



PAPER ID: 11A05K



## CROSS-BORDER MERGERS & ACQUISITIONS AND SHAREHOLDERS' VALUE: NEW INSIGHTS FROM UK ACQUIRING FIRMS

Aamir Khan<sup>1\*</sup>, Aneel Salman<sup>2</sup>

<sup>1</sup> Department of Management Sciences, COMSATS University Islamabad, PAKISTAN.

<sup>2</sup> Department of Economics, COMSATS University Islamabad, PAKISTAN.

### ARTICLE INFO

#### Article history:

Received 29 July 2019  
Received in revised form 25 November 2019  
Accepted 10 December 2019  
Available online 23 December 2019.

#### Keywords:

Mergers & Acquisitions;  
Political Stability;  
Governance Quality;  
Horizontal and  
Non-horizontal  
Acquisitions; Serial and  
First-time Acquirers;  
Event Study; Cumulative  
Abnormal Returns

### ABSTRACT

This study examines the impact of cross-border merger & acquisition deals on the stock prices of acquiring firms using event study methodology. The sample comprises of the 236 UK listed firms from 2006 to 2018. The overall findings show that cross-border M&A deals results in a positive stock price reaction. Shareholders of UK acquiring firms earn higher cumulative abnormal returns when the target firm is from a country with high political stability and governance quality. Furthermore, the shareholders of firms that acquire firms with low net debt also earn higher cumulative abnormal returns. Industry relatedness has a positive impact whereas there is no difference between first-time and serial acquirers' performance.

**Disciplinary:** Economic and Management Sciences.

©2020 INT TRANS J ENG MANAG SCI TECH.

## 1. INTRODUCTION

In international business, cross-border mergers & acquisitions (M&As) are one of the most important events for the firms and the economy (Fuller et al., 2002). It is considered an integral business expansion tool across the borders. In recent years, firms have increasingly used cross-border M&A as a strategy for internationalization (Tao et al., 2017). In the global scenario, world markets are more closely integrated, and there is a shift from traditional business growth to growth through M&As. In the modern business environment, M&As become a powerful tool for gaining a competitive edge and achieving business expansion. It facilitates global business expansion. In the corporate world, businesses know that they must grow otherwise they will stand to fail. To remain competitive, create profits and increase shareholder's wealth, there is no way but to grow. Companies that fail to grow lose customers' confidence, market share and ultimately, shareholders' investment. Hence, M&A by accelerating the growth of prominent companies make it difficult for the weaker ones to survive and rewarding those with successful efforts. M&As help companies to enhance

shareholders' value, making investments attractive for investors and entrepreneurs.

M&As have become a global business phenomenon, and their number is increasing significantly. The UNCTAD (2009) report shows that cross-border M&As rose significantly over the last two decades. For example, the total number of transactions in 1987 was 862, while in 2005, a total of 6134 transactions was recorded. The average annual growth over the last two decades is 31 percent in terms of numbers and 34 percent in terms of value respectively. Similarly, the cross-border M&As by UK firms witnessed a significant increase in the last decade. According to the report, the UK is one of the largest acquiring countries in the world with a net share of about 30% of the world's total M&A deals. Several studies have been conducted on examining the performance implications of cross-border M&As. Tao et al. (2017) & Li et al. (2016) find a positive stock price reaction to M&A deals announcements. Similarly, Bhagat et al. (2011) also reported a positive stock price reaction to M&A deals. According to Fuller et al. (2002), on average acquiring firms earn zero abnormal returns. In contrast, Chen & Young (2010) find a negative stock price reaction. Similarly, Uddin & Boateng (2009) also reported negative abnormal returns for UK acquiring firms. Hence, the inconsistent findings of the existing literature indicate that this phenomenon needs further and comprehensive analysis.

The existing literature only focuses on acquiring firms' performance without considering the host country's political stability & governance quality. The existing body of knowledge also hasn't drawn a line between horizontal & non-horizontal acquisitions, serial vs first-time acquirers. In this study, institutional factors will be incorporated in-depth as neglected in previous studies. To address the gaps, we attempt to investigate the following research questions. a) What is the stock price reaction to cross-border M&A deals announcements by UK firms? b) To what extent the host country's political stability and governance quality affect the stock price performance following cross-border M&As. c) How stock price reacts to deal announcement by serial vs first-time acquirers. d) How the industry relatedness affects the stock price reaction to M&A deals across the borders and e) finally how the net debt of the target affects the stock prices of acquiring firms.

Firms usually engage in cross-border M&As for assets-seeking, resource and technology seeking and market expansion (Deng, 2004). Even though different firms have different objectives but the ultimate goal is to increase shareholders' wealth and to create synergy by the sum of two companies (Sudarsanam, 1995). We investigated the stock prices reaction to cross-border M&A deals considering the host countries' institutional factors i.e., political stability and governance quality, prior acquisition experience of acquiring firms, industry relatedness and target firm net debt, while previous literature has mainly focused on internal factors such as deal size, firm size & age and the leverage, etc.

## 2. LITERATURE REVIEW

Cross-border M&As indicate a change in a firm's corporate strategy. Investors will react to this strategy change by either buying or selling the stock of acquiring firms according to their perception of how the firm will perform in the future, which constitutes a stock price reaction. The empirical evidence is mixed. Some studies reported positive stock price reaction while others indicate a negative or zero reaction by stock prices of acquiring firms. Tao et al. (2017) reported positive stock price reaction following cross-border M&A deals in the Chinese market. They investigated 165 cross-border M&A deals by Chinese acquirers for 2000–2012 using the standard market model. Li et

al. (2016) also reported a positive stock price reaction by acquiring a firm's stock. This study is based on 367 cross-border M&A deals for 2000-2011. Likewise, Schwert (2000) argued that cross-border M&A deals have a significant impact on shareholders' value of acquiring firms in the short-term. Sudarsanam & Mahate (2003) investigated a sample of the UK acquiring firms and find negative abnormal returns. Similarly, Conn et al. (2005) also investigated the stock price reaction to cross-border M&A deals in the UK context. They examined 4344 deals for 1984–1998 and reported significantly positive abnormal returns for the acquiring firms when there is cultural similarity like a common language between the acquiring and target firms.

On the other hand, Gregory & McCorriston (2005) reported that the stock price reaction is insignificant in the case of the UK. Likewise, Masulis et al. (2007) performed a study on a relatively large sample of 3333 M&A deals for 1999-2003. They reported positive abnormal stock returns for those US acquiring firms where there are separate positions of the CEO and board chairman. Maris (2006) also reported higher returns for the shareholder of acquiring firms following successful M&A deal announcements. Similarly, Moeller & Schlingemann (2005) indicated positive abnormal stock returns for US acquiring firms. While Lang et al. (1991) reported negative returns. This study is based on 87 targets. Uddin & Boateng (2009) reported a negative stock price reaction for UK acquiring firms in the short-run. This study investigated the impact of deal size and other firm-specific variables on the short-run performance of acquiring firms for 1994-2003. The results reported by Uddin & Boateng (2009) are similar to those reported by Sudarsanam (1995).

Pettway & Yamada (2007) reported positive abnormal returns in the case of Japan following successful M&A deals. For Canada and several European countries including Germany, France, Netherland and Portugal positive abnormal returns are reported (Eckbo & Thorburn, 2000 and Martynova & Renneboog, 2008). Goergen & Renneboog (2004) also reported positive abnormal returns for European acquiring firms. This study is based on 187 bidder firms for 1993–2000. They reported 1.2 percent significantly positive *CAR*<sub>t</sub> for acquiring firms. Likewise, Ben-Amar & André (2006) also investigated the short-term effect of cross-border M&A deals announcements on stock prices of acquiring firms. They reported that the acquiring firm's shareholders earned positive returns over the periods 1998 to 2000. This study examined Canadian firms. Campa & Hernando (2004) investigated the phenomenon in the case of the European market and reported that cross-borders M&A have an unfavorable effect on shareholders' value, especially in controlled industries. In controlled industries, the existence of a strong regulatory framework creates it difficult to undertake a business activity and hence reduces the success of M&A deals.

Due to many cross-border M&A deals with the UK acquiring firms in recent years, a comprehensive analysis is required to further examine the phenomenon. Gaur et al. (2013) & Zhu & Malhotra (2008) investigated the short-run impact of cross-border M&A by Indian firms. They reported positive gains for Indian acquiring firms. Floreani & Rigamonti (2001) investigated the phenomenon in the case of the insurance industry. The study is based on 56 listed acquiring firms in the insurance industry. They reported a significantly high abnormal return of 3.56 percent. Similarly, Gubbi et al. (2010) reported that the Indian acquiring firm's shareholder earns positive abnormal returns. The investigation was carried out using a sample of 425 cross-border M&A deals for 2000–2007. Bhagat et al. (2011) carried out a similar study on eight emerging economies for 1991-2008, using a sample of 698 firms. They reported positive returns for acquiring firms. However, another

study carried out by Aybar & Ficici (2009) reported negative abnormal returns for acquiring firms. This study is based on 433 M&A deals with 58 multinationals firms from emerging markets. They reported that stock prices react negatively to M&A deals in emerging market firms.

The existing literature only focused on the direct link between cross-border M&A deals and stock prices of acquiring firms without providing a sound theoretical base to support the claims. The study performed by Ben-Amar & André (2006) is based on 238 M&A deals with 138 Canadian firms. They reported that acquiring firms' shareholders gain 1.6 percent abnormal returns over the 3-day event window. Faccio et al. (2006) also performed a similar study. This study is based on 4429 firms both listed and unlisted targets. This study is interesting. They reported -0.38 abnormal returns for acquirers of unlisted targets while acquirers of listed targets gain 1.48 percent significant positive abnormal returns. Some studies only adopted the resource-based view or agency theory like studies performed by (Ning et al., 2014) to investigate the impact of deals announcements on the stock prices of acquiring firms. Chen & Young (2010) investigated a small sample of 39 deals by 32 Chinese acquirers for 2000–2008 and reported negative returns.

In contrast, Ning et al. (2014) used a relatively large sample of 335 M&A deals for 1991–2010 on Chinese firms and reported negative cumulative abnormal returns for Chinese acquirers. Furthermore, the resource-based view and the agency theory is not able to fully capture the impact of M&A deals on the stock prices of acquiring firm. It must be combined with signaling theory that is widely used in the literature recently. Faccio et al. (2006) investigated the phenomenon in the case of 17 major European economies for 1996–2001. They reported positive abnormal returns, but the main drawback of the study is that it is conducted with providing a theoretical base.

Using the resource-based theory as a theoretical base, Gubbi et al. (2010) investigated the impact of cross-border M&As on shareholders' value. The study was conducted using data of 425 cross-border M&A deals with Indian firms for 2000–2007. They argued that firms in emerging economies like India use M&A deals across the borders as a tool to gain strategic assets to overcome the late entrance in the market and foreignness disadvantage to enhance their competitive edge. The study performed by Chen & Young (2010) is based on agency theory using a small sample of 39 cross-border M&A deals with 32 Chinese firms over the period 2000 - 20008. They found that overseas acquisitions hurt acquiring firm's shareholders' value. The reason is the low confidence of Chinese investors in the MNE's ability to effectively manage their deals. This study is related to the investors' perception as they examined how the investors perceive the deals which ultimately create a positive or negative signal, but they didn't talk about the importance of signaling theory in this regard. However, without signaling theory, it is difficult to interpret and analyze the study and the results.

Zhou et al. (2015) found that stock prices react positively to cross-border M&As deals announcements, while others like Chen & Young (2010) found a negative relationship. Kim & Mei (2001) found that the stock market is sensitive to political risk. The political environment is associated with cross-border M&As especially in emerging economies (Kim & Mei, 2001). Hence, the varying results from prevailing literature advocate that cross-border M&As need further investigation. Here in our study, we also considered the language differences between the target and acquiring firm, which is widely neglected in previous literature. Previous studies on the performance of acquiring firms and the cross-border M&A deals only focuses on how cross-border M&A deals influence the acquiring firms and the target firms' performance without considering the impact of political stability in the host countries. While in today's global business environment, institutional



factors cannot be neglected. The institutional factors like the host countries' political stability and quality of governance play a key role in the success or failure of M&A deals across the borders. Furthermore, the existing studies also did not consider the net debt of the target firms, however, it is an important factor. If acquiring a firm acquires a target with high net debt, it will create a negative signal. In this study, institutional factors will also be incorporated in-depth as neglected in previous studies. In addressing the institutional factors, several factors will be evaluated in the context of the UK by combining the signaling theory and Institutional-based view.

### 3. DATA AND METHODOLOGY

The data on cross-border M&As is obtained from the Thomson one banker database. Thomson One Bankers database provides comprehensive data on M&A deals. While the stock price data is derived from Bloomberg. The study period is from January 1, 2006, to December 31, 2018. To be included in the sample, the acquiring firms should meet the following criteria. 1) The M&A deal is listed as a completed transaction. 2) The firm should be listed and have stock price data. 3) The M&A announcement date should lie between the analysis period. 4) The target companies should lie outside the UK. The final sample consists of 236 cross-border M&A deals with UK acquiring firms. Following M&A deals, stock price reaction is reflected in the acquiring firm's change in stock prices surrounding the event date (Gaur et al., 2013). Hence, the daily stock prices of acquiring firms are used to capture the change in stock prices followed by M&A deals.

We use the *WGI* indicator compiled by Kaufmann et al., (2011) to measure the host country's political stability and governance quality. It includes; political stability & absence of violence, voice & accountability, government effectiveness, regulatory quality, the role of law and control of corruption. The first two measures are used for political stability and the last four for governance quality. The values range from -2.5 to +2.5. Higher values indicate lower political risk and good governance quality while lower values indicate higher political risk and bad governance quality. For industry relatedness, the sample is divided into two groups, one indicating cross-border M&As in the same industry i.e. horizontal acquisitions and other indicates M&As in a different sector i.e. non-horizontal acquisitions. For examining the claim that serial acquirers perform better as compared to first-time acquirers, the sample is again divided into two groups i.e., serial acquirers and first-time acquirers.

We employ the event study methodology to examine the impact of M&A deals announcements on the firm's values of listed stocks in the UK. The event study methodology indicates that any change in stock prices followed by M&A deals is evinced by changes in cumulative abnormal returns ( $CAR_{i,t}$ ) around the event date. To access the stock prices reaction to cross-border M&A deals announcements, abnormal returns are calculated on a standard market model suggested by Brown & Warner (1985), which is

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (1),$$

where  $AR_{it}$  is the abnormal stock returns of firms  $I$  at time  $t$ ,  $R_{it}$  is the actual daily stock prices on day  $t$  for firm  $i$ .  $R_{mt}$  is the daily return from the respective stock exchange on day  $t$ . The  $\alpha_i$  and  $\beta_i$

are OLS parameters.

Measuring the stock price reaction following cross-border M&A deals surrounding the event date, the event window must be determined. The event window is defined as “the number of days over which stock creates possible abnormal returns”. Several precautionary measures should be considered while creating an event window. For example, a large event window could weaken the probability of finding significant results, while a short window may not possibly capture the effect of the event. In this case, the price will react on the next date when the market opens. Therefore, following Bhabra & Huang (2013), we used a 3-days, 5-days, and 11-days event windows to investigate the effect of the deal announcement on stock prices. Following Bhabra & Huang (2013), the estimation period used in this study is 90 days before the event announcement date and ended 11 days before the announcement date. To calculate the cumulative abnormal returns, we sum up the average abnormal returns for that window, viz.

$$CAR_t = \sum_{t=0}^n AR_t \quad (2),$$

whereas  $CAR_t$  is the cumulative abnormal return from  $t = \text{day 1}$  up to  $t = \text{day } n$ .

The statistical significance of the  $CAR_s$  is tested with t-statistics to access whether fluctuations in share prices influence  $CAR_s$ , viz.

$$t_{CAR} = \frac{CAR}{S_{CAR}/\sqrt{n}} \quad (3),$$

whereas  $S_{CAR}$  is the standard deviation of the  $CAR_s$ . It will be concluded that the event has a significant impact on the stock prices if  $CAR_s$  significantly differs from zero.

#### 4. RESULT AND DISCUSSION

Results for a full sample of 236 cross-border M&A deals with the UK acquiring firms are presented in Table 1. Results for different time windows are reported. Cumulative abnormal returns ( $CAR_s$ ) for a 3-day window (-1, +1) is 1.5 percent & significant at 1 percent level.  $CAR_s$  for event window of 5 days (-2, +2) and 11days (-5, +5) are 1.45 and 1.99 percent respectively, significant at 1 percent level. The results indicate that the stock price reaction is robust to time windows i: e for longer windows, the cumulative abnormal returns are higher. The results support the idea that on average, cross-border M&As by UK acquiring firms generate positive abnormal returns for shareholders.

**Table 1.** Cumulative Abnormal Returns ( $CAR_s$ ) for UK Acquiring Firms

Event Window	No.	Mean	Std.	t-value	Positive: Negative	%age of Positive
CAR (-1, 0)	236	0.0142	0.0553	3.9558***	137:99	58.05
CAR (0, +1)	236	0.0125	0.0453	4.2578***	138:98	58.47
CAR (-1, +1)	236	0.0150	0.0583	3.9463***	144:92	61.02
CAR (-2, +2)	236	0.0145	0.0625	3.5630***	136:100	57.62
CAR (-5, +5)	236	0.0199	0.0961	3.1790***	132:104	55.93

\*\*\* P < 0.01. \*\* P < 0.05. \* P < 0.1

**Table 2. Commutative Abnormal Returns: High Vs. Low Political Stability**

Event Window	High Political Stability			Low Political Stability			Mean Difference	
	No.	Mean	t-value	No.	Mean	t-value	Mean Diff.	t-value
CAR (-1, 0)	155	0.0155	3.805***	81	0.0057	1.304	0.0098	0.037
CAR (0, +1)	155	0.0133	4.035***	81	0.0075	1.460	0.0058	0.952
CAR (-1, +1)	155	0.0156	3.642***	81	0.0108	1.551*	0.0048	0.726
CAR (-2, +2)	155	0.0148	3.338***	81	0.0118	1.249	0.0030	0.288
CAR (-5, +5)	155	0.0216	3.198***	81	0.0082	0.491	0.0134	0.060

\*\*\* P < 0.01. \*\* P < 0.05. \* P < 0.1

**Table 3. Commutative Abnormal Returns: High Vs. Low Governance Quality**

Event Window	High Governance Quality			Low Governance Quality			Mean Difference	
	No.	Mean	t-value	No.	Mean	t-value	Mean Diff.	t-value
CAR (-1, 0)	169	0.0159	3.958***	67	0.0037	0.802	0.0122	2.002**
CAR (0, +1)	169	0.0126	3.875***	67	0.0120	1.218	0.0006	0.095
CAR (-1, +1)	169	0.0153	3.629***	67	0.0121	1.218	0.0032	0.464
CAR (-2, +2)	169	0.0148	3.356***	67	0.0123	1.193	0.0025	0.224
CAR (-5, +5)	169	0.0205	3.068***	67	0.0152	0.838	0.0053	0.275

\*\*\* P < 0.01. \*\* P < 0.05. \* P < 0.1

Table 2 reports the empirical results based on acquiring the target from a high or low level of politically stable countries. The findings show that  $CAR_s$  are positive and statistically significant for those firms who acquired targets from countries with high political stability. Shareholders earn 1.56, 1.48 and 2.16 percent around the event windows of 3 days, 5 days and 7 days respectively. All  $CAR_s$  are significant at 1% level. In contrast, the results are insignificant for those who acquired firms from countries that are politically unstable except for the event window of (-1, +1) which is positive and significant at 10 percent. But the effect soon disappeared for large event windows. The results show that the positive stock price reaction is robust to time windows. i.e. for longer windows, the  $CAR_s$  are higher. Hence the results support the argument that UK acquiring firms create higher  $CAR_s$  who acquire firms from politically stable countries. Results of governance quality are reported in Table 3, indicating that the stockholders of UK acquiring firms create higher cumulative abnormal returns by acquiring firms from countries with a higher level of governance quality. On average, shareholders earn 1.53, 1.48 and 2.05 percent respectively for event windows of (-1, +1), (-2, +2) and (-5, +5). All  $CAR_s$  are significant at a 1 percent level. Following signaling theory and institutional-based view, the results further demonstrate that political stability and good governance quality of the target firms' countries is perceived positively by shareholders and thus results in a positive stock price reaction as compared to countries with unstable political conditions and low governance quality.

**Table 4: Commutative Abnormal Returns: Targets with Low Vs. High Net Debt.**

Event Window	Target with Low Debt			Target with High Debt			Mean Difference	
	No.	Mean	t-value	No.	Mean	t-value	Mean Diff.	t-value
CAR (-1, 0)	162	0.0145	3.899***	74	0.0104	1.446	0.0041	0.635
CAR (0, +1)	162	0.0155	3.542***	74	0.0093	1.420	0.0062	0.956
CAR (-1, +1)	162	0.0166	3.212***	74	0.0119	1.373	0.0047	0.594
CAR (-2, +2)	162	0.0168	3.192***	74	0.0122	1.547	0.0046	0.526
CAR (-5, +5)	162	0.0221	2.653***	74	0.0246	1.837	-0.0025	-0.199

\*\*\* P < 0.01. \*\* P < 0.05. \* P < 0.1

Table 4 reports the results for firms that acquired a target with high debt value vs. those who

acquired firms with low net debt. The results show that firms who acquired the target with low debt create higher cumulative abnormal returns. Shareholders of acquiring firms with a small debt of the target firms earn 1.66, 1.68 and 2.21 percent for event windows of (-1, 1), (-2, 2) and (-5, 5) respectively. All the CARs are highly significant. While on the other hand, results are insignificant for firms who acquired targets with high debt value except for the event window of (-5, +5) which is significant at a 10 percent level. Hence, the results support the claim that shareholders of those firms who acquired targets with low debt value earn positive returns.

Table 5 reports CARs for horizontal vs. non-horizontal cross-border M&As. Horizontal acquisitions reflect industry relatedness while Non-horizontal acquisitions reflect diversification. Findings indicate that stockholders of UK acquiring firms obtain positive returns following cross-border M&As in the same industry. Mean CARs for horizontal acquisitions are 1.42, 1.61 and 2.46 percent respectively for event windows of CARs (-1, +1), (-2, +2) and (-5, +5). All CARs are highly significant at a 1% level. The results are robust to time window i: e the mean CARs increase with large event window. On the other hand, cumulative abnormal returns are insignificant for non-horizontal acquisitions except for small event windows. Hence, the results support the claim that shareholders of acquiring firms positively perceive the acquisitions in the same industries in the short run while non-horizontal acquisitions create uncertainty.

**Table 5:** Commutative Abnormal Returns: Horizontal Vs. Non-Horizontal Acquisitions.

Event Window	Horizontal Acquisitions			Non-Horizontal Acquisitions			Mean Difference	
	No.	Mean	t-value	No.	Mean	t-value	Mean Diff.	t-vale
CAR (-1, 0)	138	0.0125	2.531**	98	0.0174	1.941*	-0.0049	-0.685
CAR (0, +1)	138	0.0127	3.182***	98	0.0124	1.329	0.0003	0.051
CAR (-1, +1)	138	0.0142	2.588***	98	0.0161	1.304	-0.0019	-0.260
CAR (-2, +2)	138	0.0161	3.019***	98	0.0162	1.630	-0.0001	-0.012
CAR (-5, +5)	138	0.0246	3.067***	98	0.0132	1.317	0.0114	0.892

\*\*\*P < 0.01. \*\*P < 0.05. \*P < 0.1

Table 6 report results based on the claim that serial acquirers create higher cumulative abnormal returns as compared to first-time acquirers. The results do not support our claim for the UK acquiring firm that serial acquirers create higher CARs. Shareholders of both serial as well as first-time acquirers both earn higher cumulative abnormal returns. In both cases, the results are highly significant. Hence, we conclude that acquisition experience has no advantage over first-time acquirers in the short run.

**Table 6:** Commutative Abnormal Returns: Serial Vs. First-time Acquirors.

Event Window	Serial Acquirors			First-time Acquirors			Mean Difference	
	No.	Mean	t-value	N	Mean	t-value	Mean Diff.	t-vale
CAR (-1, 0)	151	0.0116	2.548***	85	0.0189	3.220***	-0.0073	-0.982
CAR (0, +1)	151	0.0109	2.761***	85	0.0154	3.684***	-0.0045	-0.782
CAR (-1, +1)	151	0.0122	2.337**	85	0.0198	4.028***	-0.0076	-1.058
CAR (-2, +2)	151	0.0101	2.153**	85	0.0223	2.936***	-0.0122	-1.365
CAR (-5, +5)	151	0.0152	1.971**	85	0.0282	2.645***	-0.0130	-0.988

\*\*\*P < 0.01. \*\*P < 0.05. \*P < 0.1

Our findings are well aligned with studies of Bhabra & Huang (2013) & Tao et al. (2017). Boateng et al., (2008) and Wang et al., (2007) also reported similar results. Tao et al. (2017) report that cross-border M&A deals have a positive significant impact on the stock prices of Chinese



acquiring firms. They argued that investment in highly politically stable countries creates positive abnormal returns for shareholders as compared to investment in low politically stable countries. Similarly, the acquisition experience also has a positive significant impact. Bhabra & Huang (2013) reported that firms that acquire targets in the same industry generate positive abnormal returns for their shareholders. Likewise, the study performed by Wang et al. (2007) investigated the impact of 27 cross-border M&A deal by Chinese firms. They reported that cross-border M&A deals create value for Chinese acquiring firms. They argued that Chinese firms are primarily motivated to increase their market share. Instead, our results are contrary to (Uddin and Boateng, 2009). They find that the UK acquiring firms do not earn a positive abnormal return in the short-run for 1994–2003. Aybar and Ficici, (2009) also reported negative abnormal returns for shareholders of emerging markets for 1991–2004. The study was based on 433 M&A deals with 17 emerging countries. Similarly, Chen and Young, (2010) also reported negative abnormal returns for acquiring firms based on 39 cross-border M&A deals for 2000–2008 by 32 Chinese firms and showed that cross-border M&A deals resulted in negative average cumulative abnormal returns.

## 5. CONCLUSION

Based on the signaling theory and institutional-based view, we examined how stock prices of acquiring firms react to cross-border M&A deals announcements by the UK acquiring firms. This study focuses on whether the institutional characteristics of the target firms' countries lead to generating different market reactions. An event study methodology based on 236 UK acquiring firms for 2006–2018 finds that on average stock prices respond positively to M&A deals by UK acquiring firms. Furthermore, the investigation shows that institutional factors affect stock prices. Findings show that high political stability and high governance quality is positively associated with short-run stock performance of UK acquiring firms following cross-border M&As. Besides this, we also investigated the impact of industry relatedness and acquisition experience. Results show that M&As in the same industry have a significant positive effect while acquisition experience has no significant impact in the short-run.

This study also examined the effect of net-debt of the target firms on stock prices of acquiring firms. The result shows that the low-debt of the target is significantly associated with the stock prices of acquiring firms. Furthermore, we evaluated the stock price reaction to cross-border M&As based on political stability and governance quality of the target firm's countries. Thus, shareholders of acquiring firms gain higher cumulative abnormal returns that acquire firms from high politically stable countries.

## 6. AVAILABILITY OF DATA AND MATERIAL

Relevant information can be made available by contacting the corresponding author.

## 7. REFERENCES

Aybar, B. and Ficici, A. (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals. *Journal of International Business Studies*. 40(8), 1317-1338.

Ben-Amar, W. and André, P. (2006), "Separation of ownership from control and acquiring firm

performance: The case of family ownership in Canada”, *Journal of Business Finance and Accounting*.

- Bhabra, H.S. and Huang, J. (2013), “An empirical investigation of mergers and acquisitions by Chinese listed companies, 1997-2007”, *Journal of Multinational Financial Management*.
- Bhagat, S., Malhotra, S. and Zhu, P.C. (2011), “Emerging country cross-border acquisitions: Characteristics, acquirer returns, and cross-sectional determinants”, *Emerging Markets Review*, Elsevier B.V., 12(3), 250–271.
- Boateng, A., Qian, W. and Tianle, Y. (2008), “Cross-border M&As by Chinese firms: An analysis of strategic motives and performance”, *Thunderbird International Business Review*.
- Brown, S.J. and Warner, J.B. (1985), “Using daily stock returns. The case of event studies”, *Journal of Financial Economics*, DOI: 10.1016/0304-405X(85)90042-X.
- Campa, J.M. and Hernando, I. (2004), “Shareholder value creation in European M&As”, *European Financial Management*.
- Chen, Y.Y. and Young, M.N. (2010), “Cross-border mergers and acquisitions by Chinese listed companies: A principal-principal perspective”, *Asia Pacific Journal of Management*.
- Conn, R.L., Cosh, A., Guest, P.M. and Hughes, A. (2005), “The impact on UK acquirers of domestic, cross-border, public and private acquisitions”, *Journal of Business Finance and Accounting*, DOI: 10.1111/j.0306-686X.2005.00615.x.
- Deng, P. (2004), “Outward investment by Chinese MNCs: Motivations and implications”, *Business Horizons*.
- Eckbo, B.E. and Thorburn, K.S. (2000), *Gains to Bidder Firms Revisited: Domestic and Foreign Acquisitions in Canada*, SSRN, DOI: 10.2139/ssrn.191969.
- Faccio, M., McConnell, J.J. and Stolin, D. (2006), “Returns to acquirers of listed and unlisted targets”, *Journal of Financial and Quantitative Analysis*, DOI: 10.1017/S0022109000002477.
- Floreani, A. and Rigamonti, S. (2001), *Mergers and Shareholders' Wealth in the Insurance Industry*, SSRN, DOI: 10.2139/ssrn.267554.
- Fuller, K., Netter, J., and Stegemoller, M. (2002), “What do returns to acquiring firms tell us? Evidence from firms that make many acquisitions”, *Journal of Finance*, DOI: 10.1111/1540-6261.00477.
- Gaur, A.S., Malhotra, S. and Zhu, P. (2013), “Acquisition announcements and stock market valuations of acquiring firms' rivals: A test of the growth probability hypothesis in China”, *Strategic Management Journal*, DOI: 10.1002/smj.2009.
- Goergen, M. and Renneboog, L. (2004), “Shareholder Wealth Effects of European Domestic and Cross-border Takeover Bids”, *European Financial Management*, DOI: 10.1111/j.1468-036X.2004.00239.x.
- Gregory, A. and McCorrison, S. (2005), “Foreign acquisitions by UK limited companies: Short- and long-run performance”, *Journal of Empirical Finance*, DOI: 10.1016/j.jempfin.2003.10.003.
- Gubbi, S.R., Aulakh, P.S., Ray, S., Sarkar, M.B. and Chittoor, R. (2010), “Do international acquisitions by emerging-economy firms create shareholder value the case of Indian firms”, *Journal of International Business Studies*, DOI: 10.1057/jibs.2009.47.
- Kaufmann, D., Kraay, A. and Mastruzzi, M. (2011), “The worldwide governance indicators: Methodology and analytical issues”, *Hague Journal on the Rule of Law*, DOI:

10.1017/S1876404511200046.

- Kim, H.Y. and Mei, J.P. (2001), “What makes the stock market jump? An analysis of political risk on Hong Kong stock returns”, *Journal of International Money and Finance*, DOI: 10.1016/S0261-5606(01)00035-3.
- Lang, L.H.P., Stulz, R.M. and Walkling, R.A. (1991), “A test of the free cash flow hypothesis. The case of bidder returns”, *Journal of Financial Economics*.
- Li, J., Li, P. and Wang, B. (2016), “Do cross-border acquisitions create value? Evidence from overseas acquisitions by Chinese firms”, *International Business Review*, DOI: 10.1016/j.ibusrev.2015.08.003.
- Maris, B.A. (2006), “Corporate Takeovers, Strategic Objectives, and Acquiring-Firm Shareholder Wealth”, *CFA Digest*, available at: <https://doi.org/10.2469/dig.v31.n2.855>.
- Martynova, M. and Renneboog, L. (2008), “A century of corporate takeovers: What have we learned and where do we stand?”, *Journal of Banking and Finance*.
- Masulis, R.W., Wang, C. and Xie, F. (2007), “Corporate governance and acquirer returns”, *Journal of Finance*, DOI: 10.1111/j.1540-6261.2007.01259.x.
- Moeller, S.B. and Schlingemann, F.P. (2005), “Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions”, *Journal of Banking and Finance*.
- Ning, L., Kuo, J.M., Strange, R. and Wang, B. (2014), “International investors’ reactions to cross-border acquisitions by emerging market multinationals”, *International Business Review*.
- Pettway, R.H. and Yamada, T. (2007), “Mergers in Japan and Their Impacts upon Stockholders’ Wealth”, *Financial Management*,
- Schwert, G.W. (2000), “Hostility in takeovers: In the eyes of the beholder?”, *Journal of Finance*, DOI: 10.1111/0022-1082.00301.
- Sudarsanam, P.S. (1995), “The role of defensive strategies and ownership structure of target firms: Evidence from UK hostile takeover bids”, *European Financial Management*.
- Sudarsanam, S. and Mahate, A.A. (2003), “Glamour acquirers, method of payment and post-acquisition performance: The UK evidence”, *Journal of Business Finance and Accounting*, DOI: 10.1111/1468-5957.00494.
- Tao, F., Liu, X., Gao, L. and Xia, E. (2017), “Do cross-border mergers and acquisitions increase short-term market performance? The case of Chinese firms”, *International Business Review*, 26(1), 189–202.
- Uddin, M. and Boateng, A. (2009), “An analysis of the short-run performance of cross-border mergers and acquisitions: Evidence from the UK acquiring firms”, *Review of Accounting and Finance*, DOI: 10.1108/14757700911006967.
- UNCTAD. (2009), *Trade and Development Report, 2009 : Responding to the Global Crisis. Climate Change Mitigation and Development, United Nations Report*.
- Wang, Q., Boateng, A. and Yan, T. (2007), “Cross-Border M&As by Chinese Firms: An Analysis of Strategic Motives and Performance”, *Thunderbird International Business Review*.
- Zhou, B., Guo, J.M., Hua, J. and Doukas, A.J. (2015), “Does state ownership drive M&A performance? Evidence from China”, *European Financial Management*, DOI: 10.1111/j.1468-036X.2012.00660.x.

Zhu, P. and Malhotra, S. (2008), “Announcement effect and price pressure: An empirical study of cross-border acquisitions by Indian firms”, *Statistical Methodology*.

---



**Aamir Khan** is a PhD scholar in the Department of Management Sciences, COMSATS University Islamabad, Pakistan. He is also an Erasmus Fellow of the University of Nice Sophia Antipolis France. His research interest includes Corporate Finance, International Finance, Digital Finance, and Sustainability.



**Dr. Aneel Salman** is an Assistant Professor in the Department of Economics, COMSATS University Islamabad, Pakistan. He did his Ph.D. in Economics from Rensselaer Polytechnic Institute Troy, New York, USA. His areas of research expertise include Development Economics, International Trade, Institutional Governance, Corporate Social Responsibility, Public Policy, and Business Management.

**Trademarks Disclaimer:** All product names including trademarks™ or registered® trademarks mentioned in this article are the property of their respective owners, using for identification and educational purposes only. The use of them does not imply any endorsement or affiliation.