

**PERFORMANCE OF CROSS-BORDER ACQUISITIONS:  
EMPIRICAL EVIDENCE FROM CANADIAN FIRMS  
ACQUIRED BY EMERGING COUNTRIES**

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## **Abstract**

An increasing number of enterprises from the emerging market countries have become active in cross-border acquisition activities since 2000. Canada is influenced by this emerging countries M&As (mergers and acquisitions) wave. More and more Canadian firms are acquired by emerging country investors so it is necessary to conduct a study on the performance of these M&As. Using the short-term window event study, I analyze security prices of Canadian listed firms acquired by emerging countries from 2000 to 2016. After calculating the abnormal return and cumulative abnormal return of target firms I find that the abnormal return on the event day is about +10.3% and the cumulative abnormal return for 11 days is about +10.55%. The finding indicates that in the short term, the performance of Canadian firms which are acquired by emerging countries is positive. Technology and mineral firms have significantly positive abnormal return on day 0 while energy firms only have small abnormal return at the same time.

**Keywords:** Cross-border acquisition, M&As, Emerging countries, Corporate performance

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## 1. Introduction

According to the World Investment Report by the United Nations in 2016, global foreign direct investment (FDI) rose rapidly by 38 percent to \$1.76 trillion in 2015, which is the highest level since the financial crisis of 2007-2009. In 2014, a surge in cross-border mergers and acquisitions (M&As) to \$721 billion from \$432 billion<sup>1</sup> was the principal factor behind the global rebound. Meanwhile, an increasing number of enterprises from the emerging market countries have become active in cross-border acquisition activities since 2000. In 2015, China, the Republic of Korea, Singapore and Hong Kong made up three quarters of total outflows from developing Asia. Outward investment from China rose by about four percent to \$128 billion. As a result, China, after the United States and Japan, remained the third-largest investing country worldwide. In Latin America, outward FDI in Brazil rose a surprisingly strong 38 percent while in Chile it rose 31 percent. These figures show that there are many rapidly internationalizing firms from emerging countries becoming a permanent, sizeable and rising feature of the world economy (OECD, 2006).

Canada is also influenced by this emerging countries M&As wave. From table 1 we can see that although more than half of inflows to Canada were from the United States, the assets owned by emerging countries are growing continuously. More and more famous Canadian firms are acquired by emerging country investors. For example, Tim Hortons merged in 2014 with Burger King, owned by Brazilian private equity firm 3G Capital. Canadian energy firms are widely purchased by emerging countries. China National Offshore Oil Corporation (CNOOC), China's third-largest national oil company, purchased Nexen, Canada's ninth-largest oil company for \$15.1 billion in 2012.

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<sup>1</sup> <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1555>

Considering the upward trend of acquisitions by emerging countries, it is necessary to study the performance of these M&As.

A significant problem in the acquisition performance study is how to measure performance. There are several methods used by previous researchers, such as the short-term window event study, the long-term window event study, subjective performance measure and accounting performance. In this paper, I use the short-term window event study. There are several reasons why I use this method. It is widely used by most researchers when they study firms' performance and it is easy to get the data publicly, which makes it possible to study a large number of mergers. Also, data is not subjected to the industry sensitivity, which means cross-section firms could be studied.

The data in this paper come from several different sources. With the help of Innovation, Science and Economic Development Canada, I obtained the name list of Canadian firms acquired by emerging countries. After identifying listed firms in the name list, I determined the event date when acquisitions are announced using the website *Marketwired*.<sup>1</sup> Last but not least, the security prices of the target firms and S&P/TSX or NYSE Composite Index are found on *Yahoo Finance*<sup>2</sup> and *Google Finance*.<sup>3</sup> After analyzing the data, I found that the number of acquisitions by emerging country acquirers increases rapidly after the financial crisis while most bidders come from Asia. The industries of target firm become more diversified while each country has its own preference. With the market model (M&M), I calculated the abnormal return and cumulative abnormal return of target firms. The results show that the abnormal return on event day (day 0) is about +10.3% and the

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<sup>1</sup> <http://www.marketwired.com/>

<sup>2</sup> <https://ca.finance.yahoo.com/>

<sup>3</sup> <https://www.google.ca/finance?hl=en&gl=ca>

cumulative abnormal return for 11 days (-5, +5) is about +10.55%. This indicates that in the short term, the performance of Canadian firms which are acquired by emerging countries is positive. Technology and mineral firms have significantly positive abnormal return on day 0 while energy firms only have small abnormal return at the same time.

The rest of the paper is organized as follows. Section 2 is the literature review which summarizes the previous research on the acquisition performance and some features of emerging country acquirers. Section 3 introduces the method which I use to measure the acquisition performance and calculate the abnormal return. Section 4 shows the data collecting steps and analyzes the data. Section 5 demonstrates the empirical results after conducting the market model. Section 6 concludes.

## **2. Literature Review**

Although the number of articles which study emerging-market acquirers is not as large as that for developed-market acquirers, the rise of emerging countries in M&As has received more attention from scholars.

### **2.1 Different motives for M&As**

There are a number of papers which examine the multi-nationalization motives of emerging country firms. Obviously, different firms have different motives for M&As and emerging market acquirers have some motives which differ from the way M&As are traditionally pursued.

Firstly, the typical western model of international expansion is that the firm possesses the related knowledge and technology it needs to meet the need of the foreign markets, and

the cross-border acquisition is undertaken in order to exploit ownership advantages (Dunning, 1988). Acquirers in developed countries usually pursue a merger to create growth opportunities and cut costs (Juergen and Joachim, 2008:5). These companies usually focus on low-cost environments for manufacturing and sourcing. The aim of cross-border acquisition is to establish or broaden the presence in high-growth markets. Therefore, acquirers in developed countries are constantly on the lookout for acquisitions with growth prospects.

Moreover, several other hypotheses have been identified that can explain the causes of cross-border M&As in developed countries. Rhodes-Kropf et al. (2005) view that overall mergers and acquisitions are an outcome of difference in valuation of assets by different economic agents. They state that the overvalued firms should become the acquirer and the undervalued firms should become the target. Based on this hypothesis, Trautwein (1990) argues that if there is information asymmetry or economic shock during the acquisition, then a firm may be acquired by other firms because it is undervalued and there is valuation difference between them. Roll (1986) states the hubris hypothesis that managers of acquirers will be so over-confident about their estimation that they overvalue target firms. The hubris hypothesis occurs in the merger activity due to asymmetric information between the bidder and the target firm (Seth et al., 2000). Since cross-border merger belongs to foreign direct investment (FDI), the foreign exchange rate and its fluctuation can affect the FDI flow. Scholes and Wolfson (1990) have found support in favour of the exchange rate hypothesis that buyers will purchase target firms when their currency is strong against the host currency. The firm from the appreciating currency country will be an acquirer and the firm from the depreciating currency country is a target. Senbet (1979) contends the tax

arbitrage hypothesis that under different tax policies, if the foreign tax rate is lower than the domestic rate, the value of the firm will be positively influenced. Also, some scholars argue that the cross-border merger and acquisition may be undertaken just for a purely strategic rather than a value-creation purpose (Wilson, 1980; Caves, 1990; Hill et al. 1990; Schenk, 2000).

For emerging-market firms, cross-border acquisitions are a primary mode of investment for many emerging-market multinational enterprises (MNEs) to enter developed country markets (Yamakawa et al., 2013). David et al. (2015) analyze more than 1000 cross-border acquisitions by emerging-market companies (Brazil, China, Egypt, Hong Kong, India, Mexico, Peru, Philippines, Republic of Korea, Russia, Thailand, United Arab Emirates, etc.) and they categorize these companies by the most common motives of acquisition. They conclude that the main motive that emerging-market companies reach across border is to fill capability gaps caused by limited access to strategic resources, for example, intangible assets like management capabilities (Figure 1). They also show that, over the long term, only about a third of M&A deals made by multinational companies headquartered in emerging-markets have been made to enter new markets, acquire natural resources and improve efficiency, just like firms in developed countries do.

After examining motives and performance of cross-border mergers and acquisitions in China, Boateng et al. (2008) find that diversification and international expansion is the dominant motive for Chinese firms. Not only the Chinese firm, but firms from other emerging markets would like to make the acquisition motivated by vertical expansion and the desire to enter into previously inaccessible markets (Pradhan, 2010). Meanwhile, Nayyar (2008) examines cross-border M&As by Indian firms and he finds that the mergers

of Indian firms is driven by two factors: the greater access to financial markets and the liberalization of the policy.

Lower institutional constraints also affect outward M&As by Chinese firms, because they tend to gain strategic capabilities to offset competitive disadvantage and target countries have better institutional quality (Rui and Yip, 2008; Deng, 2009; Ebbers et al., 2011).

## **2.2 The role of the government**

The government of the emerging-market plays an important role in the process of cross-border acquisitions. Governments of emerging countries are eager to enter established markets and grab a share of economic power. We can see that the cross-border M&As by the government-controlled firms have drawn much attention in the media. Andrew and Rose (2009) find that there are over \$230 billion across 886 cross-border M&A deals related to government-controlled entities as acquirers in 2007 and 2008. As discussed in section 2.1, to acquire natural resources is one of the main motives of the cross-border M&As for emerging markets. Often, state-owned enterprises are natural-resource seekers and some well-known landmark transactions of this type include Brazilian metals and mining company Vale acquiring Canadian mining company Inco in 2006 and Chinese oil and gas company Sinopec merging with the large Russian oil firm Udmurtneft that same year (David et al., 2015). Andrew and Rose (2009) show some evidence that government-controlled firms are more likely to acquire larger target firms, like the natural-resource firms, especially when sovereign wealth funds (SWFs) are involved.

Policy changes are the key point in the wake of globalization of firms in emerging-markets. Emerging countries or markets, like China and India, have taken a positive attitude towards the internationalization trend. India experienced rapid growth in outwards FDIs between 2000 and 2007 after the liberalization of the policy regime by the government (Duppati & Rao, 2015). This is mainly because the policy change removed the shackles which prevented domestic firms from cross-border merging. The Chinese government also made the change in the year 1999, initiating the “going global” policy to promote Chinese investments abroad. The assistances from the Chinese government are in the form of access to inexpensive financing, research and policy support (Guo, 2014). Sometimes, the government of an emerging country is not only a supporter for their firms’ cross-border merger, but also an active investor via control of the state-owned enterprises (SOEs), which means governments represent the largest shareholder in the acquiring firms (Chen and Young, 2010). Based on the research of 450 cross-border M&As in China, Guo (2014) concludes that Chinese SOEs are willing to pay higher premiums compared to the non-SOEs. The high acquisition premium means a danger for the acquiring firm’s value, since the “overpayment” should be achieved to sustain the acquired firm’s market value (Sirower, 1997).

Why do the SOEs in emerging markets offer higher premium to acquire assets in developed countries? A recent study by Hope et al. (2011) shows that the reason is the “national pride”. Since there is “overpayment”, many observers have expressed their concern that the rise of cross-border M&As by SOEs would bring an equivalent rise in inefficient multinational enterprise activities (Guo, 2014). However, inefficiency is not the only concern for the SOEs cross-border merger, but also national security. According to a

survey by the Asia Pacific Foundation of Canada, Canadians don't trust the SOEs from emerging-markets and they opposed the acquisition by SOEs. Based on the report from Asia Pacific Foundation of Canada, Hemmadi (2014) points out that Canadians tend to accept investment from state-owned firms controlled by traditional western countries but not from those controlled by emerging countries. And these worries about security issues will also push down the support for economic engagement with emerging countries.

### **2.3 Acquiring and target firms' performance**

No matter what motive the firm has or whether it is a SOE or not, it should pursue good financial and operating performance. It has been years that the study of mergers and acquisitions (M&As) performance has become part of organizational behavior literature, corporate finance and strategic management (Zollo and Meier, 2008). Some researchers state that only about 20 percent of all mergers could be successful in the end and most mergers fail to achieve any financial returns (Grubb and Lamb, 2000). Specifically, based on the study of cross-border M&As from 75 nations, Mantecon (2009) finds that a total of \$187 billion was lost for the shareholders of the purchasing firms in three days around the M&A announcement date. Before I discuss the performance of the cross-border M&As, how should I define a "successful" merger? Bruner (2002) gives three possible outcomes of merger:

- Value conserved, where investment returns equal the required returns. This does not mean the merger is a failure. For example, when an investor requires a return of 20%, he will get it if the value is conserved. In a nutshell, the investor earns the "normal" return which is good.

- Value created, where investment returns exceed the required returns. The wealth will grow higher than the investor's expectation.

- Value destroyed, where investment returns are less than required.

Referring to this definition, Aybar and Ficici (2006) state that on average, cross-border mergers of firms from emerging markets are value-destructing rather than value-creating after analyzing 433 cross-border M&As associated with 58 bidding firms from 1991 to 2004. Boateng et al. (2008) and Chen and Young (2010) focus on the cross-border M&As by Chinese firms and they each have different conclusions. Based on a study of only 27 acquisitions during 2000 to 2004, Boateng et al. find that those cross-border M&As by Chinese publicly-listed firms are value-creating mergers. Meanwhile, after studying only 39 acquisitions during 2000 to 2008, Chen and Young find that cross-border M&As by Chinese government owned firms tend to destroy value. Analyzing 425 cross-border M&As by Indian firms during 2000 to 2007, Gubbi et al. (2010) find that these international acquisitions create value for the acquiring firms. Moreover, they show that the institutional advancement of the host country where the acquisition is made is positively correlated with the performance of the M&As. Kohli and Mann (2012) also analyze 202 cross-border and 66 domestic acquisitions by Indian firms. They find that domestic mergers and acquisitions create less wealth gains than cross-border ones. Bertrand and Betschinger (2012) study the 120 cross-border and 600 domestic M&As in Russia, concluding that domestic and cross-border M&As reduce the performance of acquirers and destroy value. Du and Boateng (2012) summarize the related literature and find that the majority of the studies about cross-border mergers and acquisitions in emerging markets report positive returns for acquiring firms (value creation) and only a few find evidence of value destruction.

Some researchers have tried to find what factors affect cross-border M&As. Based on a study of cross-border mergers and acquisitions in the Eastern and Central Europe energy market, Bednarczyk et al. (2010) find that short-term returns of targets are negatively by diversification bids and positively affected by related bids. Gubbi et al. (2010) find that performance is related to the host country's institutional development compared to the home country. As discussed in section 2.2, cross-border mergers and acquisitions by government controlled firms would bring an equivalent rise in inefficient multinational enterprise activities (Guo, 2014). Wright et al. (2002) also examine the effect of ownership on the valuation of acquisitions. Some other factors, like payment type (King et al., 2004), firm size (Moeller et al., 2004) and prior acquisition experience (Haleblian and Finkelstein, 1999) may also influence the performance of cross-border acquisition.

Most literature on cross-border M&As performance of Canadian firms focus on Canadian and other developed country acquirers. Eckbo and Thorburn (2000) analyze a large sample of U.S. acquirers in Canada and find that bidders from U.S. earn statistically insignificant abnormal returns. They also show that the most profitable acquisitions are those where acquirer and target have similar total equity sizes. Andre et al. (2004) study 267 mergers during 1980 to 2000, analyze the average long-run abnormal performance and find that in most cases Canadian acquirers underperform significantly over the period after the event, while cross-border mergers perform poorly in the long run. When Canadian companies acquire European firms, the success rate is only 17 percent while the rate is 67 percent for acquisitions in the U.S., which means Canadian firms perform well when they understand the market and business culture (Smith and Liu, 1999).

In sections 3 and 4, I introduce the method which is used to measure the performance, the data collecting steps and analysis of results.

### **3. Methodology**

#### **3.1 Overview**

Despite the massive amount of research done, there is little agreement across the disciplines on how to measure acquisition performance. Different methods are used in different researches. In this paper, I will choose the short-term window event study method. An Event study is a statistical method to assess the impact of an event on the value of a firm. The short-term window event study method is designed to measure the abnormal stock price change related to an unexpected event such as the announcement of M&As, allowing researchers to conclude whether an event had a positive or negative effect on shareholder wealth. The event window is the period over which the effect of the event will be measured. The “short-term” means the analysis is ex-ante, which could help to predict the future profitability.

There are several reasons why I choose this method. First, this method is widely used by most researchers when they study the firms’ performance and it has become standard in evaluating the stock price reaction to a specific event. Zollo and Meier (2008) review 88 articles about M&As performance published in top finance journals between 1970 and 2006. They find that the short-term window event study is the most broadly applied method (41% of total articles). The long-term accounting method (28% of the total) comes second, long-term window event study is third (19% of the total). The second reason to choose this method is that it is easy to get the data, which makes it possible to study a large number of

mergers. Last but not least, since the abnormal return is calculated, data is not subjected to the industry sensitivity, which means cross-section firms can be studied.

### **3.2 Assumptions**

The application of the short-term window event study is based on several assumptions. The most important assumption is that the market is efficient. An informationally efficient market is one in which the current price of a security fully, quickly and rationally reflects all available information about that security.<sup>1</sup> In an efficient market, information such as the announcement of M&A will have an effect on the price of the stock. In this paper, most firms are listed on the Toronto Stock Exchange (TSX) and several are listed on the New York Stock Exchange (NYSE). After comparing the primary and secondary market efficiency of the Toronto and New York stock exchanges, Robinson and White (1991) find that Canadian stock markets seem to be reasonably efficient in comparison with those of the U.S.. Secondly, the event under study is unanticipated, which means the market price should not be affected by the release of information that is well anticipated. In the third place, there is no “confounding” effect during the window event (Wang and Moini, 2012). Under these assumptions, abnormal returns (ARs) are used to measure short-term performance.

### **3.3 Market Model**

There are many models used by researchers to measure the abnormal returns when they do the short-term event study. Some broadly applied methods are Market Model (M&M,

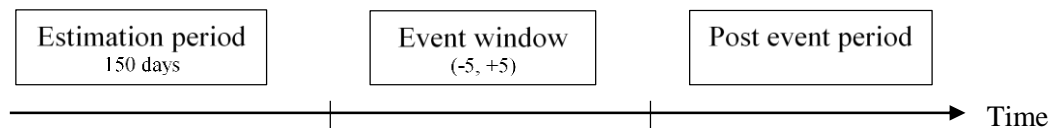
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<sup>1</sup> <http://www.investopedia.com/terms/e/efficientmarkethypothesis.asp>

Sharpe, 1963), Market-adjusted Model, Capital Asset Pricing Model (CAPM), and Fama–French Three-factor Model (Fama and French, 1993). In my paper I use the Market Model to calculate the abnormal returns of the target firms.

Briefly, the method is as follows: First, define the event and the window,<sup>1</sup> then determine the estimation period prior to the event window. Based on the estimation period result, the method estimates the expected normal return for the event window with the market model. Thereafter, the method deducts this 'normal return' from the 'actual return' to obtain the 'abnormal return' attributed to the event.

In this paper, the event is defined as the announcement day of the merger, abbreviated “0” and the event window includes 11 trading days symmetrically surrounding the identified event day, abbreviated (-5, +5). Then I determine the length of the estimation period as 150 days, which is the period of trading days (before the event date) that is used to estimate the expected return. The timeline is shown below.



After collecting the target stock price data, I calculate the daily returns of both individual share price and market index data. Then, the market model (M&M) is introduced to calculate the expected return of the stock. The definition of the market model from NASDAQ is that “The market model says that the return on a security depends on the return on the market portfolio and the extent of the security's responsiveness as measured by beta”.<sup>2</sup> This model assumes a linear relationship between the return of the market

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<sup>1</sup> The event window is the period of trading days over which I want to calculate abnormal returns.

<sup>2</sup> <http://www.nasdaq.com/investing/glossary/m/market-model>

portfolio and the return of a security. Here I define the following equation for each security  $i$ :

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

$R_{it}$  is the return on security  $i$  at time  $t$  and  $R_{mt}$  is the return on the market portfolio during time  $t$ . Under the assumption of linearity and normality of returns,  $\varepsilon_{it}$  is the random error term for security  $i$  at time  $t$ . The return on the market portfolio  $R_{mt}$  is calculated from the indices of the Toronto Stock Exchange (S&P/TSX Composite Index, S&P/TSX Venture Composite Index) and the New York Stock Exchange (NYSE Composite Index).  $\alpha_i$  and  $\beta_i$  are the two parameter estimates in the estimation period given by equations (2) and (3) below.

$$\beta_i = \frac{\sum_{i=1}^n (R_{mt} - \bar{R}_m)(R_{it} - \bar{R}_i)}{\sum_{i=1}^n (R_{mt} - \bar{R}_m)^2} \quad (2)$$

$$\alpha_i = \bar{R}_i - \beta_i \bar{R}_m \quad (3)$$

$\alpha_i$  means the intercept of the regression line and stands for the risk free rate.  $\beta_i$  is the slope coefficient of the regression line and stands for systematic risk. After I get  $\alpha_i$  and  $\beta_i$ , the expected return  $E(R_{it})$  of the target firm can be calculated with equation (1).<sup>1</sup> The next step is to calculate the daily abnormal return of the share price during the event window.

The equation is:

$$AR_{it} = R_{it} - E(R_{it}) \quad (4)$$

$AR_{it}$  is the abnormal daily return on security  $i$  in the window period, which equals the actual daily return  $R_{it}$  minus the expected return  $E(R_{it})$ . Furthermore, cumulative

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<sup>1</sup> The expected value of the error term equals zero.

abnormal returns (CAR) are calculated by summing the average AR for the days of the event window:

$$CAR_{it} = \sum_{i=1}^n AR_{it} \quad (5)$$

Also, we want to know whether the CAR is caused by the fluctuation of share prices or by other reasons. The t-test is necessary to check the statistical significance of the CARs. The basic method is to see whether the final value generated from the significance test is located in the acceptance region.

## **4. Data**

### **4.1 Data collection**

Since there is no direct outcome data available describing firms which are merged by emerging countries, I collected the related data using the following steps.

(1) Find the name list of the Canadian firms acquired by the emerging countries. With the help of Innovation, Science and Economic Development Canada, I obtained the list of “Completed Applications for Review and Notifications”.<sup>1</sup> This database shows a list of completed decisions and/or notifications of investments by non-Canadians in Canada sorted by month from 1985 until November 2016. It contains only the information which may be disclosed under the Investment Canada Act, namely the name of the investors and their location, the name of the business being acquired or established and its location, and a description of the business activities of the Canadian business. According to the information provided by Innovation, Science and Economic Development Canada, foreign investments are divided into three categories:

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<sup>1</sup> [https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/h\\_lk00014.html](https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/h_lk00014.html)

- “Decisions” refers to an investment in Canada by a non-Canadian, where the investment results in the non-Canadian acquiring control of an existing business in Canada and the value of the investment exceeds the relevant monetary threshold (e.g. \$600 million for a WTO, private sector investment). Therefore, the Minister must make a decision regarding them.

- “Notifications – Acquisitions” refers to an investment in Canada by a non-Canadian, where the non-Canadian acquires control of an existing business in Canada and the value is below the relevant monetary threshold. Compared with the “Decisions”, these investments do not require any approvals - the investor simply has to notify the government that the investment occurred.

- “Notifications – New Business” refers to an investment where a non-Canadian starts a new business in Canada.

Since the acquisitions are what I’m looking for, “Decisions” and “Notifications – Acquisitions” were reviewed for the qualified data.

(2) Determine which countries are qualified for the “emerging countries (markets)”. In this paper, the definition of “emerging countries (markets)” is based on the market classification by MSCI.<sup>1</sup> MSCI is an independent provider of research-driven insights and tools for institutional investors. It has deep expertise in the areas of risk and performance measurement that is based on more than 40 years of academic research and real-world experience. According to the MSCI market classification, the acquisitions whose investors are emerging countries/markets were screened out. I chose the data between 2000 and 2016 because there are few Canadian firms acquired by emerging countries/markets before 2000.

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<sup>1</sup> <https://www.msci.com/market-classification>

In some cases, the data shows the origin of the firms are emerging countries/markets but they are registered in developed countries, I regard them as an emerging countries/market acquirer.

(3) Find whether the target firm is listed on the Toronto Stock Exchange (TSX) or the New York Stock Exchange. I typed in the name of a firm and searched for the related record in the exchange website. This is a time-consuming process but is necessary. Most target firms acquired by emerging countries/markets are small and are not listed on the exchange.

(4) Identify the exact event date. If the event was announced on a non-trading day, the next trading day is the correct event day to choose. The event day is defined as the announcement day of the acquisition. Based on the result from step (3), the event date is easier to identify because corporate events such as acquisition or actions of investors in the capital market must be announced publicly. In some cases, investor information is accessible through the website of the firm while some acquisition announcement can be found on the *Marketwired* website. *Marketwired* is part of NASDAQ and it provides news release distribution and a full range of communication solutions to public relations, investor relations and marketing professionals. I searched for names of the target firms in the “Newsroom”<sup>1</sup> and found which news are related to the acquisition announcement. As a result of the lack of the information, I identified the exact event date of 4/5 of the listed firms.

(5) Collect the data of the security prices of the target firms and S&P/TSX or NYSE Composite Index. The security prices I use in this event study are closing prices. The data

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<sup>1</sup> [http://www.marketwired.com/news\\_room/](http://www.marketwired.com/news_room/)

sources where I collected the historical security prices of the target firms are Yahoo Finance and Google Finance. Some target firms are delisted from the stock exchange, which means that it is difficult to get their historical prices publicly; these are only available from paid sources due to the amount of research involved in determining the identity of delisted securities, surviving entities in merger scenarios, company name changes, symbol changes and to ensure that the data coverage is complete. Many stocks that are delisted from a major exchange due to financial difficulties are still publicly tradeable companies with their shares continuing to trade as Over the Counter (OTC). Some large companies even have periods where they traded for a period of their history as OTC. All historical stock prices of listed and OTC firms could be found on Yahoo Finance or Google Finance websites. The length of the estimation period is determined as 150 days, which is the period of trading days before the event date and the event window is 11 days. Therefore, the data of the security prices of the target firms and S&P/TSX or NYSE Composite Index is collected for at least 170 trade days for each firm.

The next step is to analysis the data as well as to conduct the event study.

## **4.2 Data analysis**

Based on the information given on the webpage “Completed Applications for Review and Notifications” by Innovation, Science and Economic Development Canada, I obtained 533 qualified M&A instances and summarized the data in five categories: time, name of investor, name of target, industry of target firm, and country of origin of the investor. In the first place, the time trend is showed in figures 2 and 3. From figure 2 we can see an upward trend from 2000 to 2016 and there is a rapid growth after 2009. The year 2008 is

critical, because the 2008 financial crisis is the worst financial crisis since the Great Depression. Also, this year makes a difference when I analyze the acquisition of Canadian firms by emerging country/market bidders. In figure 3 we can see how the economy growth rate changes in advanced and emerging countries before and after the 2008 financial crisis. Although the world had a bad experience after the crisis, it is obvious that emerging countries performance better than advanced countries. Then it is not surprising when figure 4 shows that during the period 2000 to 2016, the M&As after 2007 represent about 70% of all the mergers. Some big acquisitions were widely reported by the media such as when China National Offshore Oil Corporation (CNOOC), China's third-largest national oil company, purchased Nexen, Canada's ninth-largest oil company for \$15.1 billion in 2012, and when Tim Hortons merged in 2014 with Burger King, owned by Brazilian private equity firm 3G Capital.

Secondly, I ranked numbers of M&As by countries from largest to smallest. As figure 5 shows, Hong Kong,<sup>1</sup> China and Korea take the top three places. Most countries are Asian countries. Brazil, South Africa and Mexico take the fifth to seventh places, all having the same acquisition number. There are some other emerging country/market acquirers purchasing Canadian firms, such as Russia, Peru, Saudi Arabia, Philippines, Poland, etc. Before 2008, most emerging country acquirers are from Hong Kong and Middle Eastern countries. The purchases of Canadian firms by Chinese, Korean and Indian bidders start to increase rapidly after the financial crisis. This is partly because economic growth is higher in these countries compared with developed countries during the financial crisis. Some

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<sup>1</sup> In the MSCI market classification, Hong Kong is listed in the developed market. However, the transfer of sovereignty over Hong Kong from the United Kingdom to China took place in 1997, which is the year before 2000 and many Hong Kong firms are subsidiaries of companies in mainland China. Therefore, Hong Kong is regarded as the emerging market in this paper.

other reasons such as to enter new markets, to acquire natural resources and to improve efficiency can also motivate the acquisition as discussed above.

In third place, I focused on the analysis of the industry of target firms and summarized three categories together. Figure 6 shows the industry distribution of target firms. Almost one third of the target Canadian firms belong to the energy industry which is oil and natural gas. This fact is not surprising since Canada is the fifth largest energy producer in the world<sup>1</sup> and oil prices decreased more than 70 percent after June 2008, which is a disaster for energy firms. Technology is in second place, which includes information technology, biological technology, pharmaceutical and chemistry. According to 2014 Canadian ICT Sector Profile by Innovation, Science and Economic Development Canada, there are over 36,000 companies in the Canadian Information and Communications Technologies (ICT) sector and it plays an important role in the Canadian economy. Since 2007, the ICT sector has posted stronger growth than the total economy. ICT sector growth was slightly ahead of the overall economy in 2014. The sector increased by 2.7%, compared to 2.5% for the total Canadian economy.<sup>2</sup> The acquisitions of technology firms show that emerging countries/markets want to acquire strategic assets and invisible wealth through cross-border M&As. Some other industries such as tourism including hotels, educational services and real estate attracted the attention of emerging countries bidders in recent years.

When I analyzed “country” and “industry” together, I found it interesting that different countries have different preferences. The top buyers for energy firms are China, Hong Kong, Korea and Malaysia. Most bidder firms are state-owned companies such as China

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<sup>1</sup> According to Natural Resources Canada, the energy sector in 2007 contributed 5.6% to GDP and \$90 billion in exports.

<sup>2</sup> [https://www.ic.gc.ca/eic/site/ict-tic.nsf/eng/h\\_it07229.html](https://www.ic.gc.ca/eic/site/ict-tic.nsf/eng/h_it07229.html)

National Offshore Oil Corporation, Korea National Oil Corporation and Petroleum Nasional Berhad (Malaysia). In these acquisitions, emerging country bidders focus on the highly developed infrastructure owned by Canadian companies as well as the petroleum reserves and most target firms are located in British Columbia and Alberta. Indian acquirers prefer to purchase technology firms, especially some research firms and information technology companies. Bidders from Latin America have diversified preference. Brazilian and Mexican firms would like to buy manufacture firms while Chilean and Peruvian firms prefer natural resources. Russian and Polish firms also choose to purchase energy firms and natural resources.

Overall, the number of acquisitions by emerging country acquirers increased rapidly after the financial crisis while most bidders come from Asia. The industries of target firms become more diversified while each country has its own preference. In the next section, I conduct the event study and show the empirical results.

## **5. Empirical Results**

After collecting the security prices data, I obtained 35 qualified target firms are listed on the Toronto Stock Exchange (TSX) or the New York Stock Exchange. I calculated the abnormal return and cumulative abnormal return using the market model. The results show that the abnormal return on event day (day 0) is about +10.3% and the cumulative abnormal return for 11 days (-5, +5) is about +10.55%.

### **5.1 Overview**

Table 2 shows the abnormal return of target firms from day -5 to day +5. We can see that the average abnormal return is positive 10.3% and the median is positive 0.8% on day

0 which means most firms will gain positive return when acquisitions are announced. The minimum abnormal return on day 0 is negative 16.25% and the maximum abnormal return is positive 94.2% which means there are big differences for different firms and not all firms can benefit from the announcement of acquisitions. The column “average” shows that firms get the highest abnormal return on day 0 and do not gain big abnormal return after the event day. From day 1 to day 5, average and median abnormal returns are very close to 0, which shows that the security price comes back to normal after the announcement day. When we take a look at the standard deviation column, the value on day 0 is still the highest. This proves that there is a big abnormal return difference for different firms. For example, Tim Hortons was acquired by Burger King which is majority-owned by the Brazilian firm 3G Capital in 2014. On the event day August 24<sup>th</sup> when Burger King announced that it was in negotiations to merge with Tim Hortons for 18 billion U.S. dollar, the abnormal return is 18.57% (t-test 17.2864, significant at 0.01 level) which is a good return. Meanwhile, when the Russian firm Stillwater Mining Company purchased Marathon PGM Corporation on September 7<sup>th</sup> 2010, the abnormal return reaches as high as 94.19% (t-test 18.3876, significant at 0.01 level) which is amazing.

Table 3 shows the cumulative abnormal return of target firms from day -5 to day 5. The average cumulative abnormal return (0.1055) and median cumulative abnormal return (0.0126) remain positive after the announcement day. This shows the positive short-term performance for Canadian firms acquired by emerging countries. However, the minimum cumulative abnormal return is -0.4637 which is below zero, which means there are still some firms losing their value after the announcement. The maximum cumulative abnormal return is 1.6279, which is when Indian Gujarat State Fertilizers and Chemicals Ltd acquired

Karnalyte Resources Inc. in Saskatoon on March 14<sup>th</sup> 2016. The column “standard deviation” shows the obvious cumulative abnormal return change during the event window. From day -5 to day -1, the standard deviation almost remains the same. But after the event day 0, it increases significantly. This indicates that some firms benefit a lot from the merger while some firms lose their value.

Figure 7 summarizes tables 2 and 3 together and makes the result more clear. It shows a significant increase of abnormal return on the event day 0 and day 1 and it is back to normal after day 1. The cumulative abnormal return also increases significantly on day 0 and it stays positive till day 5. As the graph shows, the cumulative abnormal return reaches the maximum at 0.1299 on day 3 and then keeps decreasing after that. Figure 8 also reveals changes of abnormal return and cumulative abnormal return in a more direct way. These figures and graphs show the overview results. In the next part, I focus on the industry relationship with abnormal returns and cumulative abnormal returns.

## **5.2 Industry effect**

Tables 4 to 9 show abnormal returns and cumulative abnormal returns in three different industries. There are 32 of 35 firms in the technology, energy and mining industries so I analyze these three industries separately. Table 4 shows the abnormal returns of target firms in the technology industry. The average abnormal return on day 0 is +0.0978 which is almost equal to the overall return. The median on day 0 is close to 0 and the standard deviation is 0.1612, the performance of technology firms is slightly positive. Column “maximum” shows technology firms could make significantly positive performance from day 0 to day 2. Table 5 indicates that the cumulative abnormal return of technology firms

is positive during the event window (average 0.1721). In summary, investors and target technology firms are glad to see the positive performance in the short term.

Bidders who invest in the energy firms would not like to see the results. The abnormal return in table 6 demonstrates the average abnormal return on day 0 is only 0.0297 which is the lowest among all industries. Even the maximum abnormal return is only 0.1579, just above the overall average. Table 7 reveals that the cumulative abnormal return of energy firms is negative during the event window. The average cumulative abnormal return on day 5 is -0.0692 while the median is -0.0507. These results mean the acquisition brings bad valuation results to target energy firms in the short term.

Table 8 indicates that mineral firms have a really good performance when acquisitions are announced. The average abnormal return is 0.15779 on day 0, which is above that of other industries. The dispersion is significantly large, the minimum value is -0.1625 while the maximum is 0.9419. When we take a look at table 9, the cumulative abnormal return of mineral firms is positive after the announcement day. On day 5, mineral firms can get average 0.1816 positive cumulative abnormal return while energy firms get -0.0693. Therefore, it is a wise choice to acquire technology and mineral firms in the short-term.

## **6. Conclusion**

I conducted a short-term window event study to measure the performance of cross-border acquisitions in which Canadian firms are acquired by emerging countries. After analyzing the data from Innovation, Science and Economic Development Canada, I found that the number of acquisitions by emerging country acquirers increases rapidly after the 2007 financial crisis. Most bidders come from Asian countries/markets (Hong Kong, China,

Korea and India) and Latin America (Mexico and Brazil). The industries of target firms become more diversified while each country has its own preference. The top buyers for Canadian energy firms are China, Hong Kong, Korea and Malaysia. Meanwhile, Indian acquirers prefer to purchase technology firms, especially some research firms and information technology companies Brazilian or Mexican firms tend to buy manufacturing firms while Chilean and Peruvian firms prefer natural resources. With the market model (M&M), I calculated the abnormal return and cumulative abnormal return of target firms. The results show that the abnormal return on event day (day 0) is about +10.3% and the cumulative abnormal return for 11 days (-5, +5) is about +10.55%. This indicates that in the short term, the performance of Canadian firms which are acquired by emerging countries is positive. The abnormal return increases significantly on the event day 0 and day 1 and it is back to normal after day 1. At the same time, the cumulative abnormal return also increases significantly on day 0 and it stays positive till day 5. Then I analyzed results sorted by industry. Technology and mineral firms have significantly positive abnormal return on day 0 while energy firms only have small abnormal return at the same time. The cumulative abnormal return of technology firms is 0.1721 and mineral firms get positive 0.1817 during the event window. However, the cumulative abnormal return of energy firms is negative 0.0692 in the short-term. Obviously, it is wiser to acquire technology and mineral firms which have better performance in the short-term.

It has been eight years since the financial crisis and developed countries are recovering from the Great Depression. According the World Bank annual report, the number of M&As will synchronize with economic growth of the country. Therefore, in the next few years,

there may not be significant increase in the number of acquirers from emerging countries because their economic growth rates are slowing down.

The firm performance studied in this paper is in short-term, specifically, it is 11 days, and the long-term performance is not discussed in this paper because of lack of related data. Although there is a positive performance in the short term, some negative long-term performance has been reported in recent years. For example, the acquisition related to energy firms. Companies that look for oil and gas to extract tend to have more volatile life cycles than most value investors. In 2012, Canadian oil company Nexen which was acquired by China National Offshore Oil Corporation (CNOOC), seems like the worst in a series of bets on oil and gas by China's state-owned firms. They bought tens of billions of dollars in assets world-wide when oil prices were high. However, many of those are worth far less, and Chinese economy is slowing down and has slackened some energy demand. CNOOC reported nearly \$700 million in impairment losses for 2014 that it blamed on operations in North America and the North Sea. Since there are few papers studying the long-term performance of firms acquired by emerging countries, more research is needed in the future on this topic.

**Table 1. Corporations Returns Act (CRA) by Type of Control**

	2010	2011	2012	2013	2014
Foreign controlled enterprises					
\$ millions					
<b>Total</b>					
Assets	1,524,120	1,694,591	1,775,829	1,854,475	1,958,122
Operating revenues	933,284	1,003,394	1,069,894	1,075,323	1,120,569
Operating profits	66,621	78,875	71,133	72,702	78,306
<b>U.S.</b>					
Assets	789,880	833,077	876,588	922,665	969,481
Operating revenues	540,535	558,175	581,911	611,674	622,021
Operating profits	37,911	45,962	41,516	43,763	44,921
<b>E.U.</b>					
Assets	490,718	560,776	559,869	570,834	597,405
Operating revenues	245,488	288,815	303,360	280,196	295,586
Operating profits	17,631	19,877	18,636	18,443	18,912
<b>Others Emerging Countries</b>					
Assets	243,521	300,738	339,372	360,975	391,236
Operating revenues	147,262	156,404	184,623	183,454	202,962
Operating profits	11,080	13,036	10,980	10,496	14,473

Source: Statistics Canada, CANSIM, Table 179-0004 and Catalogue no. 61-220-X.

**Table 2. Abnormal Return Overview**

	Average	Median	Minimum	Maximum	Stand dev
Day5	-0.01308	-0.00402	-0.18216	0.10367	0.04815
Day4	-0.01133	-0.00700	-0.13045	0.11075	0.04571
Day3	0.00243	-0.00892	-0.11941	0.32712	0.08155
Day2	0.00491	-0.00051	-0.35839	0.41525	0.10504
Day1	0.02676	0.00312	-0.37110	0.79583	0.19770
Day0	0.10271	0.00810	-0.16254	0.94194	0.20513
Day-1	-0.00774	-0.00511	-0.15362	0.22439	0.05864
Day-2	-0.01057	-0.00322	-0.17126	0.05548	0.03621
Day-3	0.00488	-0.00229	-0.07365	0.18760	0.04562
Day-4	0.00047	-0.00398	-0.15286	0.19640	0.05317
Day-5	0.00158	-0.00279	-0.20783	0.15377	0.05339

**Table 3. Cumulative Abnormal Return Overview**

	Average	Median	Minimum	Maximum	Stand dev
Day5	0.10551	0.01262	-0.46374	1.62794	0.35883
Day4	0.11859	0.01628	-0.42728	1.63136	0.35405
Day3	0.12992	0.02201	-0.41811	1.58262	0.34628
Day2	0.12299	0.02406	-0.38121	1.69076	0.34569
Day1	0.11809	0.03929	-0.35086	1.27551	0.29781
Day0	0.09133	0.02213	-0.34414	0.92524	0.21927
Day-1	-0.01138	-0.01532	-0.18160	0.17738	0.06702
Day-2	-0.00364	-0.01535	-0.23859	0.14692	0.07071
Day-3	0.00693	-0.00670	-0.23538	0.19231	0.08395
Day-4	0.00205	0.00071	-0.23122	0.18823	0.07107
Day-5	0.00158	-0.00279	-0.20783	0.15377	0.05339

**Table 4. Abnormal Return (Technology Firms)**

	Average	Median	Minimum	Maximum	Stand dev
Day5	-0.01685	0.00061	-0.16385	0.01203	0.05226
Day4	-0.01706	-0.01049	-0.08994	0.04874	0.03879
Day3	-0.02990	-0.01741	-0.10814	0.00182	0.03381
Day2	0.06273	0.01116	-0.01353	0.41525	0.12690
Day1	0.06806	-0.01811	-0.07498	0.79583	0.25884
Day0	0.09786	0.00531	-0.05248	0.41569	0.16126
Day-1	-0.01553	-0.00597	-0.10769	0.02838	0.03886
Day-2	-0.00582	-0.00531	-0.04806	0.02796	0.01850
Day-3	0.01110	0.00985	-0.01868	0.04597	0.01767
Day-4	-0.00641	0.00493	-0.15286	0.04454	0.05673
Day-5	0.02397	0.00166	-0.00171	0.15377	0.04705

**Table 5. Cumulative Abnormal Return (Technology Firms)**

	Average	Median	Minimum	Maximum	Stand dev
Day5	0.17214	0.01369	-0.29014	1.62794	0.52806
Day4	0.18900	0.01971	-0.30217	1.63136	0.52881
Day3	0.20606	0.01983	-0.21223	1.58262	0.50198
Day2	0.23595	0.03725	-0.15295	1.69076	0.52694
Day1	0.17322	0.03929	-0.13942	1.27551	0.40294
Day0	0.10516	0.03837	-0.08978	0.47967	0.16496
Day-1	0.00731	0.01016	-0.14767	0.11606	0.06992
Day-2	0.02284	0.01580	-0.10502	0.14692	0.06679
Day-3	0.02866	0.04215	-0.10561	0.15342	0.06547
Day-4	0.01756	0.02095	-0.15158	0.14135	0.07331
Day-5	0.02397	0.00166	-0.00171	0.15377	0.04705

**Table 6. Abnormal Return (Energy Firms)**

	Average	Median	Minimum	Maximum	Stand dev
Day5	-0.01230	-0.00530	-0.07222	0.02552	0.02635
Day4	-0.00637	-0.00676	-0.04271	0.01192	0.01499
Day3	-0.03301	-0.01367	-0.11941	-0.00550	0.03644
Day2	0.00739	0.00230	-0.07958	0.16160	0.05775
Day1	-0.05839	-0.00364	-0.37110	0.03634	0.13143
Day0	0.02974	0.00257	-0.05213	0.15791	0.06944
Day-1	0.02748	-0.00387	-0.01058	0.22439	0.07228
Day-2	-0.00236	-0.00309	-0.01520	0.02459	0.01117
Day-3	0.00410	0.00387	-0.05265	0.05639	0.02612
Day-4	-0.01402	-0.00583	-0.05513	0.00542	0.01827
Day-5	-0.01276	-0.00386	-0.20783	0.04676	0.06768

**Table 7. Cumulative Abnormal Return (Energy Firms)**

	Average	Median	Minimum	Maximum	Stand dev
Day5	-0.06928	-0.05073	-0.46374	0.29435	0.19877
Day4	-0.05698	-0.07020	-0.42728	0.29445	0.18491
Day3	-0.05061	-0.07295	-0.41811	0.30834	0.18255
Day2	-0.01881	-0.02709	-0.38121	0.31562	0.16359
Day1	-0.02621	-0.02648	-0.35086	0.31612	0.15925
Day0	0.03219	-0.00979	-0.05609	0.33529	0.11489
Day-1	0.00244	-0.02493	-0.06419	0.17738	0.06867
Day-2	-0.02504	-0.02260	-0.23859	0.08205	0.08372
Day-3	-0.02268	-0.00986	-0.23538	0.08252	0.08307
Day-4	-0.02678	-0.00737	-0.23122	0.05218	0.07393
Day-5	-0.01276	-0.00386	-0.20783	0.04676	0.06768

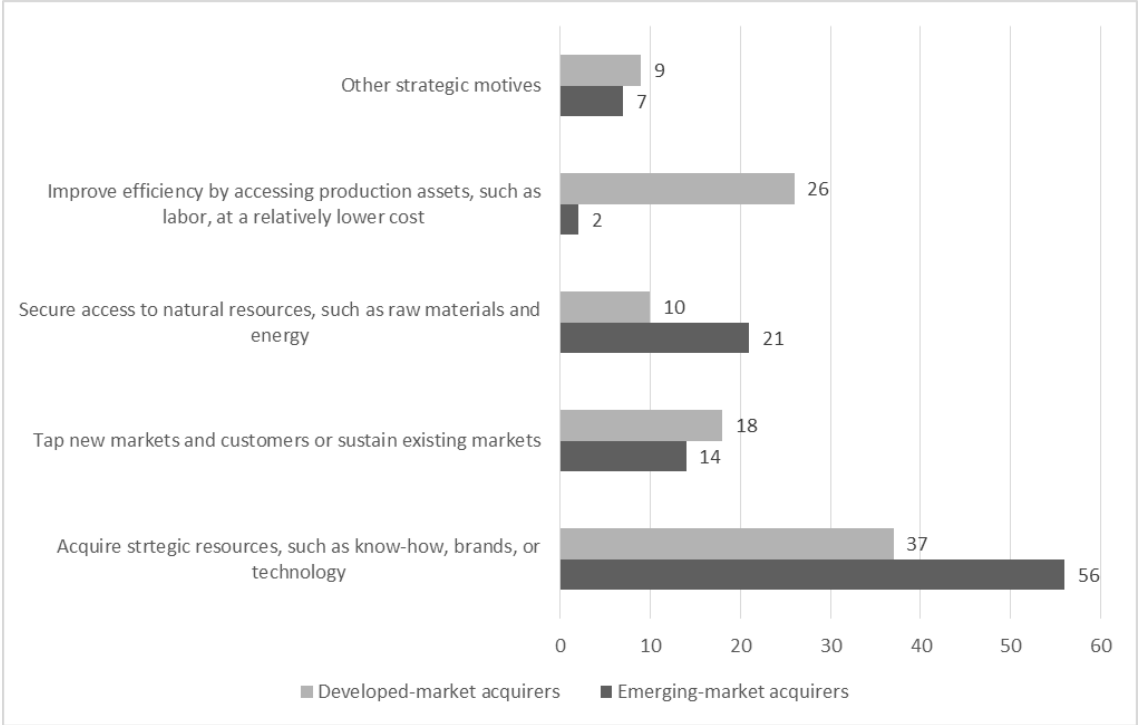
**Table 8. Abnormal Return (Mineral Firms)**

	Average	Median	Minimum	Maximum	Stand dev
Day5	-0.00904	-0.00544	-0.18216	0.10367	0.05596
Day4	-0.01168	-0.00400	-0.13045	0.11075	0.06259
Day3	0.04665	-0.00161	-0.09235	0.32712	0.10541
Day2	-0.03359	-0.00453	-0.35839	0.09658	0.10561
Day1	0.06036	0.00853	-0.12733	0.65127	0.18580
Day0	0.15779	0.04751	-0.16254	0.94194	0.27789
Day-1	-0.03090	-0.00644	-0.15362	0.00493	0.04837
Day-2	-0.01860	-0.00287	-0.17126	0.05548	0.05292
Day-3	0.00385	-0.00682	-0.07365	0.18760	0.06660
Day-4	0.01838	0.00019	-0.06756	0.19640	0.06424
Day-5	-0.00156	-0.00653	-0.05271	0.13815	0.04412

**Table 9. Cumulative Abnormal Return (Mineral Firms)**

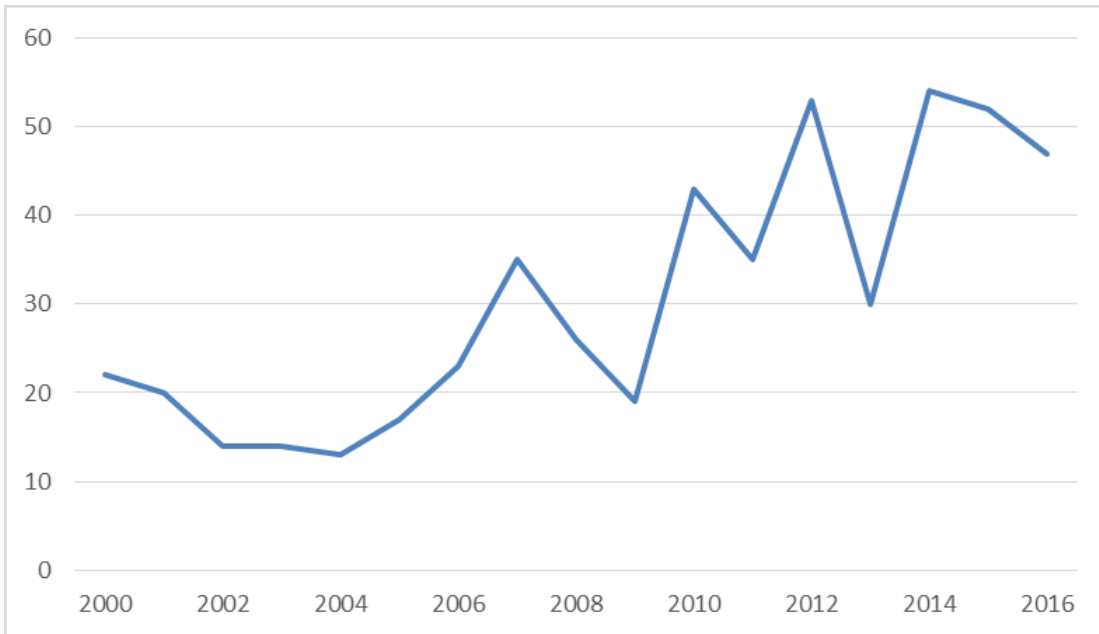
	Average	Median	Minimum	Maximum	Stand dev
Day5	0.18167	0.09269	-0.08836	0.89531	0.27057
Day4	0.19070	0.13947	-0.08156	0.87930	0.26515
Day3	0.20238	0.13078	-0.08538	0.90084	0.27171
Day2	0.15573	0.08963	-0.15781	0.90453	0.27203
Day1	0.18932	0.15580	-0.15464	0.92812	0.27002
Day0	0.12896	0.03140	-0.34414	0.92524	0.29487
Day-1	-0.02883	-0.01601	-0.18160	0.05046	0.06061
Day-2	0.00207	-0.01522	-0.11091	0.12103	0.05765
Day-3	0.02067	-0.00942	-0.11764	0.19231	0.09216
Day-4	0.01682	0.00103	-0.06926	0.18823	0.06417
Day-5	-0.00156	-0.00653	-0.05271	0.13815	0.04412

**Figure 1. Percentage of cross-border deal motivation in 1095 emerging-market acquisitions, 2000-2013**



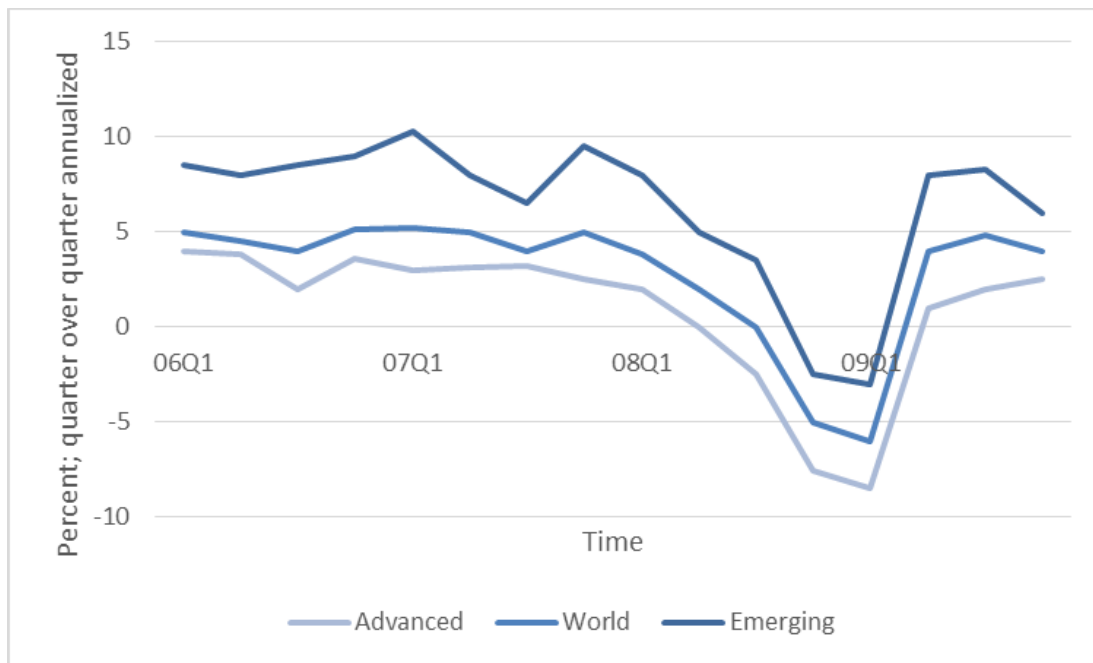
Source: McKinsey & Company, 2015

**Figure 2. Number of M&As, 2000-2016**



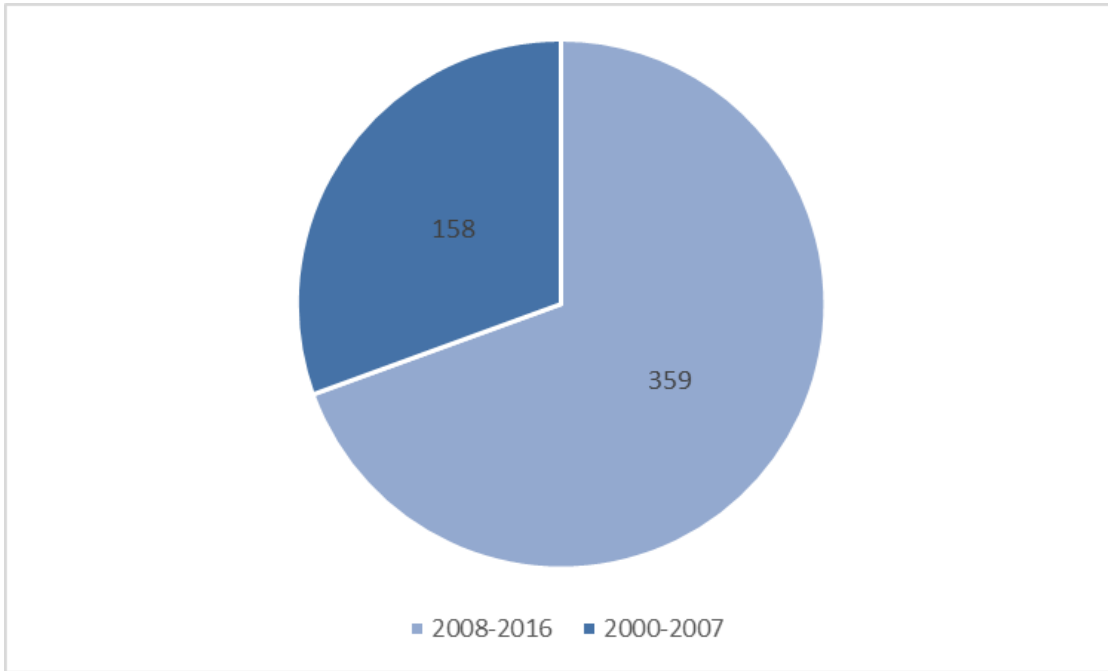
Source: Innovation, Science and Economic Development Canada

**Figure 3. Growth in Advanced and Emerging Countries, 2006-Q1 to 2009-Q4**



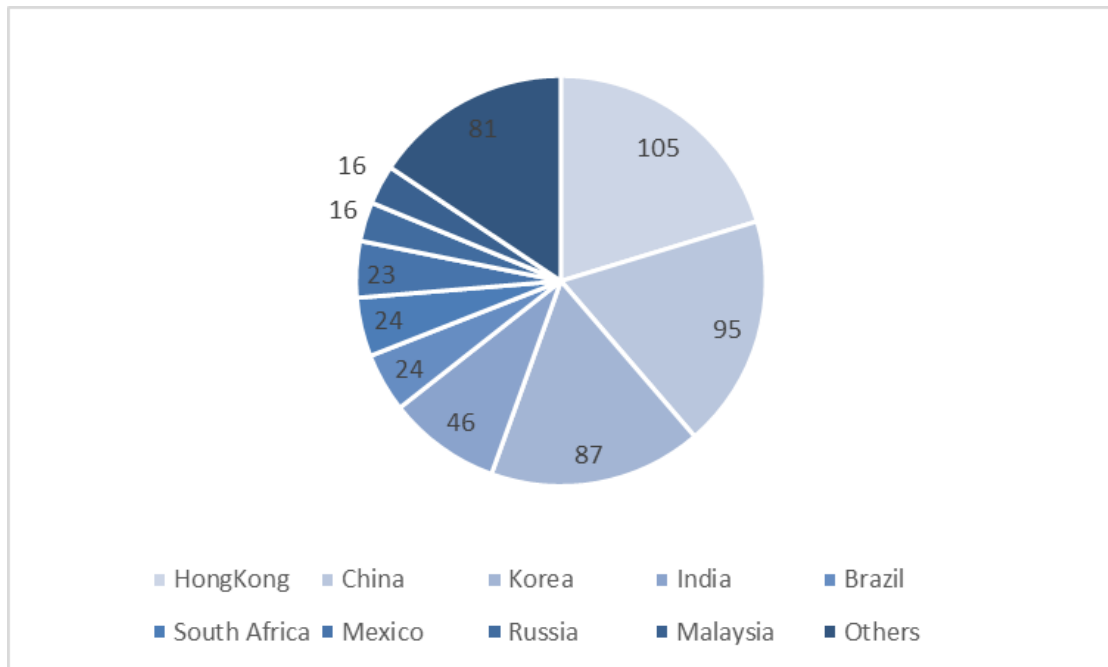
Sources: IMF, Global Data Source and IMF staff estimates

**Figure 4. Number of M&As from 2000-2007, 2008-2016**



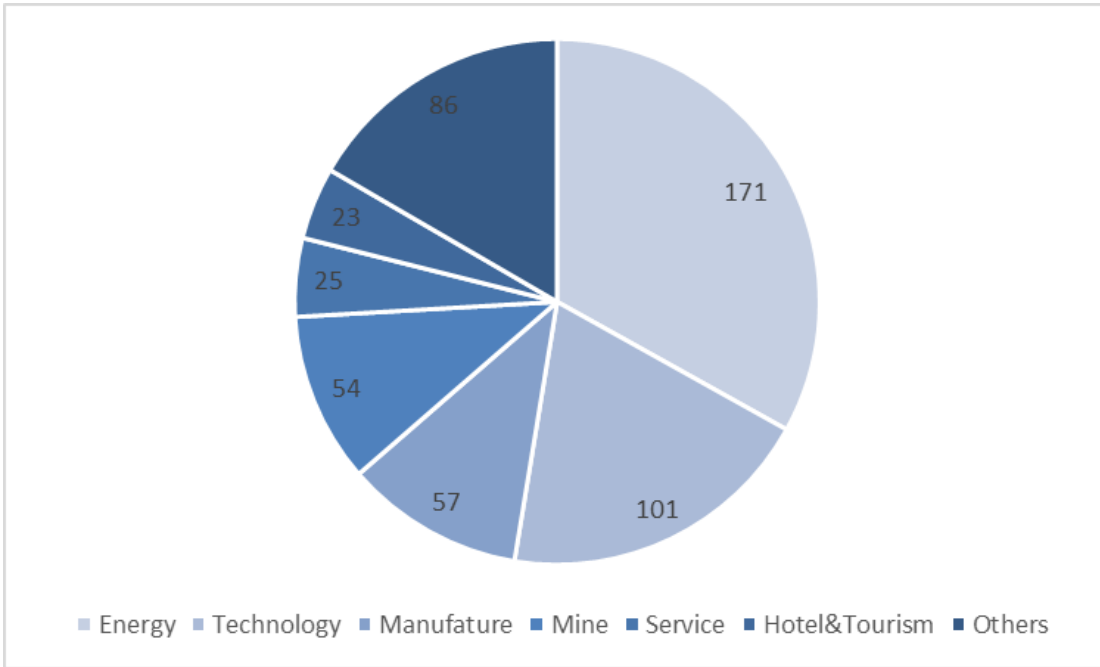
Source: Innovation, Science and Economic Development Canada

**Figure 5. Number of M&As Sorted by Country**



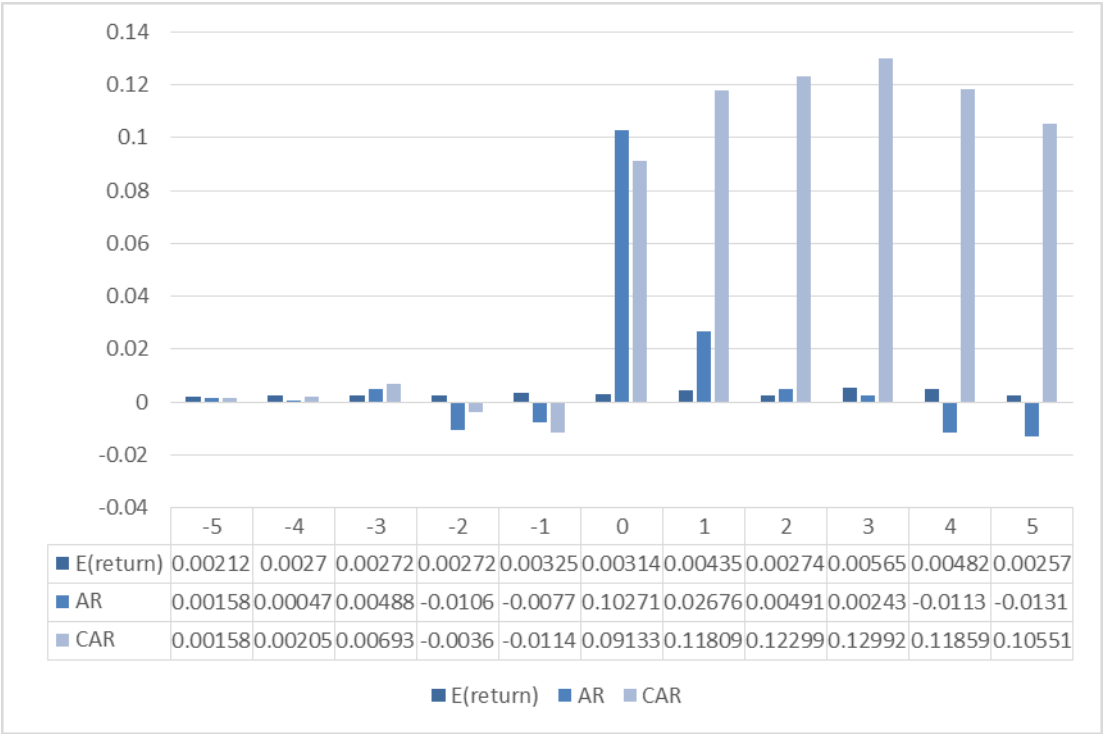
Source: Innovation, Science and Economic Development Canada

**Figure 6. Number of M&As Sorted by Industry**

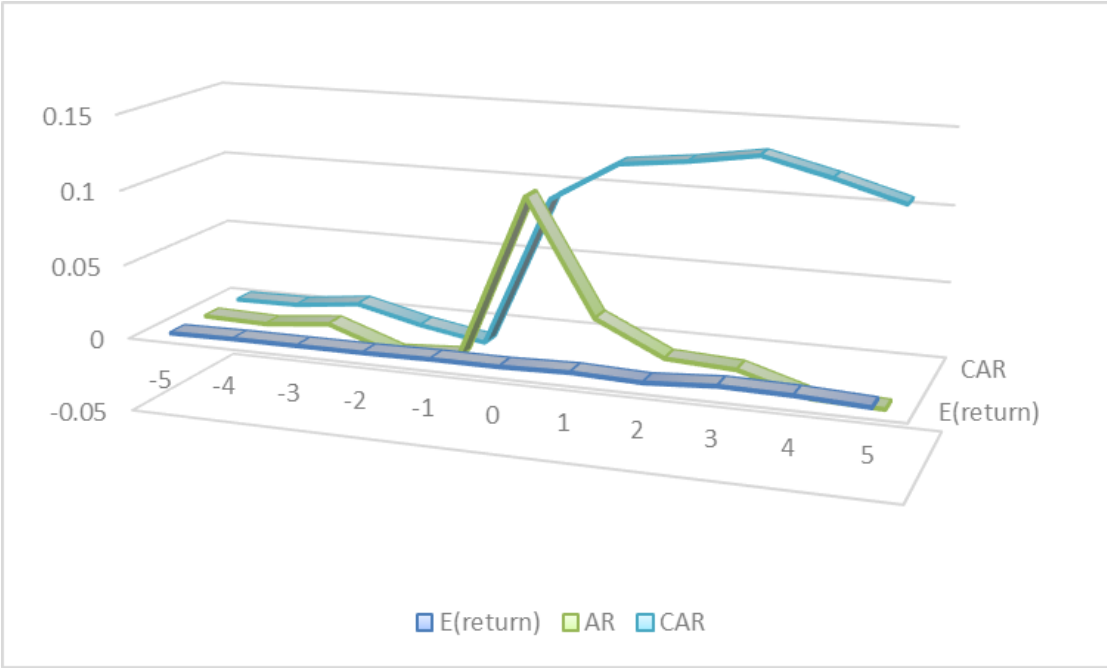


Source: Innovation, Science and Economic Development Canada

**Figure 7. Expected Return, Abnormal Return and Cumulative Abnormal Return  
During Event Window**



**Figure 8. Trend of Expected Return, Abnormal Return and Cumulative Abnormal Return  
During Event Window**



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