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"DOMESTIC VS. CROSS-BORDER MERGERS AND ACQUISITIONS: WHICH ONE GRANTS A HIGHER RETURN FROM THE ACQUIRER SHAREHOLDER'S PERSPECTIVE"

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0. Abstract

In this dissertation, I investigated whether the M&A transactions that give the highest return to the acquirer are those done in the domestic country (domestic M&A) or those done across country borders (cross-border M&A).

To perform this analysis, I conducted an event study using a sample of M&A deals both domestic and cross-border completed between 2017 and 2019 using the market model technique and then analyzing the cumulative abnormal returns of the acquirers in these deals to compare them with the average returns of a benchmark index.

1. Introduction

The main reason businesses exist is because they must provide consumers with goods and services that go to meet their needs.

On the other hand, the main objective of every enterprise is to maximize a company's collective sustainable value to its shareholders in the present and in the future.

It is common knowledge that a company can expand the value and volume of its operations through two different strategies; first, the company may opt for internal, or organic, growth, which consists of reinvesting its profits or cash within the company to expand the business and its operations. On the other hand, companies can take another route to growth, which is external growth, usually implemented through mergers and acquisitions (M&As) or strategic alliances such as joint ventures, equity strategic alliances, and non-equity strategic alliances; this route allows for faster growth than organic growth and has several advantages.

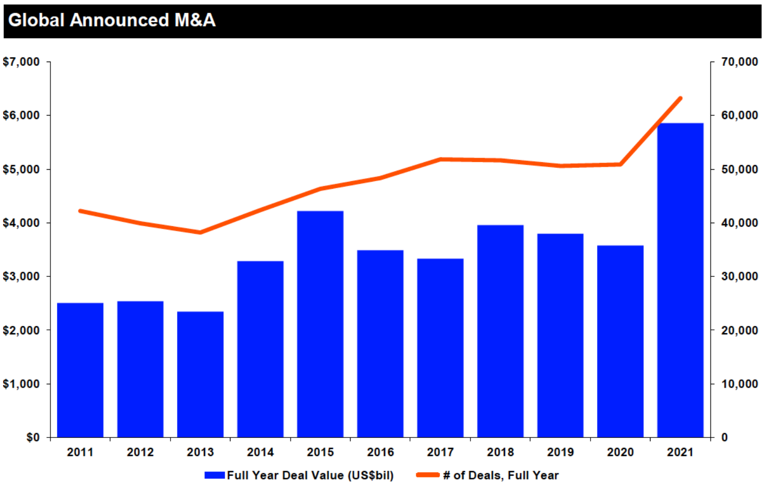
Going deeper into the topic, "the core of mergers and acquisitions is a deliberate transfer of control and ownership of a business organized into one or more corporations" (Coates IV, 2014, pp. 2).

Therefore, the M&A activity is a type of corporate strategy that allows firms to rapidly expand their own business and usually it results in a change of corporate ownership.

Mergers and acquisitions tend to occur in waves that are triggered by several factors that include the rise in stock prices, low interest rates, and large acquisitions in a specific industry (Koller, Goedhart, and Wessels, 2020); there are six different waves of M&As in the literature, starting from 1897 and ending in 2007 (Malik, Anuar, Khan, and Khan, 2014).

Most likely the seventh wave is on its way or has probably already begun given the volumes of growth in recent years, excluding 2020, which was a very unusual year for the whole world.

Mergers and acquisitions are now the order of the day and play an important role in the global scenario, suffice it to say that in 2021 they reached a record high in terms of value, as shown in the graph below, which stood at US$5.9 trillion, up 64% from the previous year, which, however, was a peculiar year and not too indicative. Moreover, also the number of deals had an all-time high level reaching 63,000 deals with an increase of 24% with respect to 2020 (Refinitiv, 2021).



Source: Refinitiv, Global mergers and acquisitions review, 2021

This trend of M&A expansion was also partly confirmed by the report on the first quarter of 2022, a quarter in which deal volume stood at about US$1.0 trillion, down 21 percent from the first quarter of 2021 but still marking the seventh consecutive quarter over US$1.0 trillion (Refinitiv, 2022).

Given the emergence of this new wave of mergers and acquisitions, it may be interesting to analyze the average return that bidders have had in recent years and to compare whether they have higher returns if they undertake M&A in the domestic country or across borders.

The issue of value creation in these types of transactions has been much studied, and the literature on the subject is very large and varied. Much research has investigated value creation from mergers and acquisitions both from the perspective of the bidder, the target and also the return of the new combined entity.

However, most of the studies done on the topic of bidder return, especially on the difference in return between domestic and cross-border M&A are already a few years old and thus have explained past waves of M&A.

Instead, in this thesis, I will focus my analysis on a recent period, more specifically analyze transactions that occurred between 2014 and 2019 for various reasons that I will explain in the methodology section, which is more related to this new wave of M&A. I will then go on to analyze various domestic deals and various cross-border deals to attest to which of the two deals the bidder has a higher return using the event study methodology to calculate the cumulative average abnormal return (CAAR) of the bidders involved.

The dissertation will then be divided into five chapters.

The first chapter is as follows, devoted to the introduction.

The second chapter, entitled introduction to cross-border M&A, is designed to highlight the peculiarities of cross-border transactions and in particular the various motivations behind such transactions and the challenges that M&a transactions have in general and then specifically the case of cross-border M&A.

The third chapter, on the other hand, is devoted to reviewing the literature related to the thesis, then the returns of bidders in domestic M&A and cross-border M&A transactions and then comparing the two, and finally the impact of deal and acquirer characteristics on shareholder returns.

The fourth chapter is devoted to the empirical analysis, the subchapters deal with the selection and description of the sample, a theoretical explanation of the methodology used, and finally the exposition of the results of my analysis.

The dissertation will then conclude with the fifth chapter devoted to conclusions in which I will summarize the results of the study.

2. Introduction to cross-border M&A

We live in a world where globalization is highly prevalent and pursued not only by companies but also by people, capital, and assets.

From a business perspective, this entails the need to expand a company's operations outside its borders to continue and remain competitive in its target market.

When a company wants to expand its business outside the state in which it operates, it can do so through foreign direct investment (FDI).

According to OECD, FDI is a category of transnational investment in which an investor residing in one economy establishes a lasting interest and a significant degree of influence over a company residing in another economy. To have evidence of such a relationship, the investor must own at least 10 percent of the voting power in the foreign company.

Foreign direct investment is typically viewed as the transfer of both physical capital and intangible assets between countries (Wang and Wong, 2009).

Foreign direct investment is multifaceted and divided into two macro-categories: greenfield FDI and brownfield FDI.

In more detail, greenfields are foreign direct investments in which the company invests in a foreign state to establish a subsidiary, thus going to create a new entity related to the company.

On the other hand, brownfields are a type of foreign direct investment in which an investor located in a particular country invests in an existing facility located in another country.

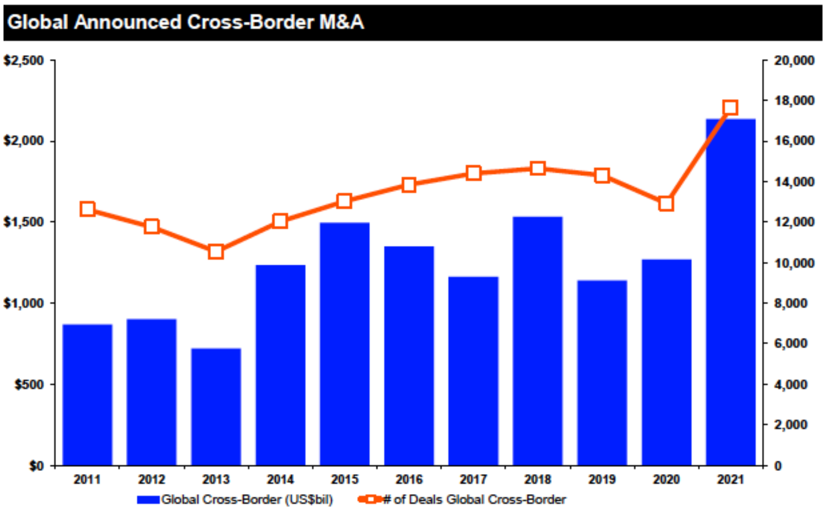
The latter includes cross-border mergers and acquisitions.

Since the 1990s, coinciding with the fifth wave of M&A, there has been a substantial increase in cross-border M&A activity. Several factors are responsible for fueling the expansion of cross-border M&A such as the worldwide phenomenon of industry consolidation and privatization, and the liberalization of economies (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).

Through the years, this phenomenon has steadily increased until it has taken a leading position in the strategic planning of enterprises, even considering the fact that since the 1990s the world has become more and more globalized and competition is constantly increasing.

Moreover, for the last three decades, enterprises have massively used mergers and acquisitions as a strategic tool for corporate restructuring (Malik, Anuar, Khan, Khan, 2014).

Cross-border M&A transactions are very widespread and important, in 2021, for example, the level of these transactions touched a value of US$2.1 trillion up 68 percent from 2020 marking an all-time high in terms of value; the financial and technology sectors have a very important specific weight as they accounted for 38 percent of the value of these transactions (Refinitiv, 2021).



Source: Refinitiv, Global mergers and acquisitions review, 2021.

As the chart shows, cross-border M&As are on an upward trend, both in terms of value and number of deals, starting in 2013.

In a merger or acquisition transaction usually, two parties are identified, the company to be acquired or merged is called the "target" while the acquiring or merging company is called the "bidder", the only exception being mergers of equals where the distinction between the two entities is not well defined.

In a cross-border merger or acquisition (CBMA) the rationale is the same as for the domestic ones but what differs is the fact that the target company is located in a country different from the one of the bidder. Because of that, a CBMA transaction can be defined as a transaction in which different assets that belong to different companies located in different countries are blended in order to establish a new legal entity.

2.1 Motives for cross-border M&A

Several theories have attempted to explain and analyze the phenomenon of mergers and acquisitions over the years. There is, indeed, a large body of literature focusing on this argument and attempting to determine which choice between M&A with domestic and international orientation could be the most profitable for investors.

The dynamics of cross-border mergers and acquisitions are substantially similar to those of domestic M&As (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).

Moreover, because of the international aspect of such activities, they also entail unique challenges, as countries have different economic, regulatory, and cultural structures (Hofstede, 1980; House et al. 2002 as cited in Shimizu, Hitt, Vaidyanath, and Pisano, 2004). Therefore, is not properly accurate to treat cross-border mergers and acquisitions as an extension of domestic mergers and acquisitions because of the several differences that exist between the two countries involved in such a deal.

In any case, some motives that are fundamental in the theory of M&A can be drivers for both domestic and cross-border mergers and acquisitions; the motives in detail are the synergy hypothesis, the hubris hypothesis (managerial overconfidence), the agency hypothesis, and lastly the efficiency gains. Now I will deepen these three common motives.

Sinergy hypothesis

The synergy hypothesis assumes that managers of targets and acquirers maximize shareholder wealth and would engage in takeover activity only if it results in gains for both sets of shareholders (Berkovitch and Narayanan, 1993). Moreover, synergy is accomplished when the value of the new entity is superior to the sum of the stand-alone value of the two firms (Malik, Anuar, Khan, and Khan, 2014).

Synergies that arise from a merger or an acquisition can be either operational or financial. The synergy effect can be translated into cost reduction and perfection in operational efficiency, and revenue improvements (Malik, Anuar, Khan, and Khan, 2014).

Cost reduction can be reached through economies of scale and economies of scope and/or by getting rid of facilities that are present in both firms that have merged and finally as a result of the increased bargaining power against dealer or supplier (Fatima and Shehzad, 2014) and even more when the M&A activity is a vertical one, reinforcing the bidder position in the value chain and thus granting more decisional power.

The increase in revenues occurs when the newly established entity is able to achieve better sales or growth in sales level than the two stand-alone companies which can be reached through sleeker product offerings (Malik, Anuar, Khan, and Khan, 2014).

Diversification is another frequently cited source of synergy in mergers. For example. diversified organizations can create so-called internal capital markets, which allow funds to be allocated between divisions without resistance or inefficiency (Doukas and Travlos, 1988). Finally, financial synergy arises from the improved efficiency of financing activities and is principally linked to a reduction in the cost of capital, which in the corporate sphere is translated into tax benefits, increased debt capacity, and in a lower cost of capital through reduced cost of equity.

The hypothesis of synergies is thus a common motive for domestic and cross-border M&A. Indeed, examples of synergies applied to cross-border M&A can be found in the literature. For example, Goergen and Renneboog (2004) performed a correlation analysis of the target, bidder, and total announcement gains in order to assess which is the major motive of takeovers in Europe in the 1990s, and the results of their analysis show that the synergies are the main motive. Moreover, Eun, Kolodny, and Scheraga (1996) analyzed to test the synergy hypotheses using a sample of foreign acquisitions of U.S. firms during the period 1979-1990; their findings show that both bidders and targets shareholders experienced significantly positive combined wealth gains, indicating that cross-border takeovers are generally synergy-creating activities.

Hubris hypothesis

The hubris hypothesis (managerial overconfidence) states that managers wrongly believe that they are quite better enough compared to the rest of the management to control and supervise different firms (Malik, Anuar, Khan, and Khan, 2014). This hypothesis affirms that acquisitions are motivated by managers' mistakes and there are no synergy gains (Berkovitch and Narayanan, 1993). Since the management overestimate the synergies of the deal, they will perform the takeover, but as expressed above the synergy gains are presumed to be zero, thus, the considerations transferred (i.e. the payment) is only a transfer between the acquirer and the target (Berkovitch and Narayanan, 1993).

Seth, Song, and Pettit (2000) have tested whether the hubris hypothesis can be extended into the context of cross-border mergers and acquisitions using a sample of 100 acquisitions by foreign companies of U.S. corporations that took place between 1981-1990.

The hubris hypothesis may apply to cross-border acquisitions as well as domestic mergers and acquisitions. This is based on the belief that information asymmetry is greater in cross-border transactions involving a foreign bidder and a domestic target than in domestic transactions involving a domestic bidder and a domestic target (Seth, Song, and Pettit, 2000).

Because of the information asymmetry, the probability that the bidder's managers will misjudge the value of the target company, even if they think is a correct valuation, will increase.

Agency hypothesis

For what concern the agency motive (or managerialism), it has been suggested that some takeovers are primarily motivated by the self-interest of the acquirer management (Berkovitch and Narayanan, 1993). The managerialism hypothesis advises that managers will knowingly overpay in takeovers: managers embark on acquisitions to maximize their own utility at the expense of their firm's shareholders (Seth, Song, and Pettit, 2000). This latter hypothesis is very similar to the hubris one but in this case, managers do not misevaluate the value of the target, they already know that the offer they will make is overvalued with respect to the actual value of the target firm.

There are several reasons that can explained such a behavior of the managers; among them there are diversification of management's personal portfolio, use of the free cash flow (FCF) to increase the size of the firm and acquiring assets that increase the firm's dependence on the management (Seth, Song, and Pettit, 2000). Thus, the common rationale of these reasons is the fact that mergers and acquisitions end in the extraction of value by the acquirer management from the acquirer shareholders.

The agency motive may also be relevant for cross-border acquisitions if foreign firm managers have the incentive and discretion to engage in acquisitions aimed at empire building or risk reduction associated with their human capital. Individual shareholders may duplicate the benefit from such activities at a lower cost in an integrated capital market, so firm-level diversification activities to reduce risk are generally considered non-value maximizing. Given the low correlations between earnings in different countries, managers may still seek to stabilize the firm's earnings stream by acquiring foreign (rather than domestic) firms. Foreign acquisitions may be more satisfactory risk-reduction vehicles than domestic acquisitions, and managers may overpay for these acquisitions in the absence of strong governance mechanisms to control managerial discretion (Seth, Song, and Pettit, 2000).

John H. Dunning in the 1970s developed the OLI Paradigm, an eclectic model, in an attempt to create an overall framework that covers numerous theories to explain why firms invest outside their home countries and the motivations behind that. The OLI Paradigm describes the Foreign Direct Investment decision process that leads to cross-border acquisitions and divides it into three decisions: ownership, location, and internalization (OLI). According to this paradigm, a company needs all three advantages to successfully engage in FDI, indeed, the OLI variables are interdependent on one another (Sharmiladevi, 2017).
Because cross-border M&As are an important component of FDIs, as we have seen before, the OLI theory can be an adaptable framework for analyzing them.
The OLI paradigm assumes that multinational enterprises (MNEs) will not pursue transactions in the open market if the cost of realizing such transactions internally, carries a lower price.
This paradigm has been much criticized, which is why Dunning himself has implemented, revised, and adapted it over the years.
Such a paradigm will be described in the subsequent subchapters.

2.1.1 Asset ownership advantage

The ownership advantage can also be seen as the competitive advantage that comes with the FDI. In this case, ownership can be defined as the possession of a unique and valuable resource that cannot easily be imitated, resulting in a competitive advantage over potential foreign competitors.
The ownership advantage states that a company must have some competitive advantage in its home market that can be exploited and transferred to a foreign subsidiary.
These advantages must be sufficient to compensate for the costs of setting up and operating a foreign value-adding operation, in addition to those faced by indigenous producers or potential producers (Dunning, 1988).
The competitive advantage, derived from the possession of some kind of unique resources, has to be extremely valuable that a company can derive it over foreign rivals; moreover, these advantages, which are represented by assets controlled by the company, must be firm-specific. If that is the case, it would let the firm create value through the foreign production decision. In fact, because the creation of these proprietary or ownership advantages is costly in the home country, transferring already existing assets to new countries would be a less expensive solution.

In a broader definition, ownership advantages are any kind of income-generating asset that allows firms to engage in foreign production which can arise as a direct consequence of cross-border market-replacing activity (Dunning, 2001).
Furthermore, accordingly, to Dunning (1988), there are basically three different types of ownership-specific advantages. First, the advantages that stem from the exclusive privileged possession of or access to particular income-generating assets. Second, the advantages that are normally enjoyed by a branch plant compared with a de novo firm. Third, the advantages that are a consequence of geographical diversification or multinationality per se (Dunning, 1988).
These three ownership advantages date back to the first formulation of the paradigm, a few years later John Dunning implemented them by adding a further distinction.
In a later typology, there is a distinction between the assets (Oa) and the transaction (Ot) advantages of MNEs.
The asset advantages derive from the proprietary ownership of specific assets by multinational enterprises vis-à-vis those possessed by other enterprises, which basically is the first advantage of the original formulation (Dunning, 1988).
On the other hand, the transaction advantage (Ot) reflects the capacity of multinational enterprise hierarchies vis-à-vis external markets to capture the transactional benefits (or lower the transaction costs) arising from the common governance of a network of the assets, located in different countries (Dunning, 1988).
Additionally, the distinction between structural and transactional market imperfections plays an important role. As a matter of fact, the importance of each in determining the ownership advantages of multinational enterprises will differ according to the characteristics of firms, the products they produce, the markets in which they operate, and whether the competitive process is viewed from a static or dynamic perspective (Dunning, 1988).
Of course, these two types of imperfection are frequently interrelated, especially in a dynamic market situation; there is a strong and growing consensus that the most successful multinational enterprises are the ones that can sustain and make use of both asset and transactional ownership advantages (Dunning, 1988).

2.1.2 Location advantage

The location advantage is the second fundamental element of the OLI paradigm.
Enterprises will engage in foreign production whenever they perceive it is in their best interests to combine spatially transferable intermediate products produced in the home country, with at least some immobile factor endowments or other intermediate products in another country (Dunning, 1988).

Basically, when a company has to decide whether to invest in a foreign company through foreign direct investments, the company has to reflect on whether this foreign location is superior to the location in the company's home country and whether is the most appropriate site to exploit its ownership assets. As a matter of fact, the company should be able to use the characteristics of the foreign market that better maintain its own operations and can strengthen its competitive advantage in that foreign market.

The location decision of multinational companies may be influenced by the different sort of market imperfections. In fact, structural market distortions (e.g. the ones arising from certain kinds of government intervention) might either encourage or discourage inward direct investment (Guisinger, 1985).

Actually, the structural market distortion is not a sufficient condition to explain the MNE activity, indeed it can occur even without these kinds of distortions but there should be the presence of a transaction gain likely to result from the common governance of activities in different locations. Such advantages include enhanced arbitrage and leverage opportunities, the reduction of exchange risks and better coordination of financial decision making, the protection afforded by a hedged marketing or multiple sourcing strategies, and the possibility of gains through transfer price manipulation, leads and lags in payments, etc. (Dunning, 2001).

Even if, in the eclectic paradigm, the advantages/disadvantages of particular locations are treated separately from the ownership advantages of a particular company, the decision on where to site an office or a factory is not independent of the ownership of these assets nor of the route by which they are transacted (Dunning, 1988). It is therefore clear that there is an interdependency between the ownership advantages and the location advantages. Going deeper into this dependency, Dunning stated that "FDI based upon the O advantages of the investing firm in time t may well affect the L advantages of the host country in time t+1" (Dunning, 2001, p. 178). On the other side, the choice of the location made by companies can have the strength to critically affect the shape of the future O advantages (Dunning, 2001).

The relationship between the ownership and location advantages has also another important implication; indeed, if there is successful coordination of the O advantages of foreign and domestic firms with their own L advantages, and how each is influenced and influences by the manner of resource deployment, which determines the extent to which a country is able to sustain or enhance its wealth-creating capacities over a period of time (Dunning, 2001).

2.1.3 Internalization advantage

Finally, the third and last advantage highlighted by Dunning in its eclectic paradigm is the internalization advantage.

Following Dunning's thinking, this third condition for international production is that it must be in the best interests of companies that already possess ownership-specific advantages to transfer them across national boundaries within their own organizations rather than sell them, or to sell their right of use to foreign-based enterprises (Dunning, 1988).

Thus, the internalization advantage is something that has to be carefully analyzed by the management of the company in order to decide the best investment method that meets their needs. They must normally consider whether it is more cost-effective to have the value chain activity performed locally with their own team or to outsource it to a foreign country.

Lower costs, better skills to perform value chain activities, and/or better knowledge of local markets are some of the benefits of outsourcing from different countries.

In such a case, management has two options for how to proceed. It has the option of outsourcing production to an original equipment manufacturer (OEM) or licensing the design of its product to an independent foreign company.

The main reason for the internalization of markets lies in market failures; actually, according to Dunning (1988), there are three different kinds of market failure

First, the market failures that arise from risk and uncertainty. Second, market failures come from the ability of firms to exploit large-scale production, but only in an imperfect market situation. Third, the market failures that occur when the transaction of a particular good or service yields costs and benefits external to that transaction, but that are not reflected in the terms agreed to by the transacting parties.

Multinational enterprises will be more likely to exploit their competitive advantages through international production rather than by contractual agreements with foreign firms when the perceived costs of transactional market failure are large (Dunning, 1988).

On the contrary, when the administrative costs of hierarchies and the external diseconomies of operating a foreign venture, the more likely a contractual agreement will be preferred (Dunning, 1988).

To summarize, the eclectic paradigm of international production is a model that tries to explain the reasons and to give a guideline for the decisions of companies, especially multinational enterprises, when they are deciding whether to undertake foreign direct investments. The OLI paradigm is composed of these three elements, which are ownership, location, and internalization. Briefly, the paradigm relies on the advantages related to these three dimensions; more in detail, firstly the identification of ownership advantages is conducted, if no advantages are identified it is better for the company to remain domestic; if some advantages are identified, the management can proceed with the recognition of the advantages that derive from the location dimension; if no advantages are detected, the best choice for the company is to export their products; if advantages are identified, the managers can go forward to analyze the last dimension, the internalization; again, if no advantages are identified, the best solution for the company is to establish license agreement; by contrast, if such advantages are detected, the best strategy is to opt for foreign direct investments.

As I have introduced at the beginning, John Dunning has made some further extensions of its model in order to rebut some critics received. I will not deepen all the extensions, but only the Investment Development Path (IDP).
One of the applications of the eclectic paradigm is to examine the changes in the international position of countries in terms of its development attained with foreign investment, which was made possible through the "Investment Development Path" (Sharmiladevi, 2017).
According to Narula and Dunning (2010), the basic principles of the Investment Development Path (IDP) can be summarized as follows:

- There exists a relationship between the structure, extent, and nature of the foreign direct investment activities associated with a given location, and the economic structure of such location, which reflects the economic development
- There is an interactive effect between the three groups of advantages, namely the ownership advantages of domestic firms, the ownership advantages of multinational companies, and the location advantages of countries.
- This relationship can be analyzed by classifying their evolution through five stages.

Cross-border mergers and acquisitions are one method of FDI entry into foreign markets. The Oli paradigm does not explicitly distinguish between different modes of entry and was written with greenfield FDI in mind. However, it does provide a useful theoretical framework for analyzing and explaining the motivations and causes of FDI via cross-border M&As.
In order to emphasize the role of the eclectic paradigm on cross-border M&As, UNCTAD (2000) analyzed such a relationship in order to specifically address the ownership-, location-, and internalization advantages of CBM&A.
The table below, developed by UNCTAD (2000) can be useful to link the OLI paradigm with cross-border mergers and acquisitions given the fact that FDI comprehends also other types of direct investments. Moreover, in order to OLI factors specifically for M&As, a distinction between mergers and acquisitions and a further distinction between horizontal-, vertical-, and conglomerate M&A must be done.
“Mergers are taken to involve firms of roughly similar size and capacity that jointly internalize their “ownership” advantages to gain economies of synergy, size, and scope. Acquisitions are taken to involve larger, more powerful, or better-capitalized firms taking over smaller or weaker ones and using this to gain speedy access to the latter’s “ownership” and “locational” assets” (UNCTAD, 2000, p. 141). In addition, also the internalization factors are different indeed there is joint internalization, especially in M&As between similar firms.

Table 1: OLI paradigm and cross-border M&As

Type	Horizontal	Vertical	Conglomerate
Mergers	O: Both firms have O advantages complementing each other in scale, synergy, finance or market power. L: Standard location factors are not relevant where two TNCs merge their global production systems. I: Both firms seek to gain economies of scale by internalising joint advantages. Joint internalisation differs from “internalisation” in usual OLI terms, but determinants (transaction costs in some sense) are similar. Mergers provide a much faster way of exploiting each other’s advantages.	O: Both firms have O advantages that complement each other in different processes of the production chain. L: As with greenfield FDI, but also see horizontal mergers. I: Merging firms both seek to gain security, information, finance or market power, and to reduce transaction costs.	O: Both firms have O advantages in unrelated activities that may have economies of scope, but not technological complementarity. A merger is thus not based on O advantages in the usual sense; it may just involve access to finance. L: Mainly market size, growth or prospects of capital appreciation, not location advantages in the OLI sense. I: Merging firms seek a larger capital base or economies of scope, but are not internalising their O assets to save on transaction costs.
Acquisitions	O: Acquiring firms tend to have greater O advantages than acquired firms, or seek specific new O advantages (technology, contacts, etc.). L: As with greenfield FDI, except that many L advantages are “embodied” in the acquired firm. I: As with greenfield FDI, acquiring firms strengthen their competitive positions by internalisation.	O: Acquiring firms have a stronger financial or managerial base that allows them to acquire vertically linked firms abroad. L: As with horizontal acquisitions. I: As with greenfield FDI, acquiring firms strengthen their competitive positions by internalisation.	O: Acquiring firms have greater financial and/or managerial resources, but no O advantages in the usual sense. L: Mainly market size and growth and prospects of capital appreciation, not location advantages. I: Acquiring firms seek diversification or economies of scope, but are not internalising in an OLI sense.

Source: UNCTAD, World Investment Report (2000)

2.1.4 Other motives

So far, I have highlighted the three main reasons why a company undertakes mergers and acquisitions (i.e. synergies, hubris, and agency) which are considered common motivations for both domestic and cross-border operations; after which the focus shifted to the theory proposed by John Dunning to explain the pattern of international production.
Instead, in the present subchapter, I will go on to analyze other motivations than those already mentioned that relate to the choice to undertake a merger and acquisition operation transnationally.
The literature concerning this topic is very large and varied, so I have decided to group all the different motivations under different macro-categories that will now be set out.

Value creation

First, mergers and acquisitions are intended to bring something to the new entity that goes beyond simple business expansion.
Before analyzing firm-related factors, I will analyze some motivations related to the business strategy that is pursued by companies.
Primarily, a company can decide to undertake a cross-border merger or a cross-border acquisition in order to achieve value creation.
The debate of whether a merger or an acquisition creates value for the combined firm, the acquiring firm and the acquires firm is probably the most studied and discussed in the entire field of M&As. Even if the findings of such a topic are conflicting, in this section I will not assess whether these types of deals create or not value for the actors involved but I will only indicate that is a rationale for managers that intend to undertake such activities.
In this sense, various pieces of research state that CBMAs are able to provide integrating benefits of internalization, risk diversification, and synergetic gains, and because of this create wealth both for the acquirer and the acquired firm (Kang, 1993; Markides & Ittner, 1994).
Moreover, Seth, Song, and Richardson Pettit (2002) conducted an analysis using a theoretical approach based on synergy-seeking, managerialism, and hubris in order to identify factors that are able to create or destroy value in a cross-border M&A.
The major finding is that value creation is achieved through synergies, which is nothing new. Additionally, the authors indicated other factors responsible for value creation, these are asset sharing, the reverse internalization of valuable intangible assets, and financial diversification (Seth, Song, and Richardson Pettit, 2002).
Tripathi and Lamba (2015) examined the major motives of cross-border mergers and acquisitions by Indian companies for the period 1998 through 2009 by conducting a survey

that involved 69 deals. Their findings show that the motives are five, while the first ranked motive is to aim for improvement in all the activities directed towards creating value (Tripathi and Lamba, 2015).
In addition, Gosh Ray and Gosh Ray (2013) have identified some motives that encourage companies into initiating a cross-border deal, among the others growth is of paramount importance to create value for the shareholders (Gosh Ray and Gosh Ray, 2013).

Efficiency improvements

Another important motivating force that drives cross-border mergers and acquisitions is the improvement in efficiency.
In the survey conducted by Gosh Ray and Gosh Ray (2013) the second rationale for cross-border mergers and acquisitions has been identified as the improvement in efficiency through a reduction in the operating costs along with the intention of improving in financial areas which lies in increasing the liquidity, decreasing the cost of capital, and increasing the dividends to the shareholders after the cross-border merger or acquisition (Gosh Ray and Gosh Ray, 2013).
Moreover, Farrell (1990) and Shapiro (2001) made a distinction between technical efficiency and synergy efficiency. They identified technical efficiency as something that could be achieved through means other than M&A. As alternatives to M&A, they established joint ventures, agreements, internal growth, and licensing. According to the research of initiators, technical efficiency communicates the changes that occur within the combined manufacturing potential of the merging firms. In short, if the capital is portable, they can be increased by redeploying output across merging entities or scale economies. In the long run, they can be distinguished by launching massive investments. Synergy, on the other hand, can be defined as efficiency attained through the close combination of the merging firms and is intrinsically merger-oriented (Farrell, 1990; Shapiro, 2001).
In addition, Deloitte (2017) conducted a survey of more than 500 client executives with cross-border M&A experience in order to gather various information including the top strategic deal objectives. The results of such a questionnaire show that 35% of the respondents have selected cost synergies as a deal objective and 29% of the respondents have chosen scale efficiencies (Deloitte, 2017).

Marketing and strategic motives

One more motive inferred in the survey conducted by Gosh Ray and Gosh Ray (2013) is the marketing and strategic motives. The authors included five factors in this wider classification of marketing and strategic motives. These subfactors are the intention to acquire a company in order to acquire strategic resources like human resources, finance, marketing, logistics, etc. of the acquired company, to diversify the product range, to integrate vertically with the suppliers, to improve the company's market value, and to integrate vertically with the customer chain (Gosh Ray and Gosh Ray, 2013).

Corporate governance

Finally, before going into the firm-specific factors, one last motive is identified in corporate governance.

Erel, Liao, and Weisbach (2012) have used a sample of 56,978 cross-border mergers that occurred between 1990 and 2007 to estimate the factors that affect the likelihood that firms merge or acquire another firm located in a different country. It emerges that corporate governance considerations are able to affect cross-border mergers and acquisitions. The main argument is that mergers can increase the legal protection of minority shareholders in target firms by providing them some of the rights of acquiring firm's shareholders, if this is the case the value can be created through an acquisition (Erel, Liao, and Weisbach, 2012). More broadly, corporate governance considerations indicate that companies located in countries that promote governance through better legal/accounting standards will tend to acquire companies in countries that have lower-quality governance (Erel, Liao, and Weisbach, 2012).

Moreover, corporate governance can enhance synergies because the effectiveness of governance mechanisms varies between firms (Malik, Anuar, Khan, Khan, 2014).

Wang and Xie (2009) conducted a study on the benefits of changes in control for mergers and acquisitions. They demonstrate that corporate governance transfers influence the synergies which will be divided between the companies involved in the deal (Wang and Xie, 2009).

This latter argument becomes even more important in cross-border mergers and acquisitions since corporate governance principles differ among different countries; additionally, their findings suggest the theory that acquisitions of firms with poor corporate governance by firms with good corporate governance generate higher total gain (Wang and Xie, 2009).

Lastly, Bris and Cabolis (2008), investigated the changes in corporate governance induced by cross-border mergers and acquisitions using a sample of roughly 500 M&As in 39 countries from the period 1989-2002. Their findings show that corporate governance can be a motive for cross-border mergers and acquisitions because firms in less protective countries are more likely to be targets of cross-border M&A than targets of domestic M&A (Bris and Cabolis, 2009).

Firm-specific factors

First, in a study on 1,379 European non-finance deals, Forsbæck and Oxelheim (2008) found that financial attributes such as firm size, cash flows, and financial performance explain the motive of cross-border M&As and firms that hold a good valuation of equity and companies that cross-listed on a large stock exchange are more likely to undertake transnational acquisitions (Forsbæck and Oxelheim, 2008).

Another contribution has been made by Raff, Ryan, and Stähler (2012) by analyzing the direct international investments made by firms located in Japan in the period 1985-2000. Their main findings indicate that companies that witness a greater level of productivity are more likely to invest abroad through greenfield FDI than brownfield FDI and they conclude that firm-specific factors have an important role in describing cross-border investments (Raff, Ryan, and Stähler, 2012).

Paul and Wooster (2008) investigated 173 deals from US-based companies than made transnational investments in transition countries during 1990-1999. Their findings show that companies that witness sales growth and have great advertising intensity get into cross-border deals to catch market share and first-mover advantage (Paul and Wooster, 2008).

Zhu, Jog, and Otchere (2011) examined the motivations of acquirers undertaking partial acquisitions in emerging markets using a sample of 537 cross-border deals and 1,171 domestic deals from 1990 to 2007. In this study, they found out that foreign acquirers tend to acquire firms that are performing well and they choose to enter less competitive industries in emerging countries (Zhu, Jog, and Otchere, 2011).

Industry-specific factors

Also, industry-specific factors can be drivers of international mergers and acquisitions or international investments. Indeed, in terms of volume and value, cross-border mergers and acquisitions are influenced by acquiring companies' strong finances and management experience as well as industry booms, shocks, and different technology developments from one industry to another.

Kang and Johansson (2000) illustrated that industry factors like market structure, market competition, and market growth influence cross-border M&As. Additionally, even technological changes play a role since they can foster a reduction in transaction costs and meliorate communication (Kang and Johansson, 2000).

Moreover, Ovtchinnikov (2013) made a massive investigation on cross-border M&A activity using a sample of 41,853 observations and 3,345 unique firms during the period 1960-2008. The major findings are as follows. First, regulated industries have low profitability, high leverage, low solvency, negative liquidity, and high capital expenditures prior to deregulation. Second, M&As that follow deregulation represents a form of exit from poorly performing industries. Finally, the frequency of cash and bankruptcy mergers is higher following industry deregulation (Ovtchinnikov, 2013).

Country-specific factors

A cross-border merger or acquisition completion is influenced by both home and host country characteristics, institutional law, economic indicators, and political environment (Reddy, 2015).

The various country-specific factors can be classified into different categories that will be presented in this section.

<u>*Economic and financial factors*</u>

The first category of such factors is identified as economic and financial factors.

The structure of the financial system plays an important role in macroeconomic policies, in particular capital market and its regulatory framework (Reddy, 2015).

Chen, Huang, & Chen (2009) reported that company investment decisions are influenced both by internal funds and outside investors that participate in capital markets. Because of that, external markets become imperfect and so accessible at high transaction costs due to uncertainties in macroeconomic policies that affect the financial development and economic growth of a country (Forssbæck and Oxellheim, 2011).

Vasconcellos, Madura, & Kish (1990) analyzed the determinants of cross-border mergers and acquisitions involving US firms. Their findings suggest that the factors that positively impact acquisition activity are economic performance, technology, product diversification, and exchange rates. As a matter of fact, US firms acquire firms located in countries where the economic projections of host countries become positive, have low transaction costs for external borrowing, and have a robust association with the dollar.

The exchange rate has been specified by various authors as a strong variable for the decision of investing abroad.

Froot and Stein (1991) argued that foreign buyers will have an advantage in purchasing a domestic firm when the foreign currency is relatively strong and vice versa.

Erel, Liao, and Weisbach (2012) suggested that firms from countries whose currencies appreciated over the sample period are more likely to be buyers of firms whose currency depreciated.

Moreover, Gosh Ray and Gosh Ray (2013) indicated that the foreign exchange rate might affect CBM&A in terms of the effective price paid in the transaction, the value of repatriated profits to the parent, and its financing.

Finally, Di Giovanni (2005) showed that the real exchange rate has a negative effect, while the coefficient for exchange rate volatility is always positive.

In addition, Di Giovanni (2005) made an analysis of cross-border M&As based on the gravity model and found that the financial market environment and institutional factors affect capital flows.

Another aspect that has been studied is the role of trade costs.

Hijzen, Görg, & Manchin (2008) argued that trade barriers have a negative impact on cross-border investments but a less negative effect on horizontal M&As.

Moreover, Di Giovanni (2005) investigated whether M&As react to trade and investment costs. His findings show that the higher the investment costs in one country the lower the M&A activity in such a country while countries that trade more are more likely to witness M&A flows (Di Giovanni, 2005).

Furthermore, Forsbæck and Oxellheim (2011) findings show that bidding firms' motives include market-seeking advantage in economic and politically matured markets and reengineering the plant operations and financial motives were found to be significant for knowledge-intensive firms.

One more aspect to point out is the stock market.

Erel, Liao, and Weisbach (2012) indicated that "relative stock market performance between two countries affects the propensity of firms in the countries to merge Their findings show that the greater the difference in stock market performance between the two countries, the more likely that firms in the superior-performing country purchase firms in the worse-performing country" (Erel, Liao, and Weisbach, 2012, p.1078).

Also, Di Giovanni (2005) pointed out the importance of the stock market particularly in market-based industries.

Finally, Chen, Huang, and Chen (2009) studied the impact of financial constraint elements on domestic and cross-border M&As in Asian countries. They claimed that the level of financial sector development and corporate governance improvement encourages more cross-border transactions. Cash payments are widely used in both domestic and international transactions. Firms in better-developed institutional environments and stock markets were more likely to engage in international acquisitions, whereas firms in countries with higher economic growth and local productivity were less likely to participate (Chen, Huang, and Chen, 2009).

Institutional and regulatory factors

The second category of country-specific factors is the institutional and regulatory factors. “The most important determinant of cross-border investments and acquisitions economics, strategy, finance, and IB literature is referred to as a country’s institutional and regulatory framework” (Reddy, 2015, p. 25). Moreover, a country’s policy framework related to foreign trade and investments determines the probability of success of foreign market entry strategies (Reddy, 2015).

Gosh Ray and Gosh Ray (2013) described how government policy, in the form of tariff and non-tariff restrictions can boost international M&As.

Moreover, other studies focus on investor protection. Rossi and Volpin (2004) described that countries that are characterized by a high level of investor protection have reported significant growth in mergers and acquisitions activity. Furthermore, Bris and Cabolis (2008) analyzed the influence of investor protection on cross-border M&As. Their findings suggest that merger/acquisition premiums in cross-border M&As are larger than in domestic M&As when the acquirer comes from a country with better investor protection (Bris and Cabolis, 2008).

Another contribution derives from Kim and Lu (2013). They analyzed a sample of 527 cross-border M&As and discovered a substantial growth in acquiring better performing firms following corporate governance change by investor protection bidder countries additionally, countries that have weak shareholders protection avoid poorly performing companies from getting access to international capital (Kim and Lu, 2013).

In examining a sample of 165 countries between 1997 and 2006, Hur, Parinduri, and Riyanto (2011) stated that the quality of institutional laws and regulations relating to taxation, foreign ownership, and taxation have caught the difference in cross-border M&A flow between developed and developing countries.

One more contribution to this topic derives from a study made by Zhang, Zhou, and Ebbers (2011), they investigated how institutional factors influence the likelihood that Chinese overseas acquisition deals are completed using a sample of 1,324 announced Chinese cross-border acquisitions deals over the 1982-2009 period. Their findings suggest that the probability of a Chinese firm succeeding in an overseas acquisition is lower if (i) the target country has worse institutional quality, (ii) the target industry is sensitive to national security, (iii) the acquiring firm is a state-owned enterprise (Zhang, Zhou, & Ebbers, 2011).

Finally, Feito-Ruiz and Menéndez-Requejo (2012) analyzed the impact of the legal environment on European cross-border M&As during 2002-2007. They found out that the bidder carries out foreign acquisitions because of the higher benefits of the internal capital markets in countries characterized by weak institutional law (Feito-Ruiz and Menéndez-Requejo, 2012).

In sum, cross-border deals are affected by institutional and regulatory factors such as the quality of laws, investor protection, and regulatory procedures between domestic and host countries.

Political environment

Going on with the country-specific factors that might affect the decision and completion of a cross-border merger or acquisition, we face now the third category which is identified as the political environment.

This subject matter is important to understand the flows of international investments, indeed based on political and financial views, political parties persuade the government to create and rule policies that favor foreign investments (Reddy, 2015).

An interesting article on this theme comes from Cao, Li, and Liu (2015). They studied cross-border M&As around elections in 47 countries between 2001 and 2010. Their results show some intriguing implications. First, bidding firms are more likely to acquire foreign targets in the year before a domestic national election, this inclination is even more pronounced when the country is likely to experience higher political uncertainty associated with the elections. Furthermore, they found that prior to national elections, cross-border acquirers earn significantly higher announcement returns compared with other periods. They then conclude that firms strategically time their cross-border M&As to diversify political uncertainty (Cao, Li, and Liu, 2015).

In addition, "Relative political stability of the country is an important phenomenon in attracting foreign buyers. Any political instability in a foreign country can increase the risk of investments of the acquirer" (Gosh Ray and Gosh Ray, 2013, p.120)

A major problem affecting the political environment is the issue of corruption, which is seen as a deterrent to investment destined for the country in question. However, I will elaborate more on the issue of corruption in the next subchapter.

Tax factors

The fourth category concerns taxes.

Taxes are common for each country, obviously, among different countries, there are different taxes both in terms of tax rates and the nature of the taxes themselves.

A country mainly has three different kinds of tax instruments: source-based corporate income tax, residence-based taxes, and tax on interest income (Reddy, 2015).

Governments can change tax rates, introduce new taxes or even remove taxes and all of these procedures have an effect on the inward investments of such a country.

Erel, Liao, and Weisbach (2012) analyzed a sample of 56,978 cross-border mergers and acquisitions in the period 1990-2007. They argued that differences in corporate income tax rates attract foreign investment since acquirers are more likely to be located in countries with higher corporate income tax than the country of the target firm (Erel, Liao, and Weisbach, 2012). This aspect is also supported by Di Giovanni (2005) who stated that higher tax rates in the target country can drive M&A flows away but a capital tax treaty (i.e. an agreement between two countries to avoid or mitigate double taxation or to provide special tax regimes to certain legal persons) provides an incentive for these flows. In line with the latter, Reddy (2015) acknowledged that there exist two types of tax systems, single taxation, and double taxation but if a country has some kind of free trade agreements with another country, then single taxation is applied boosting the M&A activity.

Moreover, Tripathi and Lamba (2015) suggested that when companies are looking at possible mergers or acquisitions in developing countries, their motives, among others, include tax savings.

Gregory and McCorriston (2005), in their study based on UK companies' foreign acquisitions between 1985 and 1994, highlighted the fact that the US Tax Reform Act of 1986, which reduced tax incentives for domestic takeovers, has led to more foreign acquisitions of US companies.

It is therefore clear that taxes have an important role in the decision-making process of a company that is choosing in which country to invest. The tax environment (i.e. taxes, tax structure, and taxation) is the most important determinant of cross-country deals (Reddy, 2015).

In addition, international taxes might even reduce the bid premiums of the acquisitions. Indeed, Huizinga, Voget, & Wagner (2012) tested a sample composed of 948 cross-border takeovers between 1985 and 2004. Their findings show that the takeovers under analysis create an additional tax burden of 4% of the target's income net of local corporate tax. Moreover, international double taxation is fully capitalized in lower international takeover bid premiums, indicating that the incidence of such an additional international tax burden is on target-firm shareholders (Huizinga, Voget, and Wagner, 2012).

To sum up, I have described various motivations behind taxation and the effects of double taxation on international capital flows. Moreover, I have stressed the fact that tax structure, incentives, and policies play an important role in cross-border mergers and acquisitions.

Accounting and valuation factors

The fifth category is related to accounting and valuation issues.

The accounting practices that a company has to deal with, depend on the accounting guidelines of the country and the degree of internationalization of the company (Reddy, 2015). On the other hand, the valuation of the target company is a procedure that is made within the company's boundaries.

There exist various methods to value the target company but these are not relevant in this context. What is important to say is that the valuation process plays a quite important role in the completion of an M&A deal because the two parties involved will agree to such a deal when both parties arrive at a win-win value (Allen and Rigby, 2003).

In general, the "basic" valuation which I identify as the valuation of the target company (i.e. without considering the bid premium) is not affected by internal or external factors but is just the value of the company in its entirety.

The information asymmetry has a role in assessing the amount of bid premium paid by the bidder. Mukherji, Mukherji, Dibrell, and Francis (2013) discussed this topic and stated that the less information asymmetry the better the value of the bid premium.

Talking about the external factors that may influence the extent of the bid premium, Bris and Cabolis (2008) stated that stock market conditions, the nature of the business, institutional rules of the target country, and competitive bids are factors influencing the bid premiums.

Turning back to the accounting issue, Louis and Urcan (2012) while studying the impact of the accounting standard (IFRS in this case) discovered that countries that have adopted the IFRS standard have attracted more cross-border investments compared to the period in which such countries did not adopt it.

Finally, the accounting disclosure may be a rationale to explain cross-border mergers and acquisitions. Indeed, a higher quality of accounting disclosure increases the odds that companies from a given country will acquire firms from other countries (Erel, Liao, and Weisbach, 2012).

Geography factors

A country-specific factor that might affect M&As is linked with geographical considerations. The rationale here is the physical distance between the home country and the host country engaged in the cross-border M&A activity. "Geographic distance should decrease the likelihood that two firms in different countries choose to merge" (Erel, Liao, Weisbach, 2012, p. 1049).

Rose (2000) using the gravity model theory argued that the more distance the more cost of the merger and thus the more the transaction cost.

Cultural factors

Moving forward, cultural factors can push or retain cross-border M&As.

The national culture of both countries has a great influence on firm internationalization. Particularly, cultural distance affects cross-border deals completion and post-deal integration (Reddy, 2015).

Erel, Liao, and Weisbach (2012) in their study about the determinants of cross-border mergers and acquisitions highlighted the fact that each country has its own cultural identity (e.g. language, religion…) which increases the costs associated with the cross-border deal and such cultural differences decrease the probability to engage into a cross-border merger or acquisition.

But cultural distance can also have a positive impact on cross-border takeovers, especially in the long run.

Steigner and Sutton (2011) conducted an analysis using a sample of 460 US-based firms during the 1987-2004 period. This study had the aim of investigating how cultural differences between bidder and target countries impact the internalization benefits of cross-border M&As. Their results suggest that acquirers with high levels of intangibles in the form of technological know-how benefit from internalization in countries with large cultural differences. Thus, cultural distance has a positive effect on the long-run performance of bidders with high intangible assets.

Learning and prior-acquisition experience

Another macro category that is capable to describe the motivation of cross-border mergers and acquisitions is the organizational learning and the prior-acquisition experience.

"Learning is a process of gaining knowledge about a particular business event prior to performing a series of actions for accomplishing that business event.[…] learn knowledge on

different business strategies through three channels: learning-by-doing, learning from prior experience and learning from others" (Reddy, 2015, p.16).
Very and Schweiger (2001) conducted a survey of 26 firms in France, Germany, Italy, and the US in order to investigate key problems common to all acquisitions. Their results show that the prior experience of acquirers dealing with a particular host country will increase the probability to conclude further successful deals in that country. Moreover, the use of a learning perspective might assist bidding top managers to design and define the acquisition team efficiently.
Is it therefore clear that prior experience in dealing with a specific country brings benefit to the acquiring company if they decide to undertake other M&A activities in the same country. Moreover, according to Shimizu, Hitt, Vaidyanath, and Pisano (2004), companies that do not possess considerable foreign experience might acquire existing companies only to acquire the capabilities of dealing with that specific environment.
In the context of learning by doing, Collins et al. (2009) examined the international M&A activities of a sample of S&P 500 firms. The authors have developed four hypotheses (a) engaging in recent domestic M&A transactions is positively related to the likelihood of subsequent international acquisitions (b) there exists a positive relationship between prior international acquisition experience and subsequent international acquisitions (c) positive influence of a firm's recent international M&A activity on the likelihood of subsequent acquisitions would exceed that of the firm's recent domestic M&A activity (d) previous experience with the acquisition of firms in a particular host country would prove a stronger predictor than experience in international environments outside the host country.
All the hypotheses were confirmed, and of particular interest in a transnational context is hypothesis c, indeed the results show that having a domestic acquisition increases the probability of a subsequent international acquisition by 26% while recent international acquisitions increase the probability of a subsequent international acquisition by 102% (Collins et al., 2009).
In sum, we have seen that factors such as international experience in M&As and prior experience with a particular host country have an influence on future cross-border mergers and acquisitions.

Extension: Deal-specific factors

This latter category includes some details for cross-border M&As that are related specifically to the type of deal, called deal-specific factors.

Actually, the literature concerning this type of specific factor is not well developed yet, indeed there are not too many researches that are related to this specific category.
However, the deal-specific factors can be identified as the deal size, the payment method, the non-compete fee, the break-up fee, the M&A advisors, and the ownership control (Reddy, 2015).
All of those aspects of the deal have the potential to influence both the acquirer and the target when they are facing a cross-border merger or acquisition.
Among the various factors cited above, the literature is mainly focused on explaining the motivations related to the payment method, which is strictly correlated with the type of the deal (i.e. merger, acquisition, merger-of-equal,…), and explaining the significant role of the M&A advisors.
First, Chen, Huang, & Chen (2009) made a study on the effects of financial constraint determinants on cross-border mergers and acquisitions vs domestic mergers and acquisitions for all takeover bids announced in nine East Asian countries between 1998 and 2005. They found that most cross-border deals are characterized by a cash payment than a stock payment (Chen, Huang, & Chen, 2009).
The payment method decision is of paramount importance for a company because this decision has repercussions mainly for risk sharing and the new ownership structure. As a matter of fact, a bidder will be more inclined to choose a cash payment if it has a high level of excess cash or has expertise in integrating resources from its subsidiary (Reddy, 2015). This type of payment does not change the ownership control of the newly combined firm but the bidder company assumes all the risks arising from the such new entity.
On the other hand, a bidding company that chooses a stock payment for the deal will dilute the ownership control in the combined firm (Reddy, 2015), and by doing that the risks associated with the entity will be shared among both the shareholders of the bidding company and the shareholders of the target company.
Furthermore, a key role is played by the M&A advisors, especially in the case of cross-border mergers and acquisitions and even more specifically when the deal involves a company located in an emerging country and another company located in a developed country (Reddy, 2015). The M&A advisor's role is critical in international acquisitions for several reasons, for example, to conduct due diligence program, to acquire knowledge of the host country's institutional framework, and to look after legal procedures (Epstein, 2005).

2.2 Challenges in cross-border M&A

M&A deals are usually lengthy and require several steps, from the decision of a company's managers to seek expansion through a merger or acquisition to the actual closing of the deal. Because such deals are usually quite complex, they require a lot of work and the involvement of various actors even outside the corporate environment.

Obviously, given these peculiarities, there are various challenges involved in such transactions whether we are talking about domestic or cross-border M&A. In general, it can be said that the challenges of cross-border transactions are the same as those of domestic transactions plus others that are characteristic of such events. Given the differences in legislation, culture, institutions, and environment, it is intuitable to understand that cross-border M&As require some attention and harbor more pitfalls both in the actual act of the transaction and in the post-transaction regarding the integration of the new entity.

These challenges will be reviewed in this section making use of the available literature on the subject.

As a matter of fact, the challenges that a company has to face when is going to invest in a brownfield FDI can be divided into two different categories. First, the due diligence phase, and second the post-deal integration phase.

Starting with the due diligence phase, companies have to conduct efficient and thorough due diligence to overcome the challenges related to a cross-border merger or acquisition.

The first challenge that occurs in the due diligence phase is the evaluation of the acquisition target. Indeed, in a cross-border M&A activity, the evaluation of the target is more complicated than in a domestic M&A because of different accounting standards and due to the fluctuation of the exchange rates. Moreover, intangible assets require special attention because their evaluation is difficult even at domestic mergers/acquisitions but even more difficult in cross-border M&As (Hitt and Pisano, 2004).

Deloitte (2017) conducted a survey of executives with previous experience undertaking cross-border deals. The respondents stressed the need to perform some unique due diligence considerations in order to overcome unique risk factors that accompany cross-border M&A transactions. These risk factors, according to the respondents, are national and regional tax laws, the regulatory framework, political stability, culture and talent, and business risk. Moreover, survey respondents assigned significant importance to reliable accounting, tax, operational, commercial, and legal/regulatory due diligence when transacting cross-border.

Another important aspect of the due diligence phase is the bidder firm's reputation (Hitt and Pisano, 2004). In fact, reputation is frequently an important factor in acquisitions and is even more critical in cross-border M&As.

Additionally, appraisal of the environmental conditions in which the firm in which firms operates is important (Hitt and Pisano, 2004; Shimizu, Hitt, Vaidyanath, and Pisano, 2004). The rationale behind this challenge lies in the fact that different countries have different institutional environments and different cultures, both national culture and corporate culture. The difference in the institutional environments is manifested through different regulations, value systems, accounting standards, etc. Differences in the national culture imply different values, risk propensity, etc., while differences in corporate culture imply different managerial practices, communication, etc. (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).

An aspect that may retain companies to engage in a deal with a specific country is the level of corruption of such a country. Corruption occurs mainly in three different ways such as bribery, extortion, and embezzlement (Reddy, 2015).

Nguyen, Phan, and Simpson (2020) investigated the effect of political corruption on firms' acquisitions acquisitiveness and targetiveness using a sample of 77,338 firm-year observations of 8134 unique firms spanning from 1986 to 2014. Their findings suggest that local corruption is positively related to firm acquisitiveness and negatively related to firm targetiveness. Moreover, target shareholders will ask for a greater bid premium if they feel the threat of expropriation associated with corruption in the acquiring firms' areas.

Weitzel and Berns (2006) found that a high level of corruption in the target country will result in lower bid premiums compared to the bid premiums of local acquirers. In addition, they found that in the days around the announcement of the cross-border deal the target shareholders receive lower returns due to corruption.

Finally, the so-called "liability of foreignness" (LoF) is an important aspect to take into consideration when deciding to invest in a country diverse from the home country.

"Liability of foreignness is a challenge faced by all firms operating in the international markets. Research on this concept suggests that such firms face certain unavoidable costs that firms operating in their home countries do not" (Hitt and Pisano, 2004, p.52).

Thus, because of the LoFs, companies that operate in international markets have some disadvantages and extra costs compared to companies that operate exclusively in their domestic country.

The sources of extra costs include customer preferences, business practices, uncertainty, information asymmetry, institutional forces, and national culture (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).

Thus, because of all these challenges, it is of paramount importance for a firm to conduct a careful and meticulous due diligence phase when dealing with a cross-border M&A.

Going on with the post-deal integration, companies face potential challenges in cross-border mergers or acquisitions.
Post-deal integration is a potential problem in all the M&As regardless of whether they are domestic or cross-border; however, it is more difficult between companies that are located in different countries (Hitt and Pisano, 2004).
First, there is a potential cultural problem that is referred to as double-layered acculturation; is double because it involves both the corporate culture and the national culture. The cultural differences become more important when there is a high degree of integration required (Hitt and Pisano, 2004). Moreover, Weber, Shenkar, and Raveh (1996) suggest that differentials in corporate culture affect the cooperation between the managers of the two firms.
Another post-deal integration challenge derives from the institutional distance of the countries involved. Indeed, the more the institutional distance, the more conflict between managers and employees of the firms (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).
Also, the strategic orientations of managers have a role in the post-deal integration. This also includes the propensity in taking risks. Indeed, if the bidder firm managers have a high propensity for risk-taking but not the target firm managers, there can emerge a conflict in the strategies and actions to take (Hitt and Pisano, 2004).
Cross-border M&As have a great opportunity which is mutual learning among the combined firms, but sometimes is not easy to effectively exchange such knowledge and the different knowledge bases can be an obstacle for the managers (Hitt and Pisano, 2004). What is important in such a situation is the possession of the absorptive capacity that can be translated into the ability to effectively understand the inputs received and to be able to use such inputs.

All of the challenges described above might make the determination of an appropriate price for the target firm more complicated. Because of that, the vast majority of firms have to pay a premium over the market value of the target company.
The rationale is that when a company has to evaluate the price to be paid to acquire a target firm, it relies upon the future market value which is largely influenced by the expected future synergies of the combined firm. All the challenges above make it difficult to estimate the future market value because they hamper the ability to achieve such synergies (Hitt and Pisano, 2004).

3. Literature review

Several empirical studies have been conducted to investigate the issue of shareholder returns in mergers and acquisitions. Usually, shareholders' return is calculated using the event study methodology or a second method used is accounting data. In the first case, the share price reaction to the announcement of the merger or acquisition is calculated; in the second case, the pre-and post-M&A changes in certain accounting indicators are looked at to determine the value creation in the newly established entity compared to the value of the two stand-alone companies.

Overall, there is a widely accepted consensus that the target shareholders receive a great return on their stake in such a company, which is a natural consequence of the bid premium paid by the bidder company to control the target company. Indeed, "the mass of the research suggests that target shareholders earn sizable positive returns, that bidders (with interest exceptions) earn zero adjusted returns, and that bidders and targets combined earn positive adjusted returns" (Bruner, 2002).

More in detail the bid premium is the price premium over the value of the target company; in a nutshell, the value of the target company is calculated, it can be the value of its market capitalization (if the company is listed) or it can be the result of a business valuation method (Discounted Cash Flow, Multiples). Once you arrive at that valuation, which is called a stand-alone value in the jargon, you have to add the bid premium, which takes various factors into account. These include the deal net present value (NPV), which is the effect of future synergies expected from the merger or acquisition; the second factor is the value at risk, which takes into account the inherent risk and has a negative effect on the bid premium, that is, it reduces the purchase offer price; in addition, a final factor in the composition of the bid premium is identified in the strategic advantage of the acquisition, more specifically this strategic advantage is hidden in the strategic options and competitors' actions prevented, in fact, this last factor is difficult to quantify.

Thus, as evidenced by the literature, the shareholders of the acquired company receive a good return on their investment. On the other hand, the combined return of shareholders (target company and bidding company) seems to be positive or slightly positive, again in accordance with the literature.

What is still not very clear, or at least has given mixed results, is the value creation of the bidding company's shares, which is sometimes negative, sometimes neutral, and sometimes positive.

The studies have been conducted for either the short or long term. The period under examination in short-term studies is days or a few months around the announcement of the merger and acquisition deal, whereas in long-term studies the researchers extend their examination period to various years around the announcement day.

These two event study periods each have their own benefits and drawbacks. The short-term strategy assumes that the stock market is efficient, meaning that the response of the stock market to the acquisition's announcement provides a valid indicator of the expected value of the acquisition.

As a result, if the capital market is information-efficient, it will only take a short amount of time for share prices to react to the anticipated costs and benefits of the merger (Sudarsanam, 2003). In this instance, a brief event window will be sufficient to capture all of the valuation effects of the merger announcement.

Contrarily, some researchers discovered that although short-term studies "are relatively straightforward and trouble-free" (Tuch and O'Sullivan, 2007, p.148), the announcement returns in this scenario may tend to reflect the investors' expectations and thus be subject to bias (Tuch and O'Sullivan, 2007).

In order to fully capture the impact of the merger announcement, those researchers advise that the event window should be extended to several years. They rely on the theory that it will take a long time for the markets to change their opinions and assess the acquisition's value implications, progress, and competitors' responses. The lengthy event window does have some benefits, but it also leads to other, more serious issues. These include the likelihood of other strategic, operational, or financial events changing for the acquirer firms in the longer event windows, which may have an impact on the acquisition's valuation because it can be challenging to separate the takeover effect from those brought on by other changes (Tuch and O'Sullivan, 2007).

To recapitulate, both the short- and long-term time periods present advantages and disadvantages in order to assess the shareholders' return subsequently to a merger or acquisition event using the event study methodology, i.e. the change in the stock price. Because of that usually, the studies that have been conducted on this particular subject take into consideration both the short- and long-term when considering the length of the event window.

Previous empirical studies for bidder and target companies in various countries were conducted for both short-term and long-term periods. Because the findings of these empirical studies differ from one country to the next, the findings for each country are presented separately for both domestic and cross-border studies.

Therefore, in the next subchapters, I will divide the discussion of the literature review by different geographical areas in order to better address the different outcomes of the studies conducted.

3.1 Domestic M&A from the acquirer perspective

The results of almost all the research clearly demonstrate that target firm shareholders have economically significant and statistically significant wealth gains. The main explanation for such a result lies in the fact that when a company decides to acquire another company, the acquirer company usually must pay a bid premium. What is not clear is the return to the bidder firm shareholders.

As already mentioned before, I will divide this and the next subchapters by geographical areas in order to capture the different effects that may arise.

<u>*European Deals*</u>

The European M&A activity is one of the most important in the world both in terms of deals value and number of deals. As we know, the European Union is composed of several different countries which are united under various aspects that mainly comprehend political and economic aspects. Probably the most important aspect, related to the economic field, is the European Single Market which guarantees the free movement of goods, services, capital, and people in a single EU-wide internal market. Because of that, the members of the European Union can be considered as a single market, and therefore M&A transactions that occur between two member states could be understood as domestic transactions. On the other hand, the member states are really different under several aspects that go from taxation to the law, from the legislation to the political environment. So, because of those reasons, I have decided to consider an M&A transaction between two member states as a cross-border M&A and therefore in this section, I am considering Europe as a continent also to overcome the problem of the United Kingdom, which as of January 1, 2020, is no longer formally part of the EU but is a very important area for the M&A activity.

Goergen and Renneboog (2004) have analyzed the short-term wealth effects of large intra-European takeover bids. To conduct the study the two authors have used a sample composed of 187 offer announcements in 18 European countries which are characterized by both European bidders and targets. More in detail the sample comprehends 118 domestic bids and 69 cross-border bids. Ultimately the period used for the analysis of the M&A deals is 1993-2000. In order to measure the short-term wealth effect the authors have calculated the cumulative average abnormal returns (i.e. CAARs) in an event study by using an event window that starts six months before the announcement of the deal in order to capture the possible effects of rumors or insider trading (Georgen and Renneboog, 2004).

Moreover, the authors conducted an event study using four different event windows which are 2 days, 5 days, 41 days, and 121 days. Looking at the results for the domestic deals, the wealth change of the bidding shareholders is respectively -0,45%, -0,1%, -0,57%, and -0,53% suggesting that for the acquiring firm the short-term wealth effect is always negative although none of the results were statistically significant.

Moving forward, Conn, Cosh, Guest, & Hughes (2004) studied the share returns of UK acquirers in more than 4.000 takeovers of which 3.204 were domestic that were made between 1994 and 1998. In such research, the authors have decided to use the 3-day event window [-1,1] using the cumulative abnormal return (i.e. CAR) in order to compute the acquirer shareholders' return. The results indicate that the acquiring firms witness an increase in their wealth of 0,68% statistically significant at 1%; moreover, it is also specified that the major contribution to these results comes from the takeover of private targets over public targets.

Another augmentation on the subject derives from the study conducted by Aw & Chatterjee (2004) who studied the impact on the wealth creation of UK companies acquiring large targets by using a sample of 79 acquisitions for the Market Adjusted Return Model (MAR) and 77 for the market model (MM) and finally analyzing the period 1991-1996. In this study, the time spans are longer than in the studies that I have previously been exposed to, indeed the event windows are t+6, t+12, t+18, and t+24 (where t is the day of the announcement and the months are expressed with the numbers). Going into the results, the evidence shows that using the Market Model the acquiring firm shareholder have significant and negative wealth creation of -7,93%, -7,07%, and -10,44% respectively for the event windows t+12, t+18, and t+24; while the results of the Market Adjusted Return Model show that only the time span t+12 is statistically significant and is negative of -5,56%. This study shows that the CAR of UK-listed firms that acquire large UK-listed firms is positive in the first six months after the announcement (although not statistically significant) while up to two years after the announcement date, the CAR is negative and becomes more and more negative as time goes on.

The last study presented in this section is the work by Campa and Hernando (2004) have investigated on the value generated to shareholders by the announcement of mergers and acquisitions involving firms in the European Union over the period 1998-2000. The empirical analysis is based on a sample composed of 262 M&A announcements of which 182 are domestic. In this paper, the authors have decided to use four different windows that are divided as follows: pre-announcement windows, [t-90, t-1] and [t-30, t-1]; a short time window around the announcement day [t-1, t+1]; and one window covering post-announcement returns [t-30, t+30].

Moving to the results of the analysis it shows that there are no significant abnormal returns to acquiring firms involved in national deals, the only exception being the cumulative abnormal returns over the window [t-90, t+1] which is +3,86% and reflects the existence of a statistically significant price run-up starting three months prior the announcement date.

Table 2: Summary of the results regarding the domestic European Area

Author	Period	Area	Perspective	Model	Sample	Event window	Abnormal Return
Goergen and Renneboog	1993-2000	Europe domestic	Acquiring firm's shareholders	Market Model (MM)	187 of which 118 domestic	(-1;0) (-2;+2) (-40;0) (-60;+60)	-0,45% -0,1% -0,57% -0,53%
Conn, Cosh, Guest and Hughes	1994-1998	UK domestic	Acquiring firm's shareholders	Market Adjusted Model (MAM)	4.344 of which 3.204 domestic	(-1;+1)	+0,68***%
Aw and Chatterjee	1991-1996	UK domestic	Acquiring firm's shareholders	Market Model (MM) Market Adjusted Model (MAM)	36 MM 38 MAM	MM T+6 T+12 T+18 T+24 MAM t+6 t+12 t+18 t+24	 +1,11% -7,93***% -7,07**% -10,44***% +2,42% -5,56**% -3,53% -4,63%
Campa and Hernando	**1998-2000**	**EU domestic**	**Acquiring firm's shareholders**		**262 of which 182 domestic**	**(-90;-1) (-30;-1) (-1;+1) (-30;+30)**	**+3,86**% +1,05% +0,61% +1,15%**

*Notes: In the event window section, 0 and t indicates the date of the announcement while the numbers indicate the days the only exception is the study by Aw and Chatterjee in which the numbers indicate the month. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%, the only exception is the study by Aw and Chatterjee in which *,**,***,**** indicate the levels 20%,10%,5%, and 1%.*

North American Deals

The North American region and especially the United States of America is the most important area in the world regarding M&A activity both in terms of deals value and number of deals. As a matter of fact, in 2021 only in the United States of America, the M&A activity reached a total value of more than 3.000 billion dollars (out of 5.900 billion dollars worldwide) with more than 60% of the total transaction involving domestic bidders and targets. It is clear that the US plays a really important role in such a field.

Moeller and Schlingemann (2005) have provided some empirical evidence on how cross-border acquisitions from the perspective of a US acquirer differ from domestic transactions based on stock and operating performance measures, obviously, in this section, I will only focus on the domestic side of this research. The sample used is composed of 4.430 deals of which 4.047 are domestic deals and 383 are cross-border deals and the period under examination starts from 1985 to 1995.

Starting from the event study technique, the authors have employed the market-adjusted model in order to compute the β and the period under examination is 1985-1995 and using an event window of three days around the announcement day (-1,+1).

Jumping to the results section, considering the event window of three days the acquiring firm shareholders have witnessed an increase in their own wealth of 1,173% statistically significant at 1%. Moreover, the authors have decided to breakdown the analysis into two different periods, which are 1985-1990 and 1991-1995 whose results on the bidding firm shareholders' wealth are respectively +0,435% statistically significant at 10% and +1,49% statistically significant at 1% underlying that the second period of the breakdown counts the most for the total positive effect.

In addition, this research has also investigated whether the operating performance of the acquiring firm has experienced an increase or a decrease. In order to carry out such an analysis the authors have used the raw and industry-adjusted operating cash flow as a measure of the operating performance. The measure of operating cash flow is normalized by the market value of assets at the beginning of the year, defined as sales minus cost of goods sold minus selling and general expenses minus the change in working capital. The market value of assets is defined as the sum of the market value of equity, the book value of the preferred stock, the book value of long-term debt, and the book value of current long-term debt (Moeller and Schlingemann, 2005, p.558). For this type of analysis, the sample got restricted to 296 total transactions of which 260 are represented by domestic targets. Finally, in order to compute a fair industry cash flow, the period of analysis goes from -5years to +5years around the announcement day. The results show that the mean change for the domestic sample is -0,002% significant at the 5% level.

Moving forward, Chang (1998) examined the bidding firm's stock price reaction to a takeover proposal when the target firm is privately held and publicly traded. The period of examination is 1981 to 1992 and the sample is composed of 281 M&A operations of which 255 have been successfully concluded.

The event study has been conducted by using the market model method whose parameters have been computed over the period from -210 to day -11 with respect to the announcement day; while the stock returns have been examined using an event window of 2 days (-1,0). The results are presented with a breakdown concerning both the method of payment and the ownership structure. The results of such an event study illustrate that the average abnormal return for the acquiring firm's shareholders when acquiring a privately held target is +0,09% not significant for cash offers and +2,64% statistically significant at 5% when using stocks as a method of payment. On the other hand, the average abnormal return for the same class of shareholders involved in a takeover of a publicly traded target is -0,02% not significant when paying with cash, and -2,46% statistically significant at 5% by using stocks as a method of payment. These results show that the average share price reaction for cash bidders is zero and non-distinguishable between the two types of ownership structures.

Eckbo & Thorburn (2000) presented large sample evidence on the performance of domestic and U.S. bidder firms acquiring Canadian targets. The sample employed for the analysis is relative to the period 1964-1982 and is composed of a total of 1.846 acquisitions of which 1.261 are domestic acquisitions, and in order to estimate the β the market model method has been used. In this paper, the authors have studied the abnormal stock returns for a period of 25 months, 12 months prior to the announcement day, and 12 months after such an event. Looking at the results, the cumulative average abnormal returns for the bidding companies involved in a domestic Canadian acquisition are as follows: the price run-up in the twelve months before the announcement day, i.e. the event window [-12;-1], stands at +2,37%; in addition, including the month of the press announcement of the acquisition, i.e. [-12;0] show a cumulative increase in the price of the stocks of 3,64%, thus considering only month 0 the increase in the value is of +1,27%. While taking into account the entire period of observation, i.e. [-12;+12], the price of the shares of the bidder witnessed a substantial increase of +3,01% with a cumulative decrease in the last twelve months (the twelve months after the announcement of the deal) of -0,63%.

Moreover, in this research, there is also an investigation of the average abnormal earnings around the acquisition event by using the earnings before interest and taxes (EBIT) as an indicator. The EBIT change is calculated from the year before the announcement year to three years after the deal and the benchmark used for the comparison is the pre-acquisition period -6 through -2. The results suggest that, for the bidding firm acquiring a domestic target, in the year before the press release, EBIT jumps by 12,3% or US$ 3.92 million, in year 0 the increase is 21,37% and the two subsequent years is respectively +6,06%, and 6,45% while in the third year after the announcement the EBIT suffers a decrease of -13,34%.

To resume, it seems that domestic acquisitions are likely to occur after a period of a strong increase in earnings and that positive pre-acquisition abnormal earnings performance is usually followed by a continued positive drift up to year +2.

Table 3: Summary of the results regarding the domestic Noth American Area

Author	Period	Area	Perspective	Model	Sample	Event window	Abnormal return
Moeller and Schlingemann	1985-1995	US domestic	Acquiring firm's shareholders	Market Adjusted Model	4.430 of which 4.047 domestic	(-1,+1)	+1,173***%
Chang	1981-1992	US domestic	Acquiring firm's shareholders	Market Model	281 of which 255 concluded	(-1,0)	Private held: Cash +0,09% Stock +2,64**% Publicly traded: Cash -0,02% Stock -2,46%
Eckbo and Thorburn	1964-1982	Canada domestic	Acquiring firm's shareholders	Market Model	1.846 of which 1.261 domestic	(-12,-1) (0) (1,12)	+2,37% +1,27% -0,63%

*Notes: In the event window section, 0 and t indicate the date of the announcement while the numbers indicate the days the only exception is the study by Eckbo and Thorburn in which the numbers indicate the month. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%.*

Other areas

As I have already pointed out, the two areas that are responsible for most of the Mergers and Acquisitions deals in the world are the European area and the North American area, in fact, these two areas in 2021 account for almost 70% of the total value of the announced M&A deals worldwide or 4.100 billion dollars out of 5.900 billion dollars worldwide.

The other major area is the Asia-Pacific one which shows an overall value of announced M&A deals for 2021 of 1,2 trillion dollars while the rest is distributed in other areas.

Bertrand and Betschinger (2011) investigated the long-term impact of domestic and international acquisitions by Russian firms, on their operating performance. The period under examination is the one that goes from 2000 to 2008 and the sample used consists of 1.137 M&As of which 1.017 are domestic deals; in this study, the authors evaluated the Return on Assets (ROA) as an indicator for the performance of acquirers and non-acquiring firms and

the GMM (i.e. Generalized Method of Moments) estimation has been applied. The authors have chosen to analyze the operating performance mainly because the Russian financial market is not well developed, a large proportion of Russian firms are not listed and the vast majority of the ones that are listed are not liquid,
because of that applying an event study that takes into consideration the abnormal returns of the stock prices could have been extremely difficult because of the size of the potential sample.
In order to perform the analysis, the authors run a regression with multiple variables in which the dependent variable is the Earnings Before Interests and Taxes (EBIT) normalized with total assets. The most important independent variable in the study is the ROA variable, which expresses the variation of the Return on Assets linked with an M&A deal.
Results show that completing one acquisition will decrease firm profitability (i.e. ΔROA) by -0,003 when the acquisition is domestic meaning that a rise by one standard deviation of M&A will decrease profitability by -0,003 stating a quite low economic effect.
To conclude, this study has its own peculiarities, first, Russia is an emerging market; secondly, the financial markets are not well developed and thirdly a large proportion of firms are state-owned or privately held. The study has shown that there are negative effects associated with acquisitions; at best, M&As don't destroy value. To improve the impact of acquisitions, the study demonstrates the relevance of firm resources and how they can be used in domestic transactions. According to research, emerging market companies struggle because they lack the M&A expertise and resources necessary to effectively leverage value.
Another research on the topic of value creation in the M&A scenario derives from a work by Rani, Yadav, and Jain (2013) in which there is an analysis of the short-run share price performance of domestic mergers and acquisitions in India with a focus on the shareholders of acquiring firms. India is another country that is considered an emerging one as is Russia, and because of that, it can be interesting to also discuss this paper.
The authors have used a sample composed of 268 domestic M&As in India that have been concluded during the period 2003-2008 and employed the market model.
In order to assess the short-term share price performance, several event windows have been taken into consideration, more specifically those are: (-20, -2), (-1, +1), (-1, 0), (0, +1) (-2, +2), (-5, +5), (-10, +10), (-20, +20), and (+2, +20) [expressed in days].
Since there are quite a few event windows I prefer to plot the results in a table, as follows.

Table 4: Summary of the results of the paper by Rani, Yadav, and Jain

EVENT WINDOW	ABNORMAL RETURN
DAY 0	+1,04***%
(-20,-2)	+1,63%
(-1,0)	+1,28***%
(-1,+1)	+1,37***%
(0,+1)	+1,13***%
(-2,+2)	+1,60***%
(-5,+5)	+0,93%
(-10,+10)	+0,16%
(-20,+20)	-0,36%
(+2,+20)	-3,37***%

*Notes: In the event window section, 0 and t indicates the date of the announcement while the numbers indicate the days. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%.*

The study finds evidence that the shareholders of acquiring Indian corporates, engaging in M&As, experience a positive abnormal return on the announcement day; moreover, the abnormal returns are also positive during the pre-event windows as well as multi-day event windows such as 2-,3-,5-days. On the contrary, when considering longer time spans (i.e. 11 days and 21 days) the abnormal return is still positive but it turns smaller and smaller and is no more statistically significant. What is interesting is the effect on the post-announcement time span in which there is a significant reduction of the wealth of the acquiring firm shareholders (-3,37%) and statistically significant at a 1% level, denoting wealth destruction. Moving to another area, Higgins and Beckman (2006) studied the impact of an M&A deal on the acquiring firm's shareholders of Japanese firms. The study takes into consideration the period that goes from 1990 to 2000 and the sample used for the analysis comprises 152 deals of which 85 are domestic deals. The authors have decided to focus on a single event window which is the 41 days event window (-20,+20) in order to address potential information leakage prior to the initial public announcement. Going on to the results of the study it has been proven that the cumulative abnormal return up to twenty days after the announcement day is +4,73**% showing that the market reacts positively to bids for domestic targets which is the greater positive result considering all the studies that I have presented.
The last paper that I want to add to this section is related to the Chinese market. Chi, Sun, and Young (2011) performed an analysis of 1.148 M&As in two Chinese stock markets, studying both the short-term effects, by using an event window of 5 days, and a longer event window of 13 months around the announcement day. As was for the previous studies, the focus is on the effects on the acquiring firm's shareholders and the period of the analysis is 1998-2003. Concerning the short-term analysis, the results show a slight increase in the bidding firm's shareholders' wealth of +0,0027% statistically significant at a 10% level of confidence, the model used is the standard market model.

Concerning the longer time span the analysis shows three results because three different methods have been employed which are the standard market model, the Capital Assets Pricing Model (CAPM), and finally the Buy-and-Hold Method.
Using the Market Model, the CAR is 0%, thus highlighting the value conservation. Using the CAPM model the results show a positive CAR of +0,062% statistically significant at a 1% level; lastly, the results from the buy-and-hold abnormal returns show a positive effect of 0,0534% statistically significant at a 1% level.
To conclude, the results of both short-run and long-run performance show a significant positive market reaction to bidding companies before and upon an M&A deal and a non-negative market reaction after the deal.

3.2 Cross-border M&A from the acquirer perspective

In this section I will analyze and discuss the abnormal returns of the acquiring firm's shareholders, as I have done in the previous subchapter, engaging in a cross-border merger or acquisition. A cross-border M&A is a deal between two different firms that are located in two different countries, thus, in this case, the acquiring company will conclude the merger or acquisition with a target company that has its own registered office outside the boundaries of the country of the acquiring firm.

Cross-border M&As should guarantee a higher return to both the acquiring firms and to target firms when compared to domestic M&As:

"Cross-border M&As may have an even larger effect since the major reasons for firms to move abroad are to acquire additional resources and skills that are not available on the domestic factor market, increase the efficiency of business operations across and within borders, as well as to find new opportunities for growth – and hence overcome restrictions of the domestic goods market" (Bertrand and Betschinger 2011, p.414)

This subchapter is going to be structured as the previous one with the differentiation for the three major areas identified before.

<u>*European Deals*</u>

Starting from the study by Goergen and Renneboog (2004) in which the authors investigated shareholder wealth effects of European domestic and cross-border takeover bids and used a sample composed of 69 cross-border deals that were undertaken between 1993 and 2000.

The paper took into consideration the short-term wealth effect by considering four different event windows, which are (-1,0), (-2,+2), (-40,0), and (-60,+60).

The results show that the cumulative average abnormal returns are as follows:

+2,38***% for the 2 days event window; +3,09***% for the 5 days event window; +1,48% and -0,41% respectively for the 41 and 121 days event window.

As the findings illustrate, there is a strong positive effect around the days of the announcement day and it's statistically significant as well, while when considering longer time spans the positive effect thins out until it becomes negative, although these two latest results are not statistically significant.

Moreover, Campa and Hernando (2004) looked at the value generated to shareholders by the announcement of mergers and acquisitions involving firms in the European Union over the period 1998-2000.

The results of the event study show, both for the pre-announcement event windows and for the two event windows around the announcement day, a substantial null result, thus, the value is conserved for the acquiring firm's shareholders, even though all the results for the cross-border M&As were not statistically significant.

Conn, Cosh, Guest & Hughes (2004) examined the announcement share returns of UK acquirers in more than 4.000 acquisitions over the period 1994-1998.

In order to conduct the event study, the authors used a sample composed of 4.344 takeover bids of which 1.140 are cross-border deals.

The results show that the cumulative abnormal return for the shareholders of the bidding company, calculated for a 3 days event window around the announcement day is slightly positive +0,33% and statistically significant at a 5% level of confidence. Again, it can be seen how the value is conserved after a cross-border M&A deal.

Danbolt (1995) presented a study on the gains and losses to shareholders of foreign companies acquiring companies listed in the United Kingdom between 1986 and 1991.

The sample used is composed of 174 cross-border bids and the event windows taken into consideration are three and cover the pre-bid period [t-8, t-2], the bid-period [t-1, t=0], and the post-bid period [t+1, t+5]. The results show an important negative effect for all the event windows considered, respectively -5,63*%, -1,09%, and -9,79***%, highlighting a value destruction, especially for the post-bid period.

To conclude this section, one last paper has to be taken into consideration. Aw & Chatterjee (2004) investigated the post-takeover performance of UK firms acquiring both domestic and non-domestic targets between 1991 and 1996. In order to conduct the analysis the authors have employed the event study methodology using both the Market Model and the Market Adjusted Return Model and for what concerns the time length, the estimation period used is the pre-event study estimation period which is particularly suitable with international acquisitions.

The event windows considered go from six months after the event to two years after the announcement day and are the same for both the Market Model and Market Adjusted Return Model. The results show that when a UK firm acquires a firm which is located in another country (in this case Europe or US) the CARs are negative and significant at various levels and it becomes more negative with longer periods.

Table 5: Summary of the results regarding the cross-border European Area

Author	Period	Area	Perspective	Model	Sample	Event Window	Abnormal return
Goergen and Renneboog	1993-2000	Europe cross-border	Acquiring firm's shareholders	Market Model	187 of which 69 cross-border	(-1,0) (-2,+2) (-40,0) (-60,+60)	+2,38***% +3,09***% +1,48% -0,41%
Campa and Hernando	1998-2000	EU cross-border	Acquiring firm's shareholders		262 of which 86 cross-border	(-90,-1) (-30,-1) (-1,+1) (-30,+30)	-0,23% +0,52% +0,05% -0,78%
Conn, Cosh, Guests and Hughes	1994-1998	UK cross-border	Acquiring firm's shareholders	Market Adjusted Model	4.344 of which 1.140 cross-border	(-1,+1)	+0,33**%
Danbolt	1986-1991	UK cross-border	Acquiring firm's shareholders	Market Model	174 cross-border	(-8,-2) (-1,0) (+1,+5)	-5,63*% -1,09% -9,79***%
Aw and Chatterjee	1991-1996	UK cross-border	Acquiring firm's shareholders	Market Model (MM) Market Adjusted Model (MAM)	41 for both of the models	MM T+6 T+12 T+18 T+24 MAM t+6 t+12 t+18 t+24	 -4,46*% -8,07***% -11,54***% -24,40****% -3,8% -6,33*% -8,34*% -19,21****%

*Notes: In the event window section, 0 and t indicates the date of the announcement while the numbers indicate the days the only exception is the study by Aw and Chatterjee in which the numbers indicate the month. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%, the only exception is the study by Aw and Chatterjee in which *,**,***,**** indicate the levels 20%,10%,5%, and 1%.*

North American Deals

Moeller and Schlingemann (2005) provided empirical evidence on how cross-border acquisitions from the perspective of a US bidder differ from domestic transactions based on operating performance and stock measures. To conduct the analysis, the authors have retrieved and used a sample composed of 4.430 acquisitions announced between 1985 and 1995 and found that compared to US companies that only acquire domestic targets, cross-border acquisitions result in significantly lower announcement stock returns of about 1%, considering a 3 days event window around the announcement day, and significantly smaller changes in operating performance. The operating performance has been computed as the change in the operating cash flow before and after the announcement and the sample has been restricted to 296 transactions of which 36 are cross-borders. The pre-announcement window in which the operating cash flow is computed goes from -5 years to -1 year while the post-acquisition window goes from +1 year to +5 years.

Results show that the mean change in operating performance for the cross-border sample is -0,067 significant at a 5% level.

Moreover, Seth, Song, and Richardson Pettit (2002) conducted an investigation of the source of gains and losses in cross-border acquisitions in light of different motives for undertaking these transactions. To solve such an investigation, the authors used a sample composed of 100 cross-border acquisitions made by US acquirers during the period 1981-1990 and by employing the event study methodology to assess the abnormal returns to bidders and targets. The abnormal returns are cumulated from day -10 to day +10 in order to measure the cumulative abnormal returns (CARs) in this event window.

The results of the total sample show a value creation for the acquiring firm of +66,7$ million with a lot of differences regarding the country of the target firm, but in any case, the total result shows that on average there is value creation for the acquiring firm.

To conclude the studies on the US market, the last paper that I want to include is the one by Francis, Hasan, & Sun (2008) in which there is an examination of US acquirers' gain in cross-border M&As during the 1990-2003 period. The event study has been conducted by using a sample composed of 1.491 cross-border mergers and acquisitions and the event window used is the 3-day event window around the announcement day.

The results show a positive cumulative abnormal return for US firms engaging in an overseas deal of +0,96% statistically significant at a 1% level; moreover, the authors have also studied the long-term performance of the acquiring firms by comparing the changes in acquiring firms' operating performance in the three years subsequent the acquisition. The operating performance change has been calculated by using the firms' pre-tax cash flow as a measure.

The findings are controversial, indeed three years after the M&A deal, the acquiring firm suffers a loss of -3,04% in the operating performance, while the industry-adjusted mean changes by -1,63%.
The last research regarding this section is the one by Eckbo & Thorburn (2000) who conducted an investigation on the performance of domestic and U.S. (foreign) bidder firms acquiring Canadian targets.
To conduct such an analysis the authors have used a large sample of mergers and acquisitions that successfully took place between 1964 and 1982 and is composed of 1.846 M&As of which 585 are cross-border and the domestic country is considered as Canada.
The results have been computed using the market model and regarding the cross-border deals, findings demonstrate that on the day of the announcement the foreign bidder gains a +0,22% in abnormal return, and the CAR is positive for the pre-announcement event window considered which goes from twelve months before the announcement to the month before the announcement and is +0,41%, while the post-announcement event window which in this case is (+1,+12) months show a significant loss for the shareholders of US firms acquiring Canadian firms of -3,72%.
The study concern also the change in earnings which is calculated through the use of the EBIT indicator and the estimation period for the pre-announcement period goes from -6 years to -1 year before the announcement.
The results, in this case, show that three years after the completion of the acquisition, the cross-border bidding firm suffer a loss of -10,15% in its own EBIT, but also one and two years after the M&A the EBIT change is significantly negative. These results suggest that foreign bidders end to make a bid after a period of abnormally low changes in earnings.

Table 6: Summary of the results regarding the cross-border North American Area

Authors	Period	Area	Perspective	Model	Sample	Event window	Abnormal return
Moeller and Schlingemann	1985-1995	US cross-border	Acquiring firm's shareholders	Market adjusted model	4.430 of which 383 cross-border	(-1,+1)	+0,307%
Seth, Song, Richardson and Pettit	1981-1990	US cross-border	Acquiring firm's shareholders	Market model	100 cross-border	(-10,+10)	+60,7$M
Francis, Hasan and Sun	1990-2005	US cross-border	Acquiring firm's shareholders	Market model	1.491 cross-border	(-1,+1)	+0,96***%
Eckbo and Thorburn	1964-1982	Canada cross-border	Acquiring firm's shareholders	Market model	1.846 of which 585 cross-border	(-12,-1) (0) (+1,+12)	+0,41% +0,22% -3,72%

*Notes: In the event window section, 0 and t indicates the date of the announcement while the numbers indicate the days the only exception is the study by Eckbo and Thorburn in which the numbers indicate the month. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%.*

Other areas

In this section I will present various studies done to investigate the shareholder return of acquiring companies involved in cross-border M&A, specifically the areas I will expose are Russia, India, Japan, and China.

Starting with Russia, Bertrand and Betschinger (2011) investigated the long-term performance of domestic and international acquisitions by Russian companies. The time period under consideration is 2000 to 2008, and the sample used is made up of 1.137 M&As, of which 120 are cross-border transactions. The GMM (i.e., Generalized Method of Moments) estimation has been used in this study by the authors to evaluate the Return on Assets (ROA) as an indicator of the performance of acquirers and non-acquiring firms. Because the Russian financial market is underdeveloped, a significant portion of Russian companies are not listed, and the vast majority of those that are listed are not liquid, applying an event study that considers the abnormal returns of the stock prices could have been extremely challenging due to the size of the potential sample. Instead, the authors have chosen to analyze operating performance. The Earnings Before Interests and Taxes (EBIT) normalized with total assets is the dependent variable in a regression with multiple variables that the authors run in order to conduct the analysis. The ROA variable, which expresses the variation of the Return on Assets linked with an M&A deal, is the most significant independent variable in the study.

The results show that completing one acquisition will decrease firm profitability by -0,006 if the deal is an international one, thus marking a larger decrease in profitability than a domestic operation considered in the same study.
Moving now on to India, Rani, Yadav, & Jain (2014) used a sample that consists of announcements of mergers and acquisitions made by Indian companies listed on the Bombay Stock Exchange between January 2003 and December 2008. The study includes all transactions that meet specific requirements. The sample does not include mergers and acquisitions in the financial industry. This is due to the distinct nature of the assets and liabilities of financial institutions as well as the varied financial reporting of these businesses. By doing that the final sample comprises 255 cross-border M&A deals.
The primary goal of the research is to compare the abnormal returns of acquirer shareholders in domestic and international acquisitions.
The short-term stock price response to acquisition announcements has been measured using the event study methodology. As a gauge of acquisition performance, average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) to acquiring firm's shareholders have been employed. The authors have considered several event windows and because of that, I have plotted the results in the table below.

Table 7: Summary of the results regarding the Rani, Yadav, & Jain study

EVENT WINDOW	ABNORMAL RETURN
Announcement Day	+1,6***%
(-20,-2)	+2,26***%
(-1,0)	+2,06***%
(-1,+1)	+2,25***%
(-2,+2)	+2,71***%
(-5,+5)	+2,74***%
(-10,+10)	+1,96***%
(-20,+20)	+1,79**%
(+2,+20)	-2,71***%

*Notes: In the event window section, 0 and t indicates the date of the announcement while the numbers indicate the days. In the Abnormal Return section *,**, and *** respectively indicate the statistically significant level at 10%, 5%, and 1%.*

Overall it is clear that cross-border M&As create value for the shareholders of the acquiring firm besides the post-announcement event window.
Ings and Inoue (2012) conducted an empirical study focusing on the characteristic variations and shareholder value in domestic and international transactions involving Japanese acquiring firms over the course of ten years, from 2000 to 2010. The analysis used a 3-day (-1, +1) and

a 7-day (-1, +5) cumulated abnormal return window. The estimation risk parameters by the share price of the acquiring company from 220 days to 20 days prior to the announcement of the acquisition were used in a market model to calculate the abnormal returns. The empirical study discovers that both domestic and international transactions boost shareholder value for Japanese acquiring firms; however, when the acquiring firm acquires a controlling stake in the target, international transactions have a greater wealth effect, experiencing a +1% and +0,71% respectively for the 3-days and 7-days event windows.
Furthermore, the results indicate that transactions involving emerging markets produce a stronger wealth effect in the second half of the sample period.
Finally, this subchapter will end with an analysis of the Chinese market;
In the study conducted by Li, Li, & Wang (2016) the examination questions whether acquirers from emerging economies can generate value for their shareholders in cross-border mergers and acquisitions based on the dynamic capability and organizational learning perspectives. An analysis was done on a sample of 367 international mergers and acquisitions between 2000 and 2011 that involved Chinese-listed companies as the acquiring parties. The standard event study method, first put forth by Fama's group, has been used to evaluate the effects of cross-border M&As on shareholder value. This method is predicated on the idea that stock markets can instantly reflect any available information. The expected return of a company is determined by an event study using a market model to analyze the historical correlation between the stock return of the company and the return of the market index. Three different event windows have been considered and are 3-,5-, and 11-day around the announcement day. The results are +2,7%, +3,7%, and +5,7% increase in the cumulative abnormal returns respectively for the 3-,5-, and 11-day event windows, all of them statistically significant at a 1% level.

3.3. Domestic vs. cross-border M&A from the acquirer perspective

While some theories predict greater gains and returns in international deals compared to domestic ones, others come to a different conclusion, which is that domestic acquirers perform better than foreign acquirers. However, there is still conflicting evidence regarding the relative positive or negative impact of cross-border acquisitions on bidder CARs when compared to domestic acquisitions, depending on the country of the acquirer and the time period covered by the prior studies.

For instance, Moeller and Schlingemann (2005) looked at a sample of US acquirers who made domestic and international acquisitions between 1985 and 1995 and the stock performance of those companies. For the (-1, +1) event window surrounding the announcement day, they used the market-adjusted returns model. US acquirers in cross-border transactions had lower announcement returns than US acquirers in domestic transactions because the cross-border sample's CARs were insignificant (0.307%), whereas the domestic sample's returns were significant (1.173%). Additionally, they discovered that the economic freedom of the target nation was negatively correlated with bidder returns.

Conn et al. (2005) looked at a sample of acquisitions that took place between 1984 and 1998, taking into account both public and private targets, and the announcement and post-acquisition share returns of UK firms as acquirers of domestic and foreign targets. The market-adjusted model was used to determine the abnormal returns for the announcement period using a three-day window (-1, 1) surrounding the announcement date. For domestic acquisitions, the results showed significantly positive returns of 0.68%, and for cross-border acquisitions, significantly positive returns of 0.33%. Mergers with private targets rather than public targets produced these profitable returns. They discovered that, after the acquisition of private targets, shareholders of acquiring firms in international transactions suffered significantly negative long-term returns.

3.4 Effect of deal characteristics and of the acquirer on shareholders' financial return

Since some earlier studies have shown that the sign and magnitude of the acquiring firm's returns appear to depend on those characteristics, it is well known in the literature that some deal and acquirer characteristics affect acquirer returns generally. Therefore, it is anticipated that if these factors are systematically different between domestic and cross-border acquisitions, there may be a difference in how each factor affects returns (Moeller and Schlingemann, 2005). The payment method, relative size, industry relevance, the target's status, and other various characteristics are among these attributes (Antoniou et al., 2007). The following explanations of some of these various characteristics and the regression analysis that will be used to examine them are supported by empirical data.

Method of payment

For researchers who concentrate on analyzing the determinants of the bidder returns in merger and acquisition deals, the choice of payment method is extremely important. According to the section of the literature that focused on the effect of payment methods on shareholders' returns in earlier studies, cash acquisitions generally outperform equity bids and generate higher returns for both target and bidder firms at the time of the bid announcement and in the post-acquisition period (Tuch and O'Sullivan, 2007; Goergen and Renneboog, 2004; Sudarsanam and Mahate, 2003).

Regarding the returns received by the bidder, Travlos (1987) reported that there were significant negative abnormal returns when the operation was financed with stock, compared to positive abnormal returns when the acquisition was financed with cash. This is in line with the findings of Martin (1996), who discovered that bidders making cash offers experienced higher abnormal returns than those making stock offers. Additionally, Antoniou and Zhao (2004) reported that when the operation was financed with cash and mixed offers as opposed to stock offers, the bidders' return for a sample of 179 successful British bids was higher. According to Myers and Majluf's (1984) hypothesis, who believed that the payment method served as an information signal to the market, the impact of the payment method on returns can be both positive and negative. This theory is predicated on the idea that the information that managers and other market participants own differs in important ways. In other words, managers have access to information that external investors do not regard the firm's stock value and other investment opportunities.

Therefore, if the managers of the acquiring firm feel that their shares are undervalued and are worth more than their current market price, they will prefer to use the cash payment method for the acquisition. In contrast, if the bidding management thinks its shares are overpriced, it will prefer to fund the acquisition with equity. Therefore, the announcement of the equity bid may indicate to the market that the management of the bidding firm thinks that the company's shares are overpriced (Goergen and Renneboog, 2004). On the other hand, the market might interpret the disclosure of the cash offer as a sign that the management of the acquiring company anticipates an increase in the firm's value over the following period (Myers and Majluf, 1984; Tuch and O'Sullivan, 2007) which may have good results for the bidder shareholders.

According to Hansen's (1987) theory, bidders will make stock offers if they are unsure of the target's value. When deciding on the method of payment to be used to finance the acquisition, managers may also have to consider the taxation factor. For purchases made with cash, capital gains are immediately taxed; however, purchases made with stock are delayed. Therefore, if the option of deferring this taxation is significant to the target's shareholders, the bidding firm will be encouraged to finance the transaction with stock.

However, compared to domestic M&As, the effect of the payment method may differ in cross-border M&As. Due to the presence of additional variables that could affect the means of payment, the positive cash bid signal may be weaker and not have as much of an impact on cross-border bids (Conn et al., 2005). In cross-border transactions, information issues, acquisition-related uncertainty, and the challenge of evaluating foreign targets, particularly private ones, may force the acquiring company to fund the bid with equity. As a result, if the acquiring shareholders are aware of this issue, the negative signal that equity bids provide in comparison to cash bids may be invalidated.

The foreign target, on the other hand, might occasionally be unwilling to accept the foreign equity that the acquirer offers, forcing the acquirer to make a cash payment, which might neutralize the signaling effect of using cash as a payment method. As a result, compared to domestic deals, the positive effect that cash offers have on returns may be less obvious in cross-border deals.

Nevertheless, the outcomes of the cross-border studies vary depending on the nation of the acquirer. After analyzing a cross-border sample of European acquisitions over both short- and long-term windows, Goergen and Renneboog (2004) discovered that the shareholders of the acquiring firms responded more favorably to equity offers (1%) than cash offers (0.4%). This suggests that making an all-equity offer in this situation does not send the market any unfavorable signals. Additionally, Eckbo and Thorburn (2000) discovered that US acquirer firms' returns to shareholders were, on average, 3.1% for deals paid in cash, 3% for deals financed with stock, and 5.1% for deals financed with a mixed payment (cash and stock). Additionally, Andre' et al. (2004) discovered that deals with equity financing perform worse than deals with cash financing for a sample of Canadian acquirers involved in domestic and international mergers.

Private vs. public target

According to earlier research, the market responds differently to private target acquisitions than to public acquisitions. Therefore, whether in domestic or international deals, there have been numerous reasons to expect some differences between the returns to bidder firms in private and public targets. The managerial hypothesis, the bargaining power hypothesis, and the liquidity hypothesis have all been used to explain some of these causes (Draper and Paudyal, 2006).

The liquidity hypothesis states that the market for privately held businesses is typically illiquid. Accordingly, the opposite can be said about private targets as opposed to listed targets, where the majority of the information is available and bidders may compete for control. It implies that unlisted targets are likely to have poor information and little competition, which makes buying and selling them more challenging than with publicly traded companies. This increases the acquirer's negotiating power and may result in an underpayment by bidding companies for privately held targets, increasing the likelihood that the bidder returns will be positive as a result of this discount (Fuller et al. 2002; Conn et al., 2005).

Therefore, the lack of liquidity in the non-public firms makes them less attractive than more liquid investments, which gives the acquirers the ability to capture this discount in purchasing non-public targets for a better price. Therefore, private firms usually offer their shares at a discount in order to create an incentive for potential acquirers as a profitable investment opportunity (Antoniou et al., 2007). This as a result may lead to more gains for the acquirers of private targets.

The managerial motive hypothesis, on the other hand, makes the assumption that there are two different kinds of managers. The first category includes people who might want to maximize their personal gains and grow the size and reputation of the companies they manage, while the second category includes people who want to improve and increase the wealth of their shareholders. People who are driven by a desire for size and prestige will be willing to purchase publicly listed companies, which are typically larger and more prestigious than private companies. This will consequently necessitate higher premium payments from those large firms, which will have a negative impact on the bidder's share price. Instead of managers' private benefits, the desire to increase synergies and maximize shareholder wealth will be the driving force behind the acquisition of smaller private companies. In order to avoid adversely affecting the price of the acquiring firm at the time of the bid announcement, these types of managers won't be willing to pay high premiums for the private firms they are bidding on. Additionally, smaller privately held targets might be simpler to integrate into the operations of the acquiring firm than larger publicly traded targets, which might lead to more favorable market perception and greater gains for the acquisition of privately held companies than publicly traded companies (Draper and Paudyal, 2006).

The bargaining power hypothesis, the final hypothesis, makes the assumption that because privately held businesses are frequently run by a small group of partners or a family, they don't experience significant agency issues. They have the chance to have more direct control over the sale and can select the buyer and timing of the sale thanks to the reduced agency considerations. This gives the sellers greater leverage in negotiations, enabling them to demand and obtain a higher price for their company. As a result, the bidder of private firms may stand to gain more than the bidder of public firms.

As a result, generally speaking, the results indicate that purchasing a private company will yield higher returns than purchasing a public company (Conn et al., 2005). The shareholders' wealth effects of a sample of UK frequent acquirers from 1987 to 2004 were examined by Antoniou et al. in 2007. They discovered that, in the short term, acquirer firms gained significantly (a significant positive CAR of 1.59%) when purchasing private and subsidiary targets while breaking even when acquiring publicly traded targets. This result is largely in line with other studies, like those by Ang and Kohers (2001) and Draper and Paudyal (2006), which showed significant gains from buying privately held companies.

According to Fuller et al. (2002), during the five days (-2, 2) preceding the announcement day, bidder shareholders suffered losses when acquiring a public company, with a significant negative CAR of -1%, whereas they experienced gains when doing so when purchasing a private company, with a significant positive CAR of 2.08%.

Conn et al. (2005) discovered that the announcement returns from acquiring domestic private targets were significantly higher at 1.05% than those from acquiring domestic public targets, which were significantly lower at -0.99%. The significant negative returns from purchasing domestic public targets are consistent with some earlier studies (Sudarsanam and Mahate, 2003). Conn et al. (2005) discovered that in cross-border acquisitions, the returns from purchasing public targets were negligible -0.09%, whereas the returns from purchasing private targets were significantly positive 0.38%. Returns for all public acquisitions were significantly negative (-0.82%) for the entire sample, while all private acquisition returns were significantly positive (0.86%).

Relative size of target and bidder

Some studies contend that certain shared characteristics between the target and bidder firms may have an impact on the performance of the acquirers, whether domestic or international, in addition to the method of payment and the target's public status (Tuch and O'Sullivan, 2007). For instance, according to some researchers, buying larger targets may result in better post-acquisition performance than doing the same with smaller targets. One of the suggested explanations for this is that integrating large targets into a combined organization is challenging, which reduces target competition between prospective acquirers. Due to the lack of competition, this results in larger targets being acquired on more favorable terms (Roll, 1986). Additionally, acquiring a larger target could have a more significant economic impact on the combined company's performance after the acquisition (Bruner, 2002).

The size effect should focus on smaller acquirers rather than larger targets, according to Moeller et al. (2004), because their economic impact will be much greater than that of the larger targets. Small acquirers must therefore exercise extreme caution when selecting a bid. According to the majority of empirical studies, the relative size of the target and bidder firms has a significant effect on bidders during the announcement period, with larger gains coming from acquiring large targets (Franks and Harris, 1989; Tuch and O'Sullivan, 2007).

The results of the earlier studies that have been discussed in this section generally show conflicting findings regarding the effect of domestic and international M&A announcements on the returns to acquirers' shareholders. Some of them (Fuller et al., 2002; Conn et al., 2005; Ben-Amar and Andre, 2006) report a significant increase in the returns to the acquirers' shareholders, while others (Sudarsanam and Mahate, 2003; 2006) show a significant decrease in abnormal returns (Campa and Hernando, 2004; Gregory and McCorriston, 2005).

The analysis of various samples and time periods, as well as the use of various benchmark models, may have led to different results in the previous studies, which may have contributed to the discrepancy. Aw and Chatterjee (2004) and Goergen and Renneboog (2004), for example, constrained their analyses by limiting their samples by only choosing the large mergers, which may have prevented results from being generalized to all sizes of mergers. The majority of earlier studies were carried out using acquisition transactions based on information and samples from the 1980s and the early 1990s, as can be seen from the literature. For example, Conn et al. (2005) used a sample of UK acquirers between 1984 and 1998, Gregory and McCorriston (2005) used a sample of UK acquirers between 1984 and 1994, and Moeller and Schlingemann (2005) examined a sample of US acquirers between 1985 and 1995.

As a result, the findings of these studies do not accurately reflect the quick changes occurring in the current global business environment. Goergen and Renneboog (2004) examine a sample of European acquirers that is more recent than other earlier studies and spans the years 1993 to 2000; however, the primary goal of their study was to focus on a particular time period that covered the fifth merger wave, which might have an impact on the findings of their investigation.

Furthermore, prior research has been done to examine the returns to shareholders of acquiring firms by looking at either a domestic sample or a cross-border sample of merger and acquisition deals, but these studies have not provided any conclusive evidence regarding the differences between the returns to shareholders of acquiring firms in domestic and cross-border acquisitions.

In order to fill this gap in the literature, this chapter will look at acquirer firm returns to shareholders generally and determine whether there are any notable variations between cross-border and domestic deals.

4. Data and empirical analysis

Since it covers the goal of the study, an explanation of the various steps taken to carry out the empirical analysis, and finally the findings and results of the analysis along with any relevant implications, this final chapter serves as the thesis' central argument.

4.1 event study methodology

In this section, the event study methodology is used to calculate the cumulative abnormal returns (CARs) for various time periods surrounding the announcement date using the market model method, as well as to derive the short-term returns around the event date. Below is a description of the model used in this chapter as well as the event study methodology.

The event study methodology has a very long history that may date all the way back to the early 1930s. The first published event study may have been James Dolley's (1933) stock split study, which served as its impetus (MacKinlay, 1997).

From the early 1930s to the late 1960s, the sophistication of event studies increased over time (MacKinlay, 1997). Myers et al. (1948), Barker (1956, 1957, 1958), and Ashley are some examples of event studies that were carried out at that time (1962). In addition, Ball and Brown (1968) and Fama et al. carried out some groundbreaking studies in the late 1960s (1969). It is claimed that the methodology used in these two earlier studies is the same as the methodology currently in use (MacKinlay, 1997; Solibakke, 2002).

Since those groundbreaking studies, other helpful papers have made some useful adjustments to the event study methodology, such as Brown and Warner's (1980, 1985) work for data samples taken on a monthly and daily basis.

When merger and acquisition announcements are made, for example, the event study methodology is frequently used to assess how the combined firms' share prices have performed. This has been used to examine how takeovers affect shareholders' wealth over the short term periods while taking into account the assumption of market efficiency, which states that "share prices react in a timely and unbiased manner to new information and that the extent of the gains reflect the value of the firm in the forthcoming periods" (Tuch and O'Sullivan, 2007, pp.142-143).

Event studies are therefore used to track the flow of information about an event to the market, how it influences stock returns, and the ensuing impact on the firm's value (Sudarsanam, 2003). As a result, given market rationality, changes in security prices will immediately reflect the effects of the event, allowing us to measure the event's impact over a relatively short period of time (Solibakke, 2002).

Because it examines stock price changes, which are meant to take into account all relevant information, rather than accounting-based measures, this methodology has become popular (Sudarsanam, 2003).

Determining the event of interest that is connected to the announcement of the merger and acquisition deal, whether it is domestic or international, is typically the first step in conducting an event study. The next step is to determine the event window, which is the time frame that will be used to examine the share prices of the companies involved in the merger and acquisition event and will allow for the full capture of the event's effects on stock prices.

The announcement date, which is day 0 in event time, serves as the focal point of the event period most of the time. The event window is typically chosen to be wider than the precise time period we're interested in. This enables a better examination of the times leading up to the event (MacKinlay, 1997).

I will use the short-term window because it is relatively "straightforward and trouble-free" (Tuch and O'Sullivan, 2007, p. 148), but it may also be subject to bias because announcement returns frequently reflect investors' expectations (Tuch and O'Sullivan, 2007). Despite the fact that the event windows used in existing studies, ranging from short- to long-term windows, are inconsistent, we will use the short-term window in this case. Longer periods will attempt to capture all of the effects of the event, but the estimates may be more susceptible to data noise. Additionally, long-term event studies are linked to bigger issues (Tuch and O'Sullivan, 2007).

In this study I have employed several event windows, more in detail:

- The event windows around the announcement day are (-40,+40), (-20,+20), (-10,+10), (-5,+5), (-2,+2), and (-1,+1)
- The pre-event window is (-20,-2)
- The post-event window is (+2,+20)

These windows contain the eleven-day window (-5, +5), which was suggested by Brown and Warner (1985), along with two longer windows and two smaller windows. The application of the longer windows with an eighty-one (-40, +40) and twenty-one-day interval (-10, +10) aims in capturing the effects of any information leakage to the market if present and the fact that the market may take some time to react to the news, but without distorting the effect of the acquisition due to any noise.

According to some researchers, capital markets have recently become more effective because they can quickly incorporate the effects of an announcement (Comment and Jarrel, 1995). Others contend that today's stricter laws against insider trading and information disclosure prevent the market from responding to the announcement in advance (Grill and Jaskow, 2007). As a result, it would be sensible to use the shorter five-day window (-2, +2).

A three-day window (-1, +1) around the announcement date is also used in order to be more accurate about the market response to the merger announcement and to prevent the results from being sensitive to the model chosen for expected returns. One of the most frequently employed event windows in merger studies is reportedly this one (Conn et al., 2005).

Additionally, Arnold and Parker (2007) demonstrate that using a three-day window should account for both immediate lead effects (stock market speculation about the announcement's content) and lag effects (the amount of time needed for the market to fully comprehend the announcement's likely impact on share price), while excluding the possibility of including share price changes brought on by external factors.

The abnormal return of the firms is determined after selecting the event windows that will be examined. It is calculated as the return for the firm in day t minus the expected or normal return for the firm in day t. The percentage change in the return index is used to calculate the return on day t. It is common knowledge that any security's performance can only be deemed abnormal in comparison to some benchmarks. Therefore, before the abnormal returns can be measured, it's crucial to specify a model to produce the normal or expected returns.

The predicted or typical return for each day and each firm during the event period is then determined. These normal returns are the returns that would be anticipated in the absence of an event. This study generates these normal returns using the pre-event estimation period because it will be consistent with the majority of other studies, particularly those that are concerned with international acquisitions, which will make it much simpler to compare the results with earlier studies. I have focused more on the estimation window that begins 200 days before the longer event window taken into account.

The abnormal returns of the j^{th} stock (AR_{jt}) are obtained by subtracting the normal or expected returns in the absence of any events [$E(R_{jt})$] from the actual return in the event period (R_{jt}):

$$AR_{jt} = R_{jt} - E(R_{jt})$$

According to the market model approach, a security's return is correlated with the market portfolio's return in the following way, and the market model equation is written as follows:

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

Where:

- α and β are the coefficients estimated using the ordinary least squares regression of the return on the security j against the returns of the market index
- R_{mt} is the return on the market index
- ε_{jt} is the error term
- t represents the estimation window which is -200,-41 in this study

The abnormal returns are thus given by:

$AR_{jt} = R_{jt} - (\alpha_j + \beta j R_{mt})$

Where:

- AR_{jt} is the abnormal return of stock j on day t
- R_{jt} is the actual return of stock j on day t
- R_{mt} is the return on the market index, the MSCI international AWCI index, on day t
- α,β are the market model parameter estimates for stock j for the control period which corresponds to the estimation period (-200,-41)
- t represents the various event windows considered

The calculation must have a clean period that is not included in the event window, as in the previous method, which is the returns for 200 trading days prior to the announcement day from -240 to -41 days, because this model involves a regression of the firm returns series against the market index. The market index, here represented by the MSCI international AWCI Index, is then regressed against these returns.

The average abnormal returns (AARs) are then calculated as follows:

$AAR_t = \frac{1}{N} \sum_{j=1}^{N} AR_{jt}$

Lastly, the cumulative abnormal returns (CARs) are daily abnormal returns cumulated over part of the event window; the cumulative average abnormal returns (CAARs), which have been extensively used in event studies, are then calculated and added up over the entire event period and are expressed as follows:

$$CAAR_{T1,T2} = \frac{1}{N}\sum_{j=1}^{N} \quad \sum_{t=T1}^{T2} AR_{jt}$$

Where T1 is the beginning day interval of the event window and T2 is the ending day.

In order to test the significancy of the results, the crude dependence adjustment test (CDA) have been employed in the computations.
The sample time-series standard deviation is used in the test. According to Brown and Warner (1980), the test includes a "crude dependence adjustment." In other words, by estimating the standard deviation using the time series of sample mean returns from the estimation period, the test corrects for any potential dependence of returns across security-events. For the entire sample, the CDA test uses a single variance estimate. The time series standard test does not account for the disparate return variances among securities as a result. Through this test, the potential issue of cross-sectional security return correlation is avoided.
Brown and Warner (1980) propose that the standard deviation of average residuals should be estimated from the time series of the average abnormal returns over the estimation period in order to account for the dependence across firms' average residuals in event time.
The test statistics for day t in the event time is

$$t = \frac{AAR}{\sigma}$$

Where σ is the standard deviation of AAR
The CDA test for the null hypothesis that CAAR=0 is

$$t = \frac{CAARt}{(T2 - T1 + 1)^{1/2}\,\sigma}$$

4.2 Sample selection and descriptions

This chapter examines a sample of publicly traded companies that were involved in domestic and cross-border M&A transactions that were announced and completed between January 1, 2017, and January 1, 2019. This time period was chosen mainly for two reasons, firstly I wanted to consider recent transactions; secondly, I preferred to limit myself to considering transactions up to 2019 because of COVID disease since starting in February/March 2020 and for the first six months of the year the stock market indices and consequently the whole stock market was heavily penalized and therefore I considered it as a year that was potentially detrimental to the analysis as it could distort the stock returns of the various companies. In addition, 2021 also I think was a particular year, the pandemic still dragged on and there was a lot of uncertainty in the markets, also being the year following a crisis in the markets, it was a year of a strong recovery in the stock markets (e.g., S&P 500 +26.89%) and thus another year that was potentially detrimental to the analysis. Finally, 2022 was another very complicated year in the stock market, weighed down by the Russia-Ukraine war that contributed to a rise in inflation stemming from the supply side and then a whole succession of interest rate hikes by central banks in most parts of the world to counter the exorbitant rise in inflation.

Information regarding the companies involved was collected manually through the use of the Refinitiv Eikon Database. The deals selection of this database records the announcement date, the names, and sectors of the companies involved in the deal, and also the status of the companies involved, the deal advisors, the type of deal, the M&A TRBC activity, and lastly the consideration amount.

The daily stock returns for the acquirer firms included in the sample have been extracted from investing.com and yahoo finance while the index returns of the MSCI international AWCI index have been retrieved from the Refinitiv Eikon database. The MSCI international AWCI is an index that comprehends the MSCI World Index which includes developed markets and the MSCI emerging markets index; I have decided to use such an index mainly because in the sample used there are deals made by both Indian, and Chinese companies which are part of the MSCI emerging markets.

Moreover, other filters have been included in the research of the sample:

- The M&A TRBC activity included energy, basic materials, industrials, consumer cyclical, consumer non-cyclical, healthcare, technology, utilities, and real estate. Excluded are financial, government activity, academic, and educational services. The M&A TRBC activity is a sectoral classification provided by Refinitiv Eikon.

- The M&A types included are the disclosed dollar value and the stake purchase deal. Excluded are the undisclosed dollar value, repurchases deals, and the self-tenders.
- The cross-border deal flag has been plugged in order to differentiate the domestic vs. cross-border deals.
- The acquires are publicly traded firms and have returns data for at least 240 days prior to the announcement date and 40 days after the announcement date of the M&A deal.
- The deal consideration must be equal to or greater than $5 billion. I have decided to include only large deals because of trading reasons, indeed, companies that have the capacity to pay a large amount of consideration are big companies in terms of market capitalization and because of that the share prices tend to be less volatile and more stable over time thus increasing the reliability of the price variations also during an M&A event.

The preliminary total number of completed mergers and acquisitions deals collected from the Refinitiv Eikon database for the period from 2017 and 2019 is composed of 62 deals, 39 domestic and 23 cross-border but only 33 were listed, 23 domestic and 11 cross-border. With this last skimming, I obtained the final sample with which I performed the analysis.
A detailed description of the sample used is provided in the tables below.

Table 8: Name of acquirers and targets involved in domestic M&A deals

ACQUIRER	***TARGET***
ATRIA GROUP INC.	JUUL LABS INC
COCA-COLA CO.	BA SPORTS NUTRITION LLC
DELL TECHNOLOGIES INC.	VMWARE CLASS V TRACKING STOCK
MICROSOFT CORP.	GITHUB INC
WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP	GENERAL ELECTRIC CO-TRANSPORTATION BUSINESS
BHARTI INFRATEL CO LTD	INDUS TOWER LTD
GLAXOSMITHKLINE PLC	GLAXOSMITHKLINE CONSUMER HEALTCHARE HOLDINGS LTD
E ON VERWALTUNGS SE	INNOGY SE
CIGNA CORP	EXPRESS SCRIPTS HOLDING CO
BAMNIPAL STEEL LTD	BRUSHAN STEEL LTD
CELGENE CORP	IMPACT BIOMEDICS INC
DOMINION ENERGY	SCANA CORP
WALT DISNEY CORP	21^{ST} CENTURY FOX INC
BASF SE	BAYER AG-CROP SCIENCE BUSINESS

SEMPRA ENERGY INC	ENERGY FUTURE HOLDINGS CORP
CROWN CASTLE INTERNATIONAL CORP	LIGHTOWER FIBER NETWORKS LLC
GUANGZHOU WANXI REAL ESTATE CO LTD	GUANDONG INTERNATIONAL TRUST INVESTMENT CORP-ASSETS
DRILLISCH AG	1&1 TELECOMMUNICATION SE
LVMH MOET HENNESSY LOUIS VUITTON SE	CHRISTIAN DIOR COUTURE SA
CARDINAL HELTH INC	MEDTRONIC PLC-PATIENT CARE DEEP VEIN THROMBOSIS & NUTRITIONAL INSUFFICIENCY BUSINESS
CENOVUS ENERGY INC	FCCL PARTNERSHIP
CANADIAN NATURAL RESOURCES LTD	ATHABASCA OIL SANDS PROJECT ALBERTA
WILLIAMS PARTNERS LP	WPZ GP LLC

Table 9: Name of acquirers and targets involved in cross-border M&A deals

ACQUIRER	***TARGET***
HITACHI LTD	ABB LTD – POWER SYSTEMS
SAP SE	QUALTRICS INTERNATIONAL INC.
COCA-COLA CO.	COSTA LTD
TAIYO NIPPON SANSO CORP	PRAXAIR INC – EUROPEAN INDUSTRIAL GAS BUSINESS
WALMART INC	FLIPKART SAS
ACCORINVEST SAS SPV	ACCORINVEST SAS
VODAFONE GROUP PLC	UNITYMEDIA GMBH
KKR & CO LP	UNILEVER PLC – MARGARINE & SPREADS BUSINESS
BLACKSTONE REAL ESTATE PARTNERS EUROPE V LP	BANCO POPULAR ESAPANOL SAS – REAL ESTATE ASSETS
TELECOM ARGENTINA SA	CABLEVISION SA
VODAFONE GROUP PLC – VODAFONE INDIA ASSETS	IDEA CELLULAR LTD – MOBILE BUSINESS

Table 10: Deals per year

	CROSS BORDER		DOMESTIC		TOTAL	
YEAR	N.	%	N.	%	N.	%
2017	4	36,36	11	47,83	15	44,11
2018	7	63,63	12	52,17	19	55,88
TOT.	11	100	23	100	34	100

Table 11: Countries involved in domestic M&A deals

COUNTRY	***N. OF DEALS***	***% ON TOTAL***
UNITED STATES	*13*	*56,52%*
CHINA	*1*	*4,34%*
INDIA	*2*	*8,69%*
UNITED KINGDOM	*1*	*4,34%*
GERMANY	*3*	*13,04%*
FRANCE	*1*	*4,34%*
CANADA	*2*	*8,69%*
TOTAL	*23*	*100%*

Table 12: Countries involved in domestic M&A deals

BIDDER COUNTRY	**N.**	**%**	**TARGET COUNTRY**	**N.**	**%**
JAPAN	2	18,18%	**SWITZERLAND**	1	9,09%
GERMANY	1	9,09%	**UNITED STATES**	1	9,09%
UNITED STATES	4	36,36%	**UNITED KINGDOM**	2	18,18%
FRANCE	1	9,09%	**SPAIN**	2	18,18%
UNITED KINGDOM	2	18,18%	**INDIA**	2	18,18%
ARGENTINA	1	9,09%	**LUXEMBOURG**	1	9,09%
ARGENTINA	1	9,09%	**GERMANY**	1	9,09%
			ARGENTINA	1	9,09%
TOTAL	11	100%	**TOTAL**	11	100%

4.3 Results

The entire sample has been examined for average abnormal returns on the announcement day and cumulative average abnormal returns (CAARs) for various event windows. The impact on the acquiring shareholders firm has been evaluated through data analysis in order to determine whether or not these shareholders will profit more from domestic or international M&A deals.

Table 13: Domestic sample results

Event window	*Abnormal return (%)*	*Median abnormal return (%)*	*CDA t*
(-40,40)	*-0,12*	*-0,03*	*-0,0389*
(-20,20)	*0,33*	*-0,04*	*0,1531*
(-10,10)	*-0,53*	*-0,08*	*0,3431*
(-5,5)	*1,07*	*-0,11*	*0,9637*
(-2,2)	*-0,64*	*-0,16*	*-0,8538*
(-1,1)	*0,09*	*-0,16*	*0,1527*
0	*0,85*		*0,1477*
(-20,-2)	*2,55*	*0,18*	*1,7536**
(2,20)	*-2,32*	*-0,08*	*1,5882*

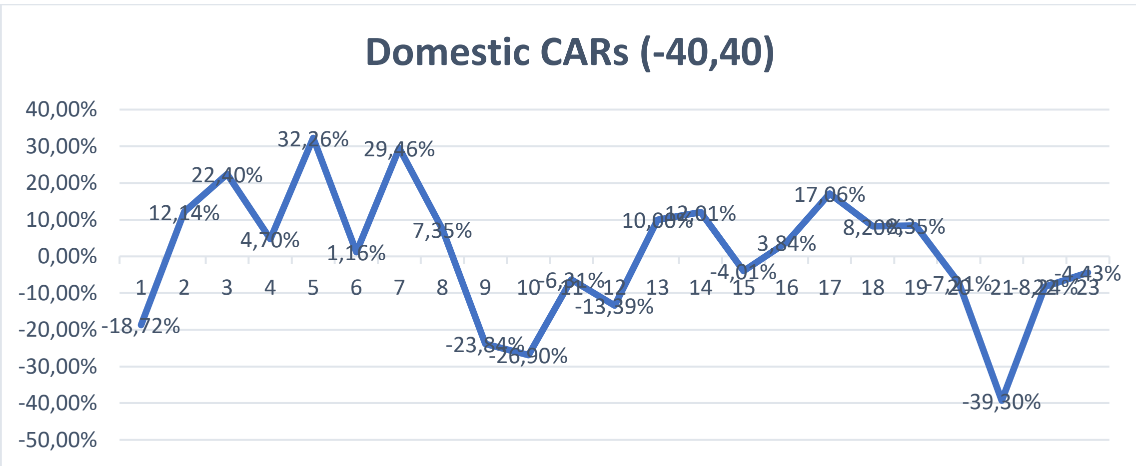
*Notes: day 0 represents the announcement date, and the event windows are expressed in days. *,**,*** respectively represent a statistically significance at a 10%,5%, and 1% level. For the event window 0, the abnormal return is the average abnormal return (AAR), while for all the other event windows the average abnormal return represents the cumulative average abnormal return (CAAR).*

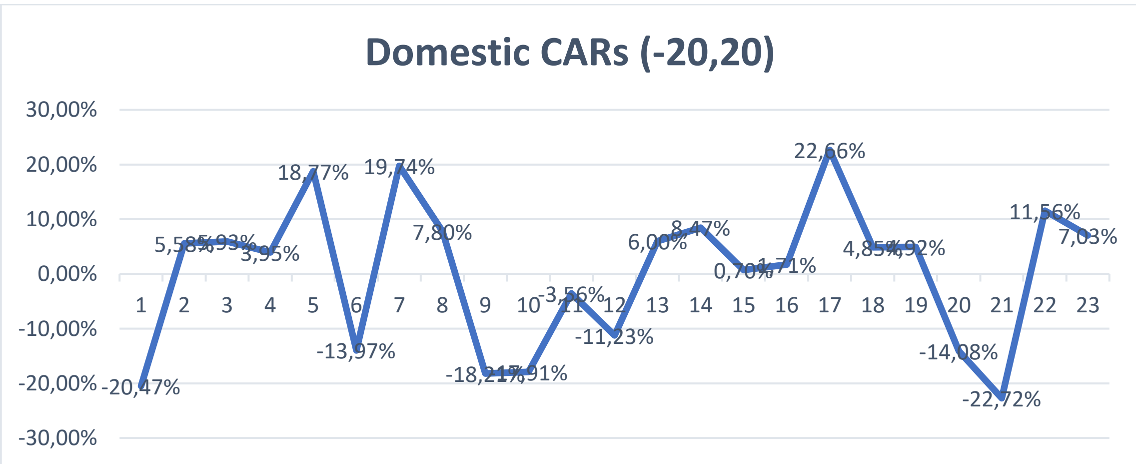
Table 13 shows the results for the domestic M&A deals considered. In the end, even if several single transactions gave a high level of statistical significance, at the aggregate level only the cumulative average abnormal return linked to the (-20,-2) event window is statistically significant at a 10% level of confidence.

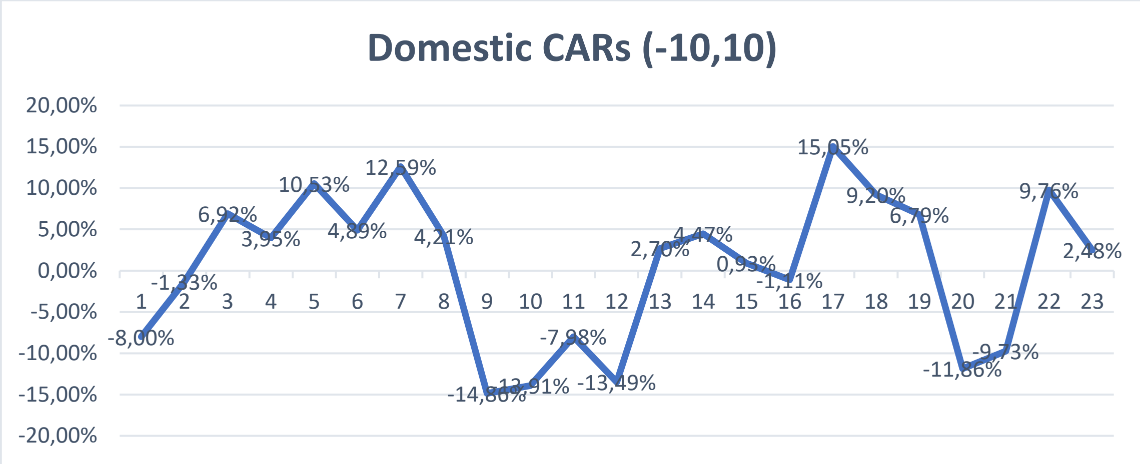
The results show that on the announcement date, on average, the shareholders of the acquiring firms involved in a domestic merger or acquisition deal experience an increase in their wealth of +0,85%, thus highlighting a value creation.

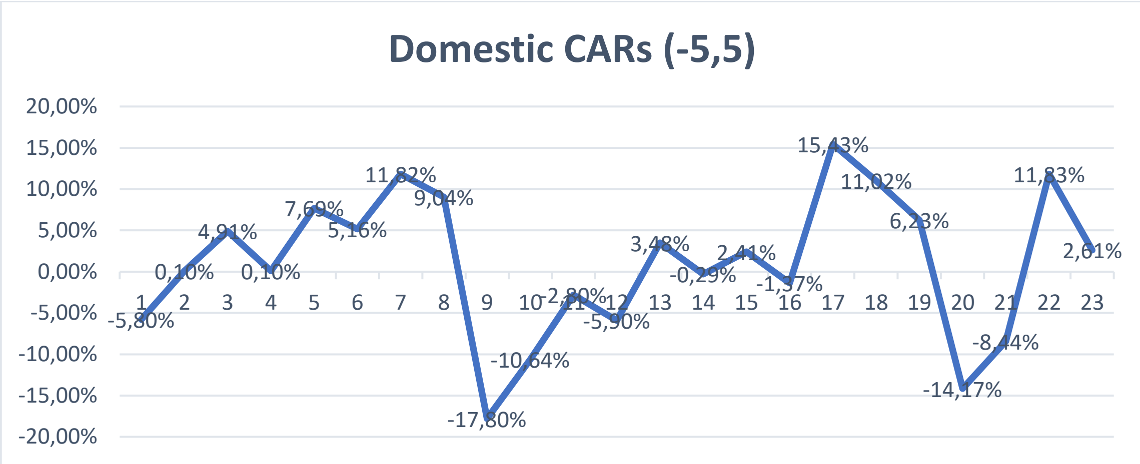
On the event windows, (-40,40), (-10,10), and (-2,2) the cumulative average abnormal returns are respectively -0,12%, -0,53%, and -0,64%. All these event windows are around the announcement date and it is curious how the negative effect expands as the length of the analysis period decreases, suggesting that as we approach the announcement date volatility increases, and in this case that volatility goes to deplete the wealth of the shareholders of the acquiring company.

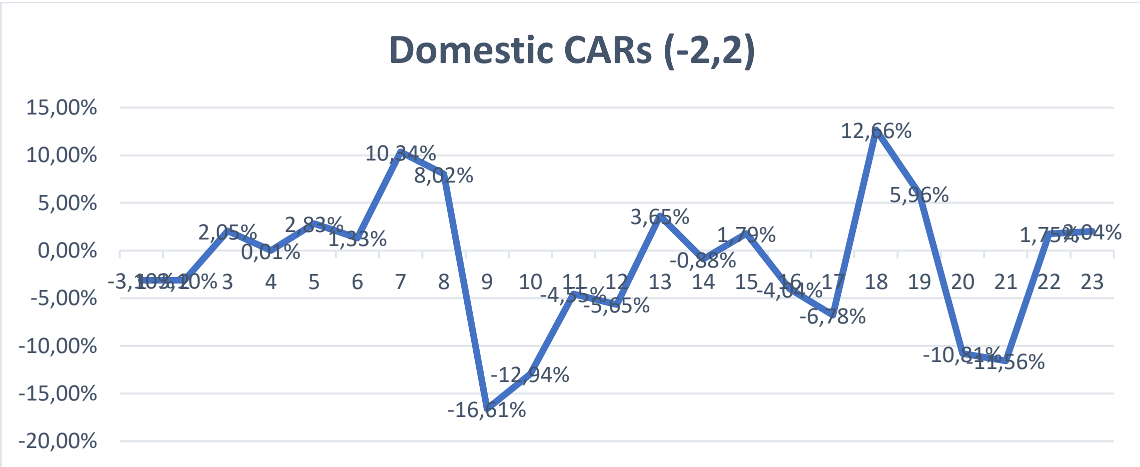
On the contrary, the event windows (-20,20), (-5,5), and (-1,1) report a positive cumulative average abnormal return of +0,33%, +1,07%, and +0,09% respectively. Thus, these results confirm the increase in volatility around the announcement date and give us another conclusion which is the fact that on the day before and after the announcement date, the volatility of the stocks shows a substantial decrease.
Interesting is the pre-event window, which in the study is the (-20,-2) event window; the results show that on average the cumulative abnormal return experiences an increase of 2,55% statistically significant at a 10% level, witnessing a so-called “price run-up” before the announcement date.
At last, the post-event window (2,20) tells us that on average, shareholders of the acquiring firm suffer a large loss in their share return of about -2,32%, thus, highlighting that the short-term market reaction to an M&A deal is a negative reaction.
In the subsequent charts, there is a breakdown of the various cumulative abnormal returns (CARs) for the event windows considered.

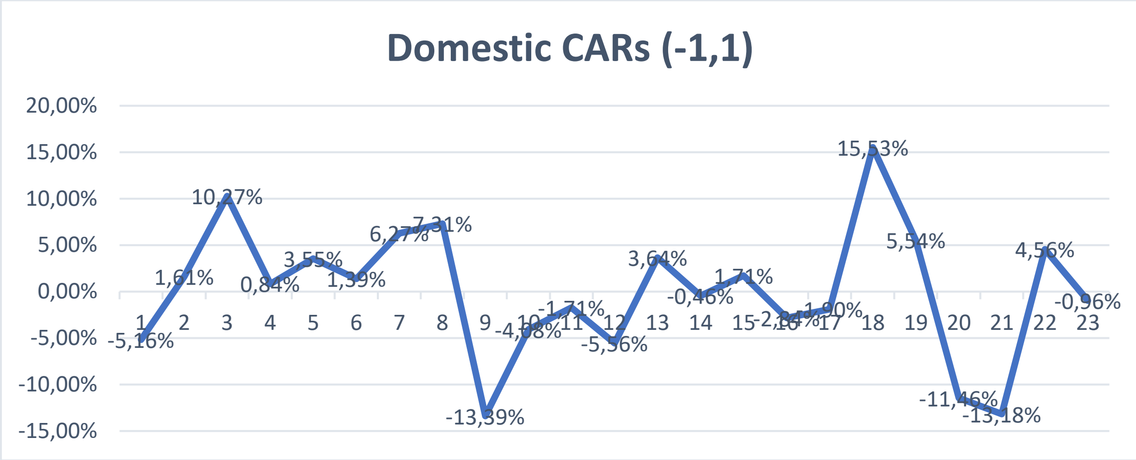


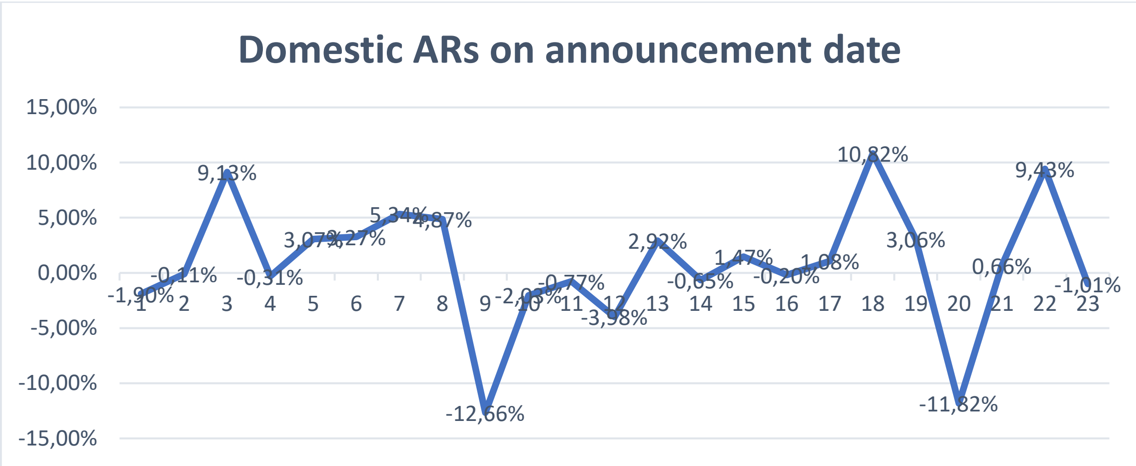


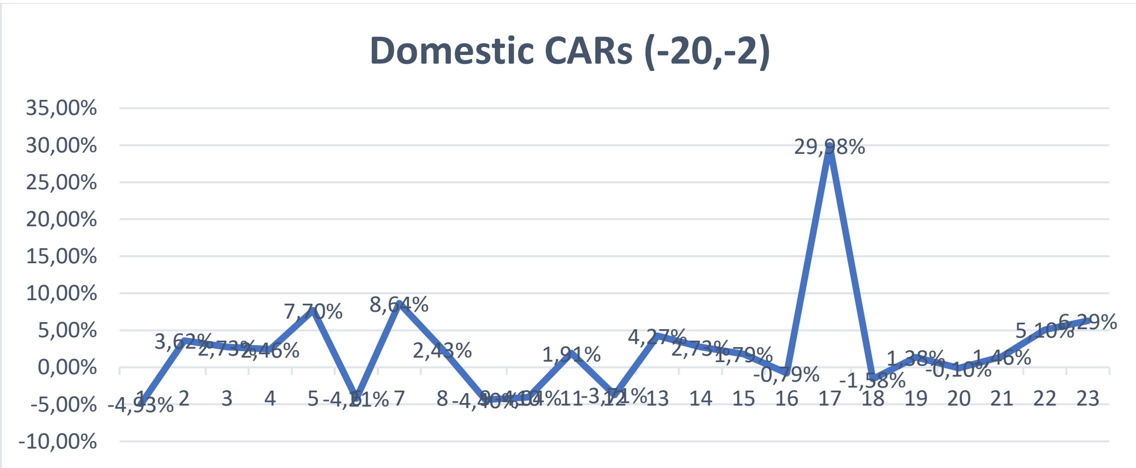

Domestic CARs (-10,10)
20,00%
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
-20,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
-8,00%
-1,33%
6,92%
3,95%
10,53%
4,89%
12,59%
4,21%
-13,91%
-7,98%
-13,49%
2,70%
4,47%
0,93%
-1,11%
15,05%
9,20%
6,79%
-11,86%
-9,73%
9,76%
2,48%

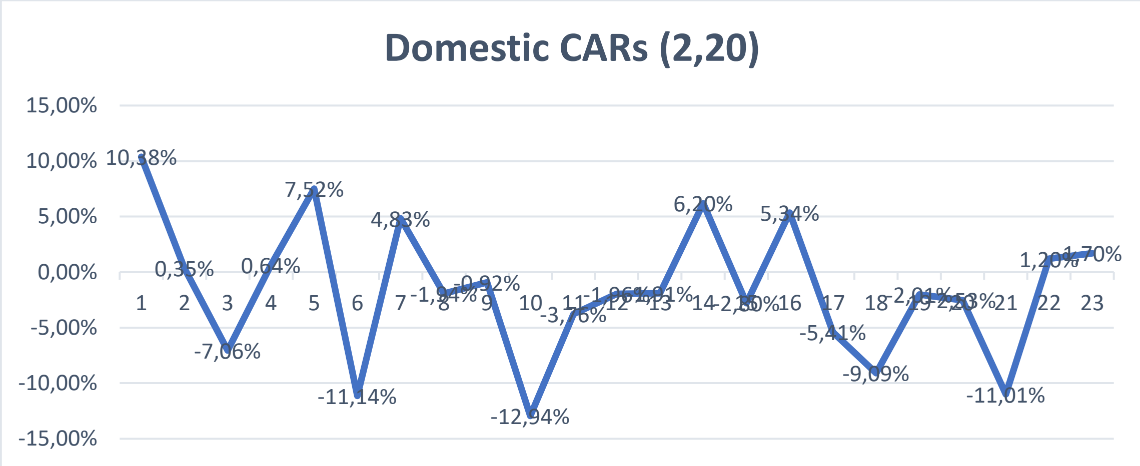

Domestic CARs (-5,5)
20,00%
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
-20,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
-5,80%
0,10%
4,91%
0,10%
7,69%
5,16%
11,82%
9,04%
-17,80%
-10,64%
-2,80%
-5,90%
3,48%
-0,29%
2,41%
-1,37%
15,43%
11,02%
6,23%
-14,17%
-8,44%
11,83%
2,61%


Domestic CARs (-2,2)
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
-20,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
2,05%
0,01%
2,83%
1,33%
10,34%
8,02%
-16,61%
-12,94%
-5,65%
3,65%
-0,88%
1,79%
-6,78%
12,66%
5,96%
-10,81%
-11,56%
1,75%
2,04%


Domestic CARs (-1,1)
20,00%
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
-5,16%
1,61%
10,37%
0,84%
3,55%
1,39%
6,27%
7,31%
-13,39%
-4,08%
-1,71%
-5,56%
3,64%
-0,46%
1,71%
-1,90%
15,53%
5,54%
-11,46%
-13,18%
4,56%
-0,96%


Domestic ARs on announcement date
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
-1,90%
-0,11%
9,13%
-0,31%
3,07%
3,27%
5,34%
4,87%
-12,66%
-0,77%
-3,98%
2,92%
-0,65%
1,47%
-0,20%
1,08%
10,82%
3,06%
-11,82%
0,66%
9,43%
-1,01%


Domestic CARs (-20,-2)
35,00%
30,00%
25,00%
20,00%
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23
-4,93%
3,62%
2,73%
2,46%
7,70%
-4,31%
8,64%
2,43%
1,91%
4,27%
2,73%
1,79%
-0,79%
29,98%
-1,58%
1,38%
-0,10%
1,46%
5,10%
6,29%



As it can be seen in these breakdown charts, there are many differences in cumulative abnormal returns for different acquiring companies.

The various results showing these charts are in line with expectations, as each company has a different reaction in the stock market following the announcement of a merger or acquisition event. All the graphs show high stock price volatility when considering the cumulative abnormal returns for the different event windows, and it is interesting to note that only in the graph for the pre-event window (i.e., -20,-2) is there some uniformity in the results with only the presence of an outlier.

Table 14: Cross-border sample results

Event window	*Average abnormal return (%)*	*Median abnormal return (%)*	*CDA t*
(-40,40)	*-2,69*	*-0,06*	*-0,9087*
(-20,20)	*-3,74*	*-0,15*	*1,7758**
(-10,10)	*-2,85*	*-0,21*	*1,8945**
(-5,5)	*-1,12*	*-0,2*	*1,0286*
(-2,2)	*-0,78*	*-0,21*	*-1,0644*
(-1,1)	*-0,29*	*-0,2*	*-0,5058*
0	*-0,2*		*-0,0346*
(-20,-2)	*-2,39*	*-0,1*	*-1,6647**
(2,20)	*-1,06*	*-0,21*	*-0,7429*

*Notes: day 0 represents the announcement date, and the event windows are expressed in days. *,**,*** respectively represent a statistically significance at a 10%,5%, and 1% level. For the event window 0, the abnormal return is the average abnormal return (AAR), while for all the other event windows the average abnormal return represents the cumulative average abnormal return (CAAR).*

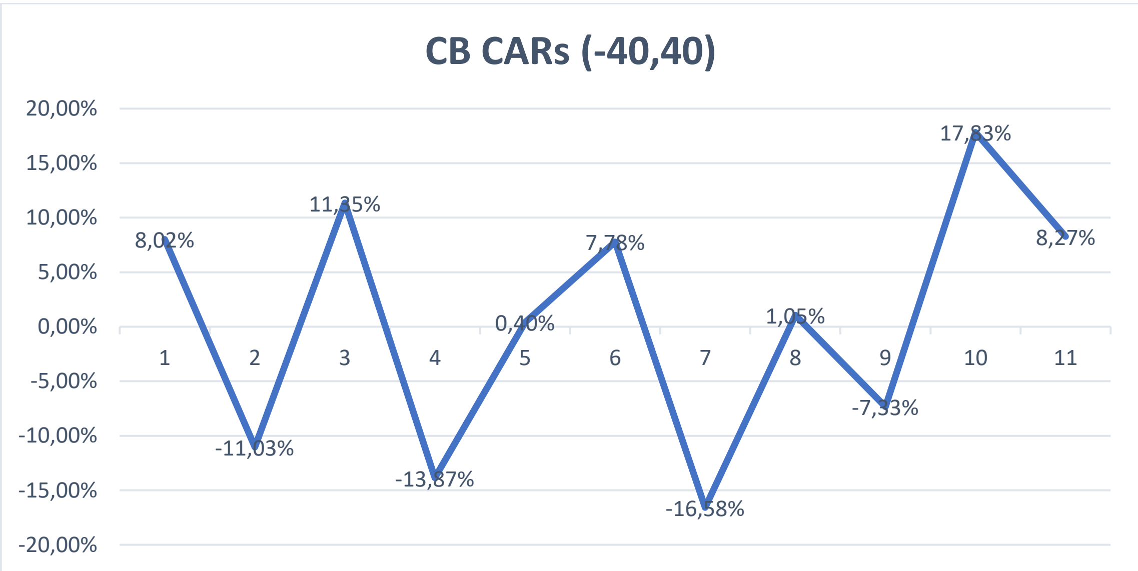
Table 14 shows the results for the cross-border M&A deals considered in the sample. In the cross-border computations the results have shown three different statistically significant event windows which are two event windows related to the "around the announcement" period, more in detail the event windows (-20,20) and (-10,10) and the pre-event window (-20,-2), all of them statistically significant at a 10% level of confidence.

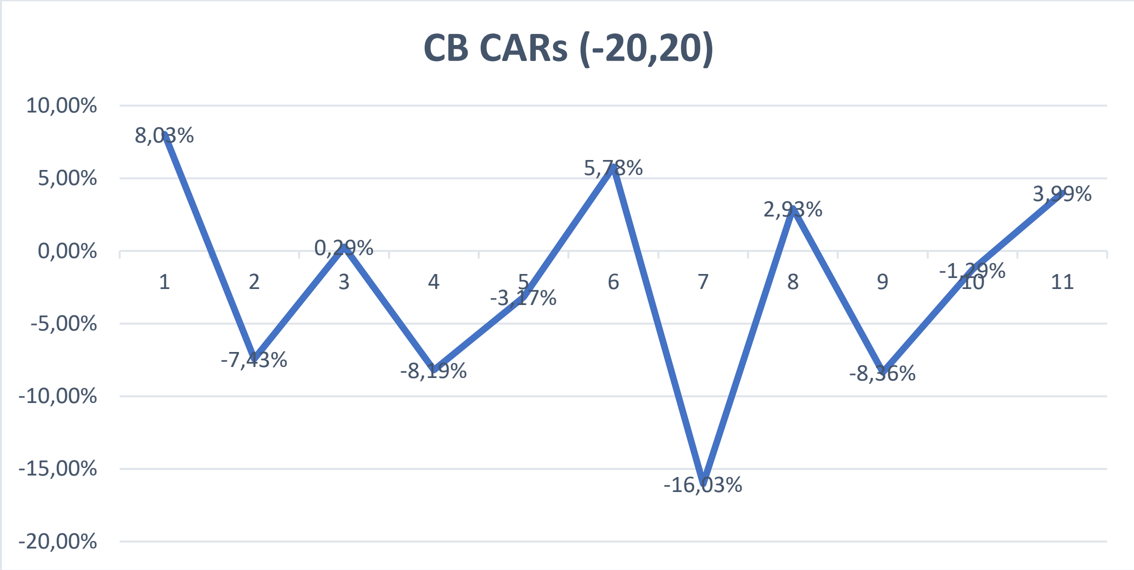
The results of the event study related to cross-border show that on the day of the announcement, on average, there is not much change in the stock price of the acquiring company, in fact, the average abnormal return on date 0 is in a slight contraction of -0.2% which can be safely described as negligible, but even if the average decrease in the price is that insignificant, it shows a value reduction.

Starting with the longer event window, the (-40,40) event window around the announcement date the share price performance is negative by -2,69%. The 41-day event window (-20,20) highlights another negative performance, even wider than the 81-day event window, with value destruction of -3,74% statistically significant at a 10% level of confidence. Going on, the event window (-10,10), which is again around the announcement event window, confirms the negative impact on the cumulative share prices of the acquiring company, with a cumulative average abnormal return of -2,85%.

To sum up these first three results it is clear that CBMAs have a substantial and significant negative impact on the shareholders of the acquiring firms, indeed at best the reduction is at

-2,69% with an increase in the negative impact when shortening the time length around the announcement date.
Regarding the smallest event windows considered, the 11-day, 5-day, and 3-day windows around the announcement date, again the results show a negative impact on the cumulative share price performance of the acquiring firms, respectively of -1,12%, -0,78%, and -0,29%. Even if these results are still negative, it is clear that when the event window comprehends fewer trading days, the magnitude of the loss tends to decrease.
Another interesting result is the one of the pre-event window, the (-20,-2) event window shows a large reduction in the cumulative share prices of the acquiring firms of -2,39% statistically significant at a 10% level of confidence, while the CAAR for the post-event window is still negative but less negative than the pre-event window and is -1,06%, thus, suggesting that the (-20,20) event window, the worse one in terms of cumulative average abnormal return, is characterized by a worse performance in the days before the announcement date than after the announcement date.
To summarize the results for cross-border M&As, it is evident that compared to domestic transactions, the performance is worse for the acquiring companies involved in these transactions. These results are basically in line with the studies presented in the previous chapter, the main fact being that cross-border transactions present many more challenges and difficulties than domestic transactions.
In the subsequent charts, there is a breakdown of the various cumulative abnormal returns (CARs) for the event windows considered.




CB CARs (-20,20)
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
-20,00%
8,03%
-7,43%
0,29%
-8,19%
-3,17%
5,78%
-16,03%
2,93%
-8,36%
-1,29%
3,99%
1
2
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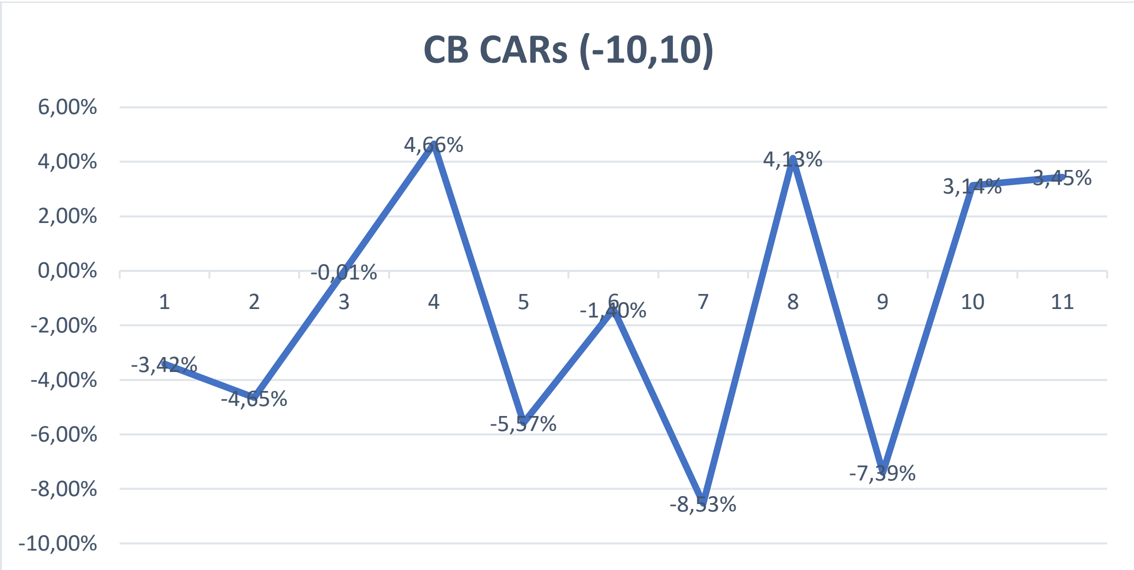
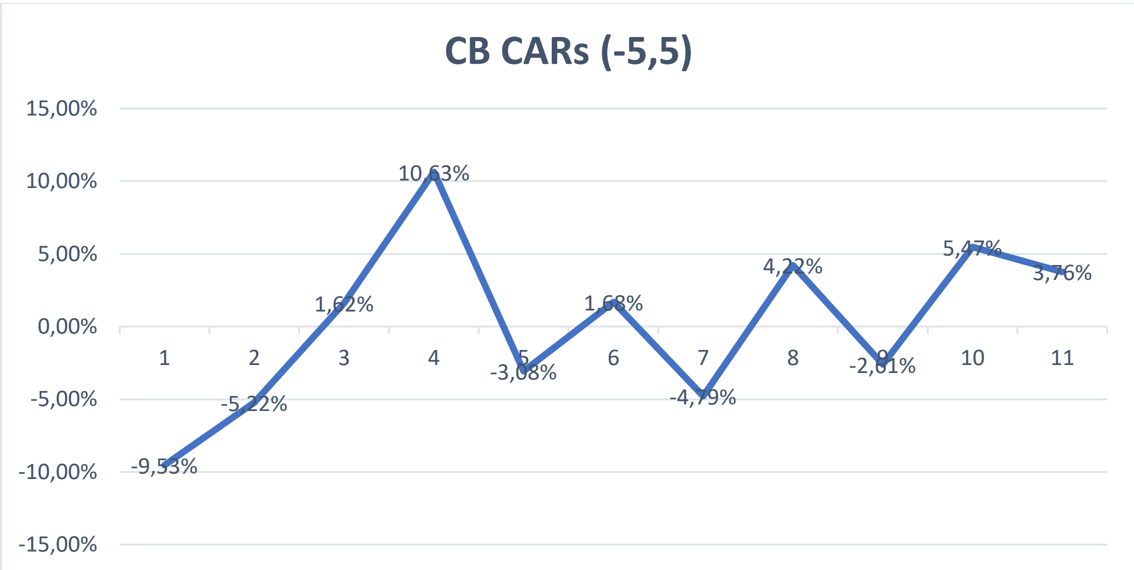
4
5
6
7
8
9
10
11


CB CARs (-10,10)
6,00%
4,00%
2,00%
0,00%
-2,00%
-4,00%
-6,00%
-8,00%
-10,00%
-3,42%
-4,65%
-0,01%
4,66%
-5,57%
-1,40%
-8,53%
4,13%
-7,39%
3,14%
3,45%
1
2
3
4
5
6
7
8
9
10
11


CB CARs (-5,5)
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-15,00%
-9,53%
-5,22%
1,62%
10,63%
-3,08%
1,68%
-4,79%
4,22%
-2,61%
5,47%
3,76%
1
2
3
4
5
6
7
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9
10
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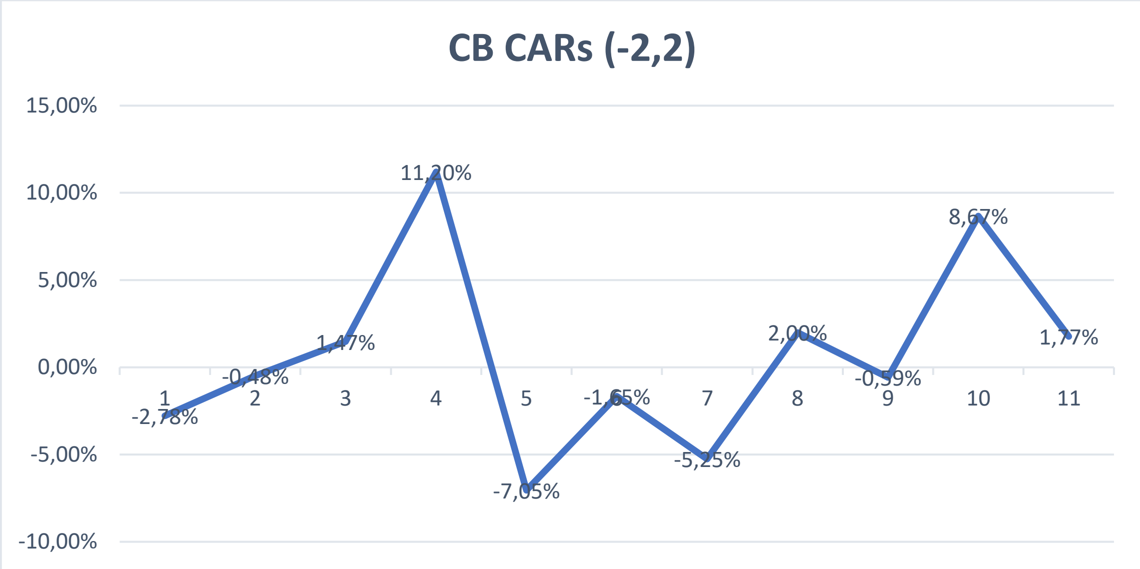
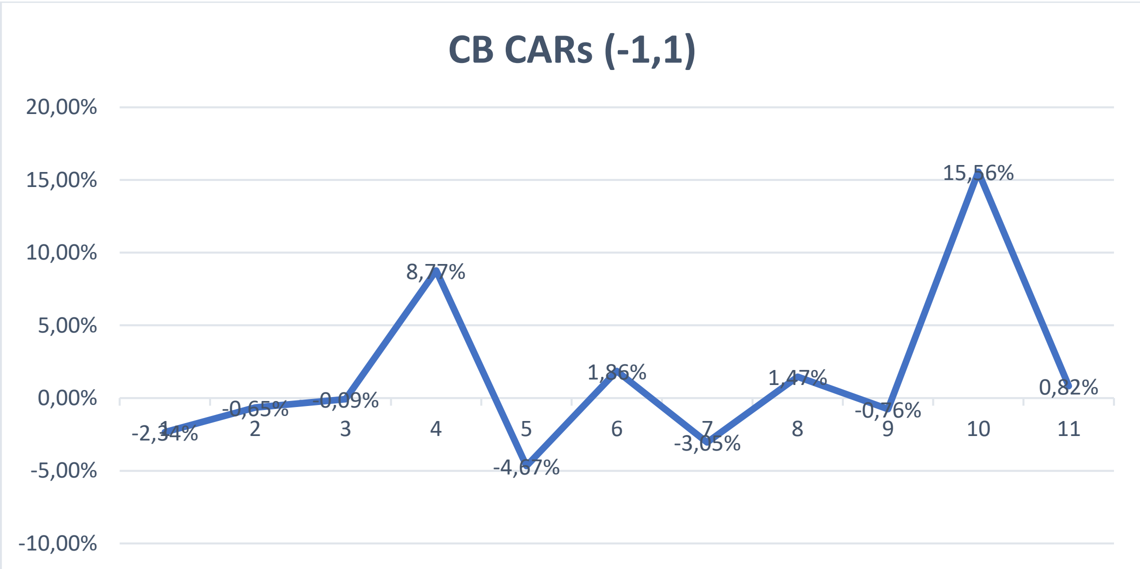
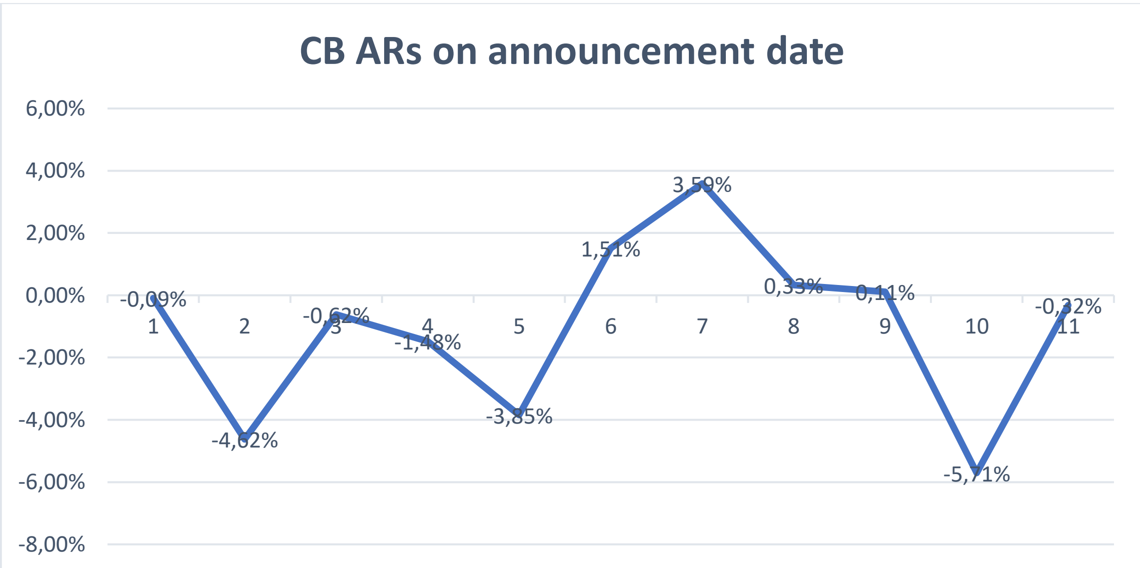


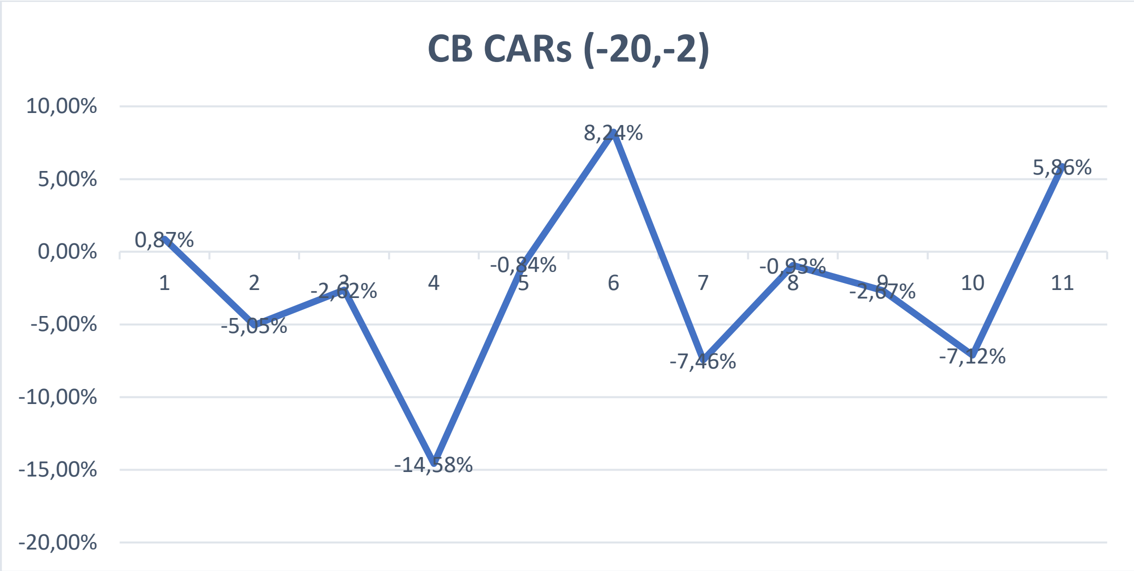
CB CARs (-2,2)
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-2,78%
-0,48%
1,47%
11,20%
-7,05%
-1,65%
-5,25%
2,00%
-0,59%
8,67%
1,77%
1
2
3
4
5
6
7
8
9
10
11

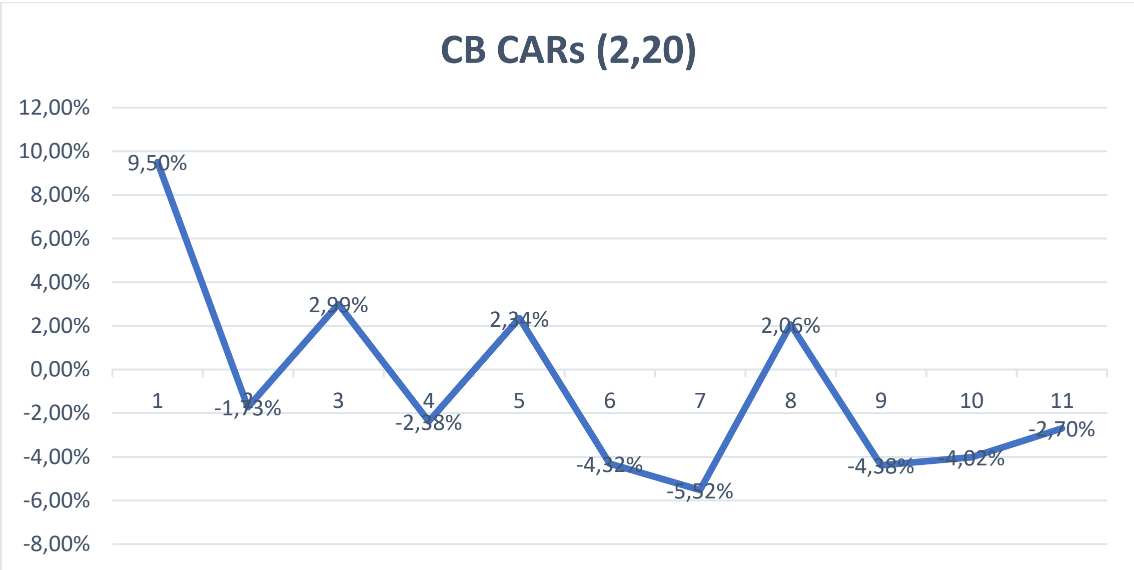


CB CARs (-1,1)
20,00%
15,00%
10,00%
5,00%
0,00%
-5,00%
-10,00%
-2,34%
-0,65%
-0,09%
8,77%
-4,67%
1,86%
-3,05%
1,47%
-0,76%
15,56%
0,82%
1
2
3
4
5
6
7
8
9
10
11



CB ARs on announcement date
6,00%
4,00%
2,00%
0,00%
-2,00%
-4,00%
-6,00%
-8,00%
-0,09%
-4,62%
-0,62%
-1,48%
-3,85%
1,51%
3,59%
0,33%
0,11%
-5,71%
-0,32%
1
2
3
4
5
6
7
8
9
10
11





Again, as it is expected, there are many differences in the cumulative abnormal returns of the different companies considered, even if it seems that these differences are fewer than the ones in the domestic results but probably that is due to the fact the cross-border sample selected is smaller than the domestic ones.

All of the event windows considered witness high differences besides the smaller one around the announcement window, (-1,1), in which is basically present only one outlier that had a great performance.

5. Conclusions

With businesses purchasing targets all over the world, the significance of cross-border M&As has grown over the years. To determine whether expanding internationally results in companies performing better than when they acquire domestically, this phenomenon needs to be further examined and investigated.

As a result, the purpose of this thesis is to examine and investigate cross-border M&As in a way that can help us determine whether they are superior to or inferior to domestic M&As. However, since it is well known that the return to the shareholders of the acquired company is positive and high, as it is linked to the bid premium that the acquiring company has to pay to "secure" the purchase of that target, it is, on the other hand, much more controversial and uncertain whether the shareholders of the acquiring company also receive a positive return on their stake. For this reason, this thesis has examined only the bidder company side, both from a domestic and cross-border perspective.

In order to achieve the purpose of the study I have conducted an event study by employing the market model method and employing a sample consisting of 34 M&A deals including 23 domestic deals and 11 cross-border deals.

Eight different event windows are used to conduct the examination around the announcement date, six of them event windows around the announcement date, i.e. event windows that begin before the event date and end after the event date, and are (-40,40), (-20,20), (-10,10), (-5,5), (-2,2), and (-1,1). After that also the average abnormal return on the announcement day has been taken into consideration; moreover, a pre-event window (-20,-2) and a post-event window (2,20) have also been examined.

Insignificant changes in the returns to shareholders of acquiring firms engaged in domestic and international acquisitions are evident in the majority of results across all event windows. More in detail, the results obtained for the domestic sample show a significant increase (+2,55%) in the cumulative average abnormal return over the (-20,-2) suggesting a price run-up in the period preceding the announcement of the M&A deal, while all the other event windows show insignificant changes in the cumulative average abnormal returns and the results are mixed based on the event windows considered; more specifically, the event windows (-20,20), (-5,5), (-1,1), and (0) show an increase in the CAARs while the event windows (-40,40), (-10,10), (-2,2), and (2,20) show a decrease in the cumulative average abnormal returns for the shareholders of the acquiring firms.

On the other hand, the cross-border computations show three different event windows that have a significant change in the cumulative average abnormal returns for the shareholders of the acquiring firm; more in detail, the event windows (-20,20), (-10,10), and (-20,-2) show a significant decrease in the change of the CAARs for the bidding company.

Moreover, all the other event windows, although insignificant, report a decrease in the cumulative average abnormal returns for acquiring firms' shareholders who engaged in a cross-border M&A deal.

The study's findings generally corroborate earlier research on the returns to shareholders of acquirer firms, which came to the conclusion that acquirers typically experience negative returns to shareholders in cross-border deals but slightly positive returns to shareholders in domestic M&A deals.

In any case, in the study I conducted, it is quite evident how acquiring companies that undertake domestic M&A transactions achieve higher equity returns than acquiring companies that are involved in cross-border transactions.

However, this is not to say that cross-border transactions lead to the destruction of a company's value.

As I explained in Chapter Two, a company that decides to expand into other nations through the acquisition of companies in that territory has a whole range of motivations and advantages even if it nevertheless encounters various challenges and obstacles.

Having said that, I believe that in most cases, it is essential for a company to undertake this type of operation in order to expand its business and turnover more and more, the fact that the market reaction resulting from such operations is negative is logical, as instead of remunerating its shareholders through dividend payments or through buyback plans the company chooses to take advantage of its excess cash to acquire other entities, which is a choice that will remunerate shareholders in the long run.

So, to conclude, this study could be implemented by taking a look at the operational performance that the companies I have considered will have in the next 3-5 years since as of today it cannot yet be extrapolated since these operations are too recent to already have an integrated effect in the financial statements.

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