

Do the Announcements of Cross-border Mergers and Acquisitions Increase Short-term Stock-prices for Acquiring Firms? An Analysis of Western European Firms

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ABSTRACT

The aim of this paper is to re-explore and expand knowledge on cross-border M&A announcement short-term performance effects. Applying multiple theories this paper gives a better understanding of the short-term stock market's reaction from an acquirer point of view to announcements of cross-border mergers & acquisitions involving West European firms. In this research a sample of 179 European firms' cross-border M&As are analysed. The focus lies on a different range of factors influencing the (different) market reactions. Besides, more intensive studied factors, such as, payment methods, this study explicitly evaluates the impact of country governance quality in host countries. Therefor this research provides new insights in linking different aspects of country governance to short-term M&A announcement stock market performance. Discussing the main findings this study shows that, in general Western Europe acquirers experience significant positive short-term stock market reactions around the time of cross-border M&A announcements. Moreover, this study finds that, against the expectations gathered through prior research, political stability and governance quality do not have a direct influence on the short-term market reactions around the time of the announcement date. However, I do find significant negative relationships between a host target country's rule of law, regulatory quality and M&A announcement short-term performance, therefore indicating those two governance indicators in particular should be investigated in further research. Moreover, in contrast with the literature findings this research does not report a significant relationship between the payment method and short-term M&A announcement market reactions. The aforementioned shows that this study contributes in deepening the knowledge of the performance implications of European cross-border M&As by accentuating under what specific conditions cross-border M&As do or do not create value for Western European acquirers. Additionally, this study shows, by utilizing two methods for specifying normal returns namely the market model and the mean adjusted model that, that in line with Brown & Warner's (1980) findings, the mean adjusted model yield similar results than results from more complex approaches for specifying normal returns models such as the market model.

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Keywords

Mergers & acquisitions, Takeovers, M&A announcement performance effects, short-term stock market reactions, country governance, payment methods

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1. Introduction

Throughout the whole world mergers and acquisitions (M&As) have long been an external growth strategy for firms, besides it represents an important alternative for strategic expansion. In the past, technological developments and globalization trends contributed to the popularity of M&As. Eventually these trends and developments resulted in the so-called fifth merger wave which emerged in the 1990s. According to Hitt et al. (2001) the value of M&As in the year 1997 was worth more than all M&As in the 1980s. One year later, a record was broken and worldwide M&A activities totaled more than US \$ 2 trillion in terms of stock value (Shimizua, Hitt, Vaidyanath, & Pisano, 2004). According to the IMAA institute (2018) the value of the deals made worldwide in 2017 equaled around US \$ 3,591 trillion, of which US \$ 0,976 trillion of the deals was made in Europe. The fact that the occurrence of (cross-border) European M&As in the last 30 years has grown dramatically clearly indicates the significance of this financial topic (IMAA institute, 2018). However, academic research on these strategic activities has not kept at this rapid pace. A literature review shows fragmented research across various disciplines, including strategic management, international business, human resource management, and finance (Shimizua, Hitt, Vaidyanath, & Pisano, 2004). Concentrating on the latter, there are a number of studies focusing on the Post M&A effects on (operating) performance (Ghosh, 2001; Mantravadi & Reddy, 2008; Kruse, Park & Suziki, 2007; Healy et al., 1992; Zhou, Guo, Hua & Doukas, 2015). Besides the facts that academic research has not kept at the rapid pace of the M&As occurrence and existing research is rather fragmented, the existing literature on post-M&A announcement (operating) performance also shows inconsistent results. Some studies show improvements in (operating) performance resulting from M&A announcements meanwhile other noticed negative to none influences. Although there is a wide amount of researches and scholar researching the topic, there currently is no consensus on post-M&A announcement performance.

A part of these different market reactions are explainable by differences in M&A perspectives. When it comes to analyzing M&A announcement stock market performance effects, literature says two opposite perspectives could be considered to assess the takeover's success. Some studies reviewed M&A effects from the target's perspective, some analyzed the acquirer's perspective and meanwhile others analyzed performance from both perspectives. Earlier research concerning abnormal returns from the target firms' perspective is unanimous. Multiple studies report positive and statistically significant abnormal returns (Mulherin and Boone, 2000; Raj and Forsyth, 2003; Houston, James and Ryngaert, 2001) for targets around the M&A's announcement dates. However, studies focusing on the acquirers are less conclusive.

Moreover, literature contributes to the understanding that a clear distinction needs to be made between the different types of capital market an acquirer belongs to. In general, existing research has focused on M&As undertaken in by firms from developed markets (Martynova, Oosting & Renneboog, 2006; Martynova & Renneboog, 2008; Goergen & Renneboog, 2004; Ben Amar and Andre, 2006; Smith and Kim, 1994; Floreani and Rigamonti, 2001; McConnel and Stolin, 2006; Dutta and Jog, 2009; Chari et al, 2010; Dutta, Saadi and Zhu, 2013). Some of these studies reported a negative market reaction (McConnel and Stolin, 2006; Saadi and Zhu, 2013), while others reported a positive market reaction (Martynova, Oosting & Renneboog, 2006; Martynova & Renneboog, 2008; Goergen & Renneboog, 2004; Ben Amar and Andre, 2006; Smith and Kim, 1994; Floreani and Rigamonti, 2001; Dutta and Jog, 2009; Chari et al, 2010). However, recent research is predominantly focused on M&As undertaken by firms active in emerging economies (Buckley, Elia & Kafouros, 2014; Deng & Yang 2015; Lebedev, Peng

Xie & Stevens 2014). Also, post M&A performance studies in emerging capital markets reported, both, negative (Aybar & Ficici, 2009; Chen & Young, 2010) and positive (Zaremba & Plotnicki, 2016; Zhou, Guo, Hua & Doukas, 2015; Tao, Liu, Gao & Xia, 2017) market reactions. These inconsistent findings indicate a need for further academic scrutiny on acquirer stock market reactions in both types of capital markets.

In addition there currently is a lack of comprehensive studies that investigate whether the level of country governance quality in target countries in relation to the acquiring governed country spur different market reactions to cross-border M&As. By country governance, I point to country-level institutions, practices, and policies that determine how authority is exercised in a country. Recent studies report that the country governance quality affects investors reactions, however there is no consensus on the direction of this relationship (Ellis, Moeller, Schlingemann, & Stulz, 2017; Tao, Liu, Xia, & Gao, 2017). Existing studies rather focus on impact of geographic and cultural proximity on cross-border M&As. Early research in this specific area provided evidence that shareholders' wealth gains are (partially) caused by the fact that a target is located in another economically or geographical area. More recent studies demonstrate these takeovers' benefits. Harzing and Pudelko (2016) have shown that international business studies tend to use cultural distance as a catchall concept and recommend to use more appropriate accurate constructs to measure host country characteristics, therefore in order to measure country governance, it is under divided in smaller concepts such as political stability and governance quality.

Furthermore, literature says that pre and post-M&A performance of both acquiring companies and target companies highly depends upon the payment method used while making a M&A deal (Andre and Ben-Amar, 2009; Dutta, Saadi, and Zhu, 2013). Literature shows that the payment method is one of the significant factors affecting a deal's success and therefore will be further analyzed in this study.

To deal with missing pieces in research literature referring to inconsistent prior research findings, in both emerging and developing economies, I would have preferred to examine the short-term market reactions on M&As within both the European developed market and the European Emerging markets. However, unlike the European developed market, the European emerging market has incomplete databases leading to an improper sample amount which disables the opportunity to research M&As in this particular area. It has to be said that research within Europe is particularly interesting due to a lack of recent research within this particular area.

To remedy these research gaps and expand current knowledge this research aims to answer the following question: What is the short-term stock market reaction on cross-border M&A announcements for acquiring firms in Western Europe? Additionally, this research explores if and how the M&As payment method and the country governance quality in the host country (Target's country of origin) affects these particular reactions.

This study partly replicates the study done by Tao, Liu, Gao & Xia in 2017 in which the short-term impact of cross-border M&A announcements from Chinese acquirers was examined. Their study explicitly integrated country governance and was one of the first helping expanding knowledge of country governance factors affecting M&A market reactions. This study continues and expands their research initiative by focusing on a developed market (Western Europe) with a sample drawn in a much more recent period. Besides, this study aims to get normal returns by using two different methods of specifying normal returns, namely the market model and the mean adjusted model, to

verify the results robustness. In addition to the previous study in which they used independent t-tests this study also includes least square regressions to be able to explore the potential relationship and its magnitude between country governance and M&A announcement market reactions. Additionally, where Tao, Liu, Gao & Xia focused on the difference in market reactions between Chinese state-owned-enterprises (SOE) and private enterprises this study aims at the differences in payment methods as multiple studies have established the importance of this subject in relation to M&As. Additionally, current insights on optimal country governance conditions are rather limited and inconclusive. Therefore, this study provides up-to-date insights in different market reactions spurring from different host country governance characteristics, helping to seek the optimal host country governance conditions for an M&A. Moreover, this study helps managers to deepen knowledge of performance implications of European cross-border M&As by accentuating under what specific conditions linked to country governance and payment methods cross-border M&As create or destroy value for acquirers in Western Europe.

To guide you as readers through this research properly, the thesis is organized as follows: In chapter 2, the applied theories and the research question-related literature can be found. These theories form the basis for the methodology part which can be found in chapter 3. In chapter 4, the results can be found, meanwhile chapter 5 presents the discussion and conclusion along with its limitations. In the last chapters the references and the appendices can be found.

2. Literature review

A cross border M&A could be interpreted as an indication of a substantial change in a firm's corporate strategy. Investors will react to this change since they consider this as either a positive or negative development in a firm's corporate strategy. Usually, this reaction constitutes the stock market reaction and is completely based on the investors perception on the takeover effects. The terms stock market reaction and investors reaction are interchangeable. To answer the question whether the announcement of cross-border M&As rather create or destruct value it is important to keep into mind the characteristics of an M&A. Therefor an M&A can be classified in different categories. It can be categorized based on the type of capital market – emerging market or developed market. Additionally, it could be classified in effect duration – long-term effects or short-term effects, and it could be divided based on the subject – target or acquirer. These characteristics are relevant for recognizing an M&A as value creator or destructor and therefor earlier established relationships in the literature will be addressed. Additionally, empirical findings on country governance in relation to investor reactions is discussed in detail to hypothesize a positive direct relationship between M&A announcements and country governance quality. Moreover, to answer the question if and how an M&A's payment method affects the investors reaction, advantages and disadvantages between its various payment forms will be brought up to form pre-luminary assumptions.

2.1 Acquirer versus target perspective

Considerable research has been conducted on the impact of cross border M&As on the short-term shareholder values of target firms. For Example Raj and Forsyth (2003), used a sample of 270 bidding firms of takeovers by UK public firms, from the period 1990 to 1998, and reported significant positive cumulative abnormal returns from the targets perspective. Earlier studies, in both the UK and US, have found that target shareholders benefit between 22 and 30% in stock gain in case of an M&A announcement (Franks, Harris, & Mayer 1988; Datta et al. 1992). Moreover, Mulherin and Boone (2000) reported positive wealth effects for the entire sample of 376 targets with available stock-price data (events from 1990-1998). The reported abnormal return median in the (-1, +1) event window period was 18.4%. Also, in market specific studies evidence has been found. For example, Houston, James and Ryngaert (2001) investigated the banking industry and reported positive abnormal target returns of 15.58% in the period 1985 – 1990 and a 24.60% abnormal return in the period 1991- 1996 for deals in which both parties were banks. Additionally, Holmén and Knopf (2004) who investigated Swedish tender offers (dual owners samples), found that targets experience abnormal returns almost 15% on the day prior to the announcement till one day after the announcement. When including the five days prior and after the announcement day event, the cumulative abnormal returns equaled almost 17%.

While the above stated studies on M&A market reactions from a target point of view show consistent positive market reactions, the evidence from the acquirers perspective is less consistent. In existing literature, positive (Floreani & Rigamonti, 2001; Smith and Kim, 1994; Amar and Andre, 2010; Dutta, Saadi and Zhu, 2013; Goergen and Renneboog, 2004; Chari, Ouimet & Tesar, 2010; Ma Pagan and chu, 2009; Tao, Liu, Gao & Xia, 2017) and negative (Dodd, 1980; Bradley, Desay and Kim, 1983; Frank, Harris and Mayer, 1988; Smith and Kim, 1994; Campa & Hernando, 2004; Martynova & Renneboog, 2006; Faccio, McConnell & Stolin, 2006; Andrade et al., 2001; Raj and Forsyth, 2003;

Aybar and Ficici, 2009; Chen and Young, 2010) abnormal acquirer returns on M&A announcements have been reported. The capital market, which could be divided into two different types being an emerging market and a developed market, both showed inconsistent results due to which no general conclusion can be drawn. The different market reactions specified in type of capital market could be found in table 1 below.

With regards to a researcher's different perspectives, it is important to mention that the acquirer and target company are not the only subjects that are affected by a takeover, other stakeholders such as customers, suppliers, employees and competitors, government are affected as well. Since this is a finance related research, this research considers acquirer share price as a primary indicator for post-announcement performance. Primarily since acquiring shareholders are the ones owning the firm(s). Moreover, literature shows that the target market reaction is already conclusive, further research in this field is therefore not needed.

Table 1 a summary of existing literature discussing the link between cross border M&As and stock market performance

Market*		Author(s) / Year	Sample Period	Details of sample	Findings (from bidders or target perspective)
US	D	Dodd (1980)	1970-1977	151 merger proposals 80 were completed	Average CARs from first public announcement to completion date -7.22% (bidders) and average CARs from first public announcement to cancelation date -5.50% (bidders)
US	D	Bradley, Desay and Kim (1983)	1962-1988	241 successful deals and 94 unsuccessful deals	Negative insignificant returns for event windows above 20 days (unsuccessful bidders) and positive insignificant returns for event windows from -15 till 15 days (unsuccessful bidders)
US + UK	D	Frank, Harris and Mayer (1988)	UK 1955-1984 US 1955-1985	UK 954 acquisitions and US 1555	US: All cash deals experienced a 0.094 market return meanwhile all equity deals experienced a market return of -0.018 (bidders) and for the UK: All cash deals experienced a - 9.4% market return meanwhile all equity deals experienced a 1.7% market return (bidders)
US	D	Floreani & Rigamonti (2001)	1996-2000	56 listed acquirers	Over the event window (-20, +2) the found a significant abnormal return of 3.65% for insurance companies' cross-border mergers. On the other hand, domestic mergers in European countries are not valued positively by the market (bidders)
US	D	Smith and Kim (1994)	1980-1986	177 bidder and target pairs	The bidders experienced on different event windows a significant and insignificant CARs of 0.50 (-5, +5) and -0.23 (-1, 0). The targets experienced on different event windows significant CARs of 30.19 (-5, +5) and 15.18 (-1, 0).
Canada	D	Amar and Andre (2010)	1998-2002	327 Canadian transaction	They found that the average firm experienced a significant positive announcement period abnormal returns (bidders and targets) on a (-1, +1) event window
Canada	D	Dutta, Saadi and Zhu (2013)	1993-2002	545 cross-border and 755 domestic deals (completed)	They found significant CARs on multiple event windows for the acquirers: 1.3% (-1, +1), 1.6% (-2, +2) and 1.3% (0, +2) 1.2% (-5, +5).
EU	D	Campa & Hernando (2004)	1998-2000	262 M&As	-1.96% negative abnormal significant return for regulated EU acquirers over a 60-day event window (bidders)
EU	D	Goergen and Renneboog (2004)	1993-2000	187 bidders	1.2% significantly positive abnormal returns on the period of 5 days after the announcement date (bidders)
EU	D	Martynova & Renneboog (2006)	1993-2001	2,419 M&As	Announcement effects ranging from 9% till 26% on multiple event windows (targets) compared to a statistically significant announcement effect ranging from 0.39% till -2.83% on the same event windows (bidders)
EU	D	Faccio, McCon	1999-2001	4,429 acquisitions of which, 735 listed, 1,956 unlisted and 1,738 unlisted sub.	Acquirers of listed targets earn an insignificant average abnormal return of -0.38% (bidders), while acquirers of unlisted targets earn a significant average abnormal return of 1.48% (bidders)
EU	D	Chari, Ouimet & Tesar (2010)	1986-2006	594 acquisitions (emerging markets) 1624 acquisitions (developed markets)	They found that when developed-market acquirers gain control of emerging market targets, they experienced positive and significant abnormal returns of 1.16%, on average, over a three-day event window (bidders)
UK	D	Andrade et al. (2001)	1973-1999	4300 completed M&As	Acquiring firms suffer negative abnormal returns - 0.7% on a (-1, +1) event window and -3.8% on a (-20, close) event window (bidder) meanwhile targets show significant positive abnormal returns of 16.0% and 23.8% on the same event window (target)
UK	D	Raj and Forsyth (2003)	1990 to 1998	270 takeovers	Significant negative CARs were found for multiple event windows ranging from 1 day after the announcement date till 20 days after the announcement date (bidders)
Asia	E	Aybar and Fici (2009)	1991-2004	433 acquisitions from 58 bidding internationals	Negative Significant SARs (abnormal returns) were found for the bidders on a (-1,1) event window.
Asia	E	Ma Pagan and chu (2009)	2000-2005	1,447 M&As in 10 Asian countries	(0,1) event window 0.96% significant Car and for the (-1,1) and (-2,2) event window the found significant CARs of 1.28% and 1.70%(bidders)
Asia	E	Chen and Young (2010)	2000-2008	162 CBMA deals	Chen and Young reported a significant and negative relationship between government ownership and CARs of -4.3% (bidders)
Asia	E	Tao, Liu, Gao & Xia (2017)	2000-2012	165 cross-border M&As	Significantly positive CARs were found on a (-1,0), (0, +1) and (-1, +1) event window basis (bidders)

*note that D refers to a developed market and E refers to an emerging market.

2.2 Types of capital markets

Existing literature says that for a proper analysis on M&As a clear distinction between the type of capital market is required (Wong and Cheung, 2009; Ma, Pagan and Chu, 2009). M&As in emerging and developed markets differ in multiple ways according to Ma, Pagan & Chu (2009). First of all, in general, developed markets possess a well-developed legal system to protect interests of shareholders and welfare of consumers that differ from many emerging markets that suffer from a poor legal system, and so, a weak enforcement of the law. Of course, it is worthwhile to mention that this might differ from country to country in developed markets. Secondly, cultural and governance differences between developing and emerging market leads to different organizational structures of firms. Furthermore, in emerging markets there is a lack of proper comprehensive databases on M&A transactions, this hinders the possibility to properly measure an M&A's true impact on its stock-price. Lastly, compared to a developed market, the economies of scale and scope in an emerging market are relatively small. Therefore, the number of M&As in emerging markets will be substantially lower. Given these differences it is important to review existing literature on both types of capital markets. In 2009 these expected differences were confirmed, Aybar and Fici found concrete evidence for different market reactions within two types of capital markets. They reported significant different market reactions for developed and emerging market acquirers in a sample of 433 acquisition announcements between 1991-2004 originated from a variety of countries across Latin America, Eastern Europe, Asia, and Africa. For M&As, both, in and out developed markets the findings on performance and its determinants appear to be mixed. Studies show that returns for acquirers from emerging & developed markets can be either positive or negative. No consistent pattern could be identified nor in emerging as in developed capital markets.

2.2.1 Developed capital markets

Earlier research on post-announcement stock returns within developed markets, such as in the United States, Canada and Europe, showed some inconsistent M&A market reactions. Multiple studies report positive market reactions, opposed by other studies reporting negative M&A investor reactions. For example, Chari, Ouimet & Tesar (2010) found based on a sample of 1624 acquisitions in Europe, drawn in the period 1986-2006, that developed market's acquirers which are targeting firms from the emerging market reported, a 1.16% positive abnormal return over a three-day window event. On the contrary, for targets of the same acquiring firms located in developed markets, CARs were not significantly positive (i.e., positive returns for the acquirer appear to be unique for acquisitions in emerging markets). In line with these findings, Dutta, Saadi and Zhu (2013) studied 1300 completed acquisitions within Canada in the period 1993-2002 and concluded that there were significant positive abnormal returns around the announcement date for Canadian acquirers. For instance, Faccio, McConnell and Stolin (2006) provide direct empirical evidence that, in case of unlisted targets, the acquirers earn a significant average abnormal return of 1.48%. They examined post-announcement period abnormal returns to acquirers of listed and unlisted targets in 17 Western European countries over the interval 1996–2001. Further positive relations between M&As and market reactions within developed markets were found in multiple studies (Martynova, Oosting & Renneboog, 2006; Martynova & Renneboog, 2008; Goergen & Renneboog, 2004; Ben Amar and Andre, 2006; Smith and Kim, 1994; Floreani and Rigamonti, 2001; Dutta and Jog, 2009; Chari et al, 2010)

Anomalous results were found in a research from Dodd in 1980. Based on a sample of 151 takeover announcements in the United States he concluded that, for acquirers, the M&A announcements resulted in negative cumulative abnormal returns on the announcement takeover date. Furthermore, in 2003, Sudarsanam and Mahate found more evidence claiming a negative relationship between M&As and market reaction. This was based on 519 listed acquirers from 1983-1995 in the UK market. Moreover, in 2001, Andrade et al. reported negative abnormal returns for acquirers on multiple short-term event windows. This evidence was based on 4300 UK completed M&As within the period 1973-1999.

Even though there are several studies focusing on the short-term stock returns in developed markets, it is worthwhile to mention that a small part of these studies have an industry specific focus (Bednarczyk et al 2010) and therefore are not generalizable to the general market. Moreover, most of the other conducted researchers involve samples of M&As withdrawn before 2008. This falls exactly within the financial crisis timeframe and therefore this might have influenced investor reactions due to different investing circumstances. Based on the literature it is safe to assume that there is no widely accepted notion that M&As increases or destructs shareholder value for an acquiring firm.

2.2.2 Emerging capital markets

While the literature on developed economies leave a lot of gaps in terms of inconsistent findings, industry specific studies and relatively 'old' evidence, the emerging economies leaves some blanks to be filled in as well.

Recent research is predominantly focused on M&As undertaken by firms active in emerging economies (Buckley, Elia & Kafouros, 2014; Deng & Yang 2015; Lebedev, Peng, Xie & Stevens 2014). Especially focusing on market returns within emerging economies, I found several recent studies reporting positive market reactions (Zaremba & Plotnicki, 2016; Zhou, Guo, Hua & Doukas, 2015; Tao, Liu, Gao & Xia, 2017).

In a recent study from Tao, Liu, Gao and Xia (2017) in which 165 cross-border mergers from Chinese acquirers in the period 2000-2012 have been analyzed. They found significant positive cumulative abnormal returns on multiple short term event windows for the Chinese acquiring firms. Moreover, the authors claimed that the market reactions in general are positive, but the magnitude of this positive market reaction depends on the market's characteristics. Also Ma, Pagan and Chu (2009), who conducted research on 1447 M&A deals in 10 Asian countries within the period 2000-2005, reported significant positive short-term post-announcement market effects for acquirers. Additionally, Zhou, Guo, Hua & Doukas (2015) reported significant positive CARs on a 5-day event window. Their sample included 640 M&A deals where acquirers were listed in the Chinese markets during 1994-2008. They separately reviewed state-owned enterprises (SOE) and private-owned enterprises (POE) to check whether there could be spotted a substantial difference in market returns. The results made it evident that merger outcomes are affected by political connections since acquirers taking over SOE targets have higher short-run abnormal returns than those taking over POE targets.

However, multiple studies in the emerging market domain also indicated that mergers and acquisitions in general do not generate but rather destruct market value. This is argued by a study conducted by Aybar & Ficici (2009) in which they analyzed 433 mergers and acquisitions announcements from multinationals in 58 emerging markets in the time frame 1991-2004. They concluded that

announcements of international acquisitions of emerging market multinationals are, on average, associated with negative abnormal returns. Especially on a short event-window (2-3 days) they reported significant (at 10% level) negative abnormal returns. They reported that acquirers from high-tech industries and bids in related industries lead to value destruction. Additionally, the institutional development of a country where a target is located was found to positively and significantly influence acquisition returns. This confirms the importance of institutional development in the M&A phenomena in both markets. Moreover, in 2010, Chen and Young analyzed cross-border M&As involving Chinese firms between 2000 to 2008 and found a negative relationship between M&As and its cumulative abnormal returns. It is worthwhile to mention that the authors suggest that these negative attitudes towards transactions are caused by the fact that Chinese acquirers often involve companies being (partly) held by the government.

Based on this literature review I can conclude, that the findings on acquisition performance in emerging and developing markets are mixed. Both markets report inconsistent findings on M&A market reactions leaving a wide range of 'gaps' open to be filled in.

2.3 Short-term vs long-term event effects

Another distinction that can be made assessing an M&A impact is the effect period's length. A pair of authors, Dutta and Jog (2009), noticed that the number of studies discussing the M&A influence on post-transaction stock performance relating to short-term effects is high, while a substantially lower number of studies examine the long-run acquisition effects. It is argued that examining the long-run acquisition effects requires market efficiency (Andrade, Mitchell, & Stafford, 2001). Besides, it is hard to assess the M&As' explain ability after such a long period in which a change in stock-price could be caused by a wide range of factors. These factors create an inability to digest the full impact of M&As. Additionally, the long-term acquisition performance effect within the developed market shows rather consistent findings which indicates there is no need for further research in the long-term setting (Bradley, Desai & Kim, 1983; Campa and Hernando, 2004; Andrade et al., 2001). Several papers address the issue of the appropriate window length used to measure the investors reaction. Chang and Chen (1989) find that the event window length should continue for a number of days as the market keep responding to news. They assume market inefficiency which means that the effect of an event will not be immediately reflected in the share price. Hillmer and Yu (1979) argued that the event window should end within hours after the initial M&A announcement. In reality, the event window is the event day, plus or minus some number of days/weeks. In this period the sample firms' market price are observed to assess whether an unusual share price appreciation or depreciation occurred. It is usual to add one day after the announcement day to ensure that the market reaction is captured in case the announcement is after trading hours. It is also common to add one day before the announcement day to cover any reactions from possible information leakages before the official announcement. The event window is often expanded to multiple days to cover early or delayed market reactions. However, according MacKinley (1997) accuracy (predictive power) is lower with longer event windows, due to the possibility of confounding effects from other market events.

2.4.1 Motivational theories

Literature addresses different motivational theories for participating in M&As ultimately contributing to the direction and magnitude of an investor's reaction. In the past, the primary motive of companies engaging in a takeover was the potential synergy effect. You can speak of synergy when the merged company's value is greater than the total value of the two individual firms together. Most often this operational synergy is created due to a combination of resources and services in either scale or scope (Bradley, Desai, and Kim, 1983). A great example of an strategic M&A showing synergy effects is the acquisition of Swedish Volvo Car Corporation by Zhejiang Geely Holding Group in march 2010. In 2011, Zhou & Zhang analyzed the M&A in which Geely acquired 100% equity stake from Volvo. They found three different types of synergy effects also being the motivational drivers for this M&A, namely: operating synergy, financial synergy and management synergy. Operating synergy is described as the improvement of production and operation efficiency of enterprises which caused by economies of scale and economy of scope after M&A. Financial synergy is known as the financial benefits generated by M&A transaction. Moreover, management synergy refers to companies using its extensive and efficient management resources through new permutations and combinations after M&A to improve the existing management and finally increase the revenue. Moreover, in 1996, Sudarsanam, Holl and Salami investigated the impact of synergy between bidders and targets. They investigated 428 completed UK acquisitions during 1980-1990 and found that synergy in its various forms (operational, financial and managerial) does indeed create value for bidding and target shareholders. Being more precise, financial synergy seems to dominate operating synergy and managerial synergy. Merging two companies with a complementary fit in investment opportunities and liquidity eventually leads to the ultimate results for both bidders and targets.

While M&As could indeed be motivated by synergies of operational, financial or informational nature, three additional motivational theories can be identified (Martynova & Renneboog, 2008). First, a manager might be affected by the agency theory. This theory suggests that managers do not always act in their shareholders' best interests and may prioritize to pursue their own interests. An example could be a manager aiming to push through an M&A that benefits himself at the expense of shareholder value. Agency conflicts are mainly the result of compensation packages, these compensations are often related to the amount of assets a certain manager controls. This incentivization for excessive growth causes managers to build an empire (maximizing size) instead of maximizing value since some managers rather focus on their self-interests. This phenomenon is also known as managerialism (Martynova & Renneboog, 2008). Older studies shared the prominence of this claim, so claimed Reich (1983) that "when professional managers plunge their companies deeply into debt in order to acquire totally unrelated businesses, they are apt to be motivated by the fact that their personal salaries and bonuses are tied to the volume of business their newly enlarged enterprise will generate rather than to any potential for any added returns to shareholders." Also Jensen (1989) argued that managers have many incentives to expand company size beyond that which maximizes shareholder wealth. Even though it seemed like researchers agreed on this matter, other studies have brought evidence to light contradicting earlier stated claims of Reich and Jensen. In 1987, Lambert and Larcker concluded that the potential for increased compensation is not one of the reasons for managers to undertake acquisitions that are not in shareholders' interest. They analyzed 35 acquisitions in the United states and reported that executive salaries and bonuses changes as a consequence of an acquisition were small. In their study, the change in an executive's total wealth as

a consequence of an acquisition, was defined as the sum of the change in salary plus bonus and the change in the value of stock ownership. The variation in total wealth, is dominated by the change in the value of an executive's stock holdings in response to the acquisition. This would indicate that managers are solely interested in undertaking M&As with positive market reactions since this would increase their wealth. Moreover, Avery, Chevalier and Schaefer (1998) examined 346 firms which have undergone an acquisition during 1986 -1988 and which CEO is listed on the Forbes Executive Compensation surveys to measure the effect of acquisitions on the subsequent compensation of its chief executive officer (CEO). In line with Lambert and Larckers' findings, they concluded that managers who undertook acquisitions do not have significantly higher or lower compensation growth than managers who did not undertake acquisitions. They also found no difference in compensation growth between managers who undertook shareholder-value-increasing acquisitions and value-reducing acquisitions. Moreover, this study did not report any difference between the compensation growth of managers who undertook diversifying acquisitions and the compensation growth of managers who undertook non diversifying acquisitions. However, they did find evidence that CEOs who undertake acquisitions obtain more outside directorships than their peers. Based on this finding, they suggested that CEOs can increase their prestige and standing in the business community by undertaking acquisitions. In their eyes this might suggest that an acquisition undertaking CEO gains more connections skills and experience and therefore give the impression that the CEO has the skills required to manage a large, diverse enterprise. These impressions increase the CEO's desirability as a board member. One could argue that in case a CEO undertakes an acquisition to increase their prestige and position in business community, the CEO would still aim for a deal resulting in market gains.

Another motivation for a manager who targets his/her own interest to get involved in an M&A, is to minimize risk to enhance corporate survival. The manager would like to spread the company's earnings by undertaking a M&A and thus earnings volatility decreases. Eventually, this decreased earnings volatility protects his/her own position (Martynova & Renneboog, 2008; Amihud and Lev, 1981). Decreasing risk most likely contradicts the shareholders' wishes meanwhile it satisfies debt holders. This also indicates an agency problem since interests are unaligned.

Secondly, a manager might be affected by the hubris theory. Hubris is based on the rationale that CEO's over rate their ability to evaluate potential acquisition targets. Due to this overconfidence the herding phenomena might appear. Successful takeovers encourage other companies to engage in takeovers as well, even though these M&As won't contribute to maximize shareholder value (Martynova & Renneboog, 2008). It is important to mention that unlike the intentions of an M&A motivated by the agency theory, the intentions of an M&A motivated by the hubris theory are aligned with the shareholders, namely maximizing value. According to McNamara, Haleblan, Dykes (2008), firms that acquire early in a takeover wave, experience positive market reactions, whereas the returns are negative for later acquirers in that same merger wave. This suggests that the hubris rationale might be a beneficial motivational theory for an M&A in case the M&A is realized early in a takeover wave.

Last, takeovers are motivated by market timing. Managers intend to take advantage of overvaluation/undervaluation of markets especially during a temporary financial boom or crisis (Myers & Majluf, 1984). During such a financial bull/bear market some stocks are heavily over or undervalued while some stocks are not. These differences could appear due to market inefficiencies. In the period of such a financial bull/bear market it is hard to assess the real value of a company, so better-informed acquirers can exploit their information at the expense of less informed targets (Martynova &

Renneboog, 2008). This theory comes very close to the so-called signaling theory which is built on the premise that an internal party such as an acquirer, possesses special or better information while external parties, such as investors, may not be able to access that specific information and need to rely on the incomplete information they possess (Spence, 2002). This information inequality might partially explain why one targeting firm gets involved with such an M&A. A target firm might overvalue the synergies a certain deal is reaching due to overpricing (hubris). It might also be the case that a firm participates due to the managers' self-interest (agency problem) (roll, 1986).

2.4.2 Application of theories depending on type of capital markets

Some of the motivational theories used to explain the M&A phenomena in developed markets may not be appropriate in emerging markets or the other way around. Therefore, when trying to explain investor reactions on M&As it is important to take into mind the type of capital market. One theory explanation that depends on the M&A capital markets being the free cash flow theory. In an emerging market it suggests that a firm's managers with unused borrowing power and large free cash flows is more likely to undertake mergers with low benefits. Meanwhile in developed markets the free cash flow theory is often used to explain why diversification through mergers results in a lower gains total (Jensen, 1986). More diversification, means a spread of risk and thus lower gains, this is not in line with the wishes of investors. However preliminary evidence from diversification studies in emerging markets indicates that diversification might generate higher total gains (Khanna and Palepu, 1997, 2000a, 2000b). These different views might be explained by the fact that a cross-border merger in an emerging country is a form of signaling their quality, especially when targeting firms are from well developed countries. This shows that the company is able to fulfill the high demanding listing requirements. Since it enables emerging markets to span national boundaries to gain strategic assets it credibly enhances their global reputation. For these reasons, a cross-border M&A in emerging markets is often considered as "good news". These different explanations of this free cash flow theory have different effects when applying. The first explanation is stimulating managers to use excess cash for M&As meanwhile the second explanation discourages to use excess cash. This indicates one need to be careful explaining theories partly depending on the type of market.

2.5 Country governance

Recently, a lot of research has been conducted to find out which factors influence the perceptions of (potential) shareholders towards M&As. In this research attention is drawn to a relatively new factor which seemed to be ultimately relevant in, both, literature study, as well in logical reasoning, named country governance.

In prior research to M&As massive attention was paid to geographic and cultural proximity. Early research in this specific area provided evidence that shareholders' wealth gains are (partially) caused by the fact that a target is located in another economically or geographical area. More recent studies demonstrate these acquisitions' benefits and found additional relationships.

In 2001, Ghemawat identified four dimensions of distance – cultural, administrative, geographic, and economic – and added that, at that time, technological innovations are not able to eliminate the cultural cost of distance. He claimed that taking the four dimensions of distance into account contribute to a firm's assessment of the relative attractiveness of foreign markets. Nowadays, these

distances may be partially reduced due to an increasing number of information and product sharing innovations which contributes to the globalization process. Although, distances seems reduced, recent literature suggests it is still worth analyzing a new type of distance. Recent studies claimed that country governance distance certainly affects the relative attractiveness of foreign markets (Ellis, Moeller, Schlingemann, & Stulz, 2017; Tao, Liu, Xia, & Gao, 2017). However, there is no consensus about the direction of this relationship between country governance and M&A country attractiveness.

In literature country governance is referred to as "the traditions and institutions by which authority in a country is exercised". This includes (a) the process by which governments are selected, monitored and replaced, (b) the government's capacity to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them" (Kaufmann, Kraay and Mastruzzi, 2010). Because, country governance is considered as an important connector with regards to the way institutions function in a country, host countries will have different performance implications as a result from different institutional developments. This is among other things is one of the reasons that market reactions on M&As will be distinguishable and depend on the host country governance. One can argue that the potential in wealth gain for acquisitions in which the host country has an improved level of country governance will vary from an acquisition in which the host country has a lower level country governance. Therefore, country governance could be identified as fifth dimension in Ghemawat's framework since it is an additional form of distance between the mother firm and the target firm, this certainly affects the decision making in M&A participation. However, as earlier expressed it is, so far, unclear which direction this relationship has.

Ellis, Moeller, Schlingemann and Stulz (2017) argue that the benefits to firms established in well governed countries (in terms of country governance) are portable and demonstrates that acquirers can create more value by buying companies in worse governed countries. They found, based on a sample of 8,090 cross-border acquisitions completed between 1990 – 2007 in countries all over the world, but mainly in the US and the UK, that worse country governance in the host country appears to be a source of value for cross-border acquisitions rather than an obstacle to value creation. They claim there is more to gain for acquirers targeting firms in worse governed countries due to a lack of efficiency and underinvesting at the target firm. Moreover they argue that firms with higher country governance have better access to funding, so that they can finance themselves with better conditions. This enables them to create more value through cross-border investments and benefit more from acquisitions in countries with poor country governance as firms in these countries underinvest because of poor access to funding.

In a recent study from Tao, Liu, Gao and Xia (2017) in which 165 cross-border mergers from Chinese acquirers in the period 2000-2012 have been examined, they reported findings which were not in line with Ellis, Moeller, Schlingemann and Stulz' study. They found that Chinese acquirers in target countries with a high level of country governance exploited especially due to well-established institutions and a stable environment. These circumstances enabled Chinese firms to access different sorts of resources and intelligence, moreover it enabled creating abroad ties and allies. Moreover, they claimed that shareholders of acquiring firms purchasing a target with a high level of country governance gain significant higher returns than those shareholders of acquiring firms which target companies are located in a country with a relative low level of country governance. This suggests the

country governance quality definitely affects an abroad firms attractiveness, however till now no consensus exists about the direction (i.e. positive or negative sign) of this relationship.

Moreover, In 1996, Diamonte et al. Showed that average returns in emerging markets experiencing political risk upgrades (country governance measures) exceed those of emerging markets experiencing political risk downgrades (country governance measures) by roughly 11 percent per quarter. The PRS groups defined the political risk rating as following: the political stability of a country on a comparable basis with other countries by assessing risk points for each of the component factors of government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucracy quality. This definitions suggests that the term “political risk rating” used in this particular study measures country governance quality. Diamonte et al. found no statistically significant difference between average returns in developed markets experiencing country governance improvements and developed markets experiencing country governance quality impairment. This indicates that country governance measures have a larger impact on returns in the emerging markets than it has in the developed markets. Back in 1996, Diamonte et al. also found that political risk is converging. Emerging Markets had become politically safer meanwhile developed markets had become political riskier. Along with these findings they gave some prescriptions suggesting that if one can forecast changes in political risk, one can forecast stock returns in emerging markets. Suggesting, investors are more driven to spend considerable resources to forecast political risk changes in emerging markets. This should indicate that the effects of country governance improvements M&A are higher for acquiring firms with a relative lower level of country governance. Assuming political risk has less impact in developed markets, they claimed that analysts are better off devoting resources to forecasting other sources of return such as changes in expected future economic conditions.

How did literature measure country governance?

Currently, there are multiple ranking institutions i.e. S&P, FTSE and MSCI, classifying a country either as an “Emerging market” or “Developed market”. Different measuring methods lead to different classifications, therefor one cannot necessarily say that an emerging market country governance quality is higher than the country governance quality in a developed market. The type of capital market is therefore not the right indicator of country governance. Existing research gives a lot of examples measuring types of country governance related indexes. Some use timing of national elections to proxy political uncertainty in a cross-country setting (Julio and Yook, 2016, 2012; Cao, Li and Liu, 2017). Meanwhile some use a measure of policy uncertainty from Baker, Bloom, and Davis (2016), who developed indices of economic policy uncertainty based on news stories in which they document the negative relationship between policy uncertainty and capital expenditures in the US market (Bonaime, Gulen, & Ion, 2018). Tao, Liu, Gao and Xia (2017) and Ellis, Moeller, Schlingemann and Stulz (2017) were able to measure country governance by using different dimensions from a worldwide governance indicators (WGI). This Worldwide Governance Indicators (WGI) project reports on aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2017, for six governance indicators.

Table 2 Country governance indicators categorization

Six country governance dimensions:	Political stability (PS)	Governance quality (GQ)
· Voice & accountability (VA)	PS	
· Political stability and absence of violence/terrorism (PV)	PS	
· Government effectiveness (GE)		GQ
· Regulatory quality (RQ)		GQ
· Rule of law (RL)		GQ
· Control of corruption (CC)		GQ

These six dimensions from the World governance index constructed by Kaufmann, Kraay and Mastruzzi (2010) are a widely accepted method used to assess a country's country governance quality. The use of these six governance indicators does prevent this study from using country governance as catchall concept and helps measuring country characteristics in a more appropriate construct.

The variable definitions of these six governance indicators can be found in table 3 in chapter 3. Based on the six country governance's dimensions definitions I could categorize country governance into two variables namely; political stability and governance quality (table 2). It is important to explain how, based on existing literature, political stability and governance quality have the ability to affect acquiring firms' market reactions. Therefore this is done in the next chapter.

2.5.1 Political stability

Political stability might affect market reactions for acquiring firms due to the following set of reasons. First, a low level of political stability might lead to higher transaction costs. Especially when the company tries to take over and integrate local resources. A low level of political stability hinders the possibility of establishing cooperative ties and local partners within the area which disables efficiency transaction costs (Tao, Liu, Xia, & Gao, 2017). This uncertainty and high transaction costs make it harder for the acquiring firm to generate profits with the target firms. This decreases attractiveness for shareholders due to a lower chance of getting dividends or shareholder value generation.

Second, a low level of political stability is associated with a high level of investor risk, and also therefore market reactions might be influenced. Moreover, Hutchison and Gibler concluded in (2007) that foreign firms and organizations bear the risk of being vulnerable targets during periods of conflicts in areas with low political stability. For example, in the beginning of the 2000's Chinese companies were seeking to expand their oil industry. However, the majority of the world's oil reserves were controlled by countries in the middle east not welcoming foreigners. The rest was under Royal Dutch Shell or ExxonMobil's control who were not interested in collaborating with Asian companies at that point in time. The Chinese firms' response was led by fear of missing out and they started investing in politically risky countries such as Venezuela, Iran and Sudan. Due to conflicts in these countries the Chinese investing firms wound up in places in countries where it was unclear if they were ever able to monetize their "won" assets. This political instability endangered the safety of their investments in this particular region (Chazan, 2003).

Third, an instable government may lead to changes in policies very often. This shapes the perception of uncertainty among investors. Policy uncertainty is by far not a preferential circumstance for acquiring investors, since policy changes may negatively affect operations of a firm (Gao, Liu, & Lioliou, 2015). In addition it may decrease the regulatory quality of a country, negatively affecting the promotion and permission of foreign investors.

On the other hand, the presence of this uncertainty might be an advantage for the target firm. According to Bloom (2009) and its discussed real options theory, levels of uncertainty will increase the option's value. Delaying investments increases the incentive for acquisitions. The Real option theory emphasizes that firms have the possibility to postpone investment decisions and these options become especially useful if the investments are partially irreversible. The real options theory implies a relation between timing of investments and irreversibility. The higher the irreversibility, the more likely is the postponement of an investment project. The implication is that targets should be able to negotiate better deals when policy uncertainty is high. This because the cost of waiting on this policy (the delay might cost the acquirer synergy effects) might even be higher, this gives the target firm a bargaining chip. In 2018, Bonaime, Gulen and Ion, find results that were aligned with Blooms predictions. They have found, based on a sample from 151.925 M&A deals between 1985 and 2014 in the US, that policy uncertainty increases deal premiums. Moreover, it decreases the level and incidence of target termination fees and it makes it more difficult for acquirers to back out of a deal.

Additionally, they found that uncertainty related to monetary policy, fiscal policy (taxes and government spending), and regulation (especially financial regulation) has a strong negative effect on M&A activity, while the uncertainty related to health care, entitlement programs, national security, trade policy, and sovereign debt does not meaningfully impact merger decisions. Lastly, A country in which its citizens have: a participation in selecting their government, as well as freedom of expression, freedom of association, and a free media, would tend to have democratic decision-making that is free from favoritism and excessive bureaucracies. Therefore, such a country would be an attractive M&A destination for foreign investors.

2.5.2 Governance quality

Furthermore, also governance quality is expected to affect merger-announcement market reactions. Governance quality is defined by Kaufmann, Kraay and Mastruzzi (2010) as the government's capacity to effectively formulate and implement sound policies and the respect of citizens and the state for the institutions that govern economic and social interactions among them. The following set of reasons for the relation between governance quality and announcement market reactions are found in earlier research.

First, well-established rules and regulations reduce ambiguity. Ambiguity is an not uncommon phenomenon surrounding M&As (regulatory quality). Due to this reduction in ambiguity, acquiring firms are able to reduce information search costs and shorten the learning curve associated with foreign operations.

Consequently, firms could spend time and resources to integrate operations and improve performance. Secondly, according to Barry (2006), there is a higher chance of obtaining resources and learning advanced knowledge in host countries with a higher level of law protection. According to Scott (1995) Institutions are formed to be a formal and informal "rules of the game" within the society, if

this is formed correctly a stable environment could be created and so promote the establishment of local and economical partners and ties. This also provides foreign investors with a sense of security in host countries (Rule of Law).

Moreover, countries which over time have proven to be independent from political pressures show strength and could therefore be considered as stable in formulating, maintaining and committing to their policies. The ability of host governments to design and implement effective and sound economic policies is an essential condition for foreign investors to undergo M&A activities in this host country. These safe and sound policies make it easier for domestic firms to grow in efficiency, making M&As more attractive. (government effectiveness).

Moreover, In a study from Ciobanu (2015) 30 countries from different legal systems: common law and civil law were analyzed to explore the relation between the characteristics of a state's M&A market and the legal origin of a state. He found that the average value of an M&A transaction is influenced not only by the legal system in general, but also by the regulations governing the companies. Investors are likely to invest more in a well regulated market, even if every law system has its own particularities, implicating well-regulated markets are more attractive for investors.

Furthermore, another important aspect of governance quality is corruption control, which measures to what perceived extent public power is exercised for private gain, including all sizes of corruption as well as "capture" of the state by elite and private interests. The level of corruption and bribery might also influence the perception of an investor on an M&A deal. If the target company is being a fair company, the firm might be unable to compete with corrupt companies situated in the area. If the target firm turns out to be corrupt as well, this might damage the long-term performance, image and acquiring firm's cashflow. For these reasons, one might argue that countries that are known for their level of corruption are preferably avoided by acquirers.

2.6 Payment methods

To start, it is necessary to identify the available payment methods for an M&A. In earlier literature, two main payment methods for M&A transactions were identified. One being a payment with cash one being a stock-based payment. In general, the first method is the most straightforward method. It could also be the case that a mixture of these methods is used, this implies that a transaction is made with partly cash and stocks. Even debt might be involved in a transaction. In case of paying with stocks an uncertainty comes into play, nobody can assure themselves of knowing the equity's exact value, and therefore the price that the acquirer is willing to pay is uncertain.

It is worth to mention that the method of payment should not be confused with the method of financing. These are not necessarily the same. For example, A cash paid M&A could be paid by cash that is financed in different ways. For example, a cash payment could come from internal funds, however it could also be available due to issued equity, bonds or convertibles it even may even be borrowed. Some papers treat finance and payment methods as synonyms. However, this paper refers to the means of payment.

Following the payment methods throughout the history literature suggests that the first merger wave from 1987 – 1997 was characterized by a high percentage of pure cash deals. Most likely this high percentage of pure cash deals came from the fact that the stock market had just started developing.

During the second merger wave 1916- 1929 a new development could be spotted, namely closing deals by means of equity. The trend continued and payment by equity gradually became the most common payment method during the third merger wave in 1965 – 1969. The fourth M&A wave in 1981 – 1989 broke this trend since a mixture of equity, cash and debt became the predominant means of paying an M&A (appendix 1). Confirming evidence was found by Martynova and Renneboog (2006) showing a decrease in the proportion of all cash acquisitions of 50% in the 1990s, compared to the deals in the 1980s (part of this trend can be seen in appendix 1). Moreover, the fourth wave was characterized by a huge increase in hostile takeovers while in earlier waves friendly takeovers were the norm. This trend continued in the fifth merger wave in 1993 -2000 (appendix 1).

When it comes to payment methods multiple studies have shown cash paid M&As have the best beneficial effects (Haleblian et al., 2009; Ghosh 2001). In different studies multiple arguments have been given for this beneficence. The most common arguments refer to the potential efficiency and profitability that could be achieved with that particular M&A's cash flow. In 2001, Ghosh claimed that cash financed transactions generate higher profitability than equity or a mixture of securities deal does. Furthermore, according Berkovitch & Narayanan's research in 1990, cash deals with multiple bidders tend to be accomplished faster, thus without costly delay. Moreover, in 1988, Jensen argued that cash deals could be considered as incentive for managers, since it can be used freely to combine a firms resources more efficiently than stock-based transactions.

However, one very different argument implies that the preference for either cash, stock, or combined transactions is completely depending on a managers' perceptions on the current stock valuation. In 2004, King et al argued that managers rather choose for stock-financed transactions if their stocks are perceived overvalued, but prefer cash financed transactions if the management perceive their firm's stocks as undervalued at that very moment in time. In 1984, Myers and Majluf developed a model with the purpose of capturing the effects of information asymmetry and the issuance of new equity. This model stated very clearly that the management prefer internal financing over issuing securities and, when issuing a manager seems to prefer bonds over stocks. This has been interpreted as managerial capitalism. This is an attempt by managers to avoid the discipline of capital markets and to cut the ties that bind managers' to stockholders' interests. Turning this into the markets perspective, this argument suggests that the market could see a stock-financed deal as an indicator of negative market performance. Because when managers, assumingly having more information than investors, and accomplish an M&A by issuing new equity, investors tend to believe that managers think that the firms' current stock-price is overvalued, and managers are taking advantage of this over-valuation. At that moment in time the investors perceive the stock as overvalued and therefor they will probably increase selling volume through selling the over-valued stock or a lower price new equity issuance. Having this knowledge, it indicates that firms should be very strategic in choosing M&A advising expertise banks, since a stock-based M&A might give the wrong signals even if it is the right thing to do based on other factors and analyses from advising bankers.

Applying the Pecking order theory from Myers and Majluf (1984) which suggests that the cost of financing increases with asymmetric information and therefor a firm prioritizes internal financing over raising debt, and debt over raising equity. I might say that a firm's prior year retained earnings availability might have an influence on how an M&A is paid. The higher the amount of retained earnings the more likely an M&A is paid with cash. Assuming that a lot of firms had a low to negative amount of retained earnings within the financial crisis, the financial crisis will not be a good sample

period of M&As to explore these links. Moreover, during crisis there is a higher chance of mismatching company value between the bidder and the target which most likely will lead to an M&A financed with stocks.

Additional theories such as Modigliani and Miller theory, also referred to as the static trade-off theory, predicts that managers balance the tax savings from debt financing against the costs of financial distress. Moreover, in a completely efficient market with symmetric information, investors or shareholders would be indifferent between either cash or equity payments (Modigliani and Miller, 1958). In an efficient market it is assumed that all information is reflected into share prices and therefore there exists no preferences between equity and cash. Inefficiency exists through information asymmetry and other conflicts, for that reason investors and shareholders payment preference will not be indifferent. But still, a large part of their theoretical framework is applicable to the real-world scenarios.

In a research by Franks, Harris and Meyer (1988) numerous implications of either paying in cash or equity are discussed. One of them being the tax theory, discussing that different payment methods have different impacts on the target company shareholders' tax liabilities. In case an M&A deal is paid with equity there is no immediate tax obligation for the targets former shareholders. This tax payment comes into play at the moment of selling their received acquirer company shares. This way a direct capital gain tax obligation is postponed.

Moreover, stock deals offer the acquired company's shareholders the chance to profit from the expected synergy advantages. However, this also means that the stockholders of the targets share the risk of not achieving those synergies which was accounted for. In a cash deal the acquirer's shareholders would shoulder the entire loss of the premium paid. But in a stock deal the loss is limited to the percentage of shares they possess, the remaining percentage of the premium is carried by the seller's shareholders. So the larger the M&A deal the higher shared percentage of risk is.

Also when an acquirer includes debt in its deal's structure this might be beneficial for the acquirer as well. The seller does not pay income taxes until he/she receives the debt payments. Deals including debt in its structure are in most cases only used if the seller is beyond doubt about a buyer's financial position. The risk of acquirer entering bankruptcy and being left with nothing can be mitigated by agreeing a senior debt. Moreover the seller could file for a lien on the buyers assets. With a lien one can gain legal rights to the acquirer's property and the authority to sell the property and use the proceeds to repay what is owed to the seller.

However, If the means of payment is cash, the target company shareholders are forced to pay capital gain tax immediately. This effect is certainly an advantage for equity and debt (involved) deals compared to cash deals since an investor can decide himself when to sell the shares and therefore can determine himself to which tax period the capital gain tax obligation is applicable. On the other side cash deals face some tax benefits, albeit in the acquirer's firm perspective. When using the cash payment methods to close a deal, under US tax code, the acquiring firm is allowed to raise the depreciation basis of the assets they acquired, against the market value instead of the book value (Travlos, 1987). So, if the target's assets market value appears to be higher than the book value, this leads to higher depreciation allowances. These higher depreciation allowances are tax deductible which is an advantage for the acquirer. This advantage is only applicable under US tax codes and therefore not necessarily to European targets. There is one additional potential advantage for the acquiring

firms' shareholders. The earlier disincentive to use cash (due to immediate tax obligations) is partly depending on their tax positions. So is this advantage for the acquirer's party's shareholders. In case an acquiring company has excess cash, it has the opportunity to distribute dividends which are taxed on personal tax rates. However, as alternative the acquiring company can decide to use this excess cash to buy the target's company assets. The cost of purchasing assets in the corporate sector is lower than buying the assets from the incorporated sector (Franks, Harris and Mayer, 1988). Indirectly, this helps developing the firm leading to capital gains. If capital gain tax rates from the shareholders are lower, than the personal tax rates this might be a beneficial long-term alternative.

Secondly, another implication discussed by Franks, Harris and Mayer (1988) comes from the signaling theory. As earlier expressed, in a world with asymmetric information, paying by either cash, equity or debt, might signal important information to the market. In case of asymmetric information, it could be the case that the acquiring firm possesses more information about the acquiring company's intrinsic value than the target company. This information has not yet been reflected in the current share price. Therefore, they most likely prefer the stock payment method. The management might possess information on potential future actions or situations having a negative influence on the share price. So, the acquiring firm's management prefers to use equity as means of payment, if they perceive their own firm's equity as overvalued at that moment in time. It also works the other way around; an acquiring firm's management prefers cash if they perceive their own equity as undervalued at that moment in time. As also earlier expressed, this explains why investors perceive equity bids as bad news and a cash / debt bid as good news. It can be concluded that, concerning the signaling effect, both parties, acquirer and target, prefer to use the cash and debt (involved) payment method to strike an M&A deal.

The third implication is called the leverage issue. This leverage issue is completely based on the fact that the acquiring company's default risk decreases since it has two almost uncorrelated cash flow streams after the takeover. Due to this decrease in default risk the debt capacity could be increased. Moreover, the price (interest) decreases due to a lower default risk. So, a takeover has positive effects on the debt positions. It either makes it cheaper or the debt capacity could be increased. By increasing the amount of debt, the interest and repayment of obligations are also increased. The management needs to be pre-committed to assure a stable and right amount of cash flow. Simply said, the higher the amount of outstanding debt, the lower the agency cost of free cash flow. This helps increasing shareholder value, simply because the management has less free cash flow to spend but still is stimulated to generate a cash flow because of his debt obligations outstanding. When an M&A is paid with cash, there might be a huge chance that this is financed with getting a loan or issuing a bond given the pecking order theory. Moreover, one could increase the amount of debt by involving debt in the deal structure. So, to complete this deal the debt level is increased which decreases the free available cash flow. The company's larger part of the cash flow needs to be reserved for capital costs of the larger outstanding debt, this reduces agency costs. On the other hand, when paid with equity, the debt outstanding does not increase, so does not the firm's capital structure. Therefore the free cash flow available for a manager is not decreased. This increases the chance of higher agency costs. The market and the shareholders of both the bidding and the target company perceive a cash offer as good news due to reduced agency problem effects. Conversely equity offers are perceived as bad news. Also the third implication contributes to higher expected announcement returns for cash and debt (involving) bids compared to equity bids.

Since this research focuses on listed firms, which tend to have widely distributed shareholders, debt payments are hardly applicable. However, even for listed firms it is possible include some debt in its deal structure. For firms looking to acquire or sell, the deal value often forms the crux for negotiations. The deal value can be found in the Letter of Intent (LOI). However, this deal value hugely depends on the deal structure. Typically this value includes the enterprise value, this 'EV' represents the overall value of a company, including equity and debt. However, much of the details arranged in the LOI will reduce the headline price from enterprise value to equity value. Therefore, an enterprise value offer is rarely the ultimate amount the target's shareholders will receive from the sale. Unless the acquirer and seller agreed it is an debt-free, cash-free (DFCF) basis and subject to "a normal level of working capital". Meaning that acquirer does not inherit any unnormal amounts of cash or debts on the balance sheet at deal close without these being factored into the final price. equity value is the most interesting number for the sellers since it represents the actual amount they will receive after any adjustments to the enterprise value have been made. Such typical adjustments include reduction for debt and other identified liabilities, Increase for cash (remaining on the balance sheet after deducting debt belongings) to the targets, reduction of transaction costs (may include bonuses to employees, certain taxes payable and fees of the lawyers, accountants and investment bankers), redemption of any preferred stock, increase or decrease in working capital at closing.

In deal negotiations, conflict arises between the seller and the buyer about the classification of balance sheet items. A buyer shall classify as much as possible as debt-like instruments so that he can deduct more from the enterprise value, and thus pays a less amount of money for the target. On the contrary, the seller aims to classify as much as cash-like / working capital since this raises the equity value. One great example being deferred Income – while it is in the acquirer's interest to define deferred income as debt-like (enabling a deduction from the enterprise value) it is in the target's interest to define deferred income as working capital and receive payment for this.

Arriving at the EV may be a complicated and lengthy process. However, there is a lot to gain for both parties. By large amounts of cash/small amounts of debt in the target firm, a deal can become significantly more profitable for shareholders of the target, since Net cash in the target is released to shareholders (in addition to the enterprise value received). On the contrary, if there are relatively large amounts of debt in the target, the value exchanged in a deal can be largely reduced when this debt is categorized as debt-like instruments by the shareholders of the Target (by way of this debt reducing headline enterprise value). Moreover, sellers and buyers opting to leave cash on the balance sheet are likely to gain from it – where acquirer has the ability to gain tax efficiency, the target may command a premium over the amount left on the balance sheet on a \$ for \$ basis.

A real life example being Atos, an international leader in digital services, which acquired Xerox ITO in 2014. Xerox ITO's enterprise value totaled US\$ 1100 million while the equity value totaled US\$ 966 million (€ 811 million). The equity value was composed of US\$ 950 million and an additional amount of US\$ 50 million following the occurrence of certain events prior to closing, plus US\$100 million representing the estimated present value of future tax benefits to Atos. Net debt items and closing adjustments equaled US\$ 134 million. This acquisition being a typical example of a non DFCF (Non debt-free and cash-free agreement).

2.7 Hypothesis

2.7.1 Market reaction

M&A activities occur as a result of external economic, technological, financial, regulatory, and political events. When takeovers are a response to such events and managers motivational theories are aligned with the shareholders' interests, M&A activity is expected to lead to profit optimization and shareholder value creation (Martynova & Renneboog, 2008). Even though the absence of recent research on investor reactions on M&As in Europe, earlier research on European M&A short-term market reactions in the period 1993-2001 reported valued creating results (Goergen and Renneboog, 2004; Campa and Hernando, 2004; Martynova and Renneboog, 2006; Faccio, McConnell & Stolin, 2006). This indicates that in studies covering the period 1993 - 2001 shareholders wishes were pursued. Based on the motivational drivers discussed in the literature I expect the same positive market reaction for recent periods.

First of all, literature claimed that when a manager's incentivization is based on asset size, a manager rather maximizes asset value than maximizes shareholder value since some managers rather focus on their self-interests (agency problem)(Reich, 1983; Jensen, 1989). However, multiple studies have reported evidence that managers do not undertake acquisitions to maximize asset value in order to increase their personal compensation (Lambert and Larcker, 1987; Avery, Chevalier and Schaefer, 1998). The latter authors suggested that CEO's rather undertake acquisitions to increase their prestige and position in the business community than to obtain personal compensation growth. Assuming managers undertake an acquisition for their prestige, they would aim for an acquisition resulting in a positive market reaction. This means even though the managers and shareholders' interests are not aligned, the same investors reaction is desirable for both parties. For this reason, I expect that an "agency problem" may sooner result in an positive rather than a negative market reaction. Secondly, literature claims that managers intend to take advantage of overvaluation of markets especially during temporary financial booms (Myers & Majluf, 1984). In financial bull-market periods it is hard to assess the real value of a company, which enables better-informed acquirers to exploit their information at the expense of less informed targets (Martynova & Renneboog, 2008). The longest worldwide bull-run, including indices such as AEX, BEL20 and GDAX, started in 2009 and is still in the up-trend at this very moment of writing (www.beleggen.nl). Having said that it is fair to expect that well-informed acquirers have taken their opportunities and gained positive market returns in the last decade. Third, a study from Borghgraef in 2014, reported that synergy was the motivational driver number one for M&As within in Europe during 1997-2010. With Synergy being the majority of motivational drivers for an M&A, it is safe to assume that the majority of markets will react positively to M&As' announcements.

Hypothesis 1: The announcement of cross-border M&As by acquiring Western European firms results in a positive short-term stock market reaction.

2.7.2 Country governance

2.7.2.1 Political stability

As expressed in the literature review, deal premiums, higher transaction costs, policy uncertainty and a hindered possibility of establishing cooperative ties and local partners are unwishful effects (for foreign investors) of a political instable market. Therefore, it is assumed that a target's country political instability has a negative affection on the acquirer's market share price. I expect that acquiring firms targeting firms with a higher political stability (relative to the acquirer's home country) will have higher positive market reactions. This is translated in the following hypothesis:

Hypothesis 2a: The short-term market reactions on Western European firms that have acquired firms from countries with a higher level of political stability are higher than those that have acquired firms from countries with a lower level of political stability.

2.7.2.2 Governance quality

Literature review have shown that high level of governance quality is related to, less regulatory ambiguity which enables firms to reduce information search costs and shorten the learning curve associated with foreign operations. Moreover, according to Barry (2006), countries with a good law protection have a higher chance of obtaining resources and learning advanced knowledge. Additionally, countries which over time have proven to be independent from political pressures show strength and could therefore be considered as stable in formulating, maintaining and committing to their policies, this circumstance is highly preferable for investors. Lastly, one might argue that countries that are known for their level of corruption are preferably avoided by acquirers since it is extremely hard to compete with corrupt competitors in your domestic market. Moreover, investors are likely to associate an M&A in a corrupt host country to the chance of a firm itself being corrupt. Investors do not want to bear the risk of a corruption scandal coming out. Having said that, I expect that performance of acquirers of which targets are situated in a country with a higher governance quality score (relative to the acquirer's home country) will have higher short-term market reactions. In other words, the higher the host country' governance quality level is with respect to the home country, the higher I expect the acquirer's shareholders abnormal returns.

Hypothesis 2b: The short-term market reactions on Western European firms that have acquired firms from countries with a higher level of governance quality are higher than those that have acquired firms from countries with a lower level of governance quality.

2.7.3 Payment methods

Based on literature it is shown that how a merger or acquisition is paid is important for its M&A announcement performance effect. Meanwhile the tax effect, in 2.6 described as first implication, leads target's preference towards equity deals, the signaling theory (second implication) shifts the preference for both parties to cash deals. After all, in cash deals there is no ambiguity about the total value the acquirer is willing to trade for the target company. Moreover, due to reduced expected agency costs caused by potentially higher leverage levels and thus less free available cash flows for

managers in cash deals, also on the third implication cash deals are preferable for acquirers. For these reasons I expect relatively better market reactions from cash paid M&As than from stock-based transactions. Unfortunately, since this research only considers listed firms, no deals are (partly) paid with debt.

Hypothesis 3: The short-term market reactions for Western European acquirers from cash paid M&As will be higher than the short-term market reactions from stock paid M&As.

3. Research methods

3.1 The event study methodology

In this study M&A announcement effects is measured by the so-called event study method which is employed to calculate and analyze cumulative abnormal returns (CARs). This method assumes market efficiency, meaning it relies on immediate reflection on new information by stock market participants. Over the years the event study methodology have shown to be a common solution in identifying wealth creation or destruction as a consequence of a specific firm event. In 1988, the event method is implicitly accepted by the U.S. Supreme Court for determining materiality in insider trading cases and for determining appropriate disgorgement amounts in cases of fraud (MacKinley, 1997). Moreover, cumulative abnormal returns (CARs) are a frequently used phenomenon in researching market behavior to assess positive or negative short-term influence on events (Aybar & Ficici, 2009; Dodd, 1980; Bradley, Desai, & Kim, 1983; Floreani & Rigamonti, 2001; Smith & Kim, 1994; Zaremba & Plotnicki, 2016; Ma, Pagan, & Chu, 2009; Tao, Liu, Xia, & Gao, 2017). This method relies on investors using information about M&As to adjust expectations in performance, these reflections may either result in a buy, sell or hold of shares, which will eventually influence the price, since these prices are supply / demand driven.

Also in this research the event study method was used to determine the impact of a M&A announcement on the stock-price of a firm. To generate the CARs the following process guideline was used:

- 1 Identify the event (event window)
- 2 Calculate normal returns
- 3 Calculate cumulative abnormal returns
- 4 Statistical analysis of the CARs

Identify the event (event window)

The event dates, being the M&As' announcement dates, were retrieved from Zephyr (Bureau van Dijk) after which its correctness was verified manually. It is important to note that in many cases the news of an M&A spreads gradually to the public. Therefore I chose to analyze multiple periods around the announcement date. Keeping in mind that a too short event-window may disable the ability to measure the effects due to delay in market reaction caused by closed markets (often the case in after market closing announcements) or inattentiveness, and a too long event window could dilute the possibility in proving that the effects are related to the M&A announcement. And also keeping in mind the possibility of any information leaking, resulting in stock market reaction which are earlier than the official announcement date, I took multiple event windows to deal with this. The following event windows were used:

- T-1 / T0 (1-day event)
- T0 / T+1 (1-day event)
- T-1 / T+1 (3-day event)
- T-2 / T+2 (5-day event)
- T-5 / T+5 (11-day event)

With the event date (announcement date) is referred to as $t = 0$. One day later is referred to as $t + 1$, two days later as $t + 2$ etc. On the other hand, one day before the event date is referred to as $t-1$ and two days before the event date as $t-2$.

Calculate normal returns and cumulative abnormal returns

With the event study the summation of differences between the observed returns and the normal returns (also known as the expected return) within an event window are calculated and tested on its significance. One has various options to specify normal returns. In previous studies most utilized the market model from Brown & Warner (1980, 1985) to calculate an expected return via the indexes on which a firm is listed corrected for the beta and alpha (Tao, Liu, Xia, & Gao, 2017; Zaremba & Plotnicki, 2016; Zhou, Guo, Hua, & Doukas, 2015; Ma, Pagan, & Chu, 2009). While the market model from Brown and Warner is a widely accepted method in the event studies, I preferred the use of two methods enabling the opportunity for robustness checks. I used the market model which reduces the variance of the abnormal return by removing the portion of the return that is related to variation in the market's return. Additionally I used the mean adjusted model which assumes that the mean return of a given security is constant through time. Brown & Warner (1980) findings showed that the short-term performance results based on the mean adjusted model does often yields similar results than results from more sophisticated models. The model choice indifference should be appointed to the fact that the variance of the abnormal return is frequently not reduced much by choosing a more sophisticated model. On the other side one can argue that CARs computed by means of the market return method, i.e. the method which specifies normal returns correcting a firms' return for the stock markets' alpha and beta, could be a more appropriate measure for specifying normal returns. This certainly being a benefit since this can increase the ability to detect event effects. To see whether there is a difference I performed cross-sectional regressions and t-tests with CARs generated by using the market return method and the mean adjusted model to specify the normal return. The required data with regards to the market index return was retrieved from Yahoo finance via a visual basic built in Excel Office.

3.1.1 The Market model

The market model assumes a linear relationship between the return of firm's stock and the return of the market portfolio (MacKinlay, 1997):

$$R_{it} = \alpha_i + \beta_i R_{mt} + e_{it} \quad (1)$$

Where in the formula R_{it} is the return of the stock from firm i on day t , R_{mt} is the return of the reference market on day t , e_{it} is the error term (a random variable) with expectation zero and finite variance. It is assumed that e_{it} is uncorrelated to the market return R_{mt} . The regression coefficient β_i is a measure of the sensitivity of R_{it} on the reference market in this case being STOXX Europe 600. The necessary daily stock data to calculate normal and abnormal returns are retrieved from Yahoo finance. Also the data from the related index STOXX Europe 600 is retrieved from Yahoo finance. Equation (1) is estimated over a period that runs between 125 days prior to the event up to 6 days prior to the event. In combination with α_i and β_i from equation (1), a "normal" return is predicted for the length of the earlier mentioned event windows.

The prediction error, which is the difference between the actual return and the predicted normal return, also known as abnormal return (AR), is calculated as following:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \quad (2)$$

The abnormal returns are then summed over the event window periods to derive the cumulative abnormal returns (CARs). This can be seen in equation 3, where CAR_i is the cumulative abnormal return for firm *i* over the event window (T₂, T₁).

$$CAR_{i(T_1-T_2)} = \sum_{t=T_1}^{T_2} AR_{it} \quad (3)$$

3.1.2 The Mean adjusted model

The following formulas are used to calculate the normal returns via the mean adjusted model from (Brown & Warner, 1980):

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{P_{i,t-1}} \quad (1)$$

Where in the formula R_{it} is the return of the stock from firm *i* on day *t*, P_{it} is the adjusted close price on day *t*, P_{it-1} is the adjusted close price on day *t*-1.

$$NR_i = \frac{1}{T} \sum_{s=T_1}^{T_2} R_{is} \quad (2)$$

The mean adjusted model assumes that the predicted return for a given security of a firm *i* is constant. This constant is calculated by the NR_i (equation 2) which equals the normal return for firm *i*. An estimation period of 125 days (t_1) prior to the event up to 6 days (t_2) prior to the event was used to calculate the normal returns. Firms which have undergone an M&A or another specific event within this estimation window are excluded from the samples. With these actual returns and normal returns the abnormal returns are calculated.

The abnormal return AR_{it} (equation 3) then equals the difference between the actual return R_{it} , and the normal return NR_i .

$$AR_{it} = R_{it} - NR_i \quad (3)$$

The abnormal returns are then summed over the event window periods to derive the cumulative abnormal returns (CARs). This can be seen in equation 4, where CAR_i is the cumulative abnormal return for firm *i* over the event window (T₂, T₁).

$$CAR_{i(T_1-T_2)} = \sum_{t=T_1}^{T_2} AR_{it} \quad (4)$$

3.1.3 Statistical analysis of the CARs (t-test)

When CARs differ from zero, similarly to previous studies from Tao, Liu, & Xia, 2017; Ma, Pagan, & Chu, 2009; Dutta & Jog, 2009, parametric tests were performed to see whether this deviation is statistically significant. In this research one sample t-tests were conducted to assess whether the CARs are significantly different from zero.

$$t_{CAR} = \frac{CAR}{\frac{s_{CAR}}{\sqrt{n}}}$$

In the formula, *s*_{CAR} is denoted as the standard deviation of the cumulative abnormal returns, *n* denotes the sample size and CAR is the cumulative abnormal return. CARs which are significantly (positive) different from zero proves M&A announcements had a positive influence on the acquiring firms stock-prices. This would prove H1's correctness.

Since, H2a, H2b and H3 includes the comparison of two different groups' mean CARs, two different groups' means will be calculated and tested on a significantly difference. I conducted independent sample t-tests to test the corresponding CARs on its significance. Testing hypothesis 2a for example equals testing whether there is a significant difference between a group in which the acquirer's home country political stability index score is higher than the host country's political stability index score and a group in which the host country's political stability index score is higher than the home country's political stability index score.

3.1.4 Additional statistical analysis of the CARs (OLS regression)

Due to high stock-price volatility or other events, for example financial crisis of 2007–2008, too many companies tend to show significantly abnormal returns using t-tests (Chen, 2014). This makes it difficult to determine which returns are truly significant "abnormal" and which are not (MacKinlay, 1997). Found evidence in the form of a significant difference of two groups means does not necessarily mean there is a significant relationship. Therefore, in this research additional cross-sectional regressions are conducted to test H2a, H2b and H3. The relationship between the dependent variables, being the governance indicators representing country governance and the payment method, are explored for any expected relationships between the dependent and independent variable(s). Therefore these hypotheses are tested with an ordinary least square (OLS) regression analysis.

Since the value of the CAR is affected by the 7 observed factors, I can formulate the model function as following:

$$CAR_i = \alpha + \beta_1VA_i + \beta_2PV_i + \beta_3GE_i + \beta_4RQ_i + \beta_5RL_i + \beta_6CC_i + \beta_7PM_i + \epsilon$$

Where CAR_i represents the cumulated abnormal return of stock I over the event period, α represents the constant term, β represents the coefficients of corresponding variables and ϵ equals the noise term reflecting other factors that influence CARs;

VA represents the Voice and Accountability independent variable;

PV represents the Political Stability and Absence of Violence/Terrorism independent variable;

GE represents the Government Effectiveness independent variable;

RQ represents the Regulatory Quality independent variable;

RL represents the Rule of Law independent variable;

CC represents the Control of Corruption independent variable;

PM represents the Payment Method and is a dummy variable equaling 0 if the applied method equals a cash payment and equaling 1 if the applied method was a stock payment.

All of the variables are further described in table 3.

However, due to the interrelationships between the six governance indicators in the model multicollinearity occurred. For identifying multicollinearity I used the VIF and the tolerance values with thresholds of 10 and 0.1 respectively (Belsley, 1991). As can be seen in appendix 3 PV, GE, RQ and CC with VIF values of 15.635, 53.766, 24.455 and 26.126 respectively, do collectively have a substantial amount of shared variance. Based on the extreme high VIF values indicating a severe form of multicollinearity it is assumable that multicollinearity highly increased the standard error. As the standard error is increased, it makes the confidence intervals around the estimated coefficients larger, thus making it harder to demonstrate that the coefficient is significantly different from zero (Hair, Black, Babin, & Anderson, 1995). Unfortunately multicollinearity greatly reduces the reliability of this OLS regression and therewith its usefulness to detect jointly significance of these independent variables. Even though this model would still be valuable in light of exploring relationships between the separate six governance indicators and the short-term M&A announcement market reactions.

That said, it is considered an absolute necessity to deal with this severe form of multicollinearity. To get rid of the multicollinearity problem and enable the opportunity to test hypothesis 2a, 2b and 3 I have conducted a principal component analysis (PCA) also known as a factor analysis (Jolliffe, 2002). The results of the factor analysis are presented in appendix 4. Due to the expected correlated variables a non-orthogonal rotation method (oblique) is justified. Appendix 4 contains the information regarding the 6 possible factors and their relative explanatory power expressed in eigen values. I used the eigenvalues to select the number of factors. Applying the latent root criterion of retaining factors with eigenvalues greater than 1, only 1 factor should be retained. However, when analyzing changes in eigenvalues the scree plot in appendix 4 indicates that 2 components may be the appropriate amount to retain. In reviewing this second factor I also looked to its corresponding eigen value. In relation to the latent root criterion its eigen value of 0.280 is insufficiently low which therefore leads to exclusion. This 1 factor explains 92.1% of the variance and in the component matrix is shown that component 1 has extraction values from 0.874 or higher. All together this leads to the conclusion that 1 factor should

be used in further investigation. However, retaining 1 factor hinders the possibility of testing hypotheses 2a and 2b.

Table 3 Variable descriptives

Cumulative abnormal returns (CAR) - dependant variable calculated by the summation of differences between the observed returns and the normal returns within an certain event window (11-day, 5-day, 3-day, 1-day and -1-day. To calculate normal returns the Market model and Mean adjusted model have been used;

Voice and Accountability (VA)* - independant variable capturing the perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. This one of the six country governance indicator has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country VA score and the home country VA score;

Political Stability and Absence of Violence/Terrorism (PV)*- independant variable capturing the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. This one of the six country governance indicators has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country PV score and the home country PV score;

Government Effectiveness (GE)* - independant variable capturing the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. This one of the six country governance indicators has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country GE score and the home country GE score;

Regulatory Quality (RQ)* - independant variable capturing the perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. This one of the six country governance indicators has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country RQ score and the home country RQ score;

Rule of Law (RL)* - independant variable capturing the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. This one of the six country governance indicators has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country RL score and the home country RL score;

Control of Corruption (CC)* - independant variable capturing the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interest. This one of the six country governance indicators has scores ranging from -2.5 to 2.5 for which applies, the larger the number the higher the quality of that particular country governance indicator. This value equals the difference between the host country CC score and the home country CC score;

Payment method - independant dummy variable which equals 0 if more than 50% of it's deal structure is paid in cash and it equals equals 1 if more than 50% of it's deal structure is paid in stocks;

Governance Quality (composite) - composed dependant variable which represents the mean of the GE,RQ,RL and CC scores;

Political Stability (composite) - composed dependant variable which represents the mean of the VA and PV scores;

* The data for country governance quality levels is drawn from the Worldwide Governance Indicators (WGI) project (Kaufmann, Kraay and Mastruzzi 2010). "These aggregate indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. They are compiled from 35 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms". They estimate six dimensions of country governance covering 212 countries and territories in 1996, 1998, 2000, and annually for the period 2002–2017.

To deal with this severe form of multicollinearity and maintain the opportunity to test the drawn hypothesis I have decided to create two composite variables named political stability and governance quality. The first composite variable named political stability and consists of the mean governance index scores of voice and accountability and political stability. The second composite variable named governance quality consists of the mean of the governance index scores of government effectiveness, rule of law, regulatory quality and control of corruption. The corresponding model function is defined as following:

$$CAR_i = \alpha + \beta_8 PS_i + \beta_9 GQ_i + \beta_7 PM_i + \epsilon$$

However, running an OLS regression including both composites does still deliver a severe form of multicollinearity. This is shown by the VIF-values in appendix 5 all lying above the threshold of with values equaling 13.231, 13.144, 13.474 and 13.383 respectively. Therefore the best option is to run two distinct regressions, enabling the opportunity to test hypothesis 2a, 2b and 3.

$$CAR_i = \alpha + \beta_8 PS_i + \beta_7 PM_i + \epsilon$$

$$CAR_i = \alpha + \beta_9 GQ_i + \beta_7 PM_i + \epsilon$$

The distinctly conducted regressions can be found in the appendix 6 and 7 and table 8. Table 8 summarizes the findings of appendix 6 and 7 which presents multivariate regression results for cumulative abnormal returns. Panel A shows OLS regression results using the mean adjusted model to specify the normal return while Panel B shows OLS regression results using the market model. The number of M&As observations used in these regressions varies from 179 (Panel A) to 178 (Panel B). Appendix 6 represents a composite of political stability being the average of the governance indicators VA and PV and appendix 7 represents a composite of governance quality being the average of GE, RQ, RL and CC.

3.2 Sample

The data with regards to the announcement dates is retrieved from Zephyr (Bureau van Dijk). In this database I applied the following filters to get to a preliminary sample:

- (1) The acquiring firm should be listed.
- (2) The acquiring firm is part of the STOXX Europe 600 index.
- (3) The cross-border M&A announcement date lies between 1 January 2010 and 31 December 2017.
- (4) The M&A transaction is (partially) paid by cash or by stock.
- (5) The acquiring firm did not undergo another M&A 125 days till 6 days prior to the announcement day.
- (6) The stake of equity acquired in the deal is 50% or higher.

These filters resulted in a preliminary sample of 193 M&As of which 14 M&As have been excluded from the sample mostly due to absence of necessary data. Eventually, this led to a final sample of 179 M&As with acquirers located in France, Germany, The Netherlands, Great-Britain, Belgium, Luxembourg, and Switzerland targeting firms located in host countries distributed all over the world. As could be seen in table 4, the first 4 named home countries accumulate around 95% of the sample with France being the country with the largest share being 42.2%. Almost 73% from the acquiring firms are from the manufacturing or service industry meanwhile only 12% of the acquirers are active in the

finance industry. The remaining industries mining, transportation & communications and wholesale and retail shared 5.6%, 5.0% and 3.4%, respectively. From the target firms 68.7% is active in the manufacturing or the service industry. Additionally 15.1% is operating in the finance industry meanwhile the remaining 16.2% is distributed over the mining, transportation & communication and wholesale and retail industry with 6.7%, 5.0% and 4.5% respectively.

Table 4 Sample distribution by Country and Industry

Acquirer country distribution			Industry distribution	Acquirer		Target	
Country	N	Percent	industry SIC	N	Percent	N	Percent
France	76	42.50%	SIC 10-14 Mining	10	5.60%	12	6.70%
Germany	48	26.80%	SIC 20-39 Manufacturing	75	41.90%	57	31.80%
The Netherlands	26	14.50%	SIC 40-49 Transportation and Communications	9	5.00%	9	5.00%
Great-Britain	20	11.20%	SIC 50-59 Wholesale and Retail	6	3.40%	8	4.50%
Belgium	5	2.80%	SIC 60-67 Finance	22	12.30%	27	15.10%
Luxembourg	3	1.70%	SIC 70-89 Services	57	31.80%	66	36.90%
Switzerland	1	0.60%					
Total	179		Total	179		179	

As can be seen in table 5, this research calculated CARs with two different methods for specifying returns. CARs were calculated via the mean adjusted model and via the market model and both models suffered from outliers. Outliers were defined as being more than three standard deviations away from the mean. To deal with these outliers I used the winsorizing method as described by Dixon (1980) in which all the outliers are replaced with the largest value that is not considered an outlier. Both models (Panel A and B) do report positive means for all event windows indicating positive market reactions at first sight. Moreover all the six governance indicators reports negative values for the mean indicating that on average all the governance indicator scores for the host country are lower than the scores in the home country. Moreover, as could be seen in table 5, the sample amount in the market model is exactly 1 lower due to absence of data on the STOXX Europe 600 index in the yahoo finance database on and around the relevant event dates.

Table 5 Data descriptives (winsorized)

	N	Mean	Std. Deviation	Min	Max	Median	P.25	P.75
Governance indicators								
VA	179	-0.565	1.160	-3.090	1.463	-0.218	-1.308	0.154
PS	179	-0.410	1.330	-3.530	2.378	-0.055	-1.205	0.458
GE	179	-0.514	1.376	-3.468	2.170	-0.105	-1.525	0.206
RQ	179	-0.497	1.262	-3.387	1.779	-0.086	-1.479	0.396
RL	179	-0.765	1.692	-3.518	2.124	-0.095	-2.232	0.206
CC	179	-0.551	1.486	-3.587	2.412	-0.155	-1.842	0.310
Mean adjusted model								
CAR (-5,+5)	179	0.014	0.068	-0.188	0.187	0.013	-0.025	0.054
CAR (-2,+2)	179	0.014	0.052	-0.139	0.157	0.017	-0.014	0.043
CAR (-1,+1)	179	0.012	0.045	-0.101	0.149	0.007	-0.014	0.034
CAR (-1,0)	179	0.007	0.037	-0.101	0.112	0.002	-0.011	0.023
CAR (0,+1)	179	0.012	0.042	-0.123	0.137	0.010	-0.011	0.031
Market model								
CAR (-5,+5)	178	0.016	0.065	-0.156	0.193	0.021	-0.019	0.055
CAR (-2,+2)	178	0.015	0.047	-0.100	0.158	0.014	-0.013	0.041
CAR (-1,+1)	178	0.012	0.043	-0.102	0.138	0.010	-0.012	0.028
CAR (-1,0)	178	0.007	0.036	-0.104	0.118	0.005	-0.011	0.019
CAR (0,+1)	178	0.012	0.041	-0.116	0.139	0.008	-0.009	0.031
Payment method								
dummy	179	0.162	0.369	0.000	1.000	0.000	0.000	0.000

Table 5 represents an overview of the data descriptives. This data is winsorized to deal with outliers (Dixon, 1980). Outliers lying more than 3 SD's away from the mean have been replaced with the largest value not considered as an outlier. Each of the six governance indicator variables represent the differences in country governance index scores between the host and the home country at the time of M&A announcement. The CARs represent the cumulative abnormal returns' means in Western Europe from 2010 till 2018 which are calculated via the Mean adjusted model shown in panel A and via the Market model shown in Panel B. The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1.

4. Results

4.1 M&A announcement effects

Table 6 presents the cumulative abnormal returns (CARs) of 179 cross border M&As from listed acquirers situated in Western Europe from the mean adjusted model and the market model. The CARs calculated via the mean adjusted model are consistently positive with values of 1.35%, 1.37%, 1.16%, 0.66% and 1.18% for the event windows (-5,+5), (-2,+2), (-1,+1), (-1,0) and (0,+1). All the results are significantly different from zero at the conventional level 1% except for the event window (-1,0) on panel A which appears to be significantly different from zero at a 5% conventional level. The CARs calculated by the market model (panel B) are also significantly different from zero at a 1% conventional level with means of 1.6%, 1.54%, 1.20%, 0.74% and 1.20% for the event windows (-5,+5), (-2,+2), (-1,+1), (-1,0) and (0,+1) respectively. That said, it is safe to assume that all CARs are statistically significantly different from zero. Moreover, looking at the percentage of transactions resulting in positive and negative CARs I can conclude that around the time of the M&As' announcement dates most of the percentages of the Western Europe M&As experience positive CARs while a smaller share of the firms report negative CARs. This is regardless the use of the model for specifying the normal returns. These findings from both models show that, on average, as shown by the percentage of positive returns, the announcements of cross-border M&As by listed acquirers in West Europe generate positive market reactions by producing positive abnormal returns. Thus this supports hypothesis 1 claiming the announcement of cross-border M&As by acquiring Western European firms results in a positive short-term stock market reactions.

Table 6 Western European CARs (2010-2018)

Event window	N	Mean	Std. Deviation	Median	t-stats	positive %
Panel A: Mean adjusted model						
CAR (-5,+5)	179	0.014	0.068	0.013	2.661***	60%
CAR (-2,+2)	179	0.014	0.052	0.017	3.511***	63%
CAR (-1,+1)	179	0.012	0.045	0.007	3.428***	61%
CAR (-1,0)	179	0.007	0.037	0.002	2.413**	54%
CAR (0,+1)	179	0.012	0.042	0.010	3.754***	65%
					Mean	61%
Panel B: Market model						
CAR (-5,+5)	178	0.016	0.065	0.021	3.292***	62%
CAR (-2,+2)	178	0.015	0.047	0.014	4.335***	64%
CAR (-1,+1)	178	0.012	0.043	0.010	3.732***	62%
CAR (-1,0)	178	0.007	0.036	0.005	2.742***	58%
CAR (0,+1)	178	0.012	0.041	0.008	3.854***	64%
					Mean	62%

The T-statistics are reported under T-stats with ***,** and * indicate significance at the 1%, 5% and 10% level. The CARs represent the cumulative abnormal returns means in Western Europe from 2010 till 2018 calculated via the Mean adjusted model in panel A and via the Market model in Panel B.

4.2 Short-term market reactions and political stability

To find out whether there are higher short-term market reactions for Western European firms that have acquired firms from countries with a higher level of political stability than those that have acquired firms from countries with a lower level of political stability I compared two groups for two different governance indicators (VA and PV). These two variables amalgamated represent the variable political stability. The first group represents acquirers whose acquirer's home country governance indicator index score at the time of the M&A announcement is higher than the host country's governance indicator index score. The other group consists of acquirers whose governance indicator home country index score is lower than the governance indicator score in the host country at the time of the M&A announcement.

Table 7 presents the independent t-test results for the cumulative abnormal returns for two groups of acquirers with different political stability index scores. Table 7 reports CARs for voice and accountability (VA) and it reports results of political stability (PV). In the table Panel A reports CARs calculated via the Mean adjusted model while Panel B reports CARs calculated via the Market model. Table 7 only reports the findings for two event windows (+1,-1) and (+5,-5) since these event windows are the ones with the highest relevance and in addition cover most of the significant differences. Appendix 2a and 2b do cover all the event windows and can be found in appendices.

Looking specifically at table 7, applying the mean adjusted model for specifying normal returns, acquirers announcing a takeover of firms with lower host country voice and accountability scores (in relation to the home country index score) achieve significant higher CARs on the event windows (-5,+5) and (-1,+1), respectively. This is shown by the 1.4% and 1% significant differences in mean of VA. Also when applying the market model (Panel B) I find in general that acquirers announcing to target firms in countries with lower voice and accountability scores (in relation to the home country index score) experience higher CARs than acquirers targeting firms in higher scoring host countries (in relation to the home index score). To be more specific, panel B reports differences in mean of 1.3% and 0.8%. Even though, these differences appear to be of the same magnitude they are not found to be statistically significant at a 1, 5 or 10% conventional level. The results of panel A implicate that announcements of cross-border M&As targeting a firm with a lower host country voice and accountability index scores generate better market reactions as reflected in CARs. Being more precise if the perceived extent to which a host country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media is lower than it is in the home country of the acquirer, the market reaction on M&A announcements appear to be significantly better.

In table 7 no significant difference is found for acquirers targeting firms with higher host country political stability and absence of violence/terrorism index scores. In other words, there is no difference in short-term market reactions on M&A announcement from acquirers targeting a firm with a higher host country political stability index score (in relation to the home country political stability index score) than acquirers targeting a firm with a lower host country political stability index score. This indicates that announcements of M&As targeting a firm with a lower host country political stability index scores does not generate substantial higher positive gains.

Table 7 Independent T-test results

Governance indicator	Event window	N	Higher		N	Lower		Effect	
			Mean	Std. Deviation		Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model									
Political stability									
VA	CAR (-5,+5)	56	0.004	0.063	123	0.018	0.070	-0.014*	0.099
	CAR (-1,+1)	56	0.005	0.049	123	0.015	0.044	-0.010*	0.092
PV	CAR (-5,+5)	76	0.011	0.067	103	0.016	0.069	-0.005	0.315
	CAR (-1,+1)	76	0.010	0.052	103	0.013	0.040	-0.004	0.299
Governance quality									
GE	CAR (-5,+5)	73	0.010	0.066	106	0.016	0.070	-0.006	0.298
	CAR (-1,+1)	73	0.007	0.048	106	0.015	0.043	-0.007	0.142
RQ	CAR (-5,+5)	72	0.009	0.066	107	0.017	0.069	-0.008	0.221
	CAR (-1,+1)	72	0.002	0.043	107	0.018	0.046	-0.016**	0.010
RL	CAR (-5,+5)	70	0.011	0.061	109	0.015	0.072	-0.004	0.364
	CAR (-1,+1)	70	0.004	0.044	109	0.016	0.046	-0.012**	0.041
CC	CAR (-5,+5)	68	0.010	0.067	111	0.016	0.069	-0.005	0.310
	CAR (-1,+1)	68	0.007	0.049	111	0.015	0.043	-0.008	0.123
Payment method	CAR (-5,+5)	150	0.015	0.068	29	0.006	0.069	0.009	0.259
	CAR (-1,+1)	150	0.011	0.041	29	0.013	0.063	-0.001	0.453
Panel B: Market model									
Political stability									
VA	CAR (-5,+5)	56	0.007	0.058	122	0.020	0.068	-0.013	0.114
	CAR (-1,+1)	56	0.007	0.045	122	0.014	0.042	-0.008	0.141
PV	CAR (-5,+5)	76	0.015	0.064	102	0.017	0.065	-0.001	0.449
	CAR (-1,+1)	76	0.012	0.048	102	0.012	0.039	-0.001	0.455
Governance quality									
GE	CAR (-5,+5)	73	0.014	0.062	105	0.017	0.067	-0.003	0.367
	CAR (-1,+1)	73	0.009	0.045	105	0.014	0.041	-0.005	0.208
RQ	CAR (-5,+5)	72	0.013	0.061	106	0.018	0.067	-0.003	0.367
	CAR (-1,+1)	72	0.004	0.040	106	0.017	0.044	-0.005	0.208
RL	CAR (-5,+5)	70	0.013	0.057	108	0.018	0.070	-0.005	0.322
	CAR (-1,+1)	70	0.006	0.041	108	0.016	0.044	-0.010*	0.068
CC	CAR (-5,+5)	68	0.014	0.063	110	0.017	0.066	-0.003	0.378
	CAR (-1,+1)	68	0.008	0.046	110	0.014	0.041	-0.006	0.191
Payment method	CAR (-5,+5)	149	0.017	0.064	29	0.013	0.071	0.004	0.386
	CAR (-1,+1)	149	0.012	0.038	29	0.014	0.062	-0.002	0.418

Table 7 presents the independent t-test results for the cumulative abnormal returns for two groups of acquirers with different governance indicator index scores. The first group consists of acquirers whose acquirer's home country governance indicator index score at the time of the M&A announcement is higher than the host country's governance indicator index score. This group is referred to as 'higher'. The other group consist of acquirers whose governance indicator home country index score is lower than the governance indicator score in the host country at the time of the M&A announcement and is referred to as 'lower'. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

In general, it can be concluded that these findings do not support hypothesis 2a saying that short-term market reactions on Western European firms that have acquired firms from countries with a higher level of political stability are higher than those that have acquired firms from countries with a lower level of political stability. Conversely, the indicator VA even reports a negative relationship since table 7 shows that short-term market reactions on West European firms that have acquired firms in host countries with a lower level of VA are at multiple event windows (11-day, 3-day) significantly higher than those that have acquired firms in host countries with a higher level of political stability.

The additional OLS regression results in table 8 do support these findings. When looking at table 8 It is important to note that both panels show extreme low values of explanatory power (adjusted R^2) indicating that only a very low percentage of the variance ranging from (-1.1 % till -0.7%) in CARs are explained by the total set of predictor variables. The negative adjusted R^2 means the residual sum of squares approaches to the total sum of squares indicating that explanation towards response is very low or negligible. Also the individual explanatory power of each variable is extremely low. Moreover, the values of the F-statistics indicate that all independent variables are jointly not significant. Altogether, this says this model is not useful to predict a firms' CARs. However, this model is used for exploratory purposes. So, out of this model I can still conclude that, in this setting, there does not exist a significant relationship between political stability and an acquiring firms' CAR. Moreover table 8 reports negative coefficients at the 3-day event window at both panel indicating a negative direction of association. However, both panels also report positive coefficients at the 11-day event windows. Due to this coefficient reporting contradicting directions of association I also looked at the remaining event windows available in appendix 6. The remaining three event windows (5-day, 1-day and -1-day) all report negative coefficients indicating the existence of a negative relationship between political stability and an acquiring firms CARs. Once again, these findings are not consistent with hypothesis 2a.

Table 8 Regression results for CARs with composite variable political stability and governance quality

Event Window	Political stability				Governance quality				
	(-5,+5)		(-1,+1)		(-5,+5)		(-1,+1)		
	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	
Panel A: Mean adjusted model					Panel A: Mean adjusted model				
Constant	0.016	2.601**	0.011	2.644***	0.006	1.933*	0.012	3.142***	
PS(composite)	0.001	0.311	-0.001	-0.476	-0.002	-0.855	-0.001	-0.366	
Payment method	-0.009	-0.678	0.002	0.210	-0.004	-0.506	-0.003	-0.291	
Adj. R ²	-0.008		-0.010		-0.005		-0.010		
F-statistic	0.257		0.126		0.550		0.123		
No. Of obs.	179		179		179		179		
Panel B: Market model					Panel B: Market model				
Constant	0.017	2.978***	0.011	2.950***	0.007	2.169**	0.012	3.207***	
PS (composite)	0.001	0.268	-0.001	-0.211	-0.002	-0.742	-0.001	-0.220	
Payment method	-0.004	-0.319	0.003	0.306	-0.002	-0.299	-0.001	-0.113	
Adj. R ²	-0.011		-0.011		-0.007		-0.011		
F-statistic	0.078		0.062		0.351		0.034		
No. Of obs.	178		178		178		178		

The table presents two regression results in which two different composites were used namely political stability and governance quality. The estimation method is the ordinary least squares. The dependant variable is the cumulative abnormal return for the different event windows calculated by the Mean adjusted model (panel A) and by the Market model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10% level.

4.3 Short-term market reactions and governance quality

To determine whether there are higher short-term market reactions for Western European firms that have acquired firms from countries with a higher level of governance quality than those that have acquired firms from countries with a lower level of governance quality (hypothesis 2b) I compared two groups for four different governance indicators (GE, RQ, RL and CC) and test the different scores from the two groups on it significance. As explained earlier in chapter 2.5, these four governance indicators together are referred to as governance quality. A summary of the independent t-results of the four governance indicators, showing the 3-day and 11-day event window, can be found in table 7. Moreover, these four governance indicators are presented separately showing all the event windows in the appendix 2c - 2f.

Table 7 shows that two indicators in particular, being rule of Law and regulatory quality, report significant differences (at a 5% conventional level) in CARs between the compared groups on the 3-day event window. In addition appendix 2d (RL) and 2e (RQ) report more event windows which show significant differences in means for these two governance indicators in particular. Abovementioned means the market react significantly different on firms that announced to acquire a firm located in a host country with a lower or higher RQ and/or RL index score (in relation to the acquirers home country RQ and/or RL index score). Being more accurate this points out that acquirers announcing M&As located in host countries with lower RL and RQ governance indicator scores shows statistically significant better CARs. Meaning that if the perceived extent of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development is lower than it is in the home country of the acquirer, 3-day market reaction appears to

be significantly better. Also if the capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence are lower in the host country that it is in the acquirers' home country 3-day market reactions appear to be significantly higher.

Furthermore, as can be seen in table 7, no significant differences were found for governance quality indicators GE and CC. Taken together, it is safe to say that the findings do not support hypothesis 2b claiming that the short-term market reactions on Western European firms that have acquired firms from countries with a higher level of governance quality are higher than those that have acquired firms from countries with a lower level of governance quality. Rather the findings in table 7 in Panel A (RQ and RL) give statistically significant evidence for a vice-versa relationship and thus completely contradict hypothesis 2b as the negative coefficients suggests that short-term market reactions on European firms that announced to acquire firms from countries with a lower level of governance quality are significantly higher than those that have announced to acquire firms from countries with a higher level of governance quality.

The additional OLS regression results in table 8 report findings that are in line with these statements. Also here one should note that both the panels do report extreme low values of explanatory power (adjusted R^2) indicating that only a very low to negligible percentage of the variance ranging from (-1% till -0.7%) in CARs are explained by the set of predictor variables. Moreover as earlier explained, individual explanatory power of each variable is extremely low and the values of the F-statistics indicate that all independent variables are jointly not significant. Altogether this says this model is not useful to predict a firms' CARs. However, out of this model I can conclude that no significant relationship between governance quality and an acquiring firms' CAR is found. Moreover table 8 reports negative coefficients between the GQ composite and the CARs for both the 11-day and 3-day event windows, as shown by the values -0.002 and -0.001 (panel A) and -0.002 and -0.001 (panel B), respectively. This negative direction of association indicates a negative relationship between governance quality and an acquiring firms CARs. Once again, these findings would leave no choice but to reject hypothesis 2b since there is not spotted a significant positive relationship.

In addition to testing hypothesis 2b I verify if the negative relationship between RL and RQ and the short-term market reactions which were found in the independent t-tests also can be found in the OLS regression. To test this we have to look at table 9, since this table covers all six separate governance quality indicators.

Table 9 Summary of regression results for CARs with all 6 separate governance indicators

Event Window	(-5,+5)		(-1,+1)		VIF
	Coeff.	T-stat	Coeff.	T-stat	
Panel A: Mean adjusted model					
Constant	0.016	2.335**	0.009	2.179**	
Voice and Accountability (VA)	0.009	-0.669	0.014	1.539	9.344
Political stability and absence of violence (PV)	-0.002	-0.134	0.005	0.518	15.635
Government effectiveness	0.017	-0.669	0.012	0.753	43.766
Regulatory quality (RQ)	-0.015	-0.762	-0.027	-2.055**	24.455
Rule of Law (RL)	-0.004	-0.701	-0.008	-2.139**	3.528
Control of Corruption (CC)	-0.003	-0.157	0.003	0.223	26.067
Payment method	-0.010	-0.670	0.000	0.042	1.037
Adj. R ²	-0.030		0.019		
F-statistic	0.270		1.490		
No. Of obs.	179		179		
Panel B: Market model					
Constant	0.018	2.792***	0.010	2.478***	
Voice and Accountability (VA)	0.010	0.792	0.012	1.436	9.357
Political stability and absence of violence (PV)	-0.004	-0.272	0.004	0.456	15.643
Government Effectiveness (GE)	0.008	0.316	0.012	0.790	43.909
Regulatory quality (RQ)	-0.008	-0.412	-0.025	-1.995**	24.543
Rule of Law (RL)	-0.004	-0.673	-0.008	-2.110**	3.661
Control of Corruption (CC)	0.000	-0.012	0.003	0.293	26.126
Payment method	-0.004	-0.329	0.001	0.146	1.037
Adj. R ²	-0.034		0.013		
F-statistic	0.177		1.339		
No. Of obs.	178		178		

The table summarizes the regression results of appendix 3 where the estimation method is the ordinary least squares. The dependant variable is the cumulative abnormal returns for the different event windows calculated by the constant mean return model (panel A) and by the market return model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10% level.

In the first place It is important to note that both panels in table 9 report extreme low values of explanatory power (adjusted R₂) indicating that only a very low percentage of the variance ranging from -1% till 2% in CARs, depending on the event windows, are explained by the set of predictor variables. Also the individual explanatory power of each variable is extremely low. Moreover, the values of the F-statistics indicate that all independent variables are jointly not significant. However, the low R-Squared value does not undo how changes in governance indicators are significantly negatively related to CARs as shown by the coefficients for RQ on the 3-day event window being, -0.027 (panel A) and -0.025 (panel B), respectively. Also the negative coefficients of RL have shown to be statistic significant at a 5% conventional level equaling -0.008 and -0.008.

This suggests that regulatory quality and rule of law index scores are significantly negatively related to CARs. This relationship tend to be a weakly negative relationship and is found for the (-1,+1) event window. Both panels do report weakly negative relationships between RQ, RL and CARs. The event

window (-1,+1) report a significant relationship at a 5% conventional level. The fact that in addition to the t-test also in the regression the same two of the six governance indicators show a significant relationship verifies an existing relationship. Moreover, as also shown by the t-tests the OLS regression results again present a negative direction of association, meaning that if the index score from the perceived extent of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development increases (in relation to the acquirer's home country), the 3-day market reaction tend to decrease with 0.8 percent points (Panel A) and 0.8 percent points (Panel B) respectively. Also if the index score for capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence increases by 1 (in relation to the acquirers' home country), the 3-day market reactions tend to decrease with 2.7 percent points (Panel A) and 2.5 percent points (Panel B) . Once again these findings contradicts hypothesis 2b. Moreover, I found that the estimated coefficient of governance indicators are roughly of the same magnitude in both the mean adjusted model (Panel A) and market model (Panel B).

Moreover, analyzing the results with regards to the earlier expressed findings from Brown & Warner (1980) that the short-term performance results from the mean adjusted model often yields similar results based on more sophisticated models such as the market return model, I find that the average in CARs tend to be slightly higher when applying the market model. This holds for both groups means but especially for the "higher" groups. It suggests that on average the 179 firms had a slightly better constant return 130 days till 6 days prior to the announcement than the market had and therefore the mean adjusted model corrected the returns for higher normal returns than the market model leading to higher average CARs especially for the "higher" group mean. This so-called convergence between the two groups CARs eventually leads to a lower amount of significant difference in means between two groups applying the market model. Also for both groups counts that the average standard deviation tend to be lower applying the standard market model for specifying normal returns. Even though these noticed small deviations, these differences were not found to be statistically different. Having said that, I can conclude that type of model for specifying normal returns does not have an effect on the conclusions drawn.

4.4 Short-term market reactions and payment methods

Table 7 shows there is no significant difference in acquirers' CARs between M&As paid with cash and M&As paid by means of stocks. As can be seen in table 7 this insignificance does not depend on the type of model used for specifying the normal returns. From both panels t-test results I can conclude that the findings are not consistent with hypothesis 3 claiming that short-term market reactions from cash paid M&As will be higher than the short-term market reactions from stock paid M&As. As expected the mean in CARs for M&As paid with cash are higher than the mean CARs from M&As paid with stocks on multiple event windows, however these differences in mean CARs are not found to be statistically significant at conventional levels 1, 5 or 10%.

As can be seen in table 8, the OLS regression results again report results that are consistent with the independent t-test results, since also the regression results does not report a significant relationship between the payment method and the short-term performance indicator (CARs) also leading to a rejection of hypothesis 3.

5. Discussion and conclusion

5.1.1 M&A announcement effects

This study examines the short-term market reactions to cross-border M&As announcements by West European firms. The results show that cross-border M&A announcements indeed result in a significant short-term positive market reaction. In general, this implies that investors believe that the M&A motivational drivers are legitimate and therefore result in firm performance improvement. Such a driver could be the unused financial space (debt capacity) a target brings to acquire the necessary strategic resources and capabilities abroad which helps seizing opportunities. Additionally, data or machine access could be achieved due to which operations improvements lies within the reach. Or it could be managerial synergy effects which for example can enhance competitive advantages. Next to this financial, operation or managerial synergy effect it could be the trust in the capability of the acquiring firm's management to take advantage of over or under-valuation especially during a temporary financial booms or crisis. Independent of the motivational driver the announcement of cross-border M&As are perceived positively and do result in an increase in short-term stock-prices of acquiring firms in Western Europe. These findings contradict the studies claiming M&A announcements destroy value on the short-term (Faccio, McConnell & Stolin, 2006; Andrade et al., 2001; Raj and Forsyth, 2003; Sudarsanam and Mahate, 2003). In contrast they are consistent with the findings of the previously mentioned studies (Martynova, Oosting & Renneboog, 2006; Martynova & Renneboog, 2008; Goergen & Renneboog, 2004; Ben Amar and Andre, 2006; Smith and Kim, 1994; Floreani and Rigamonti, 2001; Dutta and Jog, 2009; Chari et al, 2010).

5.1.2 Short-term market reactions and political stability

Furthermore this study explores the relationship between the M&A's host country governance quality (in relation to its home country governance) and the short-term market M&A announcement performance. As explained in the literature country governance is divided in two components namely political stability and governance quality. Following this, what could be said about political stability and the acquirers' cumulative abnormal returns representing its short-term M&A announcement performance is that, as expressed in the literature review, I expected a positive relationship between political stability and the acquirers' CARs since deal premiums, higher transaction costs, policy uncertainty and a hindered possibility of establishing cooperative ties and local partners were aforementioned political instable country associations. These circumstances would be highly undesirable for investors. Therefore I created hypothesis 2a claiming short-term market reactions on Western European firms that have acquired firms from countries with a higher level of political stability are higher than those that have acquired firms from countries with a lower level of political stability. This was tested by an independent sample t-test, as similar in earlier studies which eventually reached no consensus on the matter (Ellis, Moeller, Schlingemann, & Stulz, 2017; Tao, Liu, Xia, & Gao, 2017). In addition this research extends this with ordinary least square regressions. As described in the results the t-test in table 7 does not support this claim, nor do the regressions in table 8 and 9 and therefore I reject hypothesis 2a. In contrast to the hypothesis 2a the independent t-test in Appendix 2a shows that short-term market reactions on Western European firms that have acquired firms from countries with a lower level of voice and accountability (being one of the two measures from political stability) are significantly higher, indicating a negative relationship between political stability and CAR around

the time of the M&A announcements. Also the regression as shown in Appendix 6 and table 8 do show this same negative relationship direction of association however it lacks of a significant relationship between the two variables. Despite of the aforementioned disadvantages of political instability it seems that acquirers can create more value by buying companies in worse governed countries. But what other potential benefits could thrive these market reactions? Is there more to gain for acquirers targeting firms in worse governed countries due to a lack of efficiency and underinvesting at the target firm like Ellis, Moeller, Schlingemann and Stulz (2017) argued? They claimed that better country governance lead to easier funding access which enables firms to create more value through cross-border investments and benefit more from acquisitions in countries with poor country governance as firms in these countries suffer from underinvestment due to worse access to funding. The possibility of more potential benefits outweighing these aforementioned disadvantages when investing in worse governed countries warrants further investigation. Therefore I recommend future studies to further investigate the correlation between political stability and short-term M&A announcements performance preferably in countries with worse country governance. If future studies proof that acquirers in worse governed countries do not experience higher CARs when investing in worse governed countries than in better governed countries this would indeed support Ellis, Moeller, Schlingemann and Stulz' (2017) argument that the portable benefit of funding access and efficiency potential is contributing to this better CAR for worse governed groups.

5.1.3 Short-term market reactions and governance quality

Additionally, as earlier expressed governance quality is expected to affect M&A announcement market reactions. According to the literature a higher governance quality level is associated with less regulatory ambiguity enabling firms to reduce information search costs and shorten the learning curve associated with foreign operations. Moreover, good law protection encourages obtaining resources and learning advanced knowledge since it is better protected once you reached it. Furthermore, countries being independent from political pressures show strength and could therefore be considered as stable in formulating, maintaining and committing to their policies. These circumstances are highly preferable for investors. Therefore I have drawn hypothesis 2b saying that the short-term market reactions on Western European firms that have acquired firms from countries with a higher level of governance quality are higher than those that have acquired firms from countries with a lower level of governance quality. Despite these well-argued expectations none of the empirical results in the independent sample t-tests and ordinary least square regressions support this claim. In contradiction, as presented in the results, two of the four governance indicators (regulatory quality and rule of law) in appendix 2d-e and table 7 provides statistical significant evidence for a vice-versa negative direction of association. In addition, the regressions in appendix 3 and table 9 show the same significant negative relationship between the two governance indicators and the CARs on multiple event windows. Taken together, it is safe to assume that the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development is negatively related to CARs. Meaning that for M&A announcement counts the less confidence in the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development the better the short-term performance around the announcement date.

Linking this to the literature section, in 2018, Bonaime, Gulen and Ion found that uncertainty related to monetary policy, fiscal policy (taxes and government spending), and regulation (especially financial regulation) has a strong negative effect on M&A activity. While policy uncertainty might hinder M&A

activity it simultaneously forms a stimulus to participate in an M&A depending on the current state of the policy. Speculation on potential policy or regulation changes can attract firms if it improves the current state of policy and regulations having favorable implications for the firms for example being tax advantages for shareholders or the acquirer. Moreover, unsound policies and regulations can, due to more space for interpretation of the law, create a large potential playing field and create certain business opportunities being impossible in the acquirer's home country. This implicates that a low level of regulatory quality might also attract investors depending on the motivational driver for participating in that M&A. These potential benefits do, based on the results, apparently overshadow the aforementioned higher transaction costs, premium deals and inability of establishing cooperative ties and local partners.

The same line of reasoning is applicable to the rule of law quality. A high quality enforceability of contract agreements, intellectual property rights protection, judicial independence and process is certainly favorable if there are assets, rights and contract that need to be protected. However, if a firm searches for a potentially larger playing field within the law and want to create development opportunities which is not one of the possibilities due to law restraints in the home country a firm is likely to favor a low quality rule of law. Again this depends on the motivational driver of the M&A.

The findings on both political stability and governance quality do not match the findings from Tao, Liu, & Xia, 2017 in which they found that chinese firms acquiring targets with higher level of political stability, rule of law and regulatory quality experienced significantly higher short-term CARs than the firms who acquired targets with low levels of political stability, rule of law and regulatory quality. A potential clarification is that Chinese firms use cross-border M&As to signal their quality. Chinese companies try to target firms in institutionally well developed countries to show their ability to span national boundaries, gain strategic assets and enhance their reputation. Typically cross-border M&As are perceived as very strong signal since it emits ambitions and shows confidence in the global markets. Besides it is still a relative new emerging activity. Therefore there is a huge chance that the announcement of cross border M&As by Chinese firms is automatically perceived positively by stock market investors resulting in positive stock market reactions. Also their different group classifications might contribute to these different results. They classified their higher and lower groups in their independent t-tests on the six governance indicator scores under zero with "low" and above 0 with "high" with each of the six governance indicators values, similar as in this study, ranging from -2.5 to 2.5. Meanwhile this study related the classification to a firm's home country governance index score and took the difference between the host and home country score, where negative values are classified as "lower" and positive value are classified as "higher".

Given the limitation that the conducted regressions in appendix 3 and 5 suffer from a severe form of multicollinearity, and the remaining significant evidence is the conducted independent t-test, I only can conclude that if the value for the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development is lower than it is in the home country of the acquirer, the 5-day, 3-day and 1-day market reaction appears to be significantly better. Additionally if the values given for the capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence are lower in the host country than it is in the acquirers' home country, the 5-day, 3-day and 1-day market reactions tend to be significantly higher.

Due to these findings and the empirical regression results table 9 (summary of appendix 3), indicating a significant weak relationship between RI, RQ and short-term M&A announcement performance (even though the models severe form of multicollinearity), I would recommend further studies to further explore and research the relationship between regulatory quality, rule of law and M&A announcement performance. After the possible verification of this relationship it is particular interesting to see whether these relationships also holds for long term announcement performance.

5.1.4 Short-term market reactions and payment methods

As shared in the literature the method of payment was expected to have an effect on the short-term market reactions for M&A announcements. As can be found in the results section 4.4, no significantly different market reactions are found between an M&A which is paid with cash and an M&A which is paid with stocks. Also none of the conducted regressions in Appendix 3, 5, 6 and 7 show a significant relationship between the means of payment and the market reactions. Based on these results I can safely reject hypothesis 3 saying that short-term market reactions from cash paid M&As are higher than the short-term market reactions from stock paid M&As. This does not mean that I can not support earlier studies saying cash paid M&As have the best beneficial effects (Haleblian et al., 2009; Ghosh 2001). A faster M&A settlement, larger potential for reaching efficiency and profitability, clarity of the real M&A value and the absence of “wrong signal of currently overvalued stocks” are still associated with cash payments, however they are either not reflected in the market reaction or do not outweigh the advantages of stock payments. Based on the results I would say that the ought benefit of sharing risk with stock payment potentially fades away the preference for cash payments. Let’s suppose that firm A acquires Firm B with an exchange of shares but fail to materialize the expected synergies or objectives. In a cash deal, firm A’s shareholders would shoulder the entire loss of premium paid for firm B. But in a stock payment, firm A’s loss is shared with firm B since firm B is shareholder. However, in many M&As the acquirer is much larger than the target ending up in the situation where the selling shareholders only have negligible percentage of the shares, however gathered data suggests stock payment is particularly popular in large deals. Either way, the main conclusion that can be drawn is that that short-term market reactions from cash paid or stock paid M&As do not result in significant better short-term market reactions. Additionally, I also can conclude that there is no significant relationship between cash paid or stock paid M&A announcements and CARs indicating there is no preference from the investor’s point of view.

5.2 Conclusion

Collectively, the results from this sample drawn in Western Europe appear to be consistent with previous findings reporting positive cross-border M&A announcement short-term stock market reactions for acquirers. In addition, this study explicitly evaluated the impact of country governance in host countries by analyzing two composites political stability and governance quality for its correlation with cross-border M&A announcement performance. This study did not report any significant relationships between political stability, governance quality and the dependent variable M&A announcement performance meaning country governance does not have a direct influence on M&A announcement performance. However this study does report some unexplainable significantly negative relationships for two governance indicators being rule of law and regulatory quality. Therefore, I recommend further studies to further explore and aim on the relationship between

regulatory quality, rule of law and short-term M&A announcement performance. Moreover, this study did not find any significant relationship between the used payment methods and short-term M&A announcement performance, indicating that based on this research conducted in Western Europe, as opposed to the literature, there is no favorable payment method which ultimately leads to significantly better M&A announcement performance. Therefore, I could question the importance of this subject in relation to M&As. Finally, to ensure that the results are not affected by methodological choices I chose to use two different methods for specifying returns. I used both, the mean adjusted model and the market model, and the benchmark showed that similar as in Brown & Warner's (1980) findings the results for the mean adjusted model often yielded similar results than results from more sophisticated models such as the market model.

5.3 Limitations and recommendations

As described in chapter 3 this study used country governance index scores which rates individual countries on six different governance indicators under which the rule of law indicator (RL). However, this indicator may be biased due to the legal origin of the countries. An acquiring firm and its investors in a particular country might find it favorable that the home country matches the host country's legal origin (i.e. civil or common law). These possible preferences are not included in this measure. Therefore this index score does only partially cover its measurement. Future research is recommended to include this preferences in the measure for country governance.

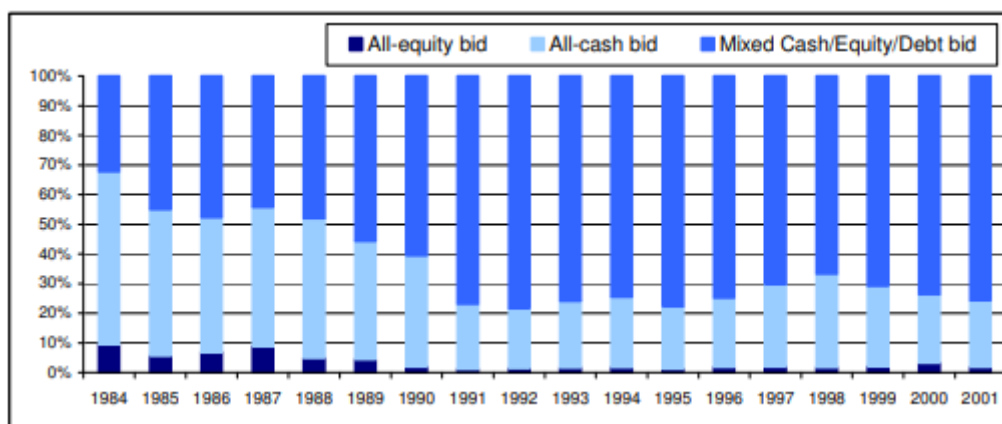
Additionally, this study only focuses on cross-border M&As undertaken by Western European listed firms. Therefore, the findings may be specific to these research settings. Future research should extend the sample to other areas especially referring to emerging economies in Europe.

This study has evaluated the impact of differences in country governance quality and payment methods on Western Europe acquirers undertaking M&As. In particular I have used well composed measures to capture different dimensions of country governance. However, other factors such as unfavorable exchange rates, the characteristics of shareholders, the economic conditions of a country due also have an impact. This represents a promising avenue for future studies.

Furthermore it should be addressed that due to insufficient data access I could not collect sufficient data on M&A values to include it in a regression model. I would recommend future studies to add more control values to increase the percentage of variance explained by the regression models. One example in particular is "M&A value" which has confounding effects with the method of payment. Specifically referring to my earlier mentioned theory where is explained that large value M&As tend to be often paid with stocks and therefor limiting the amount of risk of an acquirer and increasing the amount of shared risk with a target. For this reason I suggest that this control variable in particular along with a wide range of additional control variables should be included in future research.

Appendices

Appendix 1 distribution of Mixed Cash/Equity/Debt M&A bids retrieved from Thomson One Reuters Database (Martynova & Renneboog, 2006)



Appendix 2a Market Reactions VA Groups

Event window	Higher VA			Lower VA			VA Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	56	0.004	0.063	123	0.018	0.070	-0.014*	0.099
CAR (-2,+2)	56	0.004	0.055	123	0.018	0.051	-0.014**	0.049
CAR (-1,+1)	56	0.005	0.049	123	0.015	0.044	-0.010*	0.092
CAR (-1,0)	56	0.001	0.040	123	0.009	0.035	-0.008*	0.082
CAR (0,+1)	56	0.006	0.043	123	0.014	0.042	-0.008	0.115
Panel B: Market model								
CAR (-5,+5)	56	0.007	0.058	122	0.020	0.068	-0.013	0.114
CAR (-2,+2)	56	0.009	0.047	122	0.018	0.047	-0.010	0.100
CAR (-1,+1)	56	0.007	0.045	122	0.014	0.042	-0.008	0.141
CAR (-1,0)	56	0.003	0.038	122	0.010	0.035	-0.007	0.115
CAR (0,+1)	56	0.007	0.041	122	0.014	0.042	-0.007	0.145

Note VA = Voice and Accountability. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2b Market Reactions PV Groups

Event window	Higher PS			Lower PS			PS Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	76	0.011	0.067	103	0.016	0.069	-0.005	0.315
CAR (-2,+2)	76	0.010	0.058	103	0.017	0.048	-0.007	0.199
CAR (-1,+1)	76	0.010	0.052	103	0.013	0.040	-0.004	0.299
CAR (-1,0)	76	0.005	0.043	103	0.008	0.031	-0.003	0.326
CAR (0,+1)	76	0.011	0.047	103	0.012	0.038	-0.001	0.444
Panel B: Market model								
CAR (-5,+5)	76	0.015	0.064	102	0.017	0.065	-0.001	0.449
CAR (-2,+2)	76	0.014	0.050	102	0.016	0.045	-0.002	0.377
CAR (-1,+1)	76	0.012	0.048	102	0.012	0.039	-0.001	0.455
CAR (-1,0)	76	0.007	0.042	102	0.008	0.031	-0.001	0.405
CAR (0,+1)	76	0.013	0.046	102	0.012	0.038	0.001	0.436

Note PV = Political stability and absence of Violence/Terrorism. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2c Market Reactions GE groups

Event window	Higher GE			Lower GE			GE Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	73	0.010	0.066	106	0.016	0.070	-0.006	0.298
CAR (-2,+2)	73	0.009	0.052	106	0.017	0.052	-0.008	0.158
CAR (-1,+1)	73	0.007	0.048	106	0.015	0.043	-0.007	0.142
CAR (-1,0)	73	0.002	0.040	106	0.010	0.034	-0.007*	0.094
CAR (0,+1)	73	0.008	0.043	106	0.014	0.041	-0.006	0.171
Panel B: Market model								
CAR (-5,+5)	73	0.014	0.062	105	0.017	0.067	-0.003	0.367
CAR (-2,+2)	73	0.012	0.045	105	0.018	0.049	-0.005	0.228
CAR (-1,+1)	73	0.009	0.045	105	0.014	0.041	-0.005	0.208
CAR (-1,0)	73	0.004	0.038	105	0.010	0.034	-0.007	0.116
CAR (0,+1)	73	0.009	0.042	105	0.014	0.041	-0.006	0.185

Note GE = Government effectiveness. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2d Market Reactions RQ groups

Event window	Higher RQ			Lower RQ			RQ Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	72	0.009	0.066	107	0.017	0.069	-0.008	0.221
CAR (-2,+2)	72	0.005	0.051	107	0.020	0.053	-0.014**	0.036
CAR (-1,+1)	72	0.002	0.043	107	0.018	0.046	-0.016**	0.010
CAR (-1,0)	72	-0.001	0.036	107	0.012	0.036	-0.012**	0.015
CAR (0,+1)	72	0.005	0.040	107	0.016	0.043	-0.012**	0.036
Panel B: Market model								
CAR (-5,+5)	72	0.013	0.061	106	0.018	0.067	-0.003	0.367
CAR (-2,+2)	72	0.009	0.043	106	0.020	0.050	-0.005	0.228
CAR (-1,+1)	72	0.004	0.040	106	0.017	0.044	-0.005	0.208
CAR (-1,0)	72	0.001	0.034	106	0.012	0.036	-0.007	0.116
CAR (0,+1)	72	0.006	0.039	106	0.016	0.043	-0.006	0.185

Note RQ = Regulatory quality. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2e Market Reactions RL groups

Event window	Higher RL			Lower RL			RL Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	70	0.011	0.061	109	0.015	0.072	-0.004	0.364
CAR (-2,+2)	70	0.007	0.051	109	0.018	0.053	-0.012*	0.069
CAR (-1,+1)	70	0.004	0.044	109	0.016	0.046	-0.012**	0.041
CAR (-1,0)	70	0.002	0.037	109	0.010	0.036	-0.008*	0.072
CAR (0,+1)	70	0.007	0.039	109	0.015	0.044	-0.008	0.107
Panel B: Market model								
CAR (-5,+5)	70	0.013	0.057	108	0.018	0.070	-0.005	0.322
CAR (-2,+2)	70	0.010	0.043	108	0.019	0.050	-0.009	0.114
CAR (-1,+1)	70	0.006	0.041	108	0.016	0.044	-0.010*	0.068
CAR (-1,0)	70	0.003	0.035	108	0.010	0.036	-0.007	0.106
CAR (0,+1)	70	0.008	0.037	108	0.015	0.044	-0.007	0.129

Note RL = Rule of Law. The T-statistics are reported under Sig. and are 1-tailed with ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2f Market Reactions CC groups

Event window	Higher CC			Lower CC			CC Effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	68	0.010	0.067	111	0.016	0.069	-0.005	0.310
CAR (-2,+2)	68	0.009	0.054	111	0.017	0.051	-0.008	0.173
CAR (-1,+1)	68	0.007	0.049	111	0.015	0.043	-0.008	0.123
CAR (-1,0)	68	0.002	0.041	111	0.009	0.034	-0.007*	0.099
CAR (0,+1)	68	0.008	0.043	111	0.014	0.041	-0.006	0.187
Panel B: Market model								
CAR (-5,+5)	68	0.014	0.063	110	0.017	0.066	-0.003	0.378
CAR (-2,+2)	68	0.012	0.046	110	0.017	0.048	-0.005	0.253
CAR (-1,+1)	68	0.008	0.046	110	0.014	0.041	-0.006	0.191
CAR (-1,0)	68	0.003	0.039	110	0.010	0.034	-0.006	0.124
CAR (0,+1)	68	0.009	0.042	110	0.014	0.041	-0.005	0.209

Note CC = Control of Corruption. The T-statistics are reported under Sig. and are 1-tailed with ***,** and * indicate significance at the 1%, 5% and 10% level.

Appendix 2g Payment method

Event window	Cash payments			Stock payments			Payment method effect	
	N	Mean	Std. Deviation	N	Mean	Std. Deviation	Mean difference	Sig. (1-tailed)
Panel A: Mean adjusted model								
CAR (-5,+5)	150	0.015	0.068	29	0.006	0.069	0.009	0.259
CAR (-2,+2)	150	0.013	0.050	29	0.016	0.065	-0.003	0.397
CAR (-1,+1)	150	0.011	0.041	29	0.013	0.063	-0.001	0.453
CAR (-1,0)	150	0.007	0.033	29	0.003	0.053	0.005	0.329
CAR (0,+1)	150	0.012	0.037	29	0.009	0.063	0.003	0.407
Panel B: Market model								
CAR (-5,+5)	149	0.017	0.064	29	0.013	0.071	0.004	0.386
CAR (-2,+2)	149	0.014	0.044	29	0.021	0.062	-0.006	0.258
CAR (-1,+1)	149	0.012	0.038	29	0.014	0.062	-0.002	0.418
CAR (-1,0)	149	0.008	0.032	29	0.005	0.053	0.003	0.392
CAR (0,+1)	149	0.012	0.036	29	0.011	0.063	0.001	0.462

The T-statistics are reported under Sig. and are 1-tailed with ***,** and * indicate significance at the 1%, 5% and 10% level.

Appendix 3 Regression results for CARs

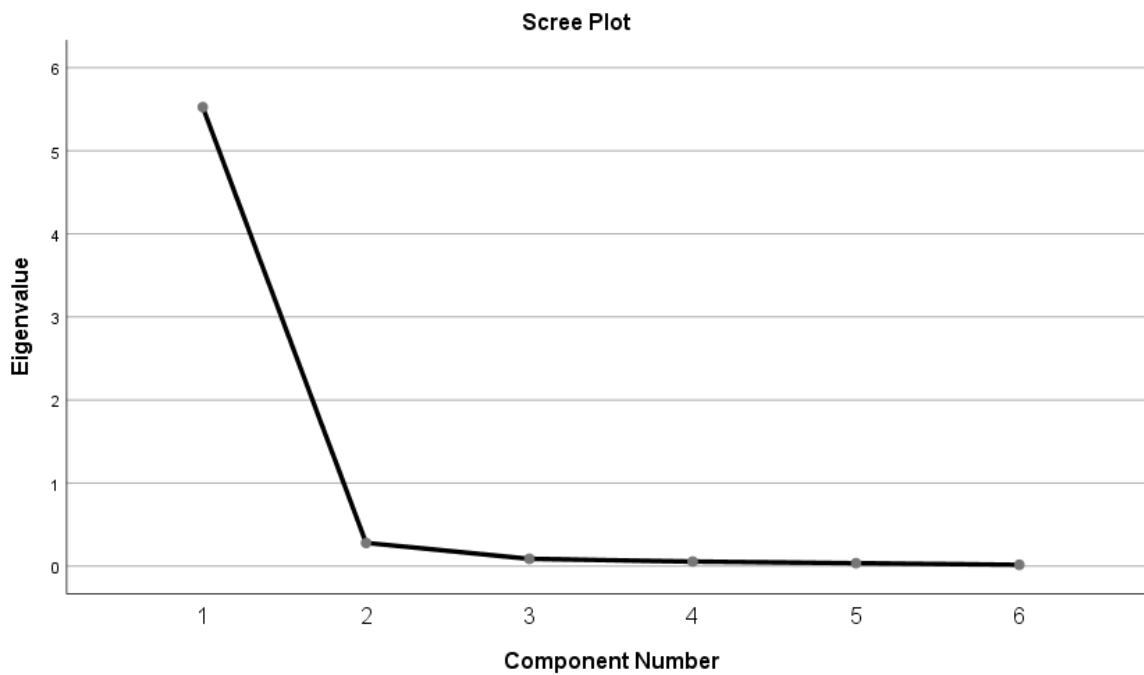
Event Window	(-5,+5)		(-2,+2)		(-1,+1)		(-1,0)		(0,+1)		VIF
	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	
Panel A: Mean adjusted model											
Constant	0.016	2.335**	0.011	2.089*	0.009	2.179**	0.006	1.675*	0.011	2.669***	
VA	0.009	-0.669	0.008	-0.744	0.014	1.539	0.010	1.404	0.009	1.131	9.344
PV	-0.002	-0.134	0.002	-0.159	0.005	0.518	0.006	0.068	0.004	0.384	15.635
GE	0.017	-0.669	0.008	-0.431	0.012	0.753	-0.010	-0.765	0.017	1.120	43.766
RQ	-0.015	-0.762	-0.024	-1.555	-0.027	-2.055**	-0.007	-0.655	-0.023	-1.891*	24.455
RL	-0.004	-0.701	-0.008	-1.733*	-0.008	-2.139**	-0.005	-1.727*	-0.005	-1.438	3.528
CC	-0.003	-0.157	0.010	0.772	0.003	0.223	0.006	0.600	-0.003	-0.256	26.067
Payment method	-0.010	-0.670	0.003	0.258	0.000	0.042	-0.006	-0.736	-0.003	-0.403	1.037
Adj. R ²	-0.030		-0.006		0.019		0.005		-0.001		
F-statistic	0.270		0.843		1.490		1.120		0.971		
No. Of obs.	179		179		179		179		179		
Panel B: Market model											
Constant	0.018	2.792***	0.012	2.674***	0.010	2.478***	0.007	1.946*	0.011	2.718***	
VA	0.010	0.792	0.007	0.740	0.012	1.436	0.010	1.348	0.010	1.172	9.357
PV	-0.004	-0.272	0.001	0.118	0.004	0.456	0.004	0.534	0.004	0.423	15.643
GE	0.008	0.316	0.005	0.316	0.012	0.790	-0.009	-0.706	0.016	1.094	43.909
RQ	-0.008	-0.412	-0.022	-1.601	-0.025	-1.995**	-0.006	-0.571	-0.024	-1.995**	24.543
RL	-0.004	-0.673	-0.007	-1.706*	-0.008	-2.110**	-0.005	-1.608	-0.006	-1.635	3.661
CC	0.000	-0.012	0.013	1.035	0.003	0.293	0.006	0.595	-0.001	-0.072	26.126
Payment method	-0.004	-0.329	0.006	0.617	0.001	0.146	-0.004	-0.514	-0.002	-0.242	1.037
Adj. R ²	-0.034		-0.004		0.013		-0.003		0.002		
F-statistic	0.177		0.897		1.339		0.916		1.048		
No. Of obs.	178		178		178		178		178		

The table presents the regression results where the estimation method is the ordinary least squares. The dependant variable is the cumulative abnormal returns for the different event windows calculated by the constant mean return model (panel A) and by the market return model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 4 Principal component analysis

Component	Eigen Values	% of Variance	Cumulative %
1	5.525	92.1	92.1
2	0.280	4.7	96.7
3	0.088	1.5	98.2
4	0.055	0.9	99.1
5	0.035	0.6	99.7
6	0.016	0.3	100.0

Extraction Method: Principal Component Analysis.



Appendix 5 Regression results for CARs with composite variables

Event Window	(-5,+5)		(-2,+2)		(-1,+1)		(-1,0)		(0,+1)		VIF
	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	
Panel A: Mean adjusted model											
Constant	0.015	2.546***	0.012	2.528**	0.010	2.519**	0.006	1.807*	0.011	3.040***	
Payment method	-0.011	-0.751	0.002	0.167	-0.001	-0.057	-0.006	-0.754	-0.004	-0.490	1.025
Political stability (composite)	0.012	0.799	0.016	1.329	0.023	2.342**	0.016	2.012**	0.016	1.724*	13.231
Governance quality (composite)	-0.001	-0.742	-0.016	-1.563	-0.023	-2.576***	-0.017	-2.343**	-0.016	-1.900*	13.144
Adj. R ²		-0.011		-0.001		*0.021		*0.020		0.005	
F-statistic		0.354		0.966		2.299		2.206		1.287	
No. Of obs.		179		179		179		179		179	
Panel B: Market model											
Constant	0.017	2.934***	0.013	3.154***	0.011	2.861***	0.007	2.077**	0.011	3.126***	
Payment method	-0.005	-0.393	0.005	0.541	0.000	0.046	-0.004	-0.535	-0.003	-0.332	1.026
Political stability (composite)	0.011	0.737	0.013	1.236	0.021	2.230**	0.015	1.834**	0.017	1.848*	13.474
Governance quality (composite)	-0.009	-0.690	-0.013	-1.423	-0.020	-2.380**	-0.015	-2.127**	-0.016	-1.985**	13.383
Adj. R ²		-0.014		-0.002		0.016		0.012		0.006	
F-statistic		0.211		0.893		1.931		1.746		1.336	
No. Of obs.		178		178		178		178		178	

The table presents the regression results where the estimation method is the ordinary least squares. The independent variables are composites in this model. The dependant variable is the cumulative abnormal returns for the different event windows calculated by the Mean adjusted model (panel A) and by the Market model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10% level.

Appendix 6 Regression results for CARs with composite variable political stability

Event Window	(-5,+5)		(-2,+2)		(-1,+1)		(-1,0)		(0,+1)	
	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat
Panel A: Adjusted mean model										
Constant	0.016	2.601**	0.012	2.621***	0.011	2.644***	0.006	1.933*	0.012	3.142***
Political stability (composite)	0.001	0.311	-0.002	-0.619	-0.001	-0.476	-0.002	-0.855	-0.001	-0.366
Payment method	-0.009	-0.678	0.004	0.331	0.002	0.210	-0.004	-0.506	-0.003	-0.291
Adj. R ²	-0.008		-0.009		-0.010		-0.005		-0.010	
F-statistic	0.257		0.226		0.126		0.550		0.123	
No. Of obs.	179		179		179		179		179	
Panel B: Market model										
Constant	0.017	2.978***	0.014	3.223***	0.011	2.950***	0.007	2.169**	0.012	3.207***
Political stability (composite)	0.001	0.268	-0.001	-0.481	-0.001	-0.211	-0.002	-0.742	-0.001	-0.220
Payment method	-0.004	-0.319	0.007	0.700	0.003	0.306	-0.002	-0.299	-0.001	-0.113
Adj. R ²	-0.011		-0.008		-0.011		-0.007		-0.011	
F-statistic	0.078		0.326		0.062		0.351		0.034	
No. Of obs.	178		178		178		178		178	

The table presents the regression results where the estimation method is the ordinary least squares. The dependant variable is the cumulative abnormal return for the different event windows calculated by the Mean adjusted model (panel A) and by the Market model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10%

Appendix 7 Regression results for CARs with composite variable governance quality

Event Window	(-5,+5)		(-2,+2)		(-1,+1)		(-1,0)		(0,+1)	
	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat	Coeff.	T-stat
Panel A: Mean adjusted model										
Constant	0.015	2.514**	0.011	2.465**	0.010	2.384**	0.006	2.469***	0.011	2.948***
Governance quality (composite)	0.000	0.094	-0.003	-1.028	-0.003	-1.163	-0.003	-1.028	-0.002	-0.876
Payment method	-0.009	-0.652	0.004	0.345	0.002	0.251	-0.004	0.345	-0.002	-0.264
Adj. R ²	-0.009		-0.005		-0.004		0.003		-0.006	
F-statistic	0.213		0.563		0.689		1.263		0.440	
No. Of obs.	179		179		179		179		179	
Panel B: Market model										
Constant	0.017	2.902***	0.013	3.087***	0.010	2.713***	0.006	1.966*	0.011	3.008***
Governance quality (composite)	0.000	0.068	-0.002	-0.853	-0.002	-0.849	-0.003	-1.296	-0.002	-0.752
Payment method	-0.004	-0.295	0.007	0.716	0.003	0.351	-0.002	-0.283	-0.001	-0.078
Adj. R ²	-0.011		-0.005		-0.007		-0.001		-0.008	
F-statistic	0.044		0.575		0.400		0.915		0.293	
No. Of obs.	178		178		178		178		178	

The table presents the regression results where the estimation method is the ordinary least squares. The dependant variable is the cumulative abnormal return for the different event windows calculated by the Mean adjusted model (panel A) and by the Market model (panel B). The payment method represents a dummy variable where cash payments are denoted with 0 and stock payments are denoted with 1. The T-statistics are reported under T-stat ***, ** and * indicate significance at the 1%, 5% and 10%

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