

**PERFORMANCE OUTCOMES IN CROSS-BORDER
ACQUISITIONS: A STUDY IN THE CONTEXT
OF BRICS**

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IN THE CONTEXT OF BRICS**

by

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Dedicated to my nephews

Ayansh and Kiansh

May they always be blessed with a thirst for knowledge and a sense of wonder!

CERTIFICATE

The thesis titled, “**Performance outcomes in cross-border acquisitions: A study in the context of BRICS,**” being submitted by **Ms. Sugandh Ahuja** to the **Indian Institute of Technology Delhi** for the award of the degree of **Doctor of Philosophy** is a record of bonafide research work carried out by her. She has worked under our guidance and supervision and has fulfilled all the requirements for the submission of this thesis, which has attained the standard required for a Ph.D. degree at this institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

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ABSTRACT

The realm of multinational firms has expanded beyond those established in developed nations due to the advent of globalization. Multinationals in emerging markets, often called EMMs, have contributed a significant share to global economic growth by engaging in cross-border acquisitions. However, unlike developed market firms, EMMs face legitimacy challenges while expanding overseas. Considering these challenges, several aspects related to the performance of cross-border acquisitions (CBAs) initiated by EMMs require closer examination.

Using data of acquisitions announced by listed firms in five emerging economies: Brazil, Russia, India, China, and South Africa (BRICS) from 2005-2021, the present study investigates distinct performance outcomes through different stages of the acquisition process. The first performance outcome that this study evaluates is the response generated by the acquirer's stock market upon the announcement of the CBA deal. Next, the study investigates deal, firm, and country-specific determinants influencing the likelihood of acquisition completion and the duration of an announced acquisition. Further, the study introduces three moderating variables derived from the acquisition press release: qualitative information (declared deal motive), quantitative information (percent of information disclosed in numbers), and sentiment (tone of the acquisition announcement). These moderating variables may weaken or strengthen the effect of determinants on completion and duration outcomes. Finally, the study evaluates performance in the post-completion stage by investigating changes in the firm-level governance of acquirer in terms of ownership and board-related variables. The subsequent impact of governance improvement on the long-term valuation of the acquiring company is also determined.

The study adopts distinct research methods to investigate the performance outcomes. The standard event study methodology is used to evaluate the stock market reaction at the time of the deal announcement.

Further, the binary logistic regression method is utilized to model the determinants of deal completion, and standard ordinary least squares (OLS) regression is used to investigate the outcome of deal duration. Next, a dictionary-based content analysis method is used to code the moderating variables. Finally, a two-step methodology involving propensity score matching (PSM) and difference-in-difference (DID) regression is deployed to analyze changes in the firm-level governance of the acquirer.

The findings indicate variations between countries in how the market responds to the deal announcement. Acquisitions from India, China, and South Africa report positive and significant announcement returns. However, statistically insignificant returns are reported for Russian acquirers. In contrast, acquirers from Brazil receive significant negative announcement returns. In addition to providing cues about the value-creation potential of the deal, the findings suggest that a positive reaction to the acquisition announcement is associated with increased completion probability. Further, amongst the deal-specific factors, the findings indicate that a greater percentage stake and appointment of top-tier advisors improves the likelihood of completion. For firm-specific variables, the findings suggest that the acquirer's past success (failure) experience improves (reduces) the likelihood of deal completion. Country-specific variables do not influence the likelihood of completion. For deal duration, the results suggest that a greater percentage stake and increased success experience reduce deal duration. Amongst the country-specific variables, the results indicate that deal duration increases with increasing institutional distance. Additionally, the findings suggest that the relationship between deal, firm, and country-specific variables and the outcomes of completion and duration is moderated by the information disclosures. For changes in firm-level governance, it is observed that promoter ownership declines significantly for acquirers completing acquisitions of targets from developed countries and countries with common-law origins. Among the board-specific variables, board independence, diligence, and board busyness increase significantly following acquisition completion. Further, the results indicate that a decline in promoter ownership and

improvement in board independence positively affects the long-term valuation of the acquiring company measured using return on asset (ROA) and Tobin's Q indicators.

In doing so, the study helps the acquiring firm managers gauge their future internationalization strategies by incorporating the performance outcomes to assess the value-creation potential of deals. Further, the study outcomes will help resolve real-world business problems related to delays in deal conclusion and cancellations of announced deals before completion. Finally, the study helps corroborate the role of cross-border acquisitions as a viable mechanism for improving the corporate governance of firms from emerging economies. This investigation is critical in emerging markets as firms here are subject to weak enforcement of regulatory practices. Hence, they can use the acquisition mechanism to commit to better governance procedures and improve their overall performance.

Keywords: Acquisition, Cross-border, Emerging economies, Announcement returns, Deal completion, Disclosure, Corporate governance, Valuation, Performance

सार

वैश्वीकरण के आगमन के कारण बहुराष्ट्रीय कंपनियों का दायरा विकसित देशों में स्थापित कंपनियों से आगे बढ़ गया है। उभरते बाजारों में बहुराष्ट्रीय कंपनियों, जिन्हें अक्सर ईएमएम कहा जाता है, ने सीमा पार अधिग्रहण करके वैश्विक आर्थिक विकास में महत्वपूर्ण योगदान दिया है। ईएमएम को विदेशों में विस्तार करते समय वैधता संबंधी चुनौतियों का सामना करना पड़ता है। इन चुनौतियों को ध्यान में रखते हुए, ईएमएम द्वारा शुरू किए गए सीमा-पार अधिग्रहणों के प्रदर्शन से संबंधित कई पहलुओं की गहन जांच की आवश्यकता है।

पांच उभरती अर्थव्यवस्थाओं: ब्राजील, रूस, भारत, चीन और दक्षिण अफ्रीका (ब्रिक्स) में सूचीबद्ध फर्मों द्वारा 2005-2021 तक घोषित अधिग्रहणों के आंकड़ों का उपयोग करते हुए, वर्तमान अध्ययन अधिग्रहण प्रक्रिया के विभिन्न चरणों के माध्यम से अलग-अलग परिणामों की जांच करता है। पहला परिणाम जिसका यह अध्ययन मूल्यांकन करता है, वह CBA सौदे की घोषणा के बाद अधिग्रहणकर्ता के शेयर बाजार द्वारा उत्पन्न प्रतिक्रिया है। इसके बाद, अध्ययन अधिग्रहण के पूरा होने की संभावना और घोषित अधिग्रहण की अवधि को प्रभावित करने वाले सौदे, फर्म और देश-विशिष्ट निर्धारकों की जांच करता है। इसके अलावा, अध्ययन अधिग्रहण प्रेस विज्ञप्ति से प्राप्त तीन मॉडरेटिंग चर (Variable) पेश करता है: गुणात्मक जानकारी (घोषित सौदे का मकसद), मात्रात्मक जानकारी (संख्या में बताई गई जानकारी का प्रतिशत), और भावना (अधिग्रहण घोषणा का लहजा)। अंत में, अध्ययन अधिग्रहणकर्ता की फर्म-स्तरीय शासन विशेषताओं (स्वामित्व और बोर्ड-संबंधी चर) में परिवर्तनों और अधिग्रहण करने वाली कंपनी के दीर्घकालिक मूल्यांकन पर शासन सुधार के बाद के प्रभाव की जांच करके, समापन के बाद के चरण का मूल्यांकन करता है।

अध्ययन में प्रदर्शन परिणामों की जांच करने के लिए अलग-अलग शोध पद्धतियों को अपनाया गया है। डील की घोषणा के समय शेयर बाजार की प्रतिक्रिया का मूल्यांकन करने के लिए मानक घटना (Event Study) अध्ययन पद्धति का उपयोग किया जाता है। इसके अलावा, डील के पूरा होने के निर्धारकों को मॉडल करने के लिए बाइनरी लॉजिस्टिक

रिग्रेशन पद्धति का उपयोग किया जाता है, और डील की अवधि के परिणाम की जांच करने के लिए मानक साधारण न्यूनतम वर्ग (OLS) रिग्रेशन का उपयोग किया जाता है। इसके बाद, मॉडरेटिंग चर (Variable) को कोड करने के लिए एक शब्दकोश-आधारित सामग्री विश्लेषण पद्धति का उपयोग किया जाता है। अंत में, अधिग्रहणकर्ता के फर्म-स्तरीय शासन में परिवर्तनों का विश्लेषण करने के लिए प्रवृत्ति स्कोर मिलान (PSM) और अंतर-में-अंतर (DID) प्रतिगमन को शामिल करने वाली दो-चरणीय पद्धति का उपयोग किया जाता है।

निष्कर्ष बताते हैं कि सौदे की घोषणा पर बाजार की प्रतिक्रिया के मामले में देशों के बीच भिन्नताएं हैं। भारत, चीन और दक्षिण अफ्रीका से अधिग्रहण सकारात्मक और महत्वपूर्ण घोषणा रिटर्न की रिपोर्ट करते हैं। हालांकि, रूसी अधिग्रहणकर्ताओं के लिए सांख्यिकीय रूप से महत्वहीन रिटर्न की रिपोर्ट की गई है। इसके विपरीत, ब्राजील के अधिग्रहणकर्ताओं को महत्वपूर्ण नकारात्मक घोषणा रिटर्न प्राप्त होता है। सौदे की मूल्य-सृजन क्षमता के बारे में संकेत प्रदान करने के अलावा, निष्कर्ष बताते हैं कि अधिग्रहण की घोषणा पर सकारात्मक प्रतिक्रिया पूर्णता की बढ़ी हुई संभावना से जुड़ी है। इसके अलावा, सौदे-विशिष्ट कारकों के बीच, निष्कर्ष बताते हैं कि अधिक प्रतिशत हिस्सेदारी और शीर्ष-स्तरीय सलाहकारों की नियुक्ति से पूर्णता की संभावना में सुधार होता है। फर्म-विशिष्ट चर (Variable) के लिए, निष्कर्ष बताते हैं कि अधिग्रहणकर्ता के पिछले सफलता (विफलता) अनुभव से सौदे के पूरा होने की संभावना में सुधार (कमी) होता है। देश-विशिष्ट चर पूर्णता की संभावना को प्रभावित नहीं करते हैं। सौदे की अवधि के लिए, परिणाम बताते हैं कि अधिक प्रतिशत हिस्सेदारी और बढ़ी हुई सफलता का अनुभव सौदे की अवधि को कम करता है। देश-विशिष्ट चर के बीच, परिणाम बताते हैं कि संस्थागत दूरी बढ़ने के साथ सौदे की अवधि बढ़ जाती है। इसके अतिरिक्त, निष्कर्ष बताते हैं कि डील, फर्म और देश-विशिष्ट चरों तथा समापन और अवधि के परिणामों के बीच संबंध सूचना प्रकटीकरण द्वारा नियंत्रित होते हैं। फर्म-स्तरीय शासन में परिवर्तन के लिए, यह देखा गया है कि विकसित देशों और सामान्य-कानून मूल वाले देशों से लक्ष्यों का अधिग्रहण पूरा करने वाले अधिग्रहणकर्ताओं के लिए प्रमोटर स्वामित्व में उल्लेखनीय गिरावट आती है। बोर्ड-विशिष्ट चरों में, अधिग्रहण पूरा होने के बाद बोर्ड की स्वतंत्रता, परिश्रम और बोर्ड

की व्यस्तता में उल्लेखनीय वृद्धि होती है। इसके अलावा, परिणाम दर्शाते हैं कि प्रमोटर स्वामित्व में गिरावट और बोर्ड की स्वतंत्रता में सुधार, परिसंपत्ति पर रिटर्न (ROA) और टोबिन क्यू संकेतकों का उपयोग करके मापी गई अधिग्रहण करने वाली कंपनी के दीर्घकालिक मूल्यांकन को सकारात्मक रूप से प्रभावित करता है।

ऐसा करने में, अध्ययन अधिग्रहण करने वाली फर्म के प्रबंधकों को सौदों की मूल्य-निर्माण क्षमता का आकलन करने के लिए परिणामों को शामिल करके उनकी भविष्य की अंतर्राष्ट्रीयकरण रणनीतियों का आकलन करने में मदद करता है। इसके अलावा, अध्ययन के परिणाम सौदे के समापन में देरी और पूरा होने से पहले घोषित सौदों को रद्द करने से संबंधित वास्तविक दुनिया की व्यावसायिक समस्याओं को हल करने में मदद करेंगे। अंत में, अध्ययन एक व्यवहार्य तंत्र के रूप में सीमा पार अधिग्रहण की भूमिका की पुष्टि करने में मदद करता है। उभरते बाजारों में यह जांच महत्वपूर्ण है क्योंकि यहां की फर्म विनियामक प्रथाओं के कमजोर प्रवर्तन के अधीन हैं। इसलिए, वे बेहतर शासन प्रक्रियाओं के लिए प्रतिबद्ध होने और अपने समग्र प्रदर्शन को बेहतर बनाने के लिए अधिग्रहण तंत्र का उपयोग कर सकते हैं।

कीवर्ड: अधिग्रहण, सीमा पार, उभरती अर्थव्यवस्थाएं, घोषणा रिटर्न, सौदा पूरा होना, प्रकटीकरण, कॉर्पोरेट प्रशासन, मूल्यांकन, प्रदर्शन

Table of Contents

| | |
|--|--------------|
| Certificate | i |
| Acknowledgements | ii |
| Abstract..... | v |
| List of figures..... | xvi |
| List of tables..... | xviii |
| List of appendices..... | xxi |
| Abbreviations | xxii |
| Chapter 1: Introduction to the study | 1 |
| 1.1 Background of the study | 1 |
| 1.2 Pre-completion stage and associated performance outcomes | 6 |
| 1.2.1 Private-takeover phase | 6 |
| 1.2.2 Public-takeover phase | 7 |
| 1.3 Post-completion stage and associated performance outcomes..... | 11 |
| 1.4 Research questions and research objectives..... | 13 |
| 1.4.1 Research questions..... | 13 |
| 1.4.2 Research objectives..... | 13 |
| 1.5 Conceptual model | 14 |
| 1.6 Why BRICS?..... | 15 |
| 1.7 Significance of the study..... | 16 |
| 1.8 Organization and structure of thesis..... | 18 |
| 1.9 Concluding observations..... | 19 |
| Chapter 2: Theoretical background and literature review | 20 |
| 2.1 Introduction..... | 20 |
| 2.2 Theories underlying acquisition performance outcomes | 20 |
| 2.2.1 Organizational learning theory..... | 20 |
| 2.2.2 Signalling theory | 22 |
| 2.3 Stock market reaction to the acquisition announcement..... | 24 |
| 2.4 Determinants of deal completion and duration | 28 |
| 2.4.1 Information asymmetry and associated factors..... | 30 |

| | |
|--|-----------|
| 2.4.2 Stakeholders’ perceptions of risk and associated factors | 33 |
| 2.4.3 Escalating resource commitment and associated factors | 36 |
| 2.5 Information disclosures and acquisition outcomes | 40 |
| 2.6 Governance implications following acquisition completion..... | 45 |
| 2.7 Research gaps..... | 49 |
| 2.7.1 Inconsistent findings regarding value creation of cross-border deals initiated by emerging market acquirers | 49 |
| 2.7.2 Lack of studies focusing on determinants of deal completion and duration | 50 |
| 2.7.3 Scant literature investigating the linkage between short-term announcement returns and deal completion and duration outcomes | 50 |
| 2.7.4 Limited studies investigating the role of information disclosures in the public-takeover period | 51 |
| 2.7.5 Dearth of studies investigating changes in firm-level governance post-completion..... | 51 |
| 2.8 Concluding observations..... | 52 |
| Chapter 3: Research methodology | 53 |
| 3.1 Research questions and objectives..... | 53 |
| 3.1.1 Research questions..... | 54 |
| 3.1.2 Research objectives..... | 54 |
| 3.2 Scope of the study | 55 |
| 3.3 Econometric framework..... | 57 |
| 3.3.1 Event study methodology to estimate the average stock market reaction generated on emerging markets’ announcement of cross-border deals..... | 57 |
| 3.3.2 Logistic and OLS regression to estimate the determinants of deal completion and duration | 63 |
| 3.3.3 Content analysis and model specification for examining the moderating effect on deal completion and duration outcomes | 67 |
| 3.3.4 PSM and DID regression to analyze changes in firm-governance after deal completion..... | 72 |
| 3.4 Data source and statistical software | 76 |
| 3.5 Variable measurement | 76 |
| 3.5.1 Variables used in the event study method for RO1 | 77 |
| 3.5.2 Variables used in logistic regression and OLS regression analysis for RO2..... | 78 |
| 3.5.3 Variables used as moderating variables in RO3 investigation | 84 |
| 3.5.4 Variables used in PSM-DID regression to investigate changes in firm-level governance and long- term valuation of the acquiring company..... | 85 |

| | |
|--|------------|
| 3.6 Concluding observations..... | 91 |
| Chapter 4: Estimation of average stock market reaction..... | 105 |
| 4.1 Theoretical background and hypothesis development | 105 |
| 4.2 Research design | 108 |
| 4.2.1 Sample description..... | 108 |
| 4.2.2 Estimation method and variables | 110 |
| 4.3 Empirical findings and discussion | 110 |
| 4.3.1 Average abnormal returns to the acquisition announcement | 110 |
| 4.3.2 Cumulative average abnormal returns to the acquisition announcement | 114 |
| 4.3.3 Additional analysis..... | 118 |
| 4.4 Concluding observations..... | 120 |
| Chapter 5: Determinants of deal completion and duration | 124 |
| 5.1 Theoretical background and hypotheses development..... | 124 |
| 5.1.1 Deal-specific determinants of acquisition outcomes..... | 125 |
| 5.1.2 Firm-specific determinants of acquisition outcomes | 130 |
| 5.1.3 Country-specific determinants of acquisition outcomes | 132 |
| 5.2 Research design | 136 |
| 5.2.1 Sample description..... | 136 |
| 5.2.2 Estimation method and variables | 136 |
| 5.3 Empirical findings and discussion | 140 |
| 5.3.1 Summary statistics and preliminary tests..... | 140 |
| 5.3.2 The effect of deal-specific, firm-specific, and country-specific determinants on deal completion and deal duration | 142 |
| 5.3.3 Discussion and summary of empirical findings..... | 151 |
| 5.4 Concluding observations..... | 154 |
| Chapter 6: The moderating effect of information disclosures on outcomes of completion and duration..... | 159 |
| 6.1 Theoretical background and hypotheses development..... | 160 |
| 6.1.1 The moderating effect of qualitative informational signals (deal motive) on outcomes of completion and duration | 161 |
| 6.1.2 The moderating effect of quantitative informational signals on outcomes of completion and duration | 166 |
| 6.1.3 The moderating effect of sentiment on outcomes of completion and duration..... | 172 |
| 6.2 Research design | 176 |

| | |
|--|------------|
| 6.2.1 Sample description..... | 176 |
| 6.2.2 Estimation method and variables | 177 |
| 6.3 Empirical findings and discussion | 178 |
| 6.3.1 The moderating effect of deal motive on the relationship between determinants and acquisition outcomes | 178 |
| 6.3.2 The moderating effect of quantitative information on the relationship between determinants and acquisition outcomes..... | 187 |
| 6.3.3 The moderating effect of tone on the relationship between determinants and acquisition outcomes.... | 194 |
| 6.3.4 Discussion and summary of empirical findings..... | 203 |
| 6.4 Concluding observations..... | 209 |
| Chapter 7: Estimation of changes in firm-level governance and long-term valuation | 213 |
| 7.1 Theoretical background and hypotheses development..... | 214 |
| 7.1.1 Changes in ownership attributes following acquisition completion | 215 |
| 7.1.2 Changes in board attributes following acquisition completion..... | 218 |
| 7.1.3 Impact of target country development status and legal origin on changes in firm-level governance following acquisition completion..... | 225 |
| 7.1.4 Impact of changes in firm-level governance on the long-term valuation of acquiring firm | 227 |
| 7.2 Research design | 228 |
| 7.2.1 Sample description..... | 228 |
| 7.2.2 Estimation method and variables | 229 |
| 7.3 Empirical findings and discussion | 234 |
| 7.3.1 Results of matching obtained through PSM procedure..... | 234 |
| 7.3.2 DID estimation investigating changes in ownership attributes of acquiring firm..... | 237 |
| 7.3.3 DID estimation investigating changes in board attributes of acquiring firm | 242 |
| 7.3.4 The effect of governance change on long-term valuation of acquiring firm..... | 253 |
| 7.3.5 Discussion and summary of empirical findings..... | 256 |
| 7.4 Concluding observations..... | 259 |
| Chapter 8: Conclusions and recommendations..... | 264 |
| 8.1 Key research findings | 265 |
| 8.1.1 Estimation of average stock market reaction | 265 |
| 8.1.2 Determinants of deal completion and duration | 266 |
| 8.1.3 Moderating effect of information disclosures on acquisition outcomes | 267 |

| | |
|---|------------|
| 8.1.4 Estimation of firm-level governance changes and valuation | 268 |
| 8.2 Corroboration of key empirical findings with select case studies..... | 268 |
| 8.2.1 Apollo Tyre’s acquisition of Cooper Tire & Rubber Company..... | 268 |
| 8.2.2 Mittal steel’s acquisition of Arcelor SA | 271 |
| 8.2.3 Haier’s acquisition of General Electric’s appliance business..... | 273 |
| 8.3 Advances and contributions to research | 275 |
| 8.3.1 Extends Organizational learning and Signalling theory in the acquisition context..... | 275 |
| 8.3.2 Contributes to literature establishing linkage between financial markets and corporate decisions | 277 |
| 8.3.3 Responds to calls for research on the significance of disclosures in the M&A process | 278 |
| 8.3.4 Corroborates the role of cross-border acquisitions as a viable mechanism to improve corporate governance | 278 |
| 8.3.5 Contributes to the literature examining value implications of cross-border deals | 279 |
| 8.4 Implications of the study..... | 280 |
| 8.4.1 Implications for practitioners | 280 |
| 8.4.2 Implications for financiers | 283 |
| 8.4.3 Implications for acquirer country governments | 284 |
| 8.5 Limitations and future directions | 285 |
| 8.6 Concluding observations..... | 287 |
| References..... | 288 |
| Curriculum Vitae | 316 |

LIST OF FIGURES

| Figure Number | Title | Page |
|----------------------|---|-------------|
| Figure 1.1 | Merger/acquisition process | 5 |
| Figure 1.2 | Conceptual framework of the study | 15 |
| Figure 2.1 | Integrating signalling theory with CBA process | 23 |
| Figure 3.1 | Timeline in event study methodology | 61 |
| Figure 6.1 | Interaction effect of percentage sought and exploratory motive on the likelihood of deal completion | 181 |
| Figure 6.2 | Interaction effect of deal advisor and exploratory motive on the likelihood of deal completion | 181 |
| Figure 6.3 | Interaction effect of relatedness and exploratory motive on the likelihood of deal completion | 182 |
| Figure 6.4 | Interaction effect of percentage sought and exploratory motive on deal duration | 182 |
| Figure 6.5 | Interaction effect of market reaction to acquisition announcement and exploratory motive on the likelihood of deal completion | 184 |
| Figure 6.6 | Interaction effect of cultural distance and exploratory motive on deal duration | 187 |
| Figure 6.7 | Interaction effect of relative capital market development of target country and exploratory motive on deal duration | 187 |
| Figure 6.8 | Interaction effect of deal relatedness and quantitative information on the likelihood of deal completion | 189 |
| Figure 6.9 | Interaction effect of prior success experience and quantitative information on the likelihood of deal completion | 192 |
| Figure 6.10 | Interaction effect of prior failure experience and quantitative information on deal duration | 192 |
| Figure 6.11 | Interaction effect of deal relatedness and tone on the likelihood of deal completion | 197 |
| Figure 6.12 | Interaction effect of appointment of deal advisor and tone on deal duration | 197 |
| Figure 6.13 | Interaction effect of prior success experience and tone on the likelihood of deal completion | 200 |

| | | |
|-------------|---|-----|
| Figure 6.14 | Interaction effect of institutional distance and tone on the likelihood of deal completion | 203 |
| Figure 6.15 | Interaction effect of relative capital market development of target country and tone on the likelihood of deal completion | 203 |
| Figure 6.16 | Interaction effect of cultural distance and tone on deal duration | 203 |

LIST OF TABLES

| Table Number | Title | Page |
|---------------------|---|-------------|
| Table 1.1 | Background of EMMs international acquisitions | 4 |
| Table 1.2 | Comparison of M&A deal abandonment rate and average deal duration between developed and emerging countries | 9 |
| Table 2.1 | Summary of select recent studies investigating announcement returns | 27 |
| Table 2.2 | Summary of select studies outlining the challenges and associated factors impacting outcomes of completion and duration | 39 |
| Table 2.3 | Select studies investigating the implications of information disclosures on acquisition outcomes | 44 |
| Table 2.4 | Summary of select studies investigating changes in firm-level governance after deal completion | 48 |
| Table 3.1 | Summary of parametric and non-parametric tests used to test the significance of market reaction to the announcement | 62 |
| Table 3.2 | M&A motive dictionary | 69 |
| Table 4.1 | Distribution of acquisition sample | 109 |
| Table 4.2 | Average abnormal returns of acquirers from BRICS | 112 |
| Table 4.3 | Ratio of positive: negative AARs across samples | 114 |
| Table 4.4 | Cumulative average abnormal returns of acquirers from BRICS | 116 |
| Table 4.5 | Ratio of positive: negative CARs across samples | 117 |
| Table 4.6 | Cross-sectional analysis of announcement returns | 119 |
| Table 5.1 | Summary of expected effect for variables used in empirical investigation of deal completion and duration outcomes | 139 |
| Table 5.2 | Summary statistics | 141 |
| Table 5.3 | Impact of control variables on completion and duration outcomes | 143 |
| Table 5.4 | Impact of deal-specific determinants on completion and duration outcomes | 146 |
| Table 5.5 | Impact of firm-specific determinants on completion and duration outcomes. | 149 |

| | | |
|------------|--|-----|
| Table 5.6 | Impact of country-specific determinants on completion and duration outcomes. | 150 |
| Table 5.7 | Summary of tested hypotheses and results | 153 |
| Table 6.1 | Moderating impact of deal motive on the relationship between deal-specific determinants and acquisition outcomes | 180 |
| Table 6.2 | Moderating impact of deal motive on the relationship between firm-specific determinants and acquisition outcomes | 183 |
| Table 6.3 | Moderating impact of deal motive on the relationship between country-specific determinants and acquisition outcomes | 185 |
| Table 6.4 | Moderating impact of quantitative information on the relationship between deal-specific determinants and acquisition outcomes | 188 |
| Table 6.5 | Moderating impact of quantitative information on the relationship between firm-specific determinants and acquisition outcomes | 191 |
| Table 6.6 | Moderating impact of quantitative information on the relationship between country-specific determinants and acquisition outcomes | 193 |
| Table 6.7 | Moderating impact of tone on the relationship between deal-specific determinants and acquisition outcomes | 195 |
| Table 6.8 | Moderating impact of tone on the relationship between firm-specific determinants and acquisition outcomes | 198 |
| Table 6.9 | Moderating impact of tone on the relationship between country-specific determinants and acquisition outcomes | 201 |
| Table 6.10 | Summary of tested hypotheses and results | 207 |
| Table 7.1 | PSM procedure | 235 |
| Table 7.2 | Descriptive statistics of variables used in ownership regressions before the treatment | 237 |
| Table 7.3 | Descriptive statistics of variables used in ownership regressions after the treatment | 238 |
| Table 7.4 | The effect of cross-border M&A on promoter ownership | 240 |
| Table 7.5 | The effect of cross-border M&A on institutional ownership | 241 |
| Table 7.6 | Descriptive statistics of variables used in board regressions before the treatment | 243 |
| Table 7.7 | Descriptive statistics of variables used in board regressions after the treatment | 244 |
| Table 7.8 | The effect of cross-border M&A on board independence | 247 |
| Table 7.9 | The effect of cross-border M&A on board busyness | 249 |

| | | |
|------------|--|-----|
| Table 7.10 | The effect of cross-border M&A on board compensation | 250 |
| Table 7.11 | The effect of cross-border M&A on board diligence | 252 |
| Table 7.12 | The effect of change in governance on Tobin's Q | 253 |
| Table 7.13 | The effect of change in governance on ROA | 255 |
| Table 7.14 | Summary of tested hypotheses and results | 258 |

LIST OF APPENDICES

| Appendix Number | Title | Page |
|------------------------|---|-------------|
| Appendix 3A | Sample selection process | 93 |
| Appendix 3B | Variable description | 95 |
| Appendix 4A | Summary of the differences amongst BRICS nations | 121 |
| Appendix 4B | Graphical depiction of AAR and CAAR | 123 |
| Appendix 5A | Diagnostic tests for multicollinearity | 156 |
| Appendix 6A | Examples of coded acquisition motives | 210 |
| Appendix 6B | Distribution of acquisitions across deal motives, quantitative information and tone categories | 211 |
| Appendix 7A | Correlation matrices for the DID regression models | 261 |
| Appendix 7B | Testing the parallel-trends assumption for DID regression | 263 |

ABBREVIATIONS

| | |
|---------------|---|
| AAR | Average Abnormal Return |
| BGA | Business Group Affiliation |
| BOVESPA index | Bolsa de Valores de São Paulo index |
| BRICS | Brazil, Russia, India, China and South Africa |
| BSE | Bombay Stock Exchange |
| B-BBEE | Broad-Based Black Economic Empowerment |
| CAAR | Cumulative Average Abnormal Return |
| CAGR | Compounded Annual Growth Rate |
| CAR | Cumulative Abnormal Return |
| CBAs | Cross-Border Acquisitions |
| CSR | Corporate social responsibility |
| DID | Difference-in-Difference |
| EA | Exploratory acquisition |
| EMMs | Emerging Market Multinationals |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GE | General Electric |
| ICRG | International Country Risk Guide |
| JALSH | Johannesburg Stock Exchange All-Share index |
| LOE | Liability of Emergingness |
| M&A | Merger and Acquisition |
| MTB | Market to Book |
| OLS | Ordinary Least Square |
| PA | Principal-Agent |
| PP | Principal-Principal |
| PSM | Propensity Score Matching |

| | |
|------|--|
| R&D | Research and Development |
| ROA | Return on Asset |
| ROE | Return on Equity |
| RTS | Russian Trading System |
| SIC | Standard Industrial Classification |
| SSE | Shanghai Stock Exchange |
| VIF | Variance inflation factor |
| VUCA | Volatility, Uncertainty, complexity, ambiguity |