ERASMUS SCHOOL OF ECONOMICS

Master Thesis

Accounting & Finance

Cross-Border Mergers and Acquisitions Performance by U.S. Firms to the Emerging and Developed Market

ABSTRACT

Prior research found various and comprehensive evidence on whether mergers and acquisitions (M&As) create or destroy value for shareholders. This thesis examines specifically the effect of cross-border M&As towards bidders' return. Using the final sample of 1,217 cross-border M&A transactions by U.S. firms during the period of 2002 to 2016, this thesis documents that M&A performance creates higher Cumulative Abnormal Return (CAR) for deals acquiring emerging market than developed market. When taking into account the merger period, it reveals that the time period after the last merger wave (2009-2016) brings better return compared to the time period in the sixth merger wave (2002-2008). This thesis also investigates the shareholders' protection as a measurement of corporate governance. Higher rank of shareholders' protection index in the target country is followed by a higher return for the acquirer.

Keywords: Cross-border M&A, Emerging Market, Developed Market, After Sixth Merger Wave, Shareholders' Protection.

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CHAPTER 1 Introduction

1.1 Background of Research

There has been an extensive research on the performance of merger and acquisition (henceforth abbreviated M&A), whether they create or destroy value. Many research compares between the gain of domestic and cross-border M&As. Domestic M&As occur when there is a consolidation of two companies within the same country. This strategy is frequently used by developed countries (i.e. U.S and European countries) for decades since the 1890s. The acquiring firm valuates the target firm and then reaches a deal price with the target executives. The M&A is assumed to create synergy, allowing the acquirer to transfer resources, products, and strength; with expectation to improve the target's position in the market. This would create value through an increase of market power and improvement in market position. As the world economy grows, in the 1990s, managers find the urge for expansion through geographical and product market diversification (Brouthers, Hastenburg, & Ven, 1998; Xu, 2017). They gain global strength by acquiring companies from other country; well-known as cross border M&As. The event of M&As by foreign investors have increased rapidly, creating new business opportunities and risks.

Cross-border M&As are used as the driving force for foreign direct investment (henceforth abbreviated FDI). The basic advantage of cross-border M&As lie in the efficiency motive to achieve synergy gain in a global scale (Hopkins, 1999). Garabato (2009) explained the importance of geopolitical and economic role of emerging market with a swift growth since the increase in FDI directed to and from emerging countries. According to UNCTAD 2017, the value of cross-border M&As towards developing countries, in which also included emerging countries, showed a growing pattern from 2010 to 2016 with a peak in 2014 amounting $129 billion. Numerous studies have been looking into the effect of cross-border M&As with target companies from developed countries. However, there is less research focusing on whether there is a positive impact in shareholders' return for the acquirers when acquiring firms from emerging market. A firm in the developed country that takeovers other firm in an emerging country receive a significantly positive reaction from the market, reflected in the acquiring firm's stock price that increased statistically and economically (Chari, Ouimet, & Tesar, 2010). FDI in the form of cross-border M&A to emerging countries becomes appealing, showing that these countries are transforming into global players (Garabato, 2009).

U.S. as a developed market has been the most active country in making M&A deals. 1993 was the beginning of U.S. expansion to emerging markets, driven by deregulation, market liberalization, and globalization (Andrade, Mitchell, & Stafford, 2001; Gaughan, 2010; de Pamphilis, 2015). This paper aims to examine whether the effect of emerging market firms that are acquired by U.S. firms is higher compared to developed market firms. It is an interesting topic because throughout the years, the M&A towards emerging countries has been very dynamic. Thus, the first research question is as follow:

RQ1: Is the acquirers' shareholder return of cross-border mergers and acquisitions by U.S. firms to the emerging market higher than to the developed market?

The increase of cross-border M&As by US firms started in the fifth wave in 1993, peaked in 2001, yet plummeted in 2002 when U.S. faced the dot-com bubble era. The U.S. Federal Reserve stimulated the economy back by keeping interest rates low. This accelerated the stock market with a rapid increase of M&As taking advantage of cheap credit and global market access (Alexandridis, Mavrovitis, & Travlos, 2011). Nonetheless, in the sixth merger wave that started in 2003, shareholders' awareness rose to exercise their rights as partial owners. Acquirers displayed less over-confidence on their ability to generate superior gain in M&As and made more rational decisions. The cross-border M&A value grew firmly by 124% from 2004 to 2007. Despite that, they still destroyed the value for shareholders. An explanation is that during the sixth merger cycle, the free cash flow problem exacerbated and investors were relatively less optimistic compared to previous cycle (Alexandridis et al., 2011). This wave ended when liquidity is evaporated due to the subprime mortgage crisis.

The cross-border takeover and restructuring activity was restored in 2010 with the amount of $44 billion for 179 deals, which exceeded the transaction value of $36 million and deal numbers of 145 in 2003 when it was recovering from the fifth merger wave. From the period 2009 to 2016, using Thomson One Database, this research found that there is a similar cross-border M&A wave pattern in transaction value that peaked at $69 billion in 2015, the highest value from any U.S. cross-border M&As that has ever occurred. The similar pattern, however, was not shown by the number of deal, which reached the highest in 2010 and then steadily decreased until 2016 with only 108 deal numbers. This phenomenon develops the second research questions:

RQ2: Is the acquirers' shareholder return of cross-border mergers and acquisitions by U.S. firms after the sixth merger wave higher than that in the sixth merger wave?

Additionally, this research examined the cross-sectional analysis about the impact of target's corporate governance quality, measured by the index of shareholders' protection at the country level, to acquirer's return in M&As transaction. Bhagat, Malhotra, & Zhu (2011) explained that there is a positive correlation between corporate governance quality of the target firms with the acquirer firm's return, for which confirms the bootstrapping hypothesis of Martynova & Renneboog's (2008) that argued bidders engage themselves with higher governance standard in the target countries, thus resulting a positive valuation impact. Accordingly, the third research questions is as follows:

RQ3: Does the cross-border mergers and acquisitions with a better corporate governance quality in the target country bring better shareholders' return for the acquirer?

Prior studies found mixed outcome on the shareholders' value in cross-border M&As. This paper aims to contribute to the M&As literature by examining the performance of post cross-border M&As acquired by U.S. firms through the cumulative abnormal return. Moreover, this study supplements the corporate governance literature by investigating whether shareholders' protection in the target's country strengthens the cumulative abnormal return of acquirer's shareholders.

The results of this thesis shall be applicable for practitioners, especially future acquirers, to reveal a better understanding of what is optimal for creating value for shareholders and firms while engaging in cross-border M&As. In order to discover the relation between cross-border M&As and shareholders' wealth creation, this paper analyses cross-border M&A transactions between 2002-2016.

The final sample consists of 1,217 M&A deals made by 762 U.S. acquirers in the period of January 1, 2000, to December 31, 2016. This study explores the merger wave pattern found during 2009 to 2016 which has a similar pattern in transaction value of those in the 1990s and 2000s. Each merger sequence starts after a financial crisis that ended the previous merger wave, it grows stronger when investors regain their confidence in the financial market (McCarthy & Dolfsma,

2013). The emphasis of this paper is on acquirer's return, from the perspective of the shareholders in the market. To examine the impact of cross-border M&As, the pre- and post- acquisition of the firms needs to be analyzed. A short-window event study is used to find the Cumulative Abnormal Returns (CAR) of the acquiring firms. This event study would be a tool to reflect the short-term gain or loss after the M&A announcement.

The primary finding of this thesis revealed that cross-border M&As by U.S. firms to the companies in emerging market resulted in a higher CAR compared to developed market, confirming that shareholders enjoy gain around the M&A announcement. Furthermore, for the period after sixth merger wave which shows a similar merger pattern, the empirical result showed that the event windows of CAR are positive, thus more profitable compared to sixth merger wave. The outcome holds when the study investigates the mergers occurred after 2009 in emerging countries, still indicating a positive return for shareholders.

In addition, this research also digs into the relation of CAR with the shareholders' protection in the target firm. Shareholders' protection is one of the aspect of corporate governance; to ensure outside investors receive a fair return on their investments and minimize the agency problem. Their rights are assessed through voting procedures which is calculated using Anti Director Rights Index (henceforth abbreviated ADRI). The higher the ADRI, the more protected are the shareholders in the country. As expected, this study's result shows that higher rank of ADRI in a target firm is followed with positive CAR of acquirer.

The paper is organized as follows. Chapter 2 elaborates the literature review and the development of hypotheses. Chapter 3 describes the data and sample selection and reviews the methodology used to examine the hypotheses. Chapter 4 shows the empirical results and discusses the key findings. Chapter 5 presents the conclusion, limitation of study, and suggestions for future study.

CHAPTER 2 Theoretical and Literature Review

This literature review presents an overview of cross-border mergers and acquisitions (CBMA) in general and CBMA of firms in the U.S. as acquirers to firms in the developed and emerging countries as targets in particular. This chapter, firstly, examines past research that studied the motivations of doing cross-border M&As, and gives a better understanding of the issues related to foreign M&As, their performance, and determinants. Furthermore, it breakdowns the theoretical arguments on the advantage of cross-border M&As by U.S. firms as the biggest acquirer and how it affects the acquirers' shareholders' wealth. Finally, it explains the corporate governance elements and how it links to the M&A performance.

2.1 Mergers and Acquisitions

M&As are known to be an economical tool to expand and consolidate two companies, where past literature has been connecting the organizational integration with strategic combination and financial performance (Larsson & Finkelstein, 1999). Corporate combination, which is either the merger of two separate companies to form a new entity or the acquisition of a smaller firm to become part of the larger entity, generally occurs when the manager of an acquiring firm perceives that the value of the combined firm is greater than the sum of the values of the separate firm (Jensen & Ruback, 1984; Jarrell, Brickley, & Netter, 1988; Andrade et al., 2001). The decision to merge is one of the most crucial and large corporate investment deal. Therefore, the risk for unsuccessful M&As would lead to a huge loss.

A successful M&A is expected to bring enhancement through production efficiencies and synergies and create market power through profit-maximizing prices. However, on the downside, managers' decision to execute M&As could have other motives. Jensen (1986) elaborated that managers tend to increase their individual utilities or influence, known as empire building, thus creating an agency problem, leading to value-decreasing acquisitions.

There has been an extent research on whether M&As create or destroy corporate's value. Jensen & Ruback (1984) concluded that company takeover creates gain, benefits the target's shareholders and does not inflict loss for the acquirer's shareholders, hence to find managerial actions that harm shareholders is difficult. This finding is in line with Jarrell et al. (1988) who indicated takeover gains are pro-target and the premiums represent real wealth gains, not simply wealth redistribution (resulting from the bidder's free cash flow that affects target's return, suggesting a redistribution

of wealth between bidders and targets). The direct evidence of gain for the shareholders of the acquiring and target companies are a positive increase of stock prices in the period around the announcement date. Several authors indicated similar results that M&As generate positive gains for merging corporations, by hypothesizing that both the acquirer and target firm expect growth and improvement in firm performance (Caves, 1989; Healy et al., 1992; Powell & Stark, 2005; Kruse et al., 2006; Gomes et al., 2013). On the other hand, other studies showed that M&As fail to create value, causing deterioration to occur in post-M&A profitability (Clark & Ofek, 1994; Dickerson, Gibson, & Tsakalotos, 1997; Tsung-Ming & Hoshino, 2002; Bertrand & Betschinger, 2012). Dickerson et al. (1997) found that acquisitions have a systematic detrimental effect which leads to a negative long term performance. This different result from various literatures might be attributable to the heterogeneous measures used to capture the changes in firms' performance.

2.2 Cross-border Mergers and Acquisitions

M&As are a common strategy largely used by the firms in developed countries to highlight the focus on synergies to gain market power. The year 1893 marked the first time of this business method, widely known as the "great merger movement" in U.S., particularly the manufacturing sector. This marked the first merger wave. Previous literature found evidence on the existence of different waves (Town, 1992; Golbe & White, 1993; Bowman et al., 2009; Gugler et al., 2012). These are well-known phenomenon specified by industry and time, documented with their own characteristics (McCarthy & Dolfsma, 2013; Xu, 2017).

Early studies found that merger waves exist due to technological, regulatory, or economic shock (Gort, 1969; Mitchell & Mulherin,1996; Martynova & Renneboog; 2008). Harford (2005) added that the shocks combined with sufficient capital liquidity drives industry assets to be reallocated through M&As. Thus, each merger wave connects with a business cycle and ends with a recession. There have been six merger waves documented with their own characteristics. Table 1 shows the detail of each M&A waves.

Starting from the fifth merger wave, U.S. corporations saw the importance of expansion in bigger economic scale, creating multinational companies to enter the market and diversify revenue streams. U.S. investors gained interest to enter into foreign market, and vice versa. This type of M&A that involves two countries with the regulation of the acquirer's enterprise country prevailing over the control of the target's company is then known as cross-border M&A (Erel,

Liao, & Weisbach, 2012). The expansion of U.S. firms continued accordingly in the sixth merger wave and even up to present year with the increase of shareholders' return awareness. From the M&A data in Thomson One database, the highest transaction value from the fifth merger wave, carried on to the sixth wave and grew steadily to the period after the sixth merger wave with the amount of $59.2 billion, $63.4 billion, and $69.1 billion, respectively.

The key benefit of cross-border M&A lies on its speed which is admitted to be more efficient and less time consuming. Cross-border M&As allow firms to do restructuration of target firm's operations to build synergies and obtain strategic advantages, such as market power and dominance, risk diversity, financial opportunities, and personal benefits. The forces are described in Figure 1.

Table 1. Mergers and Acquisitions Waves

	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	Wave 6
Period	1893-1904	1919-1929	1955-1969	1984-1989	1993-2000	2003-2008
Merger	Horizontal	Vertical	Conglomerate	Junk bonds & hostile takeovers	Mega deals	Global cross-border
Outcome	Monopolies	Oligopolies	Merger of different industries	LBOs	Globalization	Shareholder activism
Means of payment	Cash	Equity	Equity	Cash/Debt	Equity	Equity
Nature	Friendly	Friendly	Friendly	Hostile	Friendly	Friendly
End of wave	The Panic of 1901	The Great Depression	The Nifty Fifty Stock Bubble	The Savings and Loans Crisis	The Tech Bubble	The Subprime Mortgage Crisis
Industry	· Steel	· Oil & Gas · Transportation	· Aerospace · Machinery · Tobacco	· Processed Foods · Oil & Gas · Pharmaceuticals	· Banking · Technology · Communication	· Steel · Pharmaceuticals · Banking · Airlines

Note. Summary of takeover waves. Adapted from "A Century of Corporate Takeovers" by Martynova M. & Renneboog, L., 2008. *Journal of Banking & Finance 32,* p. 2148-2177.

Moreover, based on the World Investment Report of United Nations Conference on Trade and Development (UNCTAD) 2000, cross-border M&As are still executed despite the fact some acquisitions do not deliver the expected results such as the increase of market share prices and the rise of productivity to gain higher profits for the short term and long term effects respectively for the acquiring firms. Therefore, the growth of cross-border M&As as a way to expand firm is an interesting and ongoing topic where researchers try to find more evidence of its importance.

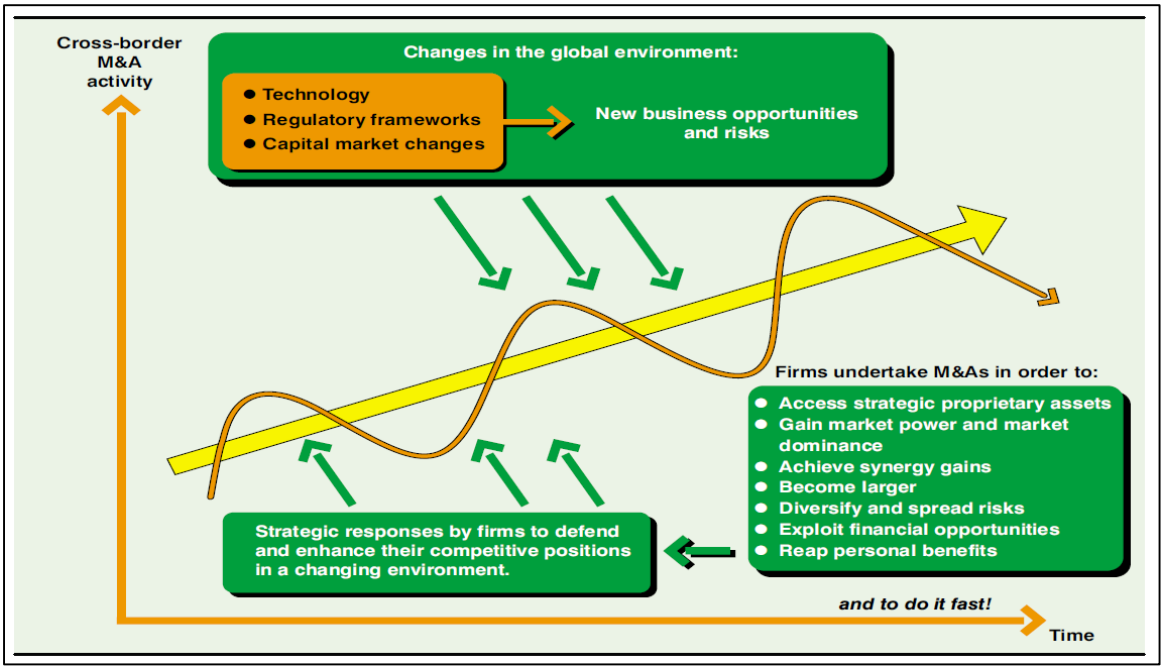


Figure 1. The Driving Forces of Cross-Border Merger and Acquisitions. Reprinted from "World Investment Report 2000. Cross border Mergers and Acquisitions and Development." by United Nations Conference on Trade and Development, United Nations New York and Geneva, 2000, p. 14.

2.3 Cross-border Mergers and Acquisitions to the Developed and Emerging Market

Cross-border M&As are proved to be used as the driving force for FDI. UNCTAD reported the indicators of FDI and showed that in 2015 cross border M&As contributed 41% of the total global FDI inflows. The large increase of cross-border M&As started in the 1993. U.S. started to gain global strength by acquiring companies overseas. The cross-border M&As did not concentrate in only one region, instead, the transactions spread widely. Furthermore, the volume of cross-border M&A as a mean of FDI by U.S. firms is shown in Figure 2. The FDI outflow from U.S. reached its peak in 1998 with 352 deals. The financial crisis could be an explanatory factor. The cross-border M&As began to recover in 2003, global deals were stimulated again and increased steadily. Previous studies found different results examining the impact of cross border acquisitions to acquirer shareholder's return both to developed and to emerging market. Chari, et al. (2010) found that a developed country's firm, when it acquires other firm in emerging country, receives a significant positive reaction from the market as the firm's stock price increased. Gabarato (2009) also argued that FDI in the form of cross-border M&A to emerging countries becomes appealing, showing that these countries are transforming into global players. On the other hand, Moeller &

Schlingemann (2005) compared the effect of cross border and domestic M&As and found that cross border M&As, both to developed and to emerging markets, have lower announcement return to the acquirer compare to that of domestic M&As. Moreover, Aw & Chatterjee (2004) examined the performance of UK firms from acquiring domestic target, US and Continental European targets and also found that UK firms experienced negatives cumulative abnormal return.

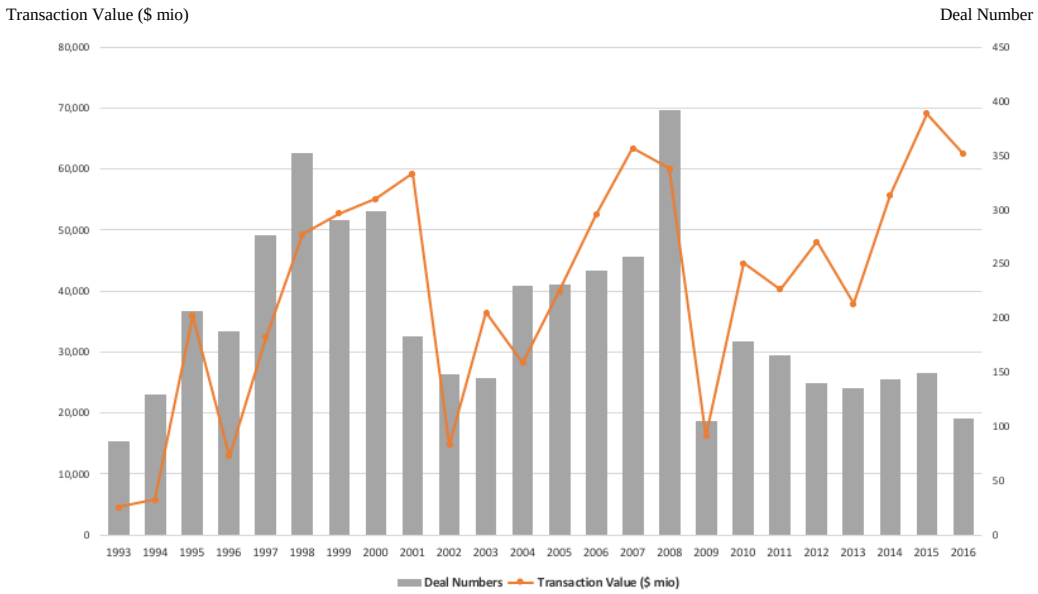


Figure 2. Yearly Statistic of U.S Cross-border Mergers and Acquisitions. Source: Thomson One database.

2.4 Corporate Governance Factors in Mergers and Acquisitions

Shleifer and Vishny (1997) defines that "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". La Porta et al. (2000) describes corporate governance as set of policies and procedures that provide outside investors with a fair return on their investment, and argues that strong legal protection for outside investors is very important for the corporate governance. Several studies have found the association between M&As and corporate governance. Bhagat, Malhotra and Zhu (2011) found that better corporate governance measures in the target countries correlated positively with acquirer firms return in M&As. And that finding confirms Martynova and Renneboog's (2008) bootstrapping hypothesis: the acquirer with a lower-governance-regime voluntarily bootstraps itself to the higher corporate governance standards of the target — and this is viewed positively by the market. To measure the quality of corporate governance in acquirer or target, previous studies

used several dimensions of indices to measure corporate governance: Bhagat, et al. (2011) explained that the quality of governance could be measured from two level of indices: country level and company level. Country level items include measurements such as the corruption of government officials in a country, the effectiveness and integrity of the judiciary system, the access of new and mid-size firms to the country's capital markets, the concentration of stock ownership in the country, and minority shareholder rights. Company level indices include measurements such as manager and director compensation policy, board structure, and board governance policies. Martynova and Renneboog's (2008) used corporate governance database that includes the major factors of changes in corporate governance regulation in each country of the sample they used including these three indices: The shareholder rights index, minority shareholder protection index, and creditors rights index. In theory, to measure the quality of corporate governance, the research needs to consider indices measurements on both country level and company level (Bhagat, et al. 2011). However, Doidge, Karolyi, & Stulz (2007) suggest that the inter-country differences are much greater than differences across companies within a country. Hence, this research chooses to focus on country level measurements, using Anti-Director Rights Index[1] to measure corporate governance.

2.5 Hypotheses Development

2.5.1 Factors Affecting Cross-border Mergers and Acquisitions

2.5.1.1 Emerging Market

The emerging markets gain more attention as their economy grew at an exceptional speed. U.S. firms started to put interest in acquiring emerging market since 1993 and continued until 2016. Garabato (2009) explained the importance of geopolitical and economic role of emerging market with a swift growth since the increase in FDI directed to and from emerging countries. A firm in the developed country that takeovers other firm in an emerging country receive a significantly positive reaction from the market, reflected in the acquiring firm's stock price that increased statistically and economically (Chari et al., 2010). FDI in the form of cross-border M&A to emerging countries becomes appealing, showing that these countries are transforming into global

[1] ADRI was composed by La Porta, Silanes, Shleifer, and Vishny (1998), then updated by Spamann (2009) due to the upgrade policies in many countries after crisis which requires a recalculation of the index to reflect the index more accurately. I use the updated index by Spamman (2009) to have a more precise result.

players (Garabato, 2009). By comparing the cross-border M&As between emerging and developed market, this research builds the first hypothesis:

Hypothesis 1: Cross-border M&As by U.S. firms bring higher Cumulative Abnormal Return for the bidders, when targeting emerging market than developed market.

2.5.1.2 Merger Waves

After the stock market downturn in 2002, U.S. started to recover. The year of 2003 is the start of the sixth merger wave. The U.S. Federal Reserve stimulated the economy by keeping interest rates low. Moreover, credit became cheap, which encouraged credit borrowing, resulting in an abundant cash payment in doing M&A transactions. This accelerated the stock market and increased the capital availability which created a conducive setting to enhance mergers and acquisitions. Despite that, they still destroyed the value for shareholders. An explanation is that during the sixth merger cycle, the free cash flow problem exacerbated and investors were relatively less optimistic compared to previous cycle (Alexandridis et al., 2011). This wave ended in 2009 when liquidity is evaporated due to the subprime mortgage crisis. The cross-border takeover and restructuring activity was restored in 2010 with the amount of $44 billion for 179 deals, which exceeded the transaction value of $36 million and deal numbers of 145 in 2003 when it was recovering from the fifth merger wave. The main reason of this new wave surge is changes in the financial sector, although there was also major transformation seen in information technology, telecommunications and the life sciences (McCarthy & Dolfsma, 2013). Using the data from Thomson One Database, this research found that there is a similar cross-border M&A wave pattern in transaction value but not in deal number over the period 2010-2016. This pattern event helps as a guidance to develop the second hypothesis:

Hypothesis 2: Cross-border M&As by U.S. firms that occurred after the 6^{th} merger wave bring positive Cumulative Abnormal Return for the bidders.

2.5.2 Corporate Governance in Cross-border Mergers and Acquisitions by U.S.

In the sixth merger wave, shareholders' activism helped to evaluate whether a merger plan is considered to be successful or value-destroying (Lipton, 2006; Gillan & Starks, 2007; Greenwood

& Schor, 2009). Shareholders' activism is perceived through their capacity in voting on important corporate issues. Therefore, shareholders' rights are assessed through voting procedures (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998).

To measure the shareholders' rights, this study uses Anti-Director Rights Index (ADRI). ADRI has been used to examine the relation between shareholders' protection and following measures: firm value (Drees, Mietzner, & Schiereck, 2013), stock price information content (Morck, Yeung, & Yu, 2000), the extent of financial crisis (Johnson et al., 2000), and the cross-listing decisions (Reese & Weisbach, 2002; Doidge, 2004). Table 2 shows the six proxies that formed the index. First, there are countries that allow shareholders to mail their vote to the firm, while other countries require the shareholders to show up in the meeting to be able to vote. Second, in some countries, shareholders are not required to deposit the shares several days prior to the shareholder meeting to avoid shareholders from selling their shares around the time of the meeting. Third, some countries grant minority shareholders to vote for directors and to name a proportional number of directors. Fourth, some countries give minority shareholders legal tools against unjust exercise by directors. Minority shareholders have the right to confront the directors' decisions in court or to force the company to repurchase shares of the minority shareholders who oppose to certain fundamental decisions of the management (including mergers or asset sales). Fifth, the lower the percentage of share capital required to call an extraordinary meeting, the easier for minority shareholders to arrange a meeting to confront or dismiss the management. Sixth, a number of countries give pre-emptive right to shareholders to buy new stock which can be waived only by a shareholder vote. The purpose is to protect shareholders from dilution, as shares could be issued to favorable investors at below-market prices.

Previous studies found that ADRI relates positively to those measures, therefore high ADRI values indicate a shareholder-friendly environment. This study expects if the target firm has higher ADRI, the return of the bidder firm will also be higher. The context in a hypothesis statement would be:

Hypothesis 3: Cross-border M&As by U.S. firms to target countries that have higher ADRI experience higher Cumulative Abnormal Return.

Table 2. Proxies of The Anti-Director Index

No.	Proxy	Description
1	Vote by mail	The law explicitly mandates or sets as a default rule that: (a) proxy solicitations paid by the company include a proxy form allowing shareholders to vote on the items on the agenda; or (b) a proxy form to vote on the items on the agenda accompanies the notice to the meeting; or (c) shareholders vote by mail on the items on the agenda (i.e., postal ballot).
2	Shares not deposited	The law does not require or permit companies to require shareholders to deposit with the company or another firm any of their shares prior to a general shareholders meeting.
3	Cumulative voting	The law explicitly mandates or sets as a default rule that shareholders owning 10% or less of the capital can cast all their votes for one board of directors or supervisory board candidate (cumulative voting) or if the law explicitly mandates or sets as a default rule a mechanism of proportional representation in the board of directors or supervisory board by which shareholders owning 10% or less of the capital stock can name a proportional number of directors to the board.
4	Oppressed minority	Index of the difficulty faced by (minority) shareholders owning 10% or less of the capital stock in challenging (i.e., by either seeking damages or having the transaction rescinded) resolutions that benefit controlling shareholders and damage the company.
5	Capital to call a meeting	The minimum percentage of share capital [or voting power] that the law mandates or sets as a default rule as entitling a single shareholder to call a shareholders' meeting (directly or through the court).
6	Pre-emptive rights	The law or listing rules explicitly mandate or set as a default rule that shareholders hold the first opportunity to buy new issues of stock.

Note. Variables. Adapted from "Law and Finance" by La Porta, Silanes, Shleifer, and Vishny, 1998. *Journal of Political Economics Vol. 106, No. 6J,* p. 3–28.

CHAPTER 3 Data Selection and Methodology

This chapter introduces the sample selection, data construction, variable definition and measurement, as well as the regression equation to examine the above-mentioned hypotheses. Section 3.1 explains the data requirement, section 3.2 elaborates the description and measurement of all the dependent, independent, and control variables, and section 3.3 provides the methodology being used. In the end of this chapter, the Libby box in figure 3 presents the theoretical constructs and operational proxies of the hypotheses.

3.1 Sample & Data Selection

The analysis in this thesis employs data of cross border M&As from U.S. to developed and emerging countries. The data applies a set range from the period 2002 to 2016 which reflects the sixth wave (2002-2009) and the seven years period after the sixth wave (2010-2016). The sample data requirements for the M&A deals, including deal value and characteristics, are extracted from Thomson One database with criteria as follows:

1. The announcement date of M&A activities occurred between 1 January 2002 and 31 December 2016
2. M&A deals must be completed as of 31 December 2016
3. The acquiring firm is from U.S.
4. The acquiring firm's status must be publicly listed
5. The M&A deal value exceeds one million dollars
6. The financial services and utility companies classified by Standard Industrial Classification (SIC) code 6000-6999 and 4900-4999 are excluded

By implementing the above criteria, an initial dataset is produced which consist of 1,217 cross-border M&A transactions. Subsequently, the accounting information on the M&A transactions is taken from Compustat database. Lastly, I obtained the value of cumulative abnormal returns from WRDS database. Each dataset of the dependent, independent, and control variables is then merged using CUSIP and the M&A occurrence year. Some deal-observations were dropped due to constraints on other variables.

3.2 Explanation of Variables

3.2.1 Dependent Variable

To predict hypothesis 1, 2, and 3 on the gains for the acquiring firms, this thesis will use event study methodology to measure the profitability of cross-border acquisition. This measure was introduced by Fama, Fisher, Jensen, & Roll (1969) as an attempt to calculate the valuation effect of an event by looking into the response of the stock price around the announcement date of the event. The example of events that are generally examined consist of earnings announcements, IPOs, dividend initiation, and for this thesis: M&As.

The dependent variable of M&A deal performance is calculated using cumulative abnormal returns (CAR) on the acquirer's shares around the M&A announcement. This approach has been widely used to predict shareholders' wealth and is found effective to measure the direct response of the market, whether the market perceive the deal as good news, showing a positive market reaction, or bad news, showing a negative market reaction. The methodology used is explained more comprehensively in methodology (point 3.3). The CAR is computed using WRDS Event Study tool based on the CUSIP code identifier of acquiring firms.

3.2.2 Independent Variable

3.2.2.1 Emerging Countries

U.S. firms' interest to do cross-border M&As with emerging markets have risen since the early 1990s and continued to grow until the 2000s. One of the reason U.S. firms increase their cross-border acquisitions is to provide target firms with immediate liquidity and enhanced resource allocation through external capital markets. The funding through external capital market are more beneficial to the emerging market, than developed countries, especially to overcome financial constraint. The category of developed and emerging market follows the list of MSCI (Morgan Stanley Capital International). MSCI Index covers thousands of stocks and has long been used as a benchmark to measure the stock performance. Its market classification comprises three criteria, which are economic development, size and liquidity, and market accessibility.

A dummy variable of "1" is used for cross-border M&As acquiring emerging market and "0" for developed markets

3.2.2.2 After Sixth Merger Wave

The sixth merger wave started in 2002 and highlighted the shareholders' awareness. The transactions are mainly financed by cash due to the abundant cheap credit (McCarthy & Dolfsma, 2013). This wave ended due to the financial crisis in late 2008 to 2009.

Whereas the period after sixth merger wave, showed a similar pattern in transaction value from 2010 to 2016. The trend showed a high increment in transaction value but lesser deal numbers.

This research applies a dummy variable of "1" if the merger occurs after the 6^{th} merger wave and "0" if otherwise.

3.2.2.3 Shareholders' Protection

When the acquiring entity takes into account the cost and benefits of doing M&A in a certain country, one of their consideration is the corporate governance transparency applied in the acquired country. I use the Anti-Director Index developed by La Porta et al. (1998) and updated by Spamman (2009). There are six proxies of the index as shown in Table 2; vote by mail, shares not deposited, cumulative voting, oppressed minority, capital to call a meeting, and pre-emptive rights. Of those proxies, the country gets a score 1 if it protects the shareholders based on each component and 0 otherwise. The six scores are added up into an aggregate score, which ranges from 1 to 5, with 1 defined as the lowest shareholder protection and 5 meaning the highest shareholder protection.

3.2.3 Control Variable

Other various aspects that may affect the performance of cross-border M&As are the firm characteristic and deal characteristic. This study includes these characteristics in the control variables in order to minimize the error term in the regression model which are explained in the section below.

3.2.3.1 Firm Size of Acquirer

Moeller, Schlingemann, & Stulz (2004) observed the difference of abnormal return between small and large firms and found the significant shareholder wealth loss when large firms announce their acquisitions, irrespective of the payment method. Large companies pay higher premium, enter with negative dollar synergy gains, thus generate lower abnormal return. Vice versa, small companies pay lower premium and therefore results in a better short-term performance of M&A transaction. This concludes the negative relation between firm size and the announcement return. The data for

firm size is taken from the Compustat database and normalized by the natural logarithm of total assets.

3.2.3.2 Leverage

Jensen's agency cost theory also indicated that debt reduces the amount of free cash flow. Thus, having more leverage gives a disciplining effect by reducing the management's discretions in allocating free cash flow which drifts from the interest of shareholders. Maloney, McCormick, Mitchell (1993) agreed that agency costs exist and debt works to control them, they found bidders with higher leverage have higher abnormal return. The leverage is measured as the proportion of short-term and long-term debt to market value of total assets. The data needed is extracted from Compustat database.

3.2.3.3 Method of Payment

One of the factor that influences the success of M&A is how the acquisition is financed. Myers and Majluf (1984) in their equity signaling hypothesis (or more known as the Pecking Order Theory), showed that managers have the incentive to issue stock when the asset is perceived to be overvalued, thus issuing stock will convey negative information to the market. The extant empirical evidence supported this analysis by documenting the association between equity-financed public firm with negative abnormal return around the announcement date. Therefore, cash-financing method yields better returns compared to M&As paid by stock, presenting a positive abnormal return (Masulis & Korwar, 1986; Travlos, 1987; Sudarsanam & Mahate, 2003). Dummy variable of "1" is used for transactions fully paid by cash and "0" otherwise. The data is obtained from Thomson One.

3.2.3.4 Target Status

Fuller, Netter, & Stegemoller (2002) and Moeller et al. (2005) found that having a merger deal with private companies are more profitable than public firms. They showed that abnormal returns are higher for companies acquiring private firms. Thus, a dummy variable of "1" shows that the target is a private firm and "0" for public company. The data is taken from Thomson One Banker.

3.2.3.5 Industry Relatedness

Singh (1987) and Morck, Shleifer, & Vishny (1990) found that the degree of industry relatedness between the bidder and target firm affects the shareholders' wealth creation, where diversifying acquisitions lead to negative announcement, thus showing a positive relation between related target and wealth gain. Moreover, it may be a result of the agency problem between managers and

shareholders (Shleifer & Vishny, 1989). On the other hand, Chatterjee (1986) indicated that unrelated industries constitute higher returns. The past and extant literature provided mixed evidence regarding industry diversification affecting profitability. Standard Industrial Classification (SIC) code is used to measure the relatedness between the acquirer and target's industry. Dummy variable is expressed as "1" if the first two digits of the target firm's SIC code is different with the acquirer. The SIC code of both the bidders and acquirers are from Thomson One.

3.2.3.6 Firm Profitability

Morck, Shleifer, & Vishny (1988) stressed that firm profitability is one of the determinants considered to examine whether the M&A deal will have a positive abnormal return. Firm profitability is measured through ROA. I take the data for firm profitability from Compustat database. ROA is calculated by dividing net income with total asset.

3.2.3.7 Firm Risk

Volatility captures the degree of risk in a company. It can be defined as a ratio of retained earnings to total assets, thus the lower the ratio, the more a corporation funds its assets by borrowing, instead of through retained earnings, which increases the risk of bankruptcy. This is part of the Altman Z-Score which was introduced by Altman (1968). The related data is taken from Compustat database.

Table 3. Variable Description

Variable Description	Measurement
Emerging Countries	"1" if the target is Emerging Market
After 6th Wave	"1" if the merger occurs after year 2008
Wave*Emerging	"1" if the merger occurs after year 2008 in Emerging Market
Target's ADRI	Index of Anti Director Rights with the range from 1 to 5
ADRI*Emerging	Index of Anti Director Rights with the range from 1 to 5 for Emerging Market
Firm Size	Natural logarithm of total assets
Leverage	Proportion of total liabilities to total assets
Cash payment	"1" if the deal is paid 100% by cash
Target's status private	"1" if the target status is private
Industry relatedness	"1" if the first two digit of acquirer's SIC code is different from the target's
ROA	Ratio of net income to total asset
Volatility	Ratio of retained earnings to total assets

3.3 Methodology

3.3.1 Event Study

This research uses event study method to estimate the cumulative abnormal return around the announcement date of the cross-border M&A deals as the dependent variable. The security price reflects the immediate reaction of the capital market, therefore it is efficient to measure the company's short-window event (Andrade et al., 2001). CAR is computed in several steps. First of all, this study identifies the event date-day of the M&A deal announcement. The data is taken from Thomson One database. Second, this study selected the event window to calculate the abnormal returns. An event window is a benchmark of market reaction within the announcement date and the normal expected market returns; hence captures the whole effect of the M&A announcement (MacKinlay, 1997). This research uses the event window of (-1, +1) to see the direct response of market. I also use (-3, +3) and (-5, +5) with the reason that sometimes the market need more time to react to the event. Thirdly, this study defines the estimation period as the basis for average

expected return calculation. For the estimation window, this paper uses 220 trading days prior to the bid announcement to forecast the normal performance in the event window, following Moeller et al. (2004) and Masulis, Wang, & Xie (2007). Fourth, after picking the event window and estimation window, this paper calculates the normal returns using the market model. This has been an extensive technique to compute the acquirer firm's daily return which reflects both the stock return and market return with the formula:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (2)$$

R_{it} = expected return of security i at day t
α_i = intercept parameter market model
β_i = estimated parameter market model
R_{mt} = market return at day t
ε_{it} = zero mean disturbance term of security i

The period for equation (2) is estimated between 250 days to 30 days prior to the event with the total of 220 days. The error term is the difference between actual return and expected normal return, hereafter referred as the abnormal return (AR), thus the fifth step after calculating the expected stock returns for each day in the event window is to compute the AR with the formula:

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt} \quad (3)$$

AR_{it} = abnormal return of security i at day t

Moreover, MacKinlay (1997) elaborated that CAR is a better proxy to see the market reaction compared to single AR, since the reaction may fluctuate every day over the event window. Sixth, CAR is defined as the aggregation of ARs in the event window. Thus, the acquiring firm's CAR is calculated as follows:

$$CAR_{i(t1,t2)} = \sum_{t=t1}^{t2} AR_{it} \quad (4)$$

CAR = cumulative abnormal return

t_1 = start of the event window, where event date is day 0

t_2 = end of the event window

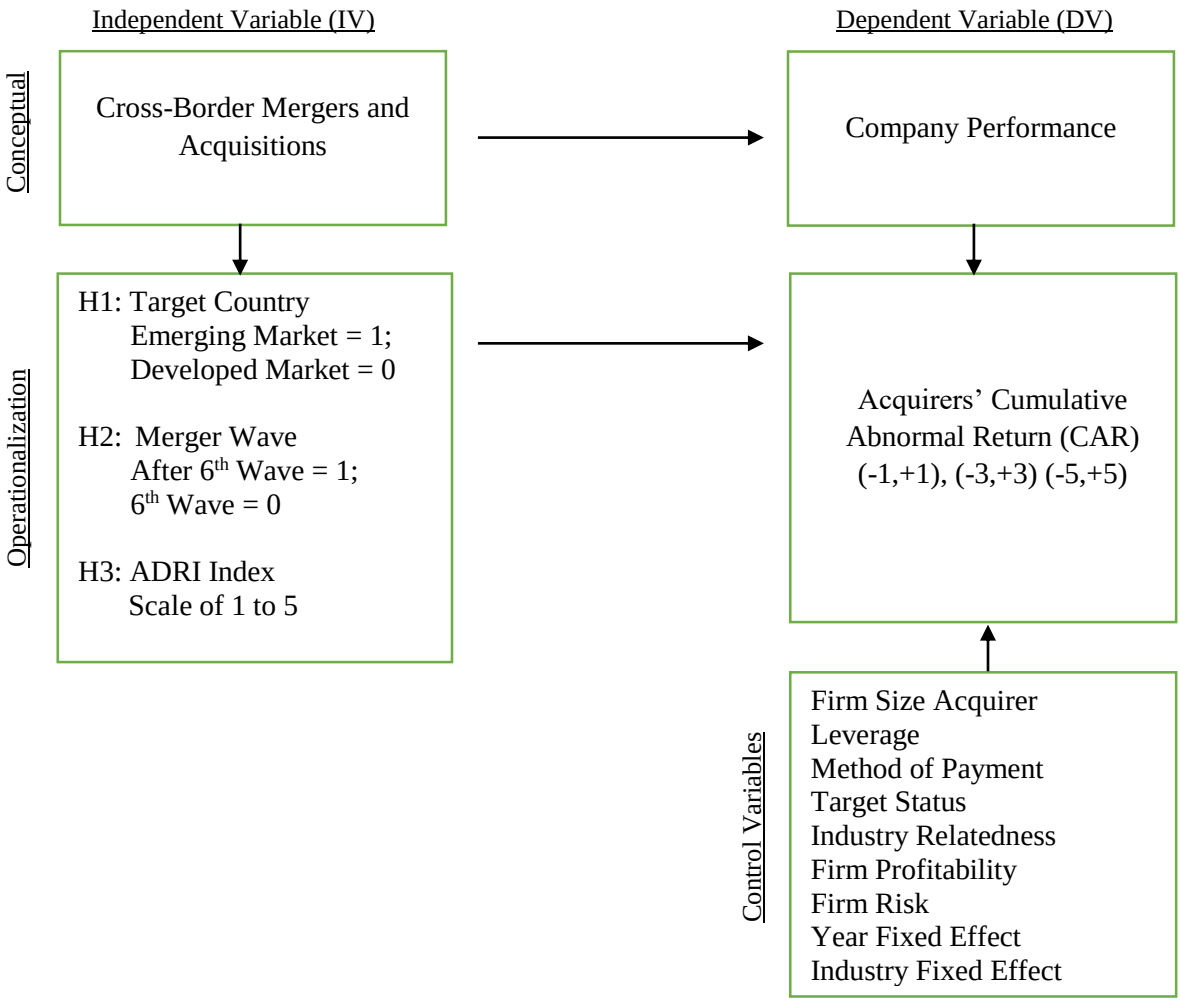
Next, the CAR distributions were checked to make sure the distribution is normal[2]. Lastly, this study presents the linear regression equation which is conducted to examine the relation between the dependent and independent variables. The regression model to test the hypotheses is as follow:

$$CAR_{i,t} = \alpha + \beta 1\ EmergingCountries_{i,t} + \beta 2\ After6thWave_{i,t} + \beta 3\ Wave*Emerging + \beta 4\ TargetsADRI + \beta 5\ ADRI*Emerging + \beta 6\ FirmSize_{i,t-1} + \beta 7\ Leverage_{i,t-1} + \beta 8\ CashPayment_{i,t} + \beta 9\ TargetStatusPrivate_{i,t} + \beta 9\ IndustryRelatedness_{i,t} + \beta 10\ ROA_{i,t-1} + \beta 11\ Volatility_{,t-1} + YearFE_{i,t} + IndustryFE + \varepsilon_{i,t} \quad (5)$$

Based on the equation above, figure 3 represents theoretical constructs and operational proxies for H1, H2, and H3 in a libby box. The libby box shows the conceptual relation and its corresponding operationalization (Libby et al., 2012).

[2] The normality test of Kernel Density Estimation (KDE) graphical method showed a normal distribution for CAR (-1,+1), (-3,+3), and (-5,+5)

Figure 3. Predictive Validity Framework



CHAPTER 4 Result

This chapter reports the empirical results of my research on the relation between cross-border mergers and acquisitions with company performance as well as that of the robustness test. In the first section, I do the regression on whether cross-border mergers and acquisitions improve the bidder's performance and whether the Anti Director Rights Index (ADRI) affects the significance. On the second section, I run additional regressions, the robustness test, to observe the consistency of my initial results.

4.1 Sample Description

The sample description for the characteristics of cross-border M&A transactions are presented in Table 4. The panel data consist of one observation for each acquirer-year combination with a total of 1,227 cross-border M&A deals by U.S firms during the period of 2002-2016. From those deals, 1,037 are deals acquiring developed market (85%) and 190 are deals to the emerging countries (15%).

Table 4 presents the overview of cross-border M&As by U.S. firms. The overall transaction value for the period of sixth merger wave is $119 billion, then in the period after sixth merger wave decreased to $115 billion. However, transactions with the emerging market grew within the two period, from $12 billion to $14 billion respectively. Looking into the sixth merger wave, the deal value with developed market peaked in 2007, one year before the financial crisis, while the transaction amount with emerging countries soared in 2008 which was in the crisis period. After the sixth merger wave, U.S. firms' average deal with developed countries experience a decrease in value and numbers. In comparison, the average deal value with emerging markets increased, however the deal number lowered too.

Based on the data shown in Table 4, in the period of 2002 to 20016, the most active industries of acquirer and target are manufacturing, followed by services, and the third is mining. On the other hand, the previous study by Andrade et al. (2001) showed that in 1980 to 1990s the most active industries are mining and media/telecommunication.

For the list of most acquired developed countries by U.S., it can be seen that U.S. has the most deals with firms from U.K., Canada, and Australia respectively with a fraction of 61%. The biggest deal from these countries are the acquisition of Visa Europe Ltd by Visa Inc, Tim Hortons Inc by Burger King Worldwide Inc, and Normandy Mining Ltd by Newmont Mining Corp. For the

emerging countries, U.S.' highest merger value is with Chile, China, and Russia respectively for the 48% deals. The highest M&A deals were CFR Pharmaceutical SA by Abbott Libraries, China Kanghui Holdings by Medtronic Inc, and Ilim Holding SA by International Paper Co.

Table 5 reports the summary statistics of the cross-border M&A performance with the three event windows; CAR (-1,+1), (-3,+3), and (-5,+5). Furthermore, it also shows the summary statistics of the independent and control variables.

Table 4

Sample Description: Cross-border M&A Characteristics

This table presents the cross-border M&A characteristics by U.S. firms to companies in developed and emerging market during the period of 2002 to 2016. It contains the mergers' yearly distribution and performance, top 5 industries, and top 5 target countries. Cumulative Abnormal Returns (CAR) of the acquirer is used as proxy for cross-border M&A performance. Three event windows are utilized for CAR; three days (-1,+1), seven days (-3,+3), eleven days (-5,+5) with the M&A announcement date becomes date 0. For the detailed procedure to construct CAR, refer to Section 3.3.1.

Yearly Distribution of Cross-border M&A Deals and Performance

Year	Developed		Emerging		Total Deal Value	Total Deal Number	Average CAR (%)		
	Deal Value	Deal Number	Deal Value	Deal Number			(-1,+1)	(-3,+3)	(-5,+5)
2002	7,449	66	1,308	13	8,757	79	-0.41	0.73	-3.05
2003	16,481	58	371	12	16,852	70	-1.58	-0.67	-1.14
2004	10,044	86	486	13	10,531	99	-0.72	-0.84	-0.46
2005	6,870	79	1,034	17	7,903	96	0.25	1.17	1.46
2006	16,172	90	2,782	16	18,954	106	0.45	-0.34	-1.31
2007	39,916	86	829	16	40,744	102	0.56	0.47	1.11
2008	10,291	66	5,187	15	15,477	81	0.85	0.19	-1.01
2009	12,064	40	1,205	13	13,269	53	1.09	1.43	1.09
2010	8,725	63	2,622	11	11,347	74	-0.32	-0.43	-0.29
2011	9,839	65	733	14	10,573	79	-0.29	-1.38	-1.27
2012	13,893	74	2,383	17	16,276	91	0.71	0.30	0.45
2013	11,166	63	1,450	10	12,616	73	0.68	0.09	-0.24
2014	16,126	74	4,569	8	20,694	82	0.36	-0.60	-0.80
2015	14,958	77	138	7	15,096	84	-0.24	1.15	1.13
2016	14,159	50	705	8	14,864	58	0.86	1.02	1.46
Total	208,151	1037	25,801	190	233,953	1227	0.19	0.17	-0.22

Top 5 Industry of Cross-border M&A Deals

Acquirer					Target				
Industry	Deal Value	%	Deal Number	%	Industry	Deal Value	%	Deal Number	%
Manufacturing	141,871	60.64%	726	59.17%	Manufacturing	112,511	48.09%	585	47.68%
Services	54,986	23.50%	350	28.52%	Services	74,112	31.68%	444	36.19%
Mining	16,839	7.20%	38	3.10%	Mining	21,574	9.22%	36	2.93%
Retail Trade	12,423	5.31%	36	2.93%	Wholesale Trade	12,631	5.40%	52	4.24%
Wholesale Trade	4,418	1.89%	38	3.10%	Retail Trade	5,307	2.27%	28	2.28%

Top 5 Target Country of Cross-border M&A Deals

Developed					Emerging				
Target Country	Deal Value	%	Deal Number	%	Target Country	Deal Value	%	Deal Number	%
U.K.	57,638	27.69%	246	23.72%	Chile	5,445.72	21.11%	7	3.68%
Canada	56,525	27.16%	236	22.76%	China	3,528.52	13.68%	46	24.21%
Australia	12,443	5.98%	65	6.27%	Russian Fed	3,344.36	12.96%	7	3.68%
Switzerland	9,957	4.78%	35	3.38%	Brazil	2,355.84	9.13%	18	9.47%
Germany	9,435	4.53%	102	9.84%	Taiwan	2,279.71	8.84%	19	10.00%

4.2 Correlation Analysis

Table 6 reports the Pearson correlations matrix between the independent and control variables used in the main analysis. The variables are highly correlated if the coefficient is close to either +1 (perfect positive correlation) or -1 (perfect negative correlation). The correlation matrix is used to ensure that there is no strong linear relation between two variables. Thus, low correlation among variables indicate sufficient independent variations. Overall, the coefficients in Table 5 are relatively lower than the correlation R of 0.75, suggesting that there is no issue with multi-collinearity.

4.3 Univariate Analysis

Table 7 provides the univariate test statistics. Panel A shows that there is a same sign for the abnormal returns in emerging and developed market. The return for CAR (-1,+1) and CAR (-3,+3) are positive, while the return for CAR (-5,+5) is negative. Panel B shows that the return in all event windows are positive for cross-border M&As after the sixth merger wave. On the other hand, mergers that occur in the sixth merger wave only results in a positive return for CAR (-1,+1), whereas the t-statistic for the returns in the longer event windows are negative. When looking into the country classification divided by after sixth merger wave and in the sixth merger wave, Panel C reveals that the shareholders' return are all positive for emerging market after the sixth merger wave and only positive at CAR (-3,+3) in the sixth merger wave. This shows that the cross-border M&As acquiring emerging market are better after the sixth merger wave.

However, there are no significance found. The reason could be that the relations are none existent, hence insignificant. The relatively small sample could also be another factor which may increase the standard error. Furthermore, it should be highlighted that univariate analysis is the simplest form of analyzing the dependent and independent variables, therefore unobservable variables could exist. Accordingly, this thesis controls for other variables that could affect the relation between the dependent and independent variables.

4.4 Multivariate Analysis

Next step, the multivariate OLS regressions are performed to study whether the effect found in the univariate analysis still holds when the analysis includes various control variables of the acquiring firm and deal-specific characteristics. A few test has been conducted to ensure that the data is

Table 5

Descriptive Statistics of Dependent, Independent, and Control Variables

This table presents the summary statistics for the variables used in the main analysis. All variables are defined in Table 3. Cumulative Abnormal Returns (CAR) of the acquirer is used as proxy for cross-border M&A performance. Three event windows are utilized for CAR; three days (-1,+1), seven days (-3,+3), eleven days (-5,+5) with the M&A announcement date becomes date 0. For the detailed procedure to construct CAR, refer to Section 3.3.1. The independent and control variables are as follows: (1) Emerging Countries is the dummy variable with value of "1" if target firm is emerging countries and "0" otherwise; (2) After 6th Wave is the dummy variable with value of "1" if the cross-border M&A occurred in the period 2009-2016 and "0" if it occurred in the period 2002-2008; (3) Wave*Emerging is the interaction between the period After 6th Wave and Emerging Countries; (4) Target's ADRI is the Anti Director's Rights Index that measures shareholder's protection in each country with a range from 1 to 5, being 1 the least protection and 5 the highest protection; (5) ADRI*Emerging is the interaction between the target's ADRI and Emerging Countries; (6) Firm Size: The natural logarithm of total assets; (7) Leverage: The percentage of total short term debt and long-term debt scaled by total book value of assets; (8) Cash payment: The dummy variable with value of "1" if the transaction is fully paid in cash and "0" otherwise; (9) Target status: The dummy variable with value of "1" if the target status is public and "0" otherwise; (10) Industry relatedness: The dummy variable with value of "1" if the target and acquirer firm share the same 2-digit SIC code and "0" otherwise; (11) ROA: The percentage of net income scaled by total asset; (12) Volatility: The percentage of retained earnings scaled by total asset.

Summary Statistics							
Dependent Variables							
	Mean	Std. Dev.	Min	p25	Median	p75	Max
CAR (-1,+1) (%)	0.23	4.1	-12.13	-1.72	0.11	2.09	13.61
CAR (-3,+3) (%)	0.069	6.27	-21.13	-2.84	0.1	3.15	17.71
CAR (-5, +5) (%)	-0.21	7.54	-25	-3.81	0.03	3.6	18.93
Independent and Control Variables							
	Mean	Std. Dev.	Min	p25	Median	p75	Max
Emerging Countries	0.15	0.36	0	0	0	0	1.00
After 6th Wave	0.48	0.50	0	0	0	1.00	1.00
Target's ADRI	3.97	0.87	0	3.50	4.00	5.00	5.00

Firm size	7.17	1.95	1.89	5.80	7.02	8.39	13.53
Leverage	0.16	0.17	0	0.01	0.13	0.25	0.89
Cash payment	0.28	0.45	0	0	0	1.00	1.00
Target's status private	0.72	0.45	0	0	1.00	1.00	1.00
Industry relatedness	0.57	0.49	0	0	1.00	1.00	1.00
ROA	0.03	0.15	-1.54	0.02	0.05	0.09	0.28
Volatility	0.02	0.87	-10.36	-0.06	0.20	0.39	1.65

Table 6

Pearson Correlation Matrix

This table presents the correlation among all the independent and control variables used in the regression model in Table 6. The explanation of each variable is reported in Table 3. The variables are highly correlated if the coefficient is close to either +1 (perfect positive correlation) or -1 (perfect negative correlation).

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) After 6th Wave	1.000									
(2) Emerging Countries	-0.020	1.000								
(3) Target's ADRI	0.030	-0.156***	1.000							
(4) Firm size	0.128***	0.088**	0.001	1.000						
(5) Leverage	0.101***	0.115***	-0.073*	0.318***	1.000					
(6) Cash payment	-0.610***	0.128***	-0.056*	-0.067*	-0.041	1.000				
(7) Target's status private	0.014	0.009	-0.004	0.051	0.043	0.049	1.000			
(8) Industry relatedness	0.007	0.045	-0.046	-0.086**	-0.062*	0.022	-0.043	1.000		
(9) ROA	0.022	-0.013	-0.018	0.265***	0.007	-0.052	-0.013	-0.059*	1.000	
(10) Volatility	0.067*	-0.022	-0.014	0.334***	0.061*	-0.067*	-0.036	-0.033	0.576***	1.000

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 7

Univariate Analysis: Cross-border M&A and Shareholders' Return

This table presents the univariate mean comparison of the Cumulative Abnormal Returns (CAR) between developed and emerging countries. Acquiring firm's CAR is a proxy for the shareholders' return. There are three window days exercised; -1 to +1, -3 to +3, and -5 to +5, with the M&A announcement date as day 0. T-tests is used to examine the significance of differences between the mean values of two sub-samples.

Panel A: CAR categorized by Country Classification				
	Emerging	Developed	Difference	t-statistic
	(1)	(2)	(2) - (1)	for Diff
CAR (-1,+1)	0.13%	0.24%	0.11%	0.39
CAR (-3,+3)	0.31%	0.02%	-0.29%	-0.67
CAR (-5,+5)	-0.22%	-0.21%	-0.02%	0.03

Panel B: CAR categorized by Period				
	After 6th Wave	In 6th Wave	Difference	t-statistic
	(1)	(2)	(2) - (1)	for Diff
CAR (-1,+1)	0.42%	0.05%	-0.37%	-1.62
CAR (-3,+3)	0.22%	-0.07%	-0.29%	-0.81
CAR (-5,+5)	0.11%	-0.52%	-0.64%	-1.5

Panel C: CAR categorized by Country Classification & Period				
	Emerging	Developed	Difference	t-statistic
	(1)	(2)	(2) - (1)	for Diff
CAR (-1,+1)				
After 6th Wave	0.36%	0.43%	0.07%	0.19
In 6th Wave	-0.06%	0.07%	0.01%	0.3
CAR (-3,+3)				
After 6th Wave	0.12%	0.24%	0.12%	0.21
In 6th Wave	0.48%	-0.18%	-0.66%	-1.04
CAR (-5,+5)				
After 6th Wave	0.13%	0.12%	-0.01%	-0.02
In 6th Wave	-0.54%	-0.52%	0.02%	0.02

representable. First, the normality test is run using Kernel Density Estimation (KDE) to check the normal distribution of the variables. Second, the robust standard error is included in the regressions to handle the heteroscedasticity issue. Lastly, the Variance Inflation Factor (VIF) is counted to check the multi-collinearity. The variable of ADRI*Emerging has a relatively high correlation with Emerging Countries. This is due to the fact that ADRI*Emerging is derived from the interaction between Target's ADRI and Emerging Countries where each are already explanatory variables. Table 8 presents the cross-border M&A on CAR.

The regression of CAR on Emerging Country as the first independent variable, yields significantly positive coefficients for all event windows; CAR (-1,+1), (-3,+3), and (-5,+5). This finding supports the first hypothesis. Thus, U.S. firms acquiring companies from the emerging market enjoy highly significant gains during the announcement period. It shows that U.S. firms acquiring emerging market receive higher abnormal returns compared to developed market. The positive association supports the result of Chari et al.(2010).

For the second hypothesis, in all event windows of the regression, the CARs are positive, with the significant result that applies to the CAR (-5,+5) event window at 95% confidence level. The finding of eleven window days supports H2 and univariate analysis performed earlier. That is, cross border M&A deals that occur after the period of sixth merger wave, from 2010 to 2016, brings positive CAR to the shareholders of the acquiring company. The positive relation is different with the finding of Moeller et al. (2005) and in line with the result found by Francis, Hasan, & Sun (2008).

Furthermore, the interaction of the first and second variable is tested. When Emerging Country is interacted with the period after sixth merger wave, the result is insignificant where CAR (-1,+1) and CAR (-5,+5) is positive, yet CAR (-3,+3) is negative. Thus, no conclusion can be drawn.

The third hypothesis is tested using target country's Anti Director Rights Index (ADRI). From all event days, the results are significantly positive. As predicted, there is a positive association between the index and shareholders' return. The higher the ADRI, the higher the shareholders' gain. The result could be interpreted that an increment of 1 in ADRI leads to an increment of CAR around the announcement period with an average of 0.004, 0.005, and 0.008 unit respectively. This supports the finding of Bhagat et al. (2011) that the return of acquiring firm is positively correlated with better corporate governance in the target country.

Afterwards, Emerging Country is interacted again. When there is an interaction between Emerging Country and Target's ADRI, the result changes drastically. The coefficients of the interaction of Emerging Country and Target's ADRI are negative and significant in all event windows. Hence, indicates that emerging targets with high ADRI has a negative association towards the acquirers' return. This could be attributable to the target's country characteristic. Based on Barbopoulos et al. (2014), investment in emerging market with high corruption rate yields the highest gain, as the acquirers are facilitated access to resource on favorable terms. This opportunity is viewed positively by the market.

The coefficients of Leverage are significantly positive for CAR (-1,+1) and CAR (-3,+3). This can be interpreted that higher leverage is associated with better controls the managers in allocating free cash flow, as in line with the study of Maloney et al. (1993) and Jensen & Meckling (1976).

The cash payment method elicits a positive and significant coefficient in CAR (-3+3). This is conforming to previous findings of Travlos (1987), Sudarsanam & Mahate (2003), and Moeller & Schlingemann (2005) where acquirers' return is significantly positive in the fraction of cash used to finance the merger.

For target's status, the coefficients of private firms show negative signs with a significant result in CAR (-3,+3). This is quite different from major studies that explained that private firms yield higher acquirers' gain due to greater liquidity constraints, hence lower deal premium (Grossman & Hart, 1980; Bhagat et al., 2011). This finding is in line with Chang (2002) that found a positive shareholders' gain for bidders acquiring public firms.

Acquirers' gain in 3 days window event is positively associated with the degree of firm risk which is measured by volatility. Consistent with the theory by Altman (1968).

4.5 Robustness Test

Previous studies by Lieberman & Montgomery (1988), Carow, Heron, & Saxton (2004) and Goel & Thakor (2010) analyzed the relation between the period of merger and the valuation result and found that early mover acquirers in the acquisition waves perform better than the late ones. Lieberman & Montgomery (1988) explained that mergers occurring in the early period of the merger wave have pioneering advantages. As first-movers, they initiate a competitive advantage that enables them to receive positive economic profit by developing a resource that is difficult to imitate and not substitutable (Carow et al., 2004).

To re-estimate the main hypothesis, this thesis establishes a robustness test by employing first mover acquirers and later movers for each of the period. Following Carow et al. (2004), the classification of the early movers are the first 20% acquiring firms in the merger wave. Thus, this test splits the sample into pioneers of the sixth merger wave and pioneers after sixth merger wave that are each interacted with the emerging country. The dependent variable remains the same; acquirers' cumulative abnormal return in window event (-1,+1), (-3,+3), and (-5,+5).

After substituting the independent variable from After Merger Wave to Early Sixth Mover and Early After Sixth Mover, the robustness check brings a change in the coefficient. The details are shown in Table 9. The early movers in the sixth wave that acquire firms in emerging country garner a significantly positive return for CAR (-3,+3) and CAR (-5,+5). Such positive results support the finding by previous studies mentioned above. The positive CAR implies that when first movers engage in foreign acquisitions by targeting emerging firm, the market sees the deal beneficial by reacting positively around the announcement date.

In spite of the positive return for the pioneers in the sixth merger wave, this result does not hold for the pioneers after the sixth merger wave. The coefficients for the early movers after the sixth merger wave period are the opposite from the previous one; negative and insignificant. This thesis could not draw any assumption. However, this means that the result no longer remains when the mergers occur outside the merger wave.

Regarding the control variables, the leverage has a more significantly positive effect in all the abnormal return window events. This shows that as the acquiring firm's leverage gets higher, it yields better shareholders' return; with an increase of leverage by 1%, it increases the abnormal return by 0.024. Other variables remain the same as the previous result.

Table 8

Multivariate Analysis: Cross-border M&A and Shareholders' Return

This table describes the Ordinary Least Squares (OLS) regressions where the dependent variable is Cumulative Abnormal Returns (CAR) from day -1 to +1, -3 to +3, and -5 to +5, with the M&A announcement date as day 0. The main independent variables are Emerging Countries, After 6th Wave, and Target's ADRI. Emerging Countries is the dummy variable with value of "1" if target firm is emerging countries and "0" otherwise. After 6th Wave is the dummy variable with value of "1" if the cross-border M&A occurred in the period 2009-2016 and "0" if it occurred in the period 2002-2008. Wave*Emerging is the interaction between the period After 6th Wave and Emerging Countries. Target's ADRI is the Anti Director's Rights Index that measures shareholder's protection in each country with a range from 1 to 5, being 1 the least protection and 5 the highest protection. ADRI*Emerging is the interaction between the target's ADRI and Emerging Countries. The control variables are as follows: (1) Firm Size: The natural logarithm of total assets; (2) Leverage: The percentage of total short term debt and long-term debt scaled by total book value of assets; (3) Cash payment: The dummy variable with value of "1" if the transaction is fully paid in cash and "0" otherwise; (4) Target status: The dummy variable with value of "1" if the target status is public and "0" otherwise; (5) Industry relatedness: The dummy variable with value of "1" if the target and acquirer firm share the same 2-digit SIC code and "0" otherwise; (6) ROA: The percentage of net income scaled by total asset; (7) Volatility: The percentage of retained earnings scaled by total asset. All regressions include unreported year and industry dummy variables. Robust standard errors are estimated and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Variables	CAR (-1,+1)	CAR (-3,+3)	CAR (-5,+5)
	(1)	(2)	(3)
Emerging Countries	0.023**	0.039**	0.039**
	(0.012)	(0.019)	(0.023)
After 6th Wave	0.001	0.012	0.036**
	(0.010)	(0.014)	(0.016)
Wave*Emerging	0.001	-0.005	0.006
	(0.007)	(0.011)	(0.014)
Target's ADRI	0.004**	0.005*	0.008**
	(0.002)	(0.003)	(0.004)
ADRI*Emerging	-0.007***	-0.010**	-0.011*
	(0.003)	(0.005)	(0.006)
Firm size	-0.001	0.001	0.000
	(0.001)	(0.001)	(0.002)
Leverage	0.023**	0.028*	0.028
	(0.011)	(0.016)	(0.019)
Cash payment	-0.002	0.013*	0.009
	(0.004)	(0.007)	(0.008)
Target's status private	-0.004	-0.010**	-0.009
	(0.003)	(0.005)	(0.006)
Industry relatedness	0.000	-0.001	0.005
	(0.003)	(0.005)	(0.006)
ROA	0.001	-0.005	0.012

	(0.015)	(0.026)	(0.031)
Volatility	0.005***	0.001	0.004
	(0.002)	(0.003)	(0.004)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Constant	-0.010	-0.031	-0.064***
	(0.013)	(0.020)	(0.024)
Observations	1,217	1,217	1,217
R-squared	0.236	0.238	0.232
Adj. R-squared	0.026	0.029	0.021

Table 9

Robustness Test: Cross-border M&A and Shareholders' Return

This table describes the Ordinary Least Squares (OLS) regressions where the dependent variable is Cumulative Abnormal Returns (CAR) from day -1 to +1, -3 to +3, and -5 to +5, with the M&A announcement date as day 0. The main independent variables are Emerging Countries, Early Mover Sixth Wave*Emerging, Early Mover After Sixth Wave*Emerging, and Target's ADRI. Emerging Countries is the dummy variable with value of "1" if target firm is emerging countries and "0" otherwise. Early Mover Sixth Wave*Emerging is the interaction between Early Mover Sixth Wave and Emerging Countries. Early Mover After Sixth Wave*Emerging is the interaction between Early Mover Sixth Wave and Emerging Countries. Target's ADRI is the Anti Director's Rights Index that measures shareholder's protection in each country with a range from 1 to 5, being 1 the least protection and 5 the highest protection. ADRI*Emerging is the interaction between the target's ADRI and Emerging Countries. The control variables are as follows: (1) Firm Size: The natural logarithm of total assets; (2) Leverage: The percentage of total short term debt and long-term debt scaled by total book value of assets; (3) Cash payment: The dummy variable with value of "1" if the transaction is fully paid in cash and "0" otherwise; (4) Target status: The dummy variable with value of "1" if the target status is public and "0" otherwise; (5) Industry relatedness: The dummy variable with value of "1" if the target and acquirer firm share the same 2-digit SIC code and "0" otherwise; (6) ROA: The percentage of net income scaled by total asset; (7) Volatility: The percentage of retained earnings scaled by total asset. All regressions include unreported year and industry dummy variables. Robust standard errors are estimated and reported in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Variables	CAR (-1,+1) (1)	CAR (-3,+3) (2)	CAR (-5,+5) (3)
Emerging Countries	0.024**	0.040**	0.042*
	(0.011)	(0.019)	(0.023)
Early Mover Sixth Wave*Emerging	0.013	0.034*	0.050*
	(0.015)	(0.019)	(0.026)
Early Mover After Sixth Wave*Emerging	-0.000	-0.012	-0.017
	(0.013)	(0.020)	(0.017)
Target's ADRI	0.004**	0.006*	0.008**
	(0.002)	(0.003)	(0.004)
ADRI*Emerging	-0.007***	-0.011**	-0.010*
	(0.003)	(0.004)	(0.005)
Firm size	-0.001	0.000	0.000
	(0.001)	(0.001)	(0.002)
Leverage	0.024**	0.030*	0.033*
	(0.011)	(0.016)	(0.019)
Cash payment	-0.002	0.012*	0.008
	(0.004)	(0.007)	(0.008)
Target's status private	-0.004	-0.009*	-0.008
	(0.003)	(0.005)	(0.006)
Industry relatedness	0.000	-0.000	0.005
	(0.003)	(0.005)	(0.006)

ROA	0.000	-0.008	0.009
	(0.015)	(0.025)	(0.030)
Volatility	0.005***	0.001	0.003
	(0.002)	(0.003)	(0.004)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Constant	-0.024	-0.066**	-0.115***
	(0.019)	(0.028)	(0.036)
Observations	1,217	1,217	1,217
R-squared	0.237	0.241	0.236
Adj. R-squared	0.025	0.030	0.025

CHAPTER 5 Conclusions and Limitations

Mergers and acquisitions have always been a major discussion, became increasingly popular, despite the paradox that many research found to be ineffective. The fact that mergers began as a phenomenon in U.S have now turned into a global business. This indicates that foreign deals are perceived as a main tool to achieve synergy, especially in the form of foreign direct investments. In the past, U.S. firms have only focused on targeting developed countries, yet, around the 21st century, they grew interest in making deals with emerging market.

This paper focuses on cross-border M&As by U.S. with the final sample of 1,227 deals during the period of 2002-2016. This thesis analyzes shareholders' return around the announcement date by calculating the cumulated abnormal return of the acquirer through event-study method, utilizing three event windows. This thesis found a significantly positive abnormal return when U.S. firms target emerging market. Thus, the merger deals create value for the shareholders. Furthermore, this study also observed that cross-border M&As that occur after the sixth merger wave correlate positively to the acquirer's return for the window event of CAR (-5,+5).

In addition, this paper examined the relation of cross-border M&As by U.S. firms with shareholders' protection in the target's country. The shareholders' protection is used as a component of corporate governance by examining the Anti Director's Rights Index. This study found a positive correlation between ADRI and CAR, showing that the higher the ADRI in a target nation, the higher the increase of acquiring firm's abnormal return. However, this result does not hold for the shareholders' protection in emerging countries. It is seen that the ADRI in emerging market has a significantly negative relation with CAR, which can be interpreted that the target countries with lower ADRI are the ones that bring higher return instead.

This thesis has some limitations. First, the model may be subject to omitted variable bias. Other factors could have impacted the dependent and independent variables that are not controlled in the regression. The data of target firms from emerging market is also quite limited to enable this thesis explore more on the characteristics of cross-border performance. Moreover, there could be other geographical and cultural factors between countries that play a significant role in determining the outcome of stock market reactions. Due to the limitation of data and time, this thesis only investigates the acquirers' gain for U.S. firms. Future research could take larger scope country in the sample. M&A has been an ongoing topic due to its dynamic performance across time, there may be other determinants in M&A value creation for further study.

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