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Do cross-border mergers and acquisitions increase short-term market performance? The case of Russian firms.

Master Thesis

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Abstract

The purpose of this study is to test the impact of the announcement of cross-border mergers and acquisitions in the short-term market reaction of Russian acquiring firms, based on the signalling theory, institution-based view, agency theory, and synergy theory. The study is conducted using the event study method to measure the short-term stock market performance after the announcement between the period 2010 and 2019. The event study method analyses the cumulative abnormal return for four event windows around the announcement date. The abnormal returns are calculated with the IMOEX and S&P 500. Furthermore, this study applied explanatory variables that may have a significant effect on the short-term stock market reaction, which are political stability and governance quality of the targets' country, if the Russian acquiring firms are state-owned or publicly-traded, the size of the board of directors of the Russian acquiring company, if the Russian acquiring company has CEO duality, if the Russian acquiring firm possess large shareholders and the motive for cross-border M&As by Russian acquiring firms. Also, three control variables were used, which are the return on assets ratio of Russian acquiring firms, the log of total assets of Russian acquiring firms, and the long-term debt ratio of Russian acquiring firms. The results of the event study show positive significant short-term market reactions for event window (-4, -3) for the IMOEX and (-4, -3) and (-1, +2) for the S&P 500, and negative short-term stock market reactions for event window (-2, +2). Detailed analysis of the explanatory variables lacks evidence to conclude that the explanatory variables that were used in this study affect the short-term stock market reaction significantly, positive or negative, after the announcement of Russian firms to execute cross-border mergers and acquisitions. The control variables show the same patterns as the explanatory variables, there lacks evidence to conclude that there exists a significant relationship between the control variables and the short-term stock market reaction after the announcement of cross-border mergers and acquisitions by Russian firms.

Keywords

Cross-border mergers and acquisitions, Russian firms, short-term stock market performance, ownership status, political risk, corporate governance codes, motives

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1. Introduction

In a world without imperfections, companies would use their corporate assets in the best possible way (Rossi & Volpin, 2004). This can be achieved by taking over another company or by investing in another company, referred as mergers and acquisitions (M&A), due to the reallocating of the control of firms (Rossi & Volpin, 2004). Since the post-crisis economic recovery, M&As accelerated (Lim & Lee, 2016). Moreover, after the recovery of the economic crisis, one-third of all M&As were cross-border M&As due to the globalization (Erel, Liao, & Weisbach, 2012; Lim & Lee, 2016). A cross-border M&A is referred to as a 'normal' M&A, however, national borders play a part in the frictions that are in place at M&As (Erel, Liao & Weisbach, 2012) An example of a cross-border M&A is that a Russian firm takes over a foreign company in, for example, Germany.

Moeller and Schlingemann (2005) and Pablo (2009) points out that due to the introduction of emerging economies (EE) and the integration of goods/services and capital markets cross-border M&As increased significantly. An EE has experienced extraordinary economic growth in the last few years (Li & Lin, 2019). Moeller and Schlingemann (2005) concluded that the factors affecting M&As became significant strategic difficulties for firms to carry out a cross-border M&A. A recent study of Tao, Liu, Gao, and Xia (2017) mentioned that firms in EEs applied an international strategy by using cross-border M&As, which causes a significant increase in M&As.

Since the post-crisis recovery, the value of cross-border M&As by firms in EEs reached $129 billion in 2013, which covers 39% of all cross-border M&As (UNCTAD, 2014). Due to the significant contributions of firms in EEs to the cross-border M&As market, it is now relevant, and at the right time, to investigate cross-border by firms in EEs further (Lebedev, Peng, Xie & Stevens, 2015). Multiple large cross-border M&As by firms in EEs have occurred, for instance, Snapdeal, and Indian online shopping provider, acquired for approximately $350 million Freecharge, a digital marketplace, in 2015 (Lexus Uni, 2015). In addition, the largest pork producer in China, Shuanghai, acquired Smithfield Foods for approximately $5 billion dollars in 2013 (Lexus Uni, 2013). Iain MacMillan, Global Managing Partner for M&A Services and Transaction Services at Deloitte, said ''Many corporates will spend cash assertively to beat incoming economic and disruptive challenges. For others, the changing supply of liquidity and debt will rattle nerves and provoke hesitancy. Given the economic environment, and seismic shifts such as Brexit, US, and Chinese trade tariffs, and Chinese capital controls, buyers have the choice to sit still or take the reins of change. Focus on target

selection, diligence and execution will be paramount to capturing success''(Deloitte, 2018). This raises several questions. In which targets countries should bidder firms invest? What is the reaction of investors after the announcement of cross-border M&A? Do some firm-specific characteristics influence the level of success of cross-border M&As? This thesis tends to investigate such questions by examine the technical aspect of the stock market reactions. This is done via an event study which measures only the affect of the stock prices. Investigations about the technical aspect of stock market reactions need short-term windows, otherwise it could be that if researchers investigate the stock market reactions over a longer period, other events in the longer period could have an affect on the stock prices, instead of the cross-border M&A. Therefore, this study focusses on the short-term stock market reaction.

Previous studies dominantly focus on stock market returns of firms after cross-border M&As in developed countries (Gosh, 2001; Kruse, Park, Park & Suzuki, 2007; Martynova & Renneboog, 2008; Pazarskis, Vogiatzogloy, Christodoulu & Drogalas, 2006; Sharma & Ho, 2002), where the GDP has remained stable over the years. These studies investigated developed countries, like Japan, Greece, Australia, the U.S., the U.K., and Canada. In addition, not only countries but also geographic regions have been examined, for example, Europe (Campa & Hernando, 2004; Goergen & Renneboog, 2004; Chari, Ouimet & Tesar, 2010). However, only recent studies take stock market reaction after cross-border M&As by firms in EE more and more into account (Reddy, Xie & Huang, 2016; Norbäck & Persson, 2019; Nkiwana & Chipeta, 2019; Buckley, Elia & Kafouros, 2014; Deng & Yang, 2015; Lebedev, Peng, Xie & Stevens, 2015; Ning, Kuo, Strange & Wang, 2014; Sun, Peng, Ren & Yan, 2012). Some studies find a positive market performance after a cross-border M&A, caused by the influence of the government in firms, risk reduction through diversification and market power (Whang & Boateng, 2007; Zhou, Guo, Hua & Doukas, 2015) whereas Aybar and Ficici (2009) and Chen and Young (2010) found a negative market performance after a cross-border M&A caused by the high-tech nature of the acquirer, the seizure of target firms who are operating in similar industries and investors are reluctant in firms who executed a cross-border M&A when the government is the majority owner of the acquiring firm. The question remains why the results are inconclusive. This could be partially explained by the fact that the researchers used different sample sizes and time periods, and investigated countries who are different geographically located. For instance, Aybar and Ficic (2009) examined 433 M&As during 1991-2004 of 54 EEs, Chen and Young (2010) investigated only 39 Chinese M&As between 2000 and 2008, the study of Whang and Boateng looks similar like the study of Chen and Young (2010) because it has also a low sample size of 24 cross-border M&As by Chinese firms during 2000 and 2004,

while the study of Zhou *et al* (2015) investigated 825 Chinese cross-border M&As during 1994 and 2008. Due to the fact that the existing findings are inconclusive, the stock market reactions in EE after a cross-border M&A requires further investigations.

Furthermore, most studies on emerging markets focus on EE in Asia, Africa, and South America. Gubbi, Aulakh, Ray, Sarkar & Chittoor (2010) examined the stock market reaction of Indian firms after an M&A, Aybar and Ficici (2009) investigated the short-term stock market performance after a cross-border M&A in Taiwan, Malaysia, Singapore, South Africa, Columbia, Hong Kong, Mexico, Chile, Brazil, South Korea, Hungary, India, Philippines and Argentina and Chen and Young (2010) focus their study on Chinese short-term stock market reactions. One country lacking in short-term market performance studies is Russia. Russia is one of the BRIC countries (Brazil, Russia, India, and China). Goldman Sachs (2003) belief that the economies in the BRIC countries will be a significantly larger force in the future than the G6 (United States, United Kingdom, Italy, France, Japan, and Germany) currently has. Also, the Russian market is characterized by weak governing protections, and it is expected that this will affect the M&A performance of Russian acquiring firms (Bertrand & Betschinger, 2012). Despite the fact that the government protectiveness is weak, Russia account among emerging economies for 14% of the total deals and 9% in terms of values. Furthermore, Russian firms were in the beginning of the nineties, last century, state-owned. Since then, the Russian government tried to encourage firms to privatize, and these privatizations can impact the cross-border M&As by Russian firms, due to the fact that they have not been through it since they were a private company. Therefore, the short-term stock market performance of Russian firms after cross-border M&As should be investigated.

In addition, existing research dominantly measure the effect of cultural and geographical distances between the acquirers' and targets' countries (Chakrabarti & Mitchell, 2013; Ragozzino, 2009), while studies that investigated to what extent the level of political stability and governance quality in the targets country influence the short-term stock market performance after a cross-border M&A are barely investigated (Tao, Liu, Gao & Xia, 2017). According to Chan & Wei (1996), Kim & Mei (2001) and Wang, Liu & Wang (2004) are stock market reactions highly sensitive by any political risks associated with a cross-border M&A. A recent study of Harzing and Pudelko (2016) found that the existing research, studies who investigated short-term stock market reactions with the integration of cultural and geographical distances, that they used these distances as a proxy for political risks in the host country. Harzing and Pudelko (2016) further mentioned that studies in the future should use more appropriate and accurate measurements levels of political risks in the host countries. To

measure political risks, the World Governance Index (WGI) will be used in this study. The WGI consists of 6 indicators to measure political risk for 215 countries. The indicators are (VC) voice and accountability (VA), political stability and absence of violence (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC). The first two indicators (VC and VA) explains political stability and the other four measures governance quality. The WGI indicators are produced by the World Bank, who constructed the indicators in a highly careful manner, makes calculations for almost every country, and the claim that the indicators are one-hundred percent precise makes the indicators a highly useful method to assess the political risks in countries for researchers (Thomas, 2009). Therefore, this study tends to clarify if political risks in host countries affect the short-term stock market reaction of Russian acquiring firms via the WGI indicators.

Also, the influence of the ownership status (state-owned enterprise and/or publicly traded enterprise) of the bidder on the short-term stock market performance after a cross-border M&A are lagged in previous studies (Tao, Liu, Gao & Xia, 2017). State-owned enterprises (SOEs) are owned by governments (Mascarenhas, 1989). According to Rainey, Backoff, and Levine, 1976; Fottler, 1981; Meyer, 1982, are state-owned enterprises characterised by managers with low autonomy, influenced by external politics, public accountability and feels less for market incentives. Aharoni (1986) adds to this that the goals of SOEs are diverse, intangible and numerous. Whereas publicly traded firms are characterised by risk-sharing by the owners (Fama and Jensen, 1983) and a high level of autonomy in the equity market (Mascarenhas, 1989). Furthermore, the compensation of managers in a publicly-traded firm may be related to the stock market performance (Solomon, 1977). In Russia, the government still plays a major role in the economy (Bertrand & Betschinger, 2012). According to Vickers and Yarrow (1988) and Megginson and Netter (2001) could M&As by Russian SOEs result in a decrease in the performance of the bidder due to the contradictory goals between profitability and political objectives, due to the lower internal efficiency incentives and due to the rigid organization structure, SOEs in general have. So, it should be investigated further if the stock market reaction after the announcement for SOEs and publicly traded firms in Russia differs.

With regard to the institutional framework in Russia, from 1917 until 1991, Russian firms were owned by the state (Estrin & Prevezer, 2010). Since the late 1980s, the Russian government tries to encourage firms to commercialize with the purpose to alleviate the inefficiencies of SOEs in the goods/services industry, on the side of market-driven prices (Estrin & Prevezer, 2010). Thus, formal institutions in Russia changed the regulations (Estrin & Prevezer, 2010). However, Estrin and Prevezer (2010) also point out that these changes did not

lead to success, due to the lack of enforcement. Also, the commercialization has led to the fact that wealthy individuals in Russia gained more power in firms by buying shares of firms, which resulted in high ownership concentrations in Russian firms and minority shareholders right were violated (Freeland, 2000; Hoffman, 2002). These shareholders of firms would like to see investments in diverse and efficient projects, while managers of the firms are more risk-averse (Eisenhardt, 1990; Facio, Marchica & Mura, 2011; Foss & Stea, 2014; Wiseman, Cuevas-Rodríguez & Gomez-Mejia, 2012; Sauner-Leroy, 2004). In order to remedy conflicts between the managers and shareholders, firms could apply corporate governance codes which reduces the conflicts (Chng, Rodgers, Shih & Song; Eisenhardt, 1989; Jensen & Murphy, 1990) Fiederorczuk (2017) adds to this that due to the high ownership concentrations in Russian firms, the corporate governance codes, in particular, should be sought in the ownership structure. Some mechanisms to improve the corporate governance are managerial ownership, firm's ownership, board, capital and compensation structure (Florackis, 2005). It is, therefore, interesting to investigate if Russian firms who have applied corporate governance codes experience higher CARs in comparison than firms without corporate governance codes.

Some studies try to figure out the ''Russian Paradox'' with regard to the accelerated cross-border M&As (Andreff, 2002; Kalatoy, 2005; Liuhto, 2005). However, these studies provided descriptive statistics instead of significant coefficients (Dikova *et al*, 2019). Furthermore, Dikova *et al* (2019) believed that their study is the first study that investigated the relationship between the motives of Russian firms to acquire firms in foreign countries. However, the study of Dikova *et al* (2019) did only look to the characteristics of the targets' country, like the size of the foreign market, strategic endowments, labour costs, institutional distances, while the real motive(s) for Russian firms to acquire foreign firms may be totally different than what Dikova *et al* (2016) thought based on the country's characteristic. In order to improve the study of Divova *et al* (2016), this study investigates to what extent the real motive(s) of Russian acquiring was to acquire foreign firms, via statements that were given by members of the board of directors and/or supervisory board about the motive(s).

In order to remedy these gaps, I will examine the following research questions. (1) What are the stock market reactions to cross-border M&As by Russian firms? (2) To what extent do political stability and governance quality of the country of the target company affect the short-term stock market performance of Russian firms due to cross-border M&As? (3) To what extent do corporate governance codes of firms affect the short-term stock market performance of Russian firms after the announcement of cross-border M&As? Finally (4) To what extent does

the motive for the acquiring firm to execute a cross-border M&A affect the short-term market performance of Russian acquiring firm after the announcement of cross-border M&As?

To give an answer to the research questions, this study is based on four theories. The signalling theory, the institution-based view, the agency theory, and the synergy theory. Companies in emerging markets tend to adopt an international strategy in recent years by using cross-border mergers and acquisitions, this can be seen as a change in the corporate strategy (Tao *et al*, (2017). When a company completes an M&A, investors react to this by buying or selling stocks of that specific company. So in general, information about a company is reflected in their stock prices. However, not every information is accessible to everyone at the same time. The signalling theory concerns the information asymmetry and its purpose is to reduce this 'information gap' (Spence, 2002). It is hard to measure the stock reaction based on the signalling theory alone. Despite the fact that the signalling theory predicts the decision-making of investors, it is necessary to investigate what drives an M&A. The institution-based view supports the signalling theory and is therefore integrated into this study. This theory has an affinity with (economic) institutions (North, 1990; Williamson, 1985) and sociological institutions (DiMaggio & Powell, 1983; Scott, 1995). It takes into account the effecting role institutions has on the competitive advantage of firms. According to Guler and Guillen (2010) and Witt & Lewin (2007), host countries can attract and tempt foreign companies its location via the improvement of their located institutions. So, the institutional environment in a host country has a magnifique influence in a multinational enterprise (MNE) internationalization strategy (Chung & Beamish, 2005; Cui & Jiang, 2012; Gao, Liu, & Lioliou, 2015; Holmes, Miller, Hitt, & Salmador, 2013; Kostova, Roth, & Dacin, 2008; Pangarkar & Lim, 2003; Wang, Hong, Kafouros & Wright, 2012). The agency theory is one of the most influential perspectives with regard to practice, corporate governance and policy-making (Aguilera & Jackson, 2003; Brennan & Solomon, 2008; Christopher, 2010; Daily, Dalton, & Cannella, 2003). This theory assumes that people act in self-interest and, therefore, points out a conflict between principal and agents (Berle & Means, 1932; Jensen & Meckling, 1976). In order to reduce the conflicts, principals can give appropriate incentives towards agents or by monitoring agents (Chng, Rodgers, Shih, & Song, 2012; Eisenhardt, 1989; Jensen & Murphy, 1990). According to Chatterjee (1986) exist three types of synergies, operation synergy, financial synergy, and collusive synergy. Operation synergy deals with economies of scale, financial synergy is referred to as the weighted average cost of capital and collusive synergy is price related (Chatterjee, 1986). Hankir, Rauch, and Umber (2011) adds to this that firms motivations to execute an M&A is to gain an increase in futures cash flow and firm value, and are realised

through an increase in size (scale) or via advantages of the combination of firm-specific combinations (scope).

This study delivers an academic contribution in three ways. The first contribution is that factors of information leakage and insider trading in Russia are found in this study. Three and four days before the announcement of Russian firms to perform a cross-border M&A, the shares of the Russian company increase significantly. This is in contrary to the findings of Abrosimova and Dissanaike (2002), who believed that there exists no insider trading of information leakage. The second contribution is that purpose of Russian acquiring firms for the cross-border M&A does not lead to significantly higher abnormal returns. So, the kind of synergy Russian acquiring firms wants to achieve with the cross-border M&A does not influence the short-term market reactions. The third contribution is the results of the abnormal returns of Russian acquiring firms which are calculated on the basis of the Russian Stock Exchange, the IMOEX, and the American S&P 500. In three and four days before the announcement, the short-term stock market reactions between the IMOEX and the S&P 500 shows the same patterns. This may indicate that the Russian Stock Exchange and the S&P 500 share some characteristics despite the current tensions between the West and East.

The practical contribution of this study is that investors should wait two days after the announcement of Russian acquiring firms with buying shares. This study finds that the short-term stock market reaction responds negatively to the announcement date of the Russian acquiring firm and the day after. Furthermore, all explanatory and control variables reports insignificant results which means that it does not matter for investors if Russian firms acquire firms in foreign countries with high or low political risks, if the Russian firm is state-owned or publicly-traded, if Russian firms have applied corporate governance codes, and/or mentioned or not the motive for the cross-border M&A. This makes foreign direct investors for managers easier, due to the fact that they do not have to consider the potential negative influences if they stand for a double division of foreign direct investments possibilities.

The paper is organized as follows: in chapter 2, the signalling theory, the institution-based view, agency theory, and synergy theory are described. On this basis, a few hypotheses are formulated. After that section, the research method and the way in which the data was collected will be given, in chapter 3. The results of this study will be mentioned in chapter 4, after which the discussion, implications, and conclusions are described in chapter 5.

2. Literature review

2.1 Mergers and acquisitions in general

In the past, M&A existed only in a few countries, mostly in the United States and Europa, but this changed towards a global expansion in developing countries in Asia and internationalization in emerging countries, causing changes and new challenges in the M&A process (Caiazza & Volpe, 2015). In order to create value, Lindgren (1982); De Noble, Gustafson, and Hergert (1988); Dionne (1988); Haspeslagh and Farquhar (1994), points out that some key activities with regard to the M&A process have to be evaluated, because since the twenty-first century everything goes faster, partly due to globalization and technology, which means that M&A has to be carried out faster, with correspondingly increased risk. M&A consist of three categories, horizontal, vertical and conglomerate mergers.

A horizontal merger arises when a firm acquires another firm in the same operating industry (Tremblay & Tremblay, 2012). According to Dutz (1989); Tremblay and Tremblay (2012), the purpose of a horizontal merger is revenue enhancement via an increase in market power and economies of scale. Rozen-Bakher (2018) point out that there are four reasons for a horizontal merger, (1) decreasing of competitors, causing a higher market power view (Homberg, Rost, & Osterloh, 2009). If the combined firm can then increase its prices, the market value and profits will growth (Tremblay & Tremblay, 2012); (2) if one of the firms already have economies of scale, after a horizontal merger that firm still generated benefits due to an increase in prices (Farrel & Shapiro, 1990); (3) according to Haspeslagh and Jemison (1991), the operating costs will be reduced due to resource sharing; (4) horizontal mergers involves less risk than the other two forms of M&A, because in a horizontal merger both firms operate in a similar industry, causing management of the combined firms to have a better understanding (Flanagan & O'Shaughnessy, 2003). Palich, Cardinal, and Miller (2000) therefore think that firms prefer horizontal mergers. In addition, Gugler, Mueller, Yurtoglu, and Zulehner (2003); Park (2003) adds to this that synergies are expected with regard to an increase in profitability.

A vertical merger involves firms at a different stage in the production process (Tremblay & Tremblay, 2012). This can be done in two ways, backward and forwards. A backward vertical merger arises when a manufacturer acquirer their supplier(s), a forward vertical merger occurs when a firm acquirer a firm that purchases the goods- and /or services from their firm (Tremblay & Tremblay, 2012). According to Meador, Church, and Rayburn (1996), there exist fewer possibilities for a vertical merger relative to a horizontal merger due to the minimum number

of potential target firms. In addition, these firms have to fulfill every requirement of the bidders' company, causing the number of possibilities even smaller (Meador et al, 1996). Also, Tremblay and Tremblay (2012) argue that the complexity of a vertical merger is higher than a horizontal merger, due to the buyer-seller relationship. However, there occurs also a synergy, because the combined companies contain a larger size of the production process which results in higher market access (Goold & Campbell, 1998). According to Gal-Or (1999), a vertical merger is most desirable when the competitiveness in the market is stable, but if this balance fluctuates, a vertical merger can lead to a reduction in profit. Kedia, Ravit, and Pons (2011) suggest that a vertical merger can best be done when markets are imperfect. Another advantage with a vertical merger is according to Goold and Campbell (1998), the combined firms use both products and/or services, causing a reduction in inventory costs, developments of products and higher usage of capacity. This makes work more efficient, which results in fewer costs which ultimately lead to more profit (Rozen-Bakher, 2017). Another advantage that has a relationship with profitability, is that a vertical merger reduces the risk of price fluctuations (Spiller, 1985). Rozen-Bakher (2017) state that the integration of firms that undergo a vertical merger faces limited efficiency gains due to the complexity of synchronizing the workflow of the firms. In addition, Tremblay and Tremblay (2012) point out that during the negotiations in order to acquire another firm, there are more costs involved with the vertical merger than with a horizontal merger. This is confirmed by the research of Bhuyan (2002), who reports that profits declines after a vertical merger because the combined firm was not able to create differential benefits.

A conglomerate merger means that a company takes over another company that has no relationship with each other, they operate in different industries (King, Dalton, Daily, & Covin, 2004; Tremblay & Tremblay, 2012). According to Rozen-Bakher (2017), scientist argues about the impact of the performance with regard to a conglomerate merger. King et al (2004) point out that the combined firms could face benefits due to diversification, however, they point out that most firms will not undergo these advantages. In addition, Berger and Ofek (1995), adds to this that firms will not experience these benefits due to the fact that the combined and diversified firms have less value than the sum of the two firms independently. According to Rozen-Bakher (2017) could this be explained due to different effects a conglomerate merger brings with them. On the one hand, due to the fact that the firms operate in different industries, products, and geographical dispersion, they face higher complexity in the integration stage and have to deal with an increased risk of failure and therefore, it is harder to reduce the overall operating costs, causing a lower profitability (Rozen-Bakher, 2017). The research of Conyon,

Girma, Thompson, and Wright (1999), confirms these findings. On the other hand, Tremblay & Tremblay (2012) point out that there is a higher potential for synergies due to diversification in different industries, which causes revenue growth. In addition, Datta, Pinches, and Narayanan (1992) adds to this that there exist other factors for advantages, for instance, a more stable income and cheaper access to capital. Also, diversified firms could enhance developing synergies (Piske, 2002). However, in contrast of diversifying, merging cultural and human resource programs could lead to shocks within the combined firms, causing a loss in the firms to value to, which results in a failed M&A (Puranam, Powell, & Singh 2006; Weber, Tarba, & Bachar, 2011).

Revenue enhancement	**Cost reduction**	**Tax gains**
Marketing gains	Economies of scale	The use of tax losses
Strategic benefits	Economies of vertical integration	The use of unused debt capacity
Market or monopoly power	Technology transfer	The use of surplus funds
	Complementary resources	
	Elimination of inefficient management	
	Reduced capital requirements	

Table 1: Objectives for an M&A (CFfBA 2018-2019 UTwente, slide 16)

According to Yaghoubi, Yaghoubi, Lock, and Gibb (2016) are M&As one of the most important factors that influence the value of shareholders, causing multiple investigations about this phenomenon. The investigations are influenced by the time patterns M&As exist. Since the late 1890s, five merger wave took place, while the sixth wave is currently active (Martynova & Renneboog, 2008). Due to the fact that reliable data from Europe is only available since the 1980s, while only the United Kingdom has reliable data since the 1960s, it does not mean that M&As did not occur before the 1960s in Europe, however, it was on a smaller size (Martynova & Renneboog, 2008). By the end of the 1990s, Europe experienced the same M&A patters compared to the United States, while Asia became familiar with M&As since the beginning of the 1990s (Martynova & Renneboog, 2008).

	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	New wave (6?)
Period	1890s–1903	1910s–1929	1950s–1973	1981–1989	1993–2001	2003–present
Geographical scope	US	US	US, UK, Europe	US, UK, Europe, Asia	US, UK, Europe, Asia	US, UK, Europe, Asia
M&A outcome	Formation of monopolies	Formation of oligopolies	Growth through diversification	Elimination of inefficiencies	Adjustment to globalization processes	Global expansion
Industry-relatedness	Focus	Focus	Diversification	Focus	Focus	Focus
Industries	Hydraulic power, textiles industry, iron industry	Steam engines, steel, railways	Electricity, chemicals, combustion engines	Petrochemicals, aviation, electronics, communications technology	Communications/ information technology	n.a.
Dominant sources of financing/ means of payment	Cash	Equity	Equity	Debt financed/Cash paid	Equity	Debt and Cash financed/ Cash paid
Hostile takeover activity	n.a.	n.a.	None (US&UK)	High (US&UK)	Some (US&UK)	Some (US&UK)
			None (Europe)	None (Europe)	High (Europe)	Some (Europe)
			None (Asia)	None (Asia)	None (Asia)	Some (Asia)
Cross-border M&A activity	n.a.	n.a.	n.a.	Some	Medium	High
Other specifics				LBOs, MBOs, going-private deals, and divestitures	Mega-deals, divestitures	Deals by private equity funds
Events coinciding with beginning of wave	Economic expansion; industrialisation processes; introduction of new state legislations on incorporations; development of trading on NYSE; radical changes in technology	Economic recovery after the market crash and the First World War; strengthen enforcement of antimonopoly law	Economic recovery after the Second World War; tightening of anti-trust regime in 1950	Economic recovery after recession; changes in anti-trust policy; deregulation of fin. services sector; new financial instruments and markets (e.g. junk bonds); technological progress in electronics	Economic and financial markets boom; globalization processes; technological innovation, deregulation and privatisation	Economic recovery after the downturn in 2000–2001
Events coinciding with end of wave	Stock market crash; economic stagnation; beginning of First World War	Stock market crash; beginning of Great Depression	Stock market crash; oil crisis; economic slowdown	Stock market crash	Stock market crash; 9/11 terrorist attack	n.a.

This table summarizes the main characteristics of takeover waves most frequently mentioned in the academic literature.

Figure 1: Summary of takeover waves (Martynova & Renneboog, 2008: p. 2151)

These patterns are associated with different characteristics. Despite the different characteristics M&A waves had over time, Martynova and Renneboog (2008) point out that M&A waves had some common factors, they are driven by industrial and technological shocks during a stable politic environment and positive economy between attracting extremely much debt and exuberant market stock reactions.

As said, it does not mean that an M&A adds value to the combined companies. In order to examine the performance after an M&A, previous research has categorized five groups; (1) acquirer characteristics, (2) target characteristics, (3) bid characteristics, (4) industry and competition factors and (5) economic environment (Yaghoubi et al. 2016). This research focuses on (i) the acquirer characteristics, ownership status, and (ii) economic environment, political riskiness.

As said, M&A occurs in waves. Carrow, Heron, and Saxton (2004); Lieberman and Montgomery (1988) argue that early acquirers at the beginning of an M&A wave gain significant benefits. In addition, Carrow, Heron, and Saxton (2004) point out that firms which acquirer firms that undertake growth within their life cycle experience an improving performance. In contrast, Stimpert and Duhaime (1997) point out that firms do conglomerate mergers when their industry declines, at which Anand and Singh (1997) add to this that the combined firms after such an M&A expect to perform less than before.

2.2 Mergers and acquisitions in Russia

Among emerging economies in 2010, Russia accounts for 14% of the total deals and 9% in terms of values (Harrison, 2011). These activities accounted for more than 10% of the Russian growth domestic product (GDP) in 2007 (Radygin, 2010). Furthermore, in 2009, Russian firms were the seventh-ranked country with cross-border M&As after France, Hong-Kong, China, the U.S., Japan, and Germany (UNCTAD, 2010). These facts show that Russian firms are key players in the M&A field.

Due to the fact that the economy in Russia is marked by weak governing protections, in particular, the rule of law, it is expected that the performance of an M&A of Russian firm is affected by these governmental institutions (Bertrand & Betschinger, 2012). In addition, the Russian market is in progression and less sophisticated than in developed countries. Furthermore, following Bertrand and Betschinger (2012), the information transparency, especially in governmental institutions, is low, which makes due diligence difficult. Also, professional intermediaries to support the transaction of a cross-border M&A are lacked (Radygin, 2010). Furthermore, SOEs play a key role in the outcome of M&As, due to the fact that Aharoni (1986) concluded that the goals of SOEs are diverse, intangible and numerous in comparison to publicly traded firms. Moreover, the Russian industry is characterised by firms operating in the resource industry (Bertrand & Betschinger, 2012). Due to the fact that the Russian government is the primary resource-holder, it affects the access to resources, which ultimately have an impact on the rent capture and allocation (Bridge, 2008). When institutional hazards are involved, this could be a significant driver of M&As.

Since 2000, the foreign direct investments scaled up and reached an amount of $370 billion in 2007, almost 20 times higher than in 2000 (Kalotay & Sulstarova, 2010). The impact of the Financial Crisis in 2008 had raised the question if Russian firms still speed the M&As

level in the future, but most Russian firms tend to stay ‘’the old way’’ and, therefore, stay Russian firms still on the global scene (Kalotay & Sulstarova, 2010).

During the nineties, Russia had more FDI outflows than inflows and since 1999 it has expended their FDI rapidly, surpassing South Africa, Brazil, China, and India in 2002 (Kalotay & Sulstarova, 2010). Between 1993-1996, 1997-2000 and 2001-2004, M&As by Russian firms tripled. In the four subsequent years, 2005-2008, it was tenfold (Kalotay & Sulstarova, 2010). These facts confirm the Russian revolution, the start of competitiveness through monopolistic and oligopolistic advantages, first in their domestic markets and later in host countries (Kalotay & Sulstarova, 2010).

The cross-border M&As by Russian firms are dominated by a few characteristics, (i) firms have a monopolistic and/or oligopolistic position in their home country, (ii) secure competitive advantage vis-á-vis leaders in relative sectors, (iii) possesses significant revenues to finance cross-border operations (Vahtra and Liuhto, 2005) and (iv) they recognise the need to ensure foreign presence to sustain and/or gain their position in global markets (Kalotay & Sulstarova, 2010).

2.3 Corporate governance in general

There are two broadly definitions when it concerns corporate governance, (1) the actual behaviour of a firm (performance, growth, financial structure, shareholder rights etcetera), and (2) the (in)formal institutional framework in which it operates (legal- and judicial system, capital markets etcetera) (Claessens & Yurtogly, 2013). This study focus on both measurement levels and, therefore, applies both definitions (Claessens & Yurtogly, 2013).

According to Schleifer and Vishny (1997) is corporate governance ‘’Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment’’ (p. 737). Claessens and Yurtogly (2013) add to this that ‘’the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between various corporate claimholders’’ (p. 4). But these definitions put the emphasis on financial rewards, a somewhat broader definition by Zingales (1998) ‘’The complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by the firm’’ (p. 499).

Furthermore, it could occur that corporate governance is controlled by rules or institutions. Rules are referred to as markets and outsiders, while institutions are referred to as banks and insiders (Claessens & Yurtogly, 2013). However, in practice, both frameworks

matter and there does not exist a distinction, due to the fact that institutions are influenced by rules in the world and/or country, and vice versa (Claessens & Yurtogly, 2013). Schleiffer and Vishny (1997) add to this that “Corporate governance mechanisms are economic and legal institutions that can be altered through the political process” (p. 738).

It is crucial for corporate governance that institutional dimensions functions properly, so, the shareholders' rights must be guaranteed, there should be a lack of corruption, the property rights should be protected, the development of a suitable legal definition, enforcement of legal rights, and transparency (Claessens & Yurtogly, 2013).

When corporate governance is negatively influenced by the lack of properly working institutional dimensions, it could affect the functioning of financial markets and cross-border financing (Claessens & Yurtogly, 2013). Moreover, if transparency is not ensured it could lead to periods when corporate lending is volatile, due to the fact that due diligence is costly and, therefore, are not capable to measure the potential returns (Claessens & Yurtogly, 2013). As this unfolds Mørck, Yeung, and Yu (2000) concluded that it leads to concomitant stock market performances, which results in limiting conclusions about the stock market reaction. Furthermore, if the suppliers of capital are less protected the volume of M&As declines (Rossi & Volpin, 2004). Their finding indicates that an active M&A market, as an important measurement of corporate governance practices, is related to countries with proper investors protection (Claessens & Yurtogly, 2013). In addition, acquirers are in general located in countries with higher levels of investors protection in comparison with targets, which suggest that acquirers play a key role in the improvement of corporate governance -investors protection- of the targets firm (Claessens & Yurtogly, 2013).

The board of directors is charged to improve corporate governance for their firms through the design of internal mechanisms to ensure the congruence of managers and shareholders (Walsh & Seward, 1990). However, Clark (1986) defines the role of the board of directors as "it is still unrealistic to view directors as making any significant number of basic business policy decisions. Even with respect to the broadest business policies, it is the officers who generally initiate and shape the decisions. The directors simply approve them, and occasionally offer advice or raise questions" (p. 108.).

The composition of the boards of firms has a significant impact on the corporate governance mechanisms firms applies, due to the fact that the boards manage and control a firms operations (Aluchna, 2007). There exist two models of the board, the one-tier board, and the two-tier board, whereas the one-tier board is mostly used in the US and UK, while the two-tier board is applied in almost every firm in Europe (Fiedorczuk, 2017). The one-tier board is

defined as a board of directors who manage the firm as insiders/executers, and the external directors, who are independent, constitutes a gap between the shareholders and the firm but does not possess executive rights (Koładkiewicz, 2011). The two-tier board has an executing board of directors, which is compounded via internal managers, and a supervisory board, which is compounded via internal managers and independent outside members, but both groups do not have executive rights (Fiedorczuk, 2017).

Some mechanisms to improve the corporate governance are managerial ownership, firm's ownership structure, the board of directors, capital structure and compensation structure (Florackis, 2005). Jensen and Mackling (1976) mentioned that at low levels of managerial ownership the interests of managers and shareholders are properly aligned, while McConnell and Servaes (1990) belief that after one level of managerial ownership, managers are reluctant and wealthy themselves on behalf of others expenses. Finally, Short and Keasey (1999) find in their study that high levels of managerial ownership upsurge entrenchment behaviour. Furthermore, the board of directors could put pressure on management via monitoring (Fama & Jensen, 1983). In addition, the board of directors has a significantly important issue about the ownership concentration in order to properly exert management supervision and entrenchment (Schleifer & Vishny, 1986). Also, the compensation of the management can influence them to perform on behalf of the firm, which results in the maximisation of the firms' value (Guay, Core & Larcker 2001; Murphy, 1999).

2.4 Corporate governance in Russia

From 1917 until 1991, Russian firms were owned by the state (Estrin & Prevezer, 2010). Since the late 1980s, the Russian government tries to encourage firms to commercialize with the purpose to alleviate the inefficiencies of SOEs in the goods/services industry, on the side of market-driven prices (Estrin & Prevezer, 2010). Thus, formal institutions in Russia changed the regulations (Estrin & Prevezer, 2010). Puffer and McCarthy (2003) listed the regulation and corporate governance changes in Russia; (i) in 1986, Russia legalized private companies – this encouraged 'new' entrepreneurs to start a business, however, residents of Russia feels some uncertainty with the new legalisation which results in legal and illegal commercial activities (Puffer and McCarthy, 2003), (ii) in 1991, Russia introduced the Law on Property – this has led to legal forms of private ownership and reduced the uncertainty since 1986 (Puffer and McCarthy, 2003), (iii) in 1992 the Law on Privatization of State Enterprises has been drawn up – as a result of this law, employees could buy shares of the company where they work, however,

the initial purpose of this law was wiped out due to the fact that senior managers of firms acquired almost all shares for which were accumulated for a significant much lower price than the initial value (Estrin & Wright, 1999; Shleifer& Treisman, 2000), (iv) the 1996 Joint Stock Company Law and (v) Law on the Securities Market strengthen the shareholder rights – due to the fact that senior managers gather almost all shares since the Law on Privatization of State Enterprises was introduced, they gain in the years after more executive power via the acquiring of shares of other successful companies (Freeland, 2000; Hoffman, 2002), therefore, the strengthening of shareholder rights had as a purpose to serve the interest of minority shareholders, furthermore, with the new regulations it became possible to separate the CEO and chairman (Puffer and McCarthy, 2003). However, Puffer and McCarthy (2003) point out that due to the gained power of oligarchs, which are industrial tycoons and concentrated financial-industrial groups (FIGs) (Estrin, Poukiakova, & Shapiro, 2009; Guriev & Rachinsky, 2005) and senior managers, as well as the unsuccessful implementation of the legislation since the 1980s, the minority shareholders were not protected as supposed, while the oligarchs and senior managers gained more and more power.

In order to address the problems that Russia still faces at the end of the 1990s, Russia introduced the Russian Bankruptcy Law in 1998 in order to improve the transparency in situations of bankruptcy and company law (McCarthy & Puffer, 2003). In 2000 Russia reformed, which improved the transparency and the application of international accounting standards by Russian firms, while in 2002 the competition law was introduced which improved the norms and rules with regard to governing contracts (McCarthy, Puffer, & Naumov, 2000). In 2001 and 2002, the legal system was improved through the raising power of judges via the Criminal Procedure Code, which reduced the control of regional legislatures (Estrin & Prevezer, 2010). The property rights and the protection of minority shareholders were improved by the parliament in 2003 and 2004 (Granville & Leonard, 2007). These adjustments have led to the qualification ‘’high compliance country’’ for Russia with regard to international standards, which are in line with the OECD principles (EBRD, 2005).

Although Russia is qualified as a high compliance country, its formal institutions lack enforcement and are ineffective (Estrin & Prevezer, 2010). In addition, Russia’s formal institutions experience a gap with the virtual economy, which is measured as the difference between official statistics and company reports and reality (Maddy & Ickes, 1998). According to Maddy & Ickes (1998) find Russian firms it hard to restructure themselves if they face bankruptcy. The virtual economy transfer non-monetary transactions from properly functioning enterprises towards negatively functioning enterprises (Maddy & Ickes, 1998). Furthermore,

FIGs and senior managers are rent-seeking, if the benefits of the rent-seeking are higher than the related costs, stifling of entrepreneurship is a fact and FIGs and senior managers create only wealth for their own (Aidis, Estrin, & Mickiewicz, 2008). Furthermore, FIGs ad senior managers have conflicting purposes about the formal rules about institutions and the legal framework (Estrin & Prevezer, 2010). In Russia, 'blat' determines the operation of governance of informal institutions. Blat is referred to as gift-giving and obligation, sliding into corruption (Andvig, 2006; Ellman, 1978; Ledeneva, 1996). Sachs and Woo (1994) point out that this is due to the planning economy in Russia and, therefore, deals with its constraints. Also, in 1995 leading oligarch supported the re-election of Yeltsin's (the President of Russia during 1991 and 1999), and in return, they gained more shareholder power and a more powerful relationship with the government, with no disclosure, transparency or accountability (Puffer & McCarthy, 2003).

In Russia, the two-tier board is an only significant presence in Russia (Fiedorczuk, 2017). As said, the composition of the boards has a significant impact on the effectiveness of corporate governance mechanisms (Aluchna, 2007). Nowadays in Russia, the dominant corporate governance mechanisms are the ownership structure, which is characterized by high ownership concentrations which are represented via employees and managers (Fiederorczuk, 2017). This may result in CEO duality and a lack of external independent managers (Fiederorczuk, 2017). Furthermore, the involvement of the Russian state in Russian firms is significant high, for every industry (Sprenger, 2010), which results in risks for debtholders due to the fact that the Russian state does not monitor the activities of the management and has the motivation to produce goods/services at the expense of firms (Teplova & Sokolova, 2019). Also, the percentage of dominant shareholders in Russian firms is significant, which affect the effectiveness of corporate governance codes (Dolgopyatova, Iwasaki and Yakovlev, 2009) due to the fact that these dominant shareholders participate directly in the firms which result in ownership and control (Fiedorczuk, 2017).

2.5 Signalling theory

Companies in emerging markets tend to adopt an international strategy in recent years by using cross-border mergers and acquisitions (Tao *et al*, 2017). This can be seen as a change in the corporate strategy. When a company completes an M&A, investors react to this by buying or selling stocks of that specific company. So in general, information about a company is reflected in their stock prices. However, not every information is accessible to everyone at the same time.

The signalling theory concerns the information asymmetry and its purpose is to reduce this 'information gap' (Spence, 2002). This theory explains and/or predicts on what ground people, in this case, investors, makes decisions, despite the fact that they do not possess the right knowledge (Spence, 1973, 1974). In this case, the acquired company owns information who investors do not have which causes that investors have to rely on other information in case of an investment (Arrow & Debreu, 1954; Arrow, 1959, 1968, 1973; Grossman & Hart, 1981; Nelson, 1970).

Previous research on stock market reactions to cross-border M&As can be divided into two groups, developed countries and emerging economies of the acquired firm. Most studies examined the impact of cross-border M&As at developed countries (Asquith, 1983; Faccio, McConnell, & Stolin, 2006; Firth, 1980; Masulis, Wang, & Xie, 2007; Mitchell & Stafford, 2000; Schwert, 2000). However, these studies showed contradictory findings. In the U.S., Asquith, Brunel and Mullins (1983) showed positive abnormal stock returns, Langetieg (1978) found a negative abnormal stock return and Bruner (2002) point out that there exists no positive or negative stock market reaction for the acquired firm. These contradictory findings also hold when other countries or geographical locations are examined. Positive abnormal returns are found for Japan (Pettyway & Yamada, 1986), Canada (Eckbo & Thorburn, 2009) and European countries (Faccio et al., 2006; Goergen & Renneboog, 2004; Martynova & Renneboog, 2008). However, when Sudarsanam and Mahate (2003) examined the cross-border impact for U.K. firms they showed a negative stock market reaction. This is also confirmed by the study of Campa and Hernando (2004a, 2004b).

Existing studies with regard to emerging economies have increased in recent years. However, some inconsistencies are still left on the table. So discovers Gubbi *et al,* (2010) a positive stock market reaction of Indian firms but Aybar and Ficici (2009) showed a negative abnormal return for the acquired firm.

Detailed investigations exposed that these studies did not take a theoretical substantiation into account in their studies Aybar and Ficici (2009). Or based their study on the resource-based theory (Gubbi *et al,* 2010) and/or agency theory. Due to these discrepancies, it is not clear to what extent political risk affect the stock market reactions of firms who execute a cross-border M&A. To measure this effect, this study integrates the signalling theory and institution-based view, as opposed to existing research.

The signalling theory is widely used to study the information asymmetry between parties (Connelly, Certo, Ireland & Ruetzel, 2011; Spence, 2002; Stiglitz, 2002). It is even interesting to notice that this theory has received an unbelievable amount of citations, which

increased from 16 to 144 during 1989 and 2009 (Connelly *et al,* 2011). This theory helps to explain the effect of information asymmetry. Zhang and Wiersema (2009) showed in their corporate governance study how CEOs signalled that their firms unobservable quality to attract potential investments through their financial statements. With regard to corporate governance, this theory is also used in studies to investigate the effect between (i) a diverse board and shareholders (Miller & Triana, 2009), (ii) board characteristics (Certo, 2003), (iii) characteristics of the top management (Lester, Certo, Dalton, Dalton & Canella, 2006), founder involvement (Busenitz, Fiet & Moesel, 2005), and the presence of angel investors and/or venture capitalists (Elitzur & Gavius, 2005).

This theory has a few 'key' elements. Signalers, the signal and the receivers. The signalers are insiders, for instance, the management board. The insiders know information about individuals (Spence, 1973), organisations (Ross, 1977) and/or products (Kirmani & Rao, 2000), to which the outsiders do not have access. This information can be positive or negative and is useful for the outsiders in case of investments, due to the details of the information, like specifics of new goods and/or services, preliminary sales results or other confidential information (Connelly *et al,* 2011). Those who have access to this information knows the underlying quality of individuals, organisations and/or products (Connelly *et al,* 2011).

The signal is the information it is concerned and is sent from one to another to affect a certain outcome (Taj, 2016). Insiders gather private information and have the possibility to share this with outsiders. Generally speaking, insiders tend to share positive information and avoid sharing negative information to outsiders. This will help companies to reach their targets. For instance, an initial public offering (IPO) is to gather capital via issuing shares. Firms can do this to send a message to potential investors about their firm's legitimacy (Certo, 2003; Filatochev & Bishop, 2002). However, investors know that an IPO in most cases mean that directors think that their firm's stock price is overvalued and, therefore, unintended negative signals are sent out to outsiders (Myers & Majluf, 1984). According to Gubbi *et al,* (2010) is the announcement of an M&A a signal towards outsiders that the firm is positive about its future performance, due to the fact that cross-border M&As by acquiring firms in emerging economies facilitate capabilities and critical resources, reduces latecomer disadvantages, integration of their local knowledge and skills in foreign markets, and accelerate internationalization. If investors have strong confidence in the management of the acquiring firm and if investors possess explicit information about the signal, it should reflect in positive stock market reactions if investors also believe that the future performance is optimistic (Tao *et al,* 2017). However, the expectations of an M&A by the managers of the acquiring firms could be too optimistic,

while investors are more reluctant about the acquiring firms' future after the announcement of cross-border M&As which ultimately results in negative stock market reactions, referred as credible costs (Tao *et al*, 2017).

Receivers are in most cases outsiders and have limited access to information (Connelly *et al*, 2011). Signalers and receivers have different interests, which leads in most cases to conflicting interests. Signalers tend to get an edge at the expense of the receiver (Bird & Smith, 2005), which the receiver is only willing to take if it has a strategic effect (Connelly *et al*, 2011). This theory is integrated into this study to examine the impact of investors reaction when a firm completes an M&A. This could be done via selling or buying shares of the relevant firm. The intention of the acquirer is to create synergies. Current investors, and potential investors as well, evaluate the future's performance of the combined firms. The outcome of their analysis is their thoughts about the combined firms future's performance. If current and/or potential investors believe that the performance in the future will rise, think of higher profit margins, larger market capitalization, more revenues and/or lowering cost of goods sold, the market reaction is positive and results in a higher stock price. In contrast, when investors believe that the M&A does not create synergies or even believe that the combined firms create negative synergies, the stock price will decrease.

The purpose of a cross-border M&A is to allocate a firm's resources and knowledge more efficient to compete with global competitors (Deng, 2007) From this perspective, firms believe that this is the best way via an internationalization strategy (Buckley & Casson, 1976; Hymer, 1976; Makino, Lau, & Yeh 2002; Yiu, Lau, & Bruton, 2007). M&As brings multiple advantages, for instance, inexpensive labor, low input costs, conglomerate ownership advantages and developing of management and marketing skills (Lall, Chen, Katz, Kosacoff & Villela 1983; Wells, 1983).

The lower market barriers and fewer restrictions in the post-liberalisation era caused a significant increase in cross-border M&As by firms in emerging economies (Gubbi *et al*, 2009). These firms merged and/or acquired with multinational enterprises (MNE) in developed countries (Gubbi *et al*, 2009). Dawar and Frost (1999) believe that MNE is ''wielding a daunting array of advantages: substantial financial resources, advanced technology, superior products, powerful brands, and seasoned marketing and management skills'' (p: 119). According to Newman (2000), it is necessary for firms in emerging economies to transform themselves in order to have a competitive advantage to ensure resources and/or capabilities in their current emerging environment. However, it is hard for firms to gather resources in their current environment due to underdeveloped technologies, market strategies, managerial

capabilities, technology and/or other intangible assets (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Hitt, Li, & Worthington, 2005; Uhlenbruck, Meyer, & Hitt, 2003). Therefore, firms in emerging economies feel pressure to adopt an internationalization strategy (Tao *et al*, 2017). With cross-border M&As, firms acquire critical assets and experience a competitive advantage in comparison with firms in domestic and foreign countries (Luo & Tung's, 2007). Firms in emerging economies can learn from MNEs in order to gain new ideas and knowledge across the world (Almeida, 1996; Chang, 1995; Doz, Santos, & Williamson, 2001).

M&As by firms in emerging economies have causal advantages. First, high opportunity costs to ensure competitive advantages, post-market returns and innovation capabilities are removed (Uhlenbruck *et al*, 2006). Second, with cross-border M&As the acquired firm has immediate access to resources and downstream assets that are located at specific regions (Anand & Delios, 2002). Third, the transforming of the acquired firm, due to the M&A, can be reinvented with regard to their archetypes, core values, and templates (Greenwood & Hinings, 1996; Newman, 2000).

In the case of Russia, the information should be immediately reflected in the price on short-term due to the findings of Abrosimova & Dissanaike (2002). Abromisova and Dissanaike (2002) found, surprisingly given the level of infancy in Russian markets and authorities, that the Russian market is efficient which probably occurs due to to the fact that the Russian stock exchange possesses the largest and most liquid stocks who are analyzed by investors.

In sum, due to the acquisition of critical resources and capabilities, reducing disadvantages and gain local competencies, capabilities, and resources in foreign countries, firms in Russia adopt a cross-border internationalization strategy which ensures value creation. In addition, these firms have a competitive advantage in their home markets, as well as in foreign countries. Investors of firms which apply this strategy believe that this will enhance the firm's futures performance. Thus, it is expected that these firms experience a positive stock market reaction. Due to the fact that the Russian market is efficient, the stock prices should results positive, immediately after the announcement. Therefore, I test the following hypothesis:

Hypothesis 1. The announcement of cross-border M&As by Russian firms results in a positive stock market reaction.

2.6 Institution-based view

It is hard to explain the stock reaction based on the signalling theory alone. Despite the fact that the signalling theory predicts the decision-making of investors, it is necessary to investigate what drives an M&A. The signalling theory lacks this part and, therefore, the institution-based is integrated into this study. In the 1980s and 1990s, it was normal to integrate, respectively, the industry-based view (Porter, 1980) and the resource-based view (Barney, 1991) in strategic management studies. However, approximately ten years ago the institution-based view has emerged in those studies. This theory has an affinity with (economic) institutions (North, 1990; Williamson, 1985) and sociological institutions (DiMaggio & Powell, 1983; Scott, 1995). It takes into account the effecting role institutions has on the competitive advantage of firms. The reason that the institution-based view became the third leg in strategic management studies is due to the differences with regard to the institutional frameworks between develop countries and emerging economies, which causes that researchers were forced to investigate these differences in more detail, with respect to the industry-based view and the resource-based view (Chacar & Visser, 2005; Doh, Teegen & Mudambi, 2004; Hafsi & Farashahi, 2005; McMillan, 2007).

Another reason for a scientist to investigate the institutional-based view in more detail is due to its relationship and Dunnings' OLI paradigm. Recent studies of Dunning and Lundan (2008) and Cantwell, Dunning and Lundan (2010) points out that due to globalization and institutional affecting factors can be classified in the OLI paradigm. Dunning & Lundan (2008) have continued the study of North (1990) and found a direct relationship between the target country institutional characteristics and location-based factor in the OLI paradigm. Advantages with regard to the OLI paradigm is different for firms located in developed or emerging economies. The riskiness is lower and knowledge is higher in developed countries when compared to emerging economies. Therefore, developed countries and/or institutions facilitates knowledge acquisitions (Lu, Liu, Wright, & Filatotchev, 2014; Schwens, Eiche, & Kabst, 2011; Uhlenbruck, Rodriguez, Doh, & Eden, 2006). According to Guler and Guillen (2010) and Witt & Lewin (2007), host countries can attract and tempt foreign companies its location via the improvement of their located institutions. So, the institutional environment in a host country has a magnifique influence in a multinational enterprise (MNE) internationalization strategy (Chung & Beamish, 2005; Cui & Jiang, 2012; Gao, Liu, & Lioliou, 2015; Holmes, Miller, Hitt, & Salmador, 2013; Kostova, Roth, & Dacin, 2008; Pangarkar & Lim, 2003; Wang, Hong, Kafouros & Wright, 2012).

The institution-based view argues that institutions in the environment of a firm influences their strategy and performance (Buckley, Clegg, Cross, Liu, Voss & Zeng, 2007; Peng, Wang & Jiang, 2008). Institutions can be seen as the 'rules of the game' in a society (Scott, 1995). North (1991) adds to this that institutions are those who shape the political, social and economic interaction. Scott (1995) defined institutions as 'regulative, normative and cognitive structures and activities that provide stability and meaning to social behaviour' (p. 50). Institutions are recognized as one of the important influencers off cross-border M&As (Peng, Wang & Jiang 2008; Wan & Hoskisson, 2003). Williamson (1975) points out that institutions possess the solutions for problems firms have in a competitive framework. According to Gubbi *et al.* (2010) and Zhang, Zhou and Ebbers (2011) domestic and foreign institutions exert significant pressure on cross-border M&As, resulting in an effectuation in the integration and (un)success of cross-border M&As.

According to Peng & Wang (2008) are institutions those who govern societal transactions in the political (transparency and corruption), law (economic liberalisation and regulatory regime) and society (norms & values and attitudes). This is referred to as political risk. Due to the fact that countries differ with regard to political risk, a countries political situation affect the stability of a market (Simon, 1984).

Overseas M&As of multinational enterprises gives them full control over the operations of the target firms, however, it is possible that the acquired firms are subject to external uncertainty (Anderson & Gatignon, 1986; Gatignon & Anderson, 1988; Hill, Hwang & Kim., 1990; Root, 1987). This external uncertainty is caused by cultural differences, i.e. the norms and values of the target and acquired firms in their countries differ (Hofstede, 1980; Kogut & Singh, 1988), and the political riskiness (Agarwal & Ramaswami, 1992; Akhter & Lusch, 1988; Delios & Beamish, 1999; Delios & Henisz, 2000; Henisz, 2000). Political risk is referred as an unfavourable change in the government and/or political issues in the target's country (Henisz, 2000; Miller, 1992) and has a large influence in the way institutions in their country functions (Bilson, Brailsford, & Hooper, 2002). According to Globerman and Shapiro (2003) is the governance structure defined as ''public institutions and policies created by governments as a framework for economic, legal, and social relations'' (p. 20), and represents ''attributes of legislation, regulation, and legal systems that condition freedom of transacting, security of property rights, and transparency of government and legal processes'' (p. 19). Cross-border M&As in target's countries with different levels of political risk can, therefore, lead to implications with regard to this process and ultimately result in different short-term stock market reactions (Tao *et al*, 2017). Thus, the political risk of the host countries needs to be

investigated further. This study tends to do this by integrating the political stability and governance quality of the host country, two important dimensions of political risk.

Political stability

The institutional environment is a key dimension of firms to decide in which host country they will locate (Henisz and Macher, 2004; Woodward and Rolfe, 1993), and even outweighs the potential market growth of the combined firm (Hatem, 1997). Previous studies found that political instability is one of the most important factors that influence cross-border M&As (Fatehi-Sadeh & Safizadeh, 1989). Therefore, the political situations in host countries are investigated by acquiring firms in detail, before the investments take place. According to Bekaert, Harvey, Lundblad, and Siegel (2014) and Pástor & Veronesi (2013, 2012) it may happen that the level of political stability impact investors' perception and result in different stock market reactions.

To measure the political stability of a country, Root (1972) determined that political stability can be measured the following factors: (i) transfer of power, (ii) civil stife, (iii) unstable rule of law and (iv) dispossession of assets. In addition, according to Root (1972), political stability in a country influence profitability and survival after foreign direct investment. In political stable countries, external uncertainty is lower. Therefore, it is expected that firms prefer cross-border M&As in host countries where the risk with regard to political stability is low (Morrow, Siverson, and Tabares, 1998).

According to Bekaert et al (2014) and Pástor & Veronesi (2013, 2012), it is a challenge for acquiring firms to survive in host countries were policy changes out of nowhere. If firms execute a cross-border M&A in (familiar) host countries were policy changes are often made, it scares investors' perceptions and may result in negative short-term market reactions (Bekaert *et al,* 2014)

Furthermore, Brouthers and Hennart (2007) and Feinberg and Gupta (2009) found that political instability affects the outcome of cross-border M&As activities negatively, and the combined firms experience less collaboration with local partners. These uncertainties together make it hard for firms to secure profitability and the payment of dividends to their shareholders (Tao *et al,* 2017). This is seen as a negative signal towards investors (Tao *et al,* 2017). So, it is expected that acquiring firms who are engaging in cross-border M&As in host countries with a low level of political stability experience negative short-term stock market reactions. Therefore, I test the following hypotheses:

Hypothesis 2a. Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets from countries in high levels of political stability (>0) in comparison to Russian firms that announce to acquirer targets from countries in low levels of political stability (<0).

Governance quality

Bekaert et al (2014), Berry (2006) and Pástor & Veronesi (2013) found in their studies that governance quality plays an important role in the outcome of cross-border M&As by MNEs. Rossi and Volpin (2004) add to this that countries which have stronger shareholder rights and better accounting standards have higher volumes of M&As. Uhlenbruck *et al,* (2006) found in their study that MNEs experience lower costs and implementation time of the combined firm in countries were the governance quality is higher.

According to Vencatachellum and Wilson (2013), macroeconomic stability, corruption, financial developments, and resource endowments explain the difference in M&A levels between countries. Li, Miller, Eden, and Hitt (2012) point out that the rule of law, national governance, affects value creation in Brazil, Russia, India, and China, due to foreign partners' knowledge sharing. In addition, Karhunen and Ledyaeva (2012) found in their study that the level of corruption influence the choice of MNEs in which country they do cross-border M&As. MNEs investigate the benefits of foreign partners with the associated costs of corruption. If for some reasons, firms stop with corrupt actions, it could have a significant impact on their future cash flow (Clifford, 2002). Thus, foreign direct investments in such countries might be seen as a negative signal from the investors' perspective.

As said earlier, MNEs in emerging economies recently adopt an internationalization strategy. The purpose of this strategy is to gain knowledge and gather resources. The industry structure in Russia is characterized by the dependency of natural resources and is primarily based on rare resources (Bertrand & Betschinger, 2012). Following Bridge (2008), the Russian State determines which firms have access to these resources, and in this context, resource seeking motives perhaps drive M&As in Russia (Henisz, 2002). These deficiencies can be gathered in developed markets with high levels of governance quality and low political risk (Cui, Meryer, & Hu, 2014; Liu, Gao, Lu, & Lioliou, 2016). An M&A based on these convictions is a positive signal from an investors' perspective. Therefore, I test the following hypothesis:

Hypothesis 2b. Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets in countries with a high level of governance quality (>0) in comparison to Russian acquiring firms that announce to acquirer targets in countries with a low level of governance quality (<0).

2.7 Agency theory

The agency theory is one of the most influential perspectives with regard to practice, corporate governance and policy-making (Aguilera & Jackson, 2003; Brennan & Solomon, 2008; Christopher, 2010; Daily, Dalton, & Cannella, 2003). This theory assumes that people act in self-interest and, therefore, points out a conflict between principal and agents (Berle & Means, 1932; Jensen & Meckling, 1976). In order to reduce the conflicts, by giving appropriate incentives or by monitoring agents (Chng, Rodgers, Shih, & Song, 2012; Eisenhardt, 1989; Jensen & Murphy, 1990).

Based on previous studies, researchers believe that the agency theory is not suitable applied for firms in emerging economies which have a strong family control, weak governance context and a concentrated ownership (Abdullah, Evans, Fraser, & Tsalavoutas, 2015; Dharwadkar, George & Brandes 2000; Young, Peng, Ahlstrom, Bruton & Jiang, 2008). Despite these findings, firms in emerging economies applied this theory due to the lack of another suiter theory. These characteristics give, therefore, the traditional agency theory another point of view. In this context, managers represent majority shareholders interests, or the decision-making process and controlling process are held by the same persons (Lau, 2010; Li & Qian, 2013). However, this perspective, principal-principal interest, has the same assumptions of the principal-agency interest (Eisenhardt, 1989). Thus, both perspectives are based on self-interest and risk aversion.

The traditional agency theory explains that agents, the managers of a firm, tend to be more risk-averse due to limited employment and lower incentives levels to make additional efforts, while principals, the shareholders of the firm, prefer to invest in diverse and efficient projects (Eisenhardt, 1989; Faccio, Marchica, & Mura, 2011; Foss & Stea, 2014; Wiseman, Cuevas-Rodríguez, & Gomez-Mejia, 2012; Sauner-Leroy, 2004). Thus, the agent acts in the authority of the shareholders and acts upon different interests. Due to the fact that agents carry out tasks, it is hard for principals to control them (Eisenhardt, 1989). Simply because of the information asymmetry (Eisenhardt, 1989). This is an advantage for the agent and leaves some space to make a decision for self-interest, referred to as moral hazard (Eisenhardt, 1989).

However, the principals applied some mechanisms in their firm to monitor the agents. This is done for example via the appointment of independent directors, publication- and transparency regulations, corporate governance, managerial accountability or contracts (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983; Eisenhardt, 1989). The purpose of the agency theory is to determine which type of solution will successfully align the relationship between principal and agent (Eisenhardt, 1989; Bergen, Dutton & Walker, 1992; Tate, Ellram, Bals, Hartmann & Valk 2009). In most cases, the powers of managers are laid down in contracts (Jensen & Meckling, 1976). Contracts are defined as "that specifies the rights of the parties, performance criteria on which agents are evaluated, and the payoff functions they face" (Fama & Jensen, 1983, p. 302). The advantages of contracts are that it (1) frames the principal-agent relationship (Yan, 2005) and (2) it makes sure that one party does not benefit on behalf at the expense of the other (Bresser, 1998). Furthermore, it is important to allocate the risk when discussing contract performance (Eisenhardt, 1989). An option is to allocate the risk to the partner who is best able to manage (Bult-Spiering & Dewulf, 2006). Higher levels of risk result in higher costs, which ultimately affect the firms' performance and the agents' reward (Fama & Meckling, 1976; Eisenhardt, 1989). Through incentives, the agent will be motivated to act in the interest of the principal (Fama & Meckling, 1976; Eisenhardt, 1989). Another solution is that the risk should be assigned to the least-bearing risk party (Weber, 2014; Oudot, 2005). Higher risks result in higher risk-bearing costs (Weber, 2014; Oudot, 2005). The least-bearing risk party is in most cases the agents. This attitude towards risk influences the choices of agents and, therefore, the risk should be aligned to the party who takes the least risk (Weber, 2014; Oudot, 2005).

Following the agency theory, Fama and Jensen (1983) distinguish the decision-making process between monitoring and managing resources. In MNEs, the decision-making process is undertaken by the board of directors (BOD). So, they are responsible for controlling, appointing, rewarding and firing managers in order to maximize the firms' value (Vu, Phan & Le, 2018). The purpose of the BOD is to protect the shareholders.

The BOD has three roles, (i) gather and allocate resources, (ii) gain a position in the firms' environment and (iii) strategic decision making (Goodstein, Gautam & Boeker 1994). The study of Clendenin (1972) found four key functions of the BOD, (1) determine the objectives and strategy, (2) make operating and financial decisions, (3) assess firm performance and (4) build a relationship with their managers. Chaganti, Mahajan, and Sharma (1985) add to this that the BOD has to supervise the firms' efficiency and sustainable development, and improve the image of the firm, seek resources and take advice from leaders.

Fama and Jensen (1983) believe that the BOD results in lower representation costs between managers and shareholders. Furthermore, the BOD are important players in the shareholders' protection and interest through monitoring and inspections. So, the BOD is not only responsible to issue dividends and/or sharing profits with their shareholders but also needs to encourage managers in order to preserve interests and keep on innovating (Vu *et al*, 2018). Therefore, the characteristics of the BOD may significantly affect the firms' performance (Trần Kiều Trang, 2012). Firms with different ownership status have different goals and motives, approaches, interest groups and competitive pressure (Zhou & Witteloostuijn, 2010). Therefore, state-owned enterprises (SOEs) represent an ownership structure in the form of corporate governance and/or the institutional environment (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Child & Rodrigues, 2005; Peng, 2000).

Russian SOEs are monopolistic and superior to political access (Lundan, 2010). Managers of SOEs, therefore, consider the possibility to gain (in)formal support in unexpected negative conditions when making strategic decisions (Cui & Jiang, 2012). According to Buckley *et al*, (2007) this results in the fact that SOEs do not take high risk in FDI. In contrast, privately held firms do not have this advantage and have to compete with their marketing and technological skills and/or knowledge (Peng, 2001). In addition, publicly traded firms experience difficulties in gathering resources (Child & Rodriguez, 2005) and are associated with higher transaction cost when performing an M&A (Pan, Teng, Supapol, Lu, Huang & Wang, 2014) However, because privately held firms have to apply these facets more than SOEs, they are more effective in market orientation and innovation (Peng, Wang, & Tong, 2004). Furthermore, private firms experience greater flexibility and autonomy with regard to the management and the decision-making process (Tao *et al*, 2017). Taken this together, it is expected that privately hold firms exercise a cross-border M&A more effective and efficient than SOEs (Liu *et al*, 2016). Therefore, from an investors perspective, a cross-border M&A executed by SOEs has a less positive signal than a cross-border M&A by privately held firms. Thus, I test the following hypotheses:

Hypothesis 3a. Russian SOEs (dummy variable) results in lower cumulative abnormal returns after the announcement of cross-border M&As in comparison to firms without the presence of Russian authorities.

Furthermore, as said, Russian firms make use of the two-tier board which significantly affects the outcome of corporate governance/principal-agency codes (Fiedorczuk, 2017). According to Bonazzi and Islam (2007) lies the solution of agency problems in the mechanisms of corporate governance, where an effective BOD is the most important and significant mechanisms of all corporate governance mechanisms. Therefore, this study focus on some BOD mechanisms, instead of other mechanisms which are, according to Bonazzi and Islam (2007), none and/or less significant.

Many researchers investigated the effect of the size of the BOD, the numbers of directors which are represented in the board of a firm, and found that larger BOD results in negative firms' performance (Yermack, 1996; Eisenberg, Sundgren & Wells, 1998). Scientists believe that the decline comes due to a lack of decision-making and non-cohesiveness (Malik & Makhdoom, 2016) However, there exist a few studies, like Guest (2009), who believe that larger BOD sizes have more experience which results in higher firm performances. This study sticks to the vast majority of existing studies and therefore test the following hypothesis:

Hypothesis 3b. Board size has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

Furthermore, Russian firms are characterized by high ownership concentrations which result in CEO duality, and large shareholders who can have an impact on the directors who will get a chair in the BOD (Fiedorczuk, 2017). CEO duality occurs when the CEO is also the chairman (Malik & Makdoom, 2016). Existing research found contradictory results about CEO duality and firm performance (Boyd, 1995). Berg and Smith (1978) investigated 200 *Fortune* firms and concluded that CEO duality has no relationship with regard to stock market returns. This is confirmed by the study of Rechner and Dalton, 1989. Furthermore, Boyd (1985) investigated the CEO duality-performance relationship and found a negative effect size. Due to the inconclusive results, and the fact that most studies did not found a relationship between CEO duality and firms' performance this study test the following hypothesis:

Hypothesis 3c. CEO duality has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

With regard to large shareholders, there are two situations. First, high ownership concentrations reduce agency costs between large and minority shareholders, which can be seen as a positive development (Isik & Soykan, 2013). Thus, this monitoring effect has a positive effect on the stock market return. However, as said, the minority shareholders rights in Russia are violated which results in benefits for large shareholders on the expense of minority shareholders (Puffer & McCarthy, 2003). In the Russian context, the presence of large shareholders and corresponding monitoring effect disappear and the firms' value decreases (Fama & Jensen, 1983; Hamadi, 2010). Thus, this study tests the following hypothesis:

Hypothesis 3d. The presence of large shareholders has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

2.8 Synergy theory

According to Chatterjee (1986) exist three types of synergies, operation synergy, financial synergy, and collusive synergy. Operation synergy deals with economies of scale, financial synergy is referred to as the weighted average cost of capital and collusive synergy is price related (Chatterjee, 1986). Hankir, Rauch, and Umber (2011) adds to this that firms motivations to execute an M&A is to gain an increase in futures cash flow and firm value, and are realised through an increase in size (scale) or via advantages of the combination of firm-specific combinations (scope).

Operation synergies occur when two separate firms merge, after which the transfer of knowledge is shared (Trautwein, 1990). Furthermore, Hankir *et al* (2011) point out that through an increase in revenues and/or economies of scale operation synergies can be achieved.

Financial synergies stem from the lower cost of capital through lowering the systematic risk via the investments in firms in diversified industries, and/or the increase in the size of the company, which may provide access to capital with lower cost. (Hellgren, Löwstedt & Werr, 2011). Trautwein (1990) adds to this that due to the creation of an internal market that capital is allocated more efficiently through the fact that it operates on superior information. Furthermore, via M&As firms could gain tax savings, financial slack and/or financial engineering (Hankir *et al*, 2011).

The collusive synergy is referred to as the market power theory (Chatterjee, 1986). The market power theory belief that firms with market power have the ability to influence

individuals and/or groups, nature of the product, prices and quality (Shephard, 1970). According to Hankir *et al* (2011) results in market power in lower competition and higher prices at the expenses of their customers. The strategic decisions of firms to merge in order to achieve market power results in a transfer of wealth from customers towards the owners (Hellgren *et al*, 2011; Trautwein, 1990).

Larger markets are attractive for M&As due to the fact that they provide possibilities for economies of scale in the targets market (Kyrkilis & Pantelidis, 2003; Tolentino, 2010; Dunning, 2009). After the fall of the communist regime in Russia, Russian firms prefer to exploit new markets instead of the 'old-fashion' industry in Eastern Europe, therefore, Russian firms seek new markets (Dikove, Rao Sahib & Van Witteloostuijn 2019; Rasciute & Downward, 2017). With cross-border M&As, Russian firms can gain market power, while it ensures less dependence on the domestic market (Pfeffer & Salancik, 2003). Furthermore, Russian firms enhance economies of scale and lower transportation costs via the use of the new 'bases' in the host countries to provide smaller markets in the region (De Beule & Duanmu, 2012). In addition, Russian firms can develop firm-specific advantages through local acquisitions (DiGiovanni, 2005; Nicholson & Salaber, 2013).

According to Deng and Yang (2015) rely firms on resource availability in futures economy, and, therefore, reduces uncertainty in this area through the absorption of multiple resources (Pfeffer & Salancik, 2003). In the case of Russian firms, host countries announced the demand of Russian firms goods/services (De Beule & Duanmu, 2012), while the costs in the domestic area are rising, which results in diversification of Russian resource capabilities.

Also, Russian firms are traditionally resourced intensive which are characterised by obsolete technologies (Dikove *et al*, 2019). Firms operating in such sectors feel the need to gather knowledge to improve their current business via the acquiring of targets that provide strategic assets, advanced technology and/or new networks (Dikove *et al*, 2019).

As said, the firm gives a signal towards investors that the firm is positive about the firms' future with the cross-border M&A (Gubbi *et al*, 2010). The statements of firms with explicit motives to execute the cross-border M&A by Russian firms delivers a contribution in the positive perception of investors, which should be reflected in positive stock market reactions (Tao *et al*, 2017). Therefore, this study tests the following hypothesis:

Hypothesis 4. The operation, financial and collusive synergies have a positive relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

2.9 Overview of the research questions, hypotheses, and applied theory

Research questions	Hypotheses	Theory
1. What are the stock market reactions to cross-border M&As by Russian firms?	**Hypothesis 1.** The announcement of cross-border M&As by Russian firms results in a positive stock market reaction.	Signalling theory
2. To what extent do political stability and governance quality of the country of the target company affect the short-term stock market performance of Russian firms due to cross-border M&As	**Hypothesis 2a.** Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets from countries in high levels of political stability (>0) in comparison to Russian firms that announce to acquirer targets from countries in low levels of political stability (<0).	Institution-based view
	Hypothesis 2b. Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets in countries with a high level of governance quality (>0) in comparison to Russian acquiring firms that announce to acquirer targets in countries with a low level of governance quality (<0).	Institution-based view
To what extent do corporate governance codes of firms affect the short-term stock market performance of	**Hypothesis 3a.** Russian SOEs (dummy variable) results in lower cumulative abnormal returns after the announcement of cross-border M&As	Agency theory

Russian firms after the announcement of cross-border M&As?	in comparison to firms without the presence of Russian authorities.	
	Hypothesis 3b. Board size has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.	Agency theory
	Hypothesis 3c. CEO duality has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.	Agency theory
	Hypothesis 3d. The presence of large shareholders has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.	Agency theory
To what extent does the motive for the acquiring firm to execute a cross-border M&A affect the short-term market performance of Russian acquiring firm after the announcement of cross-border M&As?	**Hypothesis 4.** The operation, financial and collusive synergies have a positive relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.	Synergy theory

Table 2: Overview of RQs, hypotheses, and theory

3. Methodology

In history, and still, nowadays, econometrics are asked to measure the effect of events on firms value (MacKinlay, 1997). With the relevant financial data, the event study approach makes it possible to calculate the effect (MacKinlay, 1997). The procedure for an event study is (1) to define the event of interest and the event window, (2) determine the selection criteria, (3) calculate the abnormal return, (4) set the design of the testing framework and (5) interpret the results (MacKinlay, 1997). There are two models to calculate the abnormal return via a statistical way, (i) the constant mean return model and (ii) the market model (MacKinlay, 1997). The constant mean return model implies that the return of a firm is constant through time, whereas the market model assumes a stable linear relationship between the firms stock market return and the market return (MacKinlay, 1997). This study applies the market model because this model is an improvement of the constant mean return model and is widely used by other scientists (Aybar & Ficici, 2009; Gubbi et al., 2010; Tao et al., 2017). The market model calculates the expected return on the past actual returns of the firms and the past market returns and removes the return that is related to variation in the market return, the variance in calculating the abnormal return is decreased, which ultimately leads to an increase in event effects (MacKinlay, 1997).

However, there exist also economic models to calculate the expected returns via the capital asset pricing model (CAPM) and Arbitrage Pricing Theory but these models add relatively little explanatory power in comparison to the market model, and, therefore, is not applied so much in event studies (MacKinlay, 1997).

In order to examine the impact of cross-border M&As by Russian firms, this study calculates cumulative abnormal returns (CAR) (Aybar & Ficici, 2009; Chari, Ouimet & Tesar, 2010). According to Fama (1991) is information immediately reflected in stock market prices. Therefore, the CAR can be used to estimated stock market reactions with unexpected events, like an M&A. In order to assess the stock price reaction after a cross-border M&A, the abnormal returns are calculated on the basis of the market model of Brown and Warner (1985):

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

where ARit is the abnormal return, Rit is the actual daily stock return for firm i on day t, and Rmt is the daily return from the Moscow Stock Exchange on day t. The coefficients ai and bi are OLS parameters estimated through the regression of Rit on Rmt (Brown and Warner, 1985).

Also, to check for robustness, this study applies the market-adjusted return model. Via this approach, the market return is subtracted from the actual return, where the estimation

window is not needed (MacKinlay, 1997). This is an advantage towards the market model, due to the fact that only the actual returns and market returns are needed. The market-adjusted return models are calculated via the following equation:

$$AR_{it} = R_{it} - R_{mt}$$

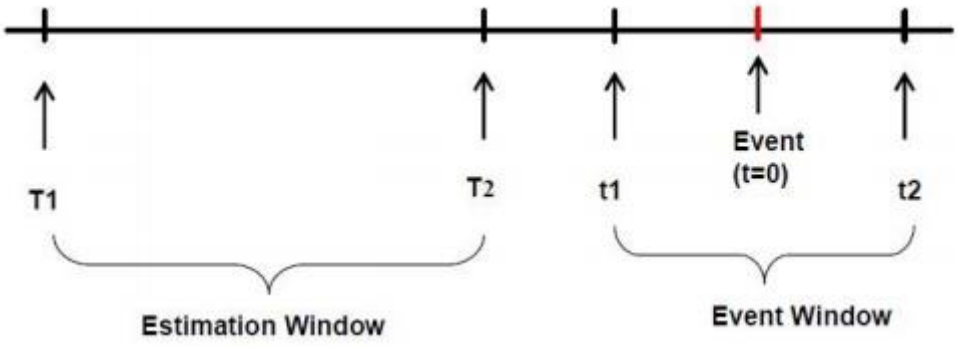

Figure 2: Estimation and event window

Existing research use mostly a larger estimation window of 240 or 250 days to calculate the expected return at the market model (Gubbi *et al*, 2010; Aybar & Ficici, 2009). However, a small number of scientists use a smaller period of 90 days (Ning, Kuo, Strange & Wang, 2014). This study sticks to the vast majority and, therefore, this study uses an estimation window of 240 days from t= -6 until t= -245, where t= 0 is the announcement date of the cross-border M&A. The estimation windows are calculated on the basis of the Russian Stock Exchange, IMOEX, and the American S&P 500. Later on in this study, it is made more clear why this study integrates two stock exchanges.

I consider the stock market reaction as a change in a company's stock price (Gaur, Malhotra & Zhu, 2013; Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010) during four periods. With regard to the IMOEX, this study applies the following event windows. First, (1) four and three days before the event (-4, -3). Second, (2) two days before the announcement and on the announcement day itself, (-2, 0). Third, (3) between two and five days after the announcement (+2, +5). Finally, between five days in advance of the event and five days after (-5, +5). With regard to the S&P 500, this study applies the following event windows. First, (1) four and three days before the event (-4, -3). Second, (2) two and one days before the announcement, (-2, -1). Third, (3) on the announcement date and two days later (0, +2). Finally, between five days in advance of the event and five days after (-5, +5) Doukas & Travlos (1998), Halebian & Finkelstein (1999) and Moeller & Schlingemann (2005) points out that changes during the

periods (0, +1); (-1, 0); (-1, +1); (-2, +2), and (-5, +5) are widely used event windows in M&As studies. However, Scholtens and De Wit (2004) point out that each M&A deal should have its own estimation and event window, and, therefore, this study has applied these event windows. There are two ways in which an event study can be carried out, asymmetric and symmetric. In similar studies (Tao *et al*, 2017; Aybar & Ficici, 2009; Kruse *et al*, 2007) is a combination of the asymmetric and symmetric approach used.

In order to measure the cumulative abnormal returns, the average AR are summed together for the days of the event window:

$$CAR_t = \sum_{t=1}^{n} AR_t$$

where CARt is the cumulated abnormal return for the period of from t = day 1 until t = day n (Tao *et al*, 2017)

It is possible that inflation, fluctuation in stock prices caused by other factors and/or other determinants, the statistical significance of the CAR is analysed with the *t*-test:

$$t_{CAR} = \frac{CAR}{S_{CAR}/\sqrt{n}}$$

where SCAR is the standard deviation of the cumulative abnormal returns (Tao *et al*, 2017).

The event study determines if there exists an 'abnormal' stock reaction with an unexpected event, in this case, M&As. The usage of the regression is to provide validations if the results are in line with the theory and ensure the credibility of the findings of the study (McWilliams & Siegel, 1997). To test the hypotheses, I employ the full sample, listed firms in Russia that carry out a cross-border M&A, with data about the stock market reaction of the acquiring firm during the mentioned event window above.

The hypotheses are tested via a statistical technique. There are two ways to test CARs via statistical techniques, regression or conjoint analysis (Hair, Black, Babin & Anderson, 2014). However, market and consumer research are related to conjoint analysis, and, therefore, is not suitable for testing the hypothesis in a financial study (Hair *et al*, 2014). This study applied the regression analysis to measure the effect of the explanatory and control variables on the CARs (Gubbi *et al*, 2010).

Due to the fact that this study does not have a very large sample size, the Weighted Least Square regression method is not appropriate (Cohen, West & Aiken, 2014). In such circumstances, researchers applied the Ordinary Least Squares (OLS) regression method

(Gubbi *et al*, 2010; Morck & Yeung, 1992). This study sticks to the vast majority of existing research and makes use of the OLS regression method.

The treatment of outliers was done by assessing the normal distribution in SPSS. Outliers that were no mistakes, but rather unusual observations, were winsorized. With winsoriging, the explanatory power will not be reduced. Replacing unusual observations by minimum and maximum values at the threshold to make sure that the unusual observation can no longer skew the data.

Multicollinearity is one of the most difficult problems that occur with regressions. It arises when (some) independent variables are strongly correlated (Belsley, 1990; Belsley, Kuh & Welsch, 1980). If this is true, it results in instability in the evaluation of the regression output (Curto & Pinto, 2010). The tolerance and VIF numbers will be analysed. A rule of thumb with VIF numbers is that the variables should not exceed 10 (Curto & Pinto, 2010). Independent and/or control variables with higher VIF numbers than 10 are deleted.

Performing the OLS regression method requires that the variables must meet the homoscedasticity requirements and must be normal distributed. Via the scatterplot, it will be assessed to what extent the variables are homoscedasticity. The predicted variables are located on the X-axis, while the residuals are located on the Y-axis.

In line with the study of Tao, Liu, Gao & Xia (2017) we are interested whether political risk indicators and/or the ownership status affect the stock reaction of Russian firms. In order to measure political risk, and test hypotheses 2a and 2b, the World Governance Index (WGI) by Kaufmann, Kraay & Mastruzzi (2010) is used. Previous research from Gubbi *et al* (2010) also includes the WGI to measure political risk. The WGI consists of 6 indicators to measure political risk for 215 countries. The indicators are voice and accountability (VA), political stability and absence of violence (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC). The first two indicators (VC and VA) explains political stability and the other four measures governance quality. The values of the indicators range from -2.5 to 2.5. Whereas a lower value indicates higher political risk and vice versa. The dummy variable takes 1 if the WGI values are higher than ≥ 0, reflects low levels of political risk, and takes 0 if the WGI values are < 0, reflects high levels of political risk.

To test hypothesis 3a, the involvement of Russian authorities should be considered. The dummy variable SOE gets 1 if Russian authorities are involved in the firm, and 0 otherwise, this is in line with the study of Tao *et al* (2017), where it should be noted that they only give Russian firms a 1 if Russian authorities possess over 50% of the firms' shares. In this research, we look at whether Russian authorities are involved or not.

In order to test hypothesis 3b, the number of members the firms' board has will be regressed against the CARs. Via this approach, it investigates whether more or fewer members in a board will result in positive/negative CARs. This method is also used in the study of Malik & Makdoom (2016). Via the Orbis database, it is being investigated how much members each firm has on the board.

Furthermore, to test hypothesis 3c, CEO duality is also a dummy variable. If a firm has a CEO that is also the chairman that the firm gets a 1. If the CEO is separated from the supervisory board then it will get a 0. This method is also used in the study of Malik & Makdoom (2016). Via the Orbis database, it is being investigated if the CEO is also the chairman.

As with the number of members on the board, the number of large shareholders, those who possess more than 5% in a firm, will be regressed. Via the Zephyr database, it is being investigated how much large shareholders each firm has. With the outcomes of this variable, it makes it possible to state whether more/less large shareholders results in higher/lower stock market reactions. This method is also used in the study of Malik & Makdoom (2016).

Firms have different motives for an M&A. To test hypothesis 4, a dummy variable is applied to measure the effect of the motives on the stock market reaction after the announcement of cross-border M&As. The motives for each individual case were gathered via LexisNexis. The statements made by members of the board of directors concerning the motives of the M&A are recorded. The motives who are applied in this study are (i) operation synergies, (ii) financial synergies, (iii) collusive synergies, or (iv) not announced. The four motives are investigated separately and gets a 1 if it belongs to that specific motive, and 0 otherwise.

To control for other factors that may influence the stock market reaction of Russian firms who executed a cross-border M&A, this study applies the control variables which other studies also have applied; (i) acquiring firms' debt to asset ratio, (ii) acquiring firms' ROA ratio, and (iii) log of total assets of the acquiring firms' (Gaur, Malhotra & Zhu, 2013; Fahlenbrach, 2009; Dutta, MacAulay & Saadi, 2011).

According to Berger, Ofek and Yermack (1997) could good corporate governance codes reduce the amount of leverage a firm has, measured via the total liabilities divided by the total assets of a firm while improving a firms' value. However, more leverage could enhance the reducing of agency conflicts between the shareholders and managers (Harris & Raviv, 1991). Also, the usage of debt is the cheapest financing method which could enhance a firms' profits and increase a firms' value. According to Rajan and Zingales (1995) is the leverage ratio the most used variable for the control of the capital structure. However, only long term debt is a

prevalent measure for the debt/asset ratio, due to the fact that short-term debt differs in nature and composition (De Jong, Kabir, and Nguyen, 2008). Therefore, this study defines the D/A ratio as the long term debt divided by the total assets. Furthermore, the book value of long-term debt is applied in this study, due to the fact that the market book value of leverage could have some large volatilities (Chen, Lensink & Sterken, 1999; De Bie & De Haan, 2007). Previous studies examined the effect of firms with higher leverage and a firms' value and found a positive relationship due to tax benefits (Kraus and Litzenberger 1973; Myers 1989). In line with existing studies, this study believes that higher debt to asset ratios results in higher positive short-term stock market reactions after the announcement of cross-border M&As by Russian acquiring firms.

Two widely used measurements to assess the efficient usage of the net income is done via the return on equity (ROE) (Kabir &Thai, 2018) and return on assets (ROA) (Berger et al, 2006; Kabir &Thai, 2017). However, ROE does not take into account to what extent a company use its financial leverage, and, therefore, this study applies the ROA ratio instead. ROA is defined as the net income divided by the total assets (Berger et al, 2006; Kabir & Thai, 2017). The total liabilities of a company and the total equity of a company are referred to as the total assets of a firm (Kabajeh, Al Nuaimat & Dahmash, 2012). With the ROA, it could be determined how effective and efficient a company uses its assets in order to generate net income (Kabajeh, Al Nuaimat & Dahmash, 2012). Also, managers could use the ROA for investments motives, for instance, if the ROA outweighs the costs of the investments than it is a profitable investment (Kabajeh, Al Nuaimat & Dahmash, 2012). Previous research found a negative relationship between stock market reaction and higher levels of ROA (Brammer, 2006). However, other existing studies believe that higher ROA ratios result in higher positive short-term stock market reactions after the announcement of cross-border M&As by Russian acquiring firms (Roden & Lewellen, 1995; Berger & Bonaccorsi di Patti, 2006). Due to the inconclusive results, it is not clear if ROA has a positive or negative effect on the CARs.

The findings of Stanwick and Stanwick (1998), Ullmannn (1985), Waddock and Graves (1997), Wartick and Cochran (1985), Wood and Jones (1995) shows that the size of a firm is related to the stock market reaction of a firm. To control for their findings, this study integrates the control variable for a firms' size via the log of the total assets of a company. Larger firms have advantages in comparison to smaller firms with regard to access to external financing (De Haan and Hinloopen, 2003), gather cheaper loans through economies of scale (Céspedes, Gonzáles & Molina, 2010), have more stable cash flows and diversified activities (Myers, 1989), and are less likely to go bankrupt (De Haan and Hinloopen, 2003). In line with Chen

(2004); De Haan and Hinloopen (2003) and De Jong *et al* (2008) this research measure the size of a company via the log of total assets and believe that larger companies experience higher short-term stock market reactions after the announcement of cross-border M&As by Russian acquiring in comparison to smaller companies.

Panel A: Dependent variable		
Variable	Relates to hypothesis	Definition
CARs	Hypothesis 1	Event window between one day before the announcement date of the cross-border M&A by Russian acquiring and 3 days after the announcement of the cross-border M&A by Russian acquiring firms.
Panel B: Explanatory variables		
Variable	Relates to hypothesis	Definition
VC	Hypothesis 2a	Voice and Accountability. Dummy variable takes the value 1 if the WGI is ≥ 0, and 0 otherwise.
PS	Hypothesis 2a	Political stability and absence of violence. Dummy variable takes the value 1 if the WGI is ≥ 0, and 0 otherwise.
GE	Hypothesis 2b	Government effectiveness. Dummy variable takes the value 1 if the WGI is ≥ 0, and 0 otherwise.
RQ	Hypothesis 2b	Regulatory quality. Dummy variable takes the value 1 if the WGI is ≥ 0, and 0 otherwise.
RL	Hypothesis 2b	Rule of law. Dummy variable takes the value 1 if the WGI is ≥ 0, and 0 otherwise

CC	Hypothesis 2b	Control of corruption, dummy variable, takes the value 1 if the WGI is ≥ 0, and 0 otherwise.
SOEs	Hypothesis 3a	State-owned enterprises. Dummy variable takes 1 if Russian authorities are involved in firms, 0 otherwise. Gathered via the Zephyr database.
BODSIZE	Hypothesis 3b	Board size. The number of BOD members a firm has. Gathered via the Orbis database.
CEODUAL	Hypothesis 3c	CEO duality. Dummy variable takes 1 if the CEO is also the chairman, 0 otherwise. Gathered via the Orbis database.
LARGESHARE	Hypothesis 3d	Number of shareholders with at least 5% of the shares of a firm. Gathered via the Zephyr database.
OPESYN	Hypothesis 4	A motive for operational synergies. Dummy variable takes 1 if the motive is related to operational synergies, 0 otherwise. Gathered via Nexis Uni.
FINSYN	Hypothesis 4	A motive for financial synergies. Dummy variable takes 1 if the motive is related to financial synergies, 0 otherwise. Gathered via Nexis Uni.
COLSYN	Hypothesis 4	A motive for collusive synergies. Dummy variable takes 1 if the motive is related to collusive synergies, 0 otherwise. Gathered via Nexus Uni.

N.A.	Hypothesis 4	Motives who are not announced. Dummy variable takes 1 if the motive is not announced, 0 otherwise. Gathered via Nexis Uni.
Panel C: Control variables		
Variable		Definition
D/A		Debt ratio. Long-term debt of a company divided by the total assets of a firm. Gathered via the Zephyr database.
ROA		Return on assets ratio. Measured via the net income of a firm divided by the total assets of a firm. Gathered via the Zephyr database.
LOGTA		Controlling for the size of the company via the total assets a company possesses. In the regression and correlation matrix, the log of the total assets is used.

Table 3: Variable definitions

The data on cross-border M&A by firms in Russia from 2010 and 2019, was gathered via the Zephyr database, LexisNexis and Yahoo Finance. The reason for this period is the recent entrance of Russia in the World Trade Organization (WTO) in 2012 and the fifth wave Russia experience nowadays (Lugacheva & Musatova, 2019). Furthermore, due to global tensions between the West (Europa and the United State) and Russia, Russian firms face sanctions from the West. It was made difficult for them to undertake business with the West. However, some deals went through. Therefore, it is interesting to investigate if Russian firms experience a positive stock market reaction when they announce an M&A.

The Zephyr database makes it possible to check which Russian companies executed a cross-border M&As. Zephyr provided data of the acquirer and target company, as well as the cross-border M&A announcement date. The relevant stock prices were gathered via Yahoo Finance. The motives of Russian firms to execute cross-border M&As were gathered via LexisNexis. The criteria a firm must have to be part of the sample is (1) the deal type is an

M&A (2) firms in Russia have to execute a cross-border M&A (3) the cross-border M&A is announced (4) the cross-border M&A lies between 2010 and 2019 (5) the acquirer is listed. An initial sample of 115 cross-border M&As was gathered. However, I imposed some other restrictions. The announcement of cross-border M&As of a firm may not overlap another cross-border M&A announcement of that firm during 240 days. Furthermore, some control variables were not accessible. Due to the fact that the Russian IMOEX was compounded since 2013, data with regard to cross-border M&As before this era had been lost if this study did not try to reduce this loss, and resulted otherwise only in a small sample of 21 cross-border M&AS if I only calculate the estimation period based on the IMOEX. In order to reduce the loss, this study also calculates the estimation period based on the S&P 500, which resulted in a sample of 42.

Tables 4 to 10 provides an overview of the sample distribution. Russian firms prefer to invest in firms which operate in Europa and Asia / Pacific, rather than America, and even none at all in Africa. Also, Russian firms acquire more often targets in countries with high political risks. Furthermore, 10 out of 21 firms are state-owned (52,4%) based on the IMOEX, while 16 out of 42 (38.1%) are SOE based on the S&P 500. Moreover, most firms do not have CEO duality, have 2 large shareholders, and acquire foreign firm mostly for operating synergies.

	IMOEX							**S&P 500**						
	VA		PS		RQ			VA		PS		RQ		
	Frequency	%	Frequency	%	Frequency	%		Frequency	%	Frequency	%	Frequency	%	
High	15	71.4	16	76.2	19	90.5	High	32	76.2	35	83.3	37	11.9	
Low	6	28.6	5	23.8	2	9.5	Low	10	23.8	7	16.7	5	88.1	
Total	21	100	21	100	21	100	Total	42	100	42	100	42	100	

Table 4: Descriptive statistics political risk

IMOEX			**S&P 500**		
SOE	Frequency	%	SOE	Frequency	%
Yes	10	52.4	Yes	16	38.1
No	11	47.6	No	26	61.9
Total	21	100	Total	42	100

Table 5: Descriptive statistics SOE

IMOEX			S&P 500		
BODSIZE	Frequency	%	BODSIZE	Frequency	%
7	1	4.8	7	2	4.8
8	0	0	8	1	2.4
9	2	9.5	9	2	4.8
10	1	4.8	10	2	4.8
11	0	0	11	2	4.8
12	3	14.3	12	2	4.8
13	4	19.0	13	4	9.5
14	1	4.8	14	6	14.3
15	1	4.8	15	3	7.1
16	0	0	16	4	9.5
17	3	14.3	17	5	11.9
18	0	0	18	2	4.8
19	2	9.5	19	3	7.1
20	3	14.3	20	6	14.3
Total	21	100	Total	42	100

Table 6: Descriptive statistics BODSIZe

IMOEX			S&P 500		
CEODUAL	Frequency	%	CEODUAL	Frequency	%
Yes	3	14.3	Yes	7	83.3
No	18	85.7	No	35	16.7
Total	21	100	Total	42	100

Table 7: Descriptive statistics CEODUAL

IMOEX			S&P 500		
LARGESHARE	Frequency	%	LARGESHARE	Frequency	%
1	3	14.3	1	10	23.8
2	7	33.3	2	14	33.3
3	1	4.8	3	2	4.8
4	5	23.8	4	10	23.8
5	5	23.8	5	6	14.3
Total	21	100	Total	42	100

Table 8: Descriptive statistics LARGESHARE

	IMOEX									S&P 500								
	OPESYN		FINSYN		COLSYN		N.A.			OPESYN		FINSYN		COLSYN		N.A.		
	Frequency	%	Frequency	%	Frequency	%	Frequency	%		Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Yes	8	38.1	5	23.8	5	23.8	3	14.3	Yes	14	33.3	9	78.6	11	26.2	8	19.0	
No	13	61.9	16	76.2	16	76.2	18	85.7	No	28	66.7	33	21.4	31	73.8	34	81.0	
Total	21	100	21	100	21	100	21	100	Total	42	100	42	100	42	100	42	100	

Table 9: Descriptive statistics motives

IMOEX			S&P 500		
The continent of the target	Frequency	%	The continent of the target	Frequency	%
Europe	11	52.4	Europe	20	47.6
Asia/Pacific	8	38.1	Asia/Pacific	18	42.9
America	2	9.5	America	4	9.5
Total	21	100	Total	42	100

Table 10: Descriptive statistics continents of target

4. Results

4.1 Univariate analysis

Figure 3 and 4 show the development of the short-term market reaction 5 days before and 5 days after the announcement of cross-border M&As by Russian firms. Based on the IMOEX and the S&P 500, the CARs are examined via the market adjusted model and the market model. The models in each figure show similar trends, however, it should be noted that the CARS based on the market model with the S&P 500 shows a more moving market. Furthermore, based on the IMOEX, the announcement does not result immediately in a positive stock reaction, while three and four days before the announcement it does. This is different if we look at the S&P 500, where the market reaction is positive after the announcement and reach the top of the second day.

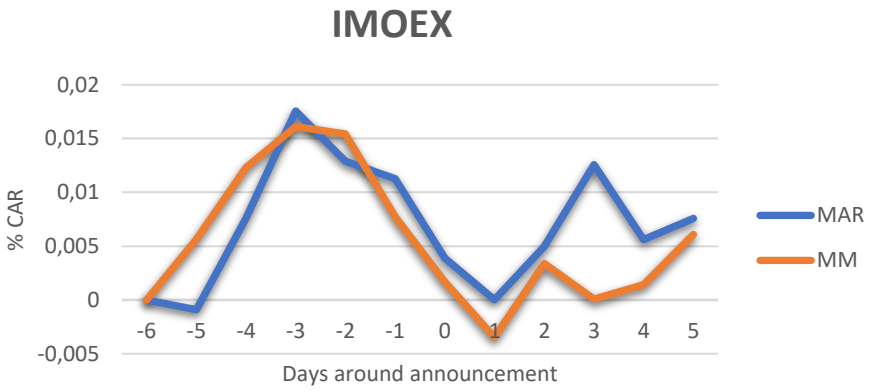

Figure 3: CARs around announcement date based on the IMOEX

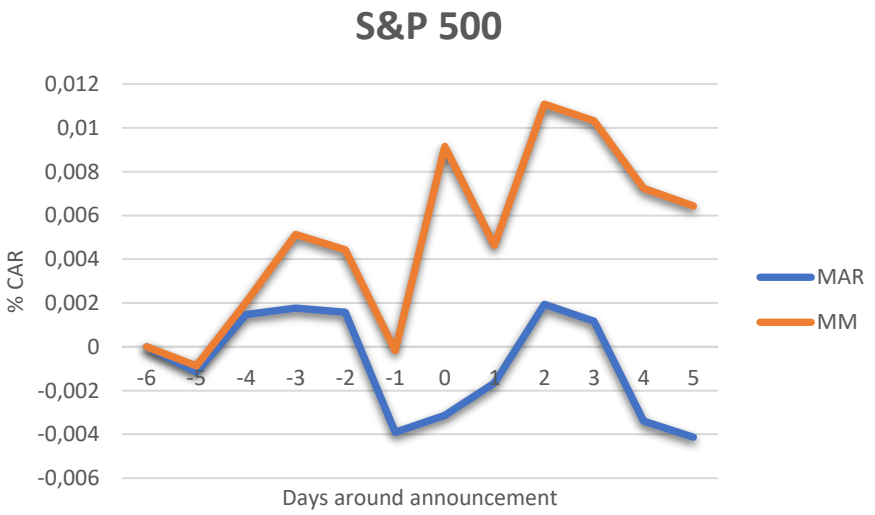

Figure 4: CARs around announcement date based on the S&P 500

Table 11 and 12 reports the univariate statistics of the dependent variables, independent variables and control variables, in respectively Panel A, B and C. Table 11 reports the statistics based on the IMOEX with a sample size of 21, while Table 12 reports the statistics based on the S&P 500 with a sample size of 42. A definition of the variables can be found in table 3.

Table 11: Univariate statistics IMOEX

Panel A MOEX N = 21								
Event window	Mean	Median	Std. Dev.	Minimum	Maximum	% Positive returns	T-Stat	WSR Z-value
MAR (-5, -3)	0.006	0.003	0.011	-0.006	0.020	61.90	**2.710****	**-2.109****
MM (-5, -3	0.008	0.003	0.015	-0.008	0.029	47.62	**2.403****	-1.622
MAR (-3, +1)	-0.014	-0.014	0.015	-0.033	0.004	28.57	**-4.370*****	**-3.120****
MM (-3, +1)	-0.012	-0.011	0.012	-0.029	0.001	23.81	**-4.717*****	**-3.329*****
MAR (+1, +5)	0.000	-0.002	0.009	-0.021	0.013	42.86	0.394	-0.296
MM (+1, +5)	0.003	0.002	0.008	-0.006	0.015	52.38	**1.833***	-1.237
MAR (-5, +5)	0.001	-0.001	0.030	-0.035	0.037	47.62	0.239	-0.679
MM (-5, +5)	-0.001	-0.014	0.035	-0.037	0.043	47.62	-0.177	-0.401

Panel B Independent variables IMOEX – N = 21					
Variable	Mean	Median	Std. Dev.	Minimum	Maximum
AS	0.714	1	0.462	0	1
PS	0.761	1	0.436	0	1
GE	0.714	1	0.462	0	1
RQ	0.904	1	0.300	0	1
RL	0.714	1	0.462	0	1
CC	0.714	1	0.462	0	1
SOE	0.476	0	0.511	0	1
BODSIZE	14.333	13.00	3.966	7.00	20.00
CEODUAL	0.142	0	0.358	0	1
LARGESHARE	3.095	3.00	1.480	1	5
OPESYN	0.380	0.00	0.497	0	1
FINSYN	0.238	0.00	0.436	0	1
COLSYN	0.142	0.00	0.358	0	1
N.A.	0.190	0.00	0.397	0	1

Panel C Control variables IMOEX – N = 21					
Variable	Mean	Median	Std. Dev.	Minimum	Maximum
ROA	0.087	0.084	0.067	-0.014	0.312
LOGTA	10.320	10.259	0.902	7.645	11.613
D/A	0.195	0.183	0.151	0.000	0.850

This table presents the winsorized Wilcoxon-signed rank test with regard to the IMOEX cross-border M&As. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 21. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

Table 12: Univariate statistics S&P 500

Panel A S&P 500 – 42								
Event window	Mean	Median	Std. Dev.	Minimum	Maximum	% Positive returns	T-Stat	WSR Z-value
MAR (-5, -3)	0.005	0.005	0.010	-0.007	0.017	71.43	**3.274****	**-2.780****
MM (-5, -3	0.002	0.000	0.010	-0.009	0.017	50.00	1.628	**1.710***
MAR (-3, -1)	-0.001	-0.005	0.012	-0.015	0.018	50.00	-0.683	-1.147
MM (-3, -1)	-0.001	0.000	0.012	-0.013	0.054	50.00	-0.769	-1.624
MAR (-1, +2)	0.008	0.004	0.022	-0.013	0.101	69.05	**2.572****	**-2.087****
MM (-1, +2)	0.006	0.000	0.024	-0.019	0.058	50.00	1.642	-1.347
MAR (-5, +5)	0.003	-0.005	0.024	-0.019	0.037	50.00	0.864	-0.495
MM (-5, +5)	0.003	0.001	0.025	-0.029	0.034	59.52	0.953	-1.385

Panel B Independent variables S&P 500 – 42					
Variable	Mean	Median	Std. Dev.	Minimum	Maximum
AS	0.761	1	0.431	0	1
PS	0.833	1	0.377	0	1
GE	0.785	1	0.415	0	1
RQ	0.880	1	0.327	0	1
RL	0.738	1	0.445	0	1
CC	0.738	1	0.445	0	1
SOE	0.380	0	0.491	0	1
BODSIZE	14.476	14.00	3.883	7.00	20.00
CEODUAL	0.166	0	0.377	0	1
LARGESHARE	2.714	2.00	1.436	1	5
OPESYN	0.333	0.00	0.477	0	1
FINSYN	0.214	0.00	0.415	0	1
COLSYN	0.261	0.00	0.445	0	1
N.A.	0.190	0.00	0.397	0	1

Panel C Control variables – 42					
Variable	Mean	Median	Std. Dev.	Minimum	Maximum
ROA	0.087	0.084	0.067	-0.014	0.312
LOGTA	10.320	10.259	0.902	7.645	11.613
D/A	0.195	0.183	0.151	0.000	0.850

This table reports the winsorized Wilcoxon-signed rank test with regard to the S&P 500 cross-border M&As. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 42. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

PANEL A

Panel A of table 11 and 12 report the CARs for the correlated event windows and the significance levels via the one-sample t-test and the Wilcoxon signed-rank test. Outliers were detected based on the boxplot and were not excluded but winsorized at the ¼ and ¾ quartile. The univariate statistics of the unwinsorized CARs are displaced in the appendices.

Both tables show significant positive abnormal returns on three and four days before the announcement of Russian firms to acquire a firm in another country. Based on this study, it could be confirmed that there exist insider trading and information leakage in Russian firms. However, this is in contrary with Abrosimova & Dissanaike (2002) who concluded that there exists no insider trading and information leakage in the Russian economy. Also, Said and

Harper (2015) investigated also if the Russian Stock Exchange is efficient and concluded that in the Russian Stock Exchange the information is not completely reflected in the stock prices and that there exist some 'information leftovers' on the table. Therefore, it is hard to conclude whether Russian firms do insider trading or that the abnormal returns before the announcement date are due to the fact that the Russian Stock Exchange is not efficient.

Furthermore, table 11 reports that between two days in advance of the announcement and two days after the announcement the stock prices decrease significantly in both measurements levels, MAR and MM. CARs (-2, +2) reports a negative return of -1.45 (MAR) and -1.26 (MR) with a significant level of 1%. Also, the MM reports a positive sign, at the 10% level, CAR (+2, +5), of 0.35% during the 2 and 5 days after the announcement. This may indicate that investors perceive the announcement of cross-border M&As by Russian acquiring firms as a positive signal after certain days. However, CARs -5, +5 for both measurement levels shows insignificant results.

Using the S&P 500 the results shows less significant results. This can be explained by the fact that the characteristics of the American Stock Exchange and the Russian Stock Exchange differ in nature. Due to the application of different stock markets, the lower significance levels could be partially explained. Further investigation should investigate what explicit characteristics determine the different results between the IMOEX and the S&P 500.

As said, on three and four days before the announcement (-4, -3) of Russian firms to acquire a firm in a foreign country, investors respond positively and result in a positive stock market. The abnormal return for this period is 0.53% at the 5% level. Also, on and two days (0, +2) after the announcement the market responds positive and results in an abnormal return of 0.89% at the 5% level based on the MAR. The MM does not lead to significant results for the period (0, +2). Due to the fact that the calculation of the MM is more complex than the MAR, the different results could be partially explained. The MM is calculated via an OLS regression on 240 days before the announcement between the market return and the firms' return, while the MAR is calculated via the market return minus the firms' return.

The results differ with the findings of Gubbi *et al* (2010) who found significant CARs during the whole event (-5, 5), and the study of Tao *et al* (2010) who found positive returns 1 day in advance of the announcement, the announcement day itself and one day after the announcement. However, the results in table 5 are in line with Kadiyala and Rau (2004) who found negative returns for the period (-1, +1), while this study finds also negative results before, on and after the announcement date, although the days are extended with one day (-2, +2). Furthermore, the CAR (+2, +5) shows the same pattern as in the study of Bednarczyk,

Schiereck, Walter, and Walter (2010). Also, in line with Del Brio, Perote and Pindado (2003), this study finds positive abnormal returns until three days in advance of the announcement, as are shown in both tables. In addition, Pagán and Chu (2009) also find statistically significant results for the period (0, +2), as this thesis also finds for the same period in table 6.

Panel A of table 11 and 12 gives an answer for hypothesis 1: ‘’The announcement of cross-border M&As by Russian firms results in a positive stock market reaction’’. Based on the IMOEX, table 11 shows statistical negative results on both measurement methods, while based on the S&P 500, table 12 shows statistical positive returns on only the MM. Due to the inconclusive results, hypothesis 1 can not be rejected nor supported.

Panel B

Panel B of table 11 and 12 shows the independent variables. With regard to the political risk variables, both tables show that Russian firms acquire firms for at least 70% who are operating in countries with high levels of political risk. This is in line with the study of Tao *et al* (2017), who had firms in their sample that acquired for at least 84% in countries with high levels of political risk. Also in line with Tao *et al* (2017), 48% and 38% of the Russian firms are SOEs, in respectively table 11 and 12, while in the study of Tao *et al* (2017) this percentage was 42%. On average, there are 14 members in the BOD, approximately 15% of the Russian firms have a CEO who is also the chairman, and Russian firms have three large shareholders. This is almost in line with Malik and Makhdoom (2016). Malik and Makhdoom (2016) found in their study with regard to the Fortune Global 500 that firms have on average a BOD of 13 members, have 73% a CEO who is also the chairman and have firms also three large shareholders. The large difference with regard to the CEO duality can be explained by the fact that Russian makes use of a two-tier board, while some countries who Malik and Makhdoom (2016) investigated applied the one-tier board mechanism, like the UK. Furthermore, the operational synergy is the most use motive to perform an M&A, followed by the collusive synergy and financial synergy, while 19% of the Russian acquiring firms do not announce the motive for the cross-border M&A.

Panel C

Panel C of Table 11 and 12 report the control variables. The average return on assets is approximately 8%, which is almost similar to the findings of Ilyukhin (2015) for Russian firms, where the ROA is 7.5%. The log of total assets is around $ 10,3. In amount speaking, it is approximately $ 32 billion. In comparison with the study of Gubbi *et al* (2010), the average

size of Russian firms is much bigger. Furthermore, the average D/A ratio is around 20% for Russian firms. According to Ilyukhin (2015), Russian firms should have a leverage of 56%. However, the difference could be partially explained by the fact that this study only applies long-term debt, whereas Ilyukhin (2015) applied total liabilities, and Ilyukhin (2015) investigated the leverage of Russian firms during the economic crisis of 2008 where Russian firms were in high debt positions.

4.2 Correlation matrix

Table 13 and 14 reports the Pearson's correlation matrix of, respectively, the IMOEX and the S&P 500. Due to the many explanatory and control variables, the numbers from 1 till 17 is the same order as in table 3. Thus, 1 is VS and 17 is D/A Ratio. Both correlation matrixes report similar patterns, although the correlations in the IMOEX matrix shows higher levels of correlations. As both tables shows are GE, RL, and CC very much related to VA, PS, and RQ. After running the variance inflation factor (VIF), to assess multicollinearity, it was necessary to eliminate factors GE, RL and CC due to the fact that the VIF levels were above 5 (Hair *et al*, 2014). To ensure the reliability of the regression analysis in the next section, this study will run the independent variables separately from each other (Nicholson & Salaber, 2013).

Table 13: Pearson's correlation matrix IMOEX

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	1																
2	.884**	1															
3	1.000**	.884**	1														
4	.513*	.200	.513*	1													
5	1.000**	.884**	1.000**	.513*	1												
6	1.000**	.884**	1.000**	.513*	1.000**	1											
7	-.452*	-.586**	-.452*	-.015	-.452*	-.452*	1										
8	-.272	-.414	-.272	.405	-.272	-.272	.681**	1									
9	.258	.228	.258	.132	.258	.258	.156	.281	1								
10	-.104	.037	-.104	-.428	-.104	-.104	-.195	-.491*	-.498*	1							
11	.279	.208	.279	.255	.279	.279	-.159	.008	.240	-.323	1						
12	-.141	-.213	-.141	.181	-.141	-.141	-.085	.183	-.228	.041	-.439*	1					
13	.106	.050	.106	.181	.106	.106	.362	.298	.091	.118	-.439*	-.313	1				
14	-.344	-.091	-.344	-.795**	-.344	-.344	-.117	-.598**	-.167	.256	-.320	-.228	-.228	1			
15	.096	.043	.096	-.095	.096	.096	-.208	-.284	-.217	.168	-.302	.421	-.133	.069	1		
16	-.214	-.519*	-.214	.440*	-.214	-.214	.668**	.714**	.099	-.260	.090	-.098	.368	-.454*	-.387	1	
17	.155	.030	.155	-.074	.155	.155	-.127	-.243	-.226	.332	.051	-.026	-.033	.001	.137	-0.036	1

This table presents the Pearson's correlation matrix between the explanatory and control variables with regard to the IMOEX cross-border M&As. The explanatory and control variables are defined in table 3. N = 21. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

Table 14: Pearson's correlation matrix S&P 500

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	1																
2	.650**	1															
3	.856**	.798**	1														
4	.485**	.427**	.704**	1													
5	.811**	.751**	.877**	.617**	1												
6	.811**	.751**	.877**	.617**	1.000**	1											
7	-.252	-.307*	-.307*	-.014	-.202	-.202	1										
8	-.222	-.128	-.132	.199	-.138	-.138	.669*	1									
9	.250	.200	.234	.164	.266	.266	.044	.244	1								
10	.045	.045	-.023	-.074	.109	.109	-.015	-.334	-.270	1							
11	.040	.045	.123	.104	.077	.077	-.243	.044	.226	-.214	1						
12	.019	-.078	-.010	.192	.047	.047	-.051	.026	.078	.228	-.369*	1					
13	.079	.121	.047	.052	.109	.109	.425**	.378*	-.121	-.033	-.421**	-.311*	1				
14	-.156	-.108	-.190	-.383*	-.263	-.263	-.131	-.503**	-.217	0.055	-.343*	-.253	-.289	1			
15	0.074	0.131	0.134	0.064	0.079	0.079	-0.043	-0.022	-0.068	0.280	-0.211	.440**	-0.118	-0.074	1		
16	-0.195	-0.284	-0.160	0.181	-0.180	-0.180	.664**	.786**	0.137	-0.163	0.052	-0.090	.353*	-.364*	-0.056	1	
17	0.011	-0.057	0.027	-0.054	0.066	0.066	-0.129	-0.129	-0.246	0.093	0.037	-0.035	0.099	-0.119	-0.130	-0.154	1

This table presents the Pearson's correlation matrix between the explanatory and control variables with regard to the S&P 500 cross-border M&As. The explanatory and control variables are defined in table 3. N = 42. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

4.3 Regression results

Table 15 and 16 reports the effect of the independent and control variables on the dependent variables. This study applied five models in which the effect of the independent and control variables was analyzed. In model (1) is only the independent variable regressed with the dependent variable. In model (2) are the independent variable and the ROA regressed against the dependent variable. In model (3) are the independent variable and the log of total assets regressed against the dependent variable. In model (4) are the independent variable and the D/A ratio regressed with the dependent variable, and in model (5) are the independent and all the three control variables regressed with the dependent variable. Table 15 reports the coefficients based on the S&P 500, due to the fact that this table has the highest significance level after the announcement of firms. These tables have an N of 42. There exist a significant pattern for two control variables, the D/A ratio and the ROA ratio. The D/A ratio is almost in every table significant, except for table 15B and 15F, while the ROA ratio is always insignificant The LOGTA variable shows in almost every table an insignificant result, except for table 15D, 15E and 15J.

Results of hypothesis 2A and 2B

Measured via the market-adjusted model, the tables 15A, 15B and 15C measure the effect of political risk on the CARs. In almost every event window all the independent variables statistically insignificant. Only in a few models, the independent variable RQ reports significant

negative returns. Therefore, hypothesis 2A and 2B cannot be supported, and are, thus, rejected. The fact that this study cannot support these hypotheses is in contrary of the study of Tao *et al* (2017) who found that Chinese firms that do cross-border M&As in countries with a low level of political riskiness gain higher CARs.

Hypothesis 2a. Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets from countries in high levels of political stability (>0) in comparison to Russian firms that announce to acquirer targets from countries in low levels of political stability (<0).

Hypothesis 2b. Shareholders of Russian acquiring firms gain higher cumulative abnormal returns if Russian acquiring firms announce to acquirer targets in countries with a high level of governance quality (>0) in comparison to Russian acquiring firms that announce to acquirer targets in countries with a low level of governance quality (<0).

Results of hypothesis 3A

Measured via the market-adjusted model, table 15D reports the effect of the influence of Russian authorities in Russian firms on the CARs. Due to the fact that none of the models shows a significant result, it is statistically not significant, and, therefore, hypothesis 3A lacks support. The lack for the support of hypothesis 3a is in contrary to the finding of Tao *et al* (2017) who found that firms without the influence of Chinese authorities gain higher CARs.

Hypothesis 3a. Russian SOEs (dummy variable) results in lower cumulative abnormal returns after the announcement of cross-border M&As in comparison to firms without the presence of Russian authorities.

Results of hypothesis 3B

Measured via the market-adjusted model, table 15E reports the effect of the influence of the size of the BOD in Russian firms on the CARs. The size of the BOD has a positive return in model 3 and 5 at the 10% level. However, the little evidence does not support the fact that BOD positively or negatively influence the CARs, and, therefore there is not enough evidence to support hypothesis 3b.

Hypothesis 3b. Board size has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

Results of hypothesis 3C

Measured via the market-adjusted model, table 15F reports the effect of CEO duality in Russian firms on the CARs. Due to the fact that all models show insignificant coefficients, there is enough evidence to support hypothesis 3c.

Hypothesis 3c. CEO duality has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

Results of hypothesis 3D

Measured via the market-adjusted model, table 15G reports the effect of the influence of the size of the BOD in Russian firms on the CARs. The presence of large shareholders does not significantly lead to positive and/or negative returns. Due to the insignificant results, hypothesis 3d cannot be supported.

Hypothesis 3d. The presence of large shareholders has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

Results of hypothesis 4

Measured via the market-adjusted model, tables 15H, 15I, 15J and 15K reports the effect of the influence of the size of the BOD in Russian firms on the CARs. Table 15H to 15K reports insignificant results with regard to the motives. Thus, there is a lack of evidence in order to support hypothesis 4.

Hypothesis 4. The operation, financial and collusive synergies have a positive relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms.

Results of hypothesis 2a till 4

Measured via the market- adjusted model, table 16 reports the coefficients when all independent variables are regressed against the dependent variables in model 1, while in model 2, 3 and 4 one control variable is added. In model 5 are all independent and control variables regressed against the dependent variable.

In table 16, almost all variables shows insignificant results. However, it seems that bigger firms, who tends to need higher BOD members, with higher debt levels influence the CAR -1, +2 in a negative way, due to the negative impact of LOGTA, BODSIZE, and D/A ratio

on the dependent variable. Based on these coefficients, this study has enough evidence to support hypothesis 3B and 3D. Moreover, in table 16, Russian firms that acquire foreign firms who are based in countries with lower RQ risks gain lower CARs in event window -1, +2. This is in contrary with hypothesis 2b, and, therefore, has enough evidence to be rejected.

Table 15: CARs event window -1, +2 S&P 500

Table 15A Variables	(1) %	(2) %	(3) %	(4) %	(5) %
VC	-0.003	-0.019	-0.005	-0.002	-0.005
	[-0.317]	[-0.360]	[-0.639]	[-0.305]	[-0.652]
ROA		-0.002			-0.038
		[-0.286]			[-0.751]
LOGTA			-0.006		-0.008**
			[-1.647]		[-2.046]
D/A				-0.039*	-0.048**
				[-1.713]	[-2.141]
Constant	0.011	0.012	0.079*	0.018**	0.106**
	[1.518]	[1.480]	[1.882]	[2.228]	[2.495]
Adjusted R^2	-0.022	-0.045	0.020	0.025	0.085
F-statistics	0.100	0.114	1.409	1.519	1.953

Table 15B Variables	(1) %	(2) %	(3) %	(4) %	(5) %
PS	0.008	0.008	0.004	0.007	0.003
	[0.840]	[0.890]	[0.426]	[0.761]	[0.312]
ROA		-0.026			-0.042
		[-0.499]			[-0.819]
LOGTA			-0.005		-0.007*
			[-1.363]		[-1.775]
D/A				-0.038	-0.048**
				[-1.681]	[-2.088]
Constant	0.002	0.004	0.062	0.011	0.092**
	[0.280]	[0.449]	[1.392]	[1.100]	[2.029]
Adjusted R^2	-0.007	-0.027	0.014	0.037	0.077
F-statistics	0.705	0.471	1.289	1.781	1.855

Table 15C Variables	(1) %	(2) %	(3) %	(4) %	(5) %
RQ	-0.018*	-0.018*	-0.016	-0.020*	-0.016
	[-1.781]	[1.739]	[-1.533]	[-1.937]	[-1.595]
ROA		-0.015			-0.034
		[-0.285]			[-0.698]
LOGTA			-0.005		-0.006*
			[-1.287]		[-1.693]
D/A				-0.041*	-0.049**
				[-1.896]	[-2.220]
Constant	0.025**	0.026**	0.074*	0.034**	0.100**
	[2.582]	[2.479]	[1.895]	[3.233]	[2.549]
Adjusted R^2	0.050	0.028	0.066	0.108	0.134
F-statistics	3.171*	1.590	2.441	3.487	2.588*

Table 15D Variables	(1) %	(2) %	(3) %	(4) %	(5) %
SOEs	-0.001	-0.001	0.11	-0.003	0.010
	[-0.177]	[-0.192]	[1.149]	[0.408]	[1.101]
ROA		-0.021			-0.039
		[-0.390]			[-0.787]
LOGTA			-0.010*		-0.011**
			[-1.937]		[-2.216]
D/A				[-0.040*	-0.047**
				[-1.756]	[-2.112]
Constant	0.009**	0.011*	0.106**	0.018**	0.130**
	[2.110]	[1.716]	[2.117]	[2.751]	[2.615]
Adjusted R^2	-0.024	-0.046	0.042	0.027	0.104
F-statistics	0.032	0.092	1.893	1.559	2.189*

Table 15E Variables	(1) %	(2) %	(3) %	(4) %	(5) %
BODSIZE	0.000	0.000	0.002*	0.000	0.002*
	[-0.186]	[-0.192]	[1.717]	[0.680]	[1.784]
ROA		-0.021			-0.043
		[-0.387]			[-0.881]
LOGTA			-0.014**		-0.015**
			[-2.340]		[-2.660]
D/A				-0.040*	-0.048**
				[-1.757]	[-2.195]
Constant	0.011	0.013	0.119**	0.022	0.147**
	[0.831]	[0.904]	[2.490]	[1.514]	[3.071]
Adjusted R^2	-0.024	-0.046	0.079	0.027	0.148
F-statistics	0.034	0.092	2.757	1.562	2.779**

Table 15F Variables	(1) %	(2) %	(3) %	(4) %	(5) %
CEODUAL	0.006	0.006	0.008	0.002	0.003
	[0.639]	[0.608]	[0.875]	[0.238]	[0.369]
ROA		-0.018			-0.038
		[-0.342]			[-0.751]
LOGTA			-0.006		-0.007*
			[-1.665]		[-1.977]
D/A				-0.038	-0.046*
				[-1.605]	[-1.975]
Constant	0.008**	0.009	0.074*	0.016**	0.098**
	[2.070]	[1.557]	[1.856]	[2.548]	[2.409]
Adjusted R^2	-0.015	-0.038	0.028	0.024	0.078
F-statistics	0.409	0.258	1.599	1.500	1.867

Table 15G Variables	(1) %	(2) %	(3) %	(4) %	(5) %
LARGESHARE	0.002	0.003	0.002	0.003	0.003
	[0.976]	[1.123]	[0.744]	[1.172]	[1.208]
ROA		-0.037			-0.058
		[-0.688]			[-1.119]
LOGTA			-0.005		-0.007*
			[-1.413]		[-1.803]
D/A				-0.042*	-0.051**
				[-1.845]	[-2.287]
Constant	0.002	0.004	0.060	0.009	0.086**
	[0.326]	[0.545]	[1.449]	[1.159]	[2.078]
Adjusted R^2	-0.001	-0.015	0.023	0.056	0.110
F-statistics	0.952	0.706	1.486	2.207	2.263*

Table 15H Variables	(1) %	(2) %	(3) %	(4) %	(5) %
OPESYN	-0.009	-0.010	-0.008	-0.008	-0.009
	[-1.190]	[-1.293]	[-1.129]	[-1.153]	[-1.273]
ROA		-0.035			-0.053
		[-0.655]			[-1.050]
LOGTA			-0.006		-0.007*
			[-1.509]		[-1.932]
D/A				-0.038*	-0.048**
				[-1.699]	[-2.146]
Constant	0.012**	0.015**	0.071*	0.019**	0.100**
	[2.798]	[2.267]	[1.800]	[3.204]	[2.498]
Adjusted R^2	0.010	-0.004	0.041	[0.055	0.113
F-statistics	1.416	0.912	1.870	2.184	2.311*

Table 15I Variables	(1) %	(2) %	(3) %	(4) %	(5) %
FINSYN	0.000	0.002	-0.001	0.000	0.001
	[0.006]	[0.194]	[-0.133]	[-0.053]	[0.116]
ROA		-0.025			-0.043
		[-0.429]			[-0.761]
LOGTA			-0.006		-0.007*
			[-1.551]		[-1.934]
D/A				-0.039*	-0.048**
				[-1.715]	[-2.124]
Constant	0.009**	0.011*	0.071*	0.017**	0.097**
	[2.249]	[1.834]	[1.764]	[2.797]	[2.388]
Adjusted R^2	-0.025	-0.046	0.010	0.022	0.075
F-statistics	0.000	0.092	1.202	1.471	1.830

Table 15J Variables	(1) %	(2) %	(3) %	(4) %	(5) %
COLSYN	0.002	0.002	0.008	0.004	0.010
	[0.312]	[0.265]	[0.932]	[0.492]	[1.275]
ROA		-0.019			-0.035
		[-0.349]			[-0.697]
LOGTA			-0.007*		-0.009**
			[-1.790]		[-2.320]
D/A				-0.040*	-0.053**
				[-1.760]	[-2.338]
Constant	0.008**	0.010	0.082*	0.016***	0.115***
	[2.026]	[1.553]	[1.981]	[2.703]	[2.729]
Adjusted R^2	-0.023	-0.045	0.031	0.028	0.114
F-statistics	0.097	0.108	1.654	1.600	2.312*

Table 15K Variables	(1) %	(2) %	(3) %	(4) %	(5) %
N.A.	0.009	0.009	0.005	0.008	0.001
	[1.063]	[1.025]	[0.544]	[0.382]	[0.074]
ROA		-0.016			-0.039
		[-0.310]			[-0.772]
LOGTA			-0.005		-0.007*
			[-1.246]		[-1.755]
D/A				-0.037	-0.048**
				[-1.614]	[-2.061]
Constant	0.007	0.009	0.061	0.015**	0.096**
	[1.854]	[1.404]	[1.405]	[2.443]	[2.114]
Adjusted R^2	0.003	-0.020	0.017	0.042	0.075
F-statistics	1.131	0.601	1.350	1.890	1.828

This table presents the OLS regression results. The dependent variable is CAR -1, +2 calculated with the market-adjusted model via the S&P 500. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 42. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

Table 16: CARs event window -1, +2 S&P 500 with all explanatory variables

Variables	1	2	3	4	5
VA	-0.004	-0.003	0.000	-0.006	0.002
	[-0.292]	[-0.253]	[-0.038]	[-0.223]	[0.142]
PS	0.017	0.020	0.006	0.015	0.005
	[1.235]	[1.412]	[0.407]	[1.106]	[0.360]
RQ	-0.025*	-0.026*	-0.018	-0.026*	-0.021
	[-1.740]	[-1.847]	[-1.283]	[-1.845]	[-1.525]
SOE	-0.009	-0.009	-0.006	-0.010	-0.008
	[-0.710]	[-0.731]	[-0.530]	[-0.832]	[-0.718]
BODSIZE	0.002	0.002	0.004*	0.001	0.004*
	[0.926]	[1.041]	[1.844]	[0.824]	[2.041]
CEODUAL	0.011	0.010	0.012	0.008	0.006
	[0.998]	[0.854]	[1.126]	[0.706]	[0.578]
LARGESHARE	0.003	0.004	0.005	0.004	0.006*
	[1.147]	[1.313]	[1.592]	[1.181]	[1.936]
FINSYN	0.007	0.012	0.001	0.006	0.005
	[0.699]	[1.060]	[0.132]	[0.629]	[0.452]
COLSYN	0.008	0.007	0.008	0.009	0.009
	[0.743]	[0.668]	[0.815]	[0.865]	[0.949]
N.A.	0.016	0.016	0.016	0.012	0.012
	[1.232]	[1.287]	[1.305]	[0.934]	[0.986]
ROA		-0.064			-0.072
		[-1.056]			[-1.276]
LOGTA			-0.013*		-0.015**
			[-1.872]		[-2.155]
D/A				-0.036	-0.048**
				[-1.456]	[-2.057]
Constant	-0.020	-0.021	0.084	-0.006	0.113*
	[-0.640]	[-0.670]	[1.333]	[-0.203]	[1.804]
Adjusted R^2	-0.002	0.002	0.073	0.033	0.163
F-statistics	0.992	1.007	1.293	1.127	1.612

This table presents the OLS regression results. The dependent variable is CAR -1, +2 calculated with the market-adjusted model via the S&P 500. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 42. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

5. Conclusion

In the past, M&As existed only in a few countries, mostly in the United States and Europa, but this changed towards a global expansion in developing countries in Asia and other emerging economies, causing changes and new challenges in the M&A process (Caiazza & Volpe, 2015). Previous research dominantly focused examination of the M&A performance in Asian countries (Gubbi *et al*, 2010; Chen & Young, 2010; Aybar & Ficici, 2009), while studies with regard to one of the biggest emerging economies, Russia, are lagged.

The new challenges in the M&A process, the fact that Russia is one of the biggest emerging economies (Goldman Sachs), and due to the fact that investigations of Russian acquiring firms are lagged, it is interesting to examine the M&A performance of Russian acquiring firms. This study examines the impact of cross-border M&As by Russian acquiring firms on the short-term stock market reaction. To study this impact, there are four research questions formulated. The first research question is ‘’What are the stock market reactions to cross-border M&As by Russian firms?’’. The second research question is ‘’To what extent does political stability and governance quality of the country of the target company affect the short-term stock market performance of Russian firms due to cross-border M&As?’’. The third research question is ‘’To what extent do corporate governance codes of firms affect the short-term stock market performance of Russian firms after the announcement of cross-border M&As?’’. And the last research question is ‘’To what extent does the motive for the acquiring firm to execute a cross-border M&A affect the short-term market performance of Russian acquiring firm after the announcement of cross-border M&As?’’.

To measure the short-term stock market reaction of Russian acquiring firms after the announcement, this study test eight hypotheses. The first hypothesis is ‘’The announcement of cross-border M&As by Russian firms results in a positive stock market reaction’’. The second hypothesis is ‘’Shareholders of Russian firms gain higher cumulative abnormal returns if Russian firms announce to acquirer targets from countries with high levels of political stability (0>) in comparison to Russian firms that announce to acquirer targets from countries with low levels of political stability (>0)’’. The third hypothesis is ‘’Shareholders of Russian firms gain higher cumulative abnormal returns if Russian firms announce to acquirer targets from countries with a high level of governance quality (0>) in comparison to Russian firms that announce to acquirer targets from countries with a low level of governance quality (>0)’’. The fourth hypothesis is ‘’The presence of Russian authorities in Russian firms (dummy variable) results in lower cumulative abnormal returns after the announcement of cross-border M&As

than without the presence of Russian authorities''. The fifth hypothesis is ''Board size has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms''. The sixth hypothesis is ''CEO duality has no relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms''. The seventh hypothesis is ''The presence of large shareholders has a negative relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms''. And the final hypothesis is ''The operation, financial and collusive synergies have a positive relationship with the short-term stock market reaction after the announcement of a cross-border M&A by Russian acquiring firms''.

This study investigated the short-term market performance for Russian acquiring firms after cross-border M&As and to what extent political stability, government quality, ownership status (state-owned enterprises or publicly traded enterprises), BOD size, CEO duality, large shareholders and the motive for the cross-border M&A has an effect on the stock market reaction. Based on the institutional-based view, agency theory, signalling theory and synergy theory an answer to the research questions will be given. This study has used the event study to investigate the short-term market reaction after the announcement of Russian acquiring firms. Via the market-adjusted model and the market model, the cumulative abnormal returns were calculated. The CARs were based on the IMOEX and S&P 500, due to the fact that if this study only calculated the CARS based on the IMOEX the sample size was 21, integrating the S&P 500 has resulted in a sample of 42. Significant results were assessed via the t-test and Wilcoxon-signed rank test. The abnormal returns for the event -1, +2 with regard to the S&P 500 was regressed with the independent variables via the OLS regression. To control for other factors, the control variables ROA, LOGTA and D/A were used.

This study finds that the short-term stock market reaction does not respond significant, positive or negative, after the announcement of cross-border M&As by Russian firms. Therefore, hypothesis 1 is rejected. However, event window (-4, -3) reports at both measurements, IMOEX and S&P 500 statistical positive abnormal returns, which may indicate that Russian firms are characterised by information leakage and/or insider trading. Furthermore, the levels of political stability in the host country do also not result in significant, positive or negative, short-term stock market reaction after the announcement of cross-border M&As by Russian firms. Thus, hypothesis 2 is also rejected. In addition, the government quality in the host country leads in almost none of the models to significant results. Therefore, hypothesis 3 is also rejected. Furthermore, the ownership status of Russian firms does not lead to significant short-term market reactions, positive or negative, and, therefore, hypothesis 4 is rejected. In

almost all models, BODSIZE and CEODUAL have an insignificant result on the dependent variables, which was not hypothesized at hypothesis 5, and, therefore, lags support to be confirmed, while hypothesis 6 mentioned that CEODUAL is not related to the stock market reaction and, thus, can be confirmed. The seventh and final hypothesis also reports no significant results, and, therefore, lacks evidence to be confirmed.

The findings are in contrary to Gubbi *et al* (2010) who found positive stock market reactions after the announcement of acquiring firms. The findings are also in contrary with Tao *et al* (2017) who found that firms who acquire foreign firms with higher levels of political risk gain lower cumulative abnormal returns. Furthermore, the findings of Tao *et al* (2017) reports that SOE gains also lower cumulative abnormal returns, however, this study did not find significant lower CARs at SOE. In addition, it also did not find the negative relationship between large shareholders and short-term stock market reaction what Hamadi (2010) found in his study.

There exist some factors that partially explain the different results. Russia is characterised by resistance against changes in the bureaucratic-administrative business culture, an underdeveloped regulation and capital structure, corruption, administrative discretion and lack of management expertise (Luthans, Stajkovic and Ibrayeva, 2000). Bowen and De Clercq (2008) adds to this that corruption causes uncertainty in business developments. Furthermore, Russian authorities lack law enforcement, which is also ineffective (Estrin & Prevezer, 2010). Furthermore, the different results may occur due to the fact that existing research focuses mainly on countries in Asia, had different sample sizes which were investigated in other time periods.

This study delivers an academic contribution in three ways. The first contribution is that Russia is not an efficient market, and there exist information leakage and insider trading. This is in contrary to the findings of Abrosimova and Dissanaike (2002), who believed that there exists no insider trading of information leakage. The different results may come due to the fact that this study applied data which started from 2010 till 2019 and Abrosimova and Dissanaike (2002) used data which started 10 years in advance. The second contribution is that specific motives do not lead to significantly higher abnormal returns. Previous studies did not examine if operational, financial, collusive or motives who have not announced results in higher CARs. Unfortunately, this study did not find significant results that the announced motives result in higher CARs. The third contribution is that the abnormal returns of Russian acquiring firms are calculated on the basis of the Russian Stock Exchange, the IMOEX, and the American S&P 500. In three and four days before the announcement, the short-term stock market reactions

between the IMOEX and the S&P 500 shows the same patterns. However, after two days in advance of the announcement the patterns between the IMOEX and S&P 500 change.

The practical contribution of this study is that investors should not buy stocks of Russian acquiring firms immediately after the announcement that they will do cross-border M&As. Due to the fact that the short-term stock market reaction responds negatively on the announcement date investors should wait one day and buy shares at the second day after the announcement because then the lowest point is reached and the shares start to rise again. Furthermore, the insignificant results of all independent variables means that it does not matter for investors if Russian firms acquire firms in foreign countries with high or low political risks, if the Russian firm is state-owned or publicly-traded, if Russian firms have applied corporate governance codes, and/or mentioned or not the motive for the cross-border M&A. Managers could use this information, because under these circumstances managers know that their foreign direct investments do not result in negative abnormal returns if they choose to invest in a country with higher levels of political risks instead of countries with lower levels of political risks, etc.

The limitations of this study lie in the methodology. The collected data via Yahoo Finance or the Zephyr database could be inaccurate. This study relies on the data that was gathered at these databases, however, it may happen that some of the gathered data is not 100% reliable which results in inaccurate conclusions. Furthermore, the calculation of the abnormal returns based on the market model is complex in which mistakes could be easily made. Therefore, calculating the abnormal returns could be biased which results in biased conclusions. Also, some independent variables were deleted in order to avoid multicollinearity, however, some variables showed still high VIF numbers, and, therefore, some independent ensures that some results may be biased.

There are still some leftovers in order to optimize this study. First, this study only takes cross-border M&As into account. To get a complete picture of the real situation, future research should take domestic cross-border M&As into account. Second, previous research examined mostly countries in Asia. This research contributes to the literature in the way that Russia is investigated. However, there are still some regions under-investigated, such as Africa and Central and South America. Future research should extend the sample towards countries in those regions. Third, this research focused on the effect of the composition of the board of directors on the short-term stock market reaction. However, other corporate governance codes, like firm age, CEO turnover or CEO age may also have an impact on the short-term market reaction. Fourth and finally, this research investigated the short-term market performance of Russian acquiring firms. To assess whether on long-term Russian acquiring firms experience

the same results of the stock market reaction, future studies should investigate the long-term stock market reaction and reveal whether the same factors have different results.

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Appendices

Appendix A: Unwinsorized univariate analyses

MOEX – 21								
Event window	Mean	Median	Std. Dev.	Minimum	Maximum	% Positive returns	T-Stat	WSR Z-value
MAR (-4, -3)	0,010062	0,003717	0,021648	-0,020773	0,059952	61.90	**2,130124****	**-1,755261****
MM (-4, -3	0,006945	0,003753	0,048774	-0,085349	0,123836	47.62	0,652549	-0,469228
MAR (-2, +2)	-0,016901	-0,014851	0,024265	-0,073205	0,025623	28.57	**-3,191743****	**-2,763233****
MM (-2, +2)	-0,018823	-0,011469	0,036910	-0,158181	0,026410	23.81	**-2,336976****	**-2,658960****
MAR (+2, +5)	0,003565	-0,002796	0,022907	-0,037035	0,069679	42.86	0,713115	-0,121652
MM (+2, +5)	0,010752	0,002101	0,032911	-0,030122	0,106327	52.38	1,497176	-0,886320
MAR (-5, +5)	0,015562	-0,001668	0,042815	-0,018647	0,183707	47,62	1,665653	-1,372927
MM (-5, +5)	0,003103	-0,014261	0,049416	-0,072809	0,115004	47.62	0,287734	-0.260682

This table presents the winsorized Wilcoxon-signed rank test with regard to the IMOEX cross-border M&As. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 21. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.

S&P 500 – 42								
Event window	Mean	Median	Std. Dev.	Minimum	Maximum	% Positive returns	T-Stat	WSR Z-value
MAR (-4, -3)	0,009876	0,005107	0,029037	-0,043446	0,093859	71.43	**2,204092****	**-1,894305****
MM (-4, -3	0,003563	0,000352	0,032300	-0,123173	0,079416	50.00	0,714888	-0,818990
MAR (-2, +2)	-0,001937	-0,005055	0,026187	-0,071857	0,063950	50.00	-0,479367	-0,593924
MM (-2, +2)	-0,005616	0,000007	0,028227	-0,124197	0,054487	50.00	1,289513	-0,906516
MAR (+2, +5)	0,013970	0,004393	0,042749	-0,048328	0,151231	69.05	**2,117775****	-1,531699
MMR (+2, +5)	0,005478	0,000993	0,049748	-0,191223	0,144420	50.00	0,713655	-0,906516
MAR (-5, +5)	0,009691	-0,005211	0,056223	0,056223	0,226328	50.00	1,117005	-0,068770
MAR (-5, +5)	-0,001718	0,001483	-0,667756	0,203724	0,001483	59.52	-0,093461	-0,869005

This table reports the unwinsorized Wilcoxon-signed rank test with regard to the S&P 500 cross-border M&As. The explanatory and control variables are defined in table 3. The table reports unstandardized coefficients and t-statistics in brackets. N = 42. * Indicates significance at the 10% level; ** Indicates significance at the 5% level; *** indicates significance at the 1% level.