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Reviews on Cross Border Mergers and Acquisitions

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Abstract: ***Cross border mergers and acquisitions have gained immense popularity in the recent years. The reason for cross border M&A's vary for firms from highly developed market and those from emerging markets. Cross border deals happens when two companies from different countries merge together to face confronts together and to share risk uniformly. This paper conceptually analyses the reasons for the firms to expand globally through cross border mergers and acquisitions.***

Keywords: Cross Border Mergers and Acquisitions, Stock Market Reaction, Financial Performances, Share Valuation

1. Introduction

Globalization has increased the challenges faced by business. Business houses are restructuring itself through different types of consolidation strategies like cross border mergers and acquisitions to overcome the challenges created by globalization. 'Follow the leader'* [*Follow the leader strategy is developed by knickerbocker (1974)] is the strategy behind cross border mergers and acquisition. Reasons for cross border merger differs for emerging countries from those of developed countries. Review of existing literatures throw light on the reasons, circumstances and pattern in which companies go for cross border merger and acquisitions.

Bessler and Murtagh (2002) have investigated the stock market reactions to the cross border merger announcements taken place in Canadian banks during the year 1998.Canadian banks decision to merge within the country was opposed by the government and this made the bank to acquire financial service firms of other countries. The study results imply that the overseas acquisitions have created value in the retail and banking sector but domestic acquisitions of these sectors didn't create much value. Domestic acquisition of insurance firms did create value but cross border acquisitions did not generate any value.

Rossi and Volpin (2003) have made an attempt to study the determinants of takeover premium and the method of payment. A sample comprises of 49 major countries have been taken for the study. The data disclosed that the takeover premium is higher in countries with stronger investor's protection and better accounting standards. Further it was observed that acquirers come from countries with better accounting standards and stronger shareholders protection than the targets. Interestingly it was found that the stocks are less preferable option in countries with weaker investor's protection.

Chari and Ouimet (2004) have used the stock price reaction of acquiring and targeting firms to the announcement of an acquisition as a summary statistics for value creation through foreign merger and acquisition transactions. The paper evaluates the deals involving a developed country acquirer and an emerging market target. Researcher has pointed out that the US firms acquire 50% of emerging market target followed by UK. Joint return increases if the acquirer gets majority control after acquisition. Cross border deals increase the joint returns for the acquirers and targets during the acquisition announcement period. The findings also imparted that if the target is from emerging market it create more value for the acquirers from developed market.

Francoeur (2007) This paper research the long term financial performance of acquiring firms in overseas merger and acquisition and tries to identify the factors which influence their long term success. Researcher has used the "event time approach" and "buy and hold abnormal returns" over a period of five years. Evidence suggests that cross border merger and acquisition do not generate any abnormal return for the Canadian firms. Findings also indicate that there is no improvement in the firms' performance after the cross border merger and acquisition. Cross border merger and acquisition could generate value only when the bidder posses high level of research and development and a strong combination of intangible assets.

Liu (2007) has compared the wealth gain of domestic and cross border bidders in Canada and United Kingdom during the period 1985-2005. The conclusive result suggests a significantly positive announcement abnormal return for the cross border bidders than the domestic bidders. The researcher has also observed that the cash transactions provide excess return on the bidder than the non cash transactions. Other remarkable finding is that the GDP and interest rate of the target country has significant impact on British bidders but not on Canadian bidders.

Bhagat, Malhotra and Zhu (2008) have evaluated a comprehensive sample of cross border mergers by public listed firms from eight emerging countries namely Brazil, China, India, Malaysia, Mexico, Philippe, Russia and South Africa during the period January 1991 through December 2008. The present examination of theoretical consideration and empirical analyses leads to the conclusion that the cross section acquirer returns are positively correlated with corporate governance measure in the target country. It was observed that the emerging country acquirers experience average market responses of 1.09% on the announcement day. It was observed that the emerging country firms target developed markets

Hernando, Nieto and Wall (2008) have examined the determinants of bank acquisition in domestic and cross border deals. The study reported that larger banks and those which are listed in stock market have high probability of being acquired in domestic deals. As in the domestic deals, those banks which are quoted in stock market have higher chance to be acquired by the overseas banks. Banks operating in more concentrated market are more likely to be acquired by the overseas banks.

Selcuk (2008) This paper examines the impact of acquisition on the financial performance of Turkish firms. The sample consists of 30 companies. Empirical study was conducted by parametric t test, regression and financial ratios. The conclusive result shows that there is no improvement in the financial performance of the company after the cross border acquisition. It was also noticed that the overseas deals have failed to create synergy.

Chellan and Lin (2009) The purpose of this study is to identify the impact of cross border merger and acquisition on the financial performance of Chinese acquirers. The evidence exposed that cross border deals do not create value or synergy for the Chinese firms. It was further noticed that 'firms return' from overseas acquisition is positively correlated with the 'prior experience' in the cross border merger and acquisition. Other finding is that smaller acquirers could perform better in cross border deals. Researcher also argues that transaction would be more successful if acquirer have lower P/E ratio.

Fraser and Zhang (2009) This study measure the improvement of operating performance of the US bank after being acquired by non US banks during the period 1980 to 2011. Result shows that poorly performing US banks are more preferred choice to get acquired by the overseas banks. However the operating performances of the targeted banks were improved after being acquired by the non US bidder banks. Anyhow profitability of the banks is significantly correlated with the industry average. Result was summarized by concluding that the size of bank was increased after the acquisition.

Sabo and Gopi (2009) In this paper the researcher have compared the financial ratios using the 'paired sample t test' to review the financial performance of the Indian companies that goes for expansion through cross border and domestic merger and acquisition during the period 2000 to 2007. Evidence suggests that the impact of merger on financial performance of firms vary from domestic and cross border deals. Indian firms which goes for domestic merger perform better than cross border mergers.

Burksaitinee (2010) has probed the reasons for a downtrend in the value of cross border merger and acquisition of the developed country in the year 2008.The result disclosed that the banks were cautious to finance during the year 2008 because of the prevailed economic crisis. Further it was noticed that the decline of the value of merger and acquisition due to the falling stock prices also effected the bank's decision to not to finance cross border deals. Non financial services like tobacco, food and beverage were not affected from falling overseas investments. Reduction of cash financing in the cross border deals was the other outcome of financial and economic crisis.

Haiyong and Zhang (2010) have documented the overall trends of BRIC'S overseas merger and acquisitions. The conclusive result indicated that the demand on resources was the driving factor for cross border and domestic merger and acquisitions, on the other hand it was observed that the overseas acquisition market of developing countries are attracted to the developed countries. Further it was observed that India is mainly concentrated on Britain and US market. It was found that the main barrier to enter the overseas market is the discrimination faced by the developing countries. Researcher has argued that the BRIC's countries should formulate supportive policies and maintain the transparency of wealth fund.

Nnadi and Tanna (2010) have critically evaluated the announcement period abnormal returns and value gains to the acquirers in cross border and domestic merger and acquisition that took place in European Union during the period 1997 to 2007. The result points out that cross border mergers have generated more value than the domestic mergers. Inbound and outbound mergers have increased the total asset of the firms. Cumulative abnormal return was negative in overseas mergers and insignificant in domestic deals.

Saraswathy (2010) have described the reasons for the foreign firms to merge with or acquire the Indian firms and also the Indian firms to go for cross border deals. The result unveiled that the Indian FDI is not moving in tandem with global trend. Industry wise analysis indicated that the service sector has become major purchaser as well as seller in the cross border deals. It was found that the USA, UK and Germany were the major partners with India. Foreign firma always dominate purchases in India. Cross border merger and acquisitions are mostly horizontal integration. Merger and acquisition have helped Indian the banks and finance sectors to become market leaders in the respective field of operation. Researcher has also pointed out that the recent trend is to acquire IT firms headquartered in USA.

Song and Kueh (2010) have compared the performance of cross border merger and acquisition before and after the Asian financial crisis. The most affected Asian countries namely Malaysia, Thailand, Indonesia, The Philippines and South Korea were considered for the study. Cross border deals have increased in Thailand, Indonesia and Korea after the economic crisis and the overall performance of the firms have also improved. Sector wise analysis showed that financial, industrial and material sectors had more number of cross border deals compared to other sectors.

Bertrand and Ann (2011) have focused on the impact of domestic and cross border merger and acquisitions on operating performance of Russian firms. This is the first paper which empirically compared the post and pre merger performance of single and serial acquirers. The researcher argued that the firm value is positively correlated with the firm's prior experience on acquisition. Value creation is larger for serial acquirer than single acquirer for both types of transactions. It was also observed that the firm size has a impact on Return on Asset. Cross border deals offer new market opportunities for high-tech Russian firms and domestic acquisition does not help the high-tech Russian firms to improve their performance.

Isil et al (2012) Researcher has tried to find out the determinants that impact the cross border merger but not present to the same extent in inbound mergers. Result reveals that high accounting standards and economic development is one of the important determinants that increases cross border deals. Other interesting findings is that there is a high probability for the companies to be the 'acquirer' when there is a appreciation of the currency in their country and the target will be from the countries where there is a depreciation of the currency. Bidder will be from a country where there is a highly developed stock market and target will be from a country where stock market is badly performing. Evidence also suggests that highly valued firms will purchase lower valued firms.

Kilmek (2012) has explored the financial effects of merger and acquisition by foreign firms. Empirical analyses were done to find the financial performance indicator of the acquiring firms in Poland. The conclusive result revealed that the firms which acquired foreign firm have grown in size and market power but the performance was very low. Further it was revealed that asset do not generate profit as in pre merger periods.

Wang et al (2012) have narrated the reasons for Danish firms to prefer outward acquisitions based on the various merger and acquisition theories. Danish firms prefer horizontal merger which concludes that synergy theory is the most preferred one selected by the Danish firms. Empirical evidence showed that "expansion and rapid growth" are the other important factors which impact the firms to go for cross border deals. Other reason for companies to opt overseas deals is to gain better control over supply.

Nowinski (2014) The researcher has compared the difference in shareholders' value when a single acquirer enter into the foreign market for the first time and when the same acquirer makes the subsequent acquirers in the same country. Event method was used for a sample of multiple acquisitions conducted by a single acquirer in East and West Europe. Result reveals that company could create better share holder value when they enter into the foreign market for the first time. Researcher has also identified that there is no difference in value creation when the target is from West or East Europe.

2. Conclusion

There has been an extensive research on cross border merger and acquisition. Most of the studies have focused on the share market reaction to the cross border merger and acquisition. Wealth maximization, financial impact and synergy gains have also been subjected for study by numerous researchers. Most of the studies were conducted in countries which have highly developed capital markets like USA and UK. Few studies are dedicated to find out the impact of cross border mergers and acquisitions in emerging countries.

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