CROSS-BORDER ACQUISITIONS BY EMERGING COUNTRIES MULTINATIONALS

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ABSTRACT

This paper investigates short-term abnormal returns of emerging country multinational acquirers on cross-border acquisitions in emerging and developed countries to find that shareholders of the emerging country acquirers earn positive and significant short-term abnormal returns on cross-border acquisitions in both other emerging and developed countries and that emerging country acquirers earn, on similar pattern, more short-term abnormal returns on the cross-border acquisitions in the developed countries as compared to on the cross-border acquisitions in the emerging countries. We conclude that political stability in target nations has negative, legal framework in target nations has inverse though insignificant effect on the amount of abnormal returns.

Keywords: *Emerging Countries Mergers & Acquisitions*

1. INTRODUCTION

Mergers and acquisitions (M&A) rapidly increased to achieve economies of scale, capture more market share, find technological realignments, create substantial synergies, and search for big capital. Mergers and acquisitions by both large multinational firms and multinational companies of the emerging economies (Yuce, 2016) have increased in number and value. Financial globalization, especially, driven by the newly invented means of business communication and competitive economic globalization raised the number and value (UNCTAD, 2015) of domestic and cross-border M&As.

To date, most of the empirical researches have been undertaken to investigate the impact of domestic and cross-border M&A on the performance of the acquirers and targets of the of the developed countries but there is no consensus whether M&A cause any enhancement in the performance of emerging country acquirers. Some studies find shareholders of the acquiring firms earn abnormal significant negative returns, while others find insignificant positive returns on M&A (Cakici, Hessel, & Tandon, 1991; Campa & Hernando, 2004; Eckbo & Thorburn, 2000; Goergen & Renneboog, 2004; Malatesta, 1983; Maquieira, Megginson, & Nail, 1998; Moeller & Schlingemann, 2005; Schwert, 1996; Seth, Song, & Pettit, 2000). In contrast, shareholders of target firms earn positive returns on announcement of the M&A (Chang & Tsai, 2013; Moeller, Schlingemann, & Stulz, 2005).

Scarce capital to complete M&A exposes the emerging country multinationals to financial and operational risks which in turn squeezes abnormal returns and caps company performance on and even after cross-border M&A announcements. Economic risk also plays pivot role (Berger, Bonime, Goldberg, & White, 1999) in cross-border M&A that eventually embeds in emerging country multinational company abnormal returns.

Existing literature provides insight on the influence of the domestic and cross-border M&A by the developed countries MNCs, however, only few studies examine the effects of the cross-border M&A on the abnormal returns of the acquirers and targets by the EMNCs (Yuce, 2016). But there is not a single study that examines, simultaneously, the short-term performance of acquiring multinational companies of the emerging country acquirers on announcement of the cross-border acquisitions in the other emerging and developed countries. Hence, the objective of this paper is to investigate the effects of the cross-border acquisitions on the short-term abnormal returns of the emerging country acquirers in other emerging and developed countries, respectively. Principally, the aim of the current paper is to answer the two questions. First, we want to examine whether or not emerging country acquirers earn positive and