IMPACT OF CROSS-BORDER MERGERS AND ACQUISITIONS ON VALUE CREATION: EVIDENCE FROM EMERGING MARKET ECONOMIES

NEHA GUPTA

DEPARTMENT OF MANAGEMENT STUDIES

INDIAN INSTITUTE OF TECHNOLOGY DELHI

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by

Neha Gupta

Department of Management Studies

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Dedicated to the Almighty, for guiding me through this journey; to my beloved husband, for his endless love, patience, and unwavering support; and to my family, whose constant encouragement, faith, and unconditional love made this work possible.

Certificate

This is to certify that the thesis entitled "**Impact of Cross-Border Mergers and Acquisitions on Value Creation: Evidence from Emerging Market Economies**", submitted by **Neha Gupta** to the Indian Institute of Technology Delhi, for the award of the degree of **Doctor of Philosophy**, is a record of the original, bona fide research work carried out by her under our supervision and guidance. The thesis has reached the standards fulfilling the requirements of the regulations related to the award of the degree.

The results contained in this thesis have not been submitted in part or in full to any other University or Institute for the award of any degree or diploma to the best of our knowledge.

(**Prof. Smita Kashiramka)**
Professor
Department of Management Studies,
Indian Institute of Technology Delhi

(**Prof. Shveta Singh)**
Professor
Department of Management Studies,
Indian Institute of Technology Delhi.

DECLARATION

I hereby declare that:

1. The work presented in this thesis is original and has been carried out by me as a student of IIT Delhi.

2. To the best of my knowledge, the work presented in this thesis has not been submitted, either in whole or in part, to any other institution for the award of any degree or diploma.

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6. All sources of information, including data, ideas, and text, have been duly acknowledged and appropriately cited in the thesis.

7. The use of artificial intelligence (AI) tools (if any), including large language models, has been appropriately disclosed. All analysis, interpretations, and conclusions presented in this thesis are my own. Alternatively, I declare that no AI tools, including large language models, have been used in the preparation of this thesis.

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Neha Gupta

Abstract

Purpose

This study investigates the dynamics of value creation for emerging market acquirers (EMAs) undertaking cross-border mergers and acquisitions (CBMAs). Value creation is examined through three distinct lenses: financial, innovation, and sustainability performance. The first objective is to assess whether the announcement of CBMAs by EMAs generates value for the shareholders of acquiring firms. The study systematically examines the influence of critical deal, firm, and country-level factors on both short and long-term financial performance. To comprehensively assess financial performance, this research employs both short-term and long-term measures, utilizing a combination of market-based and accounting-based indicators. The study assesses short-term financial performance using cumulative abnormal returns (CAR) across multiple event windows, while long-term financial performance is evaluated through buy-and-hold abnormal returns (BHAR) in conjunction with key accounting-based financial ratios (return on assets, return on equity, and Tobin's Q). The second objective examines the role of CBMA in shaping the innovation performance of the acquiring firms, as measured by R&D intensity and patents. Finally, the third objective evaluates the impact of CBMAs on corporate sustainability performance (measured using environmental, social, and governance scores). The study further explores the potential link between these sustainability enhancements and long-term financial value. By addressing these objectives, the research provides a comprehensive understanding of how EMAs create value through CBMAs and the mechanisms through which financial, innovation, and sustainability outcomes are realized.

Methodology

The study employs several methodological approaches, primarily relying on quantitative analysis of a comprehensive dataset of completed CBMAs involving EMAs from China, India, Brazil, Russia, South Africa, Thailand, Poland, Mexico, Malaysia, and United Arab Emirates. To analyse the financial performance, the event study methodology is utilized for assessing short-term wealth effects (CARs) of a sample of 1,289 CBMA transactions from 2009-2021. While long-term abnormal returns (BHARs) and operating performance (ROA, ROE, and Tobin's Q) are examined using cross-sectional OLS (ordinary least squares) regression and paired sample "t" test. The impact of a sample of 872 CBMA transactions from 2009-2020 on innovation performance is assessed through a random effects model, instrumental variable two-stage least squares (IV-2SLS), and a non-binomial regression model. The effect of a sample of 613 CBMA transactions from 2015-2023 on sustainability performance is investigated using propensity score matching (PSM), difference-in-difference (DID) estimation, and the Heckman selection model. Data is sourced from Bloomberg®, World Bank databases, and XLSCOUT®. Statistical analysis is conducted using Stata 16® and Microsoft Excel®.

Findings

The findings of objective 1 suggest that, on average, CBMAs initiated by EMAs lead to positive short-term wealth creation for acquirer shareholders, thereby lending credence to the value creation theory and synergy theory. Deal-level factors such as *cash payment*, *advisor involvement*, *industry relatedness*, and *friendly bids* significantly influence announcement period returns. Firm-level characteristics like *acquirer free cash flow*, *leverage*, and *target status* also play a significant role in short-term value creation. In the long run, however, the study indicates negative average BHARs and a substantial reduction in post-merger profitability (ROA and ROE). Grounded on *absorptive capacity theory*, the study further finds that CBMAs positively influence the absorptive capacity of EMAs, which subsequently enhances their innovation performance, as measured by

patenting activity. The findings of objective 2 suggest that these strategic transactions enable EMAs to effectively integrate R&D activities, thus reinforcing their internal innovative capabilities. *Knowledge* and *cultural distances* negatively moderate the relationship between absorptive capacity and innovation performance, while *institutional distance* shows a positive moderating effect. Finally, the findings of objective 3 indicate a significant enhancement in the sustainability performance of EMMs following a CBMA. This improvement is most pronounced in the environmental dimension, particularly for firms operating within environmentally sensitive industries. The results provide evidence supporting "*stakeholder theory*" by demonstrating the long-term spillover benefits of strong sustainability performance on the financial outcomes of the acquirer. However, the COVID pandemic adversely affects the positive impact of sustainability performance on operational, financial, and market-based performance metrics.

Implications

The empirical findings offer significant implications for managers, investors, and policymakers by providing a comprehensive examination of value creation in CBMAs undertaken by EMMs. The managers must perceive CBMAs not merely as strategies for market expansion but also as strategic opportunities to enhance financial, innovation, and sustainability performance. The findings caution stakeholders and investors against immediate financial gains at the time of CBMA announcements. While initial positive abnormal returns may appear favourable, a more accurate assessment of value creation is only possible over time, as performance is ultimately shaped by the subsequent integration of operational, cultural, and institutional factors. Managers should leverage the potential synergies arising from institutional distance to enhance cross-national innovation capabilities. Given the long-term financial benefits associated with CSR synergies, managers are advised to conduct thorough ESG due diligence on targets to enhance social and governance factors. Finally, the findings suggest policymakers on promoting investor ESG consideration and mandating transparent ESG reporting through strategic policy measures.

सारांश

उद्देश्य

यह अध्ययन उभरते बाजार के अधिग्रहणकर्ताओं (ईएमए) द्वारा किए गए सीमा-पार विलय और अधिग्रहण (सीबीएमए) के लिए मूल्य सृजन की गतिशीलता की जांच करता है। मूल्य सृजन का मूल्यांकन तीन अलग-अलग दृष्टिकोणों से किया गया है: वित्तीय, नवाचार और स्थिरता प्रदर्शन। पहला उद्देश्य यह आकलन करना है कि क्या ईएमए द्वारा सीबीएमए की घोषणा अधिग्रहण करने वाली फर्मों के शेयरधारकों के लिए मूल्य उत्पन्न करती है। यह अध्ययन अल्पकालिक और दीर्घकालिक वित्तीय प्रदर्शन पर महत्वपूर्ण सौदे, फर्म और देश-स्तरीय कारकों के प्रभाव की व्यवस्थित रूप से जांच करता है। वित्तीय प्रदर्शन का व्यापक मूल्यांकन करने के लिए, यह शोध बाजार-आधारित और लेखा-आधारित संकेतकों के संयोजन का उपयोग करते हुए अल्पकालिक और दीर्घकालिक दोनों उपायों को नियोजित करता है। अध्ययन कई इवेंट विंडोज़ में संचयी असामान्य रिटर्न (सीएआर) का उपयोग करके अल्पकालिक वित्तीय प्रदर्शन का आकलन करता है, जबकि दीर्घकालिक वित्तीय प्रदर्शन का मूल्यांकन बाय-एंड-होल्ड असामान्य रिटर्न (बीएएचआर) के साथ-साथ प्रमुख लेखा-आधारित वित्तीय अनुपातों (संपत्ति पर रिटर्न (आरओए), इक्विटी पर रिटर्न (आरओई), और टोबिन का क्यू) के माध्यम से किया जाता है। दूसरा उद्देश्य अनुसंधान एवं विकास (आरएंडडी) तीव्रता और पेटेंट द्वारा मापे गए अधिग्रहण करने वाली फर्मों के नवाचार प्रदर्शन को आकार देने में सीबीएमए की भूमिका की जांच करना है। अंत में, तीसरा उद्देश्य कॉर्पोरेट स्थिरता प्रदर्शन (पर्यावरणीय, सामाजिक और शासन (ईएसजी) स्कोर का उपयोग करके मापा गया) पर सीबीएमए के प्रभाव का मूल्यांकन करता है। अध्ययन ने इन स्थिरता संवर्द्धनों और दीर्घकालिक वित्तीय मूल्य के बीच संभावित लिंक का भी पता लगाया है। इन उद्देश्यों को संबोधित करके, यह शोध एक व्यापक समझ प्रदान करता है कि ईएमए कैसे सीबीएमए के माध्यम से मूल्य बनाते हैं और वे कौन से तंत्र हैं जिनके माध्यम से वित्तीय, नवाचार और स्थिरता के परिणाम साकार होते हैं।

कार्यप्रणाली

यह अध्ययन कई méthodological दृष्टिकोणों को नियोजित करता है, जो मुख्य रूप से चीन, भारत, ब्राजील, रूस, दक्षिण अफ्रीका, थाईलैंड, पोलैंड, मैक्सिको, मलेशिया और संयुक्त अरब अमीरात से ईएमए से जुड़े पूर्ण सीबीएमए के एक व्यापक डेटासेट के मात्रात्मक विश्लेषण पर निर्भर करता है। वित्तीय प्रदर्शन का विश्लेषण करने के लिए, 2009-2021 तक 1,289 सीबीएमए लेनदेन के नमूने के अल्पकालिक धन प्रभावों (सीएआर) का आकलन करने के लिए इवेंट स्टडी कार्यप्रणाली का उपयोग किया गया है। जबकि दीर्घकालिक असामान्य रिटर्न (बीएएचआर) और परिचालन प्रदर्शन (आरओए, आरओई, और टोबिन का क्यू) की जांच क्रॉस-सेक्शनल साधारण न्यूनतम वर्ग (ओएलएस) रिग्रेशन और युग्मित नमूना "टी" परीक्षण का उपयोग करके की जाती है। नवाचार प्रदर्शन पर 2009-2020 तक 872 सीबीएमए लेनदेन के नमूने के प्रभाव का आकलन रैंडम इफेक्ट्स मॉडल, इंस्ट्रूमेंटल वैरिएबल टू-स्टेज लीस्ट स्क्वेयर्स (आईवी-2एसएलएस), और गैर-द्विपद प्रतिगमन मॉडल के माध्यम से किया जाता है। स्थिरता प्रदर्शन पर 2015-2023 तक 613 सीबीएमए लेनदेन के नमूने के प्रभाव की जांच प्रोपेंसिटी स्कोर मैचिंग (पीएसएम), डिफरेंस-इन-डिफरेंस (डीआईडी) अनुमान, और हेकमैन चयन मॉडल का उपयोग करके की जाती है। डेटा ब्लूमबर्ग®, विश्व बैंक डेटाबेस, और एक्सएलस्काउट® से प्राप्त किया गया है। सांख्यिकीय विश्लेषण स्टेटा 16® और माइक्रोसॉफ्ट एक्सेल® का उपयोग करके किया गया है।

निष्कर्ष

पहले उद्देश्य के निष्कर्ष बताते हैं कि, औसतन, ईएमए द्वारा शुरू किए गए सीबीएमए अधिग्रहणकर्ता शेयरधारकों के लिए सकारात्मक अल्पकालिक धन सृजन करते हैं, जिससे मूल्य सृजन सिद्धांत और सहक्रिया सिद्धांत को बल मिलता है। नकद भुगतान, सलाहकार की भागीदारी, उद्योग संबंधी संबंध, और मैत्रीपूर्ण बोलियां जैसे सौदे-स्तरीय कारक घोषणा अवधि रिटर्न को महत्वपूर्ण रूप से प्रभावित करते हैं। अधिग्रहणकर्ता के मुक्त नकदी प्रवाह, लीवरेज, और लक्ष्य की स्थिति जैसी फर्म-स्तरीय विशेषताएं भी अल्पकालिक मूल्य

सृजन में एक महत्वपूर्ण भूमिका निभाती हैं। हालांकि, दीर्घावधि में, अध्ययन नकारात्मक औसत बीएएचआर और विलय के बाद की लाभप्रदता (आरओए और आरओई) में पर्याप्त कमी का संकेत देता है। अवशोषण क्षमता सिद्धांत पर आधारित, अध्ययन आगे पाता है कि सीबीएमए ईएमए की अवशोषण क्षमता को सकारात्मक रूप से प्रभावित करते हैं, जो बाद में पेटेंटिंग गतिविधि द्वारा मापे गए उनके नवाचार प्रदर्शन को बढ़ाता है। दूसरे उद्देश्य के निष्कर्ष बताते हैं कि ये रणनीतिक लेनदेन ईएमए को आरएंडडी गतिविधियों को प्रभावी ढंग से एकीकृत करने में सक्षम बनाते हैं, जिससे उनकी आंतरिक नवीन क्षमताओं को मजबूती मिलती है। ज्ञान और सांस्कृतिक दूरियां अवशोषण क्षमता और नवाचार प्रदर्शन के बीच संबंध को नकारात्मक रूप से संचालित करती हैं, जबकि संस्थागत दूरी एक सकारात्मक संचालक प्रभाव दिखाती है। अंत में, तीसरे उद्देश्य के निष्कर्ष एक सीबीएमए के बाद उभरते बाजार की बहुराष्ट्रीय कंपनियों (ईएमएम) के स्थिरता प्रदर्शन में एक महत्वपूर्ण वृद्धि का संकेत देते हैं। यह सुधार पर्यावरणीय आयाम में सबसे अधिक स्पष्ट है, विशेष रूप से पर्यावरणीय रूप से संवेदनशील उद्योगों के भीतर काम करने वाली फर्मों के लिए। परिणाम "हितधारक सिद्धांत" का समर्थन करने वाले साक्ष्य प्रदान करते हैं, जो अधिग्रहणकर्ता के वित्तीय परिणामों पर मजबूत स्थिरता प्रदर्शन के दीर्घकालिक स्पिलओवर लाभों को प्रदर्शित करते हैं। हालांकि, कोविड महामारी परिचालन, वित्तीय और बाजार-आधारित प्रदर्शन मैट्रिक्स पर स्थिरता प्रदर्शन के सकारात्मक प्रभाव को प्रतिकूल रूप से प्रभावित करती है।

निहितार्थ

अध्ययन के अनुभवजन्य निष्कर्ष ईएमएम द्वारा किए गए सीबीएमए में मूल्य सृजन की एक व्यापक परीक्षा प्रदान करके प्रबंधकों, निवेशकों और नीति निर्माताओं के लिए महत्वपूर्ण निहितार्थ प्रस्तुत करते हैं। प्रबंधकों को सीबीएमए को केवल बाजार विस्तार की रणनीतियों के रूप में नहीं, बल्कि वित्तीय, नवाचार और स्थिरता प्रदर्शन को बढ़ाने के रणनीतिक अवसरों के रूप में भी देखना चाहिए। निष्कर्ष हितधारकों और निवेशकों को सीबीएमए घोषणाओं के समय तत्काल वित्तीय लाभ से परे देखने के लिए सचेत करते हैं। यद्यपि प्रारंभिक

सकारात्मक असामान्य रिटर्न अनुकूल दिखाई दे सकता है, मूल्य सृजन का अधिक सटीक मूल्यांकन समय के साथ ही संभव है, क्योंकि वास्तविक प्रदर्शन अंततः परिचालन, सांस्कृतिक और संस्थागत कारकों के एकीकरण द्वारा आकार लेता है। प्रबंधकों को सीमा-पार नवाचार क्षमताओं को बढ़ाने के लिए संस्थागत दूरी से उत्पन्न होने वाली संभावित सहक्रियाओं का लाभ उठाना चाहिए। कॉर्पोरेट सामाजिक उत्तरदायित्व (सीएसआर) सहक्रियाओं से जुड़े दीर्घकालिक वित्तीय लाभों को देखते हुए, प्रबंधकों को सामाजिक और शासन कारकों को बढ़ाने के लिए लक्ष्यों पर पूरी तरह से ईएसजी ड्यू डिलिजेंस करने का सुझाव दिया जाता है। अंत में, निष्कर्ष नीति निर्माताओं को निवेशक ईएसजी विचार को बढ़ावा देने और रणनीतिक नीति उपायों के माध्यम से पारदर्शी ईएसजी रिपोर्टिंग को अनिवार्य करने की सलाह देते हैं।

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List of Abbreviations

2SLS	**T**wo-**S**tage **L**east **S**quares
AAR	**A**verage **A**bnormal **R**eturn
ADX	**A**bu **D**habi Securities E**x**change
ASEAN	**A**ssociation of **S**outheast **A**sian **N**ations
BHAR	**B**uy-and-**H**old **A**bnormal **R**eturns
BMV	**B**olsa **M**exicana de **V**alores
BRIC	**B**razil, **R**ussia, **I**ndia, **C**hina
BSE	**B**ombay **S**tock **E**xchange
CAAR	**C**umulative **A**verage **A**bnormal **R**eturn
CAR	**C**umulative **A**bnormal **R**eturns
CBMA	**C**ross-**B**order **M**erger and **A**cquisition
CBMAs	**C**ross-**B**order **M**ergers and **A**cquisitions
CD	**C**ultural **D**istance
CEPII	**C**enter for **P**rospective **S**tudies and **I**nternational **I**nformation
CSR	**C**orporate **S**ocial **R**esponsibility
DFM	**D**ubai **F**inancial **M**arket
DID	**D**ifference-**i**n-**D**ifferences
EMMs	**E**merging **M**arket **M**ultinationals
EMAs	**E**merging **M**arket **A**cquirers
ESG	**E**nvironmental, **S**ocial, and **G**overnance
ESM	**E**vent **S**tudy **M**ethodology
FCF	**F**ree **C**ash **F**low
FDI	**F**oreign **D**irect **I**nvestment
FE	**F**ixed **E**ffects
GDP	**G**ross **D**omestic **P**roduct
IB	**I**nternational **B**usiness
ID	**I**nstitutional **D**istance
IMF	**I**nternational **M**onetary **F**und
IMR	**I**nverse **M**ills **R**atio
IP	**I**nnovation **P**erformance
IV	**I**nstrumental **V**ariables
KD	**K**nowledge **D**istance
M&A	**M**ergers and **A**cquisitions
MOEX	**Mo**scow **Ex**change
NAICS	**N**orth **A**merican **I**ndustry **C**lassification **S**ystem
NSE	**N**ational **S**tock **E**xchange
OECD	**O**rganisation for **E**conomic **C**o-operation and **D**evelopment
OLS	**O**rdinary **L**east **S**quares
PAC	**P**otential **A**bsorptive **C**apacity
PSM	**P**ropensity **S**core **M**atching
PwC	**P**rice**w**aterhouse **C**oopers

R&D	**R**esearch and **D**evelopment
RBV	**R**esource-**B**ased **V**iew
RE	**R**andom **E**ffects
RO	**R**esearch **O**bjectives
ROA	**R**eturn on **A**ssets
ROE	**R**eturn on **E**quity
SDG	**S**ustainable **D**evelopment **G**oals
SET	**S**tock **E**xchange of **T**hailand
SRI	**S**ocially **R**esponsible **I**nvesting
SSE	**S**hanghai **S**tock **E**xchange
UNCTAD	**U**nited **N**ations **C**onference on **T**rade and **D**evelopment
US	**U**nited **S**tates
VIF	**V**ariance **I**nflation **F**actor
WGI	**W**orldwide **G**overnance **I**ndicators
WIG	**W**arszawski **I**ndeks **G**iełdowy