companies' distribution per country for each of the three samples namely "domestic emerging markets", "outbound emerging markets" as well as "inbound emerging markets".

Samples

The first sample covering 519 emerging markets M&A announcements with acquirer and target coming from emerging markets is dominated by Chinese target companies with 42.8% of all target firms coming from this region. Other relevant target countries are South Korea (13.3%), Brazil (6.9%), Malaysia (6.6%), Russia (5.2%), India (4.2%) and Taiwan (3.1%). Sample 2 comprising in total 298 transaction announcements with acquiring firms from emerging markets and target firms from developed countries mainly includes targets from the

Exhibit 15 − Country Distribution Target Companies

Sample 1			Sample 2			Sample 3		
Domestic Emerging Markets			Outbound Emerging Markets			Inbound Emerging Markets		
Target Nation	**N**	**%**	**Target Nation**	**N**	**%**	**Target Nation**	**N**	**%**
China	222	42.8	USA	80	26.8	China	181	29.3
South Korea	69	13.3	Canada	31	10.4	Brazil	69	11.2
Brazil	36	6.9	Singapore	29	9.7	India	46	7.5
Malaysia	34	6.6	UK	29	9.7	Russia	39	6.3
Russia	27	5.2	Hong Kong	28	9.4	South Africa	35	5.7
India	22	4.2	Australia	23	7.7	Mexico	32	5.2
Taiwan	16	3.1	Italy	12	4.0	Chile	30	4.9
South Africa	14	2.7	Germany	11	3.7	Poland	30	4.9
Poland	12	2.3	Netherlands	9	3.0	Turkey	28	4.5
Indonesia	11	2.1	Japan	8	2.7	Malaysia	26	4.2
Thailand	10	1.9	Spain	7	2.3	Taiwan	24	3.9
Turkey	8	1.5	Switzerland	6	2.0	Colombia	16	2.6
Philippines	7	1.3	Austria	4	1.3	Czech Rep.	15	2.4
Chile	6	1.2	France	4	1.3	Thailand	14	2.3
Mexico	6	1.2	Denmark	3	1.0	Egypt	8	1.3
Greece	5	1.0	Finland	3	1.0	Philippines	7	1.1
Peru	4	0.8	Portugal	3	1.0	UAE	7	1.1
Colombia	3	0.6	Belgium	2	0.7	Hungary	6	1.0
Czech Rep.	2	0.4	Norway	2	0.7	Greece	4	0.6
Egypt	2	0.4	Ireland Rep.	1	0.3			
UAE	2	0.4	Isreal	1	0.3			
Qatar	1	0.2	New Zealand	1	0.3			
			Sweden	1	0.3			
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

USA (26.8%) and Canada (10.4%) followed by diverse regions including Singapore (9.7%), United Kingdom (9.7%), Hong Kong (9.4%) and Australia (7.7%). European target companies mainly come from Italy (4.0%), Germany (3.7%), the Netherlands (3.0%), Spain (2.3%) and Switzerland (2.0%). Finally, in sample 3 containing 617 takeover announcements of emerging country targets and developed country bidding firms the target companies mainly come from China (29.3%) followed by Brazil (11.2%), India (7.5%), Russia(6.3%), South Africa (5.7%), Mexico (5.2%), Chile (4.9%) and Poland (4.9%).

Critical Discussion

The fact that China is the major target for M&A activity within emerging markets is line with the country's status as biggest emerging economy, while newly industrialized emerging countries such as South Korea and Taiwan become more and more liberal towards M&A activities *(Cao, 2007)*.

Furthermore the result that Singapore and Hong Kong are among the major targets of emerging markets acquiring companies is consistent to findings of *Di Giovanni (2005)* and *Hijzen et al. (2008)* showing that geographical distance decreases investment activity. Additionally, North America and Western Europe as major target for emerging market acquiring companies confirms existing statistics about emerging markets outbound M&A activities *(Deloitte China, 2016).* According to *EY (2015)* USA, Canada, United Kingdom, Germany and the Netherlands are major target countries in cross-border transactions completed in a period from 2004 until 2013 supporting the findings in *Exhibit 15*.

Finally, the target country distribution within sample 3 is consistent to results suggested by *Luo & Tung (2007)* illustrating that emerging countries such as India, China, Brazil, South Africa, and Russia became attractive targets for foreign acquirers due to the realization of several economic reforms *(*refer to *point 1.3).* Furthermore a study conducted by *A.T. Kearney (2008)* shows that developed country acquirers engaged in inbound emerging markets M&A mainly target China, India, Poland, Brazil, Mexico and Russia.

5.1.4 Distribution per Acquiring Country

Exhibit 16 illustrates the acquiring firms' distribution per country in all of the three samples.

Samples

As expected sample 1 classified as "domestic emerging markets" including a total number of 519 takeover announcements with acquirers and target firms from emerging markets is mainly

Exhibit 16 – Country Distribution Acquiring Companies

Sample 1			Sample 2			Sample 3		
Domestic Emerging Markets			Outbound Emerging Markets			Inbound Emerging Markets		
Acquirer nation	**N**	**%**	**Acquirer nation**	**N**	**%**	**Acquirer nation**	**N**	**%**
China	221	42.6	China	66	22.1	USA	133	21.6
South Korea	72	13.9	India	55	18.5	Hong Kong	81	13.1
Brazil	33	6.4	South Africa	29	9.7	UK	72	11.7
Malaysia	31	6.0	Malaysia	23	7.7	Japan	47	7.6
Russia	26	5.0	Russia	22	7.4	France	37	6.0
India	25	4.8	South Korea	20	6.7	Canada	36	5.8
Taiwan	17	3.3	Brazil	16	5.4	Singapore	34	5.5
South Africa	15	2.9	Poland	9	3.0	Spain	28	4.5
Poland	13	2.5	Taiwan	9	3.0	Australia	20	3.2
Thailand	10	1.9	Philippines	8	2.7	Italy	19	3.1
Indonesia	8	1.5	Mexico	7	2.3	Germany	17	2.8
Philippines	8	1.5	Thailand	7	2.3	Sweden	17	2.8
Chile	7	1.3	Greece	6	2.0	Netherlands	14	2.3
Mexico	7	1.3	Colombia	4	1.3	Switzerland	11	1.8
Greece	6	1.2	Indonesia	4	1.3	Belgium	10	1.6
Turkey	6	1.2	UAE	4	1.3	Finland	9	1.5
Peru	4	0.8	Turkey	3	1.0	Norway	9	1.5
Colombia	3	0.6	Chile	2	0.7	Austria	7	1.1
Egypt	2	0.4	Egypt	1	0.3	Ireland Rep.	6	1.0
UAE	2	0.4	Hungary	1	0.3	Denmark	4	0.6
Czech Rep.	1	0.2	Peru	1	0.3	Israel	3	0.5
Hungary	1	0.2	Qatar	1	0.3	Portugal	2	0.3
Qatar	1	0.2				New Zealand	1	0.2
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

dominated by Chinese acquirers (42.6%). Additionally, acquirers from South Korea (13.9%), Brazil (6.4%), Malaysia (6.0%), Russia (5.0%) and India (4.8%) have major stakes in the sample. Bidding companies from emerging countries with target companies in developed countries in sample 2, classified as "outbound emerging markets", mainly come from either China (22.1%) or India (18.5%). Additionally, acquiring companies coming from countries such as South Africa (9.7%), Malaysia (7.7%), Russia (7.4%), South Korea (6.7%) and Brazil (5.4%) are major part of sample 2. Finally, the "inbound emerging markets" sample 3 comprises Western acquiring companies mainly coming from the USA (21.6%), United Kingdom (11.7%), France (6.0%), Canada (5.8%), Spain (4.5%) and Australia (3.2%). Additionally, bidding firms from developed markets in Asia such as Hong Kong (13.1%), Japan (7.6%) and Singapore (5.5%) are a major part of sample 3 which is probably due to their geographical proximity to the Asian emerging markets (*Exhibit 16).*

Critical Discussion

China's dominance as acquiring company in "domestic emerging markets" and "outbound emerging markets" transactions can be explained through its status as largest economy in the emerging markets indicated by approximately 3,500 companies classified as multinational, while also Russia with 1,000, India with 815 and Brazil with 220 multinational enterprises are non negligible players *(Sauvant et al., 2009).*

Furthermore, Chinese leadership among emerging markets in "outbound emerging markets" M&A activity is also based on the government's outward FDI policy system promoting and supporting Chinese companies to engage in outbound M&A activities *(refer to point 1.3).* Similar policies can be found in M&A leading emerging market countries such as India, Malaysia and Russia. Furthermore, the raise of "sovereign wealth funds" which are state owned investment funds increasingly engaged in foreign equity investments and growing especially in countries such as Russia, Malaysia, China and India explains the relatively high outbound M&A deal activity of these countries *(A.T. Kearney, 2008).*

The large share of Asian developed markets such as Japan, Hong Kong and Singapore is in accordance with findings of *Di Giovanni (2005)* and *Hijzen et al. (2008)* indicating that M&A activity is negative correlated to geographical distance. Furthermore, the country distribution in sample 3 confirms the early path of internationalization for multinational enterprises coming mainly from advanced markets in the US, Europe and Japan as well as from more recently industrialized economies such as Singapore and Hong Kong *(Luo & Tung, 2007)*.

5.1.5 Distribution per Target Industry

Exhibit 17 provides an overview about the industry distribution of the target companies analyzed in all of the three samples.

Samples

In sample 1 covering 519 *"domestic emerging market"* transaction announcements the target companies are mainly operating in the Industrials (14.6%), Materials (14.5%), High-Technology (14.1%) and the Financials (12.1%) industries, whereas e.g. the Consumer Products (3.9%) and Retail (3.7%) industries are less represented. For the 298 "outbound emerging markets" M&A announcements in sample 2 targets mainly come from the Materials (22.5%), High-Technology (16.1%), Financials (14.1%), Industrials (9.7%), Energy (9.4%) and Consumer Staples (8.7%) segments. Finally, the 617 takeover announcements of developed countries acquirers purchasing emerging market target firms included in sample 3

Exhibit 17 – Industry Distribution Target Companies

Sample 1			Sample 2			Sample 3		
Domestic Emerging Markets			Outbound Emerging Markets			Inbound Emerging Markets		
Target industry	**N**	**%**	**Target Industry**	**N**	**%**	**Target Industry**	**N**	**%**
Industrials	76	14.6	Materials	67	22.5	Materials	118	19.1
Materials	75	14.5	High-Tech	48	16.1	Financials	88	14.3
High-Tech	73	14.1	Financials	42	14.1	Industrials	72	11.7
Financials	63	12.1	Industrials	29	9.7	Consumer Staples	64	10.4
Energy	40	7.7	Energy	28	9.4	Energy	61	9.9
Consumer Staples	37	7.1	Consumer Staples	26	8.7	High-Tech	57	9.2
Real Estate	36	6.9	Consumer Products	17	5.7	Consumer Products	39	6.3
Media&Entertainm.	28	5.4	Healthcare	13	4.4	Healthcare	31	5.0
Healthcare	27	5.2	Retail	12	4.0	Media&Entertainm.	23	3.7
Telecommunication	25	4.8	Real Estate	7	2.3	Retail	22	3.6
Consumer Products	20	3.9	Media&Entertainm.	5	1.7	Real Estate	21	3.4
Retail	19	3.7	Telecommunications	4	1.3	Telecommunications	21	3.4
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

mainly comprise target firms operating in industries such as Materials (19.1%), Financials (14.3%), Industrials (11.7%), Consumer Staples (10.4%), Energy (9.9%) and High-Technology (9.2%) (*Exhibit 17*).

Critical Discussion

In sum there is a very similar target firm industry distribution across all three samples with takeovers of companies mainly operating in the Industrials, Materials, High-Technology, Financials, Energy and Consumer Staples industries *(Exhibit 17)*. This is in line with a study conducted by *A.T. Kearney (2008)* suggesting that acquirers from both emerging and developed markets target the same industries when engaging in cross-border acquisitions.

According to the Emerging Markets M&A Review conducted by *Andrade (2015)* target companies in "domestic emerging markets" M&A mainly come from the Industrials, Financials, Energy and Power as well as the High-Technology industries supporting the targets' industry distribution in sample 1 illustrated in *Exhibit 17*.

Furthermore, *Bhagat et al. (2011)* show that in a period from 1991 until 2008 major target industries from emerging market acquirers engaged in outbound M&A are the Financials, Materials and Consumer Staples segments which is consistent to the distribution found in sample 2 (*Exhibit 17)*. Similar results are obtained for Chinese outbound M&A activities

published by *Deloitte (2016)* showing that Technology, Manufacturing and Consumer Business assets were the most attractive in mature markets for Chinese outbound investors.

The target company industry distribution obtained for sample 3 (*Exhibit 17*) is confirmed by a study conducted by *Jian et al. (2012)* indicating that developed country acquiring firms especially focus on Chinese targets from the Materials, Energy, High-Technology and Industrial industries.

5.1.6 Distribution per Acquiring Industry

Exhibit 18 illustrates the acquiring firms' industry distribution in all of the three samples.

Exhibit 18 – Industry Distribution Acquiring Companies

Sample 1 Domestic Emerging Markets			Sample 2 Outbound Emerging Markets			Sample 3 Inbound Emerging Markets		
Acquirer industry	N	%	Acquirer Industry	N	%	Acquirer Industry	N	%
Materials	83	16.0	Materials	65	21.8	Materials	121	19.6
Industrials	80	15.4	High-Tech	54	18.1	Financials	83	13.5
High-Tech	65	12.5	Industrials	34	11.4	Industrials	75	12.2
Financials	61	11.8	Energy	31	10.4	Consumer Staples	69	11.2
Consumer Staples	43	8.3	Consumer Staples	28	9.4	Energy	64	10.4
Energy	41	7.9	Financials	26	8.7	High-Tech	59	9.6
Real Estate	29	5.6	Healthcare	18	6.0	Healthcare	34	5.5
Telecommunication	29	5.6	Consumer Products	17	5.7	Consumer Products	28	4.5
Healthcare	27	5.2	Retail	9	3.0	Telecommunications	28	4.5
Media&Entertainm.	23	4.4	Real Estate	7	2.3	Real Estate	22	3.6
Consumer Products	19	3.7	Media&Entertainm.	5	1.7	Retail	17	2.8
Retail	19	3.7	Telecommunication	4	1.3	Media&Entertainm.	16	2.6
						Government Agency	1	0.2
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

Samples

Acquiring companies included in sample 1 focusing on 519 "domestic emerging markets" M&A announcements are mainly operating in the Materials (16.0%), Industrials (15.4%), High-Technology (12.5%), Financials (11.8%), Consumer Staples (8.3%) and Energy (7.9%) industries. In sample 2 comprising 298 "outbound emerging market" takeover announcements acquiring companies are especially coming from the Materials (21.8%) and High-Technology (18.1%) industries followed by the Industrials (11.4%), Energy (10.4%), Consumer Staples (9.4%) and the Financials (8.7%) segments. Finally, in sample 3 containing 617 "inbound emerging market" transaction announcements acquiring companies are mainly operating in

the Materials (19.6%) segment followed by Financials (13.5%), Industrials (12.2%), Consumer Staples (11.2%), Energy (10.4%) and High-Technology (9.6%) industries (*Exhibit 18).*

Critical Discussion

To summarize, industry distribution for acquiring companies is very homogeneous across the three samples with major industries comprising the Industrials, Materials, High-Technology, Financials, Energy and Consumer Staples industries (Exhibit *18*). A research report published by *Dunne et al. (2012)* illustrates that especially acquiring companies from the High-Technology, Financials, Consumer Products and Services industries engage in both "domestic emerging markets" and "outbound emerging markets" M&A which is consistent with the findings obtained in sample 1 and 2 presented in *Exhibit 18.*

Furthermore, in line with the results obtained for sample 3 (*Exhibit 18*), a study conducted by *EY (2015)* shows that US acquiring companies engaged in cross-broder transactions mainly come from the Financials, Industrials, Healthcare, High-Technology, Consumer Staples and Materials industries.

5.1.7 Time Distribution

Exhibit 19 presents the time distribution of M&A announcements in all of the three samples.

Exhibit 19 – Deal Distribution Over Time

| Sample 1 | | | Sample 2 | | | Sample 3 | | |
| Domestic Emerging Markets | | | Outbound Emerging Markets | | | Inbound Emerging Markets | | |
Time Period	**N**	**%**	**Time Period**	**N**	**%**	**Time Period**	**N**	**%**
2012−2016	216	41.6	2012−2016	109	36.6	2012−2016	124	20.1
2008 −2012	153	29.5	2008 −2012	90	30.2	2008 −2012	199	32.3
2004−2008	99	19.1	2004−2008	75	25.2	2004−2008	188	30.5
2000−2004	51	9.8	2000−2004	24	8.1	2000−2004	106	17.2
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

Samples

For sample 1 and 2 both referring to M&A activities initiated by acquiring companies from emerging markets the M&A announcement frequency increases with time. More precisely, in the period from 2012−2016 a larger number of transaction announcements with 216 and 109 for sample 1 and sample 2 respectively is observed compared to the first period from

2000−2004 with 51 and 24 for sample 1 and sample 2 respectively. For sample 3 and "inbound emerging markets" M&A announcements a different pattern occurs. While for the first three periods from 2000 −2012 an increase in deal frequency is observable, there is a slowdown of almost -37.7% in the deal frequency comparing the period 2008−2012 with the latest period from 2012−2016 (*Exhibit 19*).

Critical Discussion

In accordance to the time distribution shown in sample 1 and 2 (*Exhibit 19*) research results indicate high growth rates for both domestic and outbound M&A emerging market activities. A study conducted by *Kengelbach et al. (2013)* illustrates that the value of M&A transactions with emerging markets involvement increased from $250 billion in the year 2000 to $400 billion in the year 2012, while especially in China, Brazil and Russia local domestic transactions are the predominant transaction type with 62%, 61% and 56% of total M&A. Additionally, a study from *KPMG (2016)* suggests ongoing growth in the number of transactions comprising both acquirer and target coming from emerging markets with an increase of 25% from 2014 to 2015.

According to *Bhagat et al. (2011)* emerging markets outbound cross border M&A value increased from $37 billion in 2004 to $182 billion in 2008 equaling a growth of 392% and confirming the time distribution findings for sample 2 presented in *Exhibit 19*. Furthermore, outbound emerging market M&A continues to grow especially driven by the activity of Central Eastern European (CEE), Russian and Chinese acquiring firms *(KPMG, 2016)*. According to *KPMG (2016)* the slower growth rates in China, the low interest rate environment in the USA in combination with continuing political uncertainties in emerging countries such as Russia and Brazil currently prevents developed markets investors from acquiring emerging market targets. Especially in China, the key target country for developed countries acquirers (*Exhibit 19*) flight of capital, fluctuating inflation, rising labor costs as well as the uncertainty related to the regulatory approval system lead to a decrease in inbound cross-border M&A activities *(Dusek et al., 2013)*.

5.1.8 M&A Strategy Distribution

Exhibit 20 illustrates the distribution between industry diversifying and focused M&A announcements in all of the three samples.

Exhibit 20 – Distribution of M&A Strategies

Sample 1			Sample 2			Sample 3		
Domestic Emerging Markets			Outbound Emerging Markets			Inbound Emerging Markets		
M&A Form	**N**	**%**	**M&A Form**	**N**	**%**	**M&A Design**	**N**	**%**
Diversified	375	72.3	Diversified	201	67.4	Diversified	390	63.2
Focused	144	27.7	Focused	97	32.6	Focused	227	36.8
Total	**519**	**100.0**	**Total**	**298**	**100.0**	**Total**	**617**	**100.0**

Samples

Sample 1 comprising "domestic emerging markets" M&A announcements includes with 72.3% a significantly higher portion of industry diversifying takeover announcements than focused with 27.7%. Similar but slightly less extreme results are obtained for sample 2 with 67.4% of all transaction announcements being diversifying and 32.6% being industry focused. Finally, sample 3 including "inbound emerging markets" M&A announcements shows the smallest difference in the distribution among industry diversifying and focused takeover announcements with 63.2% and 36.8% respectively (*Exhibit 20*).

Critical Discussion

The findings are in accordance with existing research indicating that especially emerging markets companies being in the initial stage of diversification benefit from an increase in market power while the lack of financial and market intermediaries in combination with a weak legal and institutional environment triggers the industry diversification needs (refer to *point 2.4.2)*. Since developed markets companies usually do not suffer from these imperfections in the governmental and market systems, they rather seek for efficiency improvements in related industries explaining the relatively low share of industry diversifying M&A announcements in sample 3 compared to sample 1 and 2 (*Exhibit 20*).

5.2 Main Findings

In this chapter, first results obtained in the event study, referring to the general impact of acquisition announcements on value creation in the aggregated total sample, are presented and analyzed, followed by a distinction between outbound and domestic emerging markets as well as between outbound and inbound emerging markets. In a next step, the impact of an industry diversification strategy is compared with the impact of an industry focused M&A strategy.

5.2.1 General Value Impact of M&A Announcements

Exhibit 39 (Appendix) presents both average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) of acquiring firms in the total aggregated sample during the event window period, while comparing AARs and CAARs obtained through the market model with AARs and CAARs calculated through the constant mean model.

Average Abnormal Returns (AARs)

Results suggest that especially around the event day (day zero) the AARs in both the market and the constant mean model assume positive values significant different from zero on the level of 1%. These positive AARs assume higher values for the market model with 0.32%, 0.65% and 0.50%, while also stretching over a longer period starting two days prior to the event until day one post the event (-2, +1). In the first days of the event window (-10,-3) prior to the M&A announcement both models do with one exception not indicate statistically significant AARs suggesting that there is no clear value impact of the M&A announcement in this period of trading days (*Exhibit 39* in *Appendix*). Similar results are obtained in the end of the event period (+4, +10) post the acquisition announcement implying that the value impact of the M&A announcement is limited to a short period around the event day (-2, +1). The fact that AARs are already observed two days prior to the actual announcement of the takeover is frequently observed in similar studies *(e.g. Akben-Selcuk, 2014; Bhagat et al.*, 2011; *Schipper & Thompson, 1983*). The reason is very likely potential leakage of information since a large fraction of the sample comprises acquiring companies listed in developing markets with a weaker legal and institutional system *(Peterson 1989)*.

Cumulative Average Abnormal Returns (CAARs)

The development of the acquiring firms' CAAR obtained through both the market and the constant mean model in the event window for the aggregated sample is illustrated in *Exhibit 21*. Additionally, the referring values and significance tests are presented in *Exhibit 39 (Appendix)*. The results presented in *Exhibit 39 (Appendix)* suggest that the CAAR for acquiring firms in the aggregated sample over the event period of 21 trading days (-10, +10) assumes a positive value of 1.69% and 1.38% ten days post the acquisition announcement in the market and the constant mean model respectively. However, the CAAR is statistically significant on the level of 1% only in the case of the market model, whereas for the constant mean model no statistical significance is obtained. The CAAR is in both models driven by abnormal daily returns achieved in a period (-1,+1) within the event window, whereas in the beginning of the event period (-10, -2) and in the end of the time frame (+2,+10) the CAAR is

Exhibit 21 − CAAR Development for Aggregated Sample
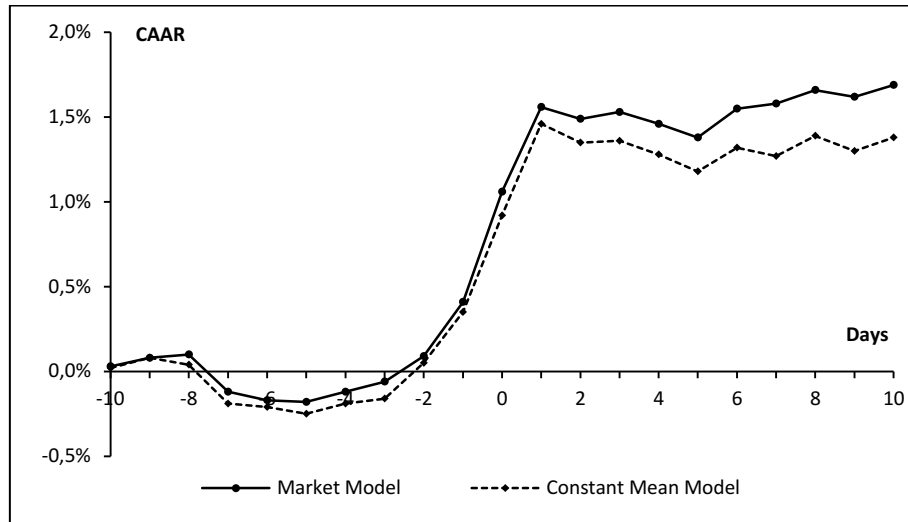
Presented are the cumulative abnormal daily returns (CAARs) for acquiring companies in the aggregated sample. It is distinguished between the CAARs obtained through the market model and trough the constant mean model. The 21-days event window is presented on the horizontal axis.

more or less stable indicated by not significant abnormal returns *(Exhibit 21; Exhibit 39 in Appendix).*

Hypothesis Decision

Therefore, based on the empirical findings presented hypothesis 1 concerning the transaction announcement impact on the acquiring company's shareholder value cannot be rejected.

Hypothesis 1: *The CAAR for the acquirer in the short term around the announcement date is larger or equal to zero.*

More precisely, the more sophisticated market model suggests a positive CAAR on day ten post the acquisition announcement for the acquiring companies of 1.69 statistically significant on the 1% level. Therefore, acquirers in the aggregated sample on average create shareholder value through M&A announcements in the short term around the event date. In our aggregated sample this value creation is mainly limited to a period of three event period trading days starting one day one prior to the event and ending one day post the event (-1, +1).

Critical Discussion

These findings can contribute to the contradictory results in existing literature about the value creation of M&A for acquiring companies (refer to *point 2.2.3*). Since to a large extent the sample of this thesis contains emerging market acquirers and both most recent studies as well

as research about emerging market bidding firms suggests value creation, the confirmation of hypothesis 1 is consistent to current research in this field *(e.g. Aybar & Thanakijsombat, 2015; Chari et al., 2004; Jain et al., 2014; Tauseef & Nihast, 2014)*. Furthermore, the sophistication of the market model in comparison to the simple constant mean model as suggested by *MacKinlay (1997)* can be confirmed. For both, AARs and CAARs the market model yields to a higher quantity of statistically significant results that are additionally consistent and thus validated with results of comparable research studies.

5.2.2 Domestic vs. Outbound M&A

Exhibit 40 (Appendix) presents AARs and CAARs for acquiring companies engaged in "domestic emerging markets" (*Panel A*) and "outbound emerging markets" (*Panel B*) M&A during the event window period, while comparing daily AARs and CAARs obtained through the market model with AARs and CAARs calculated through the constant mean model.

Average Abnormal Returns (AARs)

The results suggest that *Panel A* acquiring firms with the market model approach benefit from statistically significant positive AARs in the short term prior and post the event day (-2,+1) as well as to the end of the event window period post the acquisition announcement (+6,+8), whereas acquiring companies engaged in "outbound emerging markets" M&A solely achieve positive AARs significant different from zero in a period of one day prior to the event day until one day post the acquisition announcement (-1,+1). The results are almost similar for the constant mean model, while the AARs tend to assume lower values and are less statistically significant (*Exhibit 40* in *Appendix*). However, independent on the model applied for both *Panel A* and *Panel B* acquiring companies the highest and most statistically significant AARs are achieved on the M&A announcement day with 0.61% and 0.55% as well as 0.72% and 0.60% respectively.

Cumulative Average Abnormal Returns (CAARs)

Exhibit 22 illustrates the development of both *"domestic emerging markets"* as well as *"outbound emerging markets"* acquiring firms' CAARs during the event window period with application of the market model, whereas *Exhibit 23* presents the referring information with use of the constant mea model.Additionally, the referring exact values and significance statistics are provided in *Exhibit 40 (Appendix)*. The results in *Exhibit 40 (Appendix)* suggest that the CAAR for "domestic emerging markets*"* acquiring companies over the event window of 21 trading days (-10, +10) assumes a positive value statistically significant on the 1% level

Exhibit 22 − Market Model CAARs Domestic and Outbound
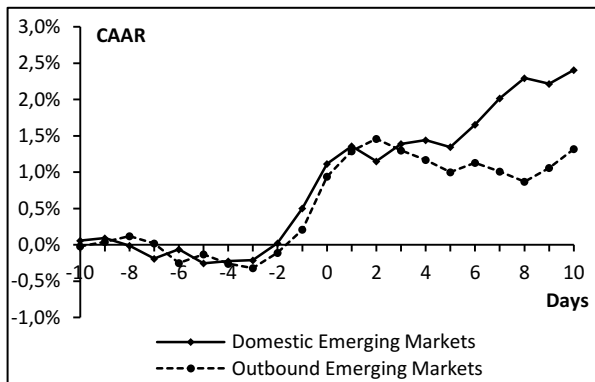
Exhibit 23 – Constant Mean CAARs for Domestic and Outbound
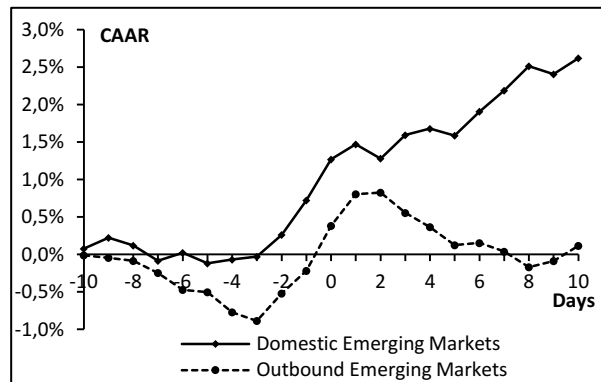
of 2.41% in the market and 2.62% in the constant mean model. In contrast to that, "outbound emerging markets" acquiring firms achieve in the same period a considerable smaller and statistically not significant CAAR of 1.32% in the market and 0.12% in the constant mean model.

Exhibit 22 illustrating a comparison between CAARs for "domestic emerging markets" and "outbound emerging markets" acquiring firms within the event window obtained through the market model suggests that the CAARs for both types of acquirers develop similar around values of zero in a period from ten to two trading days prior to the event day (-10,-2), whereas in the following period of the event window (-1,+2) the CAARs for both type of acquirers similarly increase up to statistically significant values on a 5% level of 1.15% and 1.46% respectively on day two post the acquisition announcement. However, in the remaining event period (+3, +10) "domestic emerging markets" acquirers' CAARs constantly increase up to a value of 2.41% statistically significant from zero on a 1% level at day ten post the acquisition announcement, whereas "outbound emerging markets" acquiring companies' CAARs slightly decrease to a value of 1.32% not statistically significant different from zero (*Exhibit 22*; *Exhibit 40* in *Appendix*)

Exhibit 23 relating to CAARs calculated with the constant mean model illustrates slightly different results and suggests that CAARs for both type of acquirers only develop similar around values of zero until seven days prior to the event day (-10,-7). In the following period (-6,-3) "outbound emerging markets" acquirers' CAARs decrease to not statistically significant values of -0.89% on day three prior to the event day, while "domestic emerging markets" acquirers' CAARs continue to be stable around values of zero up to two days prior to the M&A announcement (-10, -2). In the following "domestic emerging market" acquirers' CAARs increase throughout the remaining event period (-1,+10) to a maximum value of

2.62% statistically different from zero on a 1% level at day ten post the event, whereas "outbound emerging markets" CAARs increase only until two days post the acquisition announcement (-1,+2) up to a value of 0.83% being not statistically significant before they decrease back to values around zero five days post the acquisition announcement (+3, +5) and remain on this level for the remaining event window (-5,-10) (*Exhibit 23, Exhibit 40* in *Appendix*).

Hypothesis Decision

Therefore based on the empirical findings outlined, hypothesis 2, referring to the difference in the impact of M&A announcements on "domestic emerging markets" acquirers and "outbound emerging markets" bidding firms, cannot be confirmed.

Hypothesis 2: *The CAAR for acquirers engaged in outbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets engaged in domestic emerging markets M&A.*

More precisely, the sophisticated market model indicates that "domestic emerging markets" acquiring firms achieve over the event window a higher CAAR of 2.41% statistically significant on the level of 1% in contrast to "outbound emerging markets" firms with a CAAR on day ten post the acquisition announcement of only 1.32% being not statistically significant. This difference is especially due to statistically significant positive AARs for "domestic emerging markets" firms in the post-acquisition event period (+6, +8). In contrast to that, for "outbound emerging markets" bidding firms the value generation is limited to a very short period around the M&A announcement (-1, +1) where statistically significant positive AARs can be achieved (*Exhibit 40* in *Appendix)*.

Critical Discussion

There may be several reasons explaining the difference between the expected outcome based on existing results in research (e.g. *Jain et al., 2014; Khanna & Palepu, 2004; Martynova & Rennebog, 2008)* and the actual results presented above.

First, the definition of domestic M&A differs from the general definition applied in most studies. Whereas in this thesis "domestic emerging markets" M&A refers to transactions with acquiring and target companies from emerging markets but not necessarily the same country, usually domestic M&A comprises transaction with acquiring and target company coming from the same country. Therefore, sample 1 in this thesis referring to "domestic emerging

markets" M&A also comprises cross-border transactions within the emerging markets that might deviate in the value impact on acquiring firms from "real" domestic transactions.

Second, most studies focusing on value creation of emerging markets bidding companies engaged in "outbound emerging markets" M&A solely suggest positive CAARs for the acquirer without drawing a comparison with the value impact of "domestic emerging markets" M&A on the acquiring companies (e.g. *Aybar & Thanakijsombat, 2015 & Boateng & Du, 2015)*. Therefore, the empirical findings in this thesis are consistent with those studies, suggesting a positive CAAR of 1.46 statistically significant on a 5% level two days post the acquisition announcement (*Exhibit 40* in *Appendix*).

Third, hypothesis 2 was mainly based on the bootstrapping theory suggesting that the stock market rewards developing country bidding firms' attempt to bootstrap itself to the higher governance standards of a developed country target. Based on the empirical findings in this study the bootstrapping theory only holds true to a limited extent, which is in line with results of *Aybar & Ficici (2009)* suggesting that the bootstrapping theory does not sufficiently explain value creation in outbound emerging markets transactions. Possibly other factors negatively influence CAARs of the acquiring firm leading to not significant CAARs over the whole event window at day ten post the acquisition announcement (*Exhibit 40* in *Appendix*). Limited experience in the undertaking of cross-border acquisitions (*Narayan & Thenmozhi, 2014)* as well as the lower bargaining power in international transactions (*Menéndez-Requej, 2011)* are the most frequently cited reasons in existing literature burdening value creation for "outbound emerging markets" acquiring firms.

Fourth, as presented in *point 5.1.8* the share of acquiring firms engaged in industry diversifying M&As is with 72.3% higher for "domestic emerging markets" bidders than for "outbound emerging markets" acquirers with 67.4% *(Exhibit 20* in *point 5.1.8)*. In case of higher value creation for industry diversifying M&A announcements as suggested in hypotheses set 4 this may have impacted the results in favor of "domestic emerging markets" bidding companies justifying the contradictory results concerning hypothesis 2.

Finally, *Aybar & Thanakijsombat (2015)* suggest that positive market reaction to a M&A announcement for "outbound emerging markets" acquirers is limited to a short period of up to four days post the event date. This is consistent with findings in this thesis where statistically significant CAARs in the market model are only obtained in a short time frame within the event window starting one day post the event day and ending four days post the acquisition

announcement (+1, +4). Furthermore, an event window ending two days post the announcement (-10, +2) would lead to the confirmation of hypothesis 2, since "outbound emerging markets" acquirers achieve a CAAR of 1.46% statistically significant on the 5% level at day two post the announcement exceeding the referring CAAR of 1.15% statistically significant on the 5% level obtained for "domestic emerging markets" companies (*Exhibit 40* in *Appendix*).

5.2.3 Inbound vs. Outbound M&A

Exhibit 41 (Appendix) presents AARs and CAARs for acquiring companies engaged in "inbound emerging markets" (*Panel A*) and "outbound emerging markets" (*Panel B*) M&A during the event window period, while comparing daily AARs and CAARs obtained through the market model with AARs and CAARs calculated through the constant mean model.

Average Abnormal Returns (AARs)

The results obtained through the market model suggest that both *Panel A* and *Panel B* acquiring firms benefit from statistically significant positive AARs in the short term around the event date. Whereas "inbound emerging markets" acquirers obtain positive and statistically significant on the 1% level AARs at the event day and one day post the announcement (0,+1) with 0.64% and 0.78% respectively, "outbound emerging markets" acquirers achieve positive AARs significant different from zero on the 1% and 10% level respectively in a period ranging from one day prior to the event day until one day post the event day (-1,+1) with 0.32%, 0.72% and 0.35% respectively. These results are also supported by the constant mean model, whereas AARs tend to assume lower values and are less statistically significant (*Exhibit 41* in *Appendix*). Additionally, in the case of "inbound emerging markets" acquiring companies a negative AAR statistically significant on the 5% level can be observed in both models seven days prior to the announcement day, indicating an early leakage of information causing a negative market response to the upcoming takeover. Therefore, sample 3 covering "inbound emerging markets" acquiring companies causes the similar negative AAR statistically significant on the 1% level in the aggregated sample on day seven prior to the event with application of the market model (*Exhibit 39* in *Appendix*).

Cumulative Average Abnormal Returns (CAARs)

Exhibit 24 illustrates the development of both "inbound emerging markets" as well as "outbound emerging markets" acquiring firms' CAARs during the event window period using the market model approach, while *Exhibit 25* is presenting the referring information but with

Exhibit 24 – Market Model CAARs for Inbound and Outbound
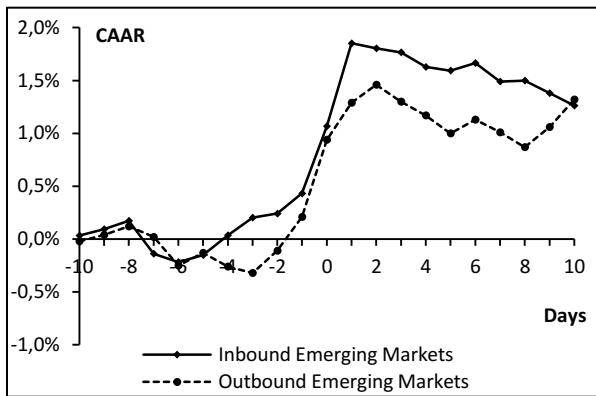
Exhibit 25 − Constant Mean CAARs for Inbound and Outbound
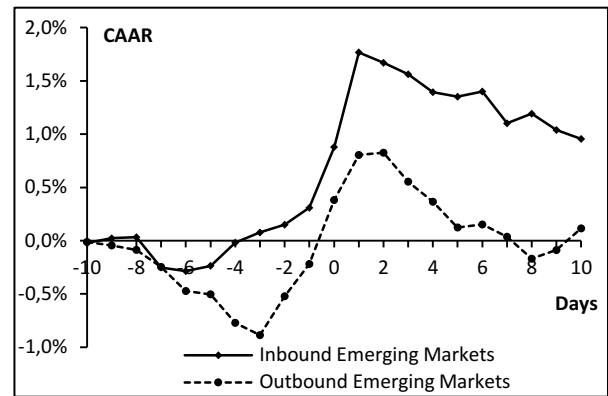
application of the constant mean model. Additionally, the referring exact values and significance statistics are provided in *Exhibit 41 (Appendix).*

The results in *Exhibit 41 (Appendix)* indicate that the CAAR for "inbound emerging markets" acquiring companies over the event window of 21 trading days (-10, +10) assumes a positive value statistically significant on the 5% level of 1.26% in the market and a positive not statistically significant value of 0.96 in the constant mean model. In contrast to that, "outbound emerging markets" acquiring firms achieve in the same period a statistically not significant CAAR of 1.32% in the market and 0.12% in the constant mean model.

Exhibit 24 illustrating a comparison between CAARs for "inbound emerging markets" and "outbound emerging markets" acquiring firms within the event window obtained through the market model suggests that the CAARs for both types of acquirers develop similar around values of zero in a period from ten to five trading days prior to the event day (-10,-5). In the following period (-4,+1)"inbound emerging markets" acquirers' CAARs increase up to a value of 1.85% statistically significant on a 1% level at day one post the acquisition announcement. In contrast to that "outbound emerging markets" acquirers' CAARs decrease on day four and three prior to the event day (-4,-3) to a not statistically significant values of -0.26%, before the CAAR increases in the following period (-2,+2) up to the maximum value within the event window of 1.46% statistically different from zero on a 5% level. In the remaining period within the event window (-3,-10) CAARs for both inbound and outbound emerging markets acquirer slightly decrease, whereas CAARs for "inbound emerging market" bidding firm remain constantly on a higher level than CAARs for "outbound emerging market"acquirers except for the last trading day ten post the announcement (*Exhibit 24, Exhibit 41* in *Appendix*).

Exhibit 25 relating to constant mean model illustrates for "inbound emerging markets" bidding firms a similar CAAR development, whereas especially CAARs for "outbound emerging markets" acquirers assume values lower than the one suggested by *Exhibit 24* and the market model. Especially in the period (-6,-3) "outbound emerging markets" acquirers' CAARs decrease to a not statistically significant value of -0.89% at day three prior to the event day, whereas in the market model the referring CAAR is with the not statistically significant value of -0.32% higher (*Exhibit 41* in *Appendix)*. Furthermore, in contrast to *Exhibit 24* and the market model *Exhibit 25* illustrates that CAARs of "outbound emerging markets" firms decrease back to values around zero on day five post the acquisition announcement and remain on this level for the remaining event window (-5,-10). Therefore, results in *Exhibit 25* suggest that starting with trading day seven prior to the event day until the last trading day of the event window (-7,+10) CAARs for "inbound emerging markets" acquirers are on a higher level than CAARs of "outbound emerging markets" bidders.

Hypothesis Decision

Therefore, based on the empirical findings presented, hypothesis 3, relating to the difference in the impact of M&A announcements on "inbound emerging markets" acquirers and "outbound emerging markets*"* bidding firms, cannot be rejected with reserve.

Hypothesis 3: *The CAAR for acquirers from developed markets engaged in inbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets in outbound emerging markets acquisitions.*

By simply comparing the CAAR obtained with market model over the whole event window at day ten post the event day for "outbound emerging markets" bidding firms (1.32%) with the referring CAAR for "inbound emerging markets" acquirers (1.26%), hypothesis 2 cannot be confirmed. However, such a decision would neglect three important factors. First, the CAAR of 1.26% obtained for "inbound emerging markets" bidders is statistically significant at a 5% level, whereas the referring CAAR of 1.32% for "outbound emerging markets" bidders is not statistically significant from zero making a concrete interpretation and thus comparison of the two values difficult (*Exhibit 41* in *Appendix*).

Second, in the market model approach illustrated in *Exhibit 24* the CAARs for "inbound emerging markets" acquiring firms are higher than for "outbound emerging markets" bidders over the whole period lasting from four days prior to the event day until nine days post the

announcement (-4,+9) indicating higher value creation for *"inbound emerging markets"* bidders in the short term around the announcement as suggested in hypothesis 3.

Finally, in the constant mean model the CAAR obtained over the whole event window at day ten post the M&A announcement for "inbound emerging markets" bidding firms is with 0.96% larger than the referring CAAR for "outbound emerging markets" acquirers with 0.12% (*Exhibit 41* in *Appendix*). Although both CAARs are not statistically significant, this result supports the decision to not reject hypothesis 3 and higher value creation for "inbound emerging markets" acquirers.

Critical Discussion

Hypothesis 3 is based on the assumption that "inbound emerging markets" acquirers benefit from larger AARs around the M&A announcement day especially due to the developed markets companies' higher experience in terms of acquisition procedures (*Narayan & Thenmozi, 2014*). However, this difference between emerging and developed markets companies continuously decreases as an increasing number of emerging markets companies become multinational while also benefitting from skills and experience in terms of international M&A *(Kale, 2004)*. Therefore, the partially contradictory results concerning hypothesis 3 may be justified by these developments.

Additionally, as presented in *point 5.1.8* the share of acquiring firms engaged in industry diversifying M&A is with 67.4% higher for the sample 2 with "outbound emerging markets" bidders than for sample 3 comprising "inbound emerging markets" bidders with 63.2% *(Exhibit 20* in *point 5.1.8)*. In case of higher value creation for industry diversifying M&A announcements, as suggested in hypotheses set 4, this may have impacted the results in favor of *"outbound emerging markets"* bidding companies justifying the partially contradictory results concerning hypothesis 3.

Finally, hypothesis 3 refers to suggestions of existing literature (e.g. *Narayan & Thenmozhi, 2014)* that "outbound emerging markets" bidding firms are often obliged to engage in tender-offer-based acquisitions due to their lower bargaining power in international financial transactions. However, emerging markets countries such as China, India, Malaysia and Russia benefit from governmental outward direct investment policies promoting and supporting "outbound emerging markets" M&A which might offset the disadvantages and increases financial flexibility and limits information asymmetries burdening negotiations *(*refer to *point 1.1).*

5.2.4 Diversifying vs. Focused Outbound M&A

Exhibit 42 (Appendix) presents AARs and CAARs for acquiring companies engaged in "diversifying outbound emerging markets" (*Panel A*) and "focused outbound emerging markets" *(Panel B)* M&A during the event window period, while comparing daily AARs and CAARs obtained through the market model with AARs and CAARs calculated through the constant mean model.

Average Abnormal Returns (AARs)

The results obtained through the market model in *Exhibit 42 (Appendix)* suggest that *Panel A* acquiring firms benefit from statistically significant positive AARs in the short term around the event date, whereas for "focused outbound emerging markets" acquiring firms in this period no statistically significant positive returns are observable. Whereas "diversifying outbound emerging markets" bidding firms obtain on the event day zero as well as one day post the acquisition positive AARs of 1.15% and 0.58% statistically significant on a 1% level as well as two days prior to the event a positive AAR of 0.43% statistically significant on a 5% level, "focused outbound emerging markets" acquirers suffer from a negative AAR on day six prior the announcement of -0.60% as well as achieve a positive AAR of 0.56% on the last trading day of the event window both statistically significant on a 10% level. Similar results are obtained with the constant mean model, whereas for "focused outbound emerging markets" bidding firms no statistically significant AARs are observable (*Exhibit 42 in Appendix*).

Cumulative Average Abnormal Returns (CAARs)

Exhibit 26 shows the development of both *"diversifying outbound emerging markets"* as well as *"focused outbound emerging markets"* acquiring firms' CAARs during the event window period using the market model approach, whereas *Exhibit 27* presents the referring information but with application of the constant mean model. Additionally, the referring exact values and significance statistics are provided in *Exhibit 42 (Appendix).*

The results in *Exhibit 42 (Appendix)* indicate that the CAAR for "diversifying outbound emerging markets" bidding companies over the event window of 21 trading days (-10, +10) assumes a positive value statistically significant on the 5% level of 2.00% in the market and a positive not statistically significant value of 0.73 in the constant mean model. In contrast to that, "focused outbound emerging markets" acquirers achieve in the same period a statistically not significant CAAR of 0.01% in the market and -1.06% in the constant mean model.

Exhibit 26 − Market Model CAARs for Outbound Diversifying and Focused
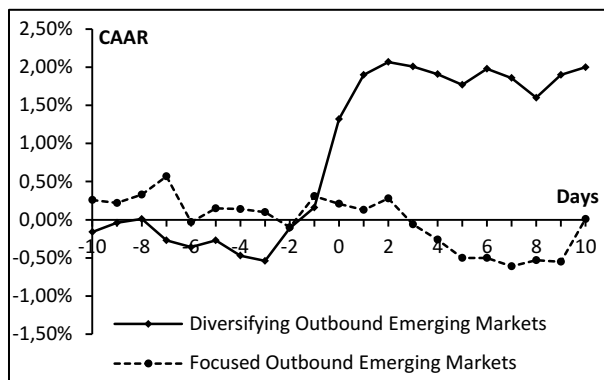
Exhibit 27 – Constant Mean CAARs for Outbound Diversifying and Focused
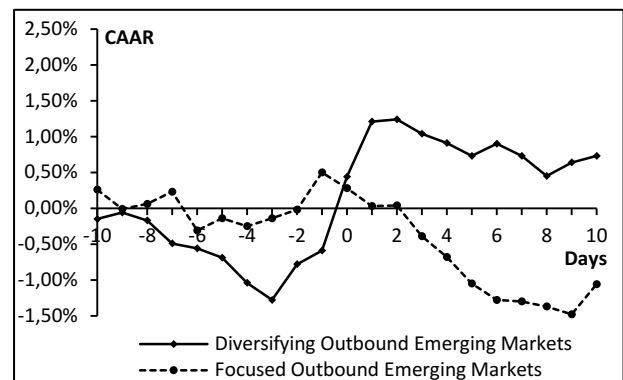
Exhibit 26 illustrating a comparison between CAARs for "diversifying outbound emerging markets" and "focused outbound emerging markets" acquiring firms within the event window obtained through the market model suggests that the CAARs for "diversifying outbound emerging markets" acquirers in the first period of the event window until two days prior to the M&A announcement (-10,-2) assume negative values and are below the CAARs of "focused outbound emerging markets" bidders with values constantly around zero. However, in the following period around the announcement day (-1,+2) "diversifying outbound emerging markets" acquirers' CAARs increase up to a values of 2.07% statistically significant on a 1% level on day two post the event, whereas CAARs of "focused outbound emerging markets" bidders remain constant slightly above zero with a not statistically significant value of 0.28% two days post the announcement day. In the remaining event window (+3,+10) CAARs of *"diversifying outbound emerging markets" acquirers* remain stable at a statistically significant positive level finishing with a positive value statistically significant on the 5% level of 2.00% at day ten post the event, whereas CAARs of "focused outbound emerging markets" bidders first drop to a statistically not significant value of -0.61% at day seven post the event day before returning back to not a statistically significant value of 0.01% on the last trading day within the event window (*Exhibit 26*; *Exhibit 42* in *Appendix*).

Exhibit 27 relating to the constant mean model presents a similar development of CAARs within the event window for both *"diversifying outbound emerging markets"* and "focused outbound emerging markets" acquirers. However, in general for both type of acquirers CAARs assume lower values than in the case of the market model application (*Exhibit 26*). Therefore CAARs obtained through the constant mean model are mainly not statistically

significant for both "diversifying outbound emerging markets" and "focused outbound emerging markets" acquirers (*Exhibit 42* in *Appendix*).

Hypothesis Decision

Therefore based on the empirical findings presented hypothesis 4a, relating to the difference in the impact of M&A announcements on "diversifying outbound emerging markets" acquirers and "focused outbound emerging markets" bidding firms, cannot be rejected.

Hypothesis 4a: *The CAAR for acquirers from emerging markets engaged in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.*

More precisely, the sophisticated market model indicates that *"diversifying outbound emerging markets"* acquiring firms achieve over the event window a higher CAAR of 2.00% statistically significant on the level of 5% in contrast to "focused outbound emerging markets" firms with a CAAR on day ten post the acquisition announcement of only 0.01% being not statistically significant different from zero. This difference is especially due to statistically significant positive AARs obtained by "diversifying outbound emerging markets" firms in the short period around the event day (-2, +1) increasing the CAAR, whereas for "focused outbound emerging markets" no value generation through the M&A announcement is observed (*Exhibit 42* in *Appendix)*.

Critical Discussion

Hypothesis 4a is based on the assumption that emerging markets acquirers in the initial stage of the diversification process are able to benefit from industry unrelated diversifying acquisitions due to an increase in market power and profitability (*Palich et al., 2000)*. Furthermore, risk reduction achieved through the co-insurance effect and a more efficient internal capital market is frequently mentioned in research as value drive stemming from an industry diversifying M&A strategy (refer to *point 2.4.2*). The results presented in *Exhibit 26, 27* and *42(Appendix)* clearly support this suggestions. However the following points have to be considered in order to draw the right conclusions.

First, in the sample no differentiation is made between related and unrelated diversification. Therefore, no statement on the distribution of value creation among industry related and unrelated diversifying takeovers can be made. It can solely be concluded that "outbound

emerging markets" M&A on average creates more value for the acquirer in case of bidding and target companies coming from different industries indicated by different SIC-codes.

Second, the positive CAAR of 2.00%, statistically significant on a 5% level, obtained in the market model for the last day of the event window does not imply that value creation took place over the whole event window period (-10.+10). In fact in this sample value creation stemming from industry diversifying M&A announcements is exclusively limited on three trading days (-2,0,+1) around the event, where AARs are statistically significant different from zero. Therefore, value creation is neither suggested several days prior nor more than one day post the acquisition (*Exhibit 42* in *Appendix*).

Finally, especially *Scharfstein & Stein (1999)* claim that investors require more information to evaluate companies engaged in industry diversification. According to their study investors are usually not provided with additional information leading to information asymmetry and to acquiring companies engaged in industry diversification trading to a discount. Furthermore cross-subsidization of failing business segments as well as agency costs might increase through industry diversification causing value destruction (refer to *point 2.4.2*). The results in this thesis contradict the suggestions of *Scharfstein & Stein (1999)*. However, the effects of cross-subsidization of failing business segments as well as agency costs are observable rather in the long term and thus are not captured by this event study focusing on the short term. Additionally, investors in recent years benefit from greater access to information especially in terms of developed markets targets indicating that the mentioned information asymmetry burdening the valuation of "diversifying outbound emerging markets" bidding firms is likely to decrease compared to the time period covered in the study of *Scharfstein & Stein (1999)*.

5.2.5 Diversifying vs. Focused Inbound M&A

Exhibit 43 (Appendix) presents AARs and CAARs for acquiring companies engaged in "diversifying inbound emerging markets" (*Panel A*) and "focused inbound emerging markets" (*Panel B*) M&A during the event window period, while comparing daily AARs and CAARs obtained through the market model with AARs and CAARs calculated through the constant mean model.

Average Abnormal Returns (AARs)

The results obtained through the market model suggest that both *Panel A* and *Panel B* acquiring firms benefit from positive AARs at the event day of 0.51% and 0.79% respectively statistically significant on the 1% level (*Exhibit 43* in *Appendix*). In addition to that

"diversifying inbound emerging markets" bidding firms benefit from positive ARRs on day four prior and day one post the announcement day of 0.46% and 1.21% respectively statistically significant on the 5% and 1% level respectively, while the AAR on day seven prior to the event assumes a negative value of -0.37% statistically significant on the 5% level. Similar results are also obtained with the constant mean model, whereas for *"diversifying inbound emerging markets"* acquirers an additional negative AAR on day seven post the acquisition of -0.34% statistically significant on a 10% level is observed. Furthermore, according to the constant mean model "focused inbound emerging markets" bidding firms additionally benefit from a positive and statistically significant AAR of 0.53% one day post the acquisition, while suffering from an additional negative statistically significant AAR of -0.36% at day four post the acquisition (*Exhibit 43* in *Appendix*).

Cumulative Average Abnormal Returns (CAARs)

Exhibit 28 shows the development of both *"diversifying inbound emerging markets"* as well as *"focused inbound emerging markets"* acquiring firms' CAARs during the event window period using the market model approach, whereas *Exhibit 29* presents the referring information but with application of the constant mean model. Additionally, the referring exact values and significance statistics are provided in *Exhibit 43 (Appendix)*.

Exhibit 28 – Market Model CAARs for Inbound Diversifying and Focused
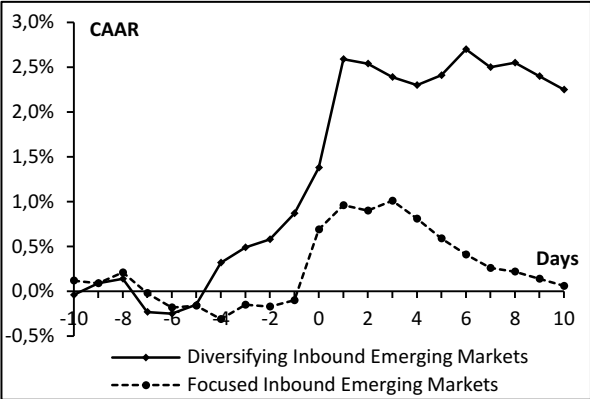
Exhibit 29 – Constant Mean CAARs for Inbound Diversifying and Focused
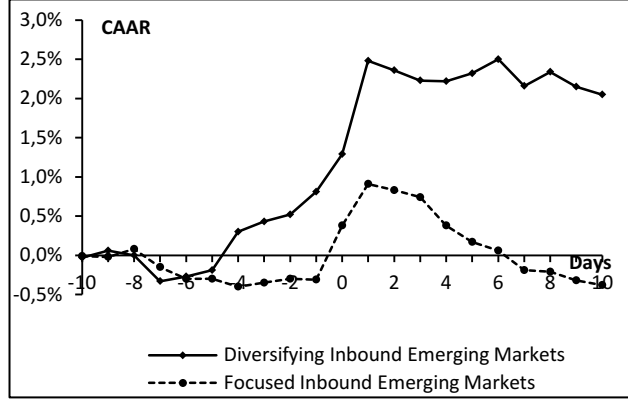
Cumulative Average Abnormal Returns (CAARs)

The results in *Exhibit 43 (Appendix)* indicate that the CAAR for "diversifying inbound emerging markets" bidding companies over the event window of 21 trading days (-10,+10) assumes a positive value statistically significant on the 1% level of 2.25% in the market and 2.05% in the constant mean model. In contrast to that, "focused outbound emerging markets"

acquiring firms achieve in the same period a statistically not significant CAAR of 0.06% in the market and -0.38% in the constant mean model.

Exhibit 28 illustrating a comparison between CAARs for "diversifying inbound emerging markets" and "focused inbound emerging markets" acquiring firms within the event window obtained through the market model suggests that the CAARs for both type of acquirers in the first period of the event window up to five days prior to the M&A announcement (-10,-5) develop similarly assuming values closely to zero. However, in the following period (-4,+1) "diversifying inbound emerging markets" bidding firms' CAARs increase up to a value of 2.59% statistically significant on the 1% level at day one post the acquisition where they remain more or less constant over the remaining event period (+2,+10). In contrast to that "diversifying inbound emerging markets" bidding firms' CAARs only start to increase at the event day until day three post the acquisition (0,+3) up to a value of 1.01% not statistically significant different from zero before in the remaining period (+4,+10) the CAAR returns back to not statistically significant values around zero with 0.06% at the last trading day of the event window (*Exhibit 28*; *Exhibit 43* in *Appendix*).

Exhibit 29 relating to the constant mean model presents a similar development of CAARs within the event window for both *"diversifying inbound emerging markets"* and "focused inbound emerging markets" acquirers. However, for both type of acquirers CAARs assume lower values than in the case of the market model application (*Exhibit 28*). Therefore none of the CAARs obtained through the constant mean model for "focused outbound emerging markets" acquirers is statistically significant (*Exhibit 43* in *Appendix*).

Hypothesis Decision
Based on the empirical findings presented hypothesis 4b, relating to the difference in the impact of M&A announcements on *"diversifying inbound emerging markets"* acquirers and "focused inbound emerging markets" bidding firms, cannot be rejected.

Hypothesis 4b: *The CAAR for acquirers from developed markets engaged in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.*

More precisely, the sophisticated market model indicates that "diversifying inbound emerging markets" acquiring firms achieve over the event window a higher CAAR of 2.25% statistically significant on the level of 1% compared to "focused outbound emerging markets"

companies with a CAAR on day ten post the acquisition announcement of only 0.06% being not statistically significant different from zero. Whereas "focused outbound emerging market" bidders solely benefit from a positive AAR of 0.79% statistically significant at the 1% level at the event day, "diversifying outbound emerging market" bidding firms achieve positive and statistically significant AARs four days prior, at the event day and one day post the announcement day of 0.46%, 0.51% and 1.21% respectively (*Exhibit 43* in *Appendix)*.

Critical Discussion

Hypothesis 4b mainly relies on existing literature suggesting that "inbound emerging markets" acquiring firms benefit from related industry diversification through both synergy realization as in focused transactions as well as risk reduction through the co-insurance effect, conglomerate power, and a more efficient internal capital market (refer to *point 2.4.2*). The results presented concerning hypothesis 4b support these suggestions. However, some factors have to be considered when concluding on the findings presented.

First, similar to the critical discussion in *point 5.2.4* the sample is not differentiated between related and unrelated diversification. Therefore it is not possible to comment on the distribution of value creation among industry related and unrelated diversifying takeovers. It can solely be concluded that "inbound emerging markets" M&A on average creates more value for the acquirer in case of bidding and target companies coming from different industries indicated by different SIC-codes.

Second, value creation for "diversifying inbound emerging markets" bidders does not occur over the whole event window period but is limited to day four prior to the event window as well as on the event day and one day post the announcement. Therefore; there are neither statistically significant positive AARs in the beginning of the event window nor more than one day post the acquisition announcement (*Exhibit 43* in *Appendix*). However, in comparison to "diversifying outbound emerging markets" acquiring companies (refer to *point 5.2.4*), the wealth impact is realized already two days earlier at day four prior to the event, indicating early leakage of information. A possible reason may be the weak institutional and legal environment in the target companies' home countries.

Finally, studies conducted by *Martynova & Rennebog (2008)* as well as *Feito-Ruiz & Menéndez-Requejo (2012)* suggest that industry diversifying mergers of European acquirers on average lead to lower abnormal returns than focused mergers contradicting the results related to hypothesis 4b in this thesis. However, in contrast to this thesis both studies are

limited to European acquiring companies, while *Martynova & Rennebog (2008)* additionally solely cover intra-European mergers. Therefore, a direct comparison between these studies and the results obtained in the thesis is not feasible.

5.2.6 Diversifying Outbound vs. Diversifying Inbound M&A

Exhibit 44 (Appendix) presents the differences in AARs and CAARs between "industry diversifying" and "industry focused" M&A announcements for both "outbound emerging markets" bidding firms (*Panel A*) and "outbound emerging markets" acquiring firms (*Panel B*) during the event window period, while comparing differences in AARs and CAARs obtained through the market model with differences in AARs and CAARs calculated through the constant mean model.

Differences in Average Abnormal Returns (AARs)

For *Panel A* acquiring firms in the market model a negative difference in AARs is predominant in the initial period of the event window (-10, -7) indicated by values of -0.42% on day ten, -0.06% on day nine and -0.52% at day seven prior to the announcement suggesting that the industry focused strategy in this period creates more value than the industry diversifying strategy. However, in the following relatively high positive differences in the AARs between the diversified and focused subsamples can be observed for "outbound emerging markets" bidding firms especially six days and two days prior to the event, day zero as well as one day post the event day (+6,+2,0,-1) with values of 0.52%, 0.63%, 1.26% and 0.66% respectively, suggesting the superiority of the industry diversification strategy in terms of value creation in the short term around the M&A announcement (*Exhibit 44* in *Appendix*).

For *Panel B* bidding firms in the initial period of the event window (-10, -5) the difference in AARs remains stable around zero. In the following the development is similar to *Panel A* but with a delayed occurrence of relatively high differences in AAR at day 4 prior to the event as well as day one, five and six post the M&A announcement (-4,+1,+5,+6). For the constant mean model similar results are obtained for both *Panel A* and *B* acquiring companies (*Exhibit 44* in *Appendix*).

Differences in Cumulative Average Abnormal Returns (CAARs)

Exhibit 30 shows the development of both "diversifying inbound emerging markets" as well as "focused inbound emerging markets" acquiring firms' CAARs during the event window period using the market model approach, whereas *Exhibit 31* presents the referring

information but with application of the constant mean model. Additionally, the referring exact values are provided in *Exhibit* 44 *(Appendix).*

Exhibit 30 – Market Model Differences in CAARs for Outbound and Inbound
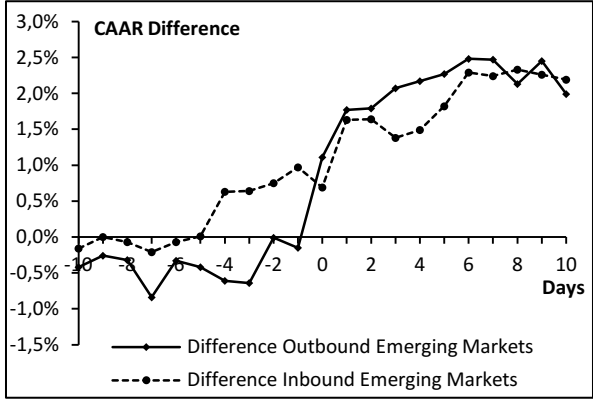
Exhibit 31 – Constant Mean Differences in CAARs for Outbound and Inbound
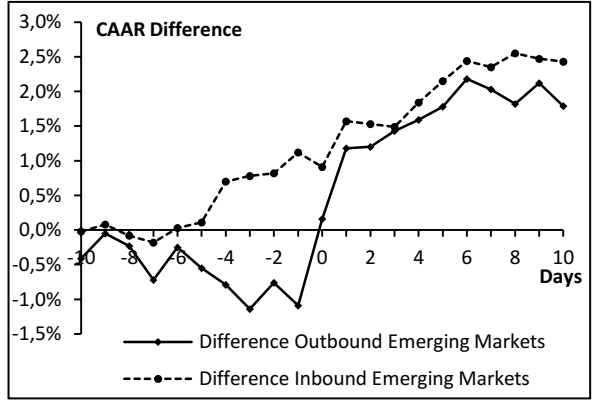
Exhibit 30 illustrates a comparison between the differences in CAARs for "outbound emerging markets" and "inbound emerging markets" acquiring firms within the event window obtained through the market model. It suggests that the differences in CAARs for "inbound emerging markets" acquirers is slightly higher than for "outbound emerging markets" in the beginning of the event window until one day prior to the M&A announcement (-10,-1). Additionally, for "inbound emerging markets" bidding firms the difference in the CAARs is negative until day five prior to the event announcement (-10,-5), whereas in the following the difference constantly increases throughout the event window (-4,+10) up to a value of 2.19% at day ten post the announcement suggesting the superiority of an industry diversification strategy in comparison to a focused M&A strategy *(Exhibit* 44 in *Appendix).*

For "outbound emerging markets" acquirers according to *Exhibit 30* the difference in CAARs remains negative and below CAARs of "inbound emerging markets" acquirers until one day prior to the announcement (-10,-1) indicating higher value creation for focused M&A announcements in the initial event window period. In the following period until the end of the event window (0,+10) the differences for "outbound emerging markets" bidding firms strongly increase up to a maximum value of 2.48% on day six post the event. Additionally, in this second period in the event window (0,+10) the differences in CAARs for both "outbound emerging markets" and "inbound emerging markets" develop almost similar suggesting that for both type of acquirers the value creation advantage of a diversification strategy over focused M&A is almost equal *(Exhibit 30*; *Exhibit* 44 in *Appendix).*

Exhibit 31 relating to the constant mean model presents a similar development of the differences in CAARs within the event window for "inbound emerging markets" bidding firms. However, the difference in CAARs for "outbound emerging markets" firms on average assumes lower values than in the market model over the whole event window suggesting that focused M&A in this model is less disadvantaged compared to an industry diversification strategy. Therefore, the constant mean model results show that for "inbound emerging markets" firms the value creation advantage of a diversification strategy over focused M&A is higher than for "outbound emerging markets" companies (*Exhibit 31*; *Exhibit* 44 in *Appendix*).

Hypothesis Decision

Based on the empirical findings presented hypothesis 4c, relating to the development of the differences in CAARs for both "outbound emerging markets" acquirers and "inbound emerging markets" bidding firms, cannot be confirmed.

Hypothesis 4c: *The difference between industry diversifying and focused CAARs is larger for outbound acquirers from emerging markets than for inbound bidding companies from developed markets.*

More precisely, the sophisticated market model indicates that for "inbound emerging markets" acquiring firms at trading day ten post the announcement the difference in CAARs with 2.19% is higher compared to "outbound emerging markets" bidding firms with 1.99% suggesting that for "inbound emerging markets" firms the value creation advantage of a diversification strategy over focused M&A is higher than for "outbound emerging markets" companies (*Exhibit* 44 in *Appendix*). However, to interpret the results correctly three different periods within the event window have to be discussed.

First, in the initial event window period of (-10,-1) until one day prior to the M&A announcement the differences in CAARs for "outbound emerging markets" acquirers are clearly below the differences for "inbound emerging markets" bidders suggesting less value creation through industry diversification.

Second, in the following period until seven days post the acquisition (0,+7) the differences in CAARs for "outbound emerging markets" acquirers exceeds the ones for "inbound emerging markets" acquirers suggesting that the value creation advantage of a diversification strategy over focused M&A is higher for *"*outbound emerging markets" acquirers.

Third, in the remaining event window period (+8,+10*)* "outbound emerging markets" and "inbound emerging markets" acquirers' difference in CAARs alternate in assuming higher values and in general develop similar(*Exhibit 30 & 31*; *Exhibit 44* in *Appendix*).

Therefore, by considering these three different periods in terms of value creation stemming from an industry diversification strategy, it can be stated that neither "inbound emerging markets" nor "outbound emerging markets" acquiring firms gain more advantage of a diversification strategy over focused M&A in comparison to the referring other type of acquirer.

Critical Discussion

The expected outcome that "outbound emerging markets" bidders benefit to a larger extent from the advantage of an industry diversification M&A strategy than "inbound emerging markets" acquiring firms cannot be confirmed based on the findings presented. However, the deviation from the expected results may stem from several factors to be discussed in the following.

First, *Scharfstein & Stein (1999)* suggest that acquiring companies engaged in industry diversifying M&A may trade to a discount due to investors' difficulty to evaluate diversified companies based on information asymmetries arising from a lack of access to relevant information (refer to *point 2.4.2*). Since especially investors in acquiring companies from emerging markets, where information disclosure policies are less sophisticated as well as the market and institutional environment is considered to be weaker than in developed markets, suffer from higher information asymmetries, "diversifying outbound emerging markets" acquirers may create less shareholder value than "diversifying inbound emerging markets" bidders supporting the findings in this thesis.

Second, hypothesis 4c is based on empirical evidence of existing research suggesting that emerging markets acquirers in the initial stage of the diversification process are supposed to benefit from unrelated diversifying acquisitions due to an increase in market power and profitability (*Palich et al., 2000).* However, today a large number of emerging markets multinational companies is already in a later stage of the diversification process and thus does probably not benefit to such an extent from unrelated diversification as described by *Palich et al. (2000)* explaining the contradictory findings concerning hypothesis 4c.

Third, studies promoting value creation for unrelated diversifying M&A of emerging markets acquirers and value destruction of industry diversifying mergers of European acquirers (e.g.

Feito-Ruiz & Menéndez-Requejo, 2012; Martynova & Rennebog, 2008), that are the basis for the development of hypothesis 4c, have a different geographical scope. Contrary to the sample selection in this thesis, *Martynova & Rennebog (2008)* and *Feito-Ruiz & Menéndez-Requejo (2012)* limit their sample to European acquiring companies, while *Martynova & Rennebog (2008)* additionally solely cover intra-European mergers. Furthermore, *Palich et al. (2000)* summarize in their study three decades of literature and thus consider not only "outbound emerging markets" acquisitions. Therefore, a direct comparison between these studies and results obtained in the thesis is not feasible.

Finally in a recent study conducted by *Narayan & Thenmozhi (2014)* similar results to this thesis are obtained suggesting that emerging markets acquiring firms engaged in cross-border acquisitions benefit from targets in related industries compared to industry diversification. According to *Narayan & Thenmozhi (2014)* emerging markets firms are equipped with limited experience in undertaking acquisitions and thus have difficulties to deal with the increased risk of acquiring an unrelated business. In line with these suggestions, in this sample "diversifying outbound emerging markets" bidding companies might suffer from this risk of inexperience and thus create less value in comparison to "diversifying inbound emerging markets" acquirers.

5.3 OLS-Regression

Exhibit 32 provides an overview about the results obtained through the OLS-regressions for each of the three samples. In the following first and initial overview about the results obtained is provided. In a second step these results are interpreted in order to decide on the hypotheses 5–8.

Exhibit 32 – OLS-Regression Results

Variable	CAR Sample 1		CAR Sample 2		CAR Sample 3	
	Coefficient	T-stat.	Coefficient	T-stat.	Coefficient	T-stat
Relative Deal Size	0.031	3.01**	0.035	3.24***	0.037	3.41***
Corporate Control	-0.012	0.87	-0.024	1.64*	-0.014	1.01
Cash	-1.735	0.32	-0.934	0.11	-1.644	0.29
Stock	-1.122	1.65*	-1.032	1.49	-1.261	1 .73*
Public	-0.883	1.92*	-2.748	3.37***	-1.512	2 .78***
Adjusted R-Squared	0.181		0. 091		0.193	
Sample Size N	519		298		617	
Included Observations	212		131		301	

Reported are the determinants of the acquirers' cumulative abnormal return (CAR) over the event window of 21 trading days for each of the three samples namely "domestic emerging markets" acquirers (*sample 1*), "outbound emerging markets" acquirers (*sample 2*) as well as "inbound emerging markets" acquirers (*sample 3*). The dependent variable is CAR (−10,+10) in each regression. Other variables are defined in *point 4.3.2*. T-statistics are computed using heteroscedascticity-consistent standard errors. *, ** and *** show respectively that the referring coefficient is significant under the level of 10%, 5% and 1%. Additionally, winsorization was done at the 5% level while results remained the same.

5.3.1 Overview

By looking at the adjusted R-squared one can conclude that only a minor fraction of the dependent variable variation can be explained through the linear model suggested, with 18.1% for sample 1, 9.1% for sample 2 as well as 19.3% for sample 3 (*Exhibit 32*). However, a low R-squared value does not necessarily imply the inadequacy of the regression model. Since there are several statistically significant coefficients presented in *Exhibit 32*, in the following it can be determined how the dependent variable is affected by changes in the independent variable.

5.3.2 Relative Deal Size

Hypothesis 5: *There is a positive correlation between CAR and relative deal size.*

The results in *Exhibit 32* suggest that "relative deal size*"* is positively correlated to CARs of acquiring companies across all three samples with regression coefficient values statistically

significant on a 1% (sample 2 and 3) and 5% level (sample 1). Therefore, hypothesis 5 cannot be rejected.

The correlation is the highest for the sample 3 acquirers with a coefficient value of 0.037, followed by "outbound emerging markets" bidding companies with 0.035 and "domestic emerging markets" acquiring companies with 0.031. The results indicate that especially "inbound emerging markets" acquirers announcing M&A deals with high "relative deal size" obtain on average higher CARs within the event window. As explained in *point. 2.2.4* these findings are consistent to existing literature suggesting that the adverse selection problem is less prevalent in high value transactions (*Moeller & Schlingemann, 2005; Feito-Ruiz & Menéndez-Requejo, 2011*).

5.3.3 Corporate Control

Hypothesis 6:   *There is a positive correlation between CAR and corporate control.*

In contrast to the expectations, the OLS-regression results presented in *Exhibit 32* show that there is a negative correlation between the ownership percentage acquired and the bidding firm's CAR. However, the regression coefficient is solely statistically significant on a 10% level for "outbound emerging markets*"* bidding firms with a value of -0.024, whereas for sample 1 and 2 no statistically significant results are obtained making an interpretation difficult (*Exhibit 32*). Based on the results presented hypothesis 6 cannot be confirmed.

This is in contradiction to existing research of *La Porta et al. (1998)* and *Chari et al. (2004)* suggesting that acquirers of majority control are less exposed to weak investor protection and thus avoid being expropriated by the management (refer to *point 2.4.2*). However, the contradictory and statistically significant negative correlation obtained for "outbound emerging markets" acquiring firms may stem from minority investors in developed countries providing benefits in terms of information and business network access that is absent in case of a 100% buyout. Furthermore, the study of *Chari et al. (2004)* mainly focuses on a time period within the 1990s in which corporate control in emerging markets was a key feature of transactions creating shareholder value.

5.3.4 Payment Method

Hypothesis 7a: *For M&A announcements with cash as payment method the CAR is lower than for announcements with the combined payment method.*

Since "cash" is established as dummy variable, it has to be compared with the control variable "combined payment" by analyzing the regression coefficient. In line with the expectation in hypothesis 7a , the acquisition announcements with a combined payment method yield to higher CARs than cash-only payment in each of the three samples indicated by a negative regression coefficient for the dummy variable of -1.735, -0.934 and -1.644 for sample 1, 2 and 3 respectively (*Exhibit 32*). However, the values obtained for the regression coefficient are not statistically significant across all three samples making an interpretation of the results difficult. Therefore, based on the not statistically significant value obtained, hypothesis 7a cannot be confirmed.

As outlined in *point 2.4.2* and according to *Eckbo et al (1990)* a combined payment method is supposed to be superior to cash-only bids in terms of acquiring company value creation due to taxes on capital gains to be paid in the case of cash-only deals. However, this suggestion can neither be rejected nor confirmed in the three samples due to not statistically significant results obtained through the OLS-regressions.

Hypothesis 7b: *For M&A announcements with stock as payment method the CAR is lower than for announcements with the combined payment method.*

The results presented in *Exhibit 32* suggest that the combined payment method tends to yield to higher CAR for bidding firms stock-only payment indicated by a negative regressions coefficient of -1.122, -1.032 and -1.261 for sample 1, 2 and 3 respectively. Whereas for "domestic emerging markets" and "inbound emerging markets" acquirers the results obtained are statistically significant on a 10% level, for "outbound emerging markets" bidding firms the regression coefficient is not statistically significant. Therefore, for sample 1 and 3 hypothesis 7b cannot be rejected confirming the expected outcome, whereas for sample 2 the hypothesis cannot be confirmed due to statistically not significant results.

The regression coefficients obtained for sample 1 and 3 are consistent with existing literature suggesting information asymmetry as major drawback and value destructive for acquiring companies in M&A announcements with stock-only payment *(Eckbo et al., 1990)*.

5.3.5 Legal Status of Target Company

Hypothesis 8:   *For M&A announcements with public listed target companies the CAR is higher than for announcements with non-listed target companies.*

In contradiction to the expectation in hypothesis 8, the results in *Exhibit 32* show that non-listed target companies are associated with higher CARs for acquiring companies across all samples indicated by a negative regression coefficient of -0.883, -2.748 and -1.512 for sample 1, 2 and 3 respectively (*Exhibit 32*). Whereas results obtained for *"*outbound emerging markets" as well as "inbound emerging markets" are statistically significant on the 1% level, for "domestic emerging markets" companies they are only statistically significant on the 10% level. To conclude, hypothesis 8 cannot be confirmed since the opposite effect is observed across all three samples.

This is not consistent with findings of *Bradley & Sundaram (2004)* suggesting that information asymmetries arising from lower disclosure requirements lead to less value creation for acquiring companies purchasing privately held target firms. However, the opposite effect across all of the three samples in this thesis might be due to the illiquidity discount bidding firms obtain from acquiring non public targets. More precisely, *Martynova and Renneboog (2011)* argue, that tender offer based acquisitions of listed targets are less likely to create value for the acquiring company due to premiums to be paid arising from difficult negotiations prior the takeover announcement.

6. Conclusion

The concluding chapter first provides a short summary about the main results and major limitations faced in this thesis. Additionally, potential future research areas are recommended followed by a list of managerial implications of this study.

6.1 Synthesis of Main Results

The thesis analyzes the acquiring company's share price effect caused by takeover announcements, differentiating between domestic, inbound and outbound emerging markets transactions as well as between industry diversifying and industry focused M&A strategies. Additionally contextual factors are determined that drive the value creation patterns in the event study. The sample comprises share price returns of acquiring companies in the event window of 21 trading days (-10,+10) around M&A announcements in a time period from January 2000 until January 2016.

The results obtained in this thesis suggest that for all three samples comprising *"domestic emerging markets"*, "outbound emerging markets" as well as "inbound emerging markets" acquiring firms respectively the share price in the short term around the announcement date is positively impacted by M&A announcements indicated by positive CAARs in each of the three sample over the event window period of 21 trading days (-10,+10). However, the positive impact is the strongest and the most statistically significant for "domestic emerging markets" acquirers indicating the superiority of takeover announcements with acquiring and target company coming from emerging countries in terms of acquirer's shareholder value creation. Additionally, over the whole event window (-10,+10) "outbound emerging markets" and "inbound emerging markets" M&A announcements included in the samples on average create similar wealth for bidding firms, whereas within a shorter time period around the event day (-10,+8) "inbound emerging markets" announcements are clearly superior in terms of shareholder value creation (refer to *points 5.2.2 & 5.2.3*).

Furthermore, results suggest that industry diversifying M&A announcements are superior in terms of value creation for both "outbound emerging markets" acquirers as well as "inbound emerging markets" bidding firms. Whereas industry diversifying takeover announcements in both samples lead to statistically significant positive CAARs, industry focused announcements generate not statistically significant CAARs close to zero. Moreover, based on the empirical findings for both type of acquirers the value creation advantage of a diversification strategy over focused M&A is almost equal (refer to *points 5.2.4 – 5.2.6*).

Finally, based on OLS-regression results contextual factors are identified influencing the value creation patterns observed in the event study. Whereas factors such as the relative deal size, combined payment method (cash and stock) as well as private legal status of the target company are positive correlated to CARs of acquiring companies and thus value creation across all samples, no statistically significant results were obtained for the percentage of ownership acquired (refer to *points 5.3.2 – 5.3.5*).

6.2 Limitations

In the following the major limitation factors, challenging the results obtained in this study, are outlined.

First, empirical findings in this thesis are tested for robustness by applying a parametric t-test. However, parametric tests are based on a set of assumptions about the distribution of the sample population. The parametric test requires independent, identical and normal distribution of abnormal returns in order to deliver valuable test results. Although parameters such as mean, skewness and excess kurtosis indicate across all samples a tendency towards normal distribution of the sample populations, no further normal distribution tests were conducted (refer to *point 4.2.6*). Although the large total sample size of 1,434 observations supports the normal distribution assumption, the "focused outbound emerging markets" subsample 2a with only 102 observations is likely to be not perfectly normally distributed (refer to *point 5.1.1*). Therefore, the interpretation of results obtained in this thesis is contingent upon independent, identical and normal distribution of abnormal returns.

Second, the event study research methodology applied in this thesis relies on the hypothesis of perfectly efficient capital markets. More precisely, it is assumed that share prices of acquiring companies reflect all economic gains/losses expected from the acquisition already at the time of the M&A announcement. However, the perfect capital market theory assumes no transaction costs as well as the absence of information asymmetries which cannot be confirmed in the "real" world. Especially in smaller and indebted emerging market economies imperfect capital markets can be observed (*Agénor, 1997*). According to *Bild (1998)* stock market reactions to M&A announcements may reflect various factors independent from the marginal impact of the acquisitions. Although the impact of confounding factors is addressed by different initiatives (refer to *point 4.1.2*) there is a remaining probability of factors driving the share price independent from the impact of the acquisition announcement.

Third, the choice of the short term event window comprising 21 trading days around the event date (-10,10) bears the risk that potential information leakage more than 10 days prior to the event day is not captured in the abnormal returns. Additionally, delays in the information dissemination exceeding day ten post the M&A announcement may lead to incomplete value creation results *(Peterson 1989)*.

Fourth, results obtained in the OLS-regression have to be interpreted with caution since the R-squared obtained is fairly low indicating that only a minor fraction of the dependent variable variation can be explained through the linear model suggested (refer to *point 5.3*). Therefore, there are probably a range of other factors that might drive CARs of acquiring companies which are not considered in the analysis of this thesis.

Finally, all acquiring companies included in the sample are listed public firms since share price value creation is substance of the analysis. Therefore, suggestions derived from the results are solely limited to public listed companies. Furthermore, no conclusions on the future value creation of individual companies should be drawn, since the results presented in *point 5.2* are average values derived from a large sample of different acquiring firms.

6.3 Recommendations for Future Research

Based on topics revealed in the interpretation of empirical findings (refer to *point 5.2)* the following areas for potential future research are recommended.

First, the comparison of "outbound emerging markets" and "inbound emerging markets" M&A value creation in this thesis revealed in contradiction to previous expectations no significant difference between both developed countries and emerging countries acquirers. As suggested by *Kale (2004)* the difference in value creation between emerging and developed markets companies continuously decreases as an increasing number of emerging markets companies become multinational and thus also benefits from experience in international M&A. Therefore, in order to confirm this suggestion future research is recommended to compare value creation of "outbound emerging markets" acquiring companies engaged in M&A in the past with value creation of referring companies engaged in similar transactions in the recent years to draw conclusions about the evolution of value creation over time.

Second, as suggested in *point 5.2.4* and *5.2.5* in this study no differentiation is made between related and unrelated industry diversification. Therefore, in order to capture the value effect for this two different M&A types in contrast to industry focused M&A strategies for both

"outbound emerging markets" as well as "inbound emerging markets" acquiring companies, future event studies should consider this differentiation.

Third, as suggested in *point 5.2.2* the definition of domestic M&A in this thesis differs from the general definition applied in most studies. Whereas in this study "domestic emerging markets" M&A refers to transactions with acquiring and target company coming from emerging markets but not necessarily the same country, usually domestic M&A comprises transactions with acquiring and target companies coming from the same country. Therefore, future research is recommended to distinguish between "real" domestic M&A within emerging markets as well as cross-border M&A within emerging markets. Additionally, a comparison between these two samples in combination with "outbound emerging markets" as well as "inbound emerging markets" M&A value creation would add value to the empirical findings obtained in this thesis.

Finally, this study is limited to the short term effects of M&A announcements. Therefore domestic, inbound and outbound emerging markets transactions and their value creation for acquiring companies should also be the focus of studies analyzing the long term value impact of acquisitions by application of research methods such as the accounting study or the incremental cash flow method (refer to *point 4.1.2*).

6.4 Managerial Implications

In this closing paragraph a linkage between the empirical findings obtained in this study and the implications for operational decisions within businesses is established.

As suggested in *point 6.1* "domestic emerging markets" transactions with acquiring and bidding companies coming from emerging countries create the highest shareholder value around the M&A announcement for the acquiring company in this sample. Therefore, decision makers in emerging markets companies searching for M&A opportunities have to consider that especially the takeover of targets from emerging markets has the potential to create significant positive shareholder value in the short term. Although there is an ongoing trend of emerging markets firms acquiring companies in developed countries, managers have to be aware that in terms of shareholder value creation a developing country target is likely to be superior to a developed country target.

Additionally, results of the thesis suggest that for both "inbound emerging markets" acquiring companies as well as "outbound emerging markets" bidding firms value creation is only realized for industry diversifying transactions, whereas industry focused takeovers do not

yield to statistically significant positive CAARs (refer to *points 5.2.4 – 5.2.6*). Although focused takeovers are more likely to translate into wealth creation in the long term through the realization of operational, managerial and market power synergies (refer to *point 2.1.1)*, managers should consider the opportunity to create shareholder value in the short term through industry diversifying takeovers.

Finally, with reference to the OLS-regression results obtained across all samples (refer *to point 5.3*) it is more beneficial in terms of shareholder value creation for acquiring companies to purchase a not listed privately held company by using a combined payment method (stock and cash), while large value transactions are additionally more likely to provoke positive stock market reactions. Therefore, managers of acquiring companies are advised to consider the superiority of privately held target firms over a listed target companies in terms of short term shareholder value creation. Additionally, if possible a combined payment method should be negotiated since it is more likely to translate into shareholder value than cash-only and stock-only payments. Furthermore, decision makers in acquiring companies should take into consideration to engage primarily in large value transactions since it is more likely to generate shareholder wealth in the short term compared with small-sized transactions.

Appendices

Exhibit 33 − Theories of M&A Objectives
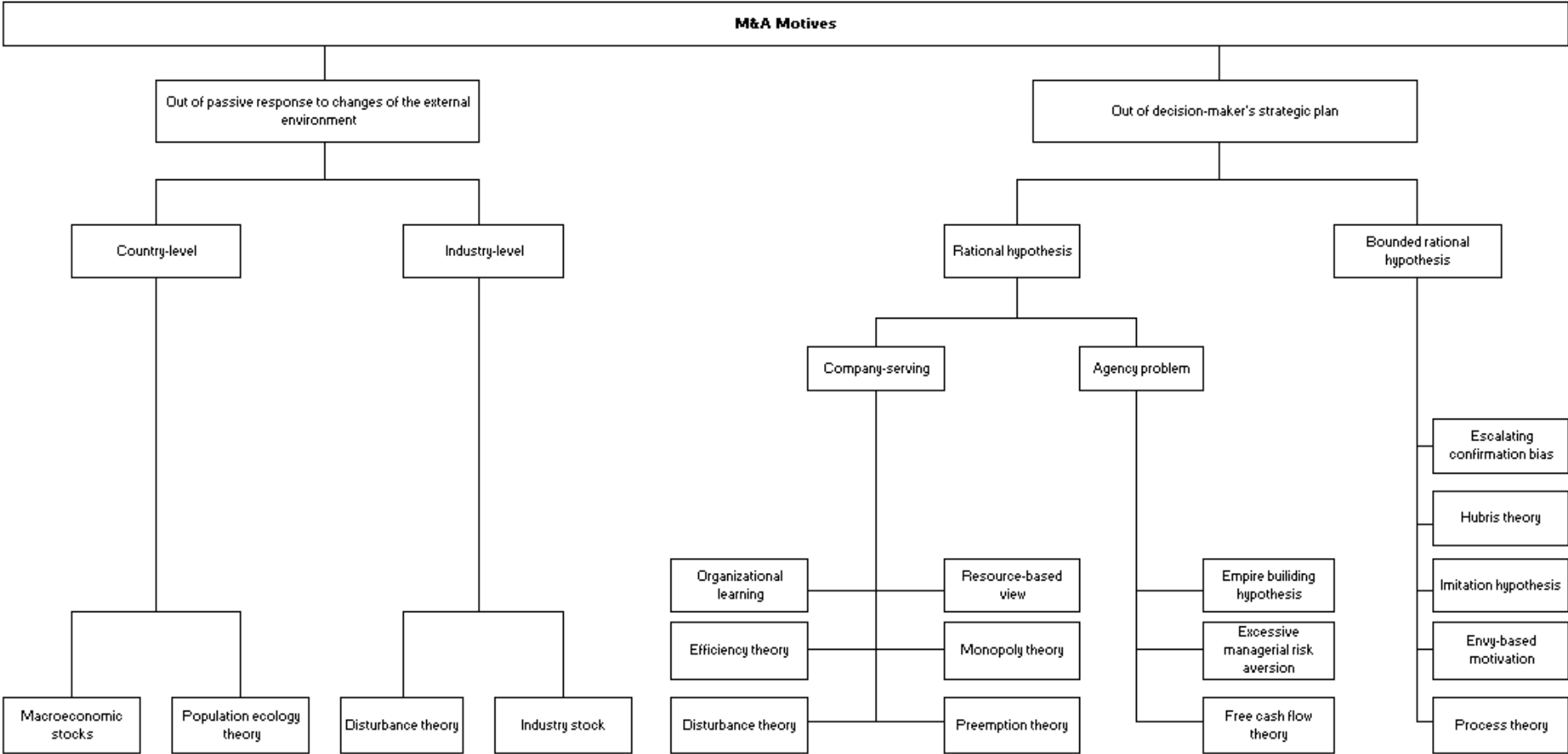
Exhibit 34 − Summary M&A Value Creation Event Studies

Panel A: Returns to the Target Shareholders

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Maquieira et al. (1998)	41.65% conglomerate 38.08% non-congl.	47 55	1963-1996	(-60,60)	61.8.% 83.0%	Diversified	U.S.	Study of returns for conglomerate and non-conglomerate stock-for-stock mergers
Mulherin & Boone (2000)	21.2%	376	1990-1999	(-1,1)	N/A	Financial and non-financial	U.S.	
Mulherin (2000)	10.14%	202	1962-1997	(-1,0)	76%	Diversified	U.S.	A sample of incomplete acquisitions
DeLong (2001)	16.61%	280	1988-1995	(-10,1)	88.6%	Banking	U.S.	Studied deals with one partner being a bank
Houston et al. (2001)	15.58% 24.60% 20.80%	27 37 64	1985-1990 1991-1996 1985-1996	(-4,1)	N/A	Banking	U.S.	Deals with both partners being banks
Martinez- Jerez (2002)	13.62%	335	1990-1998	(-1,1)	82%	Diversified non-financial	U.S.	Pooling of interests versus purchases
Kuipers et al. (2002)	35.83% 32.22% 3.60% 23.07%	181	1982-1991	AD-20 to ED+5	N/A	Diversified non-financial	OECD countries	AD: first announcement date of any bid for US or foreign target ED: corresponding effective date of the final bid for the target

Panel A: Returns to the Target Shareholders (Continued)

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Georgen & Renneboog (2004)	9.01% 12.96% 15.92% 23.43% 21.78% .21.59%	129	1993-2000	(-1, 0) (-2, 2) (-5, 5) (-30,30) (-60,60) (-90,90)	N/A	Diversified	European	Large acquisitions (over USD 100 million)
Karceski et al. (2000)	8.48%	39	1983-1996	(-7,0) (1,7)	N/A	Banking	Norway.	
Schwert (1996)	23.4%	1,814	1975-1991	(-42,126)	N/A	Diversified	U.S.	All successful and unsuccessful merger offers in the U.S.
Schwert (2000)	20.0%	2,296	1975-1996	(-63,126)	N/A	Diversified	U.S.	All successful and unsuccessful merger offers in the U.S.
Tauseef & Nihast (2014)	-0.14% 1.86% 2.79% 2.35% -0.81% -7.47% -0.79% 6.85% -9.07% -2.23%	7	2003-2008	(-30,-20) (-20,-11) (-10,-1) (0) (1,10) (11,20) (21,30) (-30,0) (0,30) (-30,30)	N/A	Banking	Pakistan	Takeovers in the Pakistan banking industry

Panel A: Returns to the Target Shareholders (Continued)

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Akben-Selcuk (2014)	5.25% 8.53%.	67	2000-2014	(-1,1) (-5,5)	N/A	Diversified	Turkey	Turkish target companies analyzed
Mallikarjunappa & Panduranga (2014)	36.68%	227	1998-2007	(-30,30)	N/A	Diversified	India.	
Martynova & Renneboog (2008)	26.84% cross-border 24.99% Domestic	296 764	1993-2001	(-60,60)	N/A	Diversified	Europe, Russia and U.K.	Comparison of domestic and cross-border acquisitions

Panel B : Returns to Acquiring Shareholders

Panel B1: Studies Reporting Negative Returns to Acquirer

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Mulherin & Boone (2000)	-0.37%.	281	1990-1999	(-1,1)	N/A	Diversified, non-financial	U.S.	
Mitchell & Stratford (2000)	-0.14%	366	1961-1993	(-1,0)	N/A			Fama and French 3-factor model applied to monthly returns
Walker (2000)	-0.84%	278	1980-1996	(-2,2)	41.4%	Non-financial and non-utilities bank	U.S.	A sample of incomplete acquisitions
DeLong (2001)	-1.68%	280	1988-1995	(-10,1)	33.6%	Banking	U.S.	Deals in which at least one party is a bank
Houston et al. (2001)	-4.64% -2.61% .-3.47%	27 37 64	1985-1990 1991-1996 1985-1996	(-4,1)	N/A	Banking	U.S.	Deals in which both parties are banks
Martinez- Jerez (2002)	-2.93%	335	1990-1998	(-1,1)	32%	Diversified	U.S.	
Georgen & Renneboog. (2004)	0.70% 1.18% 0.39% -0.48% 0.41%	139	1993-2000	(-1,0) (-2,2) (-30,30) (-60,60) (-90,90)	N/A	Diversified	18 European countries	Large acquisitions (over USD 100 million)

Panel B : Returns to Acquiring Shareholders (Continued)

Panel B1: Studies Reporting Negative Returns to Acquirer

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Kuipers et al. (2002)	-2.12% -2.14% -1.32% -0.06% -0.92%	138	1990-1998	AD-20 to ED+5 AD-5 to ED+5 AD-5 to AD+5 AD-20 to AD-6 AD-1 to AD0	N/A	Diversified,	OECD	AD: first announcement date of any bid for U.S. or foreign target ED: corresponding effective date of the final bid for the target
Beitel et al. (2002)	-0.14% -0.01% -0.20%	98	1985-2000	0 (-1,1) (-20,20)	46%	Banking, Insurance	Developed & Developing Countries	Targets worldwide being acquired by European banks
Doukas et al. (2002)	-2.37% -1.12% -0.52% 0.62% -0.91%	101	1980-1995	(-5,5) (-5,1) (-1,1) (-1,0) (0,1)	46%	Diversified	Sweden	Diversifying acquisitions display negative returns
Martynova & Renneboog (2008)	-3.63% cross-border -2.49% domestic	653 1456	1993-2001	(-60,60)	N/A	Diversified	Europe, Russia and U.K.	Comparison of domestic and cross-border acquisitions

Panel B2: Studies Reporting Positive Returns to Acquirer

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Maquieria et al. (1998)	6.14% non-conglomerate -4.79% conglomerate	55 47	1963-1996	(-60,60)	61.8% 36.2%	Diversified,	U.S.	Study of returns in conglomerate and non-conglomerate stock deals
Mulherin (2000)	0.85%	161	1962-1997	(-1,0)	49.0%	Diversified	U.S.	A sample of incomplete acquisitions
Kohers & Kohers (2000)	1.37% cash deals 1.09% stocks 1.26% whole sample	961 673 1634	1980-1995	(0,1)	N/A	Technology	U.S.	Sample of mergers among high-tech firms
Floreani & Rigamonti (2001)	3.65%	56	1996-2000	(-20,2)	N/A	Insurance	U.S., Europe, Australia	
Raj & Forsyth (2002)	1.60% 0.75%	340	1994-1998	(-15,15)	N/A	Diversified	U.K.	Related Sample Unrelated Sample

Panel B2: Studies Reporting Positive Returns to Acquirer

Study	Cumulative Abnormal Returns	Sample Size	Sample Period	Event Window (days)	Positive Returns	Industry Coverage	Country Coverage	Notes
Beitel et al. (2002)	0.42% 0.14% 0.38% 0.07% 0.06% 0.18% 0.46% 0.24%	98	1985-2000	(-20,0)	53%	Banking, Insurance	Developed & Developing Countries	Targets worldwide being acquired by European banks
Doukas et al. (2002)	2.74% 1.38% 1.19% 0.83% 0.95%	101	1980-1995	(-5,5) (-5,1) (-1,1) (-1,0) (0,1)	46.0%	Diversified	Sweden	Focused acquisitions display positive return
Jain et al. (2014)	2.26% 2.06% 2.25% 2.71% 2.74% 1.96% 1.79% -2.71%	255	2003-2008	(-20,-2) (-1,0) (-1,1) (-2,2) (-5,5) (-10,10) (-20,20) (2,20)	N/A	Diversified	India (cross-border)	Comparison of domestic acquisitions and cross-border acquisitions

Exhibit 35 − Contextual Factors Outbound M&A

Contextual Factor	Impact on CAR	Literature Source
State ownership of the acquiring company	Positive	*Boateng & Du (2015)*
High transaction value	Positive	*Aybar & Thanakijsombat (2015)* *Feito-Ruiz & Menéndez-Requejo (2011)*
Previous experience of acquiring firm in target country	Positive	*Aybar & Thanakijsombat (2015)*
Target company residing in higher operational risk country	Positive	*Aybar & Thanakijsombat (2015)*
Cross-border acquisitions involving distant national cultures	Positive	*Aybar & Thanakijsombat (2015)*
Large size of the target company	Positive	*Aybar & Ficici (2009)*
Private ownership structure of the target company	Positive	*Aybar & Ficici (2009)*
Diversified business structure of the acquiring company	Positive	*Aybar & Ficici (2009)*
Strong legal and institutional environment in acquirer's country	Positive	*Kuipers et al., 2009*
High corporate governance standard of target company	Positiv	*Khanna & Palepu (2004)* *Martynova & Rennebog (2008)*
Acquiring majority stake/corporate control in the target	Positiv	*Chari et al. (2004)*
Tender offer	Negative	*Narayan & Thenmozhi (2014)* *Feito-Ruiz & Menéndez-Requejo (2011)*
Weak legal and institutional environment in acquirer's country	Negative	*Feito-Ruiz & Menéndez-Requejo (2011)*
Acquiring company from high-tech or related industry	Negative	*Aybar & Ficici (2009)*

Exhibit 36 − Overview Hypotheses (1)

Hypothesis	Description
Hypothesis 1	The CAAR for the acquirer in the short term around the announcement date is larger or equal to zero.
Hypothesis 2	The CAAR for emerging markets acquirers in outbound emerging markets acquisitions is larger than the CAAR for emerging markets acquirers in domestic emerging markets M&A.
Hypothesis 3	The CAAR for acquirers from developed markets in inbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets in outbound acquisitions.
Hypothesis 4a	The CAAR for acquirers from emerging markets in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.
Hypothesis 4b	The CAAR for acquirers from developed markets in industry diversifying emerging markets inbound acquisitions is larger than the CAAR in industry focused inbound acquisitions.
Hypothesis 4c	The difference between industry diversifying and focused CAARs is larger for outbound acquirer from emerging markets than for inbound acquirer from developed markets.

Exhibit 37 − Estimation and Event Windows: Descriptive Statistics

Panels	N	Estimation Window						Event Window					
		Min Average Return (%)	Max Average Return (%)	Mean Average Return (%)	St. Dev. Average Return	Skew. Average Return	Kurtosis Average Return	Min Average Return (%)	Max Average Return (%)	Mean Average Return (%)	St. Dev. Average Return	Skew. Average Return	Kurtosis Average Return
A: domestic emerging markets													
Diversifying	275	-0.49	0.83	0.11	0.0021	0.26	0.11	-0.20	0.68	0.23	0.0028	0.00	-1.19
Focused	244	-0.75	0.70	0.08	0.0020	-0.20	0.69	-0.11	0.77	0.20	0.0022	0.82	0.82
Aggregated	519	-0.36	0.57	0.09	0.0015	0.00	0.05	-0.11	0.64	0.22	0.0021	0.13	-0.81
B: outbound emerging markets													
Diversifying	196	-0.44	0.76	0.07	0.0022	0.00	-0.21	-0.28	1.10	0.10	0.0035	1.59	2.38
Focused	102	-0.70	0.83	0.08	0.0026	0.01	0.04	-0.37	0.58	-0.01	0.0025	0.60	0.05
Aggregated	298	-0.35	0.63	0.07	0.0018	0.01	-0.12	-0.21	0.67	0.06	0.0024	1.19	0.84
C: inbound emerging markets													
Diversifying	339	-0 .63	0.64	0.07	0.0022	0.03	0.13	-0.24	1.35	0.16	0.0034	2.20	6.82
Focused	278	-0.58	0.88	0.06	0.0019	0.27	1.55	-0.30	0.74	0.04	0.0024	1.81	4.03
Aggregated	617	-0.32	0.38	0 .07	0.0013	-0.08	0.07	-0.23	0.96	0.12	0.0027	1.87	4.62

Reported are descriptive statistics for three panels namely **"domestic emerging markets"** *(Panel A)*, **"outbound emerging markets"***(Panel B)* and "inbound emerging markets" (*Panel C)* differentiating between "industry diversifying" and "industry focused" M&A strategies. Descriptive statistics refer to daily average returns of acquiring companies collected for both the estimation and the event window. The estimation window starts 265 prior to the event and ends 11 days prior to the event (M&A announcement) comprising thus 255 trading days in total (-265, -11).The event window of 21 trading days is starting 10 days prior to the event and ends 10 days post the event (-10, +10). All M&A announcements considered occurred in a period ranging from January 2000 until January 2016. *Panel A* presents the number of **"domestic emerging markets"** M&A announcements, the minimum, maximum, mean, standard deviation, skewness and excess kurtosis of the **"domestic emerging markets"** acquiring companies' average daily stock returns for both the estimation and the event window. *Panel B* and *C* present the same statistics for "outbound emerging markets" acquiring companies and "inbound emerging markets" acquiring companies respectively.

Exhibit 38 − Overview Hypotheses (2)

Hypothesis	Description
Hypothesis 1	The CAAR for acquiring companies in the short term around the announcement date is larger or equal to zero.
Hypothesis 2	The CAAR for emerging markets acquirers in outbound emerging markets acquisitions is larger than the CAAR for emerging markets acquirers in domestic emerging markets M&A.
Hypothesis 3	The CAAR for acquirers from developed markets in inbound emerging markets acquisitions is larger than the CAAR for acquirers from emerging markets in outbound acquisitions.
Hypothesis 4a	The CAAR for acquirers from emerging markets in industry diversifying emerging markets outbound acquisitions is larger than the CAAR in industry focused outbound acquisitions.
Hypothesis 4b	The CAAR for acquirers from developed markets in industry diversifying emerging markets inbound acquisitions is larger than the CAAR in industry focused inbound acquisitions.
Hypothesis 4c	The difference between industry diversifying and focused CAAR is larger for outbound acquirers from emerging markets than for inbound acquirers from developed markets.
Hypothesis 5	There is a positive correlation between cumulative abnormal return (CAR) and relative deal size.
Hypothesis 6	There is a positive correlation between cumulative abnormal return (CAR) and corporate control.
Hypothesis 7a	For M&A announcements with cash as payment method the CAR is lower than for announcements with the combined payment method.
Hypothesis 7b	For M&A announcements with stock as payment method the CAR is lower than for announcements with the combined payment method.
Hypothesis 8	For M&A announcements with public listed target companies the CAR is higher than for announcements with non-listed target companies.

Exhibit 39 − Event Window AARs and CAARs for the Aggregated Sample

Trading Days	Market Model				Constant Mean Model			
	AAR (%)	Sign.Test	CAAR (%)	Sign.Test	AAR (%)	Sign. Test	CAAR (%)	Sign. Test
-10	0.03	0.37	0.03	0.37	0.02	0.07	0.02	0.07
-9	0.05	0.61	0.08	0.69	0.07	0.32	0.08	0.28
-8	0.01	0.16	0.10	0.66	-0.04	0.21	0.04	0.11
-7	-0.22	2.62***	-0.12	0.74	-0.23	1.14	-0.19	0.47
-6	-0.04	0.51	-0.17	0.89	-0.02	0.11	-0.21	0.47
-5	-0.02	0.19	-0.18	0.89	-0.04	0.18	-0.25	0.51
-4	0.06	0.75	-0.12	0.54	0.06	0.28	-0.19	0.36
-3	0.07	0.77	-0.06	0.23	0.03	0.15	-0.16	0.28
-2	0.15*	1.72	0.09	0.35	0.21	1.05	0.05	0.08
-1	0.32	3.83***	0.41	1.55	0.30	1.47	0.35	0.54
0	**0.65**	**7.66***	**1.06**	**3.79***	**0.57**	**2.81***	**0.92**	**1.37**
+1	0.50	5.92***	1.56	5.33***	0.54	2.69***	1.46	2.08**
+2	-0.06	0.74	1.49	4.92***	-0.11	0.53	1.35	1.86*
+3	0.04	0.47	1.53	4.87***	0.01	0.05	1.36	1.80*
+4	-0.07	0.83	1.46	4.49***	-0.08	0.40	1.28	1.64
+5	-0.08	1.00	1.38	4.09***	-0.10	0.50	1.18	1.46
+6	0.17	2.02**	1.55	4.46***	0.14	0.71	1.32	1.59
+7	0.03	0.37	1.58	4.42***	-0.05	0.25	1.27	1.48
+8	0.07	0.89	1.66	4.51***	0.11	0.56	1.39	1.57
+9	-0.04	0.47	1.62	4.29***	-0.09	0.44	1.30	1.44
+10	0.07	0.85	1.69	4.37***	0.08	0.42	1.38	1.49

Reported are the average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the aggregated sample obtained through both the market and the constant mean model. T-statistics tests are performed to assess whether AARs and CAARs are statistically different from zero, based on a standard error estimated from the time series of AARs in the estimation period (refer to *point 4.2.6*). *, ** and *** show respectively that the referring return is significant under the level of 10%, 5% and 1%.

Exhibit 40 − Event Window AARs and CAARs for Domestic and Outbound

Panels	Market Model				Constant Mean Model			
	AAR (%)	Sign.Test	CAAR (%)	Sign.Test	AAR (%)	Sign. Test	CAAR (%)	Sign. Test
Panel A: Domestic Emerging Markets								
-10	0.06	0.43	0.06	0.43	0.08	0.50	0.08	0.50
-9	0.03	0.26	0.09	0.49	0.15	0.96	0.22	1.03
-8	-0.10	0.77	-0.01	-0.05	-0.10	0.69	0.12	0.45
-7	-0.18	1.36	-0.19	-0.72	-0.20	1.34	-0.09	0.28
-6	0.13	0.96	-0.06	-0.21	0.11	0.71	0.02	0.06
-5	-0.19	1.44	-0.25	-0.78	-0.14	0.94	-0.12	0.33
-4	0.03	0.22	-0.23	-0.64	0.05	0.34	-0.07	0.17
-3	0.01	0.10	-0.21	-0.57	0.04	0.25	-0.03	0.07
-2	0.23	1.77*	0.02	0.06	0.29	1.93*	0.26	0.57
-1	0.48	3.62***	0.50	1.20	0.46	3.04***	0.72	1.51
0	**0.61**	**4.62***	**1.12**	**2.53****	**0.55**	**3.60***	**1.27**	**2.52****
+1	0.24	1.84*	1.36	2.96***	0.20	1.33	1.47	2.80***
+2	-0.21	1.58	1.15	2.40**	-0.19	1.25	1.28	2.34**
+3	0.24	1.81*	1.39	2.80***	0.31	2.06**	1.59	2.81***
+4	0.05	0.38	1.44	2.80***	0.09	0.56	1.68	2.86***
+5	-0.09	0.71	1.35	2.54**	-0.09	0.60	1.59	2.62***
+6	0.31	2.32**	1.65	3.02***	0.32	2.11**	1.91	3.05***
+7	0.36	2.73***	2.02	3.58***	0.28	1.85*	2.19	3.40***
+8	0.28	2.10**	2.29	3.97***	0.33	2.15**	2.51	3.80***
+9	-0.08	0.59	2.22	3.74***	-0.11	0.71	2.41	3.55***
+10	0.19	1.43	2.41	3.96***	0.21	1.42	2.62	3.77***
Panel B: Outbound Emerging Markets								
-10	-0.02	0.10	-0.02	0.10	-0.01	0.06	-0.01	0.06
-9	0.06	0.34	0.04	0.17	-0.03	0.17	-0.05	0.16
-8	0.08	0.43	0.12	0.39	-0.04	0.21	-0.09	0.26
-7	-0.10	0.58	0.02	0.05	-0.16	0.81	-0.25	0.63
-6	-0.26	1.45	-0.25	0.61	-0.23	1.15	-0.47	1.08
-5	0.12	0.65	-0.13	0.29	-0.03	0.16	-0.50	1.05
-4	-0.14	0.75	-0.26	0.55	-0.27	1.36	-0.77	1.48
-3	-0.06	0.30	-0.32	0.62	-0.12	0.59	-0.89	1.60
-2	0.21	1.16	-0.11	0.20	0.37	1.86*	-0.52	0.89
-1	0.32	1.77*	0.21	0.37	0.30	1.54	-0.22	0.35
0	**0.72**	**3.98***	**0.94**	**1.55**	**0.60**	**3.05***	**0.38**	**0.58**
+1	0.35	1.95*	1.29	2.05**	0.42	2.15**	0.80	1.18
+2	0.16	0.89	1.46	2.22**	0.02	0.11	0.83	1.17
+3	-0.15	0.83	1.30	1.92*	-0.27	1.38	0.55	0.75
+4	-0.14	0.76	1.17	1.66*	-0.19	0.96	0.37	0.48
+5	-0.17	0.94	1.00	1.37	-0.24	1.23	0.12	0.16
+6	0.13	0.73	1.13	1.50	0.03	0.14	0.15	0.19
+7	-0.12	0.65	1.01	1.31	-0.12	0.59	0.04	0.04
+8	-0.14	0.78	0.87	1.10	-0.21	1.05	-0.17	0.20
+9	0.19	1.06	1.06	1.30	0.08	0.41	-0.09	0.10
+10	0.26	1.42	1.32	1.58	0.20	1.04	0.12	0.13

Reported are the average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the "domestic emerging markets" *(Panel A)* and "outbound emerging markets" *(Panel B)* samples obtained through both the market and the constant mean model. T-statistics tests are performed to assess whether AARs and CAARs are statistically different from zero, based on a standard error estimated from the time series of AARs in the estimation period (refer to *point 4.2.6*). *, ** and *** show respectively that the referring return is significant under the level of 10%, 5% and 1%.

Exhibit 41 − Event Window AARs and CAARs for Inbound and Outbound

Panels	Market Model				Constant Mean Model			
	AAR (%)	Sign.Test	CAAR (%)	Sign.Test	AAR (%)	Sign. Test	CAAR (%)	Sign. Test
Panel A: Inbound Emerging Markets								
-10	0.03	0.27	0.03	0.27	-0.02	0.18	-0.02	0.18
-9	0.06	0.50	0.09	0.55	0.04	0.35	0.02	0.12
-8	0.08	0.65	0.17	0.82	0.01	0.08	0.03	0.15
-7	-0.31	2.57**	-0.14	0.57	-0.29	2.22**	-0.25	0.98
-6	-0.08	0.65	-0.22	0.80	-0.03	0.26	-0.29	1.00
-5	0.07	0.54	-0.15	0.51	0.05	0.39	-0.24	0.75
-4	0.19	1.55	0.04	0.11	0.22	1.70*	-0.02	0.05
-3	0.17	1.38	0.20	0.59	0.09	0.74	0.08	0.21
-2	0.04	0.31	0.24	0.66	0.07	0.57	0.15	0.39
-1	0.19	1.58	0.43	1.13	0.16	1.24	0.31	0.76
0	**0.64**	**5.24***	**1.07**	**2.65***	**0.57**	**4.44***	**0.88**	**2.06**
+1	0.78	6.46***	1.85	4.41***	0.89	6.92***	1.77	3.97***
+2	-0.05	0.39	1.80	4.12***	-0.10	0.76	1.67	3.61***
+3	-0.04	0.31	1.77	3.89***	-0.11	0.84	1.56	3.25***
+4	-0.14	1.14	1.63	3.47***	-0.17	1.31	1.39	2.80***
+5	-0.03	0.28	1.59	3.28***	-0.04	0.33	1.35	2.63***
+6	0.07	0.59	1.67	3.33***	0.05	0.38	1.40	2.64***
+7	-0.17	1.44	1.49	2.90***	-0.30	2.33**	1.10	2.02**
+8	0.01	0.07	1.50	2.83***	0.09	0.71	1.19	2.13**
+9	-0.12	0.98	1.38	2.54**	-0.15	1.19	1.04	1.81*
+10	-0.12	0.97	1.26	2.27**	-0.08	0.65	0.96	1.62
Panel B: Outbound Emerging Markets								
-10	-0.02	0.10	-0.02	0.10	-0.01	0.06	-0.01	0.06
-9	0.06	0.34	0.04	0.17	-0.03	0.17	-0.05	0.16
-8	0.08	0.43	0.12	0.39	-0.04	0.21	-0.09	0.26
-7	-0.10	0.58	0.02	0.05	-0.16	0.81	-0.25	0.63
-6	-0.26	1.45	-0.25	0.61	-0.23	1.15	-0.47	1.08
-5	0.12	0.65	-0.13	0.29	-0.03	0.16	-0.50	1.05
-4	-0.14	0.75	-0.26	0.55	-0.27	1.36	-0.77	1.48
-3	-0.06	0.30	-0.32	0.62	-0.12	0.59	-0.89	1.60
-2	0.21	1.16	-0.11	0.20	0.37	1.86*	-0.52	0.89
-1	0.32	1.77*	0.21	0.37	0.30	1.54	-0.22	0.35
0	**0.72**	**3.98***	**0.94**	**1.55**	**0.60**	**3.05***	**0.38**	**0.58**
+1	0.35	1.95*	1.29	2.05**	0.42	2.15**	0.80	1.18
+2	0.16	0.89	1.46	2.22**	0.02	0.11	0.83	1.17
+3	-0.15	0.83	1.30	1.92*	-0.27	1.38	0.55	0.75
+4	-0.14	0.76	1.17	1.66*	-0.19	0.96	0.37	0.48
+5	-0.17	0.94	1.00	1.37	-0.24	1.23	0.12	0.16
+6	0.13	0.73	1.13	1.50	0.03	0.14	0.15	0.19
+7	-0.12	0.65	1.01	1.31	-0.12	0.59	0.04	0.04
+8	-0.14	0.78	0.87	1.10	-0.21	1.05	-0.17	0.20
+9	0.19	1.06	1.06	1.30	0.08	0.41	-0.09	0.10
+10	0.26	1.42	1.32	1.58	0.20	1.04	0.12	0.13

Reported are the average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the "inbound emerging markets" *(Panel A)* and "outbound emerging markets" *(Panel B)* samples obtained through both the market and the constant mean model. T-statistics tests are performed to assess whether AARs and CAARs are statistically different from zero, based on a standard error estimated from the time series of AARs in the estimation period (refer to *point 4.2.6*). *, ** and *** show respectively that the referring return is significant under the level of 10%, 5% and 1%.

Exhibit 42 − Event Window AARs and CAARs for Diversified and Focused Outbound

Panels	Market Model				Constant Mean Model			
	AAR (%)	Sign.Test	CAAR (%)	Sign.Test	AAR (%)	Sign. Test	CAAR (%)	Sign. Test
Panel A: Diversifying Outbound Emerging Markets								
-10	-0.16	0.79	-0.16	0.79	-0.15	0.69	-0.15	0.69
-9	0.12	0.57	-0.04	0.15	0.09	0.41	-0.06	0.19
-8	0.06	0.28	0.01	0.04	-0.10	0.47	-0.17	0.43
-7	-0.28	1.37	-0.27	0.65	-0.33	1.47	-0.49	1.10
-6	-0.09	0.42	-0.36	0.77	-0.06	0.28	-0.56	1.11
-5	0.09	0.42	-0.27	0.53	-0.14	0.62	-0.69	1.27
-4	-0.20	0.97	-0.47	0.86	-0.35	1.56	-1.04	1.76*
-3	-0.06	0.30	-0.54	0.91	-0.23	1.05	-1.28	2.02**
-2	0.43	2.06**	-0.11	0.18	0.50	2.22**	-0.78	1.16
-1	0.27	1.31	0.16	0.25	0.19	0.84	-0.59	0.84
0	**1.15**	**5.56*** **	**1.32**	**1.91***	**1.03**	**4.60*** **	**0.44**	**0.59**
+1	0.58	2.80***	1.90	2.64***	0.77	3.43***	1.21	1.55
+2	0.17	0.81	2.07	2.76***	0.03	0.13	1.24	1.53
+3	-0.05	0.26	2.01	2.59***	-0.19	0.85	1.04	1.25
+4	-0.10	0.50	1.91	2.37**	-0.14	0.61	0.91	1.05
+5	-0.13	0.64	1.77	2.14**	-0.17	0.77	0.73	0.82
+6	0.20	0.98	1.98	2.31**	0.16	0.73	0.90	0.97
+7	-0.12	0.59	1.86	2.11**	-0.17	0.75	0.73	0.77
+8	-0.26	1.25	1.60	1.76*	-0.28	1.23	0.45	0.47
+9	0.31	1.48	1.90	2.05**	0.18	0.82	0.64	0.64
+10	0.10	0.48	2.00	2.11**	0.09	0.40	0.73	0.71
Panel B:Focused Outbound Emerging Markets								
-10	0.26	0.78	0.26	0.78	0.26	0.73	0.26	0.73
-9	-0.05	0.14	0.22	0.45	-0.27	0.77	-0.01	0.03
-8	0.12	0.35	0.33	0.57	0.08	0.22	0.06	0.11
-7	0.24	0.72	0.57	0.85	0.16	0.46	0,23	0.32
-6	-0.60	1.80*	-0.03	0.04	-0.54	1.53	-0.31	0.40
-5	0.18	0.54	0.15	0.18	0.18	0.49	-0.14	0.16
-4	-0.01	0.03	0.14	0.16	-0.11	0.32	-0.25	0.27
-3	-0.04	0.12	0.10	0.10	0.12	0.32	-0.14	0.14
-2	-0.20	0.61	-0.10	0.10	0.11	0.32	-0.02	0.02
-1	0.42	1.24	0.31	0.29	0.52	1.48	0.50	0.45
0	**-0.10**	**0.31**	**0.21**	**0.19**	**-0.22**	**0.63**	**0.28**	**0.23**
+1	-0.08	0.24	0.13	0.11	-0.24	0.68	0.03	0.03
+2	0.15	0.45	0.28	0.23	0.00	0.01	0.04	0.03
+3	-0.34	1.00	-0.06	0.04	-0.43	1.21	-0.39	0.29
+4	-0.20	0.60	-0.26	0.20	-0.29	0.81	-0.68	0.49
+5	-0.25	0.73	-0.50	0.37	-0.37	1.06	-1.05	0.74
+6	0.00	0.01	-0.50	0.37	-0.23	0.65	-1.28	0.87
+7	-0.11	0.32	-0.61	0.43	-0.02	0.04	-1.30	0.86
+8	0.09	0.26	-0.53	0.36	-0.07	0.21	-1.37	0.89
+9	-0.03	0.08	-0.55	0.37	-0.11	0.32	-1.48	0.94
+10	0.56	1.68*	0.01	0.01	0.42	1.19	-1.06	0.65

Reported are the average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the "diversifying outbound emerging markets" *(Panel A)* and *"focused outbound emerging markets" (Panel B)* subsamples obtained through both the market and the constant mean model. T-statistics tests are performed to assess whether AARs and CAARs are statistically different from zero, based on a standard error estimated from the time series of AARs in the estimation period (refer to *point 4.2.6*). *, ** and *** show respectively that the referring return is significant under the level of 10%, 5% and 1%.

Exhibit 43 − Event Window AARs and CAARs for Diversified and Focused Inbound

Panels	Market Model				Constant Mean Model			
	AAR (%)	Sign.Test	CAAR (%)	Sign.Test	AAR (%)	Sign. Test	CAAR (%)	Sign. Test
Panel A: Diversifying Inbound Emerging Markets								
-10	-0.04	0.22	-0.04	0.22	-0.03	0.15	-0.03	0.15
-9	0.13	0.73	0.09	0.36	0.09	0.44	0.06	0.20
-8	0.04	0.24	0.14	0.44	-0.06	0.31	0.00	0.01
-7	-0.37	2.03**	-0.23	0.63	-0.33	1.71*	-0.33	0.87
-6	-0.01	0.07	-0.25	0.60	0.06	0.31	-0.27	0.63
-5	0.10	0.54	-0.15	0.33	0.08	0.44	-0.19	0.40
-4	0.46	2.53**	0.32	0.65	0.48	2.52**	0.30	0.58
-3	0.17	0.95	0.49	0.94	0.13	0.69	0.43	0.79
-2	0.09	0.48	0.58	1.05	0.09	0.46	0.52	0.90
-1	0.29	1.56	0.87	1.49	0.29	1.52	0.81	1.33
0	**0.51**	**2.78***	**1.38**	**2.26**	**0.48**	**2.49**	**1.29**	**2.02**
+1	1.21	6.59***	2.59	4.06***	1.18	6.15***	2.48	3.71***
+2	-0.04	0.23	2.54	3.84***	-0.12	0.61	2.36	3.40***
+3	-0.16	0.85	2.39	3.47***	-0.12	0.64	2.23	3.10***
+4	-0.09	0.50	2.30	3.23***	-0.01	0.06	2.22	2.98***
+5	0.12	0.64	2.41	3.29***	0.10	0.52	2.32	3.01***
+6	0.28	1.54	2.70	3.56***	0.18	0.93	2.50	3.15***
+7	-0.20	1.09	2.50	3.20***	-0.34	1.75*	2.16	2.65***
+8	0.05	0.29	2.55	3.18***	0.18	0.94	2.34	2.79***
+9	-0.15	0.81	2.40	2.92***	-0.19	1.00	2.15	2.50**
+10	-0.15	0.82	2.25	2.67***	-0.10	0.51	2.05	2.33**
Panel B:Focused Inbound Emerging Markets								
-10	0.12	0.69	0.12	0.69	-0.01	0.07	-0.01	0.07
-9	-0.03	0.16	0.09	0.37	0.00	0.02	-0.02	0.07
-8	0.12	0.68	0.21	0.69	0.10	0.49	0.08	0.23
-7	-0.24	1.33	-0.02	0.06	-0,23	1.19	-0.15	0.40
-6	-0.16	0.89	-0.18	0.45	-0.15	0.76	-0.30	0.70
-5	0.02	0.14	-0.16	0.36	0.01	0.04	-0.30	0.62
-4	-0.15	0.84	-0.31	0.65	-0.11	0.55	-0.40	0.78
-3	0.16	0.89	-0.15	0.29	0.05	0.25	-0.35	0.64
-2	-0.02	0.13	-0.17	0.32	0.05	0.27	-0.30	0.52
-1	0.08	0.42	-0.10	0.17	0.00	0.02	-0.31	0.50
0	**0.79**	**4.41***	**0.69**	**1.17**	**0.68**	**3.49***	**0.38**	**0.58**
+1	0.26	1.48	0.96	1.54	0.53	2.72***	0.91	1.34
+2	-0.05	0.30	0.90	1.40	-0.07	0.38	0.83	1.18
+3	0.11	0.59	1.01	1.51	-0.09	0.45	0.74	1.02
+4	-0.20	1.09	0.81	1.18	-0.36	1.84*	0.38	0.51
+5	-0.22	1.23	0.59	0.83	-0.22	1.11	0.17	0.22
+6	-0.19	1.05	0.41	0.55	-0.11	0.56	0.06	0.07
+7	-0.14	0.80	0.26	0.35	-0.25	1.29	-0.19	0.23
+8	-0.05	0.26	0.22	0.28	-0.02	0.10	-0.21	0.25
+9	-0.08	0.45	0.14	0.17	-0.11	0.54	-0.32	0.36
+10	-0.08	0.43	0.06	0.07	-0.07	0.34	-0.38	0.43

Reported are the average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the "diversifying inbound emerging markets" *(Panel A)* and "focused inbound emerging markets" *(Panel A)* subsamples obtained through both the market and the constant mean model. T-statistics tests are performed to assess whether AARs and CAARs are statistically different from zero, based on a standard error estimated from the time series of AARs in the estimation period (refer to *point 4.2.6*). *, ** and *** show respectively that the referring return is significant under the level of 10%, 5% and 1%.

Exhibit 44 − AARs and CAARs Differences for Inbound and Outbound

Date	Market Model		Constant Mean Model	
	AAR (%)	CAAR (%)	AAR (%)	CAAR (%)
Panel A: Difference Outbound Emerging Markets				
-10	-0.42	-0.42	-0.41	-0.41
-9	0.17	-0.26	0.37	-0.05
-8	-0.06	-0.32	-0.18	-0.23
-7	-0.52	-0.84	-0.49	-0.72
-6	0.52	-0.33	0.48	-0.25
-5	-0.09	-0.42	-0.31	-0.55
-4	-0.19	-0.61	-0.23	-0.79
-3	-0.02	-0.64	-0.35	-1.14
-2	0.63	-0.01	0.38	-0.76
-1	-0.14	-0.15	-0.34	-1.09
0	**1.26**	**1.11**	**1.25**	**0.16**
+1	0.66	1.77	1.01	1.18
+2	0.02	1.79	0.03	1.20
+3	0.28	2.07	0.24	1.43
+4	0.10	2.17	0.15	1.59
+5	0.11	2.27	0.20	1.78
+6	0.21	2.48	0.39	2.18
+7	-0.01	2.47	-0.15	2.03
+8	-0.35	2.13	-0.20	1.82
+9	0.34	2.45	0.30	2.12
+10	-0.47	1.99	-0.33	1.79
Panel B: Difference Inbound Emerging Markets				
-10	-0.16	-0.16	-0.02	-0.02
-9	0.16	0.00	0.09	0.08
-8	-0.08	-0.07	-0.16	-0.08
-7	-0.14	-0.21	-0.10	-0.18
-6	0.15	-0.07	0.21	0.03
-5	0.07	0.01	0.08	0.11
-4	0.62	0.63	0.59	0.70
-3	0.02	0.64	0.08	0.78
-2	0.11	0.75	0.04	0.82
-1	0.21	0.97	0.30	1.12
0	**-0.28**	**0.69**	**-0.20**	**0.91**
1	0.95	1.63	0.65	1.57
2	0.01	1.64	-0.04	1.53
3	-0.26	1.38	-0.04	1.49
4	0.10	1.49	0.35	1.84
5	0.34	1.82	0.32	2.15
6	0.47	2.29	0.29	2.44
7	-0.06	2.24	-0.09	2.35
8	0.10	2.33	0.20	2.55
9	-0.07	2.26	-0.09	2.47
10	-0.07	2.19	-0.03	2.43

Reported are differences between "industry diversifying" (*Panel A* in *Exhibit 42* and *43*) and industry focused" (*Panel B* in *Exhibit 42* and *43*) average abnormal daily returns (AARs) and cumulative average abnormal daily returns (CAARs) in the event window of 21 trading days for acquiring companies in the "outbound emerging markets" *(Panel A)* and "inbound emerging markets*" (Panel B)* subsamples obtained through both the market and the constant mean model.

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