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Drivers of Mergers and Acquisitions and Firm Value Growth in Emerging Markets

By

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A thesis submitted in fulfilment of the requirements of Doctor of Philosophy in Finance

April 2019

DECLARATION

I, Emmanuel **Okofo-Dartey**, declare that;

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2. This thesis has not been submitted for any degree or examination at any other university.

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DEDICATION

To my parents and Angie, my wife.

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My sincere thanks and appreciations go first and foremost to my Lord and Saviour Jesus Christ, who has extended to me undeserving favour and always continues to show Himself strong to me since I set off this Ph.D. Journey. Indeed, I am more than grateful to Him for everything.

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Finally, l am happy to say that, may the good Lord bless all other persons I could not readily identify for mention; I appreciate and thank you all very much indeed.

ABSTRACT

This study investigates drivers of mergers and acquisitions (M&As) and firm value growth in emerging markets. It was targeted at acquirer firms from emerging markets since there is a continuous surge in acquisition transactions both locally and internationally by firms from the emerging markets. These acquirer firms have been using domestic and cross-border M&As as growth strategies to establish their presence and dominance in local and foreign markets.

The study was executed with three distinct objectives. First, whether working capital positions of emerging market acquirer firms drive their M&A transactions and influence their decisions regarding the type of mergers they pursue using probit regression analysis. The free cash flow hypothesis was also tested to determine whether free cash flow available to these acquirer firms motivate them to undertake M&A deals. Second, whether managerial share ownership in firms drive M&A transactions by acquirers from the emerging markets and influences the sizes of target firms they acquire during acquisitions, again using a probit regression technique. The study under this objective further investigated the relationship between managerial discretion and the acquirers' profitability levels. As a third objective, the study explored whether M&As transactions undertaken by emerging market acquirers are value-adding or value-destroying to shareholders of these firms by applying the Generalised Method of Moments (GMM) methodology.

The study covered a period of 10 years from 2004 to 2013 for 160 acquirer firms from ten (10) selected emerging market countries. Data were gleaned from the Bloomberg Terminal and DataStream. Results of this study suggest that, working capital positions of acquirer firms from the emerging markets are less likely to motivate them to undertake acquisition deals. However, the study reveals the marginal effect coefficient for the firms' total assets to be positive and statistically significant at 1%, suggesting that, their total assets rather are more likely to influence them to execute acquisition transactions, all other things being equal. There is no evidence of the firms' level of financial leverage, returns on assets (ROAs) and Tobin's Q having the potential to influence these acquirers to pursue M&As. The study further concludes that, the firms' free cash flows (FCFs) motivate them to execute M&As compared to their working capital positions. Regarding whether the acquirer firms' working capital positions influence the type of M&As they pursue, the results indicate that, it is less likely to encourage them to undertake either a horizontal or vertical type of merger. Further, our results revealed that, managerial share ownership of emerging market acquirers is also

less likely to drive them into acquisition transactions and influence them to pursue smaller-sized targets during M&As deals. Results from the study further suggest that, managerial discretion has a negative relationship on profitability levels of acquirer firms from the emerging market as far as their acquisition pursuits are concerned. Finally, results of the study show that, emerging market acquirers do not experience value growth in terms of profitability and growth opportunities in the first three years after M&As deals. A number of policy prescriptions arising from this thesis are presented to guide managers, practitioners and shareholders of firms in the emerging markets to shape their thoughts on M&As executions. Highlights of these policy prescriptions this study proffers include the following; managers should not ignore the efficient management of working capital. They should institute proper working capital management practices in their companies, in order not to experience liquidity challenges of either excess or shortages as any of them could impact adversely on the efficient running of their business activities particularly in the short-term period. An acquisition or a merger should be seen as a two-edged sword. When finally, firms take a decision to pursue M&As as an investment strategy option, they must fully take into account the issue of resources availability too. The target firm should be evaluated before an acquisition or a merger is performed. After an acquisition or merger, firms should restructure and integrate their resources. Also, for managers to have absolute control over firms and be able to influence investments decisions such as M&As especially in the emerging markets, their ownership percentage should be above the suggested significant level of 20%. Policy makers should also take a second look at their firms' financial leverage positions and growth in total assets if they desire to improve on their profits levels because results of this study indicate that they have a significant impact on the firm's ability to engage in M&As. Further, when firms from the emerging markets are planning or considering M&As for immediate value growth, they should recognise that M&A may not provide immediate growth in the first three years after M&A. Rather, the effects of M&A on firms' value growth may be expected in the long-term period of five years and beyond. However, apart from using M&As for growth purposes, they may be used to create other types of value, such as market power enhancement, risk minimisation through market or product diversification or cost efficiency.

Furthermore, since uncertainties exist in M&As, advance preparation is needed before an acquisition or a merger is executed, including a development of planning strategies and improvement of firm governance structure. It is, therefore, important for institutions and government to cooperate to come up with stronger systems to monitor corporate governance practices to bring some sanity to the business community. Lastly, diversifying internationally

appears to be an important strategy for reducing risk after a successful merger. It is more likely for investors, all other things being equal, to reduce the levels of risks associated with their investment portfolio if they invest in internationally diversified merged firm.

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LIST OF ABBREVIATIONS

ADF Test	Augmented Dickey-Fuller Test
AH	Anderson and Hsiao
AR	Autoregressive
ASEAN	Association of South East Asian Countries
BRICS	Brazil, Russia, India, China and South Africa
CARs	Cumulative Average Returns
CBAs	Cross-Border Acquisitions
CBMA	Cross-Border Mergers and Acquisitions
CDF	Cumulative Distribution Function
CNOOC	China National Offshore Oil Corporation
CEE	Central and Eastern European
CEO	Chief Executive Officer
EMFs	Emerging Market Firms
EMNC	Emerging Market Multinational Companies
FDC	Fundacao Dom Cabral
FDIs	Foreign Direct Investments
FCF	Free Cash Flow
OFDIs	Outward Foreign Direct Investments
GDP	Gross Domestic Product
GGR	Geometric Growth Rate
GLCs	Government-Linked Companies
GMM	Generalised Method of Moments
HL Test	Hosmer-Lemeshow Test
ICBC	Industrial and Commerce Bank of China
IMF	International Monetary Fund
IPS Test	Im, Pesaran and Shin Test
LPM	Linear Probability Models
M&As	Mergers and Acquisitions100
MDA	Multiple Discriminant Analysis
MA	Moving Average
MSCI	Morgan Stanley Capital International

NPV	Net Present Value
OLS	Ordinary Least Squares
PP tests	Philips-Perron Test
ROAs	Returns on Assets
ROE	Returns on Equity
ROS	Returns on Sales
SADC	South African Development Community
SOEs	State-Owned Enterprises
SWFs	Sovereign Wealth Funds
SSA	Sub-Saharan Africa
TCE	Transaction Cost Economics
The PBOC	The People's Bank of China
UNCTAD	United Nations Conference for Trade and Development
WTO	World Trade Organisation

LIST OF PUBLICATIONS AND RESEARCH OUTPUTS

Prior to submission, portions of the thesis and other related areas have been accepted for publication in peer reviewed journals while others were under review.

Articles Accepted for Publication

1. **Okofo-Dartey**, **E.,** & Kwenda, F. (Accepted 03 April 2019). Mergers and acquisitions and firms' value growth in emerging markets - *African Review of Economics and Finance***.**
2. **Okofo-Dartey, E.,** & Kwenda, F. (Accepted 17 June 2019). Working Capital and Mergers and Acquisitions Transactions by Emerging Market Acquirers. *African Review of Economics and Finance***.**

Articles / Manuscript under Review:

1. The Free Cash Flow Hypothesis and M&A Transactions by Acquirers from the Emerging Markets
2. Impact of Mergers and Acquisitions on the Performance of Selected quoted firms from West Africa.

Articles / Manuscript Under Development:

1. An Examination of the Influence of Managerial Share Ownership on M&A Transactions by Acquirers from the Emerging Markets.
2. Does Managerial Discretion affect Profitability Levels of Emerging Market Acquirer firms in M&A transactions?

CHAPTER ONE

1.1 Introduction

The quest for strategic ways of expansion by emerging market firms to establish their presence firmly in both domestic and international markets has not abated. Until recently, many firms from the emerging markets relied basically on their internal resources and structures for growth and expansion. This, however, has not helped them enough in terms of the speed with which they are able to rapidly access new local and foreign markets. In view of that, several of these firms are now considering other alternative expansion routes such as mergers and acquisitions. Unfortunately, many of these firms have largely been targets to their counterparts from the developed markets in most of the M&A transactions even though the trend is gradually changing where some firms from the emerging markets are acquiring other companies within and outside their home countries. Several factors influence decisions of these acquiring firms from the emerging markets to undertake M&As which literature highlights. The numerous push and pull factors that are cited in the literature as being behind emerging market firms' decisions to execute M&As as acquirers have virtually remained the same.

However, two potential factors that researchers appear to have overlooked are the working capital positions and managerial ownership of these firms, whether these factors also motivate acquiring firms from the emerging markets to pursue acquisition deals is a matter of investigation. An attempt will also be made to explore whether these factors in addition influence emerging market acquirer firms' to undertake particular types of M&A deals and become interested in specific sizes of target firms in their acquisition pursuits. Similarly, findings from studies relating to gains from M&As to emerging market acquirers still remain divergent and inconclusive and these studies also have largely focused on firms within individual countries which makes generalisation of findings with respect to the other emerging economies difficult and sometimes impossible. Therefore, this study in addition to investigating the role working capital and managerial ownership play in driving acquirers domiciled in the emerging markets into mergers and acquisition deals will also explore whether these transactions are beneficial or value destroying by considering acquirer firms from ten (10) selected emerging market countries.

With the above introduction given, the study proceeds to the background, problem and the context of the study, research aim, objectives and questions, the justification and significance of this study, and finally the assumptions as well as the structure of the study.

1.2 Background to the Study

1.2.1 State of Global Mergers and Acquisitions Activities

Over the last century, mergers and acquisitions (henceforth M&As) have brought about a lot of transformation to the corporate environment and have also been extensively researched in corporate finance (Dobreva & Kwenda, 2017; Morellec & Zhdanov, 2005; Tunyi & Ntim, 2016). They remain an attractive way that are adopted by numerous firms in the corporate landscape as well as other investors as a pathway which is fast enough for firms to have access to new markets and new capabilities. In view of that, many more companies still recognise M&As as a reliable avenue and opportunity for their growth in line with current trends of changes in technology and improvements in globalisation (Kumar & Rajib, 2007). As Maucher (1998) states:

> "M&As are an important and efficient strategic instrument for enhancing the competitiveness of a company ... (as well as) ... an effective and comparative gentle tool for the necessary reshaping of the industrial structure of an economy, such as the restructuring of the production apparatus, a more rapid processing of innovation, and the transformation of duplicated efforts into synergies. They allow a constructive adaptation to fundamentally new conditions. They allow companies such as those in emerging economies, to be incorporated by a process of network consolidation into the global market that is shaped by more intensive and more broadly-based competition''
>
> (Maucher, 1998:153).

This means that, through M&As many business entities are be able to reposition themselves better in both the local and international markets to facilitate the consolidation of their networks globally in terms of marketing, production and innovation. In the year 2015, the value of global M&A deals increased appreciably to an all-time high of $ 4.7 trillion ($ is the U.S dollars) and constituted about 12% of the global GDP (Deloitte, 2016). According to Statista (2016), the approximate value of global M&A transactions grew from $1.71 trillion

in 2009 to $4.28 trillion in 2015. Deloitte (2016) also reports of a similar trend of global increase in the volume of M&As in 2015 to a record high of $ 5.03 trillion, which represented 37 per cent increase over that of 2014 ($3.67 trillion).

Further, in 2017, global M&A activities remained strong with announced transactions volume of $3.7 trillion (JP Morgan, 2018), which represents the fifth most active year of higher transactions volumes compared to $3.9 trillion and $3.8 trillion for 2006 and 2016 respectively (JP Morgan, 2018). Additionally, according to Reuters (2018), the total value of announced M&A activity in the emerging markets reached $570.5 billion during the first half of 2018 constituting a 22.8% rise in volume compared to the same period a year before. This shows that many companies the world over including those from the emerging markets have become interested in adopting the M&As pathway as a strategic means for growth and expansion either as acquirers or targets. The Figure 1.1 below shows the trend of global M&A activities from 2012 – 2017.

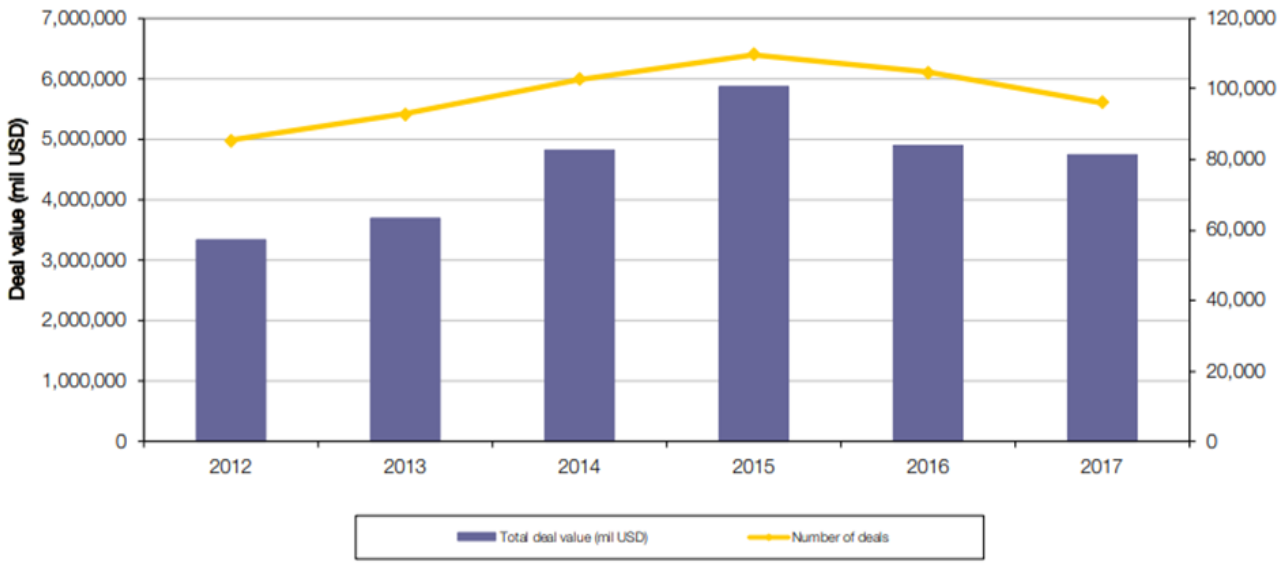


Figure 1.1: Trend of Global M&As Activities from 2012-2017
Source: Global M&A Review 2017, Bureau Van Dijk

1.2.2 Involvement of Emerging Market Firms in Global M&As and Outline of the Research Problem

Businesses from the emerging markets have largely and most of the time served as targets rather than acquirers when it comes to M&A transactions. This, however, appears to be changing since firms from the emerging markets are progressively becoming more active in M&A deals as acquirers of firms in developed countries (Cantwell & Barnard, 2008;

Duysters, Jacob, Lemmens, & Jintian, 2009; Sauvant, 2008). For example, in 2008, foreign direct investment (FDIs) from only China stood at $52 billion, out of which $42 billion was through M&As (UNCTAD, 2010). According to Ocampo (2011), outward foreign direct investments (OFDIs) in the form of cross-border M&A transactions of around 30.7% originated from the emerging markets in 2010 whereas only 25.2% emanated from the developed economies.

According to Kearney (2008), in 2017, M&A activities in the emerging markets increased by 26% while the entire world witnessed an increase in growth of just 6%. Even though drivers of these deal increases are not the same as those for the traditional M&As activity, the signs are quite clear that, firms from developing economies pose a considerable threat to firms in the advanced economies as far as activities of M&As are concerned. This can be attributed to the fact that M&A activity on average has experienced about 38% annual growth since the financial crisis in 2009 in 'nontraditional' M&A markets. This excludes places such as Australia, Japan, Western Europe, North America and New Zealand where in 2016 growth in these areas was at 39% as shown in Figure 1.2. below.

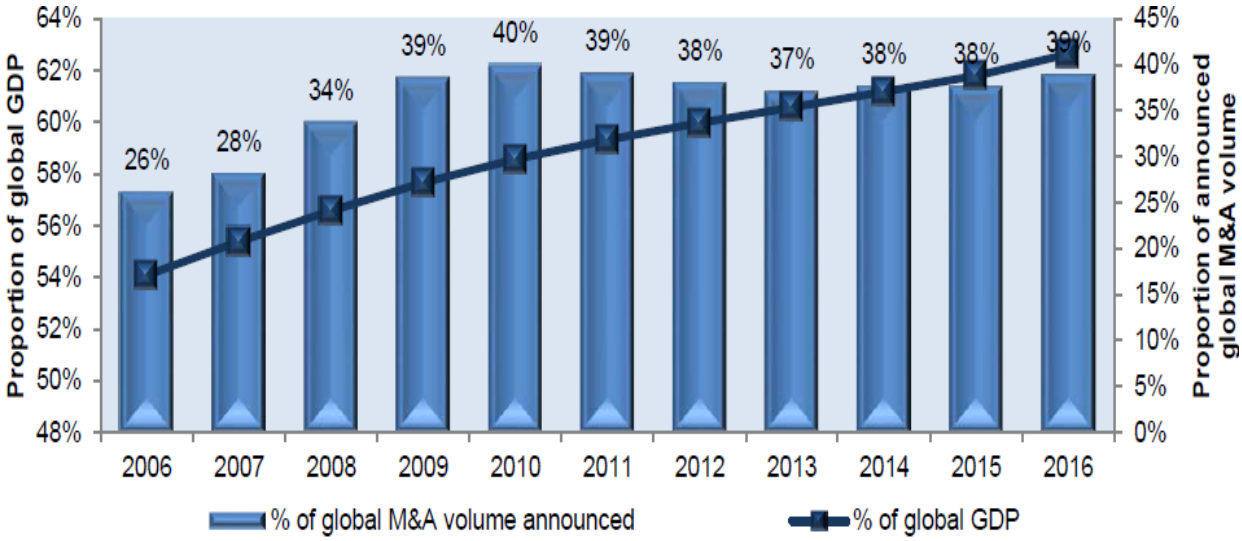


Figure 1.2: M&A Activity of Target Firms from Non-Traditional Markets for M&As
Source: SDC Platinum (M&A data) and the IMF's 'World Economic Outlook Database' GDP data), 2017.

Figure 1.2 above shows the M&A activity of target firms from non-traditional markets for M&As plotted against the countries share of global GDP. Concerning this graph, non-traditional markets for M&As refer to all countries apart from the ones in the traditional M&As markets such as New Zealand, North America, Japan, Western Europe and Australia.

This stable level of M&A activity was as a result of the appreciable increases in the global GDP for countries in the non-traditional' markets over the same period, which is about 62 per cent (IMF, 2017), and several of these markets are located within the emerging markets.

The pattern suggests that, firms originating from the emerging economies such as Russia, Brazil, Thailand, Chile, India, Hungary, Indonesia, Philippines, Malaysia, Turkey China, Mexico, Poland, Colombia, South Africa and Peru are steadily overtaking some of the already existing firms at an amazing rate. In 2007, according to Kearney (2008), almost 20% out of 2168 M&A transactions that were completed between emerging and developed economies were started or initiated by companies from emerging economies and this trend continues to grow annually at about 26%. Firms emanating from the emerging markets in 2012 experienced a total M&As transactions value of $723.0 billion which was a 9% increase compared to that of the year before. In recent times also, the emerging markets' participation in global M&A activities still shows substantial increases. For example, in 2017, the overall value of announced transactions in the emerging markets reached $1trillion which saw countries such China, Brazil and India to be active players with remarkable total transaction values of $ 657.4 billion, $ 66.5 billion and $ 62.1 billion respectively (Reuters, 2018).

The driving forces behind these increases in acquisition transactions by firms from the emerging markets and whether these deals have been beneficial in terms of value addition and growth for these emerging market firms remains a question that requires an investigation. Several factors are mentioned as motivating and pushing these firms to execute M&A deals. These include to achieve industry transformation, to increase managerial skills, for diversification, as a defense against takeover, to derive tax benefits, to enjoy technological changes, for globalisation, to achieve increases in growth, for long-term excess capacity, for fragmentations purposes, as well as fund raising (Motis, 2007). However, no particular mention is made of the companies' working capital positions and the role of managerial ownerships in these firms as other potential drivers of M&A transactions by these acquirer firms from the emerging market. Therefore, an investigation such as this study will help to establish whether these potential factors also influence M&A transactions by firms from this part of the world, and further explore if working capital positions and managerial share ownerships in these firms affect the type of M&As and sizes of target firms these acquirers pursue. In addition, this study also investigated whether these firms experience value growth as a result of their participation in M&A deals as acquirers for the first three years post-

acquisition transactions or not. The three year period is chosen to confirm whether what previous studies (David and Singh, 1994) say about post- M&As growth of firms in developed economies such Japan and the United States of America applies to acquirer firms from the emerging markets. For instance, according to David and Singh (1994), companies should not expect synergy right after an M&A because of the time-consuming nature of the post-M&A integration process. Miczka and Grosler (2004) also maintain that, cultural integration of the two firms (that is, the target and the acquirer) is usually completed in the first three years after M&A, but actual synergy may take even longer, but whether this applies to the firms from the emerging markets requires an investigation such this study. Following the above discussion, therefore, this study attempted to investigate the impact of M&As on the value growth of acquirers from the emerging markets three years after their M&A transactions in comparison to three years before.

M&As as deliberate businesses restructuring activities have since 1890s through to the 1990s and most recently the 2000s have experienced several waves that have brought in various changes and transformations (Gregoriou & Renneboog, 2007). The causes of these waves in mergers and acquisitions transactions are as a result of different factors that have helped to transform and continue to contribute to its growth globally as a reliable corporate expansion strategy. In the midst of these waves too are we witnessing substantial increases in deal numbers by companies originating from the emerging markets which has inspired several researches into the possible drivers of these deals.
However, despite the numerous studies that have been done regarding the causes and driving factors of M&A activities, many of them appear to have focused on transactions with the acquiring firms emanating from the developed markets such the U.K, U.S, Canada, Japan and Australia (Bertrand & Zuniga, 2006; Burkšaitienė, 2010) with limited number of such studies on acquirers coming from the emerging markets (Peng, 2012; Young, Tsai, Wang, Liu, & Ahlstrom, 2014).

Studies on OFDIs that relate to M&As which involve acquirers from the emerging markets have not only been understudied but also have some significant limitations (Hämäläinen, 2015; Dunning et al., 2008; Alon, 2010). First, even though working capital of firms is considered the nerve centre and life blood of most businesses, researchers appear to have ignored or have not sufficiently highlighted whether firms' working capital positions could drive M&As and its types especially deals that are executed by firms from the emerging

markets. Working capital is an important ingredient for maintaining and running businesses efficiently. It becomes practically impossible for many businesses to function successfully without a sufficient amount of working capital. Second, there is also paucity of studies on whether managerial share ownership in firms also drives M&A transactions by emerging market acquirers and also influences these firms' decisions on the sizes of target firms they pursue in their acquisition deals. Lastly, there is also a limited number of empirical studies that look at the value growth to emerging market firms that execute M&As as acquirers. Most studies that have attempted investigations in that area have focused mainly on only firms within individual emerging market countries which make findings, conclusions and recommendations from such studies difficult for generalisation purposes or easily applicable in other developing economies. To address this shortcoming, this study will explore whether M&As add to the value growth of these acquirers or they are value-destroying by considering acquirer firms from ten (10) different emerging market countries.

Indeed, emerging market economies possess some common defining features such as being relatively fast-growing economies, having large geographical and demographic sizes and contributing significantly to regional and global affairs (Amadeo, 2017). Further, they work towards exploring other options of securing finance that can be used for developmental projects. They also harness other resources that will enable them to improve trade relations amongst themselves while making efforts to diversify their respective economies for development both locally and externally. In terms of aggregate, the entire contribution of emerging market and developing countries to the world's total GDP account is approximately 58.69% (IMF, 2017) and this additionally demonstrates the relevance of the emerging market area to the global economy. Some of these countries also belong to certain economic blocks such as the BRICS (that is, Brazil, Russia, China, India and South Africa) which have shared economic arrangements like preferential trade agreements and enhancement of the institutional environment (Kwenda, Oyetade, & Dobreva, 2017).

According to the UNCTAD (2014), overseas acquisition transactions executed in 2013 by companies from the emerging economies accounted for 37% of the entire value of worldwide cross-border M&As which stood at about $129 billion. Notable examples of these transactions include the Chinese manufacturer Greely's acquisition of the iconic Swedish car manufacturer Volvo, the merger of Tim Hortons and Burger King from Brazil in 2014, the acquisition of IBM's (United States) computer manufacturing unit by Lenovo from China as

well as China's third-largest national oil company called China National Offshore Oil Corporation's (CNOOC) acquisition of Canada's ninth-largest oil company, Nexen for an amount of $15.1 billion in 2012.

Due to the significant additions the emerging markets make to the world's total output in terms of GDP, as well as their substantial contributions to global foreign direct investments (FDIs) through the M&As route (Hoskisson, Wright, Filatotchev & Peng, 2013), it is important to explore the various drivers behind the numerous M&A activities executed by acquiring firms from the emerging economies of the world through an investigation such as this study. In particular, to investigate whether firms' working capital positions and managerial share ownerships motivate these acquirers to undertake M&A transactions. This is due to the numerous suggestions being made to the effect that, the M&A enterprise is gradually moving away from its main goal to either gaining access to hoards of cash reserves 'sitting' on firms' balance-sheets or to assist the acquired firms to manage their working capital better (Sagner, 2007), which appears to be a total departure from the usual way businesses and investment bankers have perceived potential M&A companies to be. This therefore raises concerns about what is indeed happening. Similarly, the influences and control managers wield when it comes to businesses' investment decisions remain critical and cannot be underrated especially when they have become entrenched because they own sizeable percentages of shares in companies. However, whether managers based on their share ownerships in firms, influence or drive M&As decisions particularly deals involving emerging market acquirers requires an investigation. The study finally explores to establish whether these acquirer firms' involvement in M&As have been beneficial to them or they are just value destroying.

1.3 Conceptual Definitions and Types of M&As

In this section, the researcher describes the basic concepts used in the study.

1.3.1 Mergers

A merger is defined as any activity where a firm is combined with another firm to form an entirely new business entity through the loss of their respective legal entities in a process known as "Consolidation" (Ashfaq et al., 2014**).** That is, a merger involves combining the operations, management and assets of two separate firms to establish a legal entity which is completely new (Peng, 2006). According to the European Central Bank (2000), a merger

refers to the creation of a holding company or establishment of a new company by joining together two or more separate businesses. Ghauri and Buckley (2003) similarly define a merger to mean the combination of two previously individual companies to form one business entity where one of the firms becomes absorbed into the other one. We have acquiring and target firms. The acquiring firm is the entity that is seeking control over another firm whereas the target firm is the other entity that has been selected or chosen for acquisition. These two forms of unification are called mergers and acquisitions. Mergers differ from acquisitions because mergers are assumed to involve individual firms who are relatively same in size and have comparable resource base. Some of the reasons that are considered to motivate firms to merge include; to access excess cash reserves of other firms, for industry transformation, to benefit from technological change, for globalisation purposes, for attractive high growth, and for roll up among others. A merger as a business restructuring transaction can occur in various forms as explained below.

Horizontal merger: This involves a merger of companies whose product lines are related and are found to be operating in the same industry, who usually see each other as rivals providing goods and services that are identical. Few internationally recognised examples of a horizontal type of merger include the Air France-KLM deal and the Lufthansa-Swiss international link up (Megginson, Smart, & Lucey, 2008). Another is the 2004 merger arrangement involving Anglogold South Africa and Ashanti Gold fields company limited to form AngloGold Ashanti limited.

Vertical merger: This is a merger of two firms producing entirely different products or offering different services. It can also involve the coming together of firms providing different components used for the creation of a final product. Vertical kind of mergers often leads to reduction in production costs and enhances levels of efficiency for increased profits. Notable examples include Ford's acquisition of Hertz Corp. in 2001 and the purchases of automobile dealers by manufacturers like Ford and Vauxhall (Geddes, 2006).

Conglomerate merger: This type of merger occurs when different unrelated firms in terms of competition in the market and product lines come together. The overriding reason for establishing these types of merger deals is to have a central business location or office with expertise and knowledge to manage the business and also allocate its resources efficiently than how separately these firms would have done. These types of mergers are created on the notion that, this central office will have the expertise and knowledge to manage the new

firm's financial and other resources better (Bruner, 1999). This often results in diversification of risks because the successes of firms that are performing well compensate or balances for the other subsidiaries that are not performing well (Coyle, 2000). A typical example of a conglomerate merger is Philip Morris tobacco company's acquisition of General Foods in 1985 for $5.6 billion (Gaughan, 2002).

Congeneric merger: This type of merger occurs when two firms in the same industry that provide or offer different goods or services come together. These two business entities may have similar channels of distribution that afford them the needed synergy and reason to merge. A notable example of a congeneric type of merger is the acquisition of Travelers Insurance by CitiGroup in 1998. Although the two companies operate in the financial service industry, the products they offer or provide are different.

1.3.2 Acquisitions

With regard to an acquisition, it involves the transfer and control of assets, management and operations of one company to another (Wright & Elenkov, 2002). It simply occurs when a firm's equity is taken by another business entity, but the acquired firm continues to preserve its independent legal entity. The acquirer firm is described as the "parent company" while the target one which was acquired is called "the subsidiary company" (Ashfaq et al., 2014). According to DePamphilis (2008), acquisition refers to a situation where the ownership and control of a firm or a subsidiary of it or particular assets of one firm become vested in another. This can be in the form of purchasing the stocks of another firm. Ghauri and Buckley (2003) also state that, it is the controlling of assets that have been transferred from one business entity to another. Acquisition is described by Al Hayek (2018) as the least risky and easiest kind of investment, being quicker and easier compared to other forms of investments. According to Dahir (2015), an acquisition can equally occur as a result of a firm purchasing a substantial percentage of assets or shares of another firm while that firm continues to hold its legal entity. The management of the acquired firm comes under the control of the acquirer, through its voting power in the acquired firm's general assembly, because the authority that controls the operations of the firm and does the appointments of its board members rests with the general assembly. The implication is that, the acquirer has control in managing the activities of the acquired firm.

In reality, acquisitions are more common than mergers and are among the business expansion and growth strategies designed to enhance or increase a firm's investments activities and maximise the value of shareholders (Bryant, 2016). They are also used by companies to achieve strategic, operational and financial synergies to increase products, save costs and rationalise channels of distribution (Fasua & Osagie, 2016). Acquisitions assist in improving the efficiency level of the acquired firm by implementing operational improvement plans together with efficient management of existing branches of the firm (Yeboah & Asirifi, 2016). This in the end, helps the acquired firm to derive the necessary benefits from information technology and financial globalization as well as resources and services the acquirer firm possesses (Abdelaziz & Bilel, 2012).

Acquisitions just like mergers are of different types. These include the horizontal, vertical and conglomerate integrations or diversifications. They can also be described as either private or public. Private acquisition results when a firm (either a public or private) buys shares of another firm which is a privately-owned. Negotiations regarding transactions considered private acquisition are done directly with shareholders of the prospective target firm. Conversely, with public acquisition, it is the management teams of both the acquirer and the target firms that draft the documents for the deal, but the final approval of the deal is ultimately done by the target firm's shareholders. In this process, more information about the target firm become readily available to potential investors which helps the processes involved in the acquisition in terms of analysis and scrutiny. Acquisition can also be in the form of a takeover. This could either be hostile or friendly takeover. It is considered friendly when the firm that plans to acquire the target firm makes a formal offer to the board of the target for consideration and acceptance if the offer is worthy to them as far as the target's prospects are concerned. However, it is considered hostile when the acquirer firm circumvents the board of directors of the target firm and buys in excess of fifty (50) percent of the target firm's shares to secure greater control of the target firm. According to Mitchell and Mulherin (1996) an acquisition can occur through any of the following means;

Tender offer: With this form of acquisition, an investor makes a proposal to buy shares of all the shareholders in a publicly traded firm at a specific price in a period of time. The investor often suggests a price which is higher than the share price of the firm to attract shareholders to sell their shares. For instance, an investor who is interested in taking over a firm may issue

a tender offer of $12 per share for a share whose current price is $10 per share on condition that, at least he could acquire 51 percent of the firm's shares.

Merger: With this form of acquisition, board of directors of both firms team up and solicit the approval of shareholders to enable the two firms merge as one. Mostly, a minimum of 50 per cent of shareholders of the two firms (that is, the target and the acquirer firms) must give their approval to the deal. When the approval is given, the target firm does not continue to exist but becomes part of the acquirer.

Consolidation: This refers to the formation of a new business entity after a merger transaction where shareholders of the merged firms continue to have shares in the newly established entity.

Acquisition of assets: This occurs when a firm acquires the assets of another firm through the approval of the target firm's shareholders.

Management buyouts: These involve purchasing of assets of a firm by its management and then manage it. The firm, however, remains in operation in the form of a private entity. Management buyouts are, nevertheless, achieved through the use of tender offers.

Leverage buyouts: These refer to the use of debt or large amount of loan by a company to finance acquisition transaction. Assets of both the acquiring and the target firms serve as guarantee or collateral security for loans secured for the transaction.

Even though acquisitions can potentially improve firms' performances, result in cost reductions, increase market sizes and enhance the competitiveness of firms among others. Some acquisition deals still fail to be successful for various reasons. These unsuccessful acquisition transactions or failures could be attributed to factors such as communication challenges, poor implementation, cultural mismatch, weak strategic planning and the magnitude of investment size in the target firm (Yeboah & Asirifi, 2016). According to Festus and Richard (2015), there are three main motives that drive execution of acquisitions. These are discussed below:

Strategic motive: The focus of this motive is to develop and improve on the performances of firms. It is connected to firms being able to access the emerging markets, increase their market shares and become competitive globally.

Financial motive: This motive is concerned with the maximisation of shareholders resources by investing their financial resources in least risky projects, since the goal of every investment is the expected returns to derive.

Administrative motive: This motive also relates to the interests of managers, but not necessarily to that of shareholders' interests, which makes managers value improve compared to shareholders.

In all, the main idea behind the execution of M&A transactions is to create synergy, even though the maximisation of shareholders' value as reflected in the acquirer's share price becomes the ultimate aim. Synergy can therefore be defined as the creation of value which is more than the combined value of the two individual firms put together. In this study, therefore, the terms "mergers or acquisitions" "M&A transactions", "M&A deals" and shall be synonymously used.

1.4 Problem Statement

The theory of working capital requires companies to maintain a healthy balance between liquidity and profitability (Fidel et al., 2015). Therefore, it is important for a firm to hold levels of working capital that increase profitability without jeopardising the solvency of the firm, since a good working capital management balances the conflicting goals of liquidity and profitability to maximise shareholder value. Excessive levels of working capital investment represent poor utilisation of capital and deliver sub-standard returns, while low levels of working capital lead to liquidity problems (Erasmus, 2010). However, in recent times, firms are being accused of having in excess of $1 trillion working capital which is much larger than what is considered prudent according to REL, a working capital management consulting firm (Rel Consulting, 2016). In some cases, it is suggested or reported that, companies may be reserving cash in anticipation of M&As activity (Rel Consulting, 2016, 2017). This leaves questions in the minds of many regarding the role working capital may be playing in the recent surge in M&As transactions, particularly those being executed by emerging market firms.

Managerial influences also continue to be cited through the empire building and the envy theories as one of the key drivers of M&A deals (Goel & Thakor, 2005; Trautwein, 1990). However, when managers become entrenched in terms of ownership of more shares in firms, whether they continue to drive M&As transactions especially transactions involving

emerging market acquirers, and in the interest of shareholders' value maximisation, or the agency theory problem still holds, despite the fact that shareholders have thought of resolving it by giving them more shares, is an issue that requires an investigation.

1.5 The Study Context

Emerging market countries continue to contribute significantly to the affairs of the world trade particularly in the area of businesses expansion and restructuring. These countries in recent past have experienced important structural changes, witnessed appreciable national economic growth, where industries have undergone and are still going through rapid structural transformation notwithstanding their weak and volatile legal systems. One unique feature about them is that, their markets hold much promise. Characteristically again, these economies are well-diversified, and boast of large industrial and services sectors. They have become models of development with various degrees of political and economic stabilities which serve as benchmark for most developing countries. Some of these emerging market countries have now gained membership in the G20 and others also have formed alliances of different kinds including the BRICS which is made up of Brazil, Russia, India, China and South Africa.

1.6 Emerging Markets

The present study is focused on acquirer firms from the emerging market. The term "Emerging Markets" has existed for almost two decades now. The definition for this term was first given by Antoine van Agtmael, a member of the International Financial Corporation (IFC), taking into accounts the economics and wealth levels of countries (IFC, 2006). Hoskisson, Eden, Lau, and Wright (2000), Xu and Meyer (2013) define emerging markets as those countries with low income levels but have been experiencing rapid growth economically through the use of economic liberalisation strategies as primary vehicle of growth. Luo and Tung (2007) also refer to the emerging markets as countries that have experienced substantial transformation structurally not too long ago, whose economies have improved in a significantly rapid manner, where industry-related activities have witnessed and continue to witness considerable structural transformations, despite their weak and unstable legal structures. Similarly, the international monetary fund refers to them as developing countries with considerably high prospects economically and active in international engagements (IMF, 2004).

The classification of countries as belonging to the emerging markets is done by several institutions including the World Bank, the Morgan Stanley Capital International (MSCI), Standard and Poor, the International Monetary Fund (IMF), Russell and Dow Jones. In 2016, for instance, these institutions classified emerging market countries as; Poland, Indonesia, Brazil, Thailand, Malaysia South Africa, Chile, Colombia, Russia, China, Hungary, India, Peru, Philippines, Turkey and Mexico (Amadeo, 2017). This study, therefore, in line with Luo and Tung's (2007) definition, defines acquirers from the emerging market as quoted firms on the various stock exchanges of the emerging market countries that executed M&A transactions both domestically or internationally during the ten-year period this study covers (that is from 2004-2013).

Currently, these emerging economies have been making significant contributions to the world's GDP (Lebedev, Peng, Xie, & Stevens, 2015). Indeed, some of them continue to improve on their economies in terms of sustained growth while many other parts of the world economy, including even some advanced economies remain stagnate. According to the IMF (2016), the developed world experienced a growth rate of just 1.6% compared to 4.2% experienced in the emerging economies in 2016.

The IMF (2016) further predicted that, emerging market countries stand a good chance of making greater contribution to the world's total output than economies of developed markets. Firms residing in the emerging markets have been engaging in mergers and acquisitions transactions both locally and internationally (Meyer & Thaijongrak, 2013). M&As activities have largely depended on how quality financial markets are, which are fashioned by the institutional and business situations or environments. In most developing economies, changes in institutional arrangements and policies are quite frequent, but the concentration on industry is quite low (Xu & Meyer, 2013). Therefore, businesses tend to pursue expansion strategies in order to survive in an environment filled with threats and competition. As result, they rely on M&As to achieve their goals and legitimacy (Hu & Yang, 2016). Also, the improved institutional conditions experienced by firms from these emerging economies motivate them to execute M&As transactions for better development (Cui & Jiang, 2012).

1.7 Aim of the Study

This study aims at investigating whether working capital and managerial ownership drive M&A transactions by acquirers from the emerging markets and also explore whether M&A transactions these acquirer firms execute add value to their growth or they are value destroying. To accomplish this aim, the following specific objectives as outlined below will be investigated resulting in three main papers.

1.7.1 Specific Objectives

The specific objectives of the study are:

1. To investigate whether working capital positions of emerging market acquirer firms drive M&A transactions they execute.
2. To investigate whether working capital positions influence the type of mergers emerging market acquirer firms pursue.
3. To investigate whether managerial share ownership in firms drive M&A transactions by acquirers from the emerging markets
4. To investigate whether managerial share ownership in firms affects the sizes of target firms they acquire in M&A transactions.
5. To investigate whether M&A transactions executed by emerging market acquirers are value-adding or value- destroying.

1.8 Research Questions

The research questions for this study are as follows:

1. Do working capital or cash reserve positions of emerging market acquirer firms motivate them to execute M&As transactions?
2. Do acquirer firms from the emerging markets pursue a particular type of M&A deal based on their working capital or cash reserve positions?
3. Does managerial share ownership of emerging market acquirer firms drive M&A transactions firms they execute?
4. Does managerial share ownership of acquirers from the emerging markets determine the sizes of targets they acquire in M&A transactions?
5. Do M&As transactions executed by acquirers from emerging markets add value to their growth or they are value destroying?

1.9 Research Hypotheses

It is important to test the main hypotheses stated below for the study to provide answers to the above questions posed for the study's objectives to be achieved.

1. Hypothesis (**$H_{4.1}$**). Working capital positions of acquirers from the emerging markets are more likely to motivate them to undertake M&As.
2. Hypothesis (**$H_{4.2}$**). Working capital positions of acquirers from the emerging markets are more likely to motivate them to undertake either a horizontal or vertical type of M&As.
3. Hypothesis (**$H_{5.1}$**). Managerial ownership of acquirers from the emerging markets is more likely to influence them to undertake M&As.
4. Hypothesis (**$H_{5.2}$**). Managerial ownership of emerging market acquirers is more likely to motivate them to pursue smaller-sized targets in acquisition deals.
5. Hypothesis (**$H_{6.1}$**). Emerging market acquirers do not experience growth in terms of increase in profitability (measured by ROAs) after M&A transactions.
6. Hypothesis (**$H_{6.2}$**). Emerging market acquirers do not experience growth in terms of growth opportunities (measured by Tobin's q) after M&A transactions.

The results of these tests are expected to offer solutions to the above questions and eventually the aim of the study based on the specific objectives stated.

1.10 Justification and Significance of the Study

The issue of drivers of M&As keep emerging due to the varied reasons and motivations firms give for engaging in these transactions. Several other drivers such as firms' working capital and managerial ownership that require the attention of further empirical research as well as firms' value growth in M&As enterprise for emerging market acquirers remain less explored and has left important gaps in the literature. This study, therefore, contributes to the body of knowledge in numerous ways.

First, it contributes to extant literature by extending the frontier of research in drivers of M&As. This is therefore expected to help address and enlarge the sparse empirical studies on firms' working capital positions and managerial ownership as other potential drivers of M&As by acquirer firms from the emerging market. To the best of the resarchers knowledge, it is the first study to explore the relationship between working capital, managerial ownership and drivers of M&As by acquirers from this important part (that is, the emerging markets) of the world.

Second, this study uses a large cross-section of data set of acquirers from ten (10) countries to consider drivers of M&As for a wider range of firms from various industries. This study also uses a large panel data set to investigate firms' value growth as a result of execution of acquisition transactions. To the best of the researcher's knowledge, no existing study in literature in this area has focused on drivers of acquisitions and firms' value growth using acquirers from ten different emerging market countries together.

Third, the study stands to offer to prospective investors useful information required to formulate strategies for businesses growth and expansion both domestically and internationally as far as M&A activities relating to emerging market firms are concerned. It will again allow investors to evaluate the various issues about M&As that this study discusses to establish whether M&As can continue to serve as a reliable alternative route for their firms' growth and diversification in the short and long-term periods.

Fourth, the study is likely to contribute to knowledge by establishing whether M&A transactions are beneficial to acquirers from the emerging markets of the world or not. This will help deepen the debate on M&As value to firms which appears mixed and unsettled in the literature.

Fifth, from a methodological perspective, this study contributes to knowledge using a number of econometric methods which have not seen an extensive usage in M&As drivers and firms value growth literature, and this forms an important evidential milestone of this study. Since the robustness of results largely depends very much on the quality of the empirical strategy used at various stages of the study. Making use of different estimation methods is expected to produce new evidence that encourages the extension of borders of research in other areas within the emerging markets. Specifically, the use of probit regression technique to investigate whether firms' working capital and managerial ownership influence firms to undertake M&As, pursue a particular type of M&As and also acquire specific sizes of target firms. Added to this is another perspective of how post-M&As firm value growth can be investigated which is through the dynamic two-step difference generalised method of moments (GMM) methodology that this study employs, which is different from several of the previous studies on emerging markets which largely used the event study methodology (Gubbi et al. 2010; Zollo & Meier, 2008; Kohli & Mann, 2012). Several of these research studies appear not to have addressed the problem of dynamic changes in firms' value after mergers and acquisition transactions which this study attempts to handle.

1.11 Limitations of the Study

This study relied on data largely obtained from the yearly financial variables of emerging market listed firms. It was therefore expected that these annual financial data are reflective of the firms' financial leverage, total debt, managerial ownership (measured by, insiders' shares percentage outstanding), returns on assets (proxy for profitability), working capital, total assets (proxy for firm size), and Tobin's q (proxy for firms' growth opportunities) obtained from the Bloomberg database for the selected firms. The Bloomberg terminal is a data repository that offers comprehensive real-time financial market information and updates on M&A transactions which is well-accepted in the areas of academia and industry. All emerging market listed firms are expected to subject their annual financial accounts and statements to external auditors for independent opinion. It was therefore assumed that, the annual data of these selected firms used in this study represented their actual financial positions.

However, as it is with all research, this study also had its impediments. The major constraint was data limitation across emerging market countries. Data collected are largely firm-level data from firms' annual financial statements. Even though financial statements without doubt are globally recognised sources of research data, they are limited by different sets of assumptions concerning their preparation and accordingly across countries with their attendant impacts on some of the variables employed. The study again had other challenges, for instance, not all the acquirers from emerging markets were listed on their respective stock exchanges. Hence, only listed firms from the selected countries were included in the study. Moreover, some of the initially selected listed firms also had a lot of issues regarding missing data for some of the years the study covers and therefore had to be eliminated which affected the sample size of the study.

In addition, the study was restricted to ten (10) selected emerging market countries due to data availability and its management, time and financial constraints. This implies that, generalisation of the research findings to the entire emerging market might not be possible. Therefore, a tactful approach was adopted to limit the generalisation of the results to the countries selected for the study only. Nonetheless, the findings of the research could be applicable to the other emerging market countries as they possess similar political, cultural and socio-economic characteristics.

Furthermore, it was difficult identifying companies that specialised in one line of business as most of the firms on the various stock exchanges were largely diversified and conglomerates in nature. Therefore, sectoral analysis was to some extent compromised. Sectoral analysis demands that firms strictly fit in one sector. However, more efforts were put in to categorise firms into their respective sizes and merger types of horizontal, vertical and conglomerates.

1.12 Organisation of the Study

This thesis has seven chapters in all. Chapter 1 has provided the motivation for the study, background of the study, statement of the problem, research aim and objectives, research questions as well as limitations, justification and significance of the study. Chapter 2 analyses the trends of acquisition activities in selected emerging market countries for the study. Chapter 3 reviews the literature on the various drivers of M&As transactions with special focus on the emerging markets. Chapters 4, 5 and 6 take an essay form, each having their literature reviews (both theoretical and empirical), methodology and empirical results and discussion. Specifically, Chapter 4 investigates whether working capital positions of firms play any roles in driving emerging market acquirers into acquisition transactions and further explores the type of merger deals (horizontal, vertical or conglomerate) they become interested in pursuing. Chapter 5 discusses the issue of managerial ownership of the acquirer firms and analyse whether it also plays any role in driving them into making investments decisions such as mergers and acquisitions. This chapter further explores whether managerial ownership influences the sizes of target firms these acquirer firms pursue in acquisitions. Chapter 6 also highlights on the issue of growth in value to these acquirer firms that undertake mergers and acquisitions transactions. Finally, Chapter 7 contains the summary, conclusions, recommendations, policy implications as well as areas for future research studies.

CHAPTER TWO
EMERGING MARKET COUNTRIES AND M&A ACTIVITIES

2.1 Review of trends

The preceding chapter provided the background to the study, research problem, aim, objectives, research questions, hypotheses and the motivation of the study. This chapter analyses M&A trends in selected emerging market countries especially those where acquirer firms were drawn for this study because they have remained active in both domestic and foreign M&A transactions. Some of them have enacted laws and introduced a variety of legislations to streamline their M&A activities. This section of the study, therefore, attempts to highlight on the trends of domestic and cross-border M&A activities among some emerging market countries.

2.1.1 Russia

Russian firms have been using M&As arrangements to invest both in the domestic market and abroad. The popularity and importance of this entry strategy by Russian firms date back to the 2000s. From the year 2002 to 2004, Russian firms were able to make 77 M&A deals (Subhash, 2016). The transition economies witnessed more than half of M&A transactions Russia made during this period. In the developed world, Russian companies have also acquired other companies in countries like Germany, United Kingdom and the United States of America. Russian M&A activities have concentrated mainly in the manufacturing and the services sectors. However, a sizeable number of acquisitions that are considered large occur in the heavy industries and natural resources sectors. With regard to Russian telecommunications companies, a few of them have undertaken acquisitions, a notable example is the acquisition of Kar-Tel Ltd. (Kazakhstan) by Vimpelcom for $ 425 million in 2004.

Since the mid-2000s, the rate of internationalisation by firms from Russia has gone up considerably. During its period of crisis (that is, from 1999 to 2007), Russia's outward foreign investments which was about $14.2 billion increased significantly to $60.4 billion after the crisis was over from the year 2008 to 2013 according to (UNCTAD, 2014). Both private companies and major state-owned enterprises in Russia are active in using mergers and acquisitions to acquire assets, usually seeking downstream markets (Kalotay et al., 2010). Lukoil and Gazprom are examples of Russian major companies that have been engaging in

acquisitions. Many other cash rich Russian companies involved in natural resources extraction have ventured abroad to acquire assets. Companies such as Inter RAO, Gazprom, Novolipetsk Steel and Lukoil have managed to establish a robust global presence in transportation and distribution as well as rolling and refining activities by taking advantage of the abundant natural resource endowment of Russia (Skolkovo Research, 2009). A lot of conglomerates from various sectors in Russia such as banking, industrial, retail and the energy sectors have appeared on the global investment arena, and Russia as of 2013 could boast of seven companies in the Global 500 list (Anwar et al., 2015). In 2013, Russia emerged among the emerging countries as the largest outward investor with investment flows of 4.4% of the national output, higher than those of Brazil, India and China (UNCTAD 2014). Several trans-national companies from Russia have ventured to seek strategic assets and natural resources. Examples include the acquisitions of Mantra Resources Limited from Australia for $925 million and Uranium One Inc. for $ 1.31 billion by ARMZ Uranium Holding Co. Another is Gazprom bank's $212 million acquisition of Gas AG & Centrex Europe Energy.

According to Anwar and Mughal (2015), drivers of M&A transactions by Russian firms are several and varied. They range from seeking of natural resources, new markets and efficiency to the provision of support to industrial production at home by using their technical knowhow to exploit the host countries' mineral resources. Firms from Russia have also been engaging in M&A deals in response to depreciation of their home country's currency, the ruble. Firms from Russia seem to execute more acquisitions usually as a way of reacting to the country's currency anytime it depreciates (Zhang & Daly, 2011; Amal & Tomio, 2012). Figure 2.1 below shows the trend of M&A transactions that have been undertaken in Russia from the year 1993-2018.

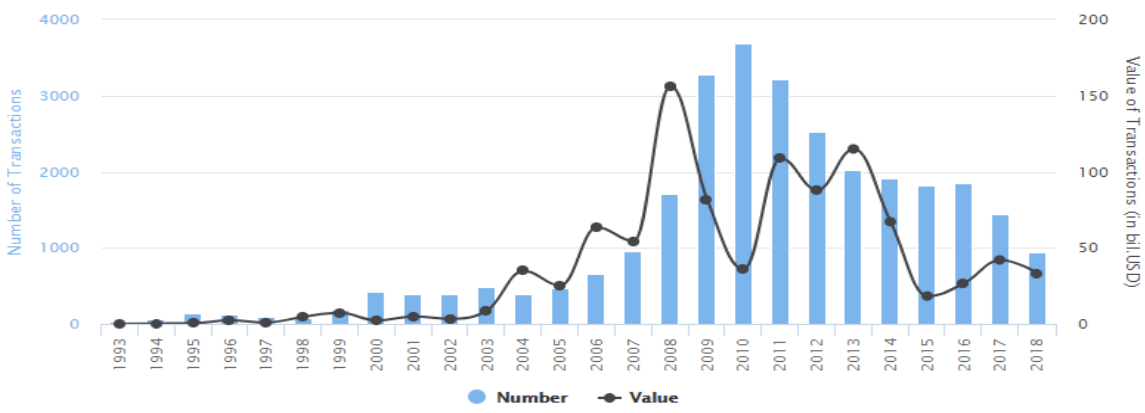


Figure 2.1: Mergers and Acquisitions transaction in Russia from 1993-2018.
Source: IMAA INSTITUTE, 2018.

2.1.2 Turkey

M&As as a popular internationalisation instrument have become very useful to Turkey for about two decades now. More than 600 takeovers were completed in the country between 1990 to April 2010 by companies from Turkey (Thomson SDC, 2010). One important driver of Turkey's merger wave was the privatisation process which started around 1989 and continued with the introduction of the Monitoring Program for IMF Staff in 1998 (Yeldan, 2005). Consolidation also stands as one other driving factor for M&A activities in Turkey. The 2000 banking and financial crisis that followed in 2001 resulted in a general reduction in the equity prices which ultimately led to more M&A activities being executed in the country. After the 2001 disturbances, the economic growth in Turkey was high which improved the purchasing power of Turkish companies and pushed the wave of M&A activities in the country further (Yeldan, 2005). M&A activities in Turkey are currently on the right path after their significant increase in the beginning of 2005, following more years of a total deal value of less than $1billion. According to Akben-Selçuk (2008), from 2003-2007, the volume of M&A activity in Turkey reached $75 billion, of which $71 billion occurred within the period of 2005-2007. The interest of foreign investors also continues to grow annually. From 2005 to 2007, M&A transactions involving foreign companies in Turkey constituted not less than 70% of the total deals in the country.

In recent years, Turkey's M&A activities have substantially received attention with increasing number of academic researches also being carried out on corporate takeovers on various topics by several scholars. Some of the scholars include the following: Arslan 2007; Akdoğu, 2012; Arslan & Simsir, 2013; Kılıç & Akin, 2008. Others are: Mandacı, 2005; Akben-Selçuk, 2008; Bumin and Cengiz, 2009; Yıldız-Tulum and Aytekin, 2009. One important thing that has helped to position M&As enterprise in Turkey well is the formation of the Competition Authority. It has introduced several regulatory measures to streamline M&As activities in the country. According to Ernst and Young (2016) M&A Report, in 2012, Turkey recorded the highest volume and value of M&A transactions in the Central and Southern Europe. In all, for that year, 297 mergers and acquisitions transactions valued at $ 18 billion were undertaken.

For the year 2016, a total of 243 M&A deals were completed which indicated a significant decrease compared to the 319 deals in 2015. Out of this number of 243, only 17 of these deals had a transaction value of more than $ 100 million. In 2017, however, there was a total of

127 deals with disclosed values totalling $7.4 billion. Only one transaction greater than $1 billion was recorded while the total volume of the top 10 deals was $5.2 billion (Ernst & Young, 2018). Figure 2.2 below illustrates the trend of Turkey in M&A activities in recent times.

Figure 2.2: Total Disclosed M&A Deal value in Turkey from 2009-2017
Source: Ernst & Young, 2018 M&A report.

2.1.3 Brazil

Activities of M&As in Brazil improved after the 90s, with the commercial opening and the emancipation of the Real Plan. From 1994 to 2015, there were 10,594 mergers and acquisitions transactions in Brazil with a geometric growth rate (GGR) of 6.95% per year (KPMG, 2016). The country's M&As activity continued to increase since the year 2000, largely driven by the increase in foreigners' interest, development in the private equity sector, growth in the economy, and the availability of credit facilities (PricewaterhouseCoopers, 2016). After slowing down in 2007/2008 during the global financial crisis, M&As activity has intensified markedly due to two main factors (Pearson, 2016). First, the 2014/2015 recession, which was Brazil's worst since 1901, heaped pressure on home-grown companies, resulting in some companies selling non-core businesses. Second, the depreciation of the Brazilian currency (the Real) made Brazilian assets more affordable to foreign investors. Furthermore, PricewaterhouseCoopers (2016) argues that Brazil's sizeable and diverse economy, the seventh largest in the world, provides unique opportunities to foreign investors, such as a vast domestic consumer market, an emerging middle class, and ample natural resources.

Companies from Brazil have actively used M&As as foreign investment strategy to acquire other companies in different industries both domestically and internationally and remains the lead country in M&A activity among countries in Latin America. However, they appear to prefer greenfield investments as an entry mode to other countries than M&As. For instance, from 2002-2005, Brazilian companies undertook 102 greenfield FDI investments compared to only 24 cross-border M&A transactions in 2002-2004 (Sauvant, 2005). Figure 2.3 below represents Brazil's active participation in M&A activities over the years from 2002-2015.

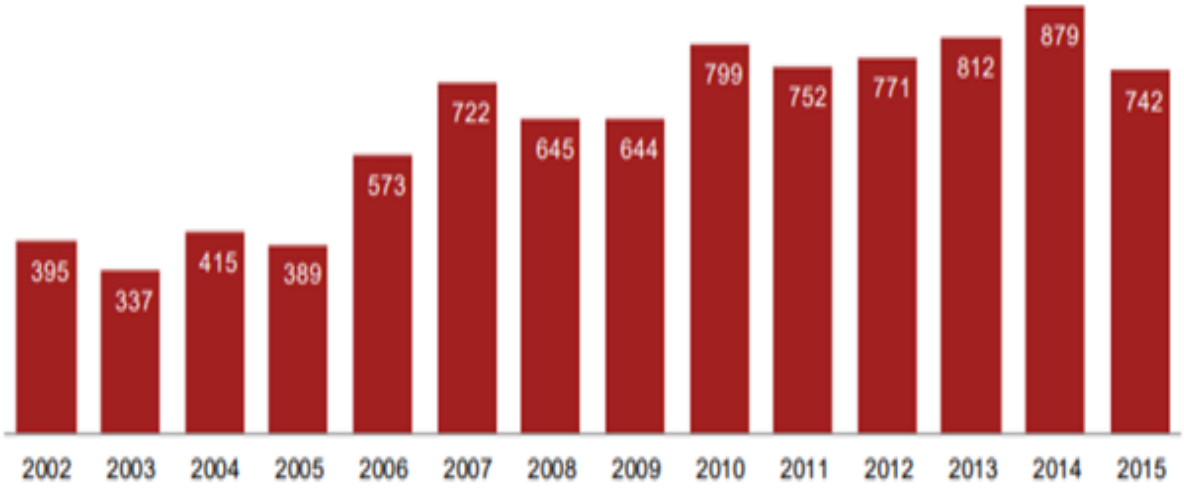


Figure 2.3: Publicly Announced Transactions in Brazil from 2002-2015
Source: PricewaterhouseCoopers.

Table 2.1: KPMG 2010 M&A Report for Brazil

Year	Domestic mergers	Cross-border mergers
2000	123	230
2001	146	194
2002	143	84
2003	116	114
2004	100	199
2005	213	150
2006	183	290
2007	351	348
2008	379	284
2009	235	219

Source: Author's own construction based on data obtained from KPMG,2010-M&A report

Some of the main drivers of M&A activities in Brazil include redirecting of investment projects to different locations using offshore financial centres as well as other financial motives. Other important drivers also include having access to strategic raw material resources. The tendency to have access to new markets and distribution networks has also motivated Brazilian firms to move outside using the M&A route. Few notable examples are the 2003 and 2004 acquisitions of John Labatt Ltd (Canada) and Quinsa (Argentina) by Ambev for $ 7.8 billion and $ 346 million respectively. Another is the acquisition of a gasoline service station in Argentina called Perez Companc S.A. by Petrobras for $ 1 billion in 2003 (Bloomberg, 2002).

The trend of Brazilian M&A market in 2016 continued to be more active and stronger mainly due to the current adverse economic situation. The instability of the financial situation of Brazilian companies, combined with an extended scenario of low access to bank credit, boosted merger announcements in 2016 (Bloomberg, 2002). The number of M&A transactions in 2017 further shows a slight growth over that of 2016 as it is indicated in Table 2.2 below.

Table 2.2: Mergers and Acquisitions in Brazil- October, 2018

Year/M&A Volume	2013	2014	2015	2016	2017
Number	811	879	742	597	643
Amount (US $billion)	88.1	108.3	34.8	37.6	48.9

Source: https://www.pwc.com.br/

2.1.4 Mexico

Due to Mexico's national restructuring agenda, the authorities of the country decided to privatise a substantial number of state enterprises in the early 90's, a situation that encouraged the rise of interest of foreign investment on the national economy. Activities of M&As in Mexico are structured in such a way that, major firms in the country have consolidated to pursue a trend of cooperatives that enable them to obtain diversified resources from domestic and foreign companies. Groups of firms in such cooperatives frequently end up in an acquisition or merger deal (Rendón & Morales, 2010). Although not all M&As undertaken by local firms have been successful, it can still be stressed that, it has served as the basis for consolidation of many of the companies in Mexico.

Report by Seale and associates (2014) states that, 163 transactions were executed in Mexico valued at approximately $ 22 billion and represented an increase of 39% compared to that of 2013. A total of 30 outbound M&A transactions were executed by firms from Mexico in 2014 with a transaction value of $ 6.1 billion, which constituted a significant increase of 234% compared to 2013. The top 5 transactions included acquisitions by Crown Holdings, AT&T, Fibra, Grupo Carso and PPG. These transactions constituted about 60% of the country's total deals for the year 2014 and valued at approximately $13.2 billion (Seale and Associates, 2014). Two notable transactions that occurred in 2015 include the $ 1,1875 billion acquisition of Nextel Mexican subsidiary and Soriana's acquisition of Comercial Mexicana for $ 211 million (Del Rio & Colunga, 2016).

In 2016, the number of M&A transaction in Mexico increased by 2% compared to that of 2015. The finance, real estate, distribution and retail sectors were the most active. Some of the major deals that occurred during this period include the acquisition of Gasoductos de Chihuahua by IEnova for $ 1.3 billion, KKR's acquisition of Peme for $ 1.2 billion, the almost $ 1 billion acquisition of Subur bia by Meican, and 49% share acquisition in Autopista Arco Norte by Teacher's Pension Plan of Canada for $ 936 million. According to Reuters (2017), 85 deals were executed in 2017, of which 36 were valued at $ 6.6 billion. This represented a 7.79% increase in value compared to that of previous year 2016. Lastly, in 2017, the following notable deals were undertaken; the Grupo Aeroportuario del Sureste's acquisition of Aeropuertos de Oriente of Colombia for $ 262 million and the acquisition of Grupo Gepp by Polmex for US$193 million (Reuters, 2017). Mexico's active participation in M&A deals is summarised in Figure 2.4 below from the year 1988-2018.

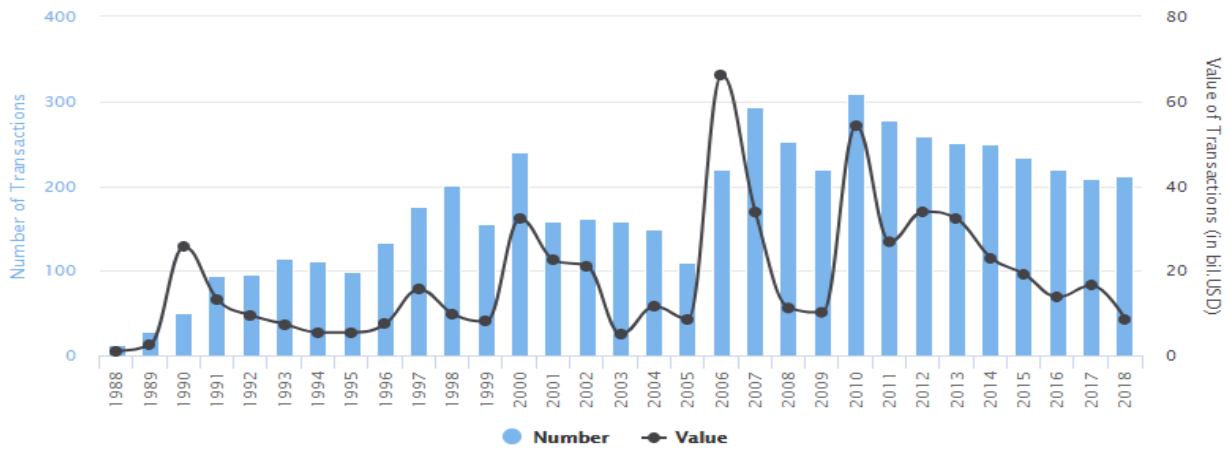


Figure 2.4: Mergers and Acquisitions transactions in Mexico from 1998-2018
Source: IMAA INSTITUTE, 2018.

2.1.5 South Africa

Among the emerging market firms that were involved in M&As transactions from the 90s to 2007, those originating from South Africa were identified as the second most active acquirers after Malaysia when it comes to cross-border transactions. Between 1990 and 2013, South Africa witnessed a substantial growth in cross-border transactions from $16 million to as high as $4.3 billion respectively (Anwar & Mughal, 2017). However, in terms of transactions value, it was third after firms from Brazil and Mexico (Chernykh, Liebenberg, & Macias, 2011; Tunyi & Ntim, 2016). South Africa is not only regarded number one among African countries when it comes to activities of M&As, but also the most favourable investment destination on the continent (Kimberly, Bruce, Taco, & Leon, 2015). Further, the wealth and abundance of natural resources available to the country makes South African firms attractive as both acquirers and targets in M&A transactions (Kimberly, Bruce, Taco, & Leon, 2015).

In fact, firms from South Africa continue to remain the most active acquirers on the African continent. From 2003 to 2012, acquirer firms from South Africa initiated approximately 37% of total M&A transactions in Africa. This is due to these firms' understanding and appreciation of the M&A enterprise together with the investment practices in the country compared to their counterparts in other African countries, and easy accessibility to funds from both its credit markets and equity (*IBID*). The main destinations South Africa channel its cross-border M&As (CBMAs) include the United Kingdom in Europe, North America and Africa. The country's M&A activity picked up in 2010 and remained active in the first quarter of 2011. This increase was noticed more in cross-border transactions. According to Reuters (2015), in 2014, the country's foreign acquisitions constituted almost 64% of outbound M&A activity in the Sub-Saharan African region. The country has become the target destination in Africa, for almost 50% of the continent's M&As. This is largely because of South Africa's status as the powerhouse in Africa in terms of economic development. It also provides favourable financial markets and conducive environment for businesses that is attractive to other foreign companies (Triki & Chun, 2011).

The strength of M&A activities in South Africa lies in the legislative arrangement of its Companies Act of 2008. This Act was promulgated in 2008 but came into force on the 1st of May 2011. This has substantially brought changes in the existing company law regime and the general legislative framework on M&A (Ezra & Ashleigh, 2011).

Several studies have analysed the factors that affect South African outward foreign direct investments (OFDIs) of which one of its forms is M&As. For instance, Verhoef (2011) examined the OFDI trends in South Africa between the 90s and 2000s and came to the conclusion that, no one common strategy for internationalisation exists for all successful conglomerates during the period, advance form of entrepreneurial and management capacity was a common denominator. Dippenaar (2009) also examined the motivations behind major South African companies' decisions for investments in Sub-Saharan Africa (SSA) using a survey of key corporate executives. He concluded that, the motivations for foreign investment and the risks associated with them as well as the strategies to handle those risks were not the same for all the sectors.

According to Luiz and Charalambous (2009) and Luiz & Stephan (2012), the ability to adapt to the local demands and financial strength remain two key firm-specific advantages of firms from South Africa when they decide to invest in Africa. Apart from firms originating from the advanced markets, multinationals from the emerging economies like South Africa have some experience and understanding of handling institutions that are weak which enables them to have competitive advantage over their counterparts in the developed markets. Dippenaar (2009) claims that, firms in South Africa have achieved success in advanced technological knowhow and high-factor productivity compared to their peers in other regions. These African firms were able to gain these firm-specific advantages after associating and working with multinationals from advanced economies in the 60s and 70s when these firms from developed economies invested in South Africa (Miller, 2004). The South African government also provided support for multinationals from the country during the period for liberalisation of foreign exchange controls from 1997 to 2004 (Klein & Wöcke, 2007; Luiz & Charalambous, 2009). Figure 2.5 below presents the total number and value of M&A transactions for South Africa from 1991-2018.

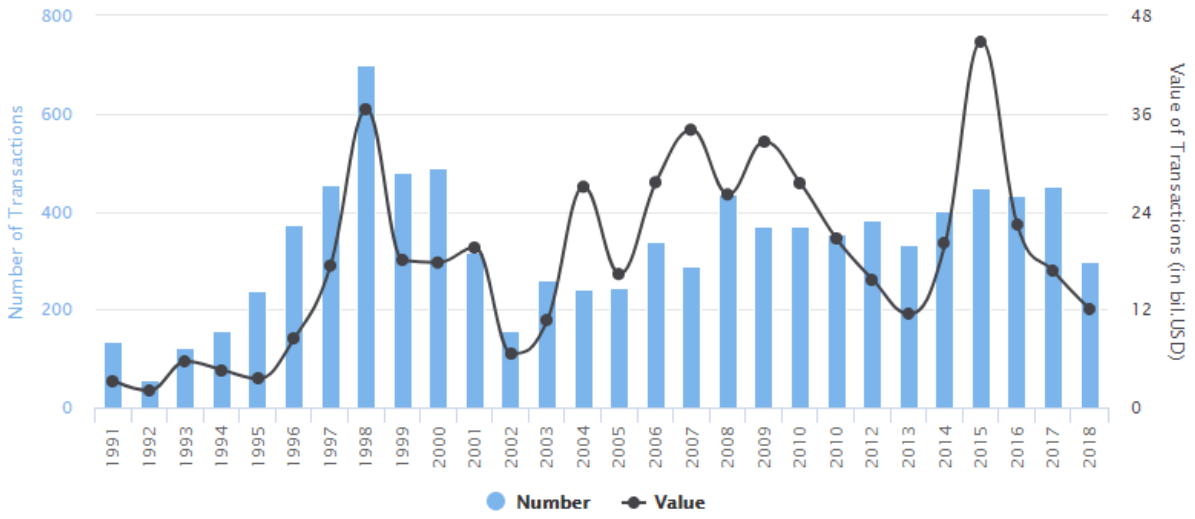


Figure 2.5: Mergers and Acquisitions transactions in South from 1991-2018
Source: IMAA INSTITUTE, 2018.

2.1.6 Malaysia

Malaysia remains one of the most active acquiring emerging countries in the South East Asia region (Rahim & Ali, 2016). Mergers and acquisitions activities in this country began in the 1970's and were mainly restricted to the rubber and palm oil plantation firms. The participation of firms from other countries was also substantial particularly in the plantation sector. With the rapid improvements in the industrial sector in the 1980's together with the policy of privatisation, many companies in the country begun to show interest in acquisitions and diversified their businesses. A major acquisition transaction that occurred during this period was the takeover of North South Highway Project by UEM (United Engineers Malaysia) in 1987 (Marimuthu, 2009).

Recently, however, firms from different sectors of Malaysia have been undertaking M&A deals, especially in the banking sector. This began in 1999 as a result of a directive by the Central Bank of Malaysia to all banks in the country to integrate and form only six (6) major groups (Shanmugam, Nair, & Suganthi, 2003). These banks were called the “anchor banks”. This was a planned strategy by the Malaysian Central Bank to prepare the domestic banks to be able to compete internationally. An example was when 93.92% shares of PT Bank Maybank Indocorp in Indonesia was legally secured by Maybank from Malaysia (Abidin, 2008). Another recent cross-border M&A integration is the transaction involving Manila-based Bank of Commerce and CIMB valued at RM881 million (Ahsan, 2012).

Indeed, the government of Malaysian identified CBM&As as a major tool for its Government-Linked Companies (GLCs) transformation plan, which was called cross-border diversification and expansion (Barrock, 2006). For example, two leading telecommunication giants Maxis communication Berhad and Telekom Malaysia Berhad (TM) adopted M&As to acquire firms in Indonesia and India (Jedin, 2012). Other banks such as the Bank of Commerce and Affin Holdings Bhd also acquired certain finance companies. However, currently besides the banking and financial institutions, firms from the various sectors are involved in M&A activities in Malaysia; a key example is the merger between Diversified Resources Bhd and Hicom Holdings Bhd.

Despite the considerable evidence of M&As activity in Malaysia, the World Economic Forum reports that, from 2009-2011, the three-year average dollar value of M&As that occurred in this Malaysia relative to the overall global value was 0.54 per cent (Mohd, 2012). Malaysia recorded a 1.7% of the total volume of M&A transactions from 2009-2011. For the same period, its M&A value as a percentage of the country's GDP was 5.76% (Chang and Teo, Global Legal Insight).

The main bodies that regulate the activities of M&As in Malaysia are the Central Bank of Malaysia and the Securities Commission, Malaysia. They reviewed the following regulations in Malaysia's M&A market to make it more attractive and robust.

1. In 2010, they reviewed the takeovers and mergers code in Malaysia. This code governs all stakeholders involved M&A activities in this country.
2. The provisions for controlling the operations of markets and intermediaries in the capital market of Malaysia that are contained in the Capital Market and Services Act 2007. This act also contains the requirements for insider trading and shareholders.
3. The provisions in the companies' act that regulate how companies are supposed to run and conduct their business operations that include the duties of directors and declarations of substantial shareholdings and arrangements or scheme.
4. Requirements for listing on Bursa Malaysia which supervises companies comply with the requirements for listing on the Bursa Malaysia.

M&A transactions in Malaysia for 2012 and 2013 were led by the consumer sector until the financial sector took over in 2014 and 2015 (Chiu, 2017). These two sectors remained in the lead with 55% of the total transactions that occurred in the country for 2016, where a major

deal involving the acquisition of Edra Energy Berhad by China General Nuclear Power Corporation for RM9.8 billion was completed.

According to Duff and Phelps (2017), Malaysia came second as the most active M&A market after Singapore in the Southeast Asia region in 2017. It witnessed higher numbers in terms of volume and value of M&A transactions. Figure 2.6 below summarises M&As activities in Malaysia by the number of transactions and value from 2012 to 2017.

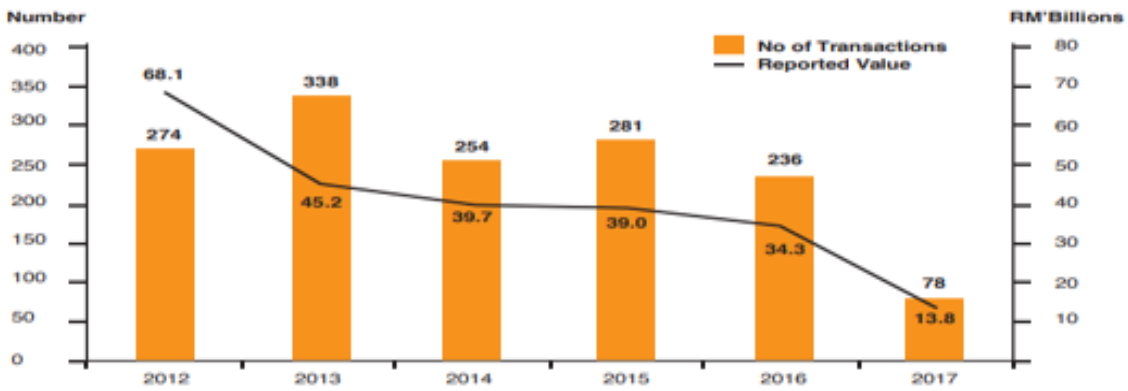


Figure 2.6: Completed M&As in Malaysia from 2012-2017
Source: Bloomberg

2.1.7 Poland

The history of mergers and acquisitions activities in Poland is a recent phenomenon which started in 1989 during the beginning of its economic transformation (Bogdał & Gołata, 2013). Through the transformation process a lot of foreign companies were attracted to Poland. According to the PricewaterhouseCoopers (2000) Central European Mergers & Acquisitions Survey, Poland's M&A activities were somewhat discouraged because of firms' continuous focus on growing their businesses through their own internal processes or redesigning strategies resulting from lost export markets. This delayed several Polish firms' decisions to direct their attention to M&As either as acquirers or targets. The increase of M&As in Poland and Central and Eastern European (CEE) countries was because of the situation in the global market (Jasiniak, 2014). M&A transactions were valued at $2.8 billion in 2001 which was almost 60% lower than the previous year's. The active growth of the market compared to 2002 global trends was different. In all, 259 transactions valued at $3.1 billion were

completed, representing an increase in growth by over 25% compared to the year 2001. Most of the transactions involved domestic investors.

The importance of investments abroad by Polish firms decreased since domestic firms managed substantial funds knowing that good time for investments is the period of bad economic conditions. However, foreign investors continued to show interest in firms in Poland. The major potential investors came from Holland, Germany, France and the United States of America. In 2003, the M&A market again experienced a downward trend where the transaction volume decreased by 6% ($ 2.9 billion).
According to PricewaterhouseCoopers (2009), the general situation of the market for corporate control in Poland witnessed a continuous growth in terms of transactions volume and value from 2004 to 2007. The financial, telecommunications and production sectors were most active in M&A transactions. The total value of acquisitions by companies from Poland from 2004 to 2014 was $10175,81 million (Jasiniak, 2014). The country also experienced growth in its M&A activities in 2005 and 2006. In 2005 for example, the volume and value acquisition transactions went up by 10% and 26% respectively with acquirers from Poland undertaking significant part in cross-border transactions, while in 2006 also, the M&A market experienced a rise of 24% with the information technology, energy, public utility and the financial services sectors as being the most active sectors. There was a further increase in transactions by 27% in 2007 valued at $ 10.7 billion with a significant number of foreign acquirer firms involved.

Foreign investors have actively been involved in acquisition activities in Poland. They show great interest in acquiring companies in Poland because it is safer, cheaper and quicker to participate in this market. Other motivating factors include the qualified and cheap labour force as well as low asset prices. International investors who participate in the Polish market do so by way of either greenfield investment, which involves a firm starting from the scratch or through a brownfield investment, of which M&A is an example. About 93% of foreign direct investments from Poland are channelled to European countries (Jasiniak, 2014).

According to Cantwell and Santangelo (2006), an important part of Polish companies corporate strategy is M&A. One major driver of Polish firms' internationalisation is associated with the country's GDP growth. For them to be able expand to other external markets, Polish firms had to strengthen their market position and improve on their competitiveness. Another important driver of foreign M&A transactions by firms from

Poland relates to tax optimisation. For firms from this country to accomplish this objective, they focus their acquisition activities in tax haven locations and take advantage of tax incentives to attract capital from outside.

Companies from Poland have largely used greenfield investments compared to the cross–border M&A entry modes to gain access to other markets. The total value of greenfield investments by Polish firms since 2004 amounted to $13 729,66 million in 2014 while M&A purchases were valued around $10175,81 million (Jasiniak, 2014). According to statistic.com (2018), the transaction value of M&As in Poland has dropped from approximately $ 21 billion in 2011 to about $ 12.2 billion in 2017 as it is indicated by Figure 2.7 below.

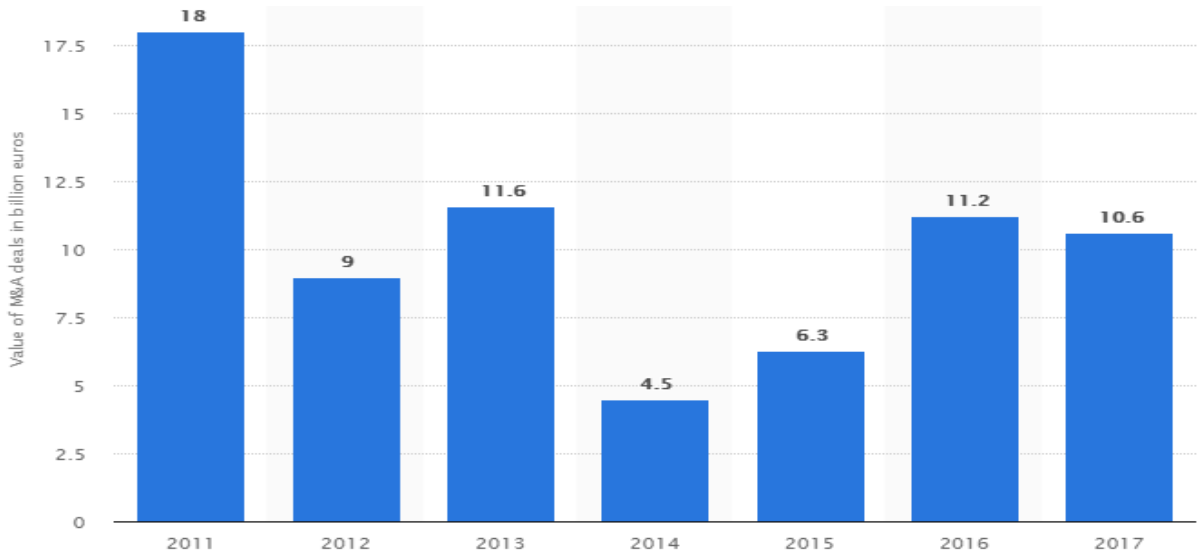


Figure 2.7: M&As Transactions in Poland, 2011-2017
Source: https://www.statista.com, 2018.

2.1.8 Argentina

Since the early 90s, a considerable amount of FDI inflows have been received by Argentina, of which about 60 per cent constituted cross-border mergers and acquisitions (UNCTAD, 2000). Even though Argentina's share of cross-border M&A globally in 1990 was not that high, it remains a major host country within Latin America and other developing countries. In 1999 for example, Argentina was ranked eighth globally amongst the top host countries for cross-border acquisitions.

M&A activities in Argentina have largely been associated with FDI. Argentina's Secretariat of Industry, Commerce and Mining reported that, between 1990 and 1999, the value of M&As transaction in the country was approximately $80 billion, of which $24 billion were through privatisations (UNCTAD, 2000).
Domestic transactions for the same period also exceeded $12.4 billion. M&As relative to greenfield investments since the 90s have been the one mode of investment for Argentina. For example, the expansion of several local conglomerates and entry of foreign multinational into Argentina become possible through mergers and acquisitions route. Some of the local firms these foreign multinationals acquired were market leaders in their line of businesses but could not withstand competition because of the liberalisation process. M&As, therefore have been an integral part of Argentina's economic restructuring agenda, particularly, the manufacturing sector.

Cross-border M&As in Argentina, from 1995-1999 increased to $ 7.9 billion compared to the annual average increase of $ 1.1 billion from 1991-1994 (UNCTAD, 2000). In 1999 for instance, cross-border M&A transactions inflows to Argentina reached a record high of $ 19. 2 billion because of the acquisition of YPF by Repsol.

Argentina's entire M&A transactions in 2011 amounted to $ 10,565 million. Since that period, the number and value of M&A transactions in Argentina has continued to decrease. It decreased sharply in 2013 to $2,562 million (Reuters, 2015) largely because of regulatory constraints and the macro-economic situation. However, agribusiness, natural resources, the financial and the energy sectors remain active in the country's acquisitions arena.

According to the Argentina's M&A annual report (2014), in 2014, the country registered a total of 208 deals valued at $7.85 billion compared to $ 2.22 billion in 2013. The natural resources and the energy sectors witnessed an $800 million YPF SA's acquisition of Apache SA's local assets in 2014 (Horacio, Ignacio & Shakespear, 2014). In the agribusiness sector also, Bayer acquired FN Semillas while Finlays also purchased Casa Fuentes in 2014.

The year 2016 equally experienced a 37.33 % surge in M&A transactions over that of 2015 with the financial and real estate sectors being very active (Argentinean M&A annual report, 2016). By the end of 2017, a total of 217 transactions had been completed in Argentina with a combined value of $ 5.27 billion for 97 of these deals with the financial and real estate

sectors still recording the higher transactions numbers (*IBID*). Figure 2.8 below provides accounts in terms of trend of M&A activity in Argentina from 1985-2018.

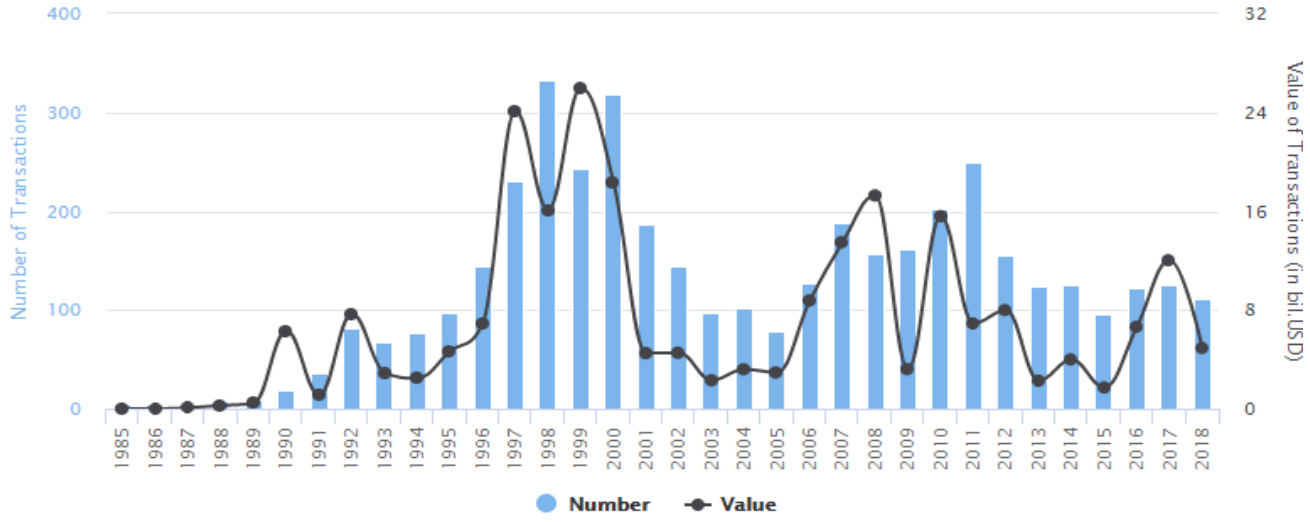


Figure: 2.8: Mergers and Acquisitions transactions in Argentina from 1985-2018
Source: IMAA INSTITUTE, 2018.

2.1.9 Chile

In Chile, as in any sophisticated business society, M&As have gradually changed the scope and importance of corporate dealings. Article 99 of the Chilean Corporation Act defines mergers as the gathering of two or more companies into one company which succeeds the former in all their rights and obligations, and likewise absorbs their patrimony and shareholders, while it considers acquisitions as business concentrations that allow one company to gain control of another company.

Chile, along with several emerging countries has only recently begun to acknowledge the potential positive impacts of mergers and acquisitions. Many Chilean firms in the 90s made efforts to replicate the successes they achieved in the local market abroad (Calderón et al., 2005). More than $ 10 billion was invested during this period, mainly in Peru, Argentina and Brazil in the electricity sector through the acquisition of assets in the privatisation processes taking place in neighbouring countries. Other investments in the manufacturing and the services sectors followed, particularly in pension funds. In the manufacturing sector, greater part of these activities was related to natural resources, wood and pulp, metal manufacturing and food and beverages.

Despite the transformation that occurred in the Chilean economy and access to low credit facilities to the local Chilean firms, they were cautious about their foreign expansion efforts. This was mainly due to the volatile economic and political situations most of its neighbouring countries found themselves in, which was difficult to convince Chilean firms about the security of their foreign investments in those countries (Calderón et al., 2005). They, however, focused on improving the efficiency of the domestic environment through the introduction of new technologies, innovative management styles that would offer them renewed synergies. This led to renewed interest consolidation by the local Chilean firms through M&As activities and alliances among companies in related businesses. This resulted in economies of scale and widespread integration.

The desire of Chilean firms to expand abroad rekindled after 2003, as a result of improvements in the domestic economy by over 6% in 2004 and 2005 and the availability of financial resources due to the robust economic growth and favourable prices for the country's key exports (Guerrero, 2017).

Indeed, the supermarket industry remains one sector that has grown considerably through the enterprise of mergers and acquisitions. For example, two supermarket giants, D&S and Cencosud of Chile in 1998, had 29.3% of the country's national sales and by the first half of 2006, they had obtained 62.5% of the total market share of the country. One notable record deal in 2007 was SACI Falabella's $3.7 billion acquisition of a rival firm D&S (Distribution Y Servicio) another supermarket giant in Chile to form the second-biggest retail firm in the Latin America region to expand globally (Reuters, 2007). Several international acquisitions with deal value of more than $100 billion have been undertaken by Chilean companies. A key example is the 1.4 billion CMPC acquisition of a pulp and wood products plant in Brazil in 2009 (Ludeña, 2011). The wood product companies in Chile have established their business strategies and models in other countries like Uruguay, Brazil and Argentina. These Chilean companies have used a structure that is vertically integrated where they manage the forests and process the wood into final products, which are either exported into other developing countries or sold within the host countries (Ludeña, 2011).

Table 2.3: Chile's Top 10 Outward M&A Transactions, 2007-2010

Date	Acquirers	Targets	Target Industry	Target Country	% of shares acquire	Value of deal
12/15/9	CMPC	Aracrus Cellulose SA-Guaiba	Forestry	Brazil	100	1430
12/16/7	Cencosud	Grupo Wong	Retail	Peru	100	633
11/17/7	Cencosud Navieras	G Barbosa Eitzen Bulk Shipping	Retail	Brazil	100	430
6/21/10	Ultragas Investor	A/S	Transaport	Denmark	33	93
2/27/9	Group Cervecerias Unidas	Bavaria SA-Agua Brisa Bottled	Beverages	Colombia	100	92
7/5/10	(CCU) Cementos	Inversora Cervecera, SA	Food and Beverages	Argentina	100	88
11/16/10	Bio Bio Investor	Cementos Portland SAC	Cement	Peru	30	61
1/14/11	Group	Persquera Exalmar	Fisheries	Peru	100	60
4/23/9	Cencosud	Easy Colombia	Retail	Colombia	30	60
5/19/10	Molymet	Luoyang High Tech	Metal	China	50	38
	Total					2,985

Source: Economic Commission for Latin America and the Caribbean (ECLAC)- Serie Desarrollo productivo N° 192, on the basis of Thomson Reuters.

Chile's trend of M&A activities in recent years has focused on how it can accelerate its foreign investments. This is motivated by favourable returns in the local market environment and attractive opportunities in neighbouring countries. This situation continued with the acquisition of Fetzer Vineyards by Concha y Toro in 2011 for $ 238 million. In March 2012 also, in order to access new markets to increase its international presence, LAN Airlines pursued an important merger with TAM Airlines from Brazil where its shareholders will

control 71% of the company. The Chilean M&A market in 2015 remained active with an overall deal volume of 188 being recorded at a value of almost $30.24 billion, where the insurance and the financial sectors were largely the most active (Merrill Corporation, 2015). Several factors are responsible for driving M&A transactions by Chilean firms. One such factor is the favourable and conducive domestic business climate due to its relative stable macroeconomic environment. Another driver is the country's natural resources endowment. These factors have enabled firms from Chile over time accumulate the required abilities for international expansion through the M&A route (Ludeña, 2011). Some Chilean firms, however, have taken advantage of similarity in language and development levels as well as physical proximity to expand to other neighbouring countries through M&As. This study, therefore, presents M&As transactions in Chile from 1987-2018 in Figure 2.9 below.

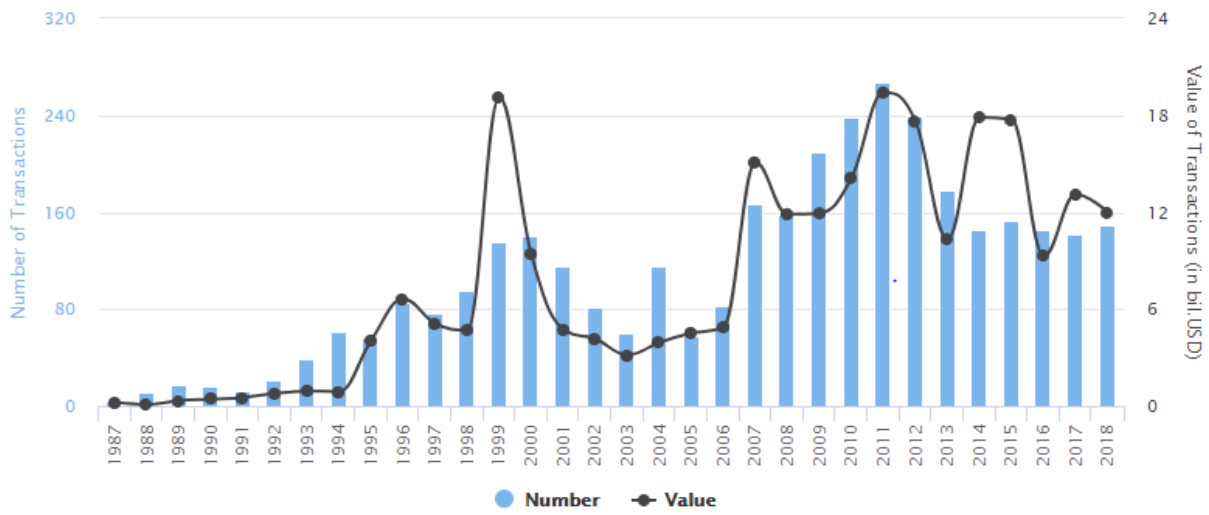


Figure 2.9: Mergers and Acquisitions transactions in Chile from 1987-2018

Source: IMAA INSTITUTE, 2018.

2.1.10 Peru

Peru uses M&As as one of its strategic growth alternatives. This usually happens when the level of competition in a particular industry is high and because of that, firms believe that, the synergistic value to derive from combining firms exceeds the value of two individual firms, often due to economies of scale (Chen, 2017). Table 2.4 below provides a list of previous M&A transactions in Peruvian microfinance, followed by a brief discussion about transactions that greatly impacted the Peruvian microfinance from 2006-2014.

Table 2.4: Mergers and Acquisitions in Peruvian Microfinance from 2006-2014

Year	Acquirer	Target	Deal value ($ millions)
2006	Edyficar	Crear Cusco	Undisclosed
2007	BBVA	Caja Rural Nor Peru	Undisclosed
2007	BBVA	Caja Rural del Sur	Undisclosed
2008	BBVA	Crear Tacna	11.4
2008	Scotiabank	Banco del Trabajo	Undisclosed
2009	BCP	Edyficar	96.0
2010	BBVA	Financiera Confianza	31.6
2011	Compartamos Banco	Financiera Creditos Arequipa	63.0
2012	Financiera Universal	Caja Rural Profinanzas	18.5
2014	Credinka	Financiera Nueva Vision	13.6
2014	Edyficar	Mibanco	179.5

Source: BBVA Microfinance Foundation; Chu; Credicorp, 2009; Credicorp, 2014; Dischner and Gabriel; Scotiabank

In Peru, the desire by firms to grow organically by increasing companies' own activities internally was replaced with inorganic growth initiatives through mergers and acquisitions due to decline in profit levels. This trend of consolidation began in 2006 with the acquisition of a micro finance firm Crear Cusco by Edyficar for $2.3 million (Dischner & Gabriel, 2009). Since then, several institutions have undertaken M&As in the flourishing microfinance market in Peru. Some of these institutions include large commercial banking institutions such as the Scotiabank, BCP (Banco de Crédito del Perú) and BBVA (Banco Bilbao Vizcaya Argentaria) (Chen, 2017).

By close of 2007, the BBVA had acquired Caja Rural del Sur and Caja Rural Nor Perú. BBVA in 2008 again acquired Crear Tacna for $11.4 million. These business entities were finally merged by the bank to form Caja Nuestra Gente. Additionally, in 2008, Soldexa from Peru acquired Soldaduras Megriwelck and Soldaduras Westarco in Colombia for $97 million. Further, in 2010, BBVA merged with Caja Nuestra Gente to form BBVA Microfinance

Foundation after it has acquired Financiera Confianza for $31.6 million These acquisitions by the BBVA Microfinance Foundation enabled it to create the single Peruvian micro finance company having branches in 24 regions of that country (Chen, 2017).

Since 2008, Peru had continued to be active in activities of M&As domestically, as a result of growth in its GDP by 9.84 per cent in 2008 (Payet, Patrón & Castillo, 2009). In many important areas of the economy, consolidation by means of acquisition continues to be active for Peruvian acquirers interested in firms that are small and medium in sizes. The financial and fishing sectors have seen a lot of transformation since 2008 and 2009. For example, a consolidation process through M&As has been taking place with the involvement of both domestic and foreign multination acquirer firms pursuing Peruvian targets. Notable examples in this regard include the purchase of 72 per cent shares in Pesquera Polar and 100 per cent shares in both Consorcio Malla and Pesquera Atlantico by Pesquera Diamante for a total value of $165 million.

Regarding cross-border M&A activities, firms from Peru have equally been active in it. Since 2008, massive transformation has taken place in almost all the sectors of Peru's economy using mergers and acquisitions arrangements to expand certain activities in traditional sectors such as, mining, banking, energy, finance, and manufacturing to non-traditional sectors like agriculture, fishing and real estate.

According to Payet et al. (2009), from September 2007 to August 2008, 50 M&A transactions valued at $ 35 billion have been undertaken by Peruvian companies. Peru's M&A activity has not focused on one direction. Larger Peruvian companies have attempted to invest abroad even though these firms' foreign investments in terms of value are not substantial, about $1.476 billion in 2008 (Payet et al., 2009). For instance, in September 2008, Minsur SA from Peru acquired Taboco Tin from Brazil for $472 million.

Despite the slowdown in Peru's economy, the M&A market in 2014 was productive with a total transaction value of approximately $11 billion. The growth in the M&A market in 2016 was also remarkable. The mining, infrastructure and energy sectors were very active, surpassing that of 2015 by 20 or 30 per cent (Carlos, 2017). The year 2017 also had its fair share of M&A transactions in Peru, recording 27 deals in the first quarter, where 16 of them were valued at $984 million (Carlos, 2017). Figure 2.10 reveals the trend of M&A activity in Peru from 2012-2015.

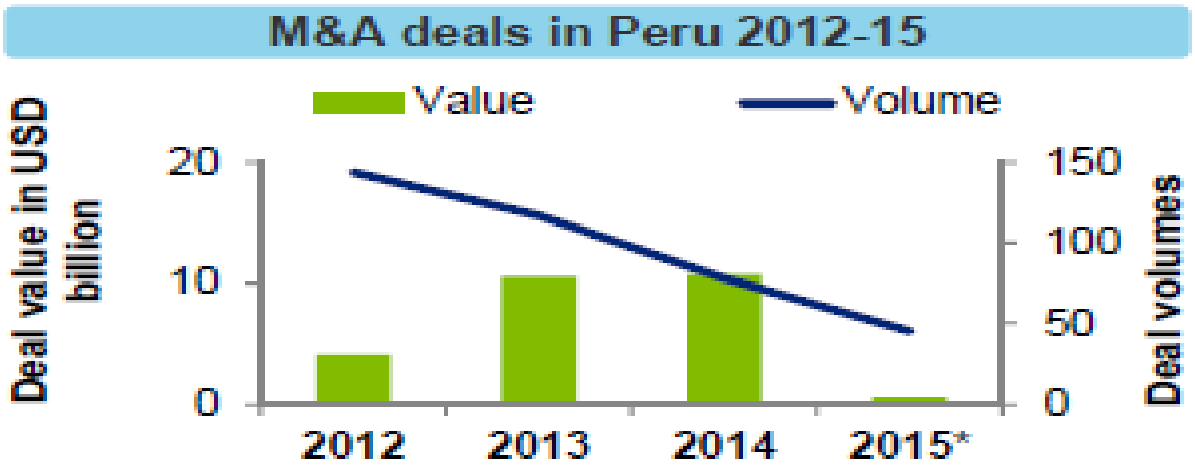


Figure 2.10: M&A deals in Peru 2012-2015
Source: EIU Thomson M&A, 2015.

2.1.11 Colombia

According to Siriopoulos, Georgopoulos and Tsagkanos (2006), the motives for acquirer firms in Colombia to undertake M&As range from obtaining market power to the allocation of liquidity surpluses. Other motives include the ability of these acquiring firms to reduce risk and create financial synergies for themselves. In Colombia, just like other developing economies, acquirers are generally mature and large in size compared to the target firms (Siriopoulus et al., 2006). The acquirers also have lower rates of growth, profitability and superior labour productivity. This means that, on average, acquirer firms through the merging processes make efforts to reduce their level of risks and eventually grow.

Activities of acquisitions in Colombia are expected to be enhanced because of the conducive business climate supported by various factors such as: Colombia's growing network of free trade and strong financial sector regulation, policies favourable to foreign investment, the improvements in the quality of the labour force and falling labour costs and better macroeconomic policies that will keep fiscal deficits and inflation on track. According to Gómez-González and García-Suaza (2010) who examined the impact of bank failures on M&As in Colombia, growth and market concentration created the needed incentives for undertaking M&As contrary to profitability, stability and liability which decreased the likelihood of M&As occurrence, particularly during periods of favourable economic environment in Colombia.

The market for Colombia M&As continues to experience substantial growth, with its foreign direct investment reaching $18 billion (Reuters, 2017). The country's M&A activity mostly has been led in terms of number of by private companies, with few transactions by public listed firms. However, public companies usually undertake transactions that are larger and quite visible compared to even the largest deals by private companies. Few examples of M&A deals that have been undertaken by firms in Colombia both as targets and acquirers in domestic and foreign markets include; Terranum Hotels' acquisition of Hoteles Decameron, Corp Group's acquisition of Helm Bank and Banco Santander Colombia, Avalon Holdings' acquisition of airplane business unit from CIT Group for $10.796 million. Others are Grupo Argos' acquisition of 30% shares in Opain SA for $160 million, Orinoquia Capital Limited's acquisition of Canadian energy company PMI Resources Limited for $33,898,500, Ashmore's acquisition of a toll road concessionaire for $42 million (Baker McKenzie, 2017).

Key factors that motivate M&A activities in Colombia include; the acquirers desire in buying distressed assets in other countries, lower valuations because of strong foreign currency exchange compared to the Colombia Pesos have made targets in Colombia cheaper, low inflation, strong rule of law, compliance with international agreements, the favourable regulatory environment, well-establish traditional financial management practices and foreign asset management firms desirous to invest in Colombia's infrastructure projects (Baker McKenzie, 2017). Figure 2.9 below shows M&A activities in Colombia from 1985-2018;

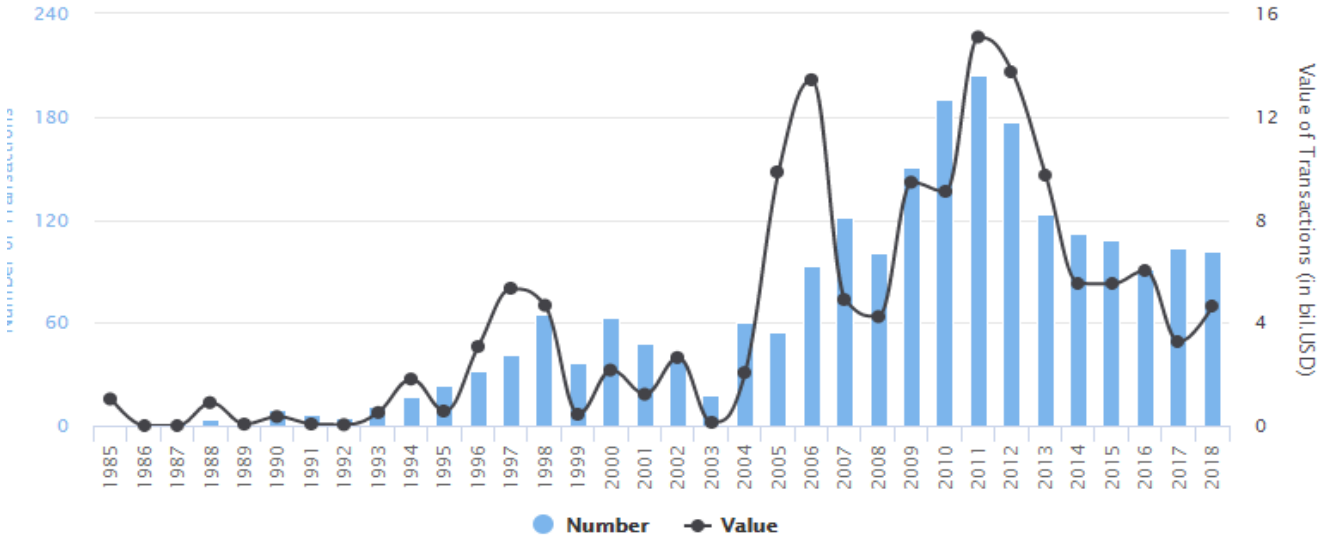


Figure 2.11: Mergers and Acquisitions transactions in Colombia from 1985-2018
Source: IMAA INSTITUTE, 2018.

2.1.12 China

China's M&A activities involving both domestic and cross-border consolidations have tremendously increased over some decades now. Several reasons have been given to explain these substantial increases in M&A transactions.

One important reason is the steady and gradual development of the Chinese capital markets coupled with the impact of the global economic environment which has also contributed significantly. Specifically, firms in China have been able to consolidate and restructure their businesses through acquisition activities to protect themselves against the entry of robust competitors from abroad as a result of its agreement in 2001 to the World Trade Organisation (WTO). Second, due to high levels of profits Chinese firms generate, together with the country's high growth rates, strategic M&As in the form of outward and inward investments have given firms from China the opportunities to seek other synergies or economies of scale to improve their competitive advantage. Third, because of the reduction in barriers and regular modifications to regulatory and taxation framework associated with M&As approval process, its execution has become easier for Chinese firms. Fourth, State-owned companies in China have been using M&As to restructure their assets. For example, important SOEs (state-owned enterprises) in particular sectors such as defense, aerospace, telecommunication, energy, utilities, basic material have been advised for conglomerates to compete globally. Others have been asked to reduce their shareholdings to improve competition and enhance efficiency. As a result of this, other investors have obtained the opportunity to enter the M&A market (Devonshire-Ellis et al., 2011).

Since the early 2000s, the government of China has used various policy measures like low interest rates, subsidised insurance, favourable exchange rates, and reduction in taxes to encourage outward foreign direct investment (OFDIs) such as M&As. Evidently, several firms from China have taken advantage of these introduced incentives and invested outside of China (Khoury & Peng, 2011; Meyer et al., 2009).

Cross Border Mergers & Acquisitions (CBMA) has become an important vehicle for Chinese companies drive to seek different forms of assets globally (Boateng, Qian, & Tianle, 2008). International merger deals for China are likely to rise in terms of volume and value in the future and the impact of it will be great on international political and economic affairs (Chen & Tan, 2011). In 2012 for instance, China's CBMA value was $ 37111 million compared to $185 million in 1991 (Du & Boateng, 2015). Further, in 2015, China played a significant role

in $5 trillion global increase in mergers and acquisitions. A considerable percentage of these transactions were driven by the emergence of Asia Pacific firms, of which the value of transaction by Chinese acquirers alone stood at $735 billion. Indeed, China's acquisition activities over the years continue to rise as is clearly depicted in Figure 2.12.

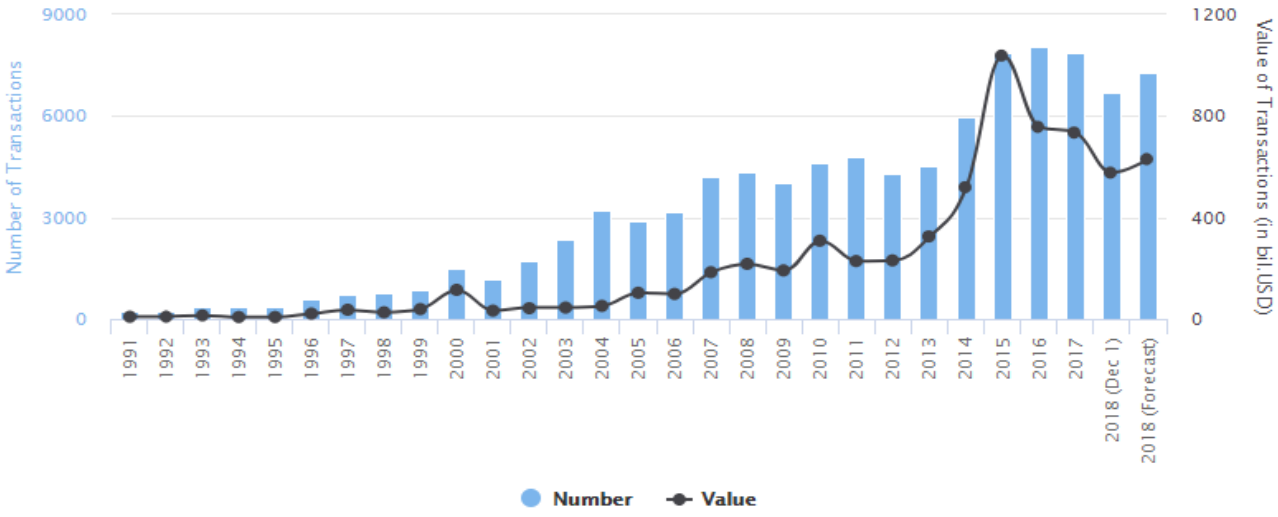


Figure 2.12: Mergers and Acquisitions transactions in China from 1993-2018
Source: IMAA INSTITUTE, 2018.

Despite the over 30 years of privatisation, the Chinese economy has substantially been affected by the intervention of government, and a considerable portion of firms are controlled or owned by the state and its agencies. For instance, almost 80% of the listed firms in China in 2010 were owned by the state, and several domestic acquisition deals, particularly in the energy, industrial and natural resources sectors were also led by state-owned companies (Szamosszegi & Kyle, 2011). The government of China provides the required assistance such as financial support and tax incentives to its acquiring companies to pursue potential target firms under strict government control. For example, Zhou, Guo, Hua, and Doukas (2015) find that, public state-owned companies in China are in a better position than non-government- owned companies in acquiring private state-owned targets. Further, Sun et al. (2012) also indicate that, the Chinese government offers numerous incentives in the form of preferential benefits to SOEs for them to easily access production inputs and bypass certain regulatory processes. If the state-owned companies can take advantage of the opportunities given to them by having quick access to funds, get reliable M&A counterparts, approve deals quickly, it will enable them to execute M&A deals at relatively reduced costs. This makes

government acquirer firms experience considerable long-term improvement in their performances relative to their counterparts that are not government-owned.

These policies of discrimination in China's market for M&As significantly have influence on the motivations and results of acquisition deals which usually put non-government-owned enterprises at disadvantaged positions compared to government-owned enterprises. For example, Shanxi Province in 2018 decided to reduce the number of coal mines by embarking on reconstruction of a coal mine scheme. Virtually all privately-owned coal mine firms were asked to accept merger bids of state-owned enterprises (SOEs), where deal valuations provided by the government were not based on negotiated or market prices (Zhou et al., 2011).

However, political security has arisen in China because of the massive decline in its foreign exchange reserve as a result of the increasing capital outflow. This has made Chinese authorities adopt measures to control outbound flows. Outbound M&A activity in China in 2015 and 2016 increased, reaching a total value of $59 billion and $208.6 respectively over these periods (Gao, 2010). Acquisitions are not the only mode of entry for Chinese multinational enterprises; exports are also used (Gao, 2010) even though the primary entry mode is that of acquisitions (Sun, Peng, Ren, & Yan, 2012).

China's outbound M&A drive is attributable to several factors including the availability of capital, quest for growth from external sources to support its slowing economy and the desire to meet the growing demands for the many middle and affluent classes. As a result of this, acquisitions by China relating to consumption activities went up to almost $13 billion in 2013.

Companies from China focus on Europe and North America when deciding on acquisition transactions. This is due to the slowdown in growth domestically which has affected other Asian countries adversely as the economy of China reposition itself from an export-driven manufacturing economy to a technology driven one, because of the rise in consumption by the middle class (JPMorgan, 2016). The growth in China's acquisition activities has been motivated by a host of factors.

First is China's desire and quest for sustainable long-term growth. After 2010 when its GDP growth was 10.6%, the economy of China stagnated. Due to that, several Chinese firms since 2010 ventured into both foreign and domestic acquisition transactions in large numbers to improve on its internal growth.

Second is the availability of funds together with the favourable regulatory frame work for firms in China. There has been an introduction of many monetary easing instruments by the People's Bank of China (PBOC) to tackle the slowdown of China's economy. From 2014 to the first quarter of 2016, the bank (PBOC) was able to reduce the benchmark interest rate from 6% to 4.35% (JPMorgan, 2016) as illustrated by Figure 2.13 below.

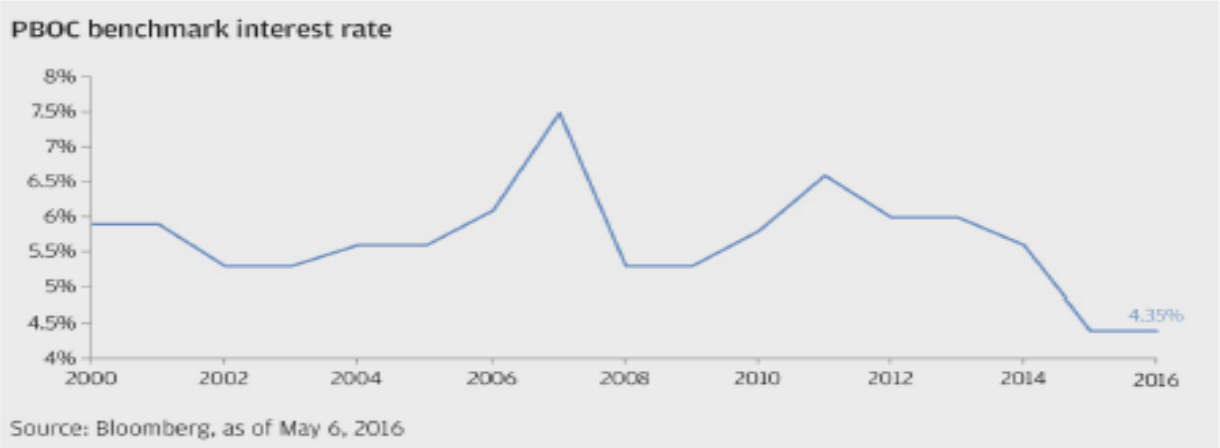


Figure 2.13: PBOC Benchmark Interest Rate
Source: JPMorgan, 2016.

Many sources of finance are available to Chinese acquirers, including local commercial banks, foreign banks, domestic private equity co-investments, A-share placements and support from policy banks and regional governments. The China Bank Regulatory Commission in 2008, provided guidelines that requested commercial banks in China to offer financial support to local acquirers. Further in 2015, it made its guidelines less strict by increasing the tenure requirements and loan-to-value on such financing.

A third factor is China's change in direction from export-oriented manufacturing economy to an economy tailored towards technology, consumption and industry. Firms from China focus on the acquisition of firms from North American and Europe in order to advance their technological capabilities to push the country's industrial sector forward, to attract reputable and valuable brands to the growing consumer base in China. Firms from China have resolved to look beyond their local market to include the international market also, in their efforts to become global leaders.

Fourth motivating factor is empire building and managerial hubris by managers of Chinese companies. In fact, the compensation of managers of several Chinese firms depends on the complexity and the size of the firm they manage. For instance, The Economist (2010) reports that, the Chief Executive Officer (CEO) of Industrial and Commerce Bank of China (ICBC), received just under $134,000 in 2009 compared to his counterparts in the Western world. It is prohibited to demand substantial pay raises within state-owned enterprises in China. However, by expanding the size of the firm considerably and the company's complexity through large-scale acquisitions, then a manager can make a strong case for pay increases. This may be a key reason for ICBC's 2007 acquisition of 20 per cent of standard bank of South Africa valued at $5.5 billion, which was the largest OFDI deal of China during that period (JPMorgan, 2016).

The fifth factor is the urgency for fast market entry by firms from China, particularly into natural resource endowed areas (Deng, 2009). Indeed, M&As in China has for a long time been focused on acquisition of natural resources. This has included mining investments in Canada and Australia as well as acquisitions of copper, iron ore and steel. The country's acquisitions in the mining sector were valued at $ 30 billion in 2008 but decreased to $20 billion in 2009.

The sixth motivating factor is the scarcity of attractive domestic assets. A recent development in M&As by small and medium-sized firms from China has led to a reduction in the number of domestic target firms for Chinese acquirers. Privately-owned firms in China usually opt for public market transactions because of domestic valuation benchmarks. This kind of valuation difference motivates acquirers from China to pursue targets abroad.

The seventh factor relates to the large number of acquirers from China. The favourable funding climate for M&As together with the overall monetary easing and the strategic importance to undertake foreign M&A deals has increased the number of Chinese acquirers. The country's outward transactions have historically been dominated by government-owned companies who concentrate on resources and energy. The current acquisitions wave is characterised by a wider universe of acquirers, consisting of firms with a broader sectoral focus, A-share listed companies and domestic private equity firms.

The eighth factor relates to the politically supportive environment, which plays a major role as far as M&A activities in China are concerned. The Chinese government has introduced several policies and initiatives as incentives for certain local and foreign investments. Examples of these initiatives include the Belt One Road project designed for improvement of trade between Asia and Europe by means of investments in ports, rail and road infrastructure.

Another example is the Made in China 2025 initiative aim to push the country's manufacturing sector forward, with emphasis on innovation and technology. This programme focuses on specific sectors like automation, information technology and the high-speed rail to provide support for this initiative.

2.1.13 India

The rise in competition in the international market has encouraged firms from India to pursue M&As as a strategy for growth and expansion. Since 2000, activities of M&As have gone up in manifold where acquirer firms from India have actively taken part where they have a strong presence in the advanced economies (Sethi, 2009). The acquisitions by firms from India compared to their peers from the other BRICS countries are spread across both developing and developed economies (Sethi, 2009). Indeed, firms from India are willing to improve their international M&A activities by taking advantage of the availability of human resources according to (Altenburg, Schmitz, & Stamm, 2008; Luo & Tung, 2007).

India's M&A activities have not been the same over the years. The immediate impact of these activities in the various sectors of the Indian economy has also not been the same. The country's acquisitions enterprise experienced a rapid surge from the year 2003 to 2007 with a yearly growth rate of approximately 95% at $70 billion (Singh, 2012). M&A business transactions were greater than $100 billion at the end of 2007. This was twice the number of acquisitions in 2006 (Singh, 2012).

In the year 2010, companies in India recorded 627 M&A transactions which included domestic and cross-border transactions. A transactional value of $ 65.9 billion was registered for 283 out of these deals, which was substantially higher relative to that of 2009 which experienced 413 total transactions. There has been a progressive growth in the robust Telecom sector after the country's liberalisation programme, with assistance from the regulatory authority. M&A volume in the country for 2010 was the highest with a total transaction value of almost $ 14.6 billion. Notable examples of M&A transactions in 2010 include Vodafone's acquisition of Hutch Essar, the acquisition of NTT Docomo of Japan by Tata Tele. Others include Airtel's acquisition of Kuwait-based Zain Telecom for $ 10.7 billion.

Regarding domestic M&A activities, 494 domestic transactions were recorded in 2014 with a disclosed value of $16.2 billion, representing a total transaction volume and value of 57%. According to Ernst and Young (2015), the quest of Indian firms to consolidate their enterprises or businesses has contributed in motivating domestic M&A activity. Also, the desire for accelerated growth of the Indian economy has encouraged highly leveraged firms in the country to divest their assets by means of M&As to repay loans and address interest costs. Two key examples of domestic M&As include the acquisition of Ranbaxy Laboratories Limited by Sun Pharmaceuticals Limited for $3.2 billion and ING Vysya Bank's acquisition by Kotak Mahindra Bank for $2.4 billion.

About cross-border M&A activities, companies from India confronted a considerable challenge in obtaining funds from both domestic and foreign sources to support them in their acquisitions drive in 2010. The macroeconomic difficulties in the country raised issues of valuation and affected the transaction completion time. According to Rani et al. (2017), 72 cross-border M&As valued at $11 billion were recorded in 2012 by firms from India compared to $ 6.7 billion in 2011. With respect to the geographical destinations, firms from India target developed countries because of attractive valuations in markets that are distressed (The Economic Times, 2013). However, De Beule and Duanmu (2012) maintain that, multinational enterprises from India target both the emerging and developed markets. Cross-border deals by Indian companies again showed a varied performance in 2014 with a deal volume of 376 amounting to $12.4 billion. According to the Ernst and Young (2015) report, in 2015, overseas M&A transactions by firms from India were 119 and valued at $2 billion. Both domestic and foreign acquisition transactions in India have not remained the same, they have been increasing and falling over the years as is indicated by Figure 2.12 below.

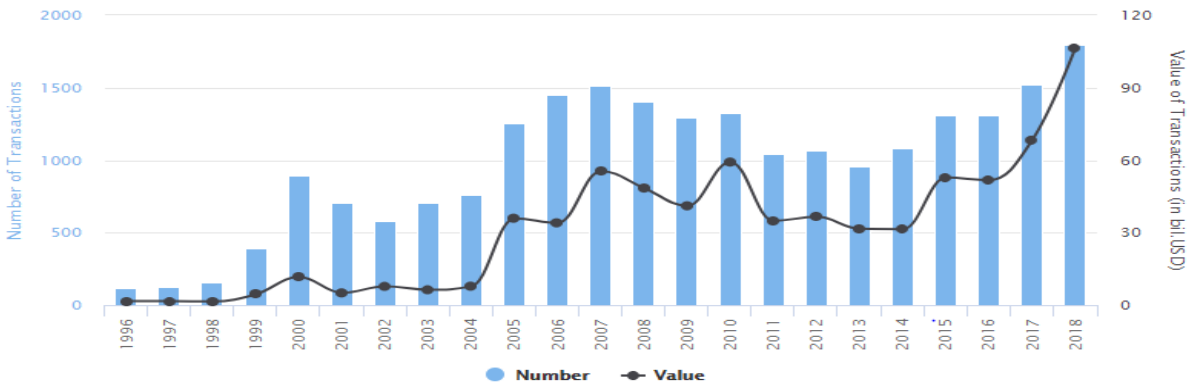


Figure 2.14: Mergers and Acquisitions transactions in India from 1996-2018
Source: IMAA INSTITUTE, 2018.

Concerning the various drivers of domestic and foreign acquisitions by firms from India, Kale, Singh, and Raman (2009) in their assessment realised that, the opportunity to learn new technology from the company that was acquired is a key reason for foreign acquisition transactions, even though an empirical survey of 152 firms by Rani, Yadav, and Jain (2012) suggests that, taking advantages of synergies was the main reason for mergers in India from 2003-2008. In a study on emerging markets about the motivations and patterns behind overseas M&As by companies from India, Pradhan and Abraham observed that, most of the foreign acquisition deals started with the services sector which was led by the software industry and largely focused on developed economies. They further indicate that, major drivers of these cross-border transactions by Indian firms include the ability to have access to foreign markets, to access firm-specific intangible assets such as human skills, technology, to overcome obstacles from limited home markets, to enjoy operational synergies and to survive in an increasingly competitive business environment (Pradhan & Abraham, 2005).

Financial economies, operating economies and increased market share also have been identified as the expected synergies available to Indian firms in corporate mergers. Other factors that drive M&As by Indian companies include the availability and easy accessibility to funds because of the strong capital markets, reduction in debt levels of firms, and the rise in leverage finance together with high valuation of Indian companies.

2.2. Chapter Summary

This chapter reviewed M&A activities of selected emerging market countries especially those from where firms were drawn and included in this study. Some historical accounts and trends of how M&As have been going on in these countries were identified. The review provided insights of active participation of emerging market countries in global M&As. The chapter highlighted on issues relating to domestic and cross-border M&A activities by countries from the emerging markets. Materials and other resources for this review were obtained from different sources including M&As reports of Bureau van Dirk Zephyr, Ernst and Young, PricewaterhouseCoopers, Mergermarkets, UNCTAD, the IMF, the World bank as well as M&As reports from the various countries' agencies for trade and commerce.

While the chapter revealed some interesting information in terms of statistical figures about the countries' performances in M&A activities, it was realised that more work should be done to develop proper legislative frameworks to support and protect M&A transactions by firms from this region of the world. This will enable them to become more competitive and gain the

needed exposure and experiences about the various processes involved in executing M&A deals. The ensuing chapter reviews and discusses the various related literature on drivers of M&As by acquirer firms from the emerging markets. Related issues of M&As such foreign direct investments, domestic and cross-border M&A routes and their challenges to emerging market acquiring firms in their acquisition pursuits are also reviewed in the next chapter.

CHAPTER THREE
DRIVERS OF M&As IN EMERGING MARKETS
LITERATURE REVIEW

3.1 Introduction

Chapter 1 presented the motivation for this study while Chapter 2 reviewed M&A activities of selected emerging market countries specifically those countries from where firms were drawn and included in this study. The present chapter sets out to review the various literatures related to this study. It begins with a highlight on the changing trend of emerging market firms which have traditionally been considered as targets to their gradually assuming positions as acquirers. The chapter continues by reviewing the literature relating to drivers of M&As by acquirers from the emerging markets. Thereafter, it considers the discussion on FDI and how it relates to M&As involving emerging market acquirers. Further, the chapter looks at the definition and types of M&As and attempts a review of the distinction between domestic and cross-border acquisitions pertaining to the emerging markets. It finally ends with a discussion on some of the challenges developing country firms encounter in their M&A pursuits as acquirers.

3.2 The Changing Trend of Emerging Market Firms as Targets to Acquirers in M&As Transactions

Mergers and acquisitions contribute significantly in the efficient allocation of resources in an economy. By any measure, it is among the most important investment decisions firms make (Bhabra & Huang, 2013). For years, target firms in M&A activities globally have come from developing economies while developed market firms have traditionally served as acquirers. For instance, in 2014, as observed by Chance (2015) and Reuters (2014), cross-border M&A transactions that occurred in the emerging economies saw an increase of more than 25%, in which several of the firms initiating these deals were large multinational firms from Europe. The annual growing interest in Africa as a target region has equally increased tremendously in the last two decades, but a large number of inbound acquisition investments in developing countries still remain with firms from the Latin America and China (Chance, 2015; Reuters, 2014).

While transactions involving acquirers from developed economies dominate, firms from emerging markets in recent times are gradually taking part in acquisition transactions in many areas as acquirers. Many firms from the developing economies such as India, China, Russia, Argentina, Malaysia, South Africa, the United Arab Emirates, South Korea, Thailand, Peru, Brazil, Indonesia, Turkey, Mexico and Colombia are acquiring greater control in some firms in developed countries economies at amazing levels. This demonstrates an important way these firms are using M&As to expand and grow their businesses to acquire tangible and intangible resources (Hitt, Li, & Worthington, 2005; Luo & Peng, 1999; Thomas, Eden, Hitt & Miller, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005) despite the fact that penetrating competitive and new cultural environment like the developed economies is usually associated with a certain degree of costs because emerging market multinational companies (EMNCs) come face-to-face with a new set of rules, conventions and procedures and ways of doing business (Andersson, Johanson, & Vahlne, 1997; Johanson & Vahlne, 2009).

In 2011 for instance, about 20 percent out of 2,585 notable M&A transactions involving developed and developing economies were originated by firms in the emerging countries. According to Bhagat et al. (2011), in 2004 for instance, outbound cross-border acquisitions (CBAs) initiated by acquirers from emerging economies saw an increase of about $37 billion to $182 billion in 2008, representing almost 392 % increase. That value constitutes 66 per cent of the entire FDI outflows originating from the emerging economies (Bhagat et al., 2011).

Further, Ocampo (2011) reports that, the percentage of firms originating from the developing economies that engaged in CBAs went up to 13 per cent in 2005 from 4 per cent in 1987, and in 2011, it increased by 25 per cent. This confirms the existence of a certain pattern of obvious and appreciable rise of acquisition activities by emerging market firms and their desire to establish a strong presence in the world's economy.

Figure 3.1 below provides highlights of cross-border transactions for both emerging and advanced economies in terms of volume and value of deals from 1997-2009, after which the next section identifies the various drivers behind M&A transactions being executed by acquirer firms from the emerging markets and contribute to expand the extant literature on the subject matter of drivers of M&As.

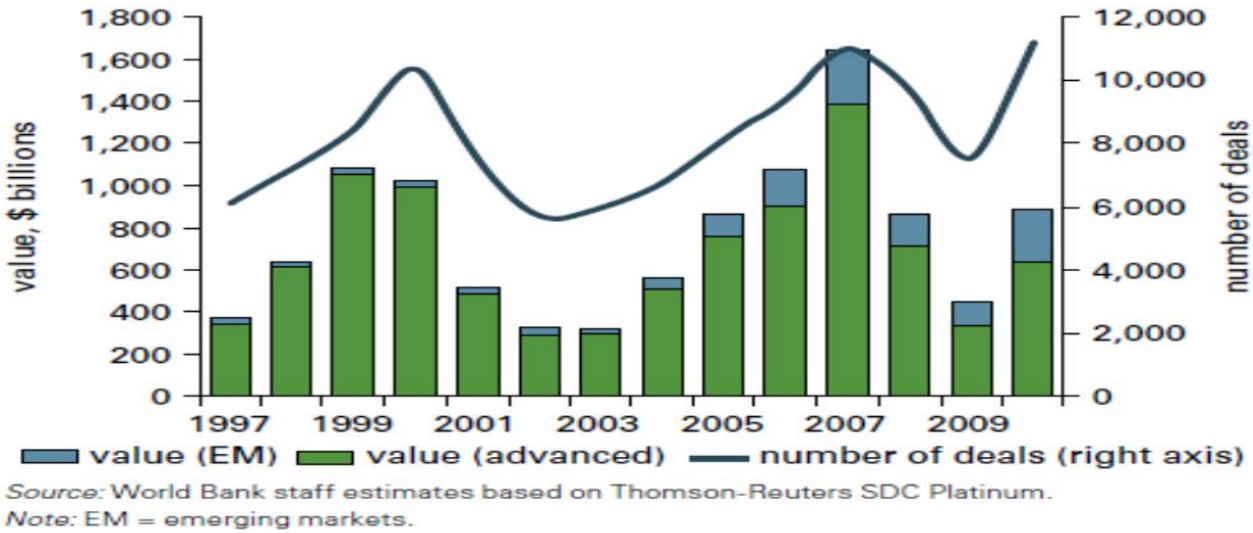


Figure 3.1: Total cross-border M&A deals by firms from advanced and emerging market economies, 1997–2009 (World Bank, 2011).

3.3 Drivers of M&As by Emerging Market Firms

The growing body of finance literature examining drivers of M&As involving acquirers from the emerging markets does not appear to focus only on the known drivers such as diversification, hubris, synergy gains, empire building, tax incentives, increased technology, increased managerial skills, growth and being able to have access to new markets, but they also look at other factors like market power, stronger institutions, national pride and transactions cost as well (Lebedev et al., 2015).

Various scholars and research institutions identify different potential drivers of future M&As globally, particularly transactions that would involve acquiring firms from developed economies. For example, as projected by Chance (2015), the main drivers of future cross border M&As would be window of opportunity for cheap debt, cash on balance sheets, calming of Eurozone troubles, drive for higher returns, shareholder activism, ongoing fight for natural resources and necessity of creating value for the shareholder as well as growth market bidders desirous of becoming players globally. KPMG (2016) in supporting the viewpoints expressed by Chance (2015), reports that, since 2016, firms have been refocusing their M&A activities towards expansion rather than consolidation because large amounts of financial resources are readily available which will enable them to undertake more deals speedily. This implies that, working capital has become one important factor that will

motivate companies to execute M&A deals as the various reports clearly suggest. Sagner (2007) further adds that, M&A activities in the near future will be redirected towards firms with considerable excess working capital which will serve as a catalyst or platform for acquirer firms to transfer cash from substandard investments to more attractive and rewarding ones. It will also focus on firms with inefficient working capital management issues but provide opportunities for acquirers to help improve on the utilisation of current assets and liabilities. Further, he states that, of late the focus of M&As is geared towards gaining of companies with attractive balance sheets. In supporting these assertions, Nagano and Yuan (2013) maintain that, firms from Indian and Chinese are been pursued due to the availability of excess cash reserves.

Regarding emerging market acquiring firms too, several factors have been suggested and highlighted in literature as being key drivers of their M&A activities. Some of them include seeking of natural resources, institutional reforms, stronger institutions, latecomer disadvantages, seeking of various forms of synergies, filling capability gaps, diversification and international expansion, escaping from home competition and limitations of domestic market. These points are explained in detail below.

Seeking natural resources

The ability of firms to secure continuous and reliable supply of key natural resources has been identified as a major driving factor for M&As by firms from the developing economies. This factor still finds a lot of broad base support among many scholars in corporate finance literature including (Gaur, Kumar, & Singh, 2014; Stucchi, 2012). For instance, according to UNCTAD (2006, p.161), a third of the 30 M&As executed between 1995- 2005 by acquirer firms from emerging economies occurred in the natural gas and crude petroleum industries. Chilean and Brazilian firms of ENAP and Petrobras respectively have similarly invested in the supplies of natural gas in West Asia. Between 2004 and mid 2007 Petrobra's desire to seek for more natural resources culminated in the firm investing $4.4 billion in coal mining, and also obtaining natural gas and oil from Nigeria, Portugal, Argentina and United States (FDC, 2007, p. 11). Petronas from Malaysia also has acquired petroleum mining interests in Vietnam, Egypt, Iran, Chad and Philipines. South African transnational companies seeking natural resources such oil and gas have mainly operated within Africa. Rasiah, Gammeltoft,

and Jiang (2010) also mention natural resources seeking as an important M&As driver for emerging market firms through the outward foreign direct investment (OFDI) route.

In a similar fashion, Deng (2009), Luo and Tung (2007) and Buckley et al. (2014) add by suggesting that, the driving force for foreign investment abroad by firms from emerging economies is motivated primarily by getting access to natural resources in large quantities from different host economies. They also maintain that, these firms from the emerging markets' desire to obtain intangible or key, low cost natural resources that are not available in their countries encourage them to pursue M&As abroad. As for China, the government through outward foreign direct investments (OFDI) has ensured continuous supply of domestically scarce natural resources for the rapid growth of its economy (Kang & Jiang, 2012). Examples of these natural resources Chinese firms through their OFDIs arrangements seek for include agricultural products such as fishery, minerals, petroleum and timber (Morck, Yeung & Zhao, 2008). Essentially, many emerging market governments have become actively involved in M&As activity in many ways. For example, in 2007 and 2008, 886 cross-border M&As valued at over $230 billion were executed by government sponsored entities as acquirers from the emerging markets (Liao and Karolyi, 2009). They also provide evidence that these firms controlled by governments have the tendency to acquire larger firms involved in natural resources, particularly when sovereign wealth funds (SWFs) are involved. Often, government sponsored companies have mostly been interested in seeking natural resources. Some notable examples of these transactions include the acquisition of a Canadian mining company Inco for $18.2 billion in 2006 by a Brazilian metals and mining company Vale and the merging of Sinopec (an oil and gas company in China) and Udmurtneft (a large oil firm from Russia) also in 2006 (Offenberg & Pirinsky, 2015). Other important ones include the acquisition of Rinker Group from Australia by Cemex from Mexico for $15.1 billion and the $ 12.5 billion takeover of Corus Group from the United Kingdom by Tata, a steel company based in India (UNCTAD, 2014).

Institutional reforms

Several studies on drivers of M&As by firms from the emerging economies explain these firms' M&As desire from the perspective of institutional reforms (Athreye & Kapur, 2009; Gaur et al., 2014; Morck, Yeung, & Zhao, 2008). Broadly, ideas expressed by these scholars suggest that due to institutional reforms undertaken in home markets, local firms desirous of growth opportunities move to foreign markets, and their outward expansion is also facilitated by institutional benefits these firms possess. For instance, Nayyar (2008) suggests the

liberalisation of government policies toward FDI as one key driver of M&As for Indian acquirers. It contributed immensely to the rapid increases in India's OFDIs (outward foreign direct investments) from 2000 to 2007. That policy from the government helped to remove the barriers that prevented local firms from cross-border acquisitions (Duppati & Rao, 2015).

Stronger institutions

According to Meyer et al. (2009), one positive driver of M&As pursued by acquirers from the emerging markets is stronger institutions. They find that, emerging market countries whose economies are supported by stronger institutions become attractive acquisition destinations to other firms from the region. In support of stronger institutions as a driving force of M&As in developing economies, Kim and Lu (2013) state that, an important factor that can bring about transformation in the area of corporate governance and affect M&As decisions is institutional changes, and that, changes in corporate governance structure have the potential to narrow or widen the existing gap in the quality of corporate governance among countries. It also improves or weakens the ability of foreign acquirers from places with strong corporate governance structures and protection for investors to carefully choose good targets from countries with weak corporate governance arrangements.

Latecomer-disadvantage

According to Luo and Tung (2007), emerging market firms' latecomer-disadvantages in the areas of managerial and technological capabilities, brand recognition, consumer base and innovation motivate firms from developing economies to pursue acquisitions, purposely for growth and expansion. In investigating foreign acquisitions by Lenovo, Huawei and Nanjing (all are Chinese firms), Rui and Yip (2008) state that, the main goals for these companies' M&A activities were to compensate for the various home market shortcomings and also take advantage of what foreign competition could afford them. Further, in support of the above factor, Ramamurti and Singh (2009) maintain that, because most emerging market firms do not possess international brands and superior technologies, one way they have been taking care of their late-comer disadvantages is through the pursuit of M&As to obtain strategic assets. Lastly, Makino et al. (2002), Li (2007) and Yaprak and Karademir (2010) also add that, in order to take care of their latecomer disadvantages, firms from developing economies usually make use of acquisitions to have access to reputable firms to acquire important assets like distribution channels and brands.

Seeking various forms of synergies

For synergistic gains and ability to overcome the liability of foreignness in the global market environment, emerging market firms pursue international M&As to benefit from the statuses and reputations of the acquired firms (Eden & Miller, 2004). Further, unlike greenfield investment, M&As afford emerging market acquirers the opportunities needed to work with the partnering companies to exploit the advantages associated with cost and realise the benefits synergy offers (Buckley, Elia & Kafouros, 2014). In a survey of 152 companies, Rani, Yadav, and Jain (2012) state synergistic advantages to be the main reason Indian firms undertook mergers during 2003-2008. They indicate that, the expected synergies firms in India are likely to gain from merger include the benefits of increased market share, financial economies and operating economies.

Filling capability gaps

A capability can be defined as the acquiring firms' resources and required skills needed to pursue acquisition transactions either locally or internationally. In order to fill the capability gaps due to emerging market firms' limited access they have to strategic resources and intangible assets such as managerial capabilities they decide to undertake M&A. For instance, Cogman et al. (2015) after analysing over more 1000 CBAs by companies from China, Brazil, Hong Kong, Egypt, India, United Arab Emirates, Peru, Mexico, Philippines, Russia, Republic of Korea and Thailand, categorised the companies according to the most common acquisition motives. They suggest that, the companies' decisions to embark on acquisitions stem from their desire to fill in the capability gaps they face due to limited access to certain strategic resources like managerial capabilities. It has also been observed that, as latecomers in the process of catching up, emerging market firms tend to adopt risky entry routes such as M&As to reach other places for knowledge acquisition and improvement in capabilities (Madhok & Keyhani, 2012).

Diversification and international expansion

Emerging market firms' desire to diversify and expand globally has also been identified as another motivating factor for their M&A pursuits. In assessing the performance and motives of cross-border M&As in China, Boateng et al. (2008) suggest international expansion and diversification as the main reasons behind acquisitions drive for firms from China. Similarly,

Pradhan (2010) states that, diversification and international expansion as acquisition motives are not only limited to firms from China, but also influence M&A decisions of several emerging market firms. Since these firms are desirous of vertical expansion to enable them access markets they previously could not enter. Further, Du et al. (2015) also state that, acquisitions offer acquirers from this part of the world the easiest opportunity to reach new markets, to expand and distribute their products internationally. It further helps them to overcome the various trade bottlenecks and improve the value of their firms. Adding to this discussion, Deng (2010) also identifies access to new markets and diversification as important drivers of M&A deals by firms from developing economies.

Escaping from home competition

Another important driving factor that is also cited as influencing M&As by emerging market firms is their desire to escape from home competition. Heeley, King and Covin (2006) suggest that acquirer firms from emerging markets decide to pursue M&As because of the strong home competition and some few powerful companies dominating the market which prevent several of them from obtaining sufficient market shares at home. They, therefore, decide to invest abroad to escape the market limitations at home. The same view is expressed by Hashim (2012) that strong competition in the local and international market compel Malaysian firms to escape from their home country and use the M&As route to transfer their production outlets to China. China provides various favourable factors to help Malaysia multinationals to intensify their international expansion agenda. The other reason behind emerging market acquiring firms' overseas expansion largely stems from limitations in their domestic markets (Cuervo-Cazurra & Ramamurti, 2014; Luo & Tung, 2007). This means that, apart from the economic incentives that motivate emerging market firms' internationalisation, weak institutions that support their respective home or local markets contribute immensely to their early investments abroad.

Limitations of domestic market

Sizes of markets where some of these emerging market firms operate are insufficient to reduce their environmental uncertainty. This encourages several of them to either acquire other firms domestically or pursue cross-border acquisition in order to expand. According to UNCTAD (2006)'s global survey of multi-national companies from transition and developing economies, 51 percent of the surveyed firms confirm market seeking as the main driver of

their OFDIs such as M&As. For example, in order to access new markets abroad, the South African Breweries invested in new plant overseas and also acquired some existing firms. It even acquired certain previously state-owned breweries to enable it to supply local and regional markets (Rasiah & Gammeltoft, 2014). Further on this, Hashim (2012) also states that, Malaysian firms have become interested in expanding through M&As to foreign locations as a result of smaller market size at home. Market-seeking again is primarily the key force driving South Africa's outward FDI to other African economies (Disenyano & Sogoni, 2014), however, a sizeable percentage of these investments from South Africa is located in countries within the South African Development Community (SADC). Admittedly, in recent times, some of these investments are gradually being spread beyond the SADC region, for instance, the retail groups such as Shoprite and Woolworths have targeted the large West African market by investing in Ghana and Nigeria (Disenyano & Sogoni, 2014).

It is clear from the foregoing discussion that, there are many motives and factors that influence acquisitions by emerging market firms because numerous researchers based on their findings suggest different sets of drivers. Surprisingly, however, firms' excess working capital positions and managers' influences on firms' investment decisions based on their level of share ownership in those firms have not received significant mentions or appear to have been overlooked in the literature as far as drivers of M&As, especially by acquirers from the developing economies are concerned. Nonetheless, reports by Rel Consulting (2012, 2016, 2017) and Ernst and Young (2017) accuse companies of having excess of working capital. Indeed, determining and attaining the appropriate level of working capital presents a serious challenge to managers (Baños-Caballero, García-Teruel, & Martínez-Solano, 2014; Ding, Guariglia & Knight, 2013) because working capital management demands that almost all the firm's operations; sales, marketing, collections, production among others, work together. In certain instances, the reports suggest that, firms may be hoarding or reserving cash with the expectation of pursuing merger and acquisition activities. For instance, Rel Consulting (2016) accuses companies of having about $1 trillion excess in working capital which is much larger than what is considered appropriate while Ernst and Young (2017) also after reviewing the working capital performance of the leading 500 companies headquartered in India accuses them of having approximately $ 60 billion excess working capital. The KPMG (2015) M&A outlook survey report also states large cash reserves as most probable M&A driving factor. Chance (2016) also adds that, the number of transactions will likely increase due to the availability of about $ 1.3 trillion and other attractive deal financing schemes. This makes a

case for investigation into whether working capital may be playing a role in driving M&A transactions of emerging market acquiring firms or not, since the volumes and values of M&A transactions keep increasing but working capital positions of firms appear ignored in the literature as one of the potential drivers of these deals. It is, therefore, significant to conduct a study such as this one to determine whether firms' working capital positions also motivate them to execute M&A transactions and contribute to expand the sparse literature on M&A drivers of acquirers domiciled in the emerging markets of the world. To the best of our knowledge, this the first time a study that investigates firms' working capital positions and M&A nexus is being conducted to extend the frontiers of knowledge.

Further, and equally important also is the influences managers have on investment decisions of firms which still remain popular in literature and cited by the envy and empire building theories as another important driver of M&As (Trautwein, 1990; Goel & Thakor, 2005). However, whether these managers continue to influence the execution of M&A transactions by acquirers from the emerging markets, and in the interest of shareholders' value maximisation, requires investigations such as this study. Similarly, to the best of our knowledge, this study is the first research work being undertaken on managerial ownership and M&As as far as drivers of M&As by emerging market acquirers are concerned.

3.4 Mergers and Acquisitions through FDI in Emerging Markets

Since the mid-80s, there has been a clear surge in the growth of FDIs, because it is considered an important way firms including those from the emerging markets can gain the necessary competitive advantages they require to grow (Amighini, Cozza, Giuliani, Rabellotti, & Scalera, 2015). Some of the forms FDI can take include greenfield investments and mergers and acquisitions (M&As). However, M&As appear to be the most prevalent among the several forms of FDI (Gregory & McCorriston, 2005; UNCTAD, 2013). This view is supported by Li, and Wang (2016) who identify acquisitions as an important strategy for FDI entry, and are largely influenced by same decisions that motivate FDIs such as to properly exploit a firm's assets, diversify its risk and strategically improve on its competitive advantages. In the 90s for example, almost 85 percent of FDI investments were in the form of M&As (Bertrand & Zitouna, 2008; Kang & Johansson, 2000).

Researchers distinguish between the push and pull factors that motivate emerging market firms to expand abroad through the FDIs route. With regard to the push factors, weaknesses in the national economy called institutional voids such as distortions in capital market, weak

legal systems, high savings, high risk in politics, limited property rights and inefficient corporate ownership structure were identified to constitute strong motivations for emerging market firms to participate in OFDI to enable them to avoid the transaction costs associated with operating in their domestic markets (Kalotay & Sulstarova, 2010). However, other positive factors can be identified. These include promotion of policies that are formulated by local institutions of governments. Others include the setting up of regulatory and political institutions that manage and guide OFDI (Bhaumik, Driffield, & Pal, 2010; Luo, Xue, & Han, 2010). The argument is that, these push factors compel firms from the emerging markets to develop ownership advantages by improving themselves technologically or restructuring their organisations for them to become competitive both locally and internationally as multinationals (Cuervo-Cazurra, 2008).

Regarding the pull factors, literature makes mention of the various advantages existing in the host countries, such as natural resources availability (Kalotay & Sulstarova 2010). For example, Luo and Tung (2007) in their effort to improve on emerging market firms outward foreign investments (OFDIs) argue that, one key pull factor for firms to invest abroad is to pursue or have access to important resources to compensate for domestic market competition.

Another pull factor that is likely to facilitate the process is the impact of positive spillovers that result from FDIs. According to Zhao et al. (2010), such impacts may be realised in the emerging market firms' productivity and bring improvement in their operations which later may encourage the participation of domestic firms in international activities. In all, it can be said that, these pull and push factors work together in encouraging emerging market firms' outward expansions.

Another discussion which literature highlights is whether FDIs are motivated by asset exploration agenda or asset exploitation motive. While a number of the studies reviewed suggest that, emerging market firms' (EMFs) internationalisation is driven largely by asset exploitation motives, other studies also maintain that, certain FDIs are driven by exploration motives which are quite contrary to known theories.

Additionally, changes that have taken place over time in trends of outward OFDIs by EMFs are also documented. For example, according to Buckley et al. (2007), before the year 2001, the quest for strategic-assets did not motivate China's OFDIs. This phenomenon is quite

recent which is being supported by the Chinese local institutions. Another indication is that, Russia has also adopted a similar approach (Kalotay & Sulstarova 2010), but the driving factors of foreign direct investments by Russian firms over the years have changed. For instance, if Russian firms in the 90s looked for safety nests abroad to protect themselves against uncertainties at home, recently, they are motivated by having control over the value chain for their respective products. Overall, Russian firms appear to concentrate on having control over upstream natural resources in developing economies, while in developed economies, they tend to concentrate on downstream markets.

Table 3.1: Foreign Direct Investments in the Brics Region (2005-2011)

Inward FDI	Country	2005	2006	2007	2008	2009	2010	2011
	Brail	15066	18822	34585	45058	25949	48506	66660
	Russia	12866	29701	55073	75002	36500	43288	52878
	India	7622	20328	25506	43406	35596	24159	31554
	China	72406	72715	83521	108312	95000	114734	123985
	SA	6647	-527	5695	9006	5365	1228	5807
Outward FDI	Country	2005	2006	2007	2008	2009	2010	2011
	Brail	2517	28202	7067	20457	-10084	11588	-1029
	Russia	12767	23151	45916	55594	43665	52523	67283
	India	2985	14285	19594	19257	159271	3151	14752
	China	12261	21160	22469	52150	56530	68811	65117
	SA	930	6063	2966	-3134	1151	-76	-635

Source: unctadstat, database,http://unctadstat.unctad.org/reportfolders/reportfolders.aspx

Table 3.1 above reveals interesting contrast for outward and inward FDIs from 2005 to 2011 among BRICS countries. Beginning with Brazil, inward FDI indicates an increase from $15,066m to $66,660m representing a 13% improvement. Its outward FDI, however, witnessed a significant decline of more than 300%, from $2,517 to –$1,029m. 2011 also shows a considerable surge in outward foreign direct investments as Brazil multinational

companies demonstrate renewal of interest in other countries from BRICS. Like Brazil, Russia indicates some improvement in outward FDIs. Russian inward FDI increased from $12,886 in 2005 to $52,878m in 2011. Outward FDIs were the top among the BRICS countries, they show and improvement of 81%, rising from $12,767m in 2005 to $67,283. In comparison to the other BRICS countries, FDI values for South Africa were the lowest. Inward FDI slightly remained the same throughout the period, coming down from $6,647 million in 2005 to a $5,807 million.

3.5 Location Patterns of Emerging Market Firms

An essential debate for emerging market firms has been where to direct their OFDI investments, either to developing or developed economies. In trying to discuss destinations to focus their OFDIs of which M&As are examples, emerging market firms according to the literature stress the impact of home market institutions (Kalotay & Sulstarova, 2010; Cuervo-Cazurra & Genc, 2008) and the resource endowments the host country has, such as natural resources and technology (Zhao et al. 2010; Kalotay & Sulstarova, 2010; Cuervo-Cazurra, 2008). Most studies so far reviewed, identify developing countries with weaker institutions to fight corruption and poorer regulatory quality as destinations several emerging market firms expand their businesses to (Cuervo-Cazurra & Genc 2008; Del Sol & Kogan 2007; Morck et al., 2008).

The main reason is that, most of these firms have competitive advantage in operating in areas where systems of governance are weak and conditions there are also similar to their home environments or countries. For instance, according to Morck et al. (2008), China's OFDIs were identified to concentrate mainly in the Southeast Asian economies and areas with tax havens. This idea was indicated to be driven by several factors including the particular industry firms operate in and the level of internationalisation experience firms have gained (Cuerva-Cazurra 2007; Petrou 2007). However, evidence exist that, a number of them do expand to advanced economies also. For instance, Russian firms have been found to focus attention largely on developed markets such as the UK, Canada and the USA, after their initial expansion into the Commonwealth of Independent States (CIS) (Kalotay and Sulstarova 2010), while EMFs in China have also invested in advanced economies to benefit from positive spillovers from technology (Zhao et al., 2010).

Overall, it seems that, emerging market firms spread across both emerging economies and advanced economies, which once again supports the idea that, they find themselves everywhere in the world. However, the value of OFDIs are not the same and a greater percentage of it undertaken by emerging market firms are still directed to the developing economies. Only a smaller, but gradually increasing number of EMFs target developed markets, for instance those that undertake M&As.

3.6 General Characteristics of Target Firms of Emerging Markets

Numerous studies have identified qualities of target firms that acquirers consider before engaging in M&A transactions (Roll, 1986; Ali & Gupta, 1999; Sudarsanam, Holl, & Salami, 1996; Abdul, Rahman, 2002). Some of these characteristics are identified and explained in detail below.

First, relatedness of firms' businesses. This talks about where the acquiring and the target firms find themselves in the same industry with a high degree of connection in their main operations or activities. The relatedness of business allows the combined firms to enjoy the benefits economies of scale and scope offer, which enable them to increase output, market share, reduce production costs and increase profit levels (Healy, Palepu, & Ruback, 1992).

Second, the presence of operational and managerial synergies for the two merging firms based on the target firm's previous performance before the acquisition activity. Managerial synergy is obtained if the management team of the target firm possesses superior knowledge in technology and its performance can be described as excellent which could help improve the value of the bidding firm (Martin & McConnell, 1991; Matsusaka, 1993). Operational synergy is also obtained if the target firm acquired is considered a related business (Sudarsanam et al., 1996).

Third is the presence of financial synergy between the two firms. That is for the acquirer and the target firms, which is usually indicated by the difference in leverage levels existing between the two firms. Usually, financial synergy is considered an important acquisition driver if the differences in debt levels is significant for the two firms. The reason is that, the acquirer stands a chance of getting some tax shield as a result of the debt level differences which eventually, could help the combined firms' debt capacity to increase, reduce cost of capital and allocate capital resources better.

Fourth, the target firm's profits level before the acquisition deal. If the target firm's profit levels are less than what is considered average prior to the acquisition transaction, then it means the overriding interest of the acquiring firm is to introduce better managerial skills to transform the target firm. Contrarily, higher level of profitability of the target give an indication that, the acquirer is likely to gain certain expertise from it that will help improve their earning base.

3.7 Domestic and Cross-Border M&As in Emerging Markets

3.7.1 Introduction

While acquirers from developed countries have been attracted to exploiting rich resources in emerging economies, firms in emerging markets have also been increasingly active in both cross-border and domestic acquisition transactions. Aybar and Ficici (2009) observe that M&A activities from the emerging market have paralleled economic reforms and their integration into the world economy. Firms from the emerging economies seek target firms in developed economies through cross-border acquisition deals to cope with increased competition, so that they can access other foreign markets and to expand their global positions. Furthermore, cross-border M&As into developed markets offer the benefits of technology and expertise as well as loosening the grip of institutional and domestic market constraints. Expansion through this acquisition route has also helped companies from the emerging economies to resolve issues relating to their latecomer disadvantage in the international market (Lebedev et al., 2015; Somdaka, 2014).

3.7.2 Nature of Domestic M&As in Emerging Markets

Domestic M&As refer to acquisition transactions where both firms (that is the target and the acquirer) originate from the same country. Literature suggests domestic mergers to be a strategic way of reducing the pressure local competition creates for firms (Bjorvatn, 2004). There is also a reasonable degree of consensus in prior research that shareholders of target firms usually gain in domestic acquisitions (Bradley, Desai, & Kim, 1988; Jensen & Ruback, 1983). However, with regard to gains to shareholders of the acquirer and the net gain to the combined firms, divergent views are expressed by scholars (Agrawal & Jaffe, 2000; Andrade, Mitchell, & Stafford, 2001). Some studies also conclude that, due to factors such as availability of cash (Jensen, 1986), hubris (Roll, 1986) and winners' curse hypothesis

(Varaiya, 1988), acquirers often times pay higher price which adversely affects acquisitions outcomes financially.

In a recent study, Ellwanger and Boschma (2015) suggest that, acquiring firms tend to partner their counterpart firms from the same industry in domestic transactions for complementarity purposes. The reasons could be to gain the needed advantages in the form of synergistic impacts and economic advantages that are associated with using related resources such as technologies, distribution channels and similar products (Homberg et al., 2009; Seth, Song, & Pettit, 2000). In addition, other scholars also suggest that, less efforts are usually required to integrate the operations and knowledge of the combined firms if they are highly related (Nesta & Saviotti, 2005).

According to Deng and Yang (2015) and Nicholson and Salaber (2013), one main factor that motivates firms from the emerging markets to undertake domestic M&A is to have complete control and access to a regular supply or source of important natural resources available to target firms. Nicholson and Salaber (2013) maintain that the desire and search for natural resources differ from one emerging country to another. For example, while Indian firms show interest in acquisitions related to firms operating in the services sector, Chinese firms are more focused on acquisitions targeted at obtaining natural resources and acquiring already existing firms in the manufacturing industry. After their study on domestic acquisitions in China, Xu, Zhou and Phan (2010) state that, acquisitions by Chinese firms occur sequentially if the acquiring firm does not have the benefit of getting all the necessary information required like the state-owned firms. They recognise two main sources of information deficiency problems to firms in China. These include a situation where the acquiring firm is not a state-owned and where the acquiring firm is pursuing a diversification motive into a new line of business activity. Their findings suggest that, under such conditions, firms are likely to engage in acquisitions sequentially. Sethi (2009) also avers that, apart from certain sectors such as the oil and gas sector, the rest of the other sectors in China basically focus on domestic acquisitions. However, according to Green (2003), the main constraints affecting domestic merger activities in China are issues of insufficient disclosure and weak corporate governance.

In their attempt to compare domestic acquisitions by Indian and Chinese firms, De Beule and Duanmu (2012) identify that, firms from the two countries have diverse acquisition preferences. Indian firms pursue M&As more regularly compared to their Chinese

counterparts. Again, while firms from India focus on targets in both developing and developed markets, Chinese firms largely target firms in developed economies. Further, Sethi (2009) also confirms that acquisitions involving firms from India are not concentrated in one sector but are widespread compared to firms in other emerging economies. Additionally, Betschinger and Bertrand (2012) demonstrate that, in line with previous studies, M&As do not add value to acquiring firms in Russia, after examining the domestic and cross-border acquisition deals by firms from Russian. Sethi (2009) also contribute with a suggestion that, the largely "home-region" interest shown by domestic Russian M&As spread across all the various industries in the country. He, however, states that domestic M&A activities in South Africa and Brazil are concentrated mainly in sectors such the agriculture and food products followed by the business and financial sectors.

3.7.3 Factors that Influence Emerging Market Firms to Choose the Domestic M&As Pathway

Firms from the emerging markets consider several factors before a decision is reached for domestic M&As to be executed. These factors include the geographical proximity of the two firms, the industrial relatedness of the firms and for strategic reasons. These factors are explained in detail below.

1. **Geographical proximity**

Geographical proximity gives acquiring firms better and more information about their prospective targets than their foreign competitors as suggested by Lehto and Böckerman (2006) and supported by Moskowitz and Coval (2001) that it clearly reduces the costs associated with acquiring information. Information availability is crucial in M&A partnering, not only for the purposes of identifying the right partner, but also to make the due diligence process successful (Chakrabarti & Mitchell, 2013). If there is a risk of adverse selection, which involves selecting a target that is not good, it can then be mitigated during the due diligence process and partnering will become possible (Schildt & Laamanen, 2006).

2. **Industrial relatedness of the firms**

This is mostly done for synergistic motives. In fact, research on mergers has largely looked at the role of synergies that come from related resources such as technologies, identical products, and channels of distribution, among others (Homberg et al., 2009; Seth et al., 2000).

By efficiently combining these resources, related or horizontal acquisitions will be beneficial in terms of gains from both economies of scale and scope. Managers of these firms will likely know one another and share ideas if they are active within the same industry, and this is likely to have effect on the identification of target phase (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). During the due diligence phase, acquirers stand to benefit when evaluating industrially-related targets because it becomes quite easier to determine its value. This will in turn increase the possibility to complete acquisition transaction.

3. For strategic reasons

As a strategy, emerging market acquirers choose to undertake domestic M&As to enable them to select close targets to ease the competition usually associated with price (Levy & Reitzes 1992) and benefit from the likelihood of sharing certain common assets together after the acquisition, and also enjoy the ability to monitor the transaction to reduce the cost of implementation (Böckerman & Lehto 2006). This does not mean that, would-be or potential acquirers can strategically decide to select targets at distant places in order to have access to geographically new markets or to have entry to regions where costs of production is lower. There is enough evidence supporting the fact that, geographical distance increases the cost associated with technology and knowledge transfer, and significantly reduces the usefulness of knowledge-sharing (Branstetter, 2001; Keller, 2002; Storper & Venables, 2004).

3.7.4 General Characteristics of Cross-Border M&As in Emerging Markets

In this study, Cross-border M&As (CBM&As) are defined as transactions in assets of two firms originating from two different countries. This means that, CBM&As can occur when two companies belonging to countries with different geographical boundaries within or outside an economy come together. In this type of M&As arrangement, it involves a transfer of operations and control of assets from a domestic company to another one abroad with the former becoming an affiliate of the latter. It has several categories which may include a full, majority and minority forms of cross-border acquisitions, where the full acquisition has a foreign or external interest of hundred per cent, the majority has a foreign interest of fifty to ninety-nine per cent, and the minority acquisition also has a foreign interest of ten to forty-nine per cent. However, acquisitions with less than ten per cent foreign interest are considered as portfolio investment.

Cross-border just like domestic M&As may take two forms: share acquisitions and asset acquisitions. With asset acquisitions, an acquirer firm purchases virtually the total assets of the target or part of it. The target legally continues to exist after the completion of the deal, even though it may be liquidated through a major asset sale and the money returned to the target firm's shareholders. Normally, the management of the two firms are involved in execution of the transaction.

On the other hand, a share acquisition occurs when shares are bought by the acquiring firm from individual shareholders of the target company, however, the acquirer may negotiate separately with individual owners if the firm's shares are privately held. If the target is totally a subsidiary firm to another company, the transaction is then conducted by the parent company to the target and the management of the acquiring firm. If the share of the target is publicly held, the acquiring firm has the responsibility to deal with a sizeable number of shareholders who may not be well organised. In such a situation, a tender offer is usually announced for the remaining shares. The benefit of share acquisitions offer is that its execution tends to be easy and quick to accomplish.

3.7.5 Factors that Influence Emerging Market Firms to choose Cross-Border M&As Pathway

Cross-border M&As activities offer companies in the emerging market the fastest opportunity of entry into new markets for the expansion of their products globally, overcome bottlenecks in trade and increase their value growth (Du & Boateng, 2015). In undertaking CBM&As, several factors are taken into consideration by firms, from the perspectives of the firm, country and the industry, which apply to both the target and acquirer firms.

At the country level, significant factors usually considered include labour, capital, endowment of natural resources as well as institutional factors like the cultural, political and the legal environments. A very important cultural factor that appears to influence emerging market acquirers' decision to select cross-border M&A route hinges on their abilities to integrate both human and other resources. This issue of cultural integration with regard to M&As is well documented in literature, where scholars hold the view that, high cultural distance has the potential to adversely affect the success of firms' integration (Brouthers & Brouthers, 2000; Hennart & Reddy, 1997; Kogut & Singh, 1988). As a result, cultural distance has become a useful measure for country risk of firms which shows how different countries of the two firms are, and indicates how well the acquirer's strategic advantages can

be applied to a new environment or location. Shimizu, Hitt, Vaidyanath, and Pisano (2004) identify certain factors that can impact on firms' decision to undertake M&As through the use of the cross-border route. These include the peculiarities in culture existing between host and home countries, the market growth in the host country, and the unique culture of the acquirer's home country.

Another important factor is the issue of legitimacy, which affects firms from the emerging markets who are eager to have access to new markets abroad as first entrants. It is important to customers, domestic institutions, and value chain actors. Rules governing the M&A enterprise are defined by the institutions including the applicable regulations existing in the host country at that time (Davis et al., 2000). Through institutional arrangements, entry barriers like ownership limitations can be created. Some of these restrictions are usually used by foreign governments to protect local owners from outsiders. Brouthers (2002) found that, firms decide to have joint ventures to gain access to markets considered as having more legal restrictions or perceived to have them. As a result of these limitations, the institutional theory submits that, the ability of a firm to exploit (Morck & Yeung, 2001) its capabilities outside of its home country may not remain the same, but will largely depend on the institutional arrangements and contexts it invests in.

With respect to industry level factors, Shimizu et al. (2004) argue that the following factors can affect the selection of cross-border acquisition transactions by emerging market acquirers:

1. **The level of technological intensity**

If a firm's level of competitive advantage depends on a complex technology it has, it usually becomes difficult to easily transfer that technology to a foreign place. This makes training of the acquired workers and other personnel difficult, unsuccessful and potentially expensive. Therefore, high-tech companies might decide to engage in greenfield investments instead of acquisitions (Brouthers and Brouthers, 2000), because it will cost them less effort and financial resources to train and transfer their workers to foreign location.

2. **Advertising intensity**

Investing firms generally value knowledge-based and intangible resources, but to identify and also manage intangible assets like technological capabilities and brand name bring many challenges and difficulties to investing companies. This makes equity-based modes appear the preferred choice in industries where research and development (R&D) are significant and intangible assets and the strength of adverts are also high (Delios & Beamish, 1999).

3. **The level of sale force intensity**

With this, sales capabilities and brands that relate to a particular market are what Anand and Delios (2002) identify. They argue that, companies differentiate capability-exploiting from that of capability-seeking acquisitions, based on the importance and availability of the various resource types.

At the firm level, the following factors influence firms' mode of entry.

4. **The reasons underlying the diversification action**

If the motive of acquiring firms is to seek complementary resources, the most important factor that influences their choice of entry mode is the qualities of resources and how they fit and complement the firms' existing resource base and their degree of embeddedness in the targeted organisation. For instance, Hennart and Reddy (1997) used the transaction cost economics (TCE) theoretical framework and identified that, when the main motive of investing firms is to obtain part of assets belonging to the target, they should choose an acquisition only if it is possible for them to separate those assets from the less interesting ones to them. However, it is the structure of the organisation that goes to determine the capability of investing firms to disentangle the complementary assets from the others. Therefore, for the investing firm to acquire assets of the target that are of interest to it, perhaps, the target firm must be divided so that, that specific divisions could be acquired. On the other hand, it will be more appropriate for the investing firm to pursue a joint venture arrangement with the target firm, if the assets of the target firm are firmly embedded and distributed across the organisation.

5. **The level of prior experience of the investing firm**

A number of studies have examined learning and experience as factors that affect acquisition transactions (Meyer & Thaijongrak, 2013). The conclusion of most of these scholars is that, prior experience in M&As has the tendency to increase the possibility of subsequent ones (Haleblian, Kim, & Rajagopalan, 2006; Lebedev et al., 2015). Studies indicate that, the

experiences firms from developing economies accumulate over time help them to overcome the problem of liability of foreignness as they undertake acquisition transactions in developed markets at regular intervals (Lebedev et al., 2014). The basic principle is that, learning is acquired through different kinds of experiences. Firms become exposed to different ideas and events as they operate in different environment and circumstances (Huber, 1991), which make them broaden their knowledge base, become stronger in terms of technological capabilities and innovation.

Previous experience from M&A transactions may help in the identification and integration process of resources of the target firm, which the improvement of the acquirer's post-acquisition performance may depend on (Hitt, Harrison, & Ireland, 2001; King, Dalton, Daily, & Covin, 2004).

For example, Chen and Lin (2009) observe that past M&A experience positively affects the returns of Chinese acquirer firms. Bertrand and Betschinger (2012), however, indicate that acquirer firms from Russia experience a cumulative negative effect as they execute more cross-border acquisitions, even though, previous domestic M&A experience has value. Absence of prior M&A experience and previous absence in the target firm's country can affect the gains acquirer is likely to derive from the transaction (Aybar & Ficici, 2009). Furthermore, according to Aybar and Ficci (2009), a culturally and geographically close target will not help to improve the desired success the acquirer firm wants to achieve.

6. Geographic diversification

Several authors argue that the economic performance of firms can improve through diversification (Bertrand & Betschinger, 2012; Erel, Liao, & Weisbach, 2012). In the estimation of Wang and Boateng (2007), firms become less vulnerable to international dynamics if they pursue cross-border M&As. Apart from new customers and resources that become available to acquirers, they also have access to new knowledge and opportunities which make them improve on their competencies (Shimizu et al., 2004). With such advantages, the expectation is that, cross-border acquisitions will contribute to the possibility of achieving of synergy and increase in profit levels of firms (Wang & Boateng, 2007). However, literature suggests that, firms are likely to encounter some challenges when they decide to invest abroad, since potentially, it could hinder the achievement of the desired synergistic benefits and can even further destroy the performances of these acquirers (Gomes, Angwin, Weber, & Tarba, 2013; Kling & Weitzel, 2011; Moeller, Schlingemann, & Stulz, 2004). The nonexistence of organisational abilities has been identified to have a negative

impact on Russian firms' foreign acquisitions (Bertrand & Betschinger, 2012). Gomes et al. (2013) also state that, communication and cross-cultural sensitivity are very important when it comes to cross-border M&A, the lack of these skills could negatively affect the firms undertaking the M&A activity to integrate properly.

7. To take advantage of discount acquirers enjoy in cross-border M&As

According to Denis, Denis, and Yost (2002), industrial and international diversifications are each associated with a substantial firm discount. Internationally as well as industrially, firms that become diversified experience a more significant higher discount. Cross-border M&A transactions, all other things being equal, increase the level of international diversification, but a domestic M&A deal for a firm that is already internationally diversified reduces the level of its international diversification. Denis et al. (2002) reveal that, international diversification over time has increased steadily compared to industrial diversification which has over the years decreased.

3.7.6 Challenges Emerging Market Acquirers Encounter with Cross-Border M&As

Firms encounter certain difficulties in their pursuit of cross-border M&As. First, the challenge of double-layered acculturation, in which both national and organisational cultures need to be brought together or combined (Denison, 2011; Stahl & Sitkin, 2005) and the of risk of liability of foreignness (Zaheer, 1995). Since different languages are spoken by people from different countries, their religious inclinations may not be the same, and sometimes they have issues of long-time conflicts, all these add to differences in costs that manifest when firms from different geographical boundaries are combined (Ahern, Daminelli, & Fracassi (2012). Differences that exist in business practices, customer interests, national culture, and institutional arrangements like regulations from the government can prevent firms from achieving their objectives fully. Information asymmetry and uncertainties in international markets affect the ability of the firms to learn from the target firm and also adjust to the local market (Kogut & Singh, 1988; Zaheer, 1995). In global environment, essentially different goals, beliefs and values regarding what is considered to be proper organisational practices are usually driven by increasing nationalism, cultural stereotypes and in certain instances, xenophobia. Different legislative regimes, foreign language barrier and differences in other aspects of organisational life among countries add more barriers to integrate the various workforces and cultures in international acquisition transactions (Stahl & Voigt, 2008). This

therefore makes it difficult for new capabilities and knowledge to be learnt in cross-border acquisitions, all because of issues of double-layered acculturation and liability of foreignness. Second is lack of international experience. Internationally inexperienced emerging market acquirers that desire to quickly access highly developed markets usually exacerbate the challenges they are confronted with, because they mostly do not have the experience and organisational skills to handle these challenges. Even though local talent can be hired to handle day-to-day activities of the company in the foreign country, several operations of the company still rely on the directions from head offices of these acquirers and their counterparts situated in other countries. To solve issues such as these, thorough international planning is needed.

Several Korean and Japanese multinational enterprises were adversely affected after their expansion abroad in the 80s and 90s for mistakes such as these. They have subsequently revised their internationalisation policy to that of gradual attempts and conservative style of M&A transactions (Li, 1994; Chang, 1995). The dynamic capability theory, therefore, suggests that, the ability of a firm to transfer, deploy and manage important resources that are not found in one geographical area, particularly in radical and risk-taking investments, is an important requirement that must be met to achieve continuous success in international competition (Teece et al., 1997). To address acquisition challenges such as this, acquirers from the emerging economies need to strategise in advance of the global product and resource-flow systems before any such bold investments overseas is undertaken, by putting in place designated offices or teams to coordinate its activities and handle issues of integration.

Third has to do with corporate governance challenges which have effects on cross-border acquisitions. If the minority shareholders in the target firm's legal protection can improve through the merger activity by offering them some of the rights the acquirers' shareholders enjoy, then through the acquisition, wealth or value may be generated. The general discussion in corporate governance is that, firms situated in countries that promote governance by instituting proper and strong accounting and legal standards become acquirers of those in countries where these standards are poor and weak. Emerging market firms generally show weak forms of corporate governance. This is usually due to poor disclosures and accountability, underdeveloped stock markets domestically and lack of transparency because of their close associations with their governments (Luo & Tung, 2007). These constraints adversely affect the corporate image of these firms and erode the confidence of shareholders

and relationship building with international stakeholders. Although corporate governance in developing economies is not the same everywhere, relationship-based governance mechanisms, as highlighted by Luo and Tung (2007) are commonly used in these economies. Foreign investors mostly perceive attitudes of executive, managers and board members in firms in these economies as less transparent, trustworthy and accountable.

Fourth is the level of market development. This creates a challenge for cross-border acquisition deals. In particular, acquirers from the developed-market benefit more from weaker contracting environments in emerging markets.

Fifth but equally important in cross-border acquisitions is the challenge of valuation. Since several markets in various countries are not integrated perfectly, differences in valuation across markets may motivate cross-border acquisitions. For instance, a firm's currency may rise because of certain exogeneous reasons that are not related with the profitability level of the firm. This firm would find possible target firm in other countries comparatively inexpensive, making certain acquisition transactions to be profitable which under the old exchange rates would not have been so. It is, therefore, expected to see several firms originating from this country to participate in M&A deals, because these acquisition transactions will be paid by them in currency that is inflated. The main point of whether differences in valuation can result in cross-border acquisitions depends on whether the stakeholders involved accept these movements as being permanent or temporary. If the differences in valuation are not permenant, then cross-border acquisitions well arbitrage these differences, resulting in anticipated profits for the acquirers. Shleifer and Vishny (2003) developed a behavioural model where values of the firm deviate from their fundamentals. Managers of acquirer firms that are overvalued consequently have the necessary motivations to issue shares at higher prices to purchase assets of a less value or at least a less overvalued target. This transaction transfers value to the shareholders of the acquiring firm by arbitraging the price difference between the firms' stock prices. A major component of this model is that, information regarding where the valuation difference comes from is mainly owned and known by the managers.

Even though it is not likely that a specific manager will tend to have better information regarding the valuation of the entire market or any particular currency, Baker, Foley and Wurgler (2009) claim that, cross-border transactions could equally occur because of irrational anticipations about a market's value or mispricing of securities from fluctuations in local

investors' risk aversion. This implies that, target firms' managers would be interested in accepting payment in a temporarily depreciated currency or overvalued stock. If the valuation differences are permanent, the attractiveness of acquisitions, particularly those that include target firms whose cash flows are in local currency would not be affected by variations in valuations.

However, there are many ways in which even permanent valuation differences can impact on acquisition propensities. As Kindleberger (1969) stated originally, cross-border acquisitions may occur because, under foreign control, either the cost of capital is lower or expected earnings are higher. For instance, if goods are produced by local firms for sale abroad or compete in their domestic market with foreign competitors, then profits of local firms potentially increase because of permanent depreciations of currency, making these firms attractive to prospective acquirers from outside. On the other hand, when the value of a foreign firm increases compared with that of a domestic firm, for instance, through unhedged exchange rate changes or stock market fluctuations, its cost of capital declines relative to that of a domestic firm because of a reduction in the magnitude of the information problems it faces in raising capital (Froot & Stein, 1991). The implication of this argument is that, permanent changes in valuation can result in cross-border acquisitions since the value changes result in a lower cost of capital under foreign control, allowing prospective foreign acquirers to bid more aggressively for domestic assets than domestic rival bidders. Because this explanation for a relation between currency movements and cross-border mergers is based on asymmetric information, it is likely to be particularly relevant in the case of private targets, for which asymmetric information tends to be high relative to otherwise similar public targets.

3.8 Chapter Summary

This chapter began with a discussion on the changing trend of emerging market firms as targets to acquirers. It continued by reviewing the various drivers of M&As as contained in the extant literature relating to emerging market firms. In particular, firms' working capital and managerial ownership of shares in firms which are central to this study and considered as potential drivers of acquisitions which to the best of our knowledge have not sufficiently been investigated to establish whether they play any roles in driving M&As by acquirers from the emerging markets were looked at. The chapter again highlighted and identified issues of foreign direct investments of which one of its forms is M&As and another is greenfield

investments. The chapter also attempted a distinction between domestic and cross-border M&As which are the two main routes acquirers from the emerging markets use for their M&A activities. Lastly, this chapter reviewed some of the challenges emerging market acquirers encounter as they pursue both cross-border and domestic M&A transactions. The next chapter opens the discussion on the investigation into whether working capital positions of acquirers from the emerging markets influence them to undertake M&A transactions or not.

CHAPTER FOUR

WORKING CAPITAL AND M&A TRANSACTIONS BY EMERGING MARKET ACQUIRERS.

4.1 Introduction

In the past, M&A activities concentrated on strategic transactions involving integration and diversification (Sagner, 2007). In recent times, however, the goal of the M&A game is focused more on either gaining balance-sheet assets, particularly in the light of hoards of underperforming cash or to improve on the acquired company's working capital management. This appears to be a complete departure from the way firms and investment bankers perceive potential M&A companies to be, which raises concerns about what is happening in the markets.

The role working capital positions of firms have been playing in driving or motivating M&A deals by acquirers from emerging market, to the best of our knowledge has not sufficiently been explored or investigated in corporate finance literature, and therefore requires an investigation such as what this present study seeks to undertake.

This is against the backdrop of companies being accused of having in excess of about $1 trillion working capital which is much larger than what is considered necessary according to (Rel Consulting, 2016). In some cases, it is suggested that firms may be reserving cash in anticipation of M&As activities (Rel Consulting, 2016, 2017). This leaves questions in the minds of many and therefore makes a case for investigations regarding the role working capital may be playing especially in the midst of recent surge of M&As transactions, particularly by emerging market firms as acquirers. This situation seems contrary to the argument the working capital management theory advances that, firms need to keep a healthy balance between liquidity and profitability, since a good working capital management balances the conflicting goals of liquidity and profitability to maximise shareholder value. Thus, holding levels of working capital that increase profitability without jeopardising the solvency of the firm. Excessive levels of working capital investment represent poor utilisation of capital and deliver sub-standard returns, while low levels of working capital also lead to liquidity problems (Erasmus, 2010). Working capital positions of companies are not only an internal firm-specific matter, but also an important indicator of risk for creditors

(Moyer et al., 1992). It is also a major external source of capital for high-growth firms. Higher levels of working capital allow a company to cater for its obligations in the short-term with ease, which leads to improvements in the firm's borrowing capability and reduction in default risk. It also leads to a considerable reduction in the cost of capital and improves a firm's value. It is, therefore, important to suggest that efficient and proper management of working capital does not only affect firms' short-term financial performances (in terms of profitability) but their long-term financial performances as well (in terms of firm's value maximisation).

4.2 The Origin and Definition of Working Capital

The origin of the term working capital can be traced to the time when several industries were very much attached to agriculture, where companies became interested in funding their activities with loans with maturity period not exceeding a year, because it was proceeds from the products sold which were used to pay back the loan and also support the business. According to Weston et al. (1996):

> "Precisely, it was an old peddler from Yankee who originated the term working capital and happened to load his vehicle with goods and embark on his journey to sell his goods. The mechanised was known as working capital because it was exactly what he sold to generate his profits. His fixed assets were the wagon and horse he owned, so equity capital was used to finance them, but he borrowed the funds to buy the merchandise. These borrowings were known as working capital loans, which were to be paid back after each trip to show the soundness of the credit to the bank. The ability of the peddler to pay back the loan made the bank make another loan and banks that obeyed and complied with this procedure were considered as employing better banking practices"
>
> (Weston, Besley and Brigham, 1996: 333).

This means that, efficiency in the management of working capital is of paramount importance, particularly for production-firms whose assets are largely in the form of current assets because the liquidity and profitability of any firm becomes affected by it. According to Kargar and Bluementhal (1994), firms that do not put proper working capital management into practice are more likely to fall into bankruptcy despite their constant positive levels of profitability. Therefore, it must be avoided to recede from the optimal working capital level

by focusing only on liquidity and accordingly pass over profitability. Although higher levels of working capital can lead to inferior returns on assets, small amount of it also may result in shortages and challenges in sustaining the daily operations of the business. Managing working capital efficiently encompasses controlling and planning both current assets and its liabilities in a way that will eliminate the risk of not being able to honour its obligations in the short term that are due and also avoid more than necessary investments in these assets (Eljelly, 2004). Higher levels of current assets can simply make a firm realise inferior returns on its investment, but firms having very few current assets may experience shortages and other problems in sustaining smooth operations (Horne & Wachowicz, 2000).

Indeed, working capital does not have a generally accepted definition. Some scholars describe it to be current assets minus current liabilities (Brealey et al, 2008; Sagner, 2009). According to Chiou et al. (2006), working capital shows the sources and how short-term capital are used. Other researchers also make use of the terms ‘current capital’ or ‘circulating capital’ to indicate that, the flow of this capital is circular in nature. The idea of circulating capital is relevant since it indicates that working capital is needed constantly which does not stop when an operating cycle comes to an end. The operational cash cycle is the period when the financial resources of the company are tied up in its purchased and own-produced warehouse inventories, and in trade receivables before the influx of funds following a sale or supply of service (Katits &Szalka 2015; Hofmann et al. 2011). Operating cycle equals (accounts receivable sales ×365) + (Inventory cost of sales ×365), that is account receivable period + inventory period.

The gross concept was used in defining working capital as far as this study is concerned. That is, working capital shows the company’s investments in both current assets and net working capital and refers to current assets minus current liabilities. Positive working capital occurs when a firm’s working capital position is more than the current liabilities of that firm. It is seen as positive if the working capital is liquid, where the amount of assets and liquid securities is more than the amount of non-liquid or less liquid current assets, that is inventories and receivables. Positive working capital is not considered as a liquid asset if the number of inventories and receivables exceed the amount of liquid current assets (Katits & Szalka, 2015). This is a challenge because current assets do not cover current liabilities, and so the firm is not only paying for its current assets with current liabilities as well as its fixed assets. The central idea behind working capital management is also about the issue of how

companies can attain optimal level of working capital which is not in excess or lacking. It should be in such a way that, it is practicably sufficient in terms of safety and will also be able to cover current liabilities (Imran & Nousheen, 2010). Working capital management analysis involves calculation of the cash conversion cycle, the operational cash cycle and the turnover time (Mathur, 2007; Bhattacharya, 2009).

4.2.1 Working Capital (W/C) Adjustments in M&As Transactions

M&A transactions characteristically involve adjustment to working capital as an important element of the purchase price. The acquirer firm expects to confirm that, it purchases a firm with enough working capital to satisfy the conditions or the requirements of the business after closing, including commitments to trade creditors and customers (Kerrigan, 2012). The target firm to be acquired also wants the asset infrastructure that made it possible for the business to exist, operate and generate the profits which attracted the acquirer to be considered. A proper working capital adjustment safeguards the acquiring firm from the target initiating accelerated collection of debt, or delayed purchase of inventory or selling inventory for cash or payment of creditors (Kerrigan, 2012). As far as measuring the working capital is concerned, the final agreement will contain a tool for comparing the actual working capital during the closing with a particular target which is considered as the standard level for the business to operate taking into account the historical record of the target firm's activities over time.

4.3 Theoretical Literature Review

The following theories are applied for this study to investigate whether working capital positions of firms drive mergers and acquisitions transactions by acquirer firms from the emerging markets. Usually, theories that focus on cash holdings and corporate liquidity can assist in understanding the motivations behind acquisitions.

4.3.1 Financial Theory

Financial theory proposes that, managers of firms must take decisions and actions that will help increase the firms' value. For example, empirical studies by Mulherin and Boone (2000) and Bradley, Desai, and Kim (1988) provide support for the idea that, synergistic effects result in value creation. As a result, a synergy is viewed by several scholars as a major driver of M&As deals firms execute. Although the motivation may not be the same for all

acquisitions or mergers, one common determinant to measure whether a merger has been successful is the growth in value of the two combined firms. Based on this measure, synergy is considered as possibly the most justifiable driver of M&As. This present study, therefore, identifies these forms of synergies:

(i) Operational synergies: These types of synergies enable firms to grow and improve on their operating incomes from existing assets. They are generated by means of grouping of firms and also because of efficient operations in the newly formed firm. Operating synergies aim at eliminating duplicate activities, renegotiating contracts with suppliers, achieving economies of scope and scale and bringing costs of transaction down. The benefits to the new firm formed can be obtained from cost reduction synergies or revenue enhancing synergies. Studies suggest that, many advantages are generated through operational synergies. For example, Devos et al. (2008), after their analysis of 264 large M&As, suggest an average benefit derived from synergies to be 10.3% from the combined value of the shares of the merged firms, of which 8.3% constitute benefits gained as a result of operational synergies. Other research works have concentrated on the relationships amongst the various types of mergers (such as the vertical, horizontal and conglomerate types of mergers) and the kind of synergies generated. For instance, Shahrur (2005) and Fee and Thomas (2004) demonstrate that, horizontal mergers generate the most important synergies, as is shown by the positive value creation results. Operational synergies can be in the form of either economies of scope or economies of scale;

1. Economies of scope occur when the cost associated with the production of two goods by a firm that produces several products is less than the total costs of producing these products by two single-product firms. Economies of scope measure the cost benefits of production by individual firms who separately specialises in the production of a good or service versus diversified production within a single firm (Baumol, 1982; Bailey & Friedlander, 1982).
2. Economies of scale result from a merger which enables the two firms to be more profitable and efficient in terms of cost. For example, a bigger or a larger bank can be created when either two steel firms or two banks come together. Usually, companies belonging to the same industry or business (horizontal mergers) generate economies of scale in mergers.

(ii) Financial synergies: Such synergies can be derived from acquisitions or mergers and they are of various forms. These include for instance, decreasing the probability of bankruptcy, lowering the risk level to which the firm is exposed, which may result in greater

cash-flow stability (Lewellen, 1971), increasing the indebtedness capacity of the new entity, reducing the cost associated with accessing the capital markets or minimising the cost of capital as the size of the company increases (DePamphilis, 2008; Gaughan, 2011; Luypaert & Huyghebaert, 2010). Subsequent to the merger, the new firm may stabilise its results and the offsetting of gains and losses can lead to reduction in losses and lowered risk of entering default and bankruptcy.

Financial synergies include the following:

(a) Combining a firm that has more cash reserves but limited investment opportunities with another firm having more investment opportunities but limited in terms of cash reserve. This can derive a payoff in terms of value that is higher for the two firms combined. The value increase will be as a result of the projects likely to be executed with the extra cash reserve which otherwise would not have been undertaken. This type of synergy is usually noticed when smaller firms are taken over by larger ones or when private firms are acquired by publicly traded businesses.

(b) Increase in debt capacity; the reason is that, the coming together of the firms makes the earnings and cash flow of the combined firm remain more predictable and stable. This gives them the opportunity and space to borrow more than they could have done as separate firms, which offers them tax advantages. These tax advantages usually show itself up in the form of reduction in cost of capital for the business entities that have been combined.

(c) Tax benefits can occur as a result of acquisitions, in order to benefit from the tax rules to write up the assets of the target firm or from using the net operating losses to shelter income. Therefore, a profit-making firm that acquires a cash-strapped firm may rely on the net operating losses of the cash-strapped firm to reduce the acquirer's tax burden. On the other hand, a firm that is able to increase its charges for depreciation after an acquisition transaction will improve on its value and save in taxes.

(d) Diversification is one of the ways in which financial synergy can be obtained which appears to be controversial. Several investors in publicly traded companies, can diversify at reduced cost and without difficulty than the firm itself. For closely held firms or individual businesses, there can be likely benefits that can be derived through diversification. This means that, great potential exists for several merger activities. The more relevant issues have to do with determining the amount to pay for the synergy and how to value it.

In summary, operating synergies seek to achieve operational excellence of the joint operations, whereas financial synergies aim at bringing down the cost of capital for the target firm (Loukianova et al., 2017). In addition, operational synergies usually occur basically

when the two companies are originating from the same industry, but with financial synergies, they largely occur in unrelated mergers or acquisitions. Theoretically, whenever synergistic motive drives acquisitions, the combined firm's value is usually more than the value of these firms standing alone. The value added will be shared between shareholders of both the target and the acquirer firms.

4.3.2 Working Capital Management Theory

The working capital management theory describes how working capital ought to be managed and reveals the benefits regarding profitability, liquidity, solvency, efficiency and maximisation of shareholders wealth which accumulate to the firm from properly managing its working capital well (Brigham, et al. 1999, Gitman, 1997). According to this theory, the overriding goal of managing a firm's working capital appropriately is to achieve an optimal level of profitability and liquidity based upon cash availability, inventory and other current assets (Fidel et al., 2015). It establishes that, working capital management encompasses making a choice of either having more profitability and less liquidity or more liquidity and less profitability. Either of these opposing two decisions possibly will result in either a shortage or excess of working capital. Therefore, two central objectives of working capital management include increasing the profitability levels of a firm and also making sure that, the firm has adequate liquid resources to cater for obligations for the short-term that have fallen due. Holding liquid resources is important to enable firms to continue their operations as inadequate liquidity can result in insolvency and eventual failure of the business (Dunn & Cheatham, 1993).

However, these transactional or operational motives can lead to a firm holding more liquid or financial resources which is considered necessary. Decisions that promote liquidity such as carrying high levels of current assets usually affect the profitability potential of the firm since funds would have been accrued to the firm earning either very low or negative returns (Bhattacharya, 2009). Nevertheless, when managers of firms' finances undertake working capital management policies or procedures that concentrate on liquidity and keep more than what is considered necessary in current assets, they reduce both the firms' insolvency and liquidity risks but negatively affect profitability levels and deliver substandard returns on assets (Samiloglu & Demirgunes, 2008; Raheman & Nasr, 2007). This may also result in disruptions in daily operations of the firm and cause shortages which can lead to a potential forced liquidation of assets and low credit rating (Samiloglu & Demirgunes, 2008; Zainudin,

2006). It is a well-documented idea in literature about the existence of a trade-off between profitability and liquidity and this presents a major problem to managers of firms' finances since it makes harmonisation of the two crucial (Raheman & Nasr, 2007). It is therefore important to state that, for both short and long-run survival of any business, both liquidity as well as profitability are important. Although a company can survive in the short run without making profits, it will definitely face some difficulties in the long run if no profits are made. Indeed, without liquidity, firms stand no chance of surviving, sometimes not even in the short-run. Efficient management of working capital means balancing the conflicting goals of maximising firm value (profitability) and ensuring the firm's survival (liquidity).

According to Sagner (2009), the focus on future acquisition investments will potentially be on entirely two separate attractions, even though strategic expansion of businesses will still remain relevant. These two attractions will include; the underused liquidity on balance sheets, giving the acquirer firm the opportunity to channel cash into a more productive venture. Another attraction will also be on an inefficient management of working capital, leading to opportunities to improve the utilisation of current assets and liabilities. According to (Sagner, 2009), apart from the abovementioned attractions, other things M&A investors globally will be considering are firms with high current assets-to-revenue relationship, especially where the current ratio will be more than the industry's average, cash reserves that are not expected to be used for business operations and also are not likely to be used for stock repurchases or for dividends. Further, they will also seek firms with proven income streams that will offer sufficient cash flow to settle part of the borrowings used to cater for partial funding for an acquisition.

4.3.3 Liquidity Hypothesis

According to the liquidity hypothesis, the possibility of firms becoming targets in acquisitions transactions increases as their liquidity positions also increase (Song and Walking, 1993). This is made possible since excess liquidity allows the acquirer to rely on the target firm's own resources to finance the acquisition deal. In the presence of information asymmetries, liquid assets may provide companies with the needed protection against costs imperfections in the capital market. According to Keynes (1964), firms are able to execute important projects whenever the opportunity avails itself, especially when they hold an adequate amount of assets that is liquid in nature. However, the availability of liquidity to

firms can have an adverse effect on the firms' desire to achieve their objectives if the level of flexibility they have in using it is not managed well. The free cash flow hypothesis as advanced by Jensen (1986) suggests that, managers are potentially able to expand their firms beyond the optimal size or execute unprofitable projects if they are endowed with large amount of free cash. This is because excess cash reserves can be seen as hoarded free cash, and this may result in agency conflicts over the disposal of that cash. As a result of these views, it can be realised that, mergers and acquisitions represent a speedy way firms make use of cash available to them instead of disbursing to shareholders. This means that, when a company or a business entity accumulates cash in excess of what is considered normal for its operations within a particular time period, the possibility of it to engage in M&As is high (Harford, 1999). However, the divergence of interest between both the majority and the minority shareholders might contribute to explain M&As activities, particularly in emerging economies.

Usually, a firm with growth potential but is deficient in terms of having cash is considered a good target for M&A transaction similar to what is suggested by the growth-resources imbalance hypothesis, which postulates that, firms with opposing views between their liquid financial resources and growth offer potential benefits to acquiring firms.

Regarding the acquirer's cash reserves, Jensen (1986) suggests that, the agency cost of a firm is likely to increase when they hold higher levels of free cash because of the tendency for managers to invest in value-destroying projects. This implies that, acquisitions by firms with a substantial cash holding potentially can make these firms experience underperformance in their operations compared to acquisition transactions by cash-strapped firms or firms having limited cash reserves (Harford, 1999; Martynova et al., 2008).

To the best of our knowledge, free cash flow to firms could be a strong driving factor behind M&As activities including those by firms from the emerging markets; however, it appears no study has investigated to establish whether it influences emerging market firms in their acquisition decisions. Therefore, this study will explore and test the free cash flow hypothesis and M&A executions by acquirers from the emerging markets. The study, therefore, hypothesises that;

$H_{4.3}$: Free cash flow to emerging market firms is more likely to motivate them to undertake acquisitions.

4.3.4 Theory of Managerial Discretion

The theory of managerial discretion is basically founded on the claims by the liquidity hypothesis that unproductive acquisitions are not driven by over-confidence, but by the availability of free cash flow or more liquidity. Firms with internal funds that are considered more than what is needed to finance projects with positive net present value tend to make quick strategic investment decisions, and the possibility of them engaging in large-scale investments without proper analysis compared to their cash-strapped counterparts is high. High amounts of liquidity tend to increase managerial discretion, which gives opportunity to managers to select bad acquisitions, particularly when they do not have many good deals to choose from (Martynova & Renneboog, 2008). Numerous studies reveal that the abnormal share price reaction to takeover announcements by cash-rich bidders is negative and decreasing in the amount of FCF held by the bidder (Harford, 1999). The suggestion is that, other investors in the firm will not prevent management of the firm from going ahead to approve the acquisition deal based on subjective and uncertain concepts like managerial gut feelings, intuition and instincts, based on high current and past cash flows (Rau and Vermaelen, 1998). Thus, like the hubris theory, the free cash flow theory states that, some managers with good intentions make decisions that are bad, not out of malice, but because they are not questioned as they would have been challenged if there was no excess liquidity. Of course, as the level of a firm's managerial discretion in free cash flow increases, so too does the opportunity for self-interested managers to pursue self-serving acquisitions (Jensen, 2005).

4.4 Empirical Literature Review

A properly fashioned and implemented working capital management is anticipated to positively contribute to the value growth of a firm. Firms are expected to ensure that there is a balance between liquidity and profitability in the conduct of their business activities. Liquidity is a prerequisite to determine that, in the short term, firms can meet their obligations and the regular flow of it is also assured through a profitable investment project. The relevance of cash as a sign of a firm's good financial health position should not appear surprising because of its critical role within the business.

Several studies have empirically attempted to investigate drivers of firms' acquisitions decisions by considering the firms' corporate liquidity. Yang et al. (2017) analysed the extent

to which corporate liquidity affect M&A decisions, method of payment and performance of listed firms in China over the period 1998–2015 and observed that, the potential for firms that are rich in cash to undertake acquisitions is high.

In their examination of firms from India, Kumar and Rajib (2007) found that acquirers had higher cash flow, higher book value, higher liquid assets and PE ratios. They also have bigger firm sizes and lower debt to total assets ratio relative to the target firms, while the target firms had lesser liquidity. Managers of firms having high levels of free cash flow, low financial leverage and high levels of current ratio may be encouraged to use these loose resources to finance investment projects including even those with negative NPVs, for instance purchasing another firm only for empire building reasons (Iyer & Miller, 2008; Kayo et al., 2010).

Since cash remains the major means of payment for several acquisition transactions by firms from emerging economies, the acquirer's financial liquidity argument becomes even more relevant. According to Agrawal and Sensarma (2007), cash flow is considered as one important parameter that motivates acquisition propensity positively. Kumar and Rajib (2007) analysed a sample of 217 target and 227 acquired companies during the period 1993-2004. They studied the features of the capital structure of the target and the acquirer firms in India using the logit regression, Kolgomorov Smirnov and Mann Whitney U tests. They identified that, the possibility for firms whose liquidity positions are tight to become targets is high, and that firms whose sizes are large are less likely to become targets in acquisition transactions. Further, they state that, large firms with unused debt capacity can rely on this financial slack available to them and acquire other firms and subsequently create value for themselves.

Literature suggests that, firms are desirous of using internal funds such as retained earnings and cash instead of external finance like debt, bank loans and equity (Myers et al., 1984). Compared to their peers who are financially healthy, firms that are financially challenged take whatever amount of cash or liquidity they have more seriously because cash holdings of these firms enable them to invest without having to access new costly debt or equity (Faulkender & Wang, 2006). So, working capital should play a critical role in decisions relating to investment, including mergers and acquisitions transactions. Liquidity can allow firms to execute acquisitions, because it can be directly used as a means of payment or can be used to pay for interest on debt finance. It means that, when corporate liquidity is increased, it

improves firms' ability to undertake acquisitions. In agreement with this argument, Shleifer and Vishny (1992) note that high corporate liquidity has motivated global M&A waves over the last century.

In recent times, using data from 36 countries, Erel et al. (2012) identify that, the probability for a firm to undertake M&As increases with a higher cash holding. A positive relation is also found between firms that have excess cash reserves and the possibility of entering into acquisition deal by Harford (1999) in which he ascribes the positive relationship to the existence of agency conflicts between shareholders and management. In agreement with the agency costs of free cash flow explanation for acquisitions, a negative market reaction for acquiring firms with higher cash holding has been identified, because of the expectation of poor future performance. For example, Oler (2008) identifies that, acquirers' cash flow levels have a negative relationship with their performances substantially as far as returns on their net operating assets after the acquisition deal is concerned. Hanson (1992), however, finds evidence that, acquirers tend to execute low-benefit M&A transactions if there is a large free cash flow available to them.

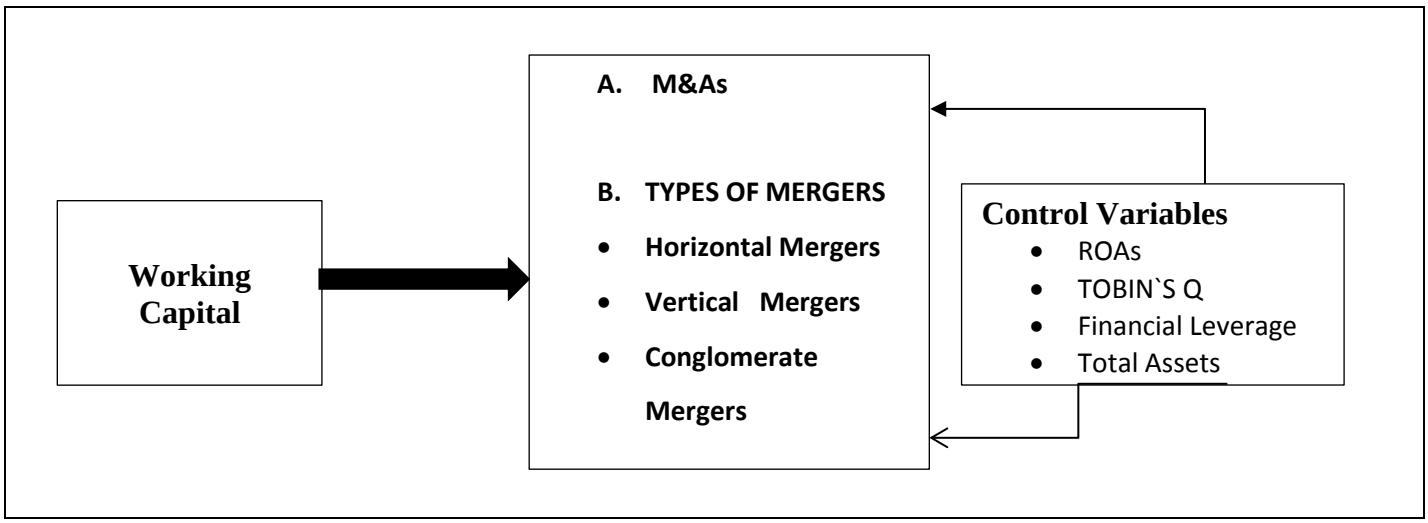
Most of the studies seem to have overlooked the role firms' working capital may be playing in motivating acquisitions decisions by acquirers from the emerging markets. This investigation, however, is relevant against the overwhelming evidence of excess reserve of firms' working capital appearing on companies' balance sheets. For instance, in the year 2007, according to Wasiuzzaman and Arumugam (2013), the top 850 companies in the Asia-Pacific region were holding approximately $833 billion in excess of working capital that was not properly being utilised. Ernst & Young (2016) also accuses the 500 leading firms situated in India of having around $60 billion excess of working capital after reviewing their working capital performances. Further, large cash reserves are also being reported as a key factor that will motivate M&A deals, according to KPMG (2015) M&A survey report. Chance (2016) also adds that, the number of deals will continue to increase since there is about $1.3 trillion for deals executions.

The foregoing discussion thus constitutes the gap that this study attempts to fill by examining whether working capital positions of acquirer firms from the emerging markets drive M&A transactions they execute or not. This is because, to the best of our knowledge, no studies have explored whether working capital positions of acquirers from the emerging markets

motivate or drive them to undertake M&A transactions. This study again departs from previous studies on drivers of M&As by emerging market firms who largely rely on firms within one country which makes generalisation of findings and conclusions quite difficult. The present study, however, considers firms from ten (10) different emerging market countries altogether to investigate if their working capital positions influence their acquisition pursuits.

4.5 Study Conceptual Framework

According to Miles and Huberman (1994), conceptual framework focuses on explaining narratively or graphically the key factors, variables and concepts in a study, and the relationships presumed to exist amongst them. Therefore, in line with the existing literature, the following conceptual framework Figure 4.1 below was put forward to assist in formulating the research hypotheses and their testing to better explain the relationship between the variables that the study seeks to investigate.



Source: Author's own construction developed from extant literature

Figure 4.1: Conceptual Model

It can be observed from Figure 4.1 above that, working capital represents the independent variable while M&As and types of M&As are dependent variables. Figure 4.1 also shows other control variables like Returns on Assets (ROAs), Tobin's Q, Total Assets (TAs), Financial leverage (*FINLEV*) that have influence on both M&As and its types.

It can be observed from the framework that, working capital drives M&As and Types of M&As. This, therefore, means that, firms' working capital positions are likely to influence them to undertake investment activities such as M&As or pursue a particular type of M&As. Liquidity and working capital management theory as discussed in the theoretical review section indicate that firms with excess working capital reserves or having higher cash holdings are potentially likely to execute investment activities even if these investments have a negative net present value.

In this framework, working capital refers to a company's investments in both current assets and net working capital and is computed as the company's current assets minus its current liabilities. when a business entity or firm's working capital is more than what is generally considered prudent for its operations or activities. M&As refer to mergers and acquisitions, where a merger is defined as an activity in which a company combines with one or two other companies to form a completely new entity through the loss of their separate legal entities in a process known as "Consolidation" (Ashfaq et al., 2014**).**
Regarding acquisitions**,** it involves the transfer of control of the assets, operations and management of a company to another, making that company a unit of the purchaser (Wright & Elenkov, 2002). The type of mergers considered in this framework are horizontal, vertical and conglomerate. Based on the above conceptual framework discussed, the following hypotheses were proposed to be tested in this study.

4.5.1 Justification and Hypotheses of the Variables

4.5.1.1 Relationship between Working Capital Position and M&As

Working capital denotes current assets and current liabilities which can be calculated by subtracting a firm's current liabilities from its current assets. Liquidity in the form of working capital can help firms to execute acquisitions, because it can serve as a direct measure of payment or may be applied to settle interest on debt finance. This means that an increase in working capital should boost acquisition activities of firms. According to Shleifer and Vishny (1992), high cash reserves have motivated global merger transactions over the years, and that firms having large free cash holding regularly undertake acquisition transactions even if they would destroy the value of shareholders.

$H_{4.1}$: Working capital positions of acquirers from the emerging markets are more likely to motivate them to undertake M&As.

4.5.1.2 Relationship between Working Capital Position and Type of M&As

According to Gongming (1997), firms in search of higher economic benefits by means of internationalisation can do so through horizontal, vertical and conglomerate types of mergers. A study conducted by Schleifer and Vishny (1991) states that, due to free cash flow, managers invest in conglomerate mergers leading to negative performance for the bidding shareholders in the long run. Also, firms become interested in pursuing different types of M&As deals by acquiring firms from related or unrelated sector or industries based on their goals and objectives, strength and availability of resources to finance these deals.

$H_{4.2}$: Working capital positions of acquirers from the emerging markets are more likely to motivate them to undertake either a horizontal or vertical type of M&As.

4.5.1.3 Relationship of the Control Variables used and M&As

4.5.1.4 Relationship between Returns on Assets (ROA) and M&As

Returns on assets (*ROAs*) were added as a measure for firms' performance in terms of their profitability levels. It refers to the ratio of operating income before depreciation to total book assets at the fiscal year-end immediately prior to the merger announcement date or ROA is calculated as a ratio of net income and total assets (Lee, Mauer & Xu, 2018). Firms experiencing higher returns on their assets are expected to be in a good position to raise enough more in security markets, since they provide prospects for good returns on the firm's investments such as M&As (Boubakri & Cosset, 1998). The ratio of returns on assets provide a direct assessment of the ability of the management to use assets in a more efficient manner through investment in mergers and acquisitions transactions. The study expects ROAs positions of acquirers from the emerging markets to influence them to undertake M&As.

4.5.1.4 Relationship between the Firms' growth opportunities (Tobin's Q) and M&As

According to the theory of market for corporate control, companies that are underperforming are more likely to become targets and have their assets transferred to more capable hands, unless they are able to acquire assets to improve on the level of their profitability.

The inference from this suggestion is that, financially strong and healthy companies are more likely to be active acquirers while the underperforming ones would be potential targets. Growth is considered a significant factor for a successful firm (Kouser et al., 2012). It is an

important variable that assesses the growth capabilities or opportunities that acquirer firms have when they get involved in mergers and acquisitions. Firms have popularly adopted growth through M&As to achieve corporate growth and other corporate objectives (Thanos & Papadakis, 2012). Dickerson et al. (1997) suggest that each type of growth has different effects on firms' profitability, pointing out that "if a firm doubles its growth rate internally, the firm's profitability increases by almost 6.9% compared to only a 0.2% increase if its growth is through acquisitions". Growth by means of M&As allows the acquirer firm to derive immediate returns after acquisition investment, since the target is in operation already. According to Gaughan (2005), one quick way a firm can achieve growth is through M&As. However, pursuing growth is not always considered appropriate since certain firms may have reached the sizes that make them very efficient. Such M&A transactions may affect the efficiency levels of such acquirers which may adversely affect the operational performance of these firms.

The potential growth opportunities were measured using the Tobin's q, which was calculated as total market value of firm divided by the total asset value of firm. The Tobin's q is used as a proxy for firms' performance similar to what is suggested in the literature by several scholars. For example, previous researches that have employed Tobin's q to evaluate performance and value creation for firms in M&As include Bris, Brisley, and Cabolis (2008), Kammler and Alves (2010), Delcoure and Hunsader (2006) and Adams and Mehran (2008). Firms with low Tobin's q have low potential to grow and so do not performed well compared to their counterparts and potentially end up as targets. Another indication could be that, a firm will be operating below its expected value and so more attractive to be acquired. We expect the growth expectations of acquirers from the emerging markets to influence them to undertake M&As.

4.5.1.5 Relationship between Financial Leverage (FINLEV) and M&As

According to Iqbal et al. (2013), leverage, refers to the use of fixed cost of capital to increase firms' profitability levels. It is calculated as total liabilities to total assets and this study uses as another control variable. Leverage is linked to M&As because these expensive strategies are sometimes externally financed because additional resources may be required beyond what is generated from normal business activities to support these M&A transactions (Harrison, Hart & Oler, 2014; Kumar, 1985). According to Harrison et al. (2014), there is a negative

effect of leverage on acquirers' post-acquisition performances, where this negative effect is usually clustered in firms which are already having large amounts of debt. They conclude that M&As have a substantial and persistent effect on the acquirers' capital structure, causing a continuous increase in average debt-to-assets of acquirers in post-acquisition periods of up to five years. We expect the financial leverage positions of acquirers from the emerging markets to motivate them to undertake M&As.

4.5.1.6 Relationship between Firms' Sizes (proxied by Total Assets) and M&As

For firms' sizes, evidence from Klimek (2014) regarding financial effects of M&As on acquirers in Poland shows that, growth in firm size is negatively correlated with operating performance. However, Moeller et al. (2004) identify that, size of firms significantly affects profitability positively according to the findings of Dickerson, Gibson and Tsakalotos (1997). This study expects sizes of acquirer firms from the emerging market to encourage them to undertake M&As.

4.6 Methodology

4.6.1 Model Specification

The main objective of this chapter is to investigate whether working capital positions of emerging market acquirers drive M&A transactions they execute. This chapter further explores whether working capital has influence on the type of merger transactions (either horizontal, vertical or conglomerate mergers) that firms from the emerging markets pursue.
To undertake this investigation, this study starts by identifying acquirers from ten (10) selected countries in emerging market and their respective targets from 2004 to 2013. The study also identifies how the deals were financed, by examining each transaction to see whether they were financed by stocks, cash, debt or both debt and cash. We employ a cross-sectional analysis, using probit regression technique. According to Brooks (2014), the probit model is well suited than the OLS if the dependent variable is discrete and takes not more than two values, an example can be, one (1) if a merger transaction is horizontal and zero (0) otherwise. This model seeks to estimate the likelihood that a certain observation that has specific characteristics will find itself within one of the specific categories.

Additionally, categorising observations based on their expected probabilities is a type of binary classification model. A binary regression method is considered powerful when the

purpose of a research study is to establish the probability of an event occurring or the likelihood of its occurrence. This method was used to avoid the limitations of OLS and multiple discriminant analysis (MDA). Two key requirements for discriminant analysis are that, data should have multivariate normal distribution and the dispersion matrices of the group must be the same. Neter and Wasserman (1974) state both theoretical and empirical considerations and suggest that, when the dependent variable is binary, the underlying relationship is frequently curvilinear. In probit analysis, no assumptions need to be made about the prior probability that, the firm belongs to a specific group, and the assumptions of normal distribution and the equality of variances and covariances across groups are less critical.

Suppose a response variable *Y* is binary, it can have only two possible outcomes which we will denote as 1 and 0. *Y* for example, may represent M&A executed firms and non-M&A executed firms. We also have a vector of regressors *X*, which are assumed to influence the outcome Y.

Specifically, we assume that the model takes the form:

$$\Pr(Y=1 \mid X) = \Phi(\beta_0 + \beta_1 X), \qquad (4.1)$$

where Pr denotes probability that an event occurs (that is *M&A*) given the values of the *X* variables and Φ is the standard cumulative distribution function (*CDF*). The parameter*s* β are typically estimated by maximum likelihood. In Equation 4.1, if β_1 is positive, then an increase in *X* increases the probability that *Y=1*; if β_1 is negative, then an increase in *X* decreases the probability that *Y=1*. The probit methodology has extensively been used in the literature in studies relating to mergers and acquisitions to investigate other issues such as "impact of institutional investors on mergers and acquisitions in the United Kingdom" and "method of payment and risk mitigation in cross-border M&As by (Andriosopoulos & Lasfer, 2015; Huang, Officer, & Powell, 2016) respectively. This study accordingly in line with the above scholars also specify a probit regression model as shown in Equation 4.2 below to investigate the objective of whether working capital drives M&As by emerging market acquirers as follows:

$$DM\&A_{Fi} = \beta_o + \beta_1 WC_i + \beta_2 ROA_i + \beta_3 TA_{si} + \beta_4 TQ_i + \beta_5 FIN_i + \varepsilon i \ldots\ldots\ldots \quad (4.2)$$

where; $DM\&A_{Fi}$ represents a dummy variable for mergers and acquisitions of firms, which is denoted by one (1) if a firm executed M&A and zero (0) otherwise. Our main explanatory variable for this study which we expect to be driving M&As transactions by emerging market acquirers is working capital of these acquirers represented by *WC* (working capital). This

refers to a company's investments in both current assets and net working capital and is computed as the firm's current assets minus its current liabilities. A priori, based on the financial theory, we expect that, *WC* will more likely drive M&As transactions by these acquirer firms. *ROA, TAs* (total assets), *TQ* (proxy for firms' growth opportunity) and *FIN* are the other control variables representing the firms' return on asset (for profitability levels), total assets (proxy for firm sizes), *Tobin's q* (proxy for firms' growth opportunities) and financial leverage levels, respectively. ε_i and i denote the random error term and the cross-sectional dimensions respectively. β_1, β_2, β_3, β_4, and β_5, *are* the coefficients to be estimated. We expect a positive relation between the various control variables and M&As as have been explained from Section 4.5.1.4 to 4.5.1.6.

Linked to the above investigation of whether working capital drives M&As transactions by emerging market acquirers, is a further investigation of whether it (that is, working capital positions of the firms) also have any influence on the type of merger transactions (either horizontal, vertical or conglomerate mergers) they pursue.

This study, therefore, in line with Catão and Milesi-Ferretti (2014) and Clare et al. (2013) undertakes this investigation according to the following model specification;

$$MATPE = \beta_o + \beta_1 WC_i + \beta_2 ROA_i + \beta_3 TA_{si} + \beta_4 TQ_i + \beta_5 FIN_i + \varepsilon i \quad \text{.....(4.3)}$$

where *MATPE* denotes a dummy variable for the type of M&A deal (either horizontal merger, vertical merger or conglomerate merger) that emerging markets acquirer firms pursue. It assumes a value of one (1) if the merger is horizontal or vertical and zero (0) otherwise. *WC, ROA, TAs* (total assets), *TQ* (proxy for firms' growth opportunity) and *FIN* are a set of control variables denoting firms' working capital, returns on assets (for profitability levels), total assets (proxy for firm sizes), Tobin's q (proxy for firms' growth opportunities) and financial leverage levels, respectively. ε_i and i denote the random error term and the cross-sectional dimensions respectively. β_1, β_2, β_3, β_4,..... β_5, *are* the coefficients to be estimated. We define the various types of mergers as follows:

(a) **Horizontal merger:** It involves the combination of firms with similar line of products that are identical or related and usually operate in the same industry (Fan & Goyal, 2006).

(b) **Vertical merger:** It occurs when firms producing distinct goods and services or parts used in producing a particular final product combine to form a new firm (Fan & Goyal, 2006). For instance, a manufacturer of a product may decide to join with the

supplier. These firms generally may be operating at different stages of the production chain.

(c) **Conglomerate mergers:** This type of merger occurs when two or more firms whose business operations are not related either horizontally or vertically combine to create a single business entity (Amihud et al., 1981).

Further to the above two investigations, the study as previously stated in section 4.3.3. also tests the free cash flow (*FCF*) hypothesis to establish if it influences the acquirer firms to undertake acquisitions by stating the model below;

$$DM\&A = \beta_o + \beta_1 FCF_i + \beta_2 ROA_i + \beta_3 LTA_{si} + \beta_4 TQ_i + \beta_5 DEBITTi + \varepsilon i \quad \text{.....(4.4)}$$

where DM&A is the dummy for M&As and is one (1) if a firm engaged in acquisitions and zero otherwise. *FCF* is the main independent variable, which is defined as the amount of money left after a firm has satisfied all of its current operating and financing needs (Jensen, 1986) and calculated as;

$$FCF = \frac{\text{EBIT x (1 - Tax) + Depreciation – Change in working capital – Cost of capital}}{\text{Net sales}}$$

where *EBIT* is earning before interest and tax. A priori, we hypothesise that free cash flow to emerging market acquirers is more likely to drive them into acquisitions. *DEBITT, ROAs, TQ and TA* are the control variables denoting the total debt, returns on assets, the Tobin's q and total assets respectively.

In the footsteps of Goodman et al. (2013), Park and Jang (2011) and Sagner (2009) the following firm-specific annual financial variables; financial leverage, returns on assets (*ROAs*), Total assets (for firms sizes) and the Tobin q (for firms growth opportunities) were selected as potential M&A drivers in the emerging markets. This study suggests that, changes in these variables have the effects of influencing firms' investment decisions including those of M&As deals. Our main variable of interest for Equations 4.2 and 4.3 is the working capital of firms, which is measured as the natural logarithm of the difference between current assets and current liabilities while the main independent variable of interest for Equation 4.4 is the *FCF* which refers to a firm's money remaining after taking care of all of its current financing and operating needs.

4.6.2 Data

Summary information on the selected acquirer firms for this study regarding their M&As transactions was obtained from the Bloomberg terminal. This data source provides real-time detailed information about the financial market information on M&A deals which is well acclaimed by both academia and industry. The relevant firms for this study were the listed acquirer firms that undertook M&A transactions from 2004 to 2013 with data available from the ten (10) selected emerging economies.

Annual financial data gleaned from the Bloomberg terminal on the selected acquirer firms' included variables such as the financial leverage, total debt to total assets, returns on assets (ROAs, proxy for profitability), total assets (proxy for firms' sizes), the Tobin's q (proxy for firms' growth opportunity) and managerial share ownership percentage (that is, insiders' shares percentage outstanding). These firms were selected from ten (10) of the sixteen (16) countries classified by the Standard and Poor (S&P), International Monetary Fund (IMF), Russell and Dow Jones, Morgan Stanley Capital International (MSCI) as being members of the emerging markets as of 2016. The countries are among emerging market countries with considerable higher deal volumes and have been active in M&As enterprise over the period according to (Zephyr,2016). They include China, South Africa, Brazil, Chile, Mexico, Poland, Russia, Argentina, India and Malaysia. The choice of firms from these countries and the period (2004 to 2013) is because of data availability for these firms on both the Bloomberg terminal and Bureau Van Dijk's Zephyr, specialised M&A databases considered worldwide as very comprehensive for M&A information for firms (Zephyr, 2011). Again, the period chosen for this study falls within the current M&A wave which started in the mid 2004 to 2014 where transactions of more than 3.5 trillion M&A deals were announced globally (Reuters, 2014).

Further, all data used to investigate the objectives stated above were cross sectional in nature. A cross section data is a type of data collected by observing many subjects such as firms, countries, regions or individuals at one point in time, or without regard to differences in time. The data may be single observations from a sample survey or from all units in a population. For example, data collected on inflation of Ghana, South Africa, Nigeria, Kenya in 2018.

A cross sectional study enables researchers to undertake research involving comparison of several different variables at the same time. Again, cross-section data usually contains multiple variables at the time of the data snapshot. Lastly, cross-sectional studies using cross-

section data are intuitively clear and allow for the examination of a larger number of variables.

However, it has some limitations. Cross-section data may not provide definite information about cause-and-effect relationships and also has the problem of heterogeneity. For example, if you collect data on wages in several firms in a given industry at the same point in time, heterogeneity arises because the data may consist of not only small-sized firms, but also the medium and large sizes of firms with their specific individual characteristics. In spite of these limitations, cross sectional data are very much useful and reliable for modern day research works to address various problems within countries and firms.

4.6.3 Estimation Technique

The models specified above in Equations 4.2, 4.3 and 4.4 were estimated using the probit model in which the error term has a normal distribution by applying EViews 9 and Stata 15 statistical packages. Although the binary dependent variable models can be estimated by OLS, in which case they are known as linear probability models (LPM), OLS is not the preferred method of estimation for such models because of two limitations, namely, that the estimated probabilities from LPM do not necessarily lie in the bounds of 0 and 1 and also because LPM assumes that the probability of a positive response increases linearly with the level of the explanatory variable, which is counter intuitive. One would expect the rate of increase in probability to taper off after some point. The underlying probability distribution of probit is the normal distribution. The parameters of the probit model are usually estimated by the method of maximum likelihood while the marginal effect also of a regressor in the probit model does not depend only on the coefficient of that regressor, but also on the values of all regressors in the model.

By far the most common way to estimate probit model is the method of maximum likelihood. Because the dependent variable is discrete, the likelihood function cannot be defined as a joint density function. When the dependent variable can take on discrete values, the likelihood function for those values should be defined as the probability that the value is realised rather than as the probability density at that value. With this redefinition, the sum of the possible values of the likelihood is equal to 1 just as the integral of the possible values of a likelihood based on a continuous distribution is equal to 1.

If, for observation t, the realised value of the dependent variable is Y_t, then the likelihood for that observation if $Y_t = 1$ is just the probability that $Y_t = 1$. And if $Y_t = 0$, it is the

probability that $Y_t = 0$. The logarithm of the appropriate probability is then the contribution to the log likelihood made by observation t.

Because the probability that $Y_t = 1$ is $F(X_t\beta)$, the addition to the loglikelihood function for observation when $Y_t = 1$ is log $F(X_t\beta)$. In the same way, the addition to the loglikelihood function for observation t when $Y_t = 0$ is 1- log $F(X_t\beta)$. Therefore, if Y is an n-vector with typical element Y_t the loglikelihood function for Y can be written as;

$$\ell(y,\beta) = \sum_{t=1}^{n} \left(y_t log F(X_t\beta) + (1 - y_t)\log(1 - F(X_t\,\beta)\right) \qquad \text{.....} (4.5)$$

For each observation, one of the terms inside the large parentheses is always 0, while the other always remains negative. The first term is 0 whenever $Y_t = 0$, and the second term is 0 whenever $Y_t = 1$. When either term is nonzero, it must be negative because it is equal to the logarithm of a probability and this probability must be less than 1 whenever $X_t\beta$ is finite. For the model to fit perfectly, $F(X_t\beta)$, would have to equal 1 when $Y_t = 1$ and 0 when $Y_t = 0$ and the entire expression inside the parentheses would then equal 0.

This could happen only if $X_t\beta = \infty$ whenever $Y_t = 1$, and $X_t\beta = \infty$ whenever $Y_t = 0$. Therefore, we see that equation (4.5) is bounded above by 0.

Maximising the loglikelihood function like the one above is quite easy to do. For probit models, this function is globally concave with respect to β (Pratt, 1981). This means that the first-order conditions or likelihood equations uniquely define the maximum likelihood estimator β.

4.6.4 Marginal Effects in Probit Models

In general, one cannot just interpret the coefficients from the output of a probit regression. Researchers often report the marginal effect, which is the change in $y*$ for each unit change in x (Anderson et al., 2003). It is the *marginal effects* of the regressors which are interpreted. That is, how much the (conditional) probability of the outcome variable changes when you change the value of a regressor, holding all other regressors constant at some values. This is different from the linear regression case where it is the estimated coefficients that are interpreted directly. The reason is that, in the linear regression case, the regression coefficients *are the marginal effects*. The marginal effect of x_j on the conditional probability is given by;

$$\frac{\partial E\left(\frac{y^i}{x_i},\beta\right)}{\partial x_{ij}} = f(-xi'\beta)j, \qquad \text{.....}(4.6)$$

Where: $f(x) = dF(x)/dx$ is the density function corresponding to F. βj is weighted by a factor f that depends on the values of all the regressors in x. The direction of the effect of a change in xj depends only on the sign of the βj coefficient. Positive values of βj imply that increasing xj will increase the probability of the response while negative values imply the opposite (Anderson et al., 2003). The *marginal effect* for categorical variables shows how *P(Y=1)* changes as the categorical variable changes from 0 to 1, after controlling in some way for the other variables in the model. Marginal effects provide a good approximation to the amount of change in Y that will be produced by a 1-unit change in X. For each explanatory variable, there are two types of marginal effects in binary dependent variables models. These are the index and probability effects.

4.6.4.1 Marginal Index Effects

Marginal *index* effects are the partial effects of each explanatory variable on the probit index function $X_i^T \beta$. Xj is a *binary* explanatory variable (a *dummy* or *indicator* variable).

The marginal index effect of a binary explanatory variable equals;

1. the value of the index function $X_i^T \beta$. **when** $Xij = 1$ and the other regressors equal fixed values *minus;*
2. the value of the index function $X_i^T \beta$ **when** and $Xij = 0$ and the other regressors equal the same fixed values.

The **marginal *index* effect of the *binary* (*dummy*) variable** Xj is:

marginal *index* effect of $Xj = X^T_{1i} \beta - X^T_{0i} \beta$

Limitation: Marginal index effects are difficult to interpret because it is difficult to interpret the latent dependent variable $*Yi$.

4.6.4.2 Marginal Probability Effects

Marginal *probability* effects are the partial effects of each explanatory variable on the probability that the observed dependent variable $Y_i = 1$, where in probit models

$\Pr(Yi = 1) = \Phi\,(X_i^T \beta)$ = standard normal *C.D.F* at $X_i^T \beta$.

Xj is a *binary* explanatory variable (a *dummy* or *indicator* variable) The marginal *probability* effect of a *binary* explanatory variable equals;

1. the value of $\Phi\,(X_i^T \beta)$ when $Xij = 1$ and the other regressors equal fixed values

Minus;

2. value of $\Phi\,(X_i^T \beta)$ when $Xij = 0$ and the other regressors equal the same fixed value.

The marginal *probability* effect of the *binary* (*dummy*) variable $Xj = 1$ is: marginal *probability* effect of $Xj = (X1_i^T \beta) - (X0_i^T \beta)$.

4.7 Results and Discussion

4.7.1 Summary statistics

Table 4.1 below presents the statistical summary of the variables considered in this study with 322 observations taken from 160 emerging market acquirer firms over the period of 2004 to 2013. The variation of the data set is minimal as reflected by the low standard deviation. The results show that the variables are fairly and normally distributed as indicated by the Jarque-Bera statistics and having a skewness around -1 and 1 is considered symmetric as well as Kurtosis around 3.0.

The average number of M&As executed by the firms is 0.5%, while the minimum of (0.00) and maximum of (1.00) do not indicate a wide spread of M&A transactions executed by acquirers in the emerging markets. The meaning of this could possibly be that, not many firms are usually involved in executing M&A transactions as acquirers in the emerging markets. The percentage of the firms' working capital as a share of the various factors driving M&A transactions they undertake shows an average value of 6.992% which is greater than the average number of M&As they undertake. The standard deviation is about 2.6%, suggesting that on average, working capital positions of the firms as a share of factors driving M&As in the emerging markets deviates from the mean by about 2.6%. The working capital (WC) shows huge disparities with the minimum being 0.00 compared to 13.2% as the maximum. This means that, while some acquirers have absolutely very low working capital levels others have a relatively high degree of working capital reserves. The sizes of the firms have been very wide ranging from a minimum of (3.104) to a maximum of (15.85) with a mean of 6.992. This implies that the acquirers are of various sizes. Financial leverage, which measures the degree to which the firms are fixed - income securities such as debt and preferred equity to acquire assets is quite high, with a minimum of 4% and maximum of around 237% with a mean of about 83%. This suggests that, most of these acquirer firms are likely financing their M&As transaction with debt and are saddled with the payment of high interest which will adversely have effect on the bottom-line earnings per share. The ROAs

also shows a minimum value of around 2.1% and maximum of 3.87% with a mean of 1.8%. This gives an indication of low returns on the assets of emerging market acquirers. With regard to Tobin's q which measures growth opportunities of these firms, the difference between the maximum which is around 2.353 and the minimum of 0.458 is not that huge, suggesting some relatively similar growth rate opportunities for these firms.

Table 4.1: Summary Statistics

	MA	TSSETS	WC	ROA	FIN	TQ
Mean	0.500	9.392	6.992	1.826	0.829	0.459
Maximum	1.000	15.849	13.209	3.865	2.376	2.354
Minimum	0.000	3.104	0.000	-2.110	0.042	-0.688
Std. Dev.	0.501	2.410	2.599	0.891	0.441	0.557
Skewness	0.000	0.296	0.144	-1.100	0.868	0.788
Kurtosis	1.000	2.632	2.666	5.386	3.763	3.417
Jarque-Bera	53.667	6.5295	2.607	128.628	47.597	34.109
Observations	322	322	321	293	318	308

Source: Own calculations, 2018 based on data collected

Table 4.2 below shows the correlation matrix. Correlation describes the degree of association between variables. The coefficients range from -1 to 1 and both the sign and size of the coefficient are vital in explaining the relationship between the variables and the implication it might have for our econometrics analysis. It can be observed that, there is a negative relationship existing between the dependent variable which is M&As executions and working capital, our independent variable of interest. This is contrary to our expectation and an indication that working capital positions of acquirers from the emerging markets is less likely to influence their M&As transactions. This will, however, be confirmed by the regression results. Regarding the explanatory variables of total assets, FIN (financial leverage) and ROAs (returns on assets), they are positively correlated with M&As. This means that increases or improvements in these variables of the acquirers will likely motivate their decisions to engage in M&As which aligns with our expectations, but the validity of this assertion will be done through a further econometric analysis. TQ (Tobin's q) is negatively related to M&As. The correlation table also provides evidence of a negative correlation between returns on assets on one side and working capital and the total assets on another.

Analysis of the data shows Tobin's q having a negative relationship with both total assets and working capital. A further inspection of the table reveals a positive relationship between Tobin's q and ROAs showing that improvements the firms' growth or performances is likely to impact positively on their profitability levels while financial leverage on the other hand is negatively related with ROAs and the Tobin's q.

Table 4.2: Correlation Analysis

	MA	TASSETS	WC	ROA	FIN	TQ
MA	1.0000					
TASSETS	0.0956	1.0000				
WC	-0.0196	0.8408	1.0000			
ROA	0.0003	-0.1433	-0.0473	1.0000		
FIN	0.0688	0.2552	0.1173	-0.2957	1.0000	
TQ	-0.0979	-0.0668	-0.0322	0.3989	-0.1155	1.0000

Source: Own calculations, 2018 based on data collected

4.7.2. Diagnostic Tests

In terms of validity, this study's results meet the various requirements of the regression models as indicated in Panel B of Table 4.3 below. For the multivariate probit cross-sectional regression, the overall fitness of our model is good as indicated by the p-values of 0.3809 and 0.1207 respectively for both the HL test and Andrew test Statistic which are large, showing no evidence of poor fit, but it is good and specified correctly.

In addition, results for heteroscedasticity test confirm no presence heteroscedasticity as the p-value for this is roughly 0.9494, which gives little evidence against the null hypothesis of homoscedasticity.

4.7.3 Regression Results

4.7.4 Working Capital and M&As Transactions

The cardinal objective of this study is to investigate whether working capital positions of acquirer firms from the emerging markets drive mergers and acquisitions transactions they execute or not. Financial theory suggests that firms having excess working capital or cash

reserves will potentially undertake investments even if those investments have a negative net present value (NPV) or destroy shareholders value. To undertake this investigation, the study employed the probit regression model approach which is more suitable for research works relating to determining the probability of an event occurring. This model has been used by other scholars like Andriosopoulos and Yang (2015), Huang et al. (2016) and Luo (2005) to explore similar studies.

Our results as set out in 4.3 provide far-reaching revelations and insights. We found result of the marginal effect coefficient for working capital which is our main independent variable of interest to be negative and statistically significant at 1%. This means that, working capital positions of emerging market acquirer firms are less likely to motivate them to undertake M&A transactions compared to other potential factors, all other things being equal. Inspection of Table 4.3 below shows that, a percentage change in these acquirer firms' working capital positions decreases the likelihood of it to influence them to execute M&A transactions by 7.58 percent. This result fails to confirm hypothesis **($H_{4.1}$)** of this present study that, emerging market acquirer firms' working capital positions are more likely to influence them to undertake M&As. The meaning of the negative sign carried by the acquirers' working capital marginal effect coefficient is that, an increase in the levels of these acquirers' working capital positions dampens their appetite to undertake M&A transactions, all other things being equal. In other words, it does not encourage or induce them to engage in acquisition transactions. The reason for this could be that, as the literature suggests, several emerging market firms are smaller in sizes compared to their counterparts in developed market and usually have limited access to capital markets and mostly depend on their limited internal resources, trade credits and short-term bank loans to make investments in account receivable and inventories which could be used for investment projects such as M&As (Chittenden, Poutziouris & Michaelas 1998). Another reason for the negative sign could be that, emerging market acquirer firms may have more current liabilities making their working capital very low and consequently serve as a demotivating factor for engaging in M&As compared to their peers in developed markets who are persistently being accused of having excess working capital, where some of them are even reported to be reserving cash in anticipation of M&A activities. A further reason could be that, proper management of working capital is yet to gain the needed attention from the management of most emerging market firms. Thus, management of firms in emerging markets considers working capital less in their daily decision-making which accounts for the less likelihood of it to influence them to undertake M&A transactions. In addition, these acquirer firms may also have the majority of

the components of working capital to be non-cash, in the form of inventory, trade receivables, prepayments among others. Thus, the attention of management on non-cash item may be low and so are not considered in their decisions regarding the execution of M&As.

Moreover, the negative relationship between the acquirer firms' working capital positions and their desire for M&As is also contrary to the predictions of the liquidity hypothesis, which holds that when corporate liquidity or working capital increases, it improves firms' ability to execute acquisitions, since it can be directly used as a means of payment or can be used to pay for interest on debt finance. The negative sign of the working capital coefficient, however, suggests a contrary relationship between emerging market acquirers' liquidity or working capital positions and M&As. This result is inconsistent with the findings of Opler et al. (1999) and Harford (1999) for firms in the United States of America, suggesting that, firms with higher cash holdings or reserves are more likely to undertake acquisitions than their peers who are poor or deficient in terms of cash (illiquid). The result again contradicts the views of Iyer and Miller (2008) and Kayo et al. (2010) that managers of firms that have large amount of excess cash reserves, low financial leverage and high current ratio (CR) may be encouraged to make use of these available resources to finance investment projects including even those with negative NPV for the purposes of empire building.

Further, our result is contrary to the predictions of Chance (2015), KPMG (2016) and Sagner (2009) that the availability of large cash reserves in the form of working capital on balance sheets of firms would be one of the key factors that will drive future M&As. This result, however, suggests otherwise and that other factors may be responsible for driving firms including those from the emerging markets into acquisitions deals. The implication of this finding to managers of emerging market firms is that, since this study has identified firms' working capital positions to be less likely to influence them to undertake acquisition deals, it is essential for firms that are cash-rich or have excess working capital to look out for other motivating factors that might encourage them to expand their activities through M&A route and never rush into merger deals, but in line with working capital management theory find better and efficient ways to utilise their liquid assets properly to realise more profits for their respective firms. Policy makers should note that, in a competitive world, efficient working capital management is important for all firm sizes operating in any part of the world (Akbar, 2014). Therefore, proper working capital management practices should be a relevant factor that should be considered by firms operating in the emerging markets. Figure 4.2 below therefore shows the relationship between working capital positions of acquirer firms from the emerging markets and execution of M&A transactions.

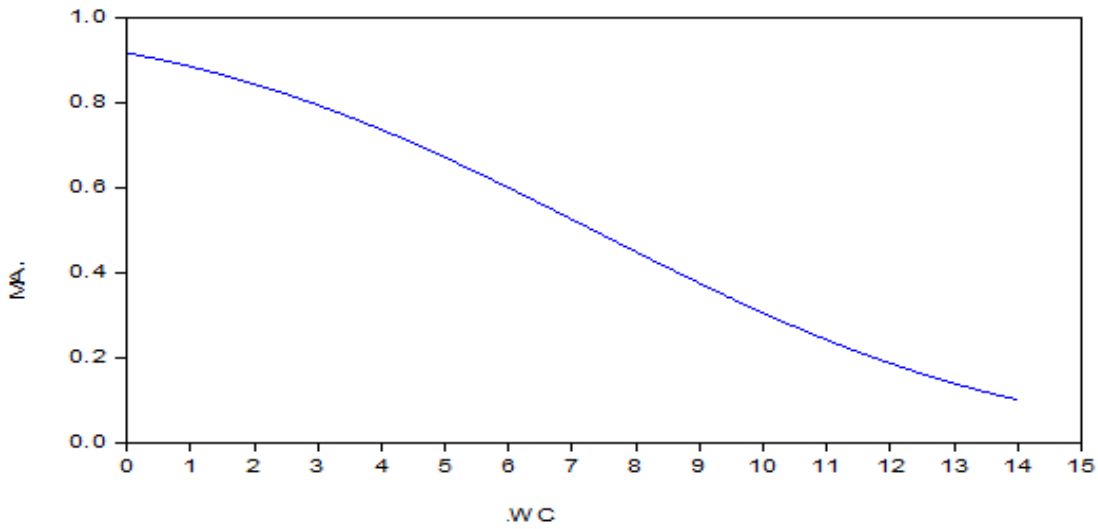


Figure 4.2: Acquirers' Working Capital (WC) Positions and M&A Executions
Source: Author's Estimation, 2018.

Figure 4.2 above illustrates the nexus between working capital positions of firms and the execution of M&A transactions by acquirers from the emerging markets. The figure shows that changes in working capital positions of these acquirers have a negative impact on the possibility of them to undertake acquisition transactions. As can be observed from the above Figure 4.3, an increase in the working capital positions of the firms, reduces the likelihood of these acquirers to engage in M&A transactions, all other things being equal. This is contrary to our a priori expectation of acquirer firms' working capital positions more likely to influence them to engage in acquisition transactions. It, however, suggests that, the level of working capital of an acquirer firm does not influence its decisions to embark on acquisition deals, and that a firm's working capital position has an indirect relationship with the execution of a merger transaction as far as emerging market acquirers M&A decisions are concerned.

Table 4.3: Probit Marginal Effects Results on Whether Working Capital Drives M&As Transactions

Panel A: Regression Results			
DEPENDENT VARIABLE:(M&As)	PROBIT REGRESSION COEFFICIENTS	PROBIT MARGINAL EFFECTS AT MEAN	STANDARD ERROR
EXPLANATORY VARIABLES;			
TOTAL ASSETS	0.2255***	0.0898***	0.0674
WC	-0.1904***	-0.0758***	0.0613
ROA	0.1423*	0.0566*	0.0980
FIN	0.0828*	0.0329*	0.1945
TOBIN'S Q	-0.2708**	-0.1078**	0.1479
CONSTANT	-0.9230***	-0.3673***	0.4169
Panel B: Diagnostic Tests			
H-L Statistic 8.5587 Prob. Chi-Sq (8) 0.3809			
Andrew Statistic 15.3231 Prob. Chi-Sq (10) 0.1207			
Test for Heteroscedasticity LM = 0.0040, P value = 0.9494			

Source: Author's Estimation, 2018, based on data collected

Notes: The table shows probit regression coefficients and their marginal effects on whether working capital drives M&As transactions or not. *, ** and *** represent 10%, 5% and 1% significance level respectively.

On the effects of the control variables on M&A executions, the result provides evidence of a marginal effect coefficient that is positive and significant at 1% for the acquirers' total assets (proxy for firms' sizes). This gives an indication that, a percentage increase in the sizes of these acquirer firms is more likely to influence these acquirers to engage in acquisition transactions, all other things being equal. Further, an inspection of Table 4.3 shows that, total assets representing sizes of emerging market acquirers are 8.98% more likely to drive M&A transactions these firms undertake. The meaning of the positive sign carried by the total assets' coefficient is that, improvement in the sizes of these acquirer firms provides enough benchmark or source of motivation for them to undertake investment projects such as M&As for the purposes of growth and expansion. The reason could be that, since several firms in the emerging markets appear smaller in terms of their sizes compared to their counterparts in the developed markets (Akbar, 2014), firms in emerging markets make conscious efforts to invest more in their total assets for it to serve as springboard for them in transacting future investment activities. Additionally, the highly significant positive relationship between the acquirer firms' sizes and M&A executions could also be explained to be in line with financial

theory which suggests that, as firms expand in size through increase in assets, they tend to invest more in different areas including M&As. So, as a policy measure, managers of emerging market firms should take keen interest in putting measures in place to grow the assets base of their firms since they may serve as a motivating factor in taking investment decisions such as those relating to acquisitions. A further suggestion based on this result is that, consistent with the total asset management theory which talks about the acquisition, use, disposal and management of assets of a company properly in order to maximise profit, it is important for managers or policy makers and boards of companies to establish policies that will guide and regulate how emerging market managers utilise assets of their firms. The overriding consideration should be to invest firms' assets in projects with high possibility of yielding or providing positive returns to firms. The reason is that, the findings of this study clearly demonstrate that firms' total assets have an impact on firms' investment decisions and therefore a proper management of them may contribute positively to creating more value for firms to benefit shareholders ultimately.

The marginal effect coefficient for growth opportunities as measured by the acquirers' Tobin's q is negative and statistically significant at 5%, implying that, emerging market firms' expectations for growth and expansion is less likely to influence them to pursue M&A deals. Table 4.3 above indicates that, any additional improvement in the acquirer firms' ability to grow or expand is about 11% less likely to influence these firms to execute M&A transactions. The explanation of the negative sign carried by the Tobin's q coefficient which is a proxy for the acquirers' growth opportunities is that, emerging market acquirers strategically may not want to grow and expand their businesses both domestically and internationally using the M&A route. This may be due to the fact that, several of them appear not to have gained the necessary exposures and experiences for the execution of internationalisation strategy such M&As as literature suggests (Li, 1994; Chang, 1995). Further, the negative sign possessed by the Tobin's q coefficient appears contrary to theoretical expectations of the strategic re-alignment of changing environment hypothesis, which suggests that, generally, when the opportunity and ability for firms' growth within a short period of time such as M&As are available to firms, slow organic growth strategies are not considered to be the best alternatives. This result, however, appears consistent with Margsiri et al. (2008)'s view that, when a firm's operating capacity is high, it is not important for it to depend on external investments such as acquisitions to grow and expand because expansion through M&As actually will potentially make the acquirer firm end up paying

more not only for the assets acquired but also expenses on integration. Despite its consistency with the assertion of Margsiri et al. (2008), the result broadly runs contrary to findings of other previous studies like Thanos and Papadakis (2012), who suggest that, firms have popularly adopted growth through M&As to achieve corporate growth and other corporate objectives. Further, it is inconsistent with the theory of market for corporate control which suggests that, in an efficient market, companies that are not performing well are more likely to become targets and have their assets transferred to some more capable hands unless they are able to acquire assets to improve on the level of their profitability. The inference therefore is that, financially strong and healthy companies are more likely to be active acquirers while the underperforming ones would be potential targets. Therefore, it is important for managers of emerging market firms not to limit their growth and expansion strategies to only internal processes where growth is achieved from within their own internal resources but consider other inorganic and fast growth strategies like M&As which have the potential to give them the necessary exposures and experiences to become global brands.

The marginal effect coefficient for returns on assets (ROAs) of the acquirers was found to be positive but statistically significant at 10%, indicating that ROAs of emerging market acquirers are more likely to play a role in motivating the acquirers to embark on M&A deals. However, the weakly significant positive relationship between the acquirers ROAs and their appetite for M&As could suggest that, the firms' ROAs do not substantially contribute to influence them to undertake M&As compared to other motivating factors. The meaning of the positive sign carried by the ROAs coefficient is that, as the ROAs of these firms go up, their desire to pursue acquisition deals also go up which could impact positively on these firms' performances especially on their profit (ROAs) levels. This positive relationship between the ROAs of the acquirers' and execution of M&As could also mean that an improvement in the firms' performances (in terms of increases in returns on their assets) gives them an indication that, they can adopt M&As as a strategy for value creation in terms of growth, expansion and improvement in profitability levels. Thus, they may consider M&As as a way to achieve synergistic and wealth effects to enhance shareholders value. This means that, the positive relationship between their ROAs and M&As makes these emerging market firms become interested in adopting M&As as a reliable growth strategy for realising more profits on their investments, a view which is similar to suggestions by Arikan and Stulz (2016), Leepsa and Misha (2012) and DeYoung, Evanoff and Molyneux (2009).

A further explanation of the positive relationship between the acquirers ROAs and their desire for M&As could be advanced from the perspective of managerial over-confidence motive. Here, managers of these acquirer firms who increase their ROAs become over-confident and feel so good that they can handle anything and by making their companies big, they would be able to handle them and therefore become motivated to acquire other firms. This appears consistent with the theoretical expectations of market for corporate control which holds that, firms that are not doing well in an efficient market would either have to increase their profitability levels (ROAs) through the acquisition of more assets or risk becoming targets by transferring their resources to another firm that is more capable to manage it better. This result further supports Boubakri and Cosset (1998)'s assertion that, firms with higher returns on their assets would be in a better position to raise money in the financial markets, for investments including M&As. Based on this result, the possible suggestion to emerging market managers could be that, they ought to be aware of the fact that, the positive returns they may derive on their assets through internal or organic growth processes will not be a sufficient basis to motivate them to pursue M&As. Therefore, it is important for them to pay attention to other more likely influencing factors for M&A executions such as their total assets among others. Albeit, ROAs of firms can still provide them with a platform to evaluate the performance of their businesses and decide whether it can be relied upon to take decisions regarding M&As executions or not.

Our results also show that, the marginal effect coefficient for financial leverage is positive but insignificant indicating that financial leverage does not play any role in driving acquisition transactions by acquirer firms from the emerging markets. A meaning of the positive sign possessed by the financial leverage coefficient could be that several of these acquirers from the emerging markets may have higher leverage levels which could affect their ability to finance expensive investment activity like M&As to improve on their values or wealth as the leverage hypothesis suggests. The result therefore is in sharp disagreement with what the leverage hypothesis predicts, that a firm's value could be improved as a result of lowering the firm's weighted average cost of capital (WACC) because such a decrease of the firm's WACC may be realised through mergers and acquisitions (Pauser, 2007). Further inconsistency of this results is found with prior studies of Harrison et al. (2014) and Kumar (1985), who suggest that, there is a negative effect of leverage on acquirers' post-acquisition performances which is expected to affect the firms' future decision to undertake M&As. The implications for policy makers and managers of emerging market firms planning or preparing

their firms for likely acquisition transactions is that, they have to be aware that, financial leverage levels of firms do not play any role to influence M&As executions, however, they can create value for their firms by improving leverage in the following two ways. One, by increasing the joint company's leverage position after the acquisition transaction to optimal level, and secondly by seeking to bring an overly leveraged firm back to a more ideal levels of debt after acquisitions.

4.7.5 Testing the Free Cash Flow Hypothesis

In this section, the study explores the theoretical hypothesis of free cash flow (FCF) to firms and tests if FCFs of acquirer firms from the emerging markets influence them to undertake M&A transactions as has previously been discussed in Section 4.3.3 under the liquidity hypothesis. The FCF hypothesis by Jensen (1988) suggests that, managers with higher cash holdings or cash reserves will likely pursue projects with negative net present value (NPV) rather than paying it out for shareholders to enjoy or benefit. He defines free cash flow to mean the cash flow left after the firm's investments in all positive NPV projects that are available. Managers see acquisitions as a way for them to fulfil their goal of growth maximisation. This study, therefore, tests hypothesis ***(H4.3)*** below in this section and compares the result with the previous investigation on whether working capital positions of emerging markets drive M&As to establish which of them motivates these acquirers to undertake acquisition deals:

$H_{4.3}$: Free cash flow of emerging market acquirer firms is more likely to drive them to execute M&As.

4.7.6 Regression Results

4.7.7 Free Cash Flow (FCF) of Acquirers and M&A Transactions

Results from the present study as indicated in Table 4.4 below provide some interesting insights. They show that the marginal effect coefficient for FCF of the acquirer firms is positive and significant at 1%, implying that, FCF of the acquirers is more likely to influence their decisions to undertake M&As, all other things being equal. The positive sign possessed by the FCF coefficient means that, as the acquirer firms' free cash flow increases, such firms are more likely to increase their appetite or desire to engage in M&As. The reason for this could be that, the free cash flow serves as a cheaper alternative source of finance for the

emerging market acquirer firms' investment activities. Another reason for the positive sign of the FCF coefficient and the execution of M&As could be that, due to weak corporate governance systems in most emerging market firms and the problem of agency costs, shareholders make sure that managers use the firms' FCF available to them for investment projects with positive net present value that will enhance shareholders' wealth otherwise these free cash flows may be misused by managers for their own benefit as is suggested by the free cash flow hypothesis. This hypothesis suggests that, managers of firms with unused borrowing power and large free cash flows are more likely to undertake low-benefit or value destroying mergers (La Porta et al., 2000; Fuller & Blau, 2010). Thus, the presence of free cash flow may lead to inefficient asset utilisation as it allows managers to spend financial resources on activities that reduce shareholders' wealth and generate more agency problems (Jensen, 1986).

In addition, the positive sign carried by the FCF coefficient is consistent with theoretical prediction that managers of firms that have substantial amount of free cash flow will be motivated to use this excess cash flow to undertake investment activities such as M&As or make a number of irrational expenses, some of them, however, prove to be unprofitable economically. This confirms our hypothesis **($H_{4.3}$)** of this study, which states that, free cash flow to emerging market acquirer firms is more likely to drive them to undertake acquisitions. Table 4.4, however, shows a likelihood percentage of 1% which is rather low suggesting that, with respect to emerging market firms, even though their FCF will more likely play a part in their M&A execution decisions, a greater percentage of their overall consideration before they undertake M&A transactions will depend on some other factors. More importantly, compared to the acquirers' working capital positions, free cash flow available to these acquirer firms is more likely to influence their decisions to undertake M&As. This result appears consistent with studies by Alquist et al. (2014), who argue that acquisitions might be driven by liquidity of firms and benefit target firms due to lower financing costs. Further, the result finds some level of consistency with views expressed by Harford (1999) that, when a firm accrues more cash in excess of what is considered normal for its operations, the possibility of it to engage in acquisitions is high, suggesting that, firms with excess cash in the form of FCF will potentially engage in acquisitions compared to their peers who are limited in cash. The result again is consistent with Palepu (1986)'s suggestion of free cash flow as one of the drivers of M&As in his study of the determinants of takeover. Further, this result appears to be in line with the assertion by Malmendier and Tate (2003)

that more cash flow leads to more acquisition activity in their study of who makes acquisitions? CEO Overconfidence and the market's reaction. The managerial implication for firms in the emerging market will be to develop policies on the use of free cash available to them so that managers in line with the managerial discretion and free cash flow hypotheses do not apply funds on investments that will have negative effect on shareholders' value. They should realise that, the findings of the present study compared to earlier one on working capital positions and M&As by acquirer firms in Section 4.7.4 suggest that, FCF more than working capital is more likely to motivate acquirers from the emerging markets on their investment decisions including M&As. So, there should be enactment of policies to regulate the use of FCF available to them since it remains one avenue which can serve as a backbone for their future investment decisions.

Table 4.4: Probit Marginal Effects Results on whether Free Cash Flow Influences M&A Transactions by Acquirers from the Emerging Markets

Panel A: Regression Results			
DEPENDENT VARIABLE:(M&As) EXPLANATORY VARIABLES;	PROBIT REGRESSION COEFFICIENTS	PROBIT MARGINAL EFFECTS AT MEAN	STANDARD ERROR
FCF	0.0261***	0.0104***	0.0127
DEBTT	0.1736***	0.0691***	0.0776
ROA	-0.0187***	-0.0074***	0.0093
TOBIN'S Q	-0.0457	0.0047	0.0318
TOTAL ASSETS	0.0119	-0.0182	0.0568
Constant	-0.3965	-0.1578	0.3631
Panel B: Diagnostic Tests			
H-L Statistic 5.2758 Prob. Chi-Sq (8) 0.7277			
Andrew Statistic 9.5564 Prob. Chi-Sq (10) 0.4802			
Test for Heteroscedasticity LM test 0.126376 = Pvalue = 0.7222			

Source: Author's Estimation, 2018, based on data collected

Notes: Table 4.4 shows probit regression coefficients and their marginal effects on whether free cash flow to firms drives M&As transactions or not. *, ** and *** represent 10%, 5% and 1% significance respectively.

Turning to the controls, the marginal effect coefficient for total debt is positive and statistically significant at 1% suggesting that, debt levels of emerging market acquirers are more likely to influence their decisions to engage in acquisition transactions. The positive sign associated with the total debt coefficient means is that, as these acquirers' debt levels increase, their desire to engage in acquisition deals also increases. This could be due to the fact that, emerging market firms with high levels of debt may decide to pursue M&As to create value for themselves and also improve on their leverage levels suggested by the leverage hypothesis. This view is confirmed by Maloney et al. (1993) who suggest that firms with higher levels of pre-merger debt will be involved in better acquisitions because of agency benefits or monitoring benefits of debt, which increases their market value. Hence, an increase in leverage is also consistent with debt serving the role of a monitoring device. This finding appears to support the theoretical prediction of Bruner (2004) that, managers of acquiring firms may create value by improving on their debt levels through M&As. Table 4.4 indicates that, a percentage change in the debt levels of these firms is about 7% more likely to influence their decisions to pursue M&As. This result broadly seems consistent with the findings of Meador, Church and Rayburn (1996) that, firms undertake mergers in order to gain advantages associated with financial leverage because assets of these firms usually serve as guarantees for long-term debt. This implies that, managers of firms should work towards maintaining debt levels that are desirable for their businesses which will not negatively affect their future investment decisions. The reason might be that, companies with extra capacity to look for debt to support their activities may be tempted to execute acquisitions more regularly than other firms that have higher levels of debt as the literature suggests (Jensen, 1986), forgetting that debt attracts interest and limits free cash flow and could compel managers to put available free cash to proper use (Harrison et al., 2014: Sharma & Ho, 2002).

From the result, we find the marginal effect coefficient for returns on assets (ROAs) for the acquirer firms to be negative but statistically significant at 1%, implying that ROAs of the acquirers is less likely to motivate them to pursue M&A deals. The negative sign of the returns on assets coefficient means that, an increase in ROAs of these acquirers will dampen their desire to pursue investment projects such as M&As. This is because a firm's performance in the form of profitability is not the only reason why managers pursue acquisitions. Managers also pursue M&As based on their self-interest, usually their compensation incentives. So, in most companies, firms' performance or performance of managers is tied to their incentive packages, which means that if a manager's performance

goes up, their compensation will go up. Therefore, the negative relationship between the acquirers' ROAs and their M&A executions could mean that, the increase in ROAs is bringing in more compensation to managers which they may be satisfied with and therefore would not be motivated to pursue mergers. Table 4.4 reveals that, a percentage change in the ROAs of these firms, decreases the likelihood of it to influence them to undertake acquisitions by about 0.74%. This suggests that, if emerging market acquirers are able to put measures in place to improve on their ROAs, they can grow and expand their businesses organically without having to do so through the M&A route. The result appears inconsistent with Afande (2015)'s assertion that, generally, the desire of acquiring firms to increase their returns motivates them to expand geographically through mergers. It also sharply contrasts the views expressed by Stewart (1991) that, the ultimate driving factors behind M&As include the ability of firms to increase their financial performances (net operating profits), financial benefits by means of borrowing against the unused debt capacity of the seller or against a rise in the consolidated debt capacity. Other driving factors Stewart suggests motivate firms to undertake M&As include tax advantages gained from expensing the stepped-up basis of assets acquired or from the use of otherwise forfeited tax deductions or credits. Many investors who take part in M&A investments accept the fact that, reduction in cost or savings in costs are important motives for undertaking M&A activities.

Regarding the marginal effect coefficients for the acquirers' total assets and the Tobin's q, both are negative and statistically insignificant. This means that they are less likely to drive these acquirer firms to execute acquisition deals, which is quite interesting and surprising, particularly for total assets which represent the firms' sizes since a positive and significant result was obtained for it when working capital was used as the main explanatory variable instead of the acquirers' free cash flows.

4.7.8 Diagnostic Tests

Our results in terms of validity, meet the various requirements of regression models revealed in Panel B of Table 4.5 below. For the probit cross-sectional regression, the overall fitness of our model is good as indicated by the p-values of 0.811 and 0.642 respectively for both the HL test and Andrew test Statistic which are large, giving an indication that, there is no evidence of poor fit, rather, showing that, the model is specific correctly. As well, results for the heteroskedasticity test give support to no presence of heteroskedasticity as the p-value for this is roughly 0.6740, which gives little evidence against the null hypothesis of homoscedasticity.

4.7.9 Working Capital and Types of M&A transactions

Sections 4.7.4 and 4.7.5 have investigated whether working capital positions and FCF influence M&A transactions by acquirers from the emerging markets. This section of the study also investigates whether working capital positions influence the type of M&A transactions these acquirers pursue. Several factors, however, motivate firms to engage in different types of merger transactions such as horizontal, vertical and conglomerate. We therefore present in Table 4.5 below results and discussion relating to this study.

From Table 4.5 below, the study finds the marginal effect coefficient for working capital, our main explanatory variable for this present study to be negative and statistically significant at 1%, suggesting that, working capital positions of emerging market acquirers are less likely to influence them to undertake either horizontal or vertical type of merger. Inspection of Table 4.5 reveals that, a percentage change in these firms' working capital positions decreases the likelihood of it to influence them to execute either horizontal or vertical type of merger during M&As transactions by 8.3 percent. This suggests that, other factors other than working capital might motivate them to engage in either a horizontal or vertical type of M&As deals. This result fails to confirm our earlier prediction that, the working capital positions of emerging market acquirer firms are more likely to influence them to pursue either horizontal or vertical type of merger deal, therefore, we reject hypothesis (**$H_{4.2}$**) of this study. What the negative sign carried by the working capital coefficient means is that, an increase in the acquirer firms' working capital positions reduces the influence it can have on their decisions to undertake either a horizontal or vertical type of merger. The negative sign could also mean that, even if emerging market firms consider M&As as a reliable firms' growth strategy, their desire to explore either a horizontal or vertical type of merger will not be dependent on their working capital positions. The reason may be that, managers of these firms being aware of the various advantages inherent in diversification through the various types of mergers, would not focus or limit their interest of achieving growth and expansion for their firms on pursuing a particular type of merger deal but broaden their interest to include all the types of mergers in order to derive the associated benefits each of them provides. For instance, for these acquirers to gain financial synergies, they may decide to diversify through conglomerate mergers. Those that are also interested in increasing market power can pursue horizontal mergers in order to benefit from monopolistic synergies this type of merger offers. Others who desire to execute M&As for the purposes of efficiency

gains can derive this operational synergy through vertical mergers. This finding for the study, however, does not seem to support suggestions in the literature that, acquirers stand to benefit from efficiency gains associated with vertical acquisitions and also realise monopoly synergies through an increase in market power in horizontal mergers. It rather appears consistent with the suggestion by Dringoli (2016) that, even though decreasing working capital by firms is one of the ways to achieve economies of scale in horizontal or vertical types of mergers, it does not influence firms to decide on the type of M&A transactions they should pursue. The managerial implication of this result to managers in the emerging markets could be that, their firms' working capital positions may not be a reliable factor that would encourage them to execute either horizontal or vertical mergers. Therefore, for them to be able to enjoy the numerous advantages these types of mergers offer such as creation of synergies, reduction of risk, increasing of a firm's bargaining power over suppliers and buyers, strengthening of competitive position or cost of a firm's original business (Hill & Jones, 2004) to firms, more efforts must be made to identify potential drivers of these merger types. Below, therefore, is Figure 4.3 showing working capital positions of emerging market acquirers and the types of merger transactions they pursue.

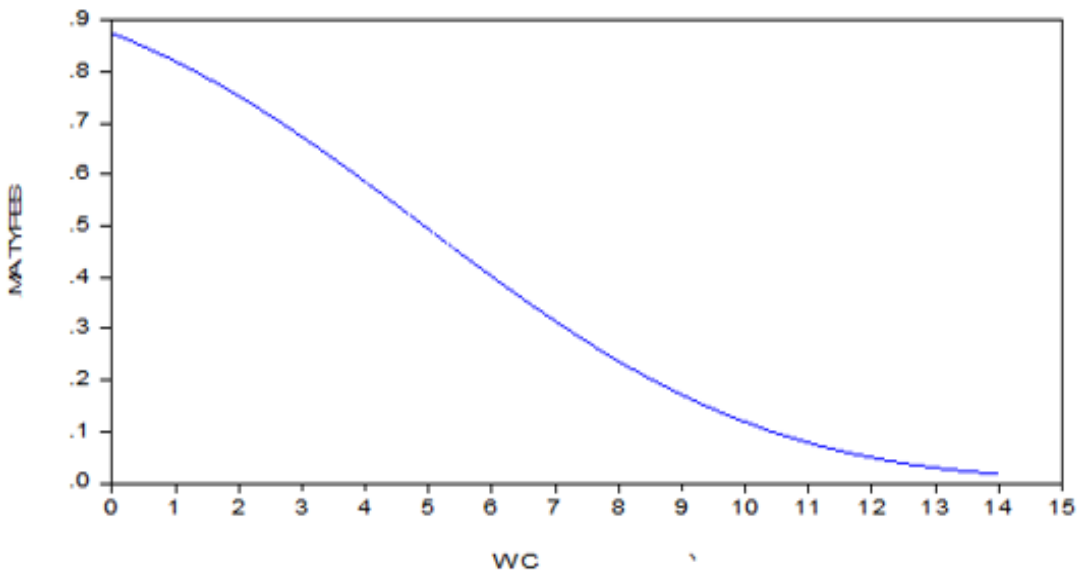


Figure 4.3: Acquirer Firms' Working Capital (WC) Positions and Type of M&As
Source: Author's Estimation, 2018.

Figure 4.3 above focuses on the relationship between working capital positions of firms and the type of M&A deals they undertake. The figure shows that changes in working capital positions of the firms have a negative effect on the possibility of them to pursue either horizontal or a vertical merger. Figure 4.3. reveals that, contrary to a priori, an increase in the firms' working capital positions, deceases the likelihood of these acquirers to be interested in either a horizontal or vertical type of merger, all other things being equal. This suggests that the level of working capital positions of these acquirers does not determine the whether they will pursue any of above stated types of merger deals, and that the emerging market acquirers' working capital positions has an indirect relationship with the execution of a particular type of M&A transaction.

Table 4.5: Probit Marginal Effects Results of the Influence of Acquirers' Working Capital positions on Type of M&As they Pursue.

Panel A: Regression Results			
DEPENDENT VARIABLE**:(**MERGER TYPE) EXPLANATORY VARIABLES**;**	PROBIT REGRESSION COEFFICIENTS	PROBIT MARGINAL EFFECTS AT MEAN	STANDARD ERROR
TOTAL ASSETS	0.3049***	0.1091***	0.0688
WC	-0.2332***	-0.0835***	0.0620
ROA	0.1930*	0.0691*	0.1108
FIN	-0.0936	-0.0335	0.2086
TOBIN'S Q	-0.0987	-0.0353	0.1559
CONSTANT	-1.9424***	-0.6952***	0.4518
Panel B: Diagnostic Test			
H-L Statistic 4.4876 Prob. Chi-Sq (8) 0.8107			
Andrew Statistic 7.8678 Prob. Chi-Sq (10) 0.6418			
Test for Heteroscedasticity LM=0.1769 PVALUE=0.6740			

Source: Author's Estimation, 2018, based on data collected.

Note: The table shows probit regression coefficients and their marginal effects on the type of M&As emerging market acquirers pursue. *, ** and *** represent 10%, 5% and 1% significance respectively.

Regarding the effects of the control variables on the type of merger transactions acquirers from the emerging market undertake, the marginal effect coefficient for total assets which represents the firms' sizes is positive and significant, indicating that the sizes of these acquirers are more likely to influence them to pursue either a horizontal or vertical type of merger. From Table 4.5 above, it can be observed that, any additional improvement in a firm's size (as reflected in the firm's total assets) is more likely to influence the type of merger deal it will undertake by about 11%. The explanation for the positive sign possessed by the marginal effect coefficient for total assets is that, as the firms' sizes increase, their decision to pursue more of either a horizontal or vertical type of merger also goes up. This seems to be what we observe in reality for acquirer firms from the emerging markets and the reasons for this could the following. One, as these emerging market acquirers improve in sizes, those that desire synergistic gains in terms of increased market share or power, cost savings and explore new market opportunities may become interested in horizontal mergers and acquire target firms with similar characteristics who will be less difficult to integrate with and also readily provide them with the needed synergies usually associated with horizontal mergers as the diversification hypothesis suggests (Hoffmann, 2008; Chatterjee, 1986). Two, other emerging market acquirers who want to have control over sources of raw materials for their business activities may pursue vertical mergers in order to reduce operational costs and also reduce costs by expanding economies of scale. This finding broadly appears consistent with Anju (1990)'s position that, related acquisitions in the form of horizontal or vertical type of mergers primarily provide synergistic benefits to acquirer firms that pursue large relative size of target firms. This means that, managers need to conduct careful analysis on the type of merger deal they execute relative to their firms' sizes in order to achieve synergistic gains and increasing cash flows from acquisitions in the form of either increased revenues or reduction in costs.

For financial leverage, its marginal effect coefficient is negative and insignificant, meaning leverage levels of emerging market acquirers do not in any way affect their investment decisions with respect to the type of M&As they undertake. The negative sign possessed by the financial leverage coefficient means that as the debt levels of acquirers from the emerging markets decrease, they tend to consider other unrelated types of merger transactions to expand and grow their businesses instead of horizontal or vertical types of mergers. This result seems consistent with Anju (1990)'s assertion that significant relationship exist between the extent to which value can be created in unrelated acquisitions and increased debt

utilisation. Therefore, a suggestion to corporate managers planning unrelated acquisitions such as conglomerate merger is that, they should conduct proper assessment of the possibility of increasing debt capacity as a result of the acquisition transaction. There should be a deliberate attempt to consider the costs and benefits associated with the increased debt to establish the extent to which the acquisition will create value.

For the acquirers' opportunities for growth as measured by their Tobin's q, the marginal effect coefficient is also negative and insignificant. This means that, the type of merger deals acquirers from the emerging markets will pursue are less likely to be influenced by their individual growth prospects. The negative sign of the Tobin's q coefficient which is a proxy for the acquirers' growth opportunities suggests that a reduction in the firms' ability to grow might affect their overall decision to engage in either a horizontal or vertical merger. This result is not any different from Gongming (1997)'s assertion of a negative relationship that exists between the firms' growth opportunities and the type of acquisition they pursue. However, Gongming stresses that, firms that pursue horizontal and vertical types of mergers on international scale generally perform better than their counterparts in conglomerate mergers, and that, firms seeking to capture and increase economic benefits through internationalisation should do so through the path of horizontal and vertical types of mergers, but the result of this present study does not appear to be what we observe for emerging market firms in reality.

The ROAs of the firms also have their marginal effect coefficient to be positive and statistically significant at 10%, suggesting that they have some level of influence on the acquirers' decisions regarding the type of M&A transactions they pursue albeit not substantial. Table 4.5 shows that, any percentage change in the value of the firms' assets is only 6% more likely to influence these acquirers to pursue either a horizontal or vertical type of mergers. The possible explanation of the positive sign for the ROAs coefficient could be that an increase in the firms' profit levels as reflected in their respective ROAs to a lesser extent has the potential to influence them to undertake investment activities such as M&As. This result is in line with the empirical finding of Singh and Montgomery (1987) that, there is a total dollar gains (in terms of returns to the firm's assets used) in related acquisitions such as horizontal and vertical mergers compared to unrelated acquisitions, and that, acquired firms in related acquisitions, derive more significant benefits than their peers in unrelated acquisitions. The implications for managers of emerging market firms are that, a potential

target firm stands to benefit more from an acquisition involving a related acquirer firm than an unrelated acquirer. This implication supports the idea that, the market cherishes combinations of firms that will result in synergistic gains. As a result, managers may be encouraged to scrutinise the potential returns to be derived from related and unrelated acquisitions when pursuing M&A transactions, although acquisitions involving related product market yield higher total returns. Gongming (1997) also adds that, the closer the relations between different business activities of a firm, the more likely it is to be profitable, and related acquisitions such as horizontal and vertical mergers are found to outperform unrelated ones in the case of high global diversification.

4.8 Chapter Summary

This chapter first explored whether working capital positions drive M&A activities by acquirers from the emerging markets in the wake of increases in acquisition transactions the world over with numerous reports accusing firms of having excess cash reserves in anticipation of various investment activities including M&As. Secondly, we investigated whether working capital of the firms influences these acquirer firms' decisions regarding the type of merger deals they undertake. Lastly, the study tested the free cash flow hypothesis to determine if FCFs available to these emerging market firms also influence their motivations for acquisition deals. The study employed the probit methodology. This is a binary regression technique considered powerful when the research purpose is to determine the likelihood of an event or the probability of its occurrence. This method was used to avoid the limitations of OLS and multiple discriminant analysis (MDA) which have been used in similar studies by Stevens (1973), Simkowitz (1971) and Monroe (1973). Discriminant analysis requires the data to have multivariate normal distribution and the dispersion matrices of the group to be equal. Neter and Wasserman (1974) state both theoretical and empirical considerations which suggest that when the dependent variable is binary, the underlying relationship is frequently curvilinear.

However, in probit analysis, no such assumptions need to be made about the prior probability that the firm belongs to a specific group, and the assumptions of normal distribution and the equality of variances and covariances across groups are less critical. The probit technique again enabled us to measure the marginal effect of the coefficients of the main and the other explanatory variables used on M&As. We defined working capital as current assets as well as

current liabilities which is calculated as the firm's current assets minus its current liabilities, and M&As are defined as one (1) if a firm executed a deal and zero (0) otherwise, while type of merger also was one (1) if the type of transaction horizontal or vertical and conglomerate otherwise. Further, free cash flow to firms was defined as the amount of money left over after satisfying all current operating and financing needs (Jensen, 1986). All measures have been used extensively in similar studies and continued to remain relevant. Based on the findings, the study concludes that working capital positions of emerging market acquirers do not motivate them to execute mergers and acquisitions transactions. This is contrary to assertions by (Iyer and Miller, 2008; Kayo et al., 2010) that managers in firms that have high amounts of cash reserves, high current ratios and low financial leverage may be encouraged to make use of these loose resources to fund investment projects, even including those with negative NPV, for example acquiring another company only for empire building purposes. With cash being the mode of transaction for most of the acquisitions in emerging markets, the argument for acquirer's financial liquidity becomes strong. It is also inconsistent with Agrawal and Sensarma (2007) who found cash reserves as one significant parameter that drove acquisition propensity positively.

Again, findings of this study suggest that, the type of merger deals acquirers execute are also not motivated by their working capital positions. This is because, the marginal effect coefficient indicating the relationship between firms' working capital positions and the type of M&A they pursue is negative and statistically significant at 1%, implying that it is less likely to influence them to execute either horizontal or vertical type of merger.

However, the acquirers' total assets (proxy for firms' sizes) and their ROAs (proxy for profitability) seem to have some level of influence on the type of merger deals these acquirers execute and also drive them to pursue M&As deal since the marginal effect coefficient for both of them are positive and significant at 1% and 10% statistical levels respectively.

With regard to findings on the free cash flow (FCF) and M&As executions, the study concludes that, the firms' FCF influences them to undertake M&As. Their debt levels and ROAs are also more likely to have influence on their investment decisions such as M&As. However, the firms' total assets and Tobin's q representing their sizes and growth opportunities respectively are less likely to motivate them to execute M&As under the free cash flow hypothesis.

Based on the findings of this study, we recommend that, first, even though working capital positions of acquirer firms from the emerging markets are less likely to influence their investment decisions particularly M&A transactions, firm managers should not ignore the management of them (working capital positions). They should institute proper working capital management practices in their companies, in order not to experience liquidity challenges of either excess or shortages since any of them could affect the smooth running of their business operations especially in the short-term period. Second, managers should make conscious effort in growing their total assets base and help improve returns on their assets to ensure sustainability in profits, because they have the potential to influence their investments decisions such as M&As. Third, since findings of this study suggest that FCFs available to firms are more likely to influence them to undertake M&As, the study recommends that, policy makers or boards should enact policies that will ensure proper use of any free cash available to firms so that they will be channelled to more rewarding investment projects. Further, the study also recommends that, board of firms should institute measures that will ensure that, the practice where firms keep free cash for the discretion of managers is avoided so that agency costs will be reduced.

The study contributes to the literature on mergers and acquisitions in the emerging markets. To the best of our knowledge, this study is the first empirical work on firms' working capital as a potential driving factor of M&As focusing on acquirers from ten (10) emerging market countries using a multivariate probit cross-sectional regression technique. Further, it adds a theoretical insight to literature on drivers of M&As by firms from developing economies through the testing of the free cash flow hypothesis. The chapter that follows explores whether managerial ownership of acquirer firms from the emerging markets also plays any role to motivate them to execute acquisition transactions.

CHAPTER FIVE

MANAGERIAL SHARE OWNERSHIP AND M&A TRANSACTIONS BY EMERGING MARKET ACQUIRERS

5.1 Introduction

Like the preceding chapter on firms' working capital positions and M&As, this chapter also looks at the influence of managerial share ownership on M&As transactions by emerging market acquirer firms. Given the issues of governance that arise out of separation of ownership from control which has effects on investment decisions of firms, it comes as no surprise that the form of relationship between managerial ownership and M&As transactions has been a topical subject of empirical investigation by several researchers (Faccio & Masulis, 2005: Shleifer and Vishny, 1989; McConnell and Servaes, 1995). It is not only studies that relate to the role working capital plays in motivating acquirer firms from the emerging markets to undertake M&A transactions that seem to be under investigated in the finance literature as discussed in the previous chapter. The same can be said about the issue of managerial influences on emerging market firms' investment decisions such as M&As. To the best of the researcher's knowledge, it has also not received much attention in terms of investigation even though the suggestion according to both the envy and the empire building theories is that, managerial ownership in firms is considered a major motivating factor that influences firms to take investment decisions including M&As, especially among some firms in the developed economies (Trautwein, 1990; Goel & Thakor, 2005). However, whether this influence of managers on firms' investment decisions applies to M&As transactions involving emerging market acquirers in the midst of current increases of acquisitions transaction by firms from this region of the world as acquirers is yet to be ascertained through an investigation such as this study.

To date, most studies relating to the influences of managerial ownership in driving M&As have been primarily focused on the developed world such the USA, the U.K, Canada, and a few other developing countries such as China and India in particular. Hence, the purpose of this study is to extend the discussion in a number of important ways; first, we use firms from ten (10) countries as representative of emerging markets. Second, most of these countries are among other M&As executing countries in the world with higher deal volumes. Third, these

countries have several features in common; they are upper middle-income countries at similar stages of development, grappling with high income inequality and unemployment challenges. These countries have well-developed financial markets, serving economies that are largely dependent on resources and manufacturing. Lastly, from the methodological point of view, the study improves on previous work using a multivariate probit regression analysis which offers a unique advantage. According to Beck et al. (2006), the estimated coefficients for each explanatory variable indicate whether a change in explanatory variable increases or reduces the likelihood of a firm executing M&A transaction. We accordingly present marginal effect estimates, which indicate the magnitudes of the relationship that exists between the explanatory variables and execution of M&As at the sample mean.

5.2 Theoretical literature review

The following theories as discussed below underpin this study of managerial ownership and M&As transaction by emerging market acquirers.

5.2.1 The Theory of Managerial Entrenchment

The managerial entrenchment theory by Shleifer and Vishny (1989) suggests that, a number of mergers fail largely as result of managers' desire to undertake investment projects that reduce the risk of replacement. According to this theory, managers do not execute investment projects with the aim of maximising firms' value, but with the desire to entrench themselves through the increase of their respective individual value to the firm. When these managers become entrenched, they undertake investments considered to be manager-specific which make it difficult to find a replacement for them. This results in a fall in firms' value because the firms' available resources are directed at investing in projects and assets that managers desire instead of investing in value-maximising alternatives for shareholders to benefit. Empirically, Amihud and Lev (1981) provide backing for this idea and state that, managers execute diversifying mergers to reduce the volatility in earnings which, in turn, improves the existence of firms and guards against their positions. Certainly, it is not because of job security alone why entrenchment is pursued, but also to enable them to obtain more power, wealth, fame and reputation.

Further, another suggestion according to this theory is that, the motivations to maximise shareholders value reduces as the ownership of management increases, because market discipline becomes less effective against a manager with a substantial number of shares in the

firm. Thus, as the ownership of key or influential employees increases in the firm, the company's performance suffers. Literature reports that when there is separation of ownership from control in a firm, agency costs occur. Nevertheless, agency costs will reduce if the ownership within the firm increases, because managers bear greater cost of these shares.

On the contrarily, when ownership is given to a manager in a firm, it will make him get more voting power which helps to secure his job. As a result, they become protected against the prevailing managerial market and threats over takeover. A better corporate governance which several researchers claim is related to a higher firm valuation, fundamentally comprises taking care of the interest of all stakeholders in a firm which includes shareholders, suppliers, financiers, management, customers, the larger community as well as the government.

However, through management entrenchment, the structure of ownership changes to benefit managers. Their voting power increases which make them become entrenched and can act in their own interest without being afraid of being removed or replaced, which is difficult to do. But the interest of the company may not be well served if the manager does only what is always pleasing to him or her. Shleifer and Vishny (1989) also stress that, the entrenchment effect can motivate managers to undertake several mergers and acquisitions transactions at the detriment of better alternative projects. For example, a manager might prefer subsequent acquisition transactions even though they are negative NPV transactions.

5.2.2 Empire Building Theory

This theory postulates that, managers plan and undertake mergers and acquisitions to maximise their own interest and satisfaction rather than the value of shareholders. Several previous studies acknowledged that, resource allocations by managers can be inefficient which may negatively have an effect on individual investors' value. The root of this theory stems from the original work of Berle and Means (1932) on the separation of ownership from control of the firm. This theory is seen as a major pillar of the corporate governance literature which suggests that, managers become empire builders if strict governance systems are not designed to monitor their activities (Dominguez-Martinez, Swank & Visser, 2006). Too much investment and growth are two main types empire building can take. Managers decide to behave in these ways since diversifying business operations or increasing firm size may serve their individual interest in diverse ways. Empire building, therefore, comes from the existence of preferences existing among executives and the board members together with

inadequate observability, which typically, is a problem of moral hazard (Dominguez-Martinez et al., 2006).

Jensen (1986) states that, acquisitions depict empire-building motive by acquiring firms which are pursuing M&As rather than given out excess cash reserves to their respective shareholders. In line with Jensen's argument about empire-building, Bayazitova et al. (2009) report that, M&As involving substantial transactions values produce the most negative market response. Further, You et al. (1986) reveal that, the number of inside directors and managerial ownership were related with mergers results negatively. Amihud and Lev (1981) also state that, management control is very much related with the execution of conglomerate mergers. A study by Hope et al. (2011) suggests that, averagely, emerging market companies as against their counterparts in advanced countries pay higher premiums in their desire to acquire various assets from developed economies for reasons of hubris and national pride.

An empire-building discussion essentially is not only limited to the maximisation of growth motive. This is indicated by the examination of a merger wave of the 1960s by Rhoades (1983) who juxtaposes the power and profit motives as probable explanations of business behaviour. In his comparison of the evidence on the waves of mergers around the turn of the century and in the 1960s, Rhodes' submission is that, for now, the motive of making more profit has been replaced by the power motive as the main motivating factor that influences the conduct of firms that are large in sizes.

5.2.3 Theory of Managerial Discretion

The theory of managerial discretion talks about the level of influence executives have on firms' operating decision-making. This theory considers the scope or the extent of the decision-making-power of the CEO. According to Berle and Means (1932), objectives of managers usually run contrary to the profit maximisation motive of the firm, therefore, managerial discretion is more likely to have a negative relationship with a firm's performance. In several instances, the compensations of managers are directly associated with companies' sizes, so some managers become desirous of increasing sizes of their companies in order to benefit from higher compensations, and one fast way to achieve this is through M&As.

Further, this theory emphasises the fact that, managers acquire significant shares in firms to improve their interests and welfare subject to constraints and so firms begin their life with ownership that is highly concentrated (Helwege, Pirinsky, & Stulz, 2007). These young firms

with highly concentrated ownership are partly due to the fact that, managerial ownership becomes a form or a source of funding that is not expensive in the early life of the firm. In the later stage of the firms' life, managers decide to diversify their wealth and bring their levels of ownership down, but they must think about the effect their sales will have on their ability to control the firm**.** First, the market for the firm's stock may not be liquid enough to enable managers sell their shares without negatively affecting the price of the share, so that they may be better off to wait. Second, the market may deduce from the sales of managers that, management has information that is not good and that its interests might be different from what the shareholders have, so that sales may affect adversely the value of the shares held by management. Third, as the number of shares management hold reduces, it also reduces its ability to control the firm. Managers sometimes decide to increase their stakes in firms to assist in funding the firms' activities either directly or indirectly to indicate the belief they have in the firm. Further, when the control of management becomes threatened, management may decide to purchase more shares to strengthen its control over the firm again.

Another important fact about the managerial discretion theory is that, the ownership stake of managers is chosen by themselves to maximise their own welfare. They consider it more valuable to acquire shares or stakes in their respective firms they manage, particularly if that stake leads to increase of resources under their control, allows the firm to grow, reduces its funding costs, and enables them (that is, managers) to continue to have control over these firms. When investors of the firm face information asymmetry problems or the firm becomes financially distressed, managers become inexpensive source of funds to the firm. In a situation where shares are made available in exchange of managers' cash or services, the increase of that stake or the acquisition of the managers' stake injects some more resources into the firm.

Managers' power (in terms of ownership of votes) increases as they acquire more shares in firms. The cost that managers bear as a result of acquiring ownership stakes in firms they manage is that, it compels these managers to bear greater percentage of the firm's risk and limits the power they have to invest in other projects. Therefore, managerial ownership will reduce significantly if firms are able to finance themselves from the capital markets at low costs and also, when managers do not feel threatened about their positions. Consequently, management will gradually reduce the number of shares they have in a firm as it becomes better established, because sales from management's shares have minimal effect on the stock price of the firm.

Finally, managerial discretion enables managers to cater for their interests instead of the objectives of shareholders, so according to Pfeffer & Salamcik（1978), it has a negative relationship with a firm's performance. Several studies exist on the nexus between managerial discretion and firms' performances. Some of these studies report of negative performance implications of managerial discretion (example, Brush et al., 2000). However, Boycko and Shleifer (1996), Chang and Wong (2003) find a positive relationship between managerial discretion and the performance of the firm while Xiangkang (2003) suggests that the influence of managerial discretion on the performance of the firm largely depends on matching of competition category of product market and the type of manager. The literature documents of an inconclusive evidence regarding the relationship between managerial discretion and firm performance. The managerial discretion to execute mergers and acquisitions can impact on firms' performance as far as their profitability levels are concerned. Therefore, this study in addition to the objective of investigating whether managerial ownership drive M&As by acquirers from the emerging markets, will also explore the impact of managerial discretion on profit levels of acquirers from the emerging market since there is little empirical study in this direction.

Based on the above theoretical analysis of managerial discretion, this study hypothesises that:

$H_{5.3}$: Managerial discretion has a negative impact on profit levels of emerging market acquirers.

5.2.4 The Contracting Theory Approach

The contracting theory approach by Hart and Holmstrom (1979) broadly studies the design of informal and formal agreements that motivate people with conflicting interests to take mutually beneficial action. This theory helps us to properly structure arrangements that exist between employees and employers, chief executives and shareholders, and firms and their suppliers.

The proponents of the agency theory interpreted the existence of a positive relationship between managerial ownership and a firm's value to mean that, higher levels of managerial ownership increase shareholders value or wealth. The underlying reason is that, it aligns the shareholders' interest better with that of the management. Managers therefore must be encouraged to even decide on larger ownership stake in firms so shareholders' value will continue to improve ultimately.

The main challenge with the agency theory approach is that, the motive behind managers' desire to acquire shares and even hold a higher number of them is not clear. If managers bear any cost for holding some shares in firms, then, they are likely to hold more of these shares only if there is a commensurate compensation for that. Since managers expect to be compensated for holding some shares by shareholders, in the final analysis, shareholders do not benefit or gain, even if the incentives of managers to maximise shareholder value increases as managerial ownership increases. The contracting approach, which builds on principal-agent models such as Holmstrom (1979), takes into consideration of these costs. Consider a firm owned by separate or unconnected shareholders. These shareholders have in some way try to address their collective action problem, so that they can act as a group. They must recruit managers and design incentive packages for these managers in order to maximise the value of the firm.

In situations like this, the shareholders must solve an optimisation problem where conditions about the managers' contract should that, the managers' participation constraint is met. The shareholders problem becomes more difficult in the sense that, naturally, shareholders may not be able to monitor all the actions of managers. This hidden action problem allows managers to concentrate on their objectives instead of the interest of shareholders. For example, managers may decide to shirk because shareholders find it difficult to find it out. Once managers are in place, the additional challenge that shareholders face is that, certain information managers have do not become available to them.

Since managers are seized with better information compared to what shareholders have, and because shareholders are not able to always determine whether actions managers undertake maximise the value of the firm, the contracting approach generally reaches the conclusion that the optimal contract for managers involves compensation that is sensitive to changes in firm value. This sensitivity of compensation to changes in firm value can be realised even if no shares are owned by management.

5.3 Empirical Literature Review

5.3.1 Managerial Ownership Issues in M&As

No consensus appears to exist in the literature about the advantages and disadvantages of ownership concentration in firms. Even though higher levels of ownership concentration in firms may reduce the issue of conflict of interest existing between owners and managers, it

can result in entrenchment of insiders who may escape market discipline and take decisions that are inappropriate and detrimental to the creation of value, resulting in hubris effect. Situations such as these are likely to occur in emerging markets. For instance, India with its numerous group affiliated and family owned firms may not create value through mergers and acquisitions, particularly in acquisitions that are not related (Bhaumik et al., 2010).

Literature suggests that, managerial holdings of more than 20% may assure total control over a firm and managers can efficiently control decisions of a firm and therefore could seriously influence decision to undertake mergers and acquisitions (Faccio & Masulis, 2005). Other prior researches define 25% and 5% as managerial ownership cutoff points that would allow managers to have control and power over decisions of firms. The 25% cut-off point is suggested by Weston (1979) who maintains that, an unfriendly bid for a firm is not likely to be successful if the level of ownership is more than 20-30% while the 5% is also suggested by Herman (1981) who argues that, an ownership level of 5% is the focal stake above which managerial ownership is considered significant.

It is a well-documented and agreed fact that, self-interest of managers plays a major role in acquisition transactions. Studies reveal that, returns of acquirers are usually higher when acquiring firms' managers are the major shareholders (Lewellen et al., 1985), but reduces when management are minority shareholders (Lang et al., 1991; Harford 1999). This, therefore, implies that, managers concentrate more on acquisition transactions when they are personally involved financially. Additionally, it offers support to 'the managerial theories of the firm and agency cost agency cost' (Berle and Means, 1932; Marris, 1963), which largely argue that, managers undertake M&A transactions that are self-serving, and which mostly result in value destruction.

According to Jensen and Meckling (1976), firms with higher managerial levels of ownership align shareholders' interest to that of managers, and lower agency costs to increase the value of the firms. However, Stulz (1988) suggests a framework of firm value that initially rises as ownership level of inside managers rises, and then reduces as ownership levels of insiders become concentrated because high levels of managerial ownership serve as protection against external takeovers which leads to entrenchment of management.

Akerlof (1970), Brealey et al. (1977) and Spence (1973) provide a complimentary model of agency theory where managerial ownership is used by management as an indication to investors who are outside to know the quality of their firms. Studies that relate to managerial

share ownership and firms' value relationship are varied. Hermalin and Weisbach (1991) and Demsetz and Lehn (1985) suggest a nonexistence of a relationship for managerial share ownership levels and profitability. Morck et al. (1988) also state a positive relationship between managerial share ownership and firm which is measured by Tobin's q. McConnell and Servaes (1990) find a positive relationship of about 40 per cent to 50 per cent and then a negative relationship in excess of 50 per cent for managerial ownership and firm value. Chen, Hexter and Hu (1993), however, find that, the value of firms reduces as ownership management exceeds 12 per cent and increases when ownership falls between 0 per cent and 5 to 7 per cent.

Ang, Cole and Lin (2000), Mehran (1995), Singh and Davidson (2003) provide support for Jensen and Meckling's position of inside managerial ownership. Mehran (1995) reveals that, there is a positive linear relationship existing between ownership of top management and Tobin's Q. In addition, Singh and Davidson (2003) indicate that, agency costs reduce as ownership of managers increases, using asset utilisation as a proxy.

This study expands upon these views to investigate whether managerial ownership in emerging market acquirer firms motivate them to pursue acquisition and further explore whether it also influences these firms' decisions on the sizes of target firms they pursue during acquisition. Further, according to the neoclassical theory, managers have the tendency to undertake acquisition investments especially when these types of projects or investments appear to provide a net present value which is positive. However, the theory of managerial motive suggests that, managers behave in ways that will benefit them but will adversely affect shareholders value by issuing shares at the time where there is separation between ownership and management. In supporting this claim, Schmidt and Fowler (1990) states that, managers' compensation to some extent is positively related with the size of firm, which motivates them to expand sizes of firms they control as much as they can without taking into account the economic viability of M&As. Eventually, such strategies for firm expansion by managers further increase their status power (Brooks, Feils & Sahoo, 2000). In line with the same thinking, the view Peel et al. (1995) expresses is that, as the number of shares owned by management increases with a substantial separation of ownership from control, the likelihood for managers to undertake investments that will enhance their private welfare is also high. This opinion of management self-interest being a motivating factor for mergers and

acquisitions is equally shared by other researchers too, including (Agrawal & Walkling, 1994; Sanders, 2001).

However, the argument the agency theory advances is that, since top managers of the firm normally have sufficient power to redeploy or reallocate resources amongst numerous investors in the firm in order to get the support of these investors, Eisenhardt (1989) and Jensen and Meckling (1976) suggest that, managers should be provided with stocks as the proper means by which agency problems can be reduced to align the interest of managers with that of owners (that is, the shareholders). Unfortunately, firms usually fail to achieve this objective because ownership concentration behaviour by the major decision-makers such as managers increases firms' desire to undertake cross-border acquisitions (Chittoor et al., 2015). Their claim is that, previous experience of a firm's manager in international market transactions either through work experience or education, together with ownership concentration has the potential to affect the manager's risk perception and desire toward internationalisation positively.

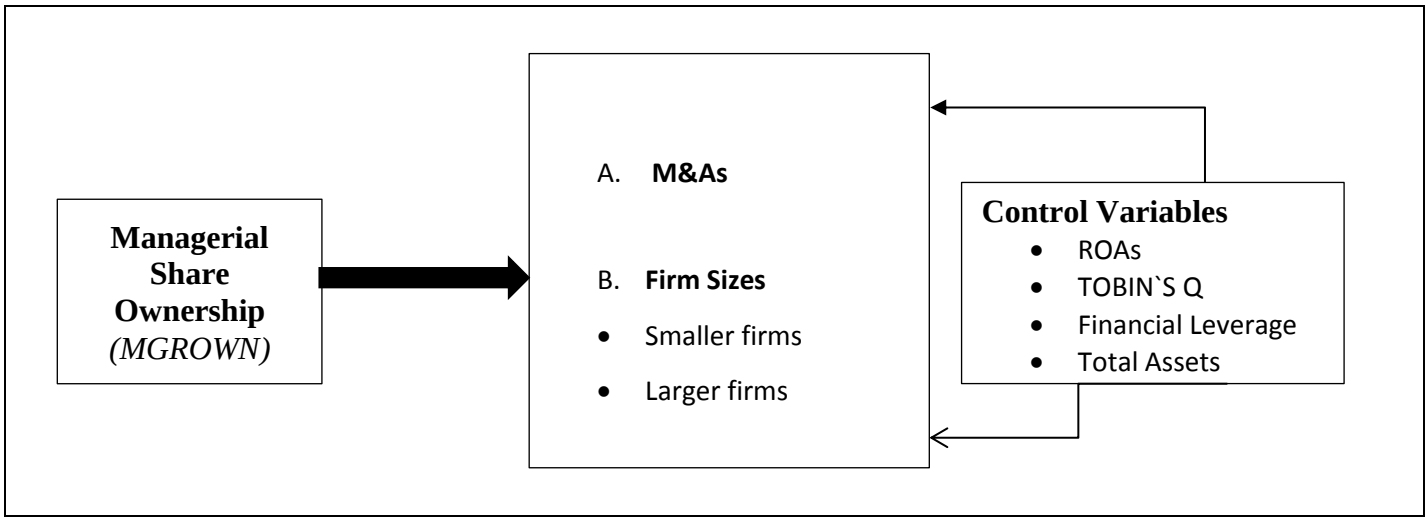
As aforesaid, previous studies have largely examined managerial ownership concentration and the alignment of interest of managers and shareholders using predominantly annual dataset of firms within individual countries. However, these studies do not provide explanation for whether managerial ownership concentration in firms drive M&As transaction particularly deals involving emerging market firms as acquirers. Again, these studies do not provide explanations for whether managerial ownership concentrations in firms influence them to acquire target firms of particular sizes (that is, either smaller or larger firms) in acquisitions deals. Therefore, this study contributes substantially to the literature by capturing M&A transactions of acquirer firms from ten (10) different emerging market countries to establish whether their acquisition deals and the sizes of target firms they acquire during these transactions are motivated by managerial ownership in these firms or not.

5.4 Study Conceptual Framework

This section describes the study's conceptual framework used to investigate the objective of whether managerial ownership of acquirer firms from the emerging markets drive their acquisition transactions, and the sizes of target firms they pursue in acquisition transactions. Chapters 1, 2, 3 and 4 of this thesis have reviewed the various literature related to acquisition

transactions by emerging market acquirers. Some of the factors researchers argue to be motivating M&As by acquirers from the emerging markets include to seek natural resources, institutional reforms, stronger institutions, due to their latecomer-disadvantages, to seek synergy, to fill capability gap, for diversification and international expansion, to escape from home competition, among others. A potential driver of acquisitions which appears ignored in several of the reviewed studies is managerial ownership in firms, although according to Trautwein (1990) and Goel and Thakor (2005), it is suggested as one of the drivers that encouraged some acquirers firms from developed countries to execute M&A deals but whether it influences acquirers from the emerging markets too to undertake acquisition deals is yet to be established.

Therefore, in this study, we explore managerial ownership and M&A transactions by acquirers from the emerging market through the conceptual framework below and formulate research hypotheses and test them to better explain the relationship between the variables that the study intends to investigate as shown in Figure 5.1 below.



Source: Developed from extant literature.

Figure 5.1: Conceptual Model.

It can be observed from Figure 5.1 above that, managerial ownership (*MGROWN*) represents the main independent variable of interest while M&As and Firm Sizes are dependent variables. Figure 5.1 also shows other control variables such as Total Assets (*TASTS*), Returns on Assets *(ROAs*), Financial leverage (*FINLEV*), Total debt (*DEBTT*) that motivate and influence both M&As and Sizes of targets acquirer firms from emerging markets pursue.

It can be observed from the conceptual framework that managerial ownership of firms drives M&As as well as the sizes of firms these acquirers pursue in acquisitions. Literature suggests that, managerial holdings of more than 20% may assure managers total control over firms especially on their investment decisions and therefore could influence their decisions to undertake M&As (Faccio & Masulis, 2005). However, whether this assertion is true in the case of acquirer firms from the emerging markets will be investigated through this study. Managerial ownership in this study is measured as insiders' shares percentage outstanding. M&As is same as defined in Section 4.5 of Chapter 4 of this thesis. The firm sizes were classified into smaller and larger firms based on their relative sizes with their respective acquirers. Relative size is measured by the percentage of the acquisition expenses of acquirers to acquirer's total assets (Park and Jang, 2011). Following the above conceptual framework, the study proposes the following hypotheses as stated in Sections 5.4.1.1 and 5.4.1.2 below.

5.4.1 Justification and Hypotheses of Variables

5.4.1.1 Managerial ownership (MGROWN) and M&A transactions

Managerial ownership was used as our main independent variable for Equations 5.1 and 5.2 of this study, which the study expects to be driving M&As by emerging market acquirers. Researchers use holdings of management to assess the power managers wield or exercise over investment decision of firms. Morck et al. (1988) for instance refer to management ownership. Song and Walkling (1993) also use the total percentage of shares owned by insiders, directors and officers as a measure of managerial ownership. Himmelberg et al. (1999) lend support to this definition and consider managerial share ownership to be the share owned by insiders. Kim and Lu (2011) considered the CEOs ownership whereas Chen et al. (2014) make use of the controlling stakes of shareholders to represent ownership of management. This study, however, supports the views of Song and Walkling (1993) and Himmelberg et al. (1999) and therefore defines managerial ownership as insider share percentage outstanding which refers to the total percentage of equity that is owned by board members and executives of a firm.

It is a well-documented fact in literature that, resource allocation by managers may not be efficient and could adversely affect the value of the investor. Excessive investment and growth are two forms that the empire building theory considers. Empire building, then, stems from differences in preferences between the board of directors (representing investors) and

executives, in conjunction with the lack of observability, a typical moral hazard problem (Dominguez-Martinez, Swank, & Visser, 2006). Managers usually tend to have control over investment decisions particularly when they wield enough power as a result of the percentage of shares they possess in those firms as literature suggests. They also have a greater say when it comes to the sizes of firms to acquire with company's resources. In view of the above, the following hypothesis is proposed;

$H_{5.1}$: Managerial share ownership in acquirer firms is more likely to influence these firms to undertake M&As.

5.4.1.2 Managerial ownership (MGROWN) and Sizes of firms in acquisitions

Managerial ownership can be used to encourage, negotiate or block mergers and acquisitions transactions. Higher managerial ownership is more likely to be a restraining factor to acquisition efforts in bids where there is potential resistance from a firm's management. Palebu (1986) and Mikkelson and Partch (1989) suggest that smaller firms are more likely to be targets. Demsetz and Lehn (1985) and Mikkelson and Partch further document of an inverse or indirect relationship between managerial ownership and firm size. Consequently, with respect to the sizes of target firms emerging market acquirers are likely to pursue in acquisitions transactions, this study proposes that;

$H_{5.2}$: Managerial ownership of emerging market acquirers is more likely to motivate them to pursue smaller target firms in acquisition deals.

5.4.1.3 Control Variables used and M&As Transactions

5.4.1.4 firms' total debt levels and execution of M&As

The study also included total debt as another control variable. Studies on capital structure suggest that in an imperfect market, the level of debt in a firm's capital indicates an important way value is created for shareholders (Agyei-Boapeah, 2015). The presence of debt should significantly improve the acquirers post-acquisition performance in line with free cash flow theory by Jensen (1986). Debt attracts interest and limits free cash flow, thus inducing managers to put to use available free cash effectively and efficiently (Harrison et al., 2014; Sharma & Ho, 2002). Hence, employing externally raised funds leads to a more efficient use of funds and higher profitability than internal funding (Kumar, 1985). This study defines debt

ratio as total debts over total assets. Total debt can also be measured as the value of total debt as a proportion of total net assets for each year end, where total debt includes short-term and long-term debts. Research on M&A suggests that firms that have unused debt capacity usually decide to undertake M&As on regular intervals compared to their counterparts whose debt levels are high.

5.4.1.5 Other control variables used in this study

Explanations regarding the relationships that exist between the acquirer firms' ROAs, Tobin's q, total assets, financial leverage and M&As are the same as previously discussed in Section 4.5.1 of this thesis.

5.5 Methodology

To investigate whether managerial share ownership of emerging market acquirers drives M&As transactions they execute, and further determine whether it has any influence on their decisions regarding the sizes of firms they acquire in acquisitions transactions, this study again applies probit regression technique as has previously been explained in Section 4.6.1 of this study. Now, similar to Yang, Guariglia, and Guo (2017), Huang et al. (2016) and Lee et al. (2018), we specify probit regression model below to investigate the above objective;

$$DM\&A_{Fi} = \beta_0 + \beta_1 MGROWN_i + \beta_2 ROA_i + \beta_3 LTASTS_i + \beta_4 FIN_i + \beta_5 DEBTT_i + \varepsilon_i \quad \ldots\ldots\ldots\

Related to the investigation of whether managerial ownership drives M&As transactions by emerging market acquirers, is an additional investigation on whether it also has influence on the sizes of target firms these acquirers pursue in acquisition deals. Here, following Yang et al. (2017), Rossi and Volpin, (2004), we specify the probit regression model below;

$$FSIZES = \beta_0 + \beta_1 MGROWN_i + \beta_2 ROA_i + \beta_3 LTASTS_i + \beta_4 TOB_i + \beta_5 FIN_i + \beta_6 DEBTT_i + \varepsilon_i \quad \text{.....(5.2)}$$

where*; FSIZES is a* dummy variable for firm sizes acquirers pursue. It assumes a value of one (1) if the acquired firm size was larger and zero (0) otherwise. *MGROWN, ROA, LTASTS, TOB, FIN and DEBTT* are a set of control variables representing managerial ownership share outstanding percentages, returns on assets, natural log of total assets, Tobin's q, financial leverage and total debt respectively. ε_i and i denote the random error term and the cross-sectional dimensions respectively. β_1, β_2, β_3, β_4, ... β_6 are the coefficients to be estimated. A prior, the study hypothesises that, *MGROWN* is more likely to influence acquirers from the emerging markets to pursue smaller-sized targets during acquisitions.

Further, as stated in Section 5.2.3 under the theory of managerial discretion, this study again explores the impact of managerial discretion on profit levels of acquirers from the emerging markets in their acquisitions pursuits by stating the model below;

$$ROAs = \beta_0 + \beta_1 (MGROWN_i * DM\&A_{Fi}) + \beta_2 Tob\ Q + \beta_3 LTASSETS_i + \beta_4 DEBTT_i + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (5.3)$$

where; ROAs is returns on assets (proxy for firms' profit levels), $MGROWN_i$ *and* $DMAF_i$ denote managerial discretion (measured by the number of shares owned by management) and M&As dummy variable of the acquirers which assumes a value of one (1) if the firm engaged in M&A and zero (0) otherwise. ($MGROWN_i$ * $DMAF_i$) is introduced as the interaction of managerial discretion and M&A dummies to capture the impact that M&A transactions executed by the acquirer firms based on managerial discretion have on the acquirers' profitability levels (ROAs) of these firms. *TOBQ, LTASSETS* and *DEBTT* are the control variables representing Tobin's q (proxy for firms' growth opportunities), total assets (proxy for the firms' sizes) and total debt respectively while ε_i is error term. The above Model 5.3 was estimated by the ordinary least square technique (OLS).

5.5.1 Data

The study obtained the annual financial data on these selected acquirers for this study from Bloomberg and Bureau van Dijk's Zephyr databases covering ten (10) years period of 2004 to 2013. Bloomberg terminal and the Bureau van Dijk's Zephyr are specialised M&A databases acclaimed to be the world's most comprehensive sources of deal information (Zephyr, 2011). A total of 160 acquirers as shown in Appendix A from ten emerging market countries with higher deal numbers over this period and with data available were selected for the study. Target firms of these acquirers were also selected. The target firms were classified into smaller and larger firms based on their relative sizes with their respective acquirers. This was done to enable us to identify the various firm sizes these acquirers become interested in pursuing during acquisitions transactions. Specific data collected as potential drivers of mergers and acquisitions transactions as contained in literature (Park & Jang, 2011; Sagner, 2009) and used as control variables were managerial ownership, total assets (for firm sizes), financial leverage, Tobin's q (growth opportunities), returns on assets and total debt.

5.6 Results and Discussion

5.6.1 Summary Statistics

Models 5.1 and 5.2 as specified previously for this study in Section 5.5 were estimated using the multivariate probit regression technique. Table 5.1 below presents the descriptive statistics for all the variables used in the estimations for this study which has 112 observations taken for 160 emerging market acquirer firms over the period of 2004 to 2013. The average number of M&As executed by the acquirer firms based on their managerial ownership percentage is 0.5%, while the minimum (0.00) and maximum (1 %) do not show a wide spread of M&As activities among firms in the emerging market. The managerial share ownership percentages of the firms as a share of other factors that drive or encourage these firms to execute M&A deals show an average value of 1.3% which is greater than the average number of M&As they undertake suggesting that, managerial ownership does not play an enormous role in motivating the firms into executing acquisition deals. The standard deviation is about 1.6%, implying that on average, managerial ownership percentages of these acquirer firms as a share of factors that motivate their M&As executions deviates from the mean by about 1.6%.

Table 5.1 shows huge disparities for managerial ownership share percentages for the firms, with the lowest being 0.00 compared to the highest of 9.324% with a mean of 1.273%. Sizes of the firms as denoted by the total assets have been very wide ranging from 3.148% to 15.849% with a mean of 9.747%. This means the acquirer firms are of various sizes (small and large). Financial leverage which looks at the extent to which firms use fixed-income securities such as preferred equity and debt to acquire assets also shows a minimum of 1.144% and a maximum of 10.758% with a mean of about 2.806%. This suggests that, many of these firms are possibly using debt in financing their deals. There is also a huge disparity in terms of the firms' returns on their assets (ROAs). The minimum is 30.137% while maximum is around -22.763% with a mean of 7.145% giving an indication of a huge disparity in ROAs these acquirers realise from engaging in M&A transactions. For their total debt levels, the table reveals a minimum of 0.00 and a maximum of 4.177%. This suggests a low disparity in debt levels among the firms in the emerging markets because most of them appear to be of similar sizes and engage in related businesses and may have similar debt levels, all other things being equal.

Table 5.1: Summary Statistics

	M&As	ROA	DEBTT	FIN	MGROWN	LTASTS
Mean	0.500	7.145	2.921	2.806	1.273	9.747
Maximum	1.000	30.137	4.177	10.758	9.324	15.849
Minimum	0.000	-22.763	0.000	1.144	0.000	3.148
Std. Dev.	0.502	7.799	0.966	1.734	1.644	2.463
Skewness	0.000	0.199	-1.354	2.362	1.646	0.158
Observations	112	112	111	111	105	112

Source: Author's Estimation, 2018, based on data collected.

Table 5.2 reports the correlation matrix. The correlations are included to usually check for multicollinearity. A correlation of 0.5 and above between independent variables indicates the presence of multicollinearity. From Table 5.2 below, the highest correlation is 0.35 which between *DEBTT* (total debt) and *FIN* (financial leverage). All the other values are below 0.5 which rules out the presence of multicollinearity for the various independent variables. The correlation table also provides evidence of a negative correlation between *MGROWN* (managerial share ownership*)* and *ROAs* (returns on assets*)*. From the Table, we also observe

MGROWN having a negative relationship with total assets while *FIN* and *DEBTT* have a positive relationship. A further inspection of Table 5.2 reveals *LTASTS* (total assets) having a positive relationship with *ROAs, DEBTT* as well as *FIN* while a negative can be noticed as existing between *ROAs* and M&As. However, the rest of the other explanatory variables of such as *LTASTS, DEBTT, FIN and MGROWN* all have a positive relationship with M&As. Finally, because correlation does not necessarily show the direction or causal effect, hence the need for the regressions.

Table 5.2: Correlation Analysis

	M&As	ROA	DEBTT	FIN	MGROWN	*L*TASTS
M&As	1.000					
ROA	-0.350	1.000				
DEBTT	0.388	-0.346	1.000			
FIN	0.086	-0.225	0.355	1.000		
MGROWN	0.190	-0.187	0.225	-0.058	1.000	
*L*TASTS	0.130	0.065	0.215	0.235	-0.205	1.000

Source: Author's Estimation, 2018, based on data collected

5.6.2 Diagnostic Tests

In terms of validity, our results meet the various requirements of the regression models as indicated in Panel B of Table 5.3 below. For the probit cross-sectional regression, the overall fitness of our model is good as shown by the large p-values of 0.641 and 0.202 respectively for both the HL test and Andrew test statistic, showing no evidence of poor fit. This is good because, with this we can confirm that, indeed the model is specified correctly.

Lastly, the results for heteroscedasticity test confirm no presence of heteroscedasticity as the p-value for this is roughly 0.669, which gives little evidence against the null hypothesis of homoscedasticity**.**

5.6.3 Regression Results

The section below presents and discusses the results from the probit regression technique employed in this study. This technique as previously described in Sections 4.6.3 and 4.6.4 respectively talks about the probability of an event occurring and is applied when the dependent variable is binary as is it with the present study. In this case we are talking about the probability that M&A transaction will occur based on the managerial share ownership in the acquirer firms. This is assumed to be a function of a vector of the explanatory variables. The estimates of the M&As probability are obtained by maximising the likelihood function. An increase in the probability depends on the original probability and the initial values of all independent variables and their coefficients. According to Beck et al. (2006), the estimated coefficients for each explanatory variable indicate whether an increase in the explanatory variable increases or reduces the probability of an acquisition transaction occurring. Therefore, we present marginal effect estimates, which show the magnitudes of the relationship between the explanatory variables and M&A transaction evaluated at the sample mean.

5.6.4 Managerial ownership and M&A transactions

Table 5.3 reports the probit regression results on whether managerial ownership drives mergers and acquisitions (M&As) transactions by acquirer firms from the emerging markets. The main objective of this chapter is to explore whether managerial share ownership of emerging market acquirers influence them to engage in acquisition deals. Literature suggests that, managers with significant shareholdings in firms are able to control and direct investment activities of firms, including M&As. This study investigated this objective through the use of the probit regression technique similar to studies by Yang, Guariglia, and Guo (2017), Huang et al. (2016) and Lee et al. (2018).

The results as have been given in Table 5.3 below reveals interesting findings that immensely adds to the body of knowledge. This study finds that, the marginal effect coefficient for managerial ownership which is the main variable of interest for this study is positive but statistically insignificant, suggesting that managerial share ownerships of emerging market acquirers do not influence them to undertake M&As transactions. The positive sign carried by the managerial share ownership coefficient means that, as managerial share ownership of these firms increases, they are able to engage more in M&As transactions, all other things

being equal. Although this finding agrees with some aspects of the literature, the positive relationship which this result suggests existing between managerial ownership and M&A executions among emerging market firms does not appear to be what we observe in reality which is confirmed by the statistically insignificant relationship between managerial ownership and the acquirers' desire for M&As. Table 5.3 reveals that, the managerial ownership is 4% which is below the minimum of 5% and the maximum of 20% levels that according to Faccio and Masulis (2005) and Herman (1981) respectively could make managers to have complete control over a firm and its investment decisions such as M&As. Based on this result therefore, the study finds no evidence to support our hypothesis (***$H_{5.1}$***) which states that, managerial ownership of acquirers from the emerging markets is more likely to influence them to undertake M&As, and it is accordingly rejected.

This finding, nonetheless, has some policy implication. For instance, contrary to the managerial discretion theory, the magnitude of managerial ownership in several emerging market firms is less than what literature suggests could give enough power to management members for them to have control and influence over investment decisions such M&As However, shareholders should not relent on their efforts to monitor the activities of managers because they have immediate control over firms' resources and could allocate them to suit their interest at the expense of shareholders.

Table 5.3: Probit Marginal Effects Results on Whether Managerial Ownership Drives M&As Transactions by Emerging Market Acquirers

Panel A: Regression Results			
DEPENDENT VARIABLE: (**M&As)** EXPLANATORY VARIABLES**;**	PROBIT REGRESSION COEFFICIENTS	PROBIT MARGINAL EFFECTS AT MEAN	STANDARD ERROR
LTASSETS	0.082	0.033	0.063
MGROWN	0.102	0.041	0.097
ROA	-0.058 ***	-0.023***	0.022
FIN	-0.151	-0.060	0.119
DEBT	0.505 ***	0.201 ***	0.195
CONSTANT	-1.483 ***	-0.590***	0.772
Panel B: Diagnostic Tests			
H-L Statistic 6.0597	Prob. Chi-Sq (8) 0.640		
Andrew Statistic 13.405	Prob. Chi-Sq (10) 0.202		
Test for Heteroscedasticity	LM= 0.183	P value=0.669	

Source: Author's Estimation, 2018, based on data collected.

Notes: The table shows probit regression coefficients and their marginal effects on whether managerial share ownership in firm drive M&As transactions by emerging market acquirers or not. *, ** and *** represent 10%, 5% and 1% significance respectively.

On the effect of the control variables, the study finds the marginal effect coefficient for returns on assets (ROAs) to be negative and statistically significant. This indicates that, ROAs of emerging market acquirers are less likely to play a major role in driving them into acquisition deals. The meaning of the negative sign of the ROAs coefficient is that, as the acquirer firms' ROAs increase, it demotivates them to embark on M&As. The reason for this could be that, these acquirers may be performing well which has resulted in improvement in the returns on their assets (in terms of profitability) for them to achieve growth and expansion organically using their own internal resources, and therefore, may not want to resort to external business growth strategy like M&As which according to the literature several firms from the emerging markets lack the necessary experiences and exposures to execute due to its associated risks and uncertainties. Table 5.3 shows that, a percentage change in the level of the firms' ROAs is 2.3% less likely to encourage these acquirer firms to undertake M&As. This view is broadly inconsistent with the finding of Kithitu (2012) who suggest that, M&As improve profitability levels of firms (as it is reflected in the ROAs of the firms) and therefore will encourage firms to be more interested in executing M&A deals in order to improve on their profitability (ROAs) levels. The inference from this result for managerial policy direction is that, even though acquirers according to literature can benefit from M&A investments, emerging market acquirers should be mindful of how the returns on their investments can support them to undertake other projects instead of M&As in order to bring improved value to their shareholders.

The marginal effect coefficient for total debt levels of the acquirer firms indicates a positive and statistically significant relationship of it and their desire to pursue M&As. This suggests that, the total debt levels of the firms are more likely to influence their decisions to undertake business expansion activity such as M&As. The positive sign carried by the total debt means that, as the debt levels of these acquirers increase, their appetite to undertake acquisitions also increases. The reason could be that, emerging market firms may be relying on debt to finance their operations and thus increases their debt levels unsustainably. As a result, these highly geared firms in line with the leverage hypothesis prediction acquire other lowly geared targets with unused debt capacity to improve on their leverage levels to create value for

themselves. This is consistent with the general hypothesis that mergers are a result of attempts to gain financial leverage because assets of these firms are usually pledged as security for long-term debt. Table 5.3 indicates that, any additional increase in total debt positions of the acquirers is 20% more likely to influence their decisions to undertake acquisition or merger transaction. This result seems consistent with Kumar's (1985) proposition that, making use of debt for investment such as M&As leads to a more efficient use of firms' financial resources which results in higher profitability than internal funding. This is because, debt attracts interest and limits free cash flow, thus inducing managers to put to use available free cash effectively and efficiently (Harrison et al., 2014; Sharma and Ho, 2002). The implication for managerial policy is that, firms that have high levels of debt could take advantage of acquisitions to improve on the value of their businesses by acquiring other target firms that are not considered highly geared but have unused debt capacity and at the same time have the potential for growth so that they can realise some amount of financial leverage and synergistic advantages for their businesses.

The study also finds the marginal effect for the acquirers' total assets coefficient (proxy for firms' sizes) to be positive but statistically insignificant. This means that, sizes of emerging market acquirer firms do not influence their decisions to embark on acquisition deals which is broadly different from our previous finding on total assets and execution of M&As when working capital of these acquirer firms was used as the main independent variable in Section 4.7.3.1 in Chapter 4 of this thesis. The researchers noticed in that section that, the firms total assets influence them to undertake M&A transaction. This finding appears contrary to the financial theory which suggests a positive relationship between increase in firms' sizes and their desire for more investments such as M&As. This means that, managers should endeavour not to rely solely on their total assets in taking investment decisions such as embarking on acquisitions, but as well, consider at other probable influencing factors like their total debt levels which this study reveals are more likely to motivate acquisition transactions.

Lastly, results of the study indicate a marginal effect coefficient which is negative and statistically insignificant for financial leverage. This means that, financial leverage levels of the firms do not influence the acquirer firms' decisions to execute M&As transactions. The negative sign of the financial leverage coefficient implies that, as the firms' leverage levels increase, it dampens these acquirer firms' interest to execute acquisition transactions.

However, as a policy implication, this study suggests that managers can use financial leverage as a mechanism to protect the interest of their shareholders as the literature suggests.

5.6.5 Relationship between Managerial Share Ownership and Sizes of Targets in M&A Transactions.

In this section, the study investigates whether managerial share ownership in firms affects the sizes of target firms acquirers from the emerging markets pursue in M&A transactions. From literature, it is suggested that sizes of firms matter in mergers and acquisitions transactions, and that transactions where both firms are of similar sizes usually succeed. It is further suggested that acquirers tend to be bigger in sizes relative to their targets and that firms whose sizes are large are less likely to become targets in acquisition transactions. We therefore undertake to explore if managerial ownership in acquirer firms from the emerging markets motivate them to pursue target firms of particular sizes in acquisition deals. Our hypothesis as has previously been stated in Section 5.4.1.2 of this chapter is that;

$H_{5.2}$: Managerial ownership of emerging market acquirers is more likely to motivate them to pursue smaller target firms in acquisition deals.

5.6.6 Diagnostic Tests

The results from diagnostic tests confirmed that in terms of validity, our results meet the various requirements of the regression models as shown in Panel B of Table 5.4 presented below. In particular, for the probit cross-sectional regression, the overall fitness of our model is good as shown by the p-values of 0.992 for the HL test Statistic, indicating no evidence of poor fit. This is good, since here we know the model is specified correctly. Tests for heteroscedasticity also confirm no presence of heteroscedasticity as the p-value for this is roughly 0.111, which gives little evidence against the null hypothesis of homoscedasticity.

5.6.7 Regression Results

5.6.8 Managerial Ownership and Target Firms' Sizes

From Table 5.4, the study finds the marginal effect coefficient for managerial ownership to be negative and statistically insignificant. This suggests that the managerial share ownerships in emerging market acquirer firms do not motivate them to acquire smaller-sized firms in

acquisition deals. This result fails to confirm our hypothesis **($H_{5.2}$)** that, managerial ownership of acquirer firms from the emerging markets is more likely to influence them to pursue smaller targets in acquisition deals. The reason may be that, acquirer firms from the emerging markets consider these smaller target firms as young start-up companies that usually have financial challenges, and the assumption is that only much larger acquirers could provide managerial and financial resources required to enable businesses to operate successfully which most acquiring firms from the emerging markets do not have. This result seems to be in line with Vretenar et al. (2017)'s suggestion that efficiency and managerial synergy motives are a major factor that influence firms to pursue various sizes of firms during acquisitions rather than managerial share ownership in firms. They argue that, small and medium-sized enterprises (SMEs) are more likely to be acquired for efficiency reasons, while large companies can be acquired due to both efficiency and managerial synergy motives. The result again supports Mikkelson and Partch (1989)'s view that, the likelihood of successful acquisitions of firms is unrelated to managers' holdings. However, this result runs contrary to the assertion by Fuller et al. (2002) that, acquirers of small targets in acquisition deals tend to perform better in the long-run in terms of operating performance in the stock market than those that pursue large firms. It also departs from Song and Walking (1993)'s claim that, size and managerial ownership have negative relationship with the probability of an acquisition attempt, and that the rate of acquisition bids that lead to a control change reduces as sizes of firms increase. As a policy implication, managers of firms from the emerging markets should not let their shareholdings or stakes in these firms influence them to pursue targets of particular sizes during acquisition transactions, even though acquiring firms of certain sizes can yield positive results to make the M&A deal successful. Rather, selection of targets must be done by creating a profile of the company to be acquired. The profile may include the expected features or qualities that the target company must have to be eligible for acquisition or a merger. This may comprise the activity the target firm does, its market position, its size, production range, profitability, structure and number of employees, its level of indebtedness and liquidity, the company's structure of assets and equity, and several similar indicators.

Table 5.4: Probit Marginal Effects Results on Whether Managerial Ownership Influences Sizes of Targets Emerging Market Acquirers Pursue in Acquisitions

Panel A: Regression Results			
DEPENDENT VARIABLE: FIRM SIZES EXPLANATORY VARIABLES;	PROBIT REGRESSION COEFFICIENTS	PROBIT MARGINAL EFFECTS AT MEAN	STANDARD ERROR
LTASSETS	-0.202***	-0.046***	0.082
MGROWN	-0.000	-4.24E-05	0.000
ROA	-0.076***	-0.017***	-0.076
FIN	-0.326**	-0.074**	0.189
TOBIN'S Q	0.1696	0.039	0.135
DEBT	0.008	0.002	0.012
CONSTANT	1.801***	0.410***	0.821
Panel B: Diagnostic Tests			
H-L Statistic 1.5532 Prob. Chi-Sq (8) 0.992 Andrew Statistic 19.0117 Prob. Chi-Sq (10) 0.0401			
Test for Heteroscedasticity LM= 2.536410 P value=0.111			

Source: Author's Estimation, 2018, based on data collected

Notes: The table shows probit regression coefficients and their marginal effects for the sizes of firms emerging market acquirers become interested in acquiring. *, ** and *** represent 10%, 5% and 1% significance respectively.

On the effects of the control variables on sizes of targets emerging market acquirers pursue in M&As, the result of the firms' total assets as shown in Table 5.4 above indicates a marginal effect coefficient which is negative and statistically significant at 1%. This suggests that, the sizes of these emerging market acquirers are less likely to influence them to pursue smaller-sized firms during acquisition transactions. The negative sign possessed by the firms' total assets coefficient means that, an increase or improvement in the acquirers' sizes does not motivate them to become interested in smaller-sized firms in M&As transactions. The reason could be that, an increase in these acquirer firms' total assets is an indication that they have a lot of assets they can leverage on, and these assets can be used as a way of paying for the cost of any target, so if their total assets is high, they would be in position to pursue larger-sized targets in acquisition transactions instead of smaller ones. The results as indicated in Table 5.4 reveal that, a percentage change in the value of these acquirers' total assets is about 4% less likely to motivate them to pursue smaller-sized targets based on their sizes in acquisition

deals which validates the result of this study. This finding broadly supports Homberg et al (2009)'s suggestion that, planned synergies are realised from acquisitions where the acquirer is bigger than the target firm, but in a situation where the acquirer is smaller than the target firm, the acquirer mainly increases its ability to exploit economies of scope and scale and market power. This result, however, appears inconsistent with views expressed by Ahuja and Katila (2001) that, the sizes of both the acquirer as well as the target firms matter in a merger or acquisition transactions, and that transactions where both companies are of similar sizes tend to succeed. They maintain that, when acquirer and target firms are similar in sizes, it becomes less difficult for the acquirer firm to identify the value of skills and knowledge to derive as a result of taking over the target firm. It also becomes easier to integrate these same skills and apply them within the acquirer's business system.

The study again finds the marginal effect coefficient for returns on assets (ROAs) of the firms to be negative and statistically significant. This shows that, ROAs of emerging market acquirers are equally less likely to influence these firms' investment decisions on sizes of target firms they pursue during acquisition transactions. The negative sign associated with the ROAs coefficient means that, an increase in the returns these acquirers derive on their assets will not serve as a motivation for them to pursue targets whose sizes are smaller in acquisitions. The reason might be that, as firms ROAs increase, they may be convinced that, they are in a good position to acquire larger targets because they now have the needed resources to do so. In addition, managers of these emerging market firms become motivated following the improvements in their firms' performances and may want to acquire larger-sized firms instead of smaller ones in the form of empire-building purposes to increase resources under their control to benefit from managerial incentives and other perks associated with it. Statistically, as shown in Table 5.4, ROAs (proxy for profitability) is 1% less likely to influence these acquirers' decisions on sizes of targets they pursue. This appears contrary to the position espoused by Frick and Torres (2002) that, the average size of target company has a significant impact on acquirers' financial returns for their shareholders which makes acquirers take into account the sizes of firms they become interested in when undertaking acquisition transactions. This result again runs contrary to views expressed by Audretsch and Elston (2002) that, the size of a firm has a great impact on growth of firms' profitability levels and should therefore be considered as a tool for measuring the ability of a firm to grow and become profitable.

Further, results of the study show a marginal effect coefficient of negative and statistically significant at 5% for financial leverage of the firms indicating that, financial leverage is less likely to encourage their decisions to target smaller-sized firms in M&A deals. Table 5.4 above indicates that, financial leverage of these acquirer firms is 7.4% less likely to influence their decisions about the sizes of targets they pursue in acquisitions deals. The negative sign of the financial leverage coefficient confirms that, an increase of it will potentially not motivate these acquirers' decisions to target smaller-sized firms in acquisition transactions. The reason could be that these acquirer firms whose leverage levels are high may want to merge with targets of similar sizes to validate what the literature suggests that M&A transactions where both firms are of similar sizes usually succeed. They may also desire for a merger transaction with larger-sized firms who have unused debt capacity to improve on their leverage positions and ultimately create value for themselves. By way of policy implication, this finding suggests that, managers of emerging market firms should take into consideration the sizes of firms they combine with in merger deals since additional debt could attract interest and limit free cash flow (Harrison et al., 2014; Sharma & Ho, 2002) which may affect their future growth. As well, as Nazarian (2017) also suggests, pursuing a bigger target than the acquiring company's size has a negative impact on the possibility of success for the acquirer firm, therefore, it is incumbent on firms planning acquisition deals to properly weigh their options regarding sizes of target firms they go in for in M&A transactions.

Additionally, the marginal effect coefficient for the Tobin's q (which is the proxy for the firms' growth opportunities) is positive but statistically insignificant, implying that, the firms' abilities to grow or expand are not dependent on the sizes of targets they acquire in acquisitions. The Tobin's q coefficient carrying a positive sign means that, as more options for growth and expansion become available to these firms, they are less likely to settle on the acquisition of smaller-sized firms for growth. The results as presented in Table 5.4 indicates that, any additional improvement in the acquirer firms' ability to grow or expand is 3% less likely to be as a result of the acquisition of smaller-sized firms. This result is in line with Thanos and Papadakis (2012)'s view that, firms' growth through M&As is mainly due to their desire for corporate growth and other corporate objectives and not based on factors such as the sizes of firms they acquire in deals. This might suggest that, acquirer firms from the emerging markets that are desirous of expanding to other locations through M&A route may have to adopt other strategies to achieve their objectives rather than the size of firms they acquire.

Lastly, the marginal effect coefficient for total debt is positive but statistically insignificant, suggesting a lower possibility of it to motivate these firms to acquire particular sizes of firms in M&A transactions.

5.6.9 Relationship between Managerial Discretion and Acquirers' Profitability levels

This section explores the impact of managerial discretion on profitability levels (ROAs) of acquirers from the emerging markets in their acquisition pursuits as previously stated in Section 5.2.3 under the theory of managerial discretion. A certain amount of discretion could motivate managers' executive ability and creative potential, thereby enhancing firm performance in terms of profitability. However, undue managerial discretion could motivate managers to execute objectives that are self-serving. Restrictions on managerial discretion also will undermine the initiative of managers. Higher levels of managerial discretion could, therefore, allow managers to maintain enough confidence to take advantage of their creativity and initiative, to improve the performances of companies. But whether managerial discretion of acquirer firms from the emerging markets help to improve these firms' levels of profitability is a matter for investigation through a study such as this one. This study, therefore, hypothesizes that;

$H_{5.3}$: Managerial discretion has negative impact on profit levels of emerging market acquirers' profit levels.

5.6.10 Summary Statistics

From Table 5.5 below, the mean value of profitability levels (ROAs) to emerging market acquirer firms is 6.86%, revealing a relatively low level of profitability to the acquirers, while the minimum (-63.91) and the maximum (47.73%) indicates a wide difference in profit levels. The mean values of the managerial discretion and M&A interaction and the acquirers' total debt indicate about 0.57 % and 2.83% respectively. However, the maximum shows about 4.4% for *MGROW**DMA and 4.65% for total debt, whereas their minimum values were 0.00 and-4.85% respectively. Their standard deviations are also 1.18% and 1.19% respectively suggesting that, on average, *MGROW**DMA and total debt deviate from the mean by about 1.18% and 1.19%. The acquirers' total assets and growth opportunities (proxied by Tobin's q) show mean values of 9.39 % and 0.46 %, with maximum values of 15.85% and 2.35% respectively, while their minimum values indicate -0.69% and 0.00.

Table 5.5: Summary Statistics

	ROA	MGROWN*DMA	DEBT	LTASSETS	TQ
Mean	6.857	0.573	2.829	9.392	0.459
Maximum	47.726	4.391	4.650	15.849	2.354
Minimum	-63.909	0.000	-4.854	-0.688	0.000
Std. Dev.	9.162	1.181	1.188	2.410	0.557
Observations	320	160	303	322	308

Source: Author's Estimation, 2018, based on data collected

Notes: ROAs is the level of profitability of acquirers, MGROW*DMA is the managerial discretion and DM&A dummy interaction, DEBT, TQ and TASSETS are the acquirers' total debt, Tobin's Q and natural logarithm of their total assets respectively.

Table 5.6 below reveals the correlation results of the response variables and ROAs which is the measure for evaluating the acquirers' level of profitability in this study. A correlation of above 0.5 between independent variables shows that the problem of multicollinearity exists. The table reveals the highest correlation of 0.35 between returns on assets (ROAs) and Tobin's q. The rest of the other independent variables also show no evidence of multicollinearity. The table also shows a negative correlation between total debt and (ROAs). Inspection of the table also indicates a negative relationship between the interaction of managerial discretion and M&As (MGROW*DMA) and ROAs. Total assets and Tobin's q also have a positive relationship with the ROAs. A positive correlation also exists between MGROW*DMA and total assets as well as the Tobin's q. Finally, a negative relationship is identified to exist between total asset (TAs) and the Tobin's q.

Table 5.6: Correlation Matrix

	ROA	MGRO*DMA	LTASSETS	DEBT	TQ
ROA	1.000000				
MGROW*DMA	-0.119314	1.000000			
LTASSETS	0.095900	-0.002405	1.000000		
DEBT	-0.324716	0.037016	0.168355	1.000000	
TQ	0.356157	0.035224	-0.107036	-0.104704	1.000000

Source: Author's Estimation, 2018, based on data collected

5.6.11 Diagnostic Tests

The result from diagnostic tests confirmed that there was no serial correlation among the variables after the residuals were subjected to the Breusch-Godfrey Serial Correlation LM test. Model specification was tested by subjecting the residuals to the Ramsey Reset test and the result showing F-statistic of 2.397 and a P-value of 0.095 indicate that the model is well specified as shown in Table 5.8 below.

Table 5.7: Ramsey Reset Test ROAs C (MGROWN*DMA) TASSETS DEBT TQ

	Value	df	Probability
F-statistic	2.397361	(2, 146)	0.0945
Likelihood ratio	4.943863	2	0.0844

5.6.12 Stability of model

Parameters stability is assessed by applying the cumulative sum of the recursive residuals (CUSUM) test, following Pesaran and Pesaran (1997). The null hypothesis tested was that, all coefficients are stable. If either of the parallel lines in the plots is crossed, the null hypothesis of parameter stability is rejected at the 5 per cent level of significance. In Figure 5.2 below, the plots of the CUSUM statistics confine within the 5 per cent critical value limits which indicates stability of the coefficients. This, therefore, suggests that, the parameters in the model do not have any structural instability.

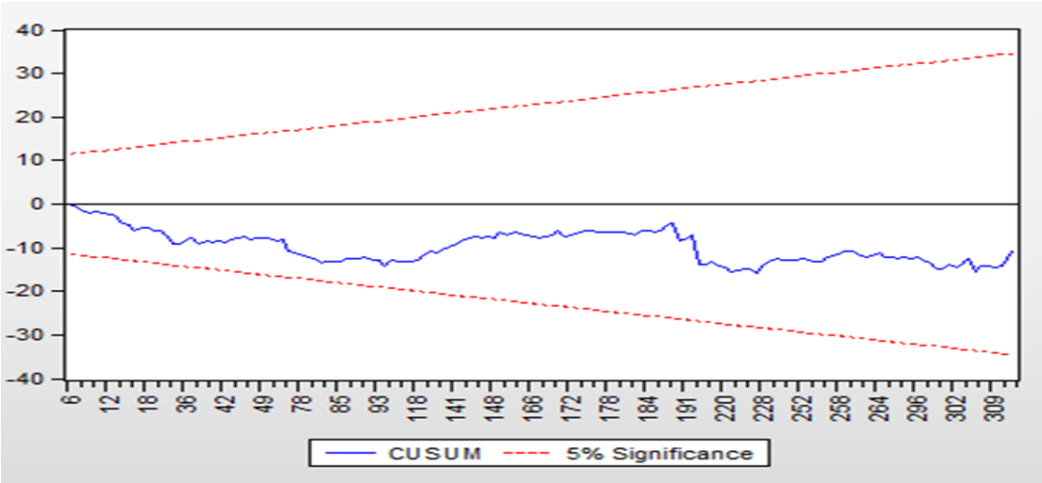


Figure 5.2: Plot of Cumulative Sum of Recursive Residuals
Source: Author's Estimation, 2018.

5.6.13 Regression Results

5.6.14 Managerial Discretion and Acquirers' Profitability in M&A Transactions

The results of the present investigation as shown in Table 5.8 below show a coefficient which is negative and statistically significant at 10% for the relationship that exist between the managerial discretion and M&A interaction on one hand and its impact on the acquirers' profitability levels on another, thereby confirming hypothesis $\mathbf{H_{5.3}}$ of this study. However, this weakly statistically significant result suggests that, managerial discretion which is proxied by the number of shares owned by management does not have a substantial impact on these acquirer firms' performances as far as their profitability levels are concerned. The possible reason for this could be that, managerial holdings in most of these firms may be low which will not afford them enough power to use their discretions to undertake investments like M&As to realise positive returns for their respective firms. This result is consistent with the views of Brush et. Al. (2000) that, negative implication exists between managerial discretion and firms' performances. It is, however, contrary to Chang and Wong (2003)'s suggestion that, a positive relationship exists between managerial discretion and firm's performance if a firm has higher ownership concentration, and that managerial discretion is unrelated to firm performance if firm has lower ownership concentration.

Turning to the control variables, results of the study reveals the coefficient of the acquirers' total assets to be positive and statistically significant at 5% for the relationship existing between the acquirers' total assets and profitability levels. This implies that, improvements in total assets of acquirers from the emerging markets result in increases in their profitability levels. This suggests that, acquirer firms from the emerging markets need to put strategies in place to ensure continuous growth in their assets for sustainable growth in profits.

The coefficient for total debt levels of the acquirers is negative and statistically significant at 1%. This means that, as these firms' debt levels increase, they hold back their appetites to undertake investment projects such as M&As and possibly engage in other activities that will help them to improve on their high debt levels to increase profit levels. Broadly, this result seems to be in agreement with Akinlo and Asaolu (2012)'s assertion that, profitability and debt have a negative relationship. It is also consistent with Andersson and Minnema (2018)'s claim that, leverage has a significant negative relationship with profitability. The result,

therefore, suggests that, the acquirer firms may be relying on external debt to fund their activities and this may run contrary to the pecking-order theory, which suggests that firms mainly use internal financing over external financing to achieve higher profitability.

Lastly, the coefficient for Tobin's q (proxy for the acquirers' growth opportunity) is positive and also highly statistically significant. This suggests that, growth strategies these firms adopt have an impact on their profitability levels. These strategies could be organic where they grow through their own internal resources or by inorganic means, example of it is acquisitions. Consistent with Dickerson et al. (1997), a firm's profitability increases by almost 6.9% if it doubles its internal growth rate compared to a mere 0.2% increase in profitability if growth is by means of acquisitions.

Table 5.8: Impact of managerial discretion on profit levels of acquirer firms from the emerging markets in M&A transactions.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.655	3.121	2.132	0.035
MGROWN*DMA	-0.891	0.529	-1.684	0.094*
LTASSETS	0.693	0.269	2.577	0.011**
DEBT	-2.893	0.662	-4.367	0.000***
TQ	5.126	1.056	4.854	0.000***

Adjusted R^2 = 0.24 F- statistic (12.872) Probability (.0.0000) D.W statistic (1.9)

Source: Author's estimation, 2018, based on data collected.

Notes: *significant at 10%, ** significant at 5%, *** significant at 1%.

5.7 Chapter Summary

This chapter investigated the relationship between M&As and managerial ownership as a driver of M&A transactions executed by emerging market firms. In this chapter, the study also investigated whether acquirers' managerial ownership also influences their decisions regarding the sizes of target firms they pursue in acquisition transactions. Further, the chapter explored the impact of managerial discretion on profit levels of emerging market acquirers in their acquisition pursuits. To achieve this, the study used insiders share percentages outstanding as a measure of managerial ownership, where M&A was measured as one (1) if a firm executed a deal and zero (0) otherwise. Firms' sizes were also coded as one (1) if an

acquired firm was smaller and zero (0) otherwise. The coding and classification of the target firms into smaller and larger firms were done based on their relative sizes with their respective acquirers by dividing the total deal value of each transaction by the total assets of the acquirer and multiplied by 100% (Park & Jang, 2011). This was done to enable us to identify the various firm sizes these acquirers become interested in acquiring during acquisition transactions.

Using probit regression analysis, we found the coefficient of managerial ownership to be positive but statistically insignificant with M&As, suggesting that, managerial share ownerships in emerging market acquirer firms do not drive these firms into M&A deals. Further, the result of whether managerial share ownerships influence the acquirers' decisions about sizes of target firms they pursue during M&A transactions was negative and statistically insignificant. This shows that, managerial share ownerships do not influence the acquirers in their decisions regarding the acquisition of smaller-sized targets in M&A transactions.

Based on the findings, the study concludes that, managerial ownership of firms in the emerging markets, neither motivate them to undertake acquisition deals nor influence their decisions on the sizes of targets they pursue. To the best of the researcher's knowledge, this is the first study on influence of managerial ownership on M&As by emerging market acquirers and sizes of target firms they become interested in pursuing during merger deals. The result from this study indicates that, a percentage change in managerial share ownership of the firms is only 4% more likely to motivate these acquirers to engage in investment project such as M&As. This value of 4%, however, falls short of what Faccio and Masulis (2005) and Herman (1981) suggest could allow managers to have control over a firm and its investment decisions like M&As. Faccio and Masulis suggest that managerial holdings of more than 20% can make managers have total control over a company and have the ability and power to effectively influence the firm's investment decisions, including mergers and acquisitions while Herman also suggests a 5% ownership level as a focal stake beyond which ownership can have substantial influence on decisions to undertake any investments by firms. The implication of these findings is that, for managers to have absolute control over firms and be able to influence investments decisions such as M&As especially in the emerging markets, their ownership percentage should be above the suggested significant level of 20%.

Lastly, findings from the study also reveal that, managerial discretion have a negative impact on acquirer firms' performances as far as their profitability levels are concerned. However, the result suggests that, it is the acquirers' total assets and their Tobin's q representing the

ability them to grow that have positive influence on their profitability levels while their total debt also affects the firms' profit levels negatively.

The next chapter ends our investigations on the three main objectives for this thesis by exploring whether acquirer firms from the emerging markets benefit from M&A transactions they execute in terms of growth in profits (ROAs) and improvement in growth opportunities (Tobin's q).

CHAPTER SIX

MERGERS AND ACQUISITIONS AND FIRMS' VALUE GROWTH IN EMERGING MARKETS

6.1 Introduction

This chapter deals with the relationship existing between M&As and the value growth of firms in emerging markets. It draws on the previous chapters of firms' working capital positions as well as managerial share ownership and M&As executions by acquirers from the emerging markets. Both theoretical and empirical literatures related to this relationship are reviewed. Lastly, the chapter analyses, discusses and draws conclusions based on the empirical results for this study.

Firms are able to grow internally (that is, organically) through the expansion of their activities or by means of acquisition of existing firms. Growth through either organic expansion or acquisitions is not the same in terms of underlying processes and economic consequences. (Dahlqvist, Davidsson, & Wiklund, 2000). In their examination of firms whose growth rates are high, Davidsson and Delmar (2006) demonstrate that, for smaller and younger high-growth firms, their growth is largely organic, whereas for older and larger firms, they mainly grow and expand through acquisitions.

From the perspective of corporate finance, motivations behind M&A transactions can be put into two main categories: maximisation of shareholders value and utility maximisation of the other stakeholders, which firms' managers are part. With regard to shareholder value maximisation, the understanding is that, firms largely pursue M&As for improvements in the form of enhanced value to shareholders of the combined firms, (Houston, James, & Ryngaert, 2001). They also expect that, by undertaking M&As, they can access other new markets (Gugler, Mueller, Yurtoglu, & Zulehner, 2003; Lanine & Vander Vennet, 2007), reduce competition and level of risks through geographical and product diversification (Denis et al., 2002). The utility maximisation motive also talks about maximising the utility of other stakeholders including managers. For example, the principal-agent theory suggests that, managers' own value maximisation at the expense of shareholders has been a major incentive that drives them into merger deals (Jensen, 1986; Matsusaka, 1993). According to

Faccio (2006), managers of firms that are politically connected may also consider maximising the utility of other stakeholders, such as politicians (Luo & Tung, 2007).

Particularly, under this present chapter, the study undertakes an investigation which will ultimately help to enlarge the sparse empirical literature on the nexus between M&As and firms' value growth relating to acquirers from the emerging markets, where findings of previous studies remain mixed and largely assess firms within individual or specific emerging economies which makes generalisation of conclusions sometimes impossible and unfair. However, to the best of our knowledge, this is the first study where acquirer firms from ten (10) different emerging market countries are examined together to evaluate their value growth after M&A transactions which is different from other studies. Therefore, the outcome of this study will proffer useful insights to firms in developing countries regarding whether they should continue to rely on M&As as a viable strategy for growth and expansion or not.

6.2 Factors Affecting the Value Growth of Emerging Market Acquirers in M&As

The arguments surrounding the value that M&As create for emerging market acquirers remains unsettled since several divergent views are expressed by different researchers in literature. However, regarding the various factors that affect the benefits or gains these acquirers realise from acquisitions, some amount of consensus appears to exist for these firms. These factors include the size of investment a firm pursues, the level of a firm's global experience, the degree of control that an acquirer has in a target firm, and the favourable corporate governance system affecting the acquirer. Below is a detailed discussion on these factors.

(i) The size of investment a firm pursues

The investment size hypothesis suggests that, companies are able to realise operating economies resulting in economies of scale in production, distribution or management or marketing. Similar to their peers in advanced economies, emerging market multinationals may achieve substantial benefits from a better use of fixed capital and gain substantially through an efficient and effective use of fixed capital and expanded international market presence which eventually could have a positive effect on their profit levels. The successful growth in a firm's size through acquisition transactions can result in a combined value of both firms that is more than their individual values (Lamacchia, 1997). Contrarily, researches that focus on value destruction aspects of M&As point towards asymmetric information

regarding the valuation and assessment of target firms, misidentified complementarities, and problems integrating the target firm after the acquisition, especially in CBMA (cross-border M&A) transactions. In addition, if the process of transaction takes more than expected time, negative market reaction may occur (Mulherin & Boone, 2000).

(ii) The degree of control an acquirer has on a target firm

According to Chari, Tesar and Ouimet (2004), usually, foreign acquirers may have the desire to secure absolute control of the target if the productivity increases that occurred because of the availability of capital and synergy is greater compared to amount of control the target firm management loses. They find evidence on the need for acquirer value of obtaining majority stake in the acquiring targets from the emerging market by multinationals from developed country. Contrarily, when the merged firms fail to produce synergies, mergers could result in value destruction (Ghemawat & Ghadar, 2000). This view is also reinforced by Rousseau (2006) who maintains that, the purchase of new and disassembled used-capital which does not expand the span of control is more likely to go towards wasteful acquisitions than internal growth.

Similarly, the target status hypothesis maintains that, substantial negative returns are earned by acquirers when public targets are bought, while significant positive returns are earned when private targets are bought (Fuller, Netter, & Stegemoller, 2002). This finding is mainly as a result of challenges that exist in the structure of ownership of a public company, which fuels the likelihood that the price of the transaction will be raised to maximise the interests of a different group of shareholders and stakeholders of a target firm (Choi & Russell, 2004). However, the inexperienced nature of firms from the emerging markets in M&As, especially in foreign transactions, can result in the payment of substantially higher premiums for public target firms to lessen the resistance by current shareholders.

(iii) The level of a firm's global experience in M&A transactions

Suggestions by previous studies are that, international market experience gives adequate benefits to investing companies which results in significant positive returns produced around acquisitions (Harzing, 2002). Doukas and Travlos (1988) show that, the announcement of the acquisition of firms with well-established presence in the country of the target firm generate significant and statistically positive returns. It is proper to maintain that, firms that have a local presence are well positioned to identify opportunities of investment in the host market,

and the likelihood for them to pay high premiums is less compared to their peers that do not have previous local presence.

Additionally, the familiarity of emerging market conglomerates with the local environment will help to reduce the cost of integration after the acquisition, because such acquisitions have a low level of risk compared to transactions done in an environment which is not too familiar. In other words, the liability of foreignness and information asymmetries in these cases is reduced (Martin, Swaminathan & Mitchell, 1998).

(iv) Favourable corporate governance on the side of acquirer is expected to add to acquirer's value

This is a significant factor, since weak corporate governance practices in emerging markets, and their consequences, are well acknowledged in literature. The unavailability of proper monitoring systems, careless disclosure requirements, and the local equity markets that are not well-developed intensify managerial discretion and provide motivations for value appropriation at the expense of minority shareholders. As a result of the irregularities in emerging-market, shareholders might approach cross-border acquisitions by multinationals from the emerging market with doubts and consider such strategies as part of the empire building or value appropriation efforts.

6.3 Why Do Firms Fail in Value Creation in M&As?

Even though M&As have the likelihood of boosting the performance of the two firms involved in the acquisition transactions in the form of synergy gains, expansion of market size, reduction of cost and improved competition, not all M&As result in expected benefits (Straub, 2007). In literature, failure of M&As has been partly attributed to the 'Hubris effect'. The underlying idea of this hypothesis is that, managers pursue acquisitions to maximise their interest; however, economic benefits are not considered the only reason for acquisition transactions. This theory usually manifests itself when there is a competitive tender to acquire a particular target firm. The desire by acquiring firms to win the bid usually results in paying more than the actual value of the target by the acquirer (Roll, 1986). These prospective acquiring firms are described as been infected by hubris because they end up paying too much for their target firm. The argument that seems to exist is that, a number of acquisition deals do not live up to expectations because managers inaccurately evaluate targets and include them in their strategic plans and fail to differentiate between transactions that might

only improve current operations and ones that potentially could transform the company's growth prospects (HBR, 2011).

According to Gadeish and Ormiston (2003), key factors that cause M&As failure include mismatch of cultures, poor strategic rationale, poor integration planning, execution and paying more than the actual value of the target firm as well as difficulties in communicating and leading the organisation. They identify poor strategic rationale in executing M&A activities as the most influencing factor amongst them. This is due to the fact that, poor strategic rationale by both firms (the acquirer or the target) will likely result in communication challenges, poor integration, poor execution and influence a mismatch of cultures. The cost of these challenges and difficulties often surpasses the expected synergistic gains new firms expect to derive from consolidation. Lynch & Lind (2002) suggest other reasons for M&As failures, which include unavailability of proper strategies for managing risk, culture clashes and slow post-merger integration. A major concern with poor strategic rationale as part of the merging firms' goal for long-term is perhaps the role of managerial intent in executing decisions relating to the merger.

McDonald, Coulthard and De Lange (2005) also indicate that 'in most cases, few chief executive officers (CEOs) feel reluctant to talk about their acquisitions failures but many of them appear delighted to share the merits or virtues of their new acquisitions. Again, the risk of excessively optimistic view of synergistic benefits exists which managers can attach to consolidation. Usually, due diligence about credit risk assessment and corporate fit is not done well. This results in difficult challenges which face the new firm and an overvalued advantage in synergy. In the view of Straub (2007), the success or failure of M&As generally can be put under three main fields, which include the Strategic logic, the Integration and the Financial logic. With regard to the strategic school of thought, acquisitions are potentially likely to be successful just like the strategic decision of the acquiring firm desiring to acquire a target firm (Jarillo, 2003). In contrast, the integration school of thought talks about the general question relating to the impact of acquisitions on shareholders and firms in general (Weber, 1996; Mark & Mirvis, 2000) while the financial logic focuses on the financial issues of mergers and acquisitions. Here, the viewpoints of the financial analyst about the potential value the M&As are likely to create are taken into consideration.

Similar to the above reasons for M&A failure, Hopkins (2002) also identifies inspection problem, negotiating problem and integrating problem as the main problems that affect the value growth of firms that engage in M&As which lead to their eventual failures. Details of these problems are as discussed below.

(i) Inspection problem: Engaging in mergers and acquisitions is a transaction that involves two firms where one is considered a buyer and the other the seller. For the transaction to occur, it is required of the bidder to offer a higher value on the target firm to the seller. Frequently, information available to acquirers is not sufficient enough about the firm they want to acquire. However, the main reason the acquirer becomes motivated to offer more than the value of the target firm is because it lacks information. It may also be as a result of the fact that the acquirer has unique resources or knowledge that will improve the target firm's value. This information asymmetry may lead to what is known as "lemons problem (Hopkins, 2002).'' Due to the acquirer's deficiency in accessing information, it is possible to pay a price that reflects the condition of an average quality business.

(ii) Negotiating problem: It is usually a complex process to negotiate cross-border transactions. It becomes more challenging due to inadequate information and cultural differences. The negotiations even continue after the deal is consummated. Firms must make sure that the motivations behind their acquisition transactions continue to be viable for value creation.

(iii) Integrating problem: The process of joining the two merging companies together is usually faced with challenges. These challenges have become intense and gradually making firm managers to show more interest in horizontal and other related mergers rather than unrelated conglomerate mergers (Hopkins, 2002). Approximately one-third of all M&As failures were due to problems of integration (Shrivastava,1986). Literature suggests that, post-merger firm's performance is greatly influenced by the issue of cultural fit and that firms that allow multi-culturalism and avoid too much control are able to perform well compared to ones that are less permissive.

6.4 Theoretical Literature Review

The following theories are applied for this study to investigate mergers and acquisitions and firms' value growth in emerging markets.

6.4.1 Agency Theory

This theory mainly stresses on the relevance of monitoring the activities of managers to prevent and reduce the possibility for them to engage in any opportunistic behaviour (Fama, 1980; Jensen & Meckling, 1976; Nicholson & Kiel, 2007). According to this theory, it is primarily due to the improvement in the acquiring firm's management welfare that is why managers approve of M&As deals. As the agency cost hypothesis suggests, managers are likely to make decisions that will maximise their value rather than the welfare of shareholders if not properly monitored. Some of the decisions they usually take to help them achieve their self-maximising dreams is aggressively growing the firm, which tends to destroy and reduce the firm's level of profitability (Hope & Thomas, 2008). For instance, managers may choose to expand sizes of firms rather than pursuing measures that will maximise the value of shareholders, because their personal gains are tied to the size of the firm. Sometimes too, a manager may acquire only assets that relate to or fall within his personal line of business so that it will increase the firm's dependency on him or her.

From the above discussion so far, what is clear is that, generally, this theory looks at the separation of firms' managers from their owners. Jensen (2005) argues that, because the degree of asymmetric information that exist between two firms is high; it enables managers to conduct the affair of the firm to suit their interest (example, empire building) or undertake value-destroying transactions to achieve the market's short-term growth. This is because, management of acquiring firms usually are largely aware and privy to information which they can use to exploit the inefficient market, since they know of a long-term decline in market value. However, unlike Rhodes-Kropf & Viswanathan (2004) and Shleifer et al. (2003), Jensen does not assume that, managers of acquiring firms have the interest of shareholders' long-term value maximisation in mind. Instead, he states that, they have their own motivations (for example, their job security) as rational people, and so, despite being aware that, they are not able to achieve the implied growth by the market price, they undertake potentially long-term mergers that do not create value, thereby deferring the issue to a later date when they have probably exited the firm. Berle and Means (1932) also argue that,

whenever control is separated from ownership, it results in divergence of interest. The reason is that, while managers may be interested in pursuing what they can profit from, shareholders on the other hand may be desirous of increases in corporate profits and welfare maximisation.

6.4.2 Hubris Hypothesis

This hypothesis basically talks about instances where acquiring firms pay more than what is considered the right and fair price for target firms. According to Roll (1986), under the hubris hypothesis, an acquiring firm's management could evaluate incorrectly a target firm's value as an incentive for merger activity when that management is desirous of pursuing an agenda of "empire building''. Therefore, it simply refers to an interest in M&A transaction that has the possibility to pay more than the actual value of a target's assets because of excessive confidence about the possibility of synergistic value to be derived from the acquisition or the extreme confidence of the management in its capability and competence to manage the target firm better (DePamphilis, 2008).

According to Malmendier and Tate (2008), the presence of over-confident managers may result in value-destroying acquisitions. If managers' level of confidence increases due to previous acquisitions successes, it could be a reason for the decreasing trend in returns to acquirers. However, Aktas et al. (2007) demonstrate that, other factors could also account for decreases in acquirers' returns, for instance, it may be as a result of a diminishing pool of good targets, learning effects and costs associated with integrating targets.

Managers, therefore, tend to overestimate their capability to grab buying opportunities and become too hopeful because of pride or self-confidence. In other words, the value of target firms during the period of acquisitions depends on their current market value, and usually, prices during sales negotiations tend to be higher than the market value. The higher negotiating prices are, the lower the value that accrues to acquiring firms' shareholders because of the transfer of their wealth to shareholders of target firms. However, managers mistakenly continue to feel confident that, due to the past experiences of the target firms, they are sufficiently valued. Danbolt (2004) in examining the value of shareholders of target firms in local and foreign acquisition transactions where British firms were targets, states that, domestic M&As compared to cross-border ones resulted in excessive returns because foreign acquirers paid higher premiums to targets from Britain, lending credence to the hubris motive theory. This further explains the reasons behind acquirer firms' firms' performances that are

not encouraging. It is also elaborated by Roll (1986) that, if acquirers are motivated by hubris, the bidder one who eventually wins, is likely to be affected by the winner's curse. This situation occurs when the number of the acquiring firms is considerably more than the targets. It makes it difficult for the actual value and potential synergies that the acquirers can gain from the target firm to be adequately assessed by these bidders. So, most of the bids are largely based on overconfidence and estimates that the management put forward that, it could efficiently and effectively manage the target better than its present management.

In certain instances, managers hold on to the positive valuation error that bids are made even when a valuation is higher than the price prevailing in the market. Managers with overconfidence tendencies overvalue the returns associated with their investment projects (Malmendier & Tate, 2005), they only undertake acquisitions when it is overestimated. An example is what Bruner (1999) reveals that, in 1993, in its attempt to merge with Renault, about SEK 8.6 billion ($ 1.1 billion) wealth of shareholders value in Volvo was temporary destroyed due to the hubris hypothesis.

Literature suggests that, there is a direct correlation between the size of a firm and management salary, and firm size also increases resources that management controls. As has been discussed previously that some acquisitions are driven by hubris motives, it also occurs under conditions where influential managers in acquisition decisions own a significant percentage of the firm's shares. This theory further suggests that, acquisitions are driven by the inability of managers to properly assess targets, which makes managers pursue M&As even when there is no possibility of synergistic gains. The meaning of this is that, such M&As resulted from the overconfidence of managers and overvalued synergies (Loukianova et al., 2017). It assumes that a bidder has equal opportunity to under or overestimate the values of synergies. However, it is usually the overestimation that is considered in the final deal. What this means is that the possibility for a bid being overvalued is skewed and not normally distributed, because the target firm's management only accepts the offer if it reflects the true value.

6.4. 3 Efficiency Theories

The theoretical debate to expand businesses through M&As is to gain efficiency by implementing operational improvements strategies, replacing managements that are inefficient management and rationalise the existing branch networks (Twerefou, Akoena,

Agyire-Tettey & Mawutor, 2007). Below are some theories on efficiency gains relating to M&As that underlie this study.

(i) Disciplinary mergers theory: What this theory suggests is that, managers of firms who do not pursue the objective of maximisation of profit become disciplined through M&As. These managers usually focus their attention on different objectives but not on increasing profits. Since this change in direction and focus by management can adversely affect the operating efficiency, the performance of the firm also suffers. However, the firm's poor performance becomes clear for management of other firms to see. Opportunistic bidders, therefore, discipline this poorly performing target by acquiring it, considering its good assets. So, this theory in fact suggests that, bidding firms combine with targets that are performing poorly and help to improve on their performances.

(ii) Synergistic mergers theory: According to this theory, an acquiring firm can achieve efficiency advantages if it merges with an efficient target and makes efforts to improve on the target's performance. Acquirers try to identify certain complementarities they have with target firms. Sometimes the target may be performing well already, but the acquirer holds that, it can perform beyond its current level when it is merged with its complementary partner (that is, the acquirer). This theory, therefore, suggests that, target firms can do well before and after a merger. The implication is that, two firms may combine so that they can benefit from gains and other economic advantages that result from resource sharing (Berkovitch & Narayanan, 1993).

Further, according to the synergistic mergers theory, managers can realise efficiency gains for firms through the combination of an efficient target with their firms and assist to improve on the performance of the target. In fact, literature appears to support the justification for the payment of premium to targets if the merger results in synergistic gains or benefits.

Bhabra and Huang (2013) contend that, with synergistic theory, M&A transactions are driven by agency considerations and the long-term effect these decisions have on the financial and operational transformation of the firm. In an investigation of whether M&As pay or not, Bruner (2002) reports that shareholders of target firms earn positive market returns and acquirer firms, on average, receive zero adjusted returns. However, as acquirers and targets combined earn positive adjusted returns, this confirms that, M&A pays. Bruner (2002) views M&A as a strategic decision and management and shareholders should treat it as such,

because M&A based on strategic motives instead of financial considerations has a greater chance of succeeding (Lim & Lee, 2016).

(iii) Differential efficiency theory: This theory opines that, an acquirer can improve on its efficiency in areas where the target firm has superior advantages. This means that, for instance, if management of firm X is more competent and efficient compared to that of firm Y, (for example, in terms of procedures and processes) and firm X acquires firm Y, the efficiency level of firm Y is more likely to move up to that of firm X. The implication of this theory is that, certain firms do not operate fully in their optimal levels and because of that experience low efficiency in their activities. Such firms become vulnerable and targets for acquisition by other firms that are comparatively efficient than them in the same industry. This is because, better managed and efficient firm are able to identify targets that are good and have the potential but are operating below average level of efficiency.

(iv) Information hypothesis: The argument advanced by this hypothesis is that, acquiring firms in M&A transactions is seized with facts and other information relating to the target that offer them the opportunity to know firms that are undervalued (Sinkey, 2002). The overriding aim for almost all acquisition deals is to be able create value which more than the combined value of the merged firms. Offering less to acquire a firm whose value is higher is important to the realisation of this goal.

(v) Strategic Re-Alignment of Changing Environment: According to this hypothesis, through M&As firms are able to quickly adjust to changes in environment outside their areas of operation. Generally, when the opportunity and ability for growth is available to a firm for a short time period, low organic growth may not be enough.

(vi) Diversification Hypothesis: This hypothesis posits that, merged firms can efficiently deepen and enlarge their investment portfolio as result of their larger sizes and geographical spread, prominent stature, and wider industrial coverage, suitable for proper risks diversification (Akhavein, Berger, & Humphrey, 1997). Thus, the merged firms benefit from the market through their improved diversification.

6.4.4 The Market for Corporate Control Theory

Managerial discipline reasons have been identified as other incentives for M&As in order to create value. The theory for market control argues that, most efficient firms of an industry usually acquire their counterparts that are less efficient. According to this theory, a firm

which is undervalued and has not attained its desire limit of performance because of inefficient management, will be acquired by another firm's management team, and will replace those inefficient managers. Manne (1965) asserts that, M&As bring about competition amongst management teams of firms in terms of competencies to achieve results. Managers who can generate higher returns for shareholders in a particular business area remain leaders in that field until other managers overtake them by creating a higher value for shareholders in that same business area. With takeovers, more efficient and competent managers replace those that are considered incompetent. Managers who tend to pursue self-interest motivations will be removed and replaced by those who will create value for shareholders. Manne (1965) finds that mergers serve as a vehicle through which resources are transferred to those who can properly make use of them to improve on the performance of those resources or assets. Further, he argues that, inefficient managed firm's share price usually falls which makes it become an attractive target for acquisition by another management who has the competence to manage it better to increase its profit levels. This means that, another management team is always available and willing to acquire a firm that is underperforming and remove managers who fail to take advantage of the opportunities available to them to provide the needed synergies to enhance or improve on its assets' performance (Weston et al., 2004). Hence, managers that are inefficient will provide the 'market for corporate control' (Manne, 1965), while those that are not able to maximise profits will find it difficult to survive, even if they are not removed by the competitive forces on their product and input markets.

From the perspective of a bidder, this theory partly depends on the efficiency theory, even though the following differences exist. One, it does not assume, per se, the existence of synergies between the corporate assets of the two firms, but rather between the acquiring firms' managerial competencies and the assets of the target firms. Hence, efficient management is what is expected from the redistribution of resources that are not being utilised fully. Two, it means that, there is the possibility of resistance from the inefficient management of the target firm against the acquisition attempts, since their inefficiency is the main barrier to improvement in assets utilisation.

Typically acquiring firms are individual investors or 'corporate raiders' with management teams who are more competent, or they are more efficient firms that have better superior performance and prospects for growth.

6.4.5 Free Cash Flow Theory

This theory is based on the agency theory and talks about the fact that, at the origin of M&As there are agency costs related to conflict of interest between managers and shareholders about the free cash flow. Jensen (1986), based on this theory defines free cash flow to be the surplus of cash that exist in the firm after all projects with a positive net present value have been financed. Martynova and Renneboog (2008) adds that the availability of excess cash reserves in firms makes managers become bolder and encourages them to potentially undertake investments that are value-destroying at the expense of those that create value.

As a result, managers of firms that have a substantial amount of liquidity will be motivated to use this excess cash flow to make a number of irrational expenses or undertake activities of M&As, some of them, however, prove to be unprofitable economically. Being aware that substantial cash flows exist, this theory argues that, managers are potentially likely to utilise them to undertake M&A operations that are generally considered unfruitful and are likely to affect the value of shareholders adversely. Once more, the same conflictual situation that exists when managers refuse to pursue shareholder wealth maximisation is being discussed here. The literature provides various studies that confirm the free cash flow theory, for instance, (Lang, Walkling, & Stulz, 1991; Lin, Ma, Malatesta, & Xuan, 2013) indicate that buyers who have substantial cash flow usually undertake deals that are value destroying, which becomes evident through the decrease in firms' performance and in earnings to shareholders. Other researchers, however, find no evidence to support this hypothesis as (Jensen, 1986) claims. Few of such empirical studies include (Gao, 2011; Gregory, 2005; Luypaert & Huyghebaert, 2010).

6.5 Empirical Literature Review

Despite the abundance of literature on consequences of M&As, the evidence on shareholders' returns of the acquirer appears inconclusive. In other words, results of extant studies in business strategy and finance show that, wealth effects are varied for shareholders of acquiring firms. The acquirers' motives for engaging in M&As are well acknowledged in literature. Several studies state that, acquiring firms' value may decrease or increase after M&A deals. The suggestion from these studies is that, the synergistic motive for pursuing mergers and acquisitions is related to acquirers' positive wealth effects (Andrade et al., 2001; Berkovitch & Narayanan, 1993; Bradley, Desai & Kim, 1983; Dennis & McConnel, 1986).

Synergy can be achieved when the value of merged firm is more than the sum of the target and acquirer firms, and this can be realised from combining firms from varied financial resources (financial synergy), or firms in the same industry (operational synergy), or firms with different managerial resources (managerial synergy) (Trautwein, 1990; Yook, 2003).
Other studies also suggest that, M&As may result in value reduction for firms. Jensen (1986) for instance suggests that, excess cash availability to firms may lead to a reduction in value for firms that engage in merger activities. Shleifer and Vishny (1989) contend that managers are likely to undertake investment projects that maximise their value at the expense of returns to shareholders. Further, negative or zero wealth effects are suggested to be motivated by empire building and managerialism (Roll, 1986; Seth et al., 2000; Shleifer & Vishny, 1989). The managerialism hypothesis states that, acquisitions are pursued by managers to improve on their own satisfaction rather than the firm's shareholders.

In spite of disagreement about whether M&As create value or not, (Malmendier & Tate, 2008; Petmezas, 2009; Rau & Vermaelen, 1998) maintain that, M&As remain a leading global business expansion strategy. However, they present challenges to managers because most acquisitions do not actually create meaningful shareholder value (nearly 70%), and yet building a world-class company through organic growth is almost impossible (Harding and Rovit, 2004). According to Brew (2000), approximately 53 per cent of M&As transactions reviewed by KPMG in London resulted in shareholders' value destruction.

From literature, two major growth pathways are identified by scholars, thus the internal and the external growth strategies (Dickerson et al., 1997). Each of them has several advantages and disadvantages. Growth by the internal expansion route tends to be slower because firms usually grow using their own resources generated and strengths and this may come with its own cost. The external expansion strategy of which M&A is an example, however, appears to be a more rapid means by which growth can be realised or attained (Gaughan, 2005) and further reduce costs and produce synergies (LaMattina, 2011). Internal growth constraints firms from taking advantage of unexploited market opportunities, in contrast to quicker growth through M&As that enable firms to diversify to related markets and to leverage their current capabilities (Bhagat et al., 2011; Gaughan, 2005).
Following the above discussions on M&As as an external growth expansion strategy, Caves (1988) outlines some advantages and disadvantages relating to using M&As to achieve growth. One is the acquirer firm's opportunity to realise some returns on its investments since

the target is in operation already. Two, adding a business which is already operating (with working employees complement) to a firm could reduce the managerial limitations to growth. Three, M&As provide the firm with advantages to expand (Cable, 1977), which may improve the growth of the firm from within. A key shortcoming of growth by means of acquisitions is that, a firm sacrifices the opportunity to direct the investment to its precise desires and needs. Further, badly run and challenged firms are potential targets in acquisition transactions and hence the returns of the acquirer could be smaller and may be realised more slowly. The problems of integrating or assimilating the cultures of two separate firms that are performing and their internal structures are identified as another limitation of acquisition.

According to Dickerson et al. (1997), many firms will likely make use of expansion strategies and employ the normal economic equilibrium rule and "acquire up to the point where discounted marginal returns from the acquisition are equal to the discounted marginal returns from investment internally". However, pursuing growth agenda is not always the best, since some of the firms may have attained their optimum efficient levels based on their sizes, in this case, engaging in M&As can reduce efficiency and lower profits.

Indeed, a lot more studies, continue to report that, almost 70 per cent to 80 per cent of all mergers and acquisitions fail (Bretherton, 2003), some contend that 53 per cent of M&A transactions affect firm's value adversely and do not achieve any financial gains (Shimizu et al., 2004; Grubb & Lamb, 2001). However, literature that discusses the short-term impacts of mergers and acquisitions reveals that, they create value, although the greater percentage of this value is realised by the target firms. Researches in the United States of America and United Kingdom reveal that, target firms' shareholders enjoy benefits ranging between 16 per cent and 45 per cent while what is experienced by their counterparts in acquiring firms is around -1.1 per cent to 7.9 per cent. The total abnormal returns to firms was in the region of 8 per cent and 3.5 per cent (Andrade et al., 2001; Becher, 2000; Franks & Harris, 1989; Jensen & Ruback, 1983; Kohers & Kohers, 2000; Mulherin & Boone, 2000). For domestic M&As by acquirers from the emerging economies, Wu, Yang and Lei (2016) through event study indicate that, these mergers and acquisitions activities have revealed a substantial positive wealth effects during the event window of (-10, 10). This is contrary to Bertrand and Betschinger (2012)'s studies involving 600 domestic M&As in Russia. The conclusion they make is that, domestic mergers and acquisitions reduce acquirer's performance and result in value destruction. Their finding is similar to that of Kohli and Mann (2012), who indicate

that, domestic M&As result in less wealth gains compared to cross-border transactions after analysing 66 domestic and 202 cross-border acquisitions by firms from India.

Regarding cross-border transactions of acquirers from the emerging economies, mixed findings and results for wealth effects are provided. For instance, Bhagat et al. (2011) as well as Aybar and Thanakijsombat (2015) find that, the cross-border acquisitions add value to acquirers from the emerging markets, but this value does not last. Further, they continue that emerging market investors are conscious of the agency cost of cash flow and the market timing behaviour of managers and thus react accordingly. Similarly, Boateng et al. (2008) find that, cross-border M&As provide value for publicly traded firms in China in their study of only 27 acquisitions by Chinese public-listed firms from 2000 to 2004.

In addition, Gubbi, Aulakh, Ray, Sarkar and Chittoor (2010) add by saying that, cross-border acquisitions result in value creation for acquiring firms and that the level of institutional development in foreign country where the acquisition transaction is undertaken is directly correlated with the M&As performance. This view is adequately supported by Feito-Ruiz and Menéndez-Requejo (2011) who document that, stronger institutional climate in acquirer's country compared to that of the target's country positively affects returns for emerging market acquiring firm. Regarding returns target firms' derive, available findings for the emerging economies seem to be in support of the general idea expressed in literature that, M&As result in value creation for emerging market target firms (Chari & David, 2012; Goddard, Molyneux, & Zhou, 2012; Williams & Liao, 2008).

Contrarily, Aybar and Ficici (2009) reveals that, cross-border acquisitions by multinationals from the emerging markets result in negative CARs according to their investigation of 433 acquisitions involving multinationals based in emerging countries. Acquirers from high-tech industries that purchase target firms in industries that are related experience value destruction. This is in line with what Mantecon (2009) suggest that, shareholders of acquiring firms lost a total of $187 billion in three days around the M&A announcement date, through an investigation of cross-border M&As involving 75 countries. Similar trend of negative returns for cross-border acquisitions is again reported by Akben-Selcuk and Altiok-Yilmaz (2011) after examining the ROA, ROE and ROS (Return on Sales = Net Income/Net Sales) values of 62 acquiring firms from Turkey in the two years before and after the mergers and acquisitions deals between 2003 and 2007. Their results show that, M&A transactions have a

negative effect on performances of acquiring firms. In a similar fashion, the results of Chen and Young (2010) study of 39 M&As transactions by state-owned firms in China from 2000 to 2008 provide no different outcome compared to results by previous scholars who suggest value destruction for cross-border acquisitions. Chen, however, in 2011, suggested that, acquirers from developing and developed markets are able to increase the profit levels of target firms significantly higher relative to domestic acquirers. All these findings show the differences that exist amongst domestic and foreign acquirers from emerging markets as well as foreign acquirers from developed countries (Chen, 2011).

It remains difficult to conclude broadly whether mergers and acquisitions create value, or they are value destroying for acquirers from the emerging markets, because several varied opinions are articulated or documented by scholars based on their respective investigations. Nonetheless, Du and Boateng (2012) attempted a summary of related literature on cross-border M&As by emerging market firms and report of value creation for the majority of acquirer firms from the emerging markets with only a few of them experiencing value destruction in cross-border deals.

However, to the best of our knowledge, this study is among the first where acquirer firms from ten (10) emerging market countries are examined together to assess the gains they derive from pursuing M&As transactions which is different from other studies where only firms within individual countries are examined which make findings, conclusions and recommendations from such studies difficult for generalisation purposes or easily applicable in other developing economies. In terms of the GMM (Generalized Method of Moments) estimation technique it employs, it is different from similar prior studies on emerging markets which used largely the event study methodology such as (Gubbi et al. 2010; Zollo & Meier, 2008; Kohli & Mann, 2012). Several of these research studies appear not to have addressed the problem of dynamic changes in firms' value post-M&A transactions which this study attempts to handle. Therefore, the outcome of this study will establish whether firms in emerging markets should continue to look at M&As as viable expansion strategy or not.

6.6 Justification and Hypotheses of Variables

1. M&As and firms' value growth in terms of profitability (*GROAs*: *G*rowth rate in *R*eturns on *A*ssets)

Growth rate in returns on assets (G*ROAs*) was used as one of the main dependent variables to measure the firms' value growth in terms of profitability. The argument concerning whether M&As create value for acquirers from the emerging markets still remains unsettled. This follows the various divergent opinions shared by several scholars. For instance, the argument as advanced by the market for corporate control theory is that, firms that are underperforming in an efficient market would either have to increase their profitability levels through the acquisition of more assets or are potentially likely to become targets thereby transferring their resources to another management team that is more capable. This means that, firms that are underperforming are therefore more likely to become targets to financially strong and healthy ones. The impact of firms' growth through M&As on profitability levels of firms is an important factor for a firm to consider (Kouser, Bano, Azeem & Hassan, 2012).

Bertrand and Betschinger (2012) after analysing performance of Russian acquirers find that, on average, acquisitions reduce the profitability (proxied by *ROAs*) levels of firms. GROAs is calculated as the difference between returns on assets of firm *i* at time *t* and $t\text{-}_{1}$ divided by returns on assets of firm i at time t_{-1} and multiplied by 100. The study, therefore, hypothesizes that; $\mathbf{H_{6.1}}$***:*** Emerging market acquirers do not experience growth in terms of increase in profitability (measured by *ROAs*) after M&A transactions.

2. M&As and firms' value growth in terms of growth opportunities (*GTOBQ*: *G*rowth rate in *T*obin's *Q*)

Growth rate in Tobin's q (*GTOBQ*) was also used as another main dependent variable to measure the firms' value growth in terms of their opportunities to grow and expand. Prior researches have made use of the Tobin's q to assess firms' value creation and performance of M&As (Adams and Mehran, 2008; Kammler and Alves, 2010; Delcoure and Hunsader, 2006;). Firms with low Tobin's q usually have low growth opportunities expectations and therefore their counterparts outperform them which makes them become likely targets. *GTOBQ* is calculated as the difference between Tobin's q of firm i at time t and $t\text{-}_{1}$ divided by Tobin's q of firm i at time $t-_{1}$ and multiplied by 100. This study, therefore, hypothesises that;

$H_{6.2}$: Emerging market acquirers do not experience value growth in terms of growth opportunities (measured by Tobin's q) after M&A transactions.

6.6.1 Control Variables used in this study and firms' value growth in M&As

3. Working capital and firms' value growth in M&A deals

Working capital refers to current assets as well as current liabilities which is calculated as the firm's current assets minus its current liabilities. Martynova and Renneboog (2008) submit that, the availability of excess cash reserves in firms makes managers become bolder and encourages them to potentially undertake investments that are value-destroying at the expense of those that create. Thus, managers of firms with substantial cash holdings may be encouraged to employ the financial resources available to them to undertake investments such as acquisitions or make expenses that are not rational and profitable economically. Financial theory also propounds that, companies having extra liquidity in the form of excess working capital would potentially engage in investments whose net present value is negative.

4. Total assets (Firms' sizes) and firms' value growth in M&A deals

Total assets, number of employees and total sales are mostly used as a measure of firm size. However, sales are easily affected by exogenous events. A firm's employees' number may change at various stages of its development. Because the usage of asset indicators can reduce the impact of labour-intensive or property-intensive firms' feature (Li & Wong, 2003). This study, therefore, uses the natural logarithm of the total assets of a firm to measure firm size. Previous studies have used the log transformation of the value of total assets of firms as a proxy to measure firms' sizes (Carow, Heron & Saxton, 2004). The suggestion according to the theory of agency is that, acquirer firms' main motivation for mergers and acquisitions is because of self-interest. For instance, a manager may desire to increase firm size rather than maximise the value of shareholders, because his personal benefits are connected to the firm's size (for example, as resources under the control of the manager increases, his power and control also increases.

5. Financial Leverage (FINLEV) and firms' value growth in M&A deals

Leverage is linked to M&As because these growth strategies are expensive and sometimes are externally financed because they may require additional resources beyond what is generated from normal operations (Harrison, Hart & Oler, 2014; Kumar, 1985). Harrison et al. (2014) examined the relationship between leverage for acquirers, targets and post-acquisition performance, and found that leverage has a negative impact on post-acquisition performance of acquirers. The negative performance is clustered in acquiring firms, which are already highly geared. They concluded that M&As have a significant and persistent impact on the capital structure of acquirers, causing a continuous increase in average debt-to-assets of acquirers in post-acquisition periods of up to five years.

6. Managerial ownership and firms' value growth in M&A deals

Scholars usually use management holdings to evaluate the influence of managers over firms' decisions. Song and Walkling (1993) also define managerial ownership (*MGROWN*) as the total percentage of shares owned by officers, directors, and insiders. Himmelberg et al. (1999) lend support to this definition and consider insider ownership to be managerial ownership. Further, Kim and Lu (2011) examine CEO ownership while Chen et al. (2014) used controlling shareholder stakes as a proxy for management ownership. This study, however, agrees with (Song & Walkling, 1993; Himmelberg et al., 1999) and therefore defines managerial ownership as insider ownership which is measured as the overall percentage of equity owned by the firm's executives and the board members. The management entrenchment theory suggests that managers pursue projects not to maximise enterprise value, but to entrench themselves by increasing their individual value to the firm.

7. Firms' total debt and firms' value growth.

Literature on capital structure suggests that in an imperfect market, the amount of debt in a firm's capital represents an important means by which value is created for shareholders (Agyei-Boapeah, 2015). The existence of debt should improve the post-acquisition performance of acquirers in line with the free cashflow theory by Jensen (1986). Debt attracts interest and limits free cash flow, thus inducing managers to use available free cash effectively and efficiently (Harrison et al., 2014; Sharma & Ho, 2002). Hence, employing externally raised funds leads to a more efficient use of funds and higher profitability than

internal funding (Kumar, 1985). This study defines debt ratio as total debts over total assets. Research on M&A has found that firms with unused debt capacity tend to engage in M&A more frequently than firms with high levels of debt.

6.7 Methodology

This section presents the estimation model and techniques that were used in investigating the objective of mergers and acquisitions and firms' value growth of emerging market acquirers. Various hypotheses and theories on incentives for companies to execute M&As mainly or converge around value creation. For instance, the efficiency or synergy hypothesis indicates that the value derived by the merged firm is more than the sum of the standalone firms' value and that the two separate firms combine to benefit from economic gains that is obtained from resource sharing (Berkovitch & Narayanan,1993). The suggestion by financial theory also is that, managers' actions should be such that, it will increase the value of the firm, which includes actions concerning the execution of M&As transactions. Other empirical works by previous researchers also identify creation of value in acquisitions for shareholders (Mulherin & Boone, 2000). However, opinions on whether mergers and acquisitions indeed create value, or they are value destroying are still diverse (Aybar & Thanakijsombat, 2015; Bhagat et al., 2011; Shimizu et al., 2004).

6.7.1 Firms' Post-M&As Value Growth Measures

There is no consensus on the numerous approaches used to evaluate post-M&As corporate performances. However, the three broad methods mostly used for post-M&As corporate performance have been: the stock market approach (also known as the event study approach), the accounting approach, and the clinical approach (Dobreva & Kwenda, 2017).

Several other post-M&A performance measures have been used in the extant literature for similar studies by previous scholars such as (Haleblian & Finkelstein, 1999; Hitt, Harrison, Ireland, & Best, 1998; Papadakis & Thanos, 2010; Schoenberg, 2006; Zollo & Meier, 2008). Some of these scholars suggest that, making use of different measures in a study provides an in-depth understanding of the post-M&A performance better (Thanos & Papadakis, 2012). Therefore, in the footsteps of Papadakis and Thanos (2010), Bertrand and Betschinger (2012) as well as Zollo and Meier (2008), this study employs the following two post-M&A

performance measures: ROAs (returns on assets) measuring growth in firms' profitability levels and the Tobin q measuring the acquirer firms' growth opportunities. The Tobin's q for example has been used by Adams and Mehran (2008), Bris, Brisley and Cabolis (2008) and Delcoure and Hunsader (2006) in similar studies in different settings other than the emerging markets to investigate firms' performances and value creation of mergers and acquisitions.

$$\text{Returns on assets} = \frac{\text{Net profit after tax}}{\text{Total assets}} \tag{6.1}$$

Returns on Assets (ROA) is simply the ratio between net profit after tax and "total assets. It measures the profit a firm is able to realise in relation to the firm's investment in assets. It gives a picture of whether the assets of the firm are over or underutilised. It provides an indication of profitability and operating performance of a firm (Firer et al., 2004).

$$\text{Tobin's q} = \frac{\text{total Market value of firm}}{\text{total asset value of firm}} \tag{6.2}$$

Tobin's q can be defined as the ratio of the firm's market value to the replacement cost of its assets. It provides a window opportunity to view into the firm through the market's valuation of the securities and capture the long-term impacts of firms' actions. It is a well-accepted proxy for firm valuation in terms of its growth opportunities and performance and extensively used in finance and economics literature.

To isolate the impact of the M&A transactions on the acquirer firms' value growth three years after execution of M&As in comparison to three years before these deals, we perform a multivariate analysis to look at the impact of each variable on the firms' value growth performance measures of ROA and Tobin's q representing profitability and growth opportunities respectively. We regress the two measures of post-M&A firm value growth as dependent variables in separate equations using a dynamic panel data model as developed by Arellano and Bond (1991) with the GMM estimation technique to cater for the potential endogeneity and heterogeneity using emerging market acquirer firms' and contribute to the existing body of financial literature in this respect.

6.7.2 Estimating Technique

The study takes advantage of panel data analysis and uses dynamic estimation technique such as GMM (Generalised Method of Moments) instead of fixed, linear and random effects methods. Panel data comprises the collection of observations on cross sections of units over several time periods. This means panel data has features of cross-section and time series data. This makes it superior compared to cross-section and time series in different ways. For instance, for a production function to be estimated, data on several firms can be obtained over a period of time. First, panel data are more informative data that provide a high degree of variability, reduce the problem of collinearity among the independent variables and increase the degrees of freedom, which makes estimation to be efficient (Bhagat, Malhotra & Zhu, 2011; Brooks, 2008). Second, panel data suggest that, firms are heterogeneous, which allows the researcher to control for the unobservable heterogeneity; in turn, enabling the removal of biases arising from the existence of individual effects (Baltagi, 2008; Hsiao, 2003). Third, panel data enable the researcher to analyse the adjustment process of the dependent variable in response to changes in the values of the independent variable. Thus, panel data provide good estimates for dynamic equations. Fourth, panel data allow the researcher to handle the problem of omitted variables associated with results of regression.

The dynamic panel estimation methods such the GMM also takes care of three main estimation problems of omitted variables, measurement of errors and endogeneity of regressors (Alege & Ogundipe, 2013; Sala & Trivín, 2014; Wooldridge, 2001). To reduce the problem of endogeneity with explanatory variables, Arellano and Bond (1991) suggest the use of instrumental variables to deduce the generalised method of moments (GMM) of corresponding moment conditions, called difference GMM. Basically, the idea behind this method is to remove the individual fixed effect by going on with the first difference of regression equation in the first place. Then, the lagged variable will be considered as the corresponding instrumental variable of endogenous variables in the difference equation. However, in finite samples Arellano and Bond may be seriously affected with 'weak instruments problem' which will weaken precision (Bond et al., 2001).

Arellano and Bover (1995) and Blundell and Bond (1998) suggest how this problem can be addressed (by combining extra moment restrictions with those in Arellano and Bond), providing a "system-GMM" estimator in which GMM is applied to a system of two equations: an equation in differences instrumented by lagged levels, and an equation in levels

instrumented by lagged differences. System GMM can handle the problem of unobserved country heterogeneity (Bond, Hoeffler & Temple, 2001). Additionally, it has the ability to reduce the likelihood of imprecision and bias related to a simple first-difference GMM estimator (Arellano & Bover, 1995; Blundell & Bond, 1998).

The dynamic panel GMM estimation may be categorised into one-step and two-step estimations based on the various weight matrix choices. Bond et al. (2001) propose that, when the sample is limited, the standard error of the two-step GMM estimation value will be biased. Moreover, Roodman (2009) suggests that, system GMM is able to generate or produce by default a large number of instruments as the number of periods increases which can overfit endogenous variables and weaken the model specification tests. In addition, in order to make sure that the conditions of moment are not over-constrained, the number of instrumental variables must not be more than the number of endogenous variables. For lagged endogenous variables and weak exogenous variables to be valid as instruments, it is important that the transient disturbances in the base model, $\varepsilon_{i,t}$, are free of autocorrelation (Blundell & Bond, 1998). This would imply that the disturbances in the differenced model have significant first-order correlation and insignificant second-order autocorrelation. For this purpose, the Arellano–Bond tests for first-order (AR (1)) and second-order (AR (2)) serial correlation in the first-differenced residuals are used (Arellano & Bond, 1991). Because the first differences of independently and identically distributed idiosyncratic errors will be serially correlated, rejecting the null hypothesis of no serial correlation in the first differenced error at order one does not imply that the model is mis-specified. Rejecting the null hypothesis at higher orders, however, implies that the moment conditions are not valid. The validity of the moment condition can be directly tested by Sargan and Hansen tests, whose null hypothesis is that all instruments as a group are exogenous (thus, for the instruments to be valid one should not reject the null hypothesis).

However, the behaviour of Sargan test statistic is only well known when disturbances can be assumed as homoscedastic (Iqbal & Daly, 2014). Additionally, the Sargan test may have low power to reject the null hypothesis, the instruments are valid when the sample size is small (Bowsher, 2002). This tends to over-reject the null hypothesis of serially uncorrelated errors in the case of one-step GMM estimations (Arellano and Bond, 1991). Given the limitations related to the Sargan test and the fact that the Hansen test is the most adopted in practice Chen and Sun (2014), we opted for the Hansen test to assess the validity of the instruments.

6.7.3 Model Specification

Employing the GMM estimation approach and in the spirits of (Park & Jang, 2011; Ketenci, 2015), this study estimates the following models of dynamic panel regression equations:

$$GROA_{i,t} = \alpha ROA_{i,t-1} + \beta_1 TAS_{i,t-1} + \beta_2 Tdebt_{i,t-1} + \beta_3 LWC_{i,t-1} + \beta_4 FIN_{i,t-1} + \beta_5 MGROWN_{i,t-1} + \beta_6 Y_3 MA_i + \beta_7 Y_2 MA_i + \beta_8 Y_1 MA_i + \beta_9 Y_1 MA_i + \beta_{10} Y_2 MA_i + \beta_{11} Y_3 MA_i + \varepsilon_{i,t} \ldots\ldots\ldots\ldots \quad (6.3)$$

$$GTOBQ_{i,t} = \alpha TOBQ_{i,t-1} + \beta_1 LTAS_{i,t-1} + \beta_2 Tdebt_{i,t-1} + \beta_3 LWC_{i,t-1} + \beta_4 FIN_{i,t-1} + \beta_5 MGROWN_{i,t-1} + \beta_6 Y_3 MA_i + \beta_7 Y_2 MA_i + \beta_8 Y_1 MA_i + \beta_9 Y_1 MA_i + \beta_{10} Y_2 MA_i + \beta_{11} Y_3 MA_i + \varepsilon_{i,t} \ldots\ldots\ldots\ldots \quad (6.4)$$

where; Equations 6.3 and 6.4 were used for the estimation of the growth in the firms' Tobin Q (a proxy for growth opportunity) and returns on assets (a proxy for profitability) respectively. These equations were however incorporated with year dummies to capture the firms' value growth by evaluating the impact of the M&A transactions on the *ROA* and *TOBIN Q* three years after the deals in comparison with three years before. Year dummies $\beta_6 Y_3 MA$, $\beta_7 Y_2 MA$ and $\beta_8 Y_1 MA$ assess the value growth in the firms' *ROA* and *TOBIN'S Q* positions three years before the M&A transaction while dummies $\beta_9 Y_1 MA$, $\beta_{10} Y_2 MA$ and $\beta_{11} Y_3 MA$ evaluate the firms' value growth in *ROA* and *TOBIN'S Q* three years after the deals. Similar to Beccalli et al. (2009), the year of the deal itself is left out of the analysis as it can be considered as a transition period strongly affected the accounting practices regarding M&As.

GROAi,t measures the growth in returns on assets of firm *i* at year *t*. A priori, we hypothesize that, emerging market acquirers do not experience growth in terms of increase in profits (as measured by ROAs) after M&A transactions.

GTOBQi,t also measures growth in Tobin's *q* of firm *i* at year *t.* A priori, we hypothesise that, emerging market acquirers do not experience value growth in terms of growth opportunities (as measured by Tobin's q) after M&A transactions.

Based on prior studies (Carpenter & Petersen, 2002; Oliveira & Fortunato, 2008; Opler & Titman, 1994; Park & Jang, 2011), this study incorporated control variables such as *LTAS, LWC,TDEBT FIN and MGROWN* representing the natural logarithm of total assets (proxy

for firm sizes), working capital and total debt respectively. Others were financial leverage and managerial share ownership percentages outstanding of the firms. α is a constant, *β1, β2, β3, β4……. B11* are the coefficients to be estimated while ε_{it} is the idiosyncratic error term.

6.7.4 Data Sources

Data for this study were firm-level annual financial information relating to these acquirers sourced from the Bloomberg and DataStream databases for ten (10) selected emerging market countries of: South Africa, Brazil, Russia, Malaysia, Argentina, Poland, China, India, Mexico, and Chile for the years 2000 to 2016. Both Bloomberg and DataStream terminals are specialised M&A databases acclaimed to be among most comprehensive sources of deal information. A total of 160 acquirers were selected based on the availability of data. The main reason for the selection of the countries and the time period is motivated by the availability of data, and also because several countries in the emerging markets experienced a substantial rise in M&A activities because of implementation of various regulatory and structural reforms within this period. All the firms selected have their respective annual financial information required for the period the study covers, at least three years before and after the deal was completed. Specific data collected as potential determining factors of firms' value growth as far as mergers and acquisitions transactions are concerned include working capital, total assets (for firm sizes), managerial share ownership percentage, financial leverage, total debt to total assets. Our two main dependent variables used separately in the estimation models as measures of firms' value growth were the ROAs (proxy for profitability) and the Tobin's q (proxy for firms' growth opportunities). The returns on assets were measured as the ratio between net profit after tax and "total assets while Tobin's q was measured as the ratio of the firm's market value to the replacement cost of its assets.

Table 6.1: Description of Variables

VARIABLE	DESCRIPTION
GROAi,t	Returns on assets growth rate of firm i at time t, which is calculated as the difference between returns on assets of firm i at time t and t−1 divided by returns on assets of firm i at time t−1 and multiplied by 100.
ROAi,t	Returns on assets of firm i at time t
GTOBQi,t	Tobin q growth rate of firm i at time t, which is calculated as the difference between Tobin q of firm i at time t and t−1 divided by Tobin q of firm i at time t−1 and multiplied by 100.
*TOBQ*i,t	Tobin's q of firm i at time t
lin (*LTAS*)i,t-1	Total assets of firm i at time t−1, which is calculated as ln (the total of all short and long-term assets as reported on the balance sheet.
*TDEBT*i,t-1	Total debt of firm i at time t−1, which is calculated as (total liabilities /total assets)
lin(*LWC*)i,t-1	Working capital of firm i at time t−1, which is calculated as ln (current assets – current liabilities).
*FIN*i,t-1	Financial leverage of firm i at time t−1, which is calculated as total debt / shareholder's equity.
*MGROWN*i,t-1	Managerial share ownership percentage outstanding of firm i at time t−1, which is calculated as shares owned by insiders / shares outstanding.
$\beta_6 Y_3 MA$, $\beta_7 Y_2 MA$, $\beta_8 Y_1 MA$, $\beta_9 Y_1 MA$, $\beta_{10} Y_2 MA$, $\beta_{11} Y_3 MA$	Year dummies for firm i at time t three years before and after the M&A deal was executed, where; $\beta_6 Y_3 MA$, $\beta_7 Y_2 MA$ *and* $\beta_8 Y_1 MA$ denote 3years, 2years and 1year before the M&A deal was executed respectively while $\beta_9 Y_1 MA$, $\beta_{10} Y_2 MA$ and $\beta_{11} Y_3 MA$ denote 1year, 2years and 3years after M&A deal was executed respectively.

6.7.5 Econometric Issues

The present study makes use of the GMM for a dynamic analysis of firms' value growth after M&As transactions by emerging market acquirers. Hansen (1982) first introduced the GMM and can be recast as instrumental variables estimation. It is a more flexible principle for estimation, where several estimators including instrumental variables and ordinary least squares can be seen as special cases and different econometric models can be cast. The generalised methods of moments make use of the orthogonality conditions to enable a weighting matrix to account for heteroskedasticity and serial correlation of unknown form. One major advantage of GMM is that, the problems of autocorrelation and heteroskedasticity are avoided.

Additionally, this study estimates dynamic models, where lagged dependent variables: $ROA_{i,t-1}$ and $TOBQ_{i,t-1}$ are included as explanatory variables for Equations 6.3 and 6.4 respectively. The empirical model was estimated using the GMM in first differences as proposed by Arellano and Bond (1991). First differencing eliminates firm-specific effects, thereby removing the correlation between the individual firm effects ηi and the lagged dependent variable $y_{i,-1}$ and other right-hand-side variables as shown below;

$$\Delta Y_{it} = \gamma \Delta Y_{it-1} + \beta^{I} \Delta X_{it} + \Delta \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.5)$$

In general, it can be written as:

$$[(\Delta Y_{it} - \gamma \Delta Y_{it-1} + \beta^{I} \Delta X_{it})] = 0 \text{ , for } S = 0, t-2 \text{ and } t = 2, \ldots\ldots T \qquad \ldots\ldots\ldots (6.6)$$

GMM in first differences suggested by Arellano and Bond (1991) was preferred to Ordinary Least Squares (OLS) because in Equations 6.3 and 6.4 the lagged dependent variable is also an explanatory variable. OLS regressions of such equations produce inconsistent and biased estimates because the explanatory variables are not independent of the error term. The dependent variable y_{it} is a function of η_i which follows that y_{it-1} is also a function η_i. Therefore, y_{it-1} is correlated to the error term. This correlation does not disappear when N in the sample gets larger or T increases (Bond, 2002).

GMM in first differences was considered superior to the alternative approach of estimating Equations 6.3 and 6.4 like the least squares dummy variables (LADV) and fixed effects. Although the fixed effects estimator eliminates the firm-specific effects ηi through the within transformation, it does not eliminate bias.

The transformed lagged dependent variable $y_{i,-1} - y_{i.-1}$ will still be correlated with $(\varepsilon_{it} - \bar{\varepsilon}_{i.})$, where;

$$Y_{i,-1} = \sum_{i=2}^{T} \frac{y_{i,-1}}{T} - 1 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.7)$$

even if the random disturbances are not serially correlated because $y_{i,t-1}$ is correlated with $\bar{\varepsilon}_{i.}$ by construction. ε_{it} is correlated with $\bar{y}_{i.}$ because the latter contains y_{it}. The fixed effect estimator produces biased but consistent estimates when T tends to infinity and not when N tends to infinity. This refers to what is called the Nickell bias or the dynamic panel bias (Nickell, 1981). While the LSDV fails to deal with the problem of $(\Delta y_{i,-1} \Delta \varepsilon_{i,t}) \neq 0$, GMM takes care of this problem by using the lagged dependent variable ($y_{i,t-s}\, for\ s \geq 2$) in level as instruments.

Using OLS regression on first differenced equations produces biased and inconsistent estimates of the parameters because ($yi,_{-1}-y_{i,t-2}$) and ($\varepsilon_{it}-\varepsilon_{i,t-1}$) are correlated through the terms $y_{i,t-1}$ and $\varepsilon_{i,t-1}$. The fixed effects estimator fails to produce consistent estimates when N tends to infinity and T is fixed. GMM in first differences produces consistent estimates because it was designed for N tends to infinity and T is fixed; that is, small-T and large-N panels.

The Instrumental Variable (IV) estimator as proposed by Anderson and Hsiao (1981), generates efficient and consistent estimates in a dynamic panel. The IV estimator takes the first differenced equation and finds a set of variables, the instruments, to apply the instrumental variable estimator. Instruments are used to remove the correlation existing between the regressors and the disturbances because they need to be correlated with the regressors, but uncorrelated with the disturbances. In this case, since ($y_{i,t-1}-y_{i,t-2}$) and ($\varepsilon_{it}-\varepsilon_{i,t-1}$) are correlated, ($y_{i,t-2}$) or ($y_{i,t-2}-y_{i,t-3}$) are used as an instrument for ($y_{i,t-1}-y_{i,t-2}$) because they are uncorrelated with ($\varepsilon_{it}-\varepsilon_{i,t-1}$), but correlated with ($y_{i,t-1}-y_{i,t-2}$). Anderson and Hsiao (1982) suggest that as long the error terms are not serially correlated $y_{i,\ t-2}$ is the obvious choice for an instrument for ($y_{i,-1}-y_{i,t-2}$).

The Anderson and Hsiao (1981) estimator (henceforth termed the AH estimator) when the dimension of a panel is ($N \times T$) can be written as

$$\delta_{AH} = (Z^1X)^{-1}Z^1Y) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.8)$$

where Z is a $K \times N$ (T – 2) matrix of instruments, X is a $K\times N$ (T – 2) of regressors and Y is a N (T – 2) × 1 vector of dependent variables.

$$Z = \begin{bmatrix} Y_{i,1} & \Delta X_{i,3} \\ \cdot & \cdot \\ \cdot & \cdot \\ Y_{\ i,T-2} & \Delta X_{\ i,T} \end{bmatrix} X = \begin{bmatrix} Y_{i,2} & \Delta X_{i,3} \\ \cdot & \cdot \\ \cdot & \cdot \\ Y_{\ i,T-1} & \Delta X_{\ i,} \end{bmatrix} Y = \begin{bmatrix} Y_{i,3} \\ \cdot \\ \cdot \\ \Delta Y_{i,T} \end{bmatrix}$$

$$z = \begin{bmatrix} Z_1 \\ \cdot \\ \cdot \\ Z_{\ N} \end{bmatrix} X = \begin{bmatrix} X_1 \\ \cdot \\ \cdot \\ X_{\ N} \end{bmatrix} Y = \begin{bmatrix} Y_1 \\ \cdot \\ \cdot \\ Y_{\ N} \end{bmatrix} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.9)$$

The IV estimation produces consistent estimates if the error term in levels is not serially correlated. However, the weakness associated with it is that, it does not use all the available moments, meaning that, results that are more efficient are not automatically generated.

GMM in first differences as advanced by Arellano and Bond (1991) produces more consistent and efficient estimates, therefore, its preference over the AH estimator. It deploys additional instruments obtained by applying the moment conditions that exist between the

lagged dependent variable and the disturbances. The number of moment conditions depends on T, the time periods, which are derived from the first differenced equation. GMM uses the lagged dependent variables plus the lagged values of exogeneous regressors as instruments and a weighting matrix which considers the moving averages process in the differenced error term and the general heteroscedasticity. As a result, the GMM estimates result in smaller variances than those associated with the AH type instrumental variable estimators.

The GMM estimator can be expressed as follows:

$$\hat{\theta}_{GMM} = (X^1 Z^* A_N Z^{*1} X)^{-1} X^1 Z^* A_N Z^{*1} Y \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.10)$$

Where $\widehat{\theta}$ is vector of coefficient estimates of exogeneous and endogeneous regressors, $\bar{X}$ and $\bar{y}$ are the vectors of first differenced regressors and dependent variables, respectively, Z is a vector of instruments and A_N is a vector used to weight the instruments

$$X = \begin{bmatrix} X_1 \\ \cdot \\ \cdot \\ X_N \end{bmatrix} Y = \begin{bmatrix} Y_1 \\ \cdot \\ \cdot \\ Y_N \end{bmatrix} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.11)$$

GMM uses an instrument matrix of the form,

$$Z_i = \begin{bmatrix} [y_{i0}, \Delta x_2' & 0 & \cdots & 0 \\ 0 & [y_{i0}, y_{i2}, \Delta x_3'] & \ddots & 0 \\ \vdots & & & 0 \\ 0 & 0 & 0 & [y_{i0}, \ldots, y_{iT-2} \Delta x_T' \end{bmatrix} \ldots\ldots\ldots\ldots\ldots (6.12)$$

where the rows correspond to the first differenced equation for the period t = 3, 4,…,T for individual i and exploit the moment conditions,

$[Zi'\Delta\varepsilon i] = 0$ …… for i = 1,2 …, N where $\Delta\varepsilon i = (\Delta\varepsilon i_3, \Delta\varepsilon_{i4}\ldots, \Delta\varepsilon_{iT})'$.

Arellano and Bond (1991) proposed two estimators; the one-step estimator and the two-step estimator (henceforth termed GMM1 and GMM2, respectively). GMM2 is the optimal estimator. GMM1 turns out to be optimal when the residuals are homoscedastic. If there is heteroscedasticity, GMM1 of instrumental variables continues to be consistent; however, carrying the estimation in two steps increases efficiency.

The one-step, GMM1, can be found by using;

$$A_{1N} = \left(\frac{1}{N} \sum_{i=1}^{N} Z_i^{*\prime} H Z_i^* \right)^{-1} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.13)$$

where H is a T – 2 square matrix with twos in the main diagonals, minus ones in the first sub diagonals, and zeros otherwise.

The two-step, GMM2, is found by letting;

$$A_N = \left(\frac{1}{N}\sum_{i}^{N} Z_i^{*\prime}\, \Delta\hat{\varepsilon}_i \Delta\hat{\varepsilon}_i' Z_i^{*}\right)^{-1} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6.14)$$

Where $\Delta\hat{\varepsilon} = \Delta\hat{\varepsilon}_i \ldots, \Delta\hat{\varepsilon}_{iT}$ are the residuals from a consistent GMM1 of Δy_i.

6.8 Results and Discussion

6.8.1 Unit Root Tests

The study made use of four different unit root tests of ADF Fisher, PP Fisher, Hadri and IPS. The PP, ADF and IPS respectively test for the presence of individual unit root process in series. Regarding the Hadri test, it does not have unit root in the common unit root process. Table 6.2 below presents the unit root test results. Both series (that is, ROAs and Tobin's Q) reveal the absence of the unit root in levels according to all the tests results. They also showed evidence of no unit root at first differences by Hadri and PP tests. This implies that, the IPS and ADF tests rejected the hypothesis of the unit root presence in levels for the both series. For the PP tests, it rejected the hypothesis of the unit root presence in levels and first differences of both series. The Hadri test similarly accepted the hypothesis of stationarity in both series in their levels and first differences. Based on the results of these alternative unit root tests, it is can be concluded that, series are produced by a stationary process; hence, series may be estimated by the GMM approach.

Table 6.2: Unit Root

VARIABLES	RETURNS ON ASSETS				TOBIN'S Q			
TEST	ADF[a]	PP[a]	IPS[a]	Hadri[b]	ADF[a]	PP[a]	IPS[a]	Hadri[b]
Level	400.55**	532.53**	-2.612**	15.22**	429.44**	653.95**	-6.1321**	17.56**
Difference		814.17**		14.29**		1038.87**		21.73**

Source: Author's estimation, 2018, based on data collected

Notes: In panel unit root tests, probabilities are computed assuming asymptotic normality. (a) tests the hypothesis of the presence of the individual unit root process, and (b) tests the

hypothesis of no unit root in the common unit root process. ** denote the rejection of the null hypothesis at the one (1) percent significance level.

6.8.2 Summary Statistics

Table 6.3 provides descriptive statistics of the two dependent variables of growth in returns on assets (ROAs) and growth in Tobin's q and the explanatory variables of the sampled firms for the 10-year period from 2004 to 2013 for selected listed emerging market acquirer firms. We have 540 observations from an unbalanced panel data of 160 emerging market acquirer firms used over a period of 10 years from 2004 to 2013. The methodology used requires estimation of equations in first differences and lagging of regressors twice or more.

Table 6.3: Summary Statistics

VARIABLE	MEAN	STANDARD DEVIATION	MINIMUM	MAXIMUM
ROAi,t-1	1.3488	1.4928	-5.3645	5.5468
TOBQi,t-1	0.4398	0.7341	-1.4727	7.8354
Lin(LTAS)i,t-1	9.3827	2.5944	-0.6824	16.2161
TDEBTi,t-1	2.8027	1.3128	-6.5023	4.9562
lin(LWC)i,t-1	5.9946	0.0339	5.5132	6.2998
FINi,t-1	0.1131	53.6932	-954.197	400.44
MGROWNi,t-1	104.3736	949.929	0	12674.23

Source: Author's Estimation, 2018, based on data collected

It is evidenced from the table that, there is more variation in financial leverage and managerial ownership percentages as shown by their high standard deviations of (949.93) and (53.69) respectively relative to their means of (0.113) and (104.37). The descriptive statistics also show that there is high variation in returns on assets levels in emerging market acquirers as shown by the high standard deviation (1.493) relative to its mean (1.349). Most emerging market acquirers exhibit low variation in growth as shown by the relatively low standard deviation (0.734) compared to its mean of (0.4398). This is evidenced by the Tobin's q which is one of the measures used in this study to evaluate growth in firms' value. An inspection of the table also shows less variation in working capital of these acquirer firms as is shown by low standard deviation of (0.039) relative to its mean of (5.994).

Table 6.4: Correlation Matrix

	ROAs	LTASSETS	TDEBT	LWC	FIN	MGROWN
ROAs	1.000					
LTASSETS	0.126	1.000				
TDEBT	-0.191	0.2898	1.000			
LWC	-0.083	-0.160	0.048	1.000		
FIN	-0.067	0.009	0.034	0.007	1.000	
MGROWN	-0.088	0.059	0.076	0.012	0.001	1.000

Source: Author's Estimation, 2018, based on data collected

Table 6.4. above reports the correlation matrix of the response variables and growth in returns on assets (proxy for firms' profitability) which is one of the measures for evaluating firms' value growth in this study. The correlations are included to check for multicollinearity. A correlation above 0.5 between independent variables is an indication of the presence of multicollinearity. From Table 6.4, the highest correlation is 0.28 between total debt and total assets. All the values are below 0.5 which proves the absence of multicollinearity among the independent variables. The correlation table also provides evidence of a negative correlation between growth in returns on assets (ROAs) and all the independent variables except total assets. Analysis of the data from the table also shows a negative relation between working capital and total assets and a positive relationship between working capital and total debt. There is also a positive correlation between managerial share ownership percentage (MGROWN) and all the other independent variables except the dependent variable which is the growth in returns on assets (ROA).

Table 6.5: Correlation Matrix

	TOB	LTASSETS	TDEBT	LWC	FIN	MGROWN
TOB	1.000					
LTASSETS	-0.154	1.000				
TDEBT	-0.163	0.2899	1.000			
LWC	0.051	-0.160	0.048	1.000		
FIN	-0.016	0.009	0.034	0.007	1.000	
MGROWN	-0.088	0.059	0.076	0.012	0.001	1.000

Source: Author's Estimation, 2018, based on data collected

Table 6.5 reports the correlation matrix of the response variables and growth in Tobin's q which is another measure used for evaluating firms' value growth in this study. From the

table above the highest correlation is 0.28 between total debt and total assets. All the values are below 0.5 which proves the absence of multicollinearity among the independent variables. The correlation table also provide evidence of a negative correlation between growth in the Tobin's q and all the independent variables except working capital managerial shares ownership percentages (MGROWN). Analysis of the data from the table also shows a negative relation between working capital and total assets and a positive relationship between working capital and total debt. There is also a positive correlation between managerial share ownership percentage (MGROWN) and all the other independent variables as well as the dependent variable which is the growth in Tobin's q.

6.8.3 Econometrics Analysis

We regressed separately, the two dependent variables for Equations 6.3 and 6.4, thus growth in returns on assets (GROAs) as well as growth in Tobin's q (GTOBQ) respectively on the year dummies for three years before and after the M&A transactions were executed by the acquirers Other control variables that relate to firms' value growth as contained in literature are also included to evaluate the value growth in terms of profitability and growth opportunities to the acquirer firms that executed M&A transactions.

The inclusion of the other variables is to look at other factors that may also impact on growth in value of the firms' profitability (proxied by returns on assets) and their growth opportunities (proxied by Tobin's q). Our dynamic panel data analysis model employs the two-step GMMl. This has been proven to resolve panel data bias with the ability to handle unbalanced panel data analysis.

Table 6.6: Regression Results

VARIABLE	Dynamic panel-data estimation, two-step difference GMM		VARIABLE	Dynamic panel-data estimation, two-step difference GMM
	MODEL I GROAi,t (growth in profitability)			MODEL 2 GTOBQi,t (improvement in growth opportunities)
CONSTANT	20.438*** (6.051)		CONSTANT	-3.082*** (0.911)
$ROAi_{,t-1}$ α_1	0. 293*** (0.024)			
			$TOBQi_{,t-1}$ α_1	0.684*** (0.009)
LTASSETS β_1	0.04756*** (0.02019)		LTASSETS β_1	0.02824*** (0.0043)
TDEBT β_2	-0.1399 *** (0.030)		TDEBT β_2	-0.433 *** (0.008)
LAWC β_3	-0.3.217 *** (1.037)		LAWC β_3	0.595*** (0.155)
FIN β_4	-0.001 *** (0.0003)		FIN β_4	-0.0002 *** (0.00004)
MGROWN β_5	-0.000 *** (3.69e-06)		*MGROWN* β_5	0.00004*** (1.11e-06)
$Yr_{3before}MA$ β_6	0		$Yr_{3before}MA$ β_6	0
$Yr_{2before}MA$ β_7	0.3475*** (0.02793)		$Yr_{2before}MA$ β_7	0.05168*** (0.0169)
$Yr_{1before}MA$ β_8	0.1823*** (0.0198)		$Yr_{1before}MA$ β_8	0.0749*** (0.0097)
$Yr_{1after}MA$ β_9	-0.1899 *** (0.1137)		$Yr_{1after}MA$ β_{49}	-0.02197 *** (0.0316)
$Yr_{2after}MA$ β_{10}	-0.4524 *** (0.0195)		$Yr_{2after}MA$ β_{10}	-0.03559 *** (0.1064)
$Yr_{3after}MA$ β_{11}	-0.5733 *** (0.0351)		$Yr_{3after}MA$ β_{11}	-0.03577*** (0.0094)
AR (2)	0.404		AR (2)	0.738
Hansen P-value	0.220		Hansen P-value	0.402
Observations	540		Observations	538
Number of Instruments	72		Number of Instruments	72
Wald X^2 (12)	6194.31		Wald X^2 (12)	1.50e+06
Prob $> X^2$	0.000		Prob $> X^2$	0.000

Source: Author's Estimation, 2018.

Notes: * *Significant at the 10% level*, ** *Significant at the 5% level* and *** *Significant at the 1% level.*

Table 6.6 provides dynamic panel data regression results of whether M&As transactions by emerging market acquirers result in value growth for them or they are value destroying. The

two-step difference GMM estimation technique was used in this study. Two different measures of firms' value growth that is *GROA and GTOBINQ*, denoting growth in Returns on assets and the Tobin's Q are the lagged dependent variables for the estimated models. Standard errors are provided in parenthesis below the coefficients of estimates. AR (2) is used to test for autocorrelation and the Hansen test is used to test for over-identification of the instrument.

The empirical performance of the difference GMM estimation in this study is reasonably satisfactory and robust. The test of second-order serial correlation AR (2) shows that all estimations have no problem of second-order serial correlation since the AR (2) test statistics are unable to reject the null of no second-order serial correlation (p-values 0.404 and 0.738 for Model I and Model 2 respectively). The Hansen test for over-identification indicates the null of exogenous instruments is not rejected with p-values of 0.220 (for Model I) and 0.402 (for Model 2).

6.8.4 Regression Results

In Model 1, the coefficient α_1 is positively significant (that is, 0.293, $p<0.001$) indicating a positive relationship between the firms' previous returns on assets and their value growth in terms of profitability. That is, an improvement in the firms' earlier returns on assets will lead to an increase in the profitability levels and subsequently growth in value of these firms. The reason could be that, these firms may consider investing the previous increases in their ROAs in M&A deals as a way to achieve synergistic benefits and create wealth to maximize the value of their shareholders.

This is contrary to previous studies by Mateev and Anastasov (2010) that there is a negative relationship between ROAs and firm growth. Similarly, the coefficient α_1 for Model 2 is positively significant (that is, 0.684, $p<0.001$) indicating a positive relationship between the firms' previous growth levels and the impact they have on their future growth opportunities. This shows that, an improvement in the firms' growth abilities now impacts positively on their future growth value. The could be due to the fact that, because several emerging market firms lack the necessary experiences and resources to venture into the international markets at early stages of their lives, they make efforts to put measures in place to gradually grow organically (that is, internally) from within their limited resources, which later positions them positively into the global scene. This supports the findings of previous work by Khatab,

Masood, Zaman, Saleem and Saeed (2011) where they document of a positive relationship existing between firms' growth and the Tobin's q.

The coefficient β_1 is positive and statistically significant, that is (0.04756, p<0.001) for Model 1 and (0.02824, p<0.001) for Model 2. This indicates that, firstly, a positive relationship exists between the firms' total assets and their profit levels (which is proxied by ROAs), which means that an increase in the firms' sizes (proxied by their total assets) could contribute to an increase in the profitability levels of these acquirer firms. This is because, as firms grow and expand in sizes through improvements in their assets, they become interested in investing more in different areas that have the potential to increase their profit levels as financial theory suggests. This finding corroborates works by Punnose (2008) and Vijayakumar and Tamizhselvan (2010) who came out with a similar conclusions. It is also in line with studies by Serrasqueiro and Nunes (2008) in their investigation of the relationship between firm size and performance of small and medium firms who also arrived at a conclusion of a positive relationship between total assets (proxy for firm size) and profitability. Lee (2009) in analysing the impact of firm size on the profitability of more than 7000 publicly-held firms in the United States of America, from 1987 to 2006 also arrived at a similar conclusion that, firm size has a positive impact on its profitability. It also supports extant findings that firm size interacts with other factors to affect firm performance (Arend, 2014). Secondly, the result also indicates a positive relationship existing between the acquirer firms' total assets and their ability to grow (which is proxied by their Tobin's q). The positive sign means that, as the total assets which represent the acquirer firms' sizes increase, it offers the acquirers the ability and the opportunity to grow and expand in order to add value to themselves. This is because, the improvement in the firms' sizes may enable them to use their total assets pursue investment activities including M&As for growth and expansion purposes. This finding, however, is inconsistent with the empirical finding of Adetunji and Owolabi (2016) who find a negative relationship between firm size and Tobin's q and suggest that, investors do not consider firm size to positively affect firms' growth and market performance. The coefficient β_2 denoting the acquirer firms' total debt was found to be negative and significant, that is, (-0.1399, p<0.001) for Model 1 and (-0.433, p<0.001) for Model 2. This is an indication that the firms' total debt levels have a negative impact on their growth and profitability levels. The negative sign possessed by the total debt coefficient means that, an increase in the acquirers' debt levels adversely affect both their profit levels as well as their abilities to grow and expand. This may be due to the fact that, emerging market firms with

high levels of debt may not be able to undertake investment activities such as M&As to create value for themselves to increase their profit levels and their ability to grow. This is consistent with the assertion by Harrison et al. (2014) who examined the relationship between leverage for acquirers, targets and post-acquisition performance and found a negative effect of debt on post-acquisition performance of acquirers and targets but this negative performance gathers around acquiring firms with high debt levels. They conclude that mergers and acquisitions have a persistent and significant effect on acquirers' capital structure, causing a continuous increase in average debt-to-assets of acquirers in post-acquisition periods of up to five years. It also seems consistent with views expressed by Park and Jang (2011) that higher debt increases the probability of default or bankruptcy.

Further, the coefficient β_3 representing the acquirers' working capital positions was found to be negative and significant (that is, -0.3217, $p<0.001$) for Model 1 but positive and significant (that is, 0.595, $p<0.001$) for Model 2 implying that, the effect of working capital on improvement in firms' value in terms of profitability and growth opportunity is mixed. The negative but significant relationship between the firms' working capital and ROAs (which is a proxy for profitability) shows how poorly firms will perform in terms of profitability if they do not pursue good working capital management policies. The reason could that, if firms hold inadequate liquidity in the form of working capital, it can result in insolvency and eventual failure of the business which may adversely affect profit levels of firms. Further, when managers of finances of firms undertake working capital management policies that concentrate on liquidity and keep more than what is considered necessary in current assets, they reduce both the firms' insolvency and liquidity risks but negatively affect profitability levels and deliver substandard returns on assets. This finding broadly seems similar to that of Malmendier and Tate (2008) who find some relation existing between firms' excess cash reserve and execution of acquisitions that are value destroying. They claim that managers who do not handle their capital structure well tend to invest less time in analysing and searching for better opportunities and are potentially likely to settle for targets that are questionable in nature. So broadly, otherwise well-meaning managers of firms that have more internal cash holdings tend to make less challenged, fast decisions compared to managers of firms with low cash reserves (Weitzel & McCarthy, 2011).

However, the results of a positive and significant relationship between working capital and Tobin's q suggest that the acquirer firms' working capital positions influence their growth

potentials. The positive sign carried by the working capital coefficient means that, an improvement in the management of the firms' working capital will impact positively on the growth potentials of these acquirer firms. This seems to be in support of previous findings of Ferreira and Vilela (2004) who suggest that working capital in the form of cash holdings are positively affected by a firm's opportunities of investment which reflects the trade-off model, which suggests that firms identify their appropriate cash holdings level by comparing the marginal costs with marginal benefits of holding cash.

For coefficient β_4 representing financial leverage also was found to be negative but significant, that is (-0.001, $p<0.001$) for Model 1 and (-0.0002, $p<0.001$) Model 2. This reveals a negative association between financial leverage levels of firms and their growth, which means that an increase in the leverage levels of the acquirer firms may not contribute to improving on both their profitability levels and their abilities to grow. This is consistent with prior studies (Opler & Titman, 1994; Oliveira & Fortunato, 2008; Ushijima, 2005) who submit that, firms with high levels of debt cannot efficiently and appropriately invest in their business to create value because of interest payment pressure. In the same vein, Myers (2003) submits that, leverage is another variable that affects firm profitability negatively. His view is that, firms that are highly-leveraged are softer competitors that will limit investment, so their inadequate power of competition can result in profitability decreases.

Additionally, coefficient β_5 for the managerial ownership of the acquirers is negative but significant for Model 1 (that is, -0.000, $p<0.001$) giving an indication of a negative relationship between managerial ownership and profitability levels of the firms, implying that the managerial stakes in emerging acquirer firms do not necessarily help improve on their profitability levels. For Model 2, managerial ownership coefficient is positive and significant (that is, 0.00004, $p<0.001$). This shows that managerial ownership and firms' growth opportunities as proxied by the Tobin's q have direct or positive relationship indicating that, a firm maximises its value when managers have an optimal level of managerial ownership or an optimal stake in the firm's cash flows. This finding is in agreement with that of Fahlenbrach and Stulz (2009) in their study of managerial ownership dynamics and firm value that, as the percentage of managers' share outstanding in the firm increases, their interests become better aligned with those of shareholders. However, they become exposed to the risk of the firm, if the stake they hold is large. Therefore, before managers will be desirous of holding a large stake in firms, it must commensurate with a higher level of

compensation. The implication of this is that, shareholders are likely to benefit from the increased managerial stake in firms because the increase in their stakes or shares compels managers to align their interests better with that of shareholders, but the shareholders incur extra costs since the managers have to be paid more. If all managers have the same wealth and risk aversion, their ownership in the firm they manage will depend on the extent of agency problems in the firm and on the risk to managers of investing in the firm.

The main objective of this study was to investigate whether M&As transactions by emerging market acquirers lead to value growth or they are value destroying three years after M&A transactions in comparison with three years before the transactions.
Table 6.6 above reveals that, the coefficients β_6, β_7, *and* β_8, thus β_6 (0, 0), β_7 (0.3475, p<0.001: Model 1 and 0.05168, p<0.001: Model 2) *and* β_8 (0.1823, p<0.001: Model 1 and 0.0749, p<0.001: Model 2) representing three years before the execution of the merger transactions by these acquirer firms were all positively significant, indicating value growth in profitability levels and growth opportunities for the acquirer firms. However, the coefficients β_9, β_{10}, *and* β_{11}, thus β_9 (-0.1899, p<0.001:Model 1 and -0.02197, p<0.001: Model 2), β_{10} (-0.4524, p<0.001:Model 1 and -0.03559, p<0.001: Model 2) and β_{11} (-0.5733, p<0.001: Model 1 and -0.03577, p<0.001: Model 2) denoting the value growth for the firms three years after the merger deals were all negative but significant indicating that, there was no value growth to the acquirer firms from the emerging markets in terms of growth in profitability (*GROAit*) and growth opportunities (*GTOBQit)* respectively which therefore confirms hypothesis ($H_{6.1}$**)** and ($H_{6.2}$**)** of this study.

Indeed, regarding the effect of M&As on firms' value growth, several studies find mixed results of positive and negative outcomes for firms that pursue M&As. However, the results of this study on firms' value growth for acquirers from ten (10) different emerging market countries examined together also appear to be consistent with other previous studies that found negative value growth for firms that engaged in M&As, even though a lot of them used only firms within particular countries while this study used firms from ten (10) different emerging market countries. For instance, Bertrand and Betschinger (2012) conclude that domestic M&As reduce the performance of acquirers and destroy their value after undertaking a study on 600 domestic M&As in Russia. This view is supported by Kohli and Mann (2012) who through their study of 66 domestic and 202 cross-border M&As by firms

from India, suggest that, less wealth or value is gained in domestic deals compared to cross-border transactions.

The negative growth in value for emerging market acquirer firms after their M&A activities is again corroborated by Harding and Rovit (2004) who maintain that M&As present a contemporary challenge to managers because most acquisitions do not actually create meaningful shareholder value (nearly 70%), and yet building a world-class company through organic growth is almost impossible. Finally, adding in support to the above findings is Brewis (2000) who reveals how 53 per cent of M&As destroy the value of shareholder according to a KPMG survey in London.

The results based on this present study again are consistent with prior studies by Miczka and Grosler (2004), who concede that, post-M&A integration process is time-consuming and does not occur instantly, therefore, firms should not expect synergy which will lead to value creation right after an M&A transaction, because integration of cultures is generally completed in the first three years after mergers and acquisitions, but actual synergy and value creation may even take a much longer period to be achieved or realized.

6.9 Chapter Summary

This chapter set out to investigate the impact of mergers and acquisitions on firms' value growth of emerging market acquirer firms. Prior literature suggests that, seeking growth by means of mergers and acquisitions may be efficient and appropriate than organic or internal growth. However, sustained and reliable growth after M&A can be a difficult enterprise because of several challenges including differences in culture between the target and the acquirer firms' businesses. Firms' value growth was defined as an appreciable improvement in the market value of a firm or a business in terms of their profitability levels and growth opportunities over a period of time. To achieve this, two different measures of performance were used, the returns on assets ant the Tobin's q. The Tobin's q captures the growth opportunities of firms as they execute M&As while the ROAs looks at the profitability levels of the firms. The estimation technique used to ensure robustness of the results was the two-step difference GMM. The difference GMM has the advantage of providing additional instruments of the levels equations together with the orthogonal deviations and improves the estimation efficiency.

This analysis offers evidence for the emerging markets that execution of M&As impact on firms' value growth. M&As continue to have a significant negative effect on firms' value

growth even after controlling for the firms' financial leverage, total debt, total assets, working capital and ownership share percentage outstanding. Firms should consider the effects of M&As on their investment decisions. They should evaluate their decisions to embark on M&As bearing in mind the resulting negative effect growth levels especially in the immediate three years after the deal.

This study reveals that, emerging market acquirers do not experience growth in both profit and growth opportunities in the first three years after their M&A activities. However, there is evidence of a positive relationship between the firms' previous growth opportunities (proxied by the Tobin's q) and as well as their previous profitability (proxied by ROAs) and their respective growth rates. It also revealed that, the firms' total assets have a positive impact on profitability and their growth opportunities. In view of this, emerging market acquirers should pay attention to strategies that will help them to improve on their assets value. Managerial share ownership in firms was also found to have a positive influence on the firms' growth opportunities but its impact on profitability is negative. Therefore, managerial share ownership in firms which gives them some level of control over investment decisions should be used positively to pursue investments that will bring about growth to firms. However, total debt, financial leverage, working capital were found to be negatively related to the firms' profitability levels.

From a practical viewpoint, certain implications which are managerial in nature can be acknowledged. This study proposes that, if firms from the emerging markets are considering acquisition transactions for immediate value growth, they should recognise that, it may not offer instant growth in the first three years after M&A. Rather, the impacts of mergers and acquisitions on firms' value growth should be expected in the long-term period from 5 years and beyond as has been argued in literature (Miczka and Grosler, 2004). Another suggestion by this study is that, M&A should not be used for only growth purposes, but also for the creation of other types of value, including risk minimisation through product or market diversification or cost efficiency and market power enhancement.

CHAPTER SEVEN

SUMMARY, CONCLUSIONS, RECOMMENDATIONS AND POLICY IMPLICATIONS

7.1 Introduction

This last chapter of the thesis covers the summary, conclusions, and policy recommendations. It begins by providing the summary of key findings, followed by the contributions made by the study, and the managerial policy implications that can be drawn from the findings of the study. Finally, the study suggests some possible directions for future research on the subject matter.

7.2 Summary

This study explored the drivers of mergers and acquisitions and firm value growth in the emerging markets. There are seven chapters covered in this study. The first chapter dealt mainly with the introduction and background to the study, context of the study, the motivation for the study, problem statement, the main aim and specific research objectives of the study, research questions, hypotheses as well as the justification and significance of the study.

Chapter two reviewed the trends in mergers and acquisitions activities in selected emerging market countries used for this study. The review provided insights of active participation of emerging market countries in global M&As. The chapter also highlighted on issues relating to domestic and cross-border M&A activities of selected emerging market countries.

Chapter three reviewed existing literature related to drivers of M&As with special focus on transactions involving emerging market firms as acquirers. Working capital and managerial share ownership in firms were identified as two other potential drivers of M&As which to the best of the researchers knowledge have not been sufficiently investigated to establish whether they influence acquirers from the emerging market to undertake M&A transactions. Further, issues of foreign direct investments (FDIs) of which M&As is one of its forms that firms use

as a strategy for growth and expansion was also reviewed in this chapter. The chapter again highlights on the domestic and cross-border M&A characteristics and pathways dynamics.

Chapters four, five and six also covered the body of this thesis where the main objectives of the study were considered or investigated. In Chapter four, the study employed probit regression technique to investigate whether working capital plays any role in driving or motivating emerging market acquirers to execute M&A deals. The free cash flow (FCF) hypothesis was also tested to determine if FCFs available to these acquirers motivate them to pursue M&As in comparison to their working capital positions. The chapter further investigated into the type of merger deals the acquirer firms pursue in their M&A activities. The probit technique uses the marginal effects of the coefficients in interpreting the probability or the likelihood of an event such as M&A occurring based on changes in potential factors influencing it. This method was used to avoid the limitations of OLS and other techniques like the multiple discriminant analysis (MDA) which have been employed in similar research works. Furthermore, studies by scholars such as (Andriosopoulos & Yang, 2015; Huang et al., 2016; Luo, 2005) find the probit model technique useful in similar research works in handling issues relating to the probability of whether an event will occur and therefore confirm our methodology.

Chapter five investigated whether managerial share ownership also drives M&A transactions by emerging market acquirers and further explored the sizes of target firms these acquirers become interested in pursuing in their M&A deals. Again, following the footsteps of the following scholars (Yang, Guariglia & Guo, 2017; Huan et al., 2016; Lee et al., 2018) the probit regression technique was employed for this study. The main independent variable used in this study was the managerial share ownership. This was defined as insiders share percentage outstanding (Song & Walkling, 1993; Himmelberg et al. ,1999). Target firms were categorised into larger and smaller firms for an investigation into the sizes of targets these acquirers from emerging markets show interest in acquiring. Relative sizes of these target firms were used to categorise them into smaller and larger firms. Relative size is measured by the percentage of the acquisition expenses of acquirers to acquirer's total assets (Park and Jang, 2011).

In addition, this chapter investigated the relationship between managerial discretion and acquirers' level of profitability, where managerial discretion was defined as the number of shares owned by management and ROAs was employed as a profitability measure.

Chapter six explored the impact of M&As on firms' value growth three years after M&A transactions by emerging market acquirer firms. Previous literature has suggested that, firms' desire for growth and expansion through M&As may be efficient and effective than internal growth. But steady growth post-M&As may be problematic due to several challenges including cultural differences existing between the acquiring and target firms. Firms value growth was defined as an appreciable improvement in the market value of a firm or a business in terms of their profitability levels and growth opportunities over a period of time. To achieve this, two different measures of performance were used, the returns on assets and the Tobin q. The Tobin's q captures the growth opportunities of firms as they execute M&As while the ROAs looks at the profitability levels of the firms. The estimation technique employed to ensure and safeguard the robustness of the study's results was the two-step difference GMM. This technique has the advantage of providing additional instruments of the levels equations together with the orthogonal deviations and improves the estimation efficiency. It also takes care of potential problems of endogeneity and heterogeneity usually associated with dynamic panel regression analysis.

7.3 Key Findings and Conclusion

On the basis of the summary given above, the study identifies the following important findings which significantly contribute to expand the body of knowledge. In the first place, reviewing the literature on the various drivers of M&As gives an indication of different kinds of factors that drive M&A transactions by emerging market firms even though other factors such as working capital and managerial share ownership are yet to be identified as other potential drivers of M&A deals by firms from the emerging markets. Several countries from the emerging economies are motivated to execute M&A transactions to access key natural resources (China, India firms), for diversification of businesses while others especially ASEAN firms are driven by national pride or hubris.

As well, there is clear evidence of a surge in mergers and acquisitions activities with regard to both domestic as well as cross-border transactions in the emerging market which gives an indication of how firms from countries in this area are growing and expanding through the path of M&As. Several firms in emerging markets show the ability to compete beyond their boundaries through business expansion strategies like M&As because they have become well-resourced in terms of internationalisation experiences, and also have the needed capital

for these investment activities. However, a good number of them remain new with regard to expanding their businesses outside of their own countries and therefore are more interested in domestic transactions. Most of them are afraid of the numerous exposures and challenges outward expansions bring such as unique risks of liability of foreignness and double-layered acculturation, corporate governance considerations, the level of market development and valuation which must be addressed by governments in these countries.

Another key finding is the issue of different M&A regulatory frameworks applicable in different emerging market countries. Some of them seem quite robust while others are even yet to develop in order to streamline M&A activities properly. Because of these differences in M&As regulations, some emerging market firms find it difficult to pursue M&A transactions in other emerging countries let alone in developed economies. However, as most emerging economies continue to show signs of speedy development, measures should be put in place to address the various encumbrances relating to M&As in terms of proper regulatory frameworks.

Objective one investigated whether working capital positions of acquirer firms from the emerging markets play any role in driving them to execute M&A deals, and further explored the type of M&As they become interested in pursuing. Other factors influencing M&As such as the acquirer firms' levels of financial leverage, ROAs, total assets, total debt and managerial ownership were also investigated. To the best of the researcher's knowledge this is the first time an investigation like this has been done where firms' working capital positions are investigated to determine if it influences M&A transactions of acquirer firms from the emerging markets. It is also the first time where an investigation is conducted to establish whether working capital of firms is behind the type of M&A deals firms pursue in acquisition deals. Based on the findings, the study concludes that working capital positions of emerging market acquirers do not drive or influence them to execute mergers and acquisitions transactions. This is contrary to assertions by Iyer and Miller (2008) and Kayo et al. (2010) that, managers of firms that have substantial cash reserves or liquidity, low financial leverage and high current ratio may be encouraged to use these loose resources to finance investment projects including even those with negative NPV, for example buying other firms for the sole purpose of empire building. It is also inconsistent with Agrawal and Sensarma (2007) who assert that, excess cash reserve is one of the important factors that has the propensity to positively drive acquisitions. The study again finds that, the type of M&A

transactions (that is, either horizontal, vertical or conglomerate mergers) that are pursued by acquirer firms from the emerging markets are also not motivated by their working capital positions. However, based on the findings on the free cash flow (FCF) and M&A transactions by these acquirer firms, the study finds a positive and significant relationship between the acquirers' FCFs and M&As. This means that, the firms' FCFs relative to their working capital positions is more likely to influence them to undertake M&A deals all other things being equal. This, therefore, is another key finding that contributes substantially to expand the boundaries of knowledge in M&As drivers for firms from the emerging markets.

Objective two investigated whether managerial share ownership of acquirers from the emerging market drives their M&As transactions. The study further explored if managerial ownership influences the acquirers' decisions concerning the sizes of target firms they pursue. To the best of the researcher's knowledge, this is the first study on whether managerial share ownership of emerging market acquirers influence their M&A transactions or not and therefore significantly contributes to enlarge the sparse empirical studies in this area of study. Similarly, to the best of the researcher's knowledge, it is also the first time managerial ownership of firms has been investigated to determine if it influences the sizes of target firms acquirers from the emerging markets become interested in pursuing during acquisition transactions. The study concludes based on the findings that managerial share ownership of firms in the emerging markets, neither drive them into merger deals nor influence their decisions on sizes of targets they become interested in pursuing in M&A transactions. The result from this study indicates that, a percentage change in a firm's managerial share ownership is only 4% more likely to drive the acquirers into making investment decisions such as M&As. This value (that is, the 4%), however, falls short of what Faccio and Masulis (2005) and Herman (1981) suggest could allow managers to have control over a firm and its investment decisions such as M&As. Faccio and Masulis suggest that, over 20% managerial holdings is able to make managers have absolute control over a company and firmly control its investment decisions including mergers and acquisitions while a 5% ownership stake is what Herman suggests to be the level above which managerial ownership is important to influence decisions.

Objective three looked at the impact of mergers and acquisitions on firms' value growth in emerging markets. The results from this objective indicate no value growth for the acquirer firms three years after their merger activities compared with the preceding three years period

in terms of profitability and growth opportunities. This was evidenced in the ROAs and Tobin's Q coefficients which were all negative but significant three years post-M&A transactions. To the best of the researcher's knowledge, this is the first study where acquirer firms from ten (10) emerging market countries are examined together to assess the gains they derive from pursuing M&A transactions which is different from other studies where only firms within individual countries are examined. Therefore, the outcome of this study has the potential to establish or show whether firms in emerging markets should continue to look at M&As as a viable firms' growth expansion strategy or not.

The study again revealed that not only M&As can impact the firms' value growth either positively or negatively but other factors such as working capital, total assets, financial leverage, total debt, managerial ownership also have a significant influence. We further found that, in particular, firms' total assets on one hand, and working capital and managerial ownership on another, have a direct impact on firms' value growth as far as increasing profit levels and growth opportunities respectively are concerned.

In terms of methodology, the study employed two distinct methods that add major contributions to literature. First, the probit regression by focusing largely on interpreting the marginal effects of the independent variables on the dependent variable thus M&As to investigate the objectives of whether working capital and managerial ownership drive M&As involving emerging market acquirers. This is a binary regression technique considered powerful when research purpose is to determine the probability of an event or the likelihood of its occurrence. This method was used to avoid the limitations of OLS and multiple discriminant analysis (MDA) which have been used in similar studies by Stevens (1973), Simkowitz (1971) and Monroe (1973). Second, the dynamic panel two-step difference GMM estimation technique was employed to explore the third objective of M&As and firms' value growth in emerging markets. This technique is different from similar prior studies on emerging markets which used largely the event study methodology such as (Gubbi et al., 2010; Kohli & Mann, 2012; Zollo & Meier, 2008). Several of these research studies appear not to have addressed the problem of dynamic changes in firms' value post-M&A transactions which this study attempts to handle. Even though, these methods may have been used previously in literature for some similar studies, this study has for the first time used them in new ways to investigate firms' value growth from ten (10) different emerging market countries together to evaluate the impact of M&As on firms' profitability (ROAs) levels as

well as their growth opportunities. To the best of our knowledge, this is the first study that has done this.

Based on the results from the analysis of the various objectives investigated in this study, we arrived at a number of conclusions. These conclusions are discussed in detail below. Mergers and acquisitions activities in the emerging markets are very active and diverse involving various firms in different industries evidenced by the numerous local and overseas M&A transactions. In addition, the marginal effect of the firms' working capital positions has a negative and significant relation with M&As in the emerging markets. This means that, working capital positions of these acquirer firms is less likely to motivate them into M&A transactions compared to other potential factors. Specifically, contrary to the views of numerous previous researchers such as Agrawal and Sensarma (2007), Iyer and Miller (2008) and Kayo et al. (2010) who suggest that high cash reserves and high current ratio (CR) are significant parameters or factors that drive mergers and acquisitions propensity positively, result of this study shows that working capital does not drive M&A transactions by emerging market acquirers. However, total assets (proxy for firms' sizes) is positively related to M&As which is consistent with the financial theory which suggest that they contribute in motivating the acquirers in their M&As activities. The impact of the other control variables, financial leverage, Tobin's Q, total debt was negative and insignificant. Further, a negative relationship was found to exist between the firms' working capital positions and the type of merger transactions they are likely to undertake. Our result does not suggest that working capital is behind the firms' decisions to pursue either horizontal or vertical type of M&As deal. However, the study rather found the firms' FCFs to be a motivating factor that is more likely to influence their M&A transactions instead of their working capital positions.

Additionally, the result of managerial ownership driving M&As provides no evidence in support of that. As well, managerial ownership does not influence the acquirers' decisions to pursue smaller-sized targets in acquisition transactions. Lastly, managerial discretion has a negative impact on acquirer firms' performances as far as their profitability levels are concerned. However, it is the acquirers' total assets and their Tobin's Q which represents the ability of the firms to grow that have positive influence on their profitability levels while their total debt levels also affect the firms' profit levels negatively.

Finally, we can conclude that, emerging market acquirers do not experience growth in terms of profitability (proxied by ROAs) and growth opportunities (proxied by Tobin's Q) in the

first three years after their M&A activities. However, a positive relationship exists between the acquirer firms' previous Tobin's Q and ROAs on one side and their value growth on another. We also conclude that the firms' total assets also have an impact on profitability and growth opportunities. In addition, managerial share ownership too was also evidenced to have a positive influence on firms' growth opportunities while their total debt, financial leverage, working capital and managerial ownership levels are negatively related to their profitability levels.

7.4 Recommendations

First, although the effect of working capital was not thoroughly explored in this study in accordance with M&A practice, managers still have to pay closer attention to the issue of working capital structure. This is attributable to the fact that efficient financing and management of working capital (current assets and current liabilities) may enhance the firms' operating profitability. Therefore, managers should be able to predict the possible influence of working capital management on investment decisions since it can make prospective acquirers maximise the welfare of their shareholders and guard them against investing in poorly managed firms.

Second, managers should also focus on growing other areas of their businesses including improving on both their total assets base and returns on their assets to ensure sustained increase in profits because they have the potential to influence firms' investment decisions such as M&As or undertaking a particular type of merger. Indeed, the results of this study indicate that, they have a significant influence on the ability of firms to engage in M&As.

Third, firms should consider the effects of M&As on their investment decisions by evaluating their decisions to embark on M&As well, bearing in mind the potential negative effect on growth levels especially in the immediate three years after the deal.

Fourth, another important recommendation this study proffers is that, if emerging market firms are contemplating on acquisitions for a rapid value growth, they should bear in mind that, it may not offer them immediate growth in the first three years after the M&A deal. Instead, the effect of mergers and acquisitions on firms' value growth should be anticipated in the long-term period from may be five years and beyond. Firms can, however, use M&As

to achieve alternative purposes such as risk minimisation through product or market diversification or cost efficiency and market power enhancement.

Fifth, two important issues that must be key in any M&A discussions should include the fact that; first, firms undertake acquisitions for the purposes of value creation and this value is obtained by combining the appropriate competitive strategies with synergies. Second, it is only through a careful attention to the process of integration that can make firms realise the goals and synergies of the competitive strategy. For the desired potential of an international acquisition or merger to be achieved and justify the high premiums most companies pay, managers must sufficiently understand and implement the selection and assessment methods of the target company.

7.5 Areas for Further Research Effects

Based on exposures the researcher has gathered so far from this study, the following areas have been identified and suggested for further studies.

One, our analysis is based on acquirers from the emerging markets. This particular group of firms has diverse characteristics which are different from multinationals from developed countries. A similar investigation for multinational acquiring firms from developed economies may produce different results. For example, a counterfactual analysis will allow future research to examine whether the resources of the acquiring firm and the direct or moderating effects of experience have different impacts when firms are acquired by emerging market firms or developed country firms.

Two, a future investigation into the impact of M&As from emerging markets on host countries will also be very fruitful. It will enhance the understanding of whether it is only the target firm that experiences positive returns in M&A transactions, or they extend to their supply chain.

Three, for a future study, it will also be insightful and relevant to investigate whether working capital positions of target firms from the emerging markets play any roles in attracting acquirers to pursue them in M&A transactions.

Four, one way acquirer firms from an emerging market country can signal that they are bootstrapping themselves to higher governance standards is to acquire targets in developed

countries. A thorough study that analyses and discusses acquirer firms from the emerging markets bootstrapping themselves to the higher governance standards of developed markets by acquiring firms in developed economies would be a fruitful topic for future research.
Lastly, due to challenges of data availability, we were not able to conduct individual country-specific analysis. We believe that country-specific studies will afford researchers the opportunity to explore deeper into M&As activities in the countries regarding their trends, deal characteristics, key drivers, challenges being encountered and proffer solutions to them.

7.6 Policy implications and recommendations

The findings from this thesis have useful managerial and policy implications. First, the results on how the market reacts to acquisition transactions in the emerging economies have certain implications for the investing community. The findings based on the results from this study can be extended to other emerging markets that are similar in nature and composition to the ones selected for this study. Besides, the findings should be appropriate and relevant for the development of policies and regulations regarding the seriousness of criticism working capital management consulting firms raise concerning firms' management of excess working capital for investment purposes such as M&As. We, therefore, recommend that, even though working capital positions of firms according to this present study do not influence their M&As investment decisions, managers should not overlook the efficient management of working capital. They should institute proper working capital management practices in their companies, in order not to experience liquidity challenges of either excess or shortages as any of them could affect the smooth running of their business operations especially in the short-term period.

Second, an acquisition or a merger is a two-edged sword. When finally, firms take a decision to pursue M&As as an investment strategy option, they must fully take into account the issue of resources availability too. The target firm should be evaluated before an acquisition or a merger is performed. After an acquisition or merger, firms should restructure and integrate their resources.

Third, implication based on Chapter six of the study on managerial ownership driving M&As by acquirers from the emerging markets suggests that for managers to have absolute control over firms and be able to influence investments decisions such as M&As especially in the emerging markets, their ownership percentage should be above the suggested significant level

of 20%. Policy makers should therefore take a second look at firms' financial leverage levels, growth in total assets and improvement in the levels of profitability in terms of increase in returns on assets, because results of this study indicate that they have a significant impact on the firm's ability to engage in M&As.

Four, findings from Chapter seven of the study also have some managerial implications. They suggest that, if firms from the emerging markets are planning or considering M&As for immediate value growth, they should recognise that M&A may not provide immediate growth in the first three years after M&A. Rather, the effects of M&A on firms' value growth may be expected in the long-term period of five years and beyond. This study might also suggest that M&A should not be used for only growth purposes, but also for the creation of other types of value, such as market power enhancement, risk minimisation through market or product diversification or cost efficiency.

Five, since uncertainties exist in M&As, advance preparation is needed before an acquisition or a merger is executed, including a development of planning strategies and improvement of firm governance structure. It is, therefore, important for institutions and government to cooperate to come up with stronger systems to monitor corporate governance practices to bring some sanity to the business community.

Finally, diversifying internationally appears to be an important strategy for reducing risk after a successful merger (Switzer & Tahaoglu, 2015; Yücel & Önal, 2015). It is more likely for investors, all other things being equal, to reduce the levels of risks associated with their investment portfolio if they invest in internationally diversified merged firm. Particularly, holding a separate diversified portfolio is more exposed to idiosyncratic risk than systematic risk benefits.

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APPENDIX A

Sample acquirer firms used in the study by industry, country, listing market and date of deal / transaction

Acquirer firm	Country	Industry	Listing market of acquirer firm	Target Firms	Date of deal
1. PPC Ltd	South Africa	Industrial	JSE	Safika Cement Holdings Pty Ltd	2013/8/7
2. Datatec Ltd	South Africa	Technology	JSE	Comztek Holdings Pty Ltd	30/11/12
3. Bidvest Group Ltd	South Africa	Diversified	JSE	Home of Living Brands Holdings Ltd	2012/11/28
4. RCL Foods Ltd	South Africa	Cons, non-cyclical	JSE	New Food corp Holdings Pty Ltd	2012/11/14
5. RCL Foods Ltd	South Africa	Cons, non-cyclical	JSE	Vector Logistics Ltd	2004/10/31
6. Barloworld Ltd	South Africa	Diversified	JSE	Barloworld Logistics Africa Pty Ltd	2012/09/25
7. Nampak Ltd	South Africa	Industrial	JSE	Nampak Liquid Cartons Pty Ltd	2012/09/04
8. Hosken Consolidated	South Africa	Financial	JSE	KWV Holdings Ltd	2011/12/21
9. ARB Holdings Ltd	South Africa	Cons. Cyclical	JSE	Eurolux Pty Ltd	2011/10/25
10. Andulela Investment	South Africa	Basic Materials	JSE	Pro Roof Steel Merchants Pty Ltd	2010/12/10
11. ArcelorMittal SA Ltd	South Africa	Consumer,Non-cyclical	JSE	Imperial Crown Trading 289 Pty Ltd	2010/08/10
12. Basil Read Holdings L.	South Africa	Industrial	JSE	TWP Holdings Ltd	2009/09/30
13. Famous Brands Ltd	South Africa	Consumer, Cyclical	JSE	Mugg & Bean	2009/07/27
14.Afrocentric Investment	South	Basic Materials	JSE	Lethimvula Investments	2008/09/23

	Africa			Ltd	
15. Gold Fields Ltd	South Africa	Basic Materials	JSE	Gold Fields Operations Ltd	2006/09/11
16. Lonmin PLC	South Africa	Basic Materials	JSE	Messina Ltd	2005/09/16
17. Ellerine Holdings Ltd	South Africa	Consumer, Cyclical	JSE	Relyant Retail Ltd	2004/06/23
18.KAPIndustrial Holdings Ltd	South Africa	Consumer, Non-cyclical	JSE	Glodina Holdings Ltd	2004/08/20
19. Harmony Gold Mining Co Ltd	South Africa	Basic Materials	JSE	Avgold Ltd	2004/05/11
20. Molinos Rio de la Plata SA	Argentina	Consumer, Non-cyclical	Buenos Aires Stock Exch.	Emprendimientos Joralfa SA	2012/06/25
21. Adecoagro SA	Argentina	Consumer, Non-cyclical	Buenos Aires Stock Exch	Cia Agroforestal de Servicios y Mandatos SA	2011/08/19
22. Pampa Energia SA	Argentina	Utilities	Buenos Aires Stock Exch	Empresa Distribuidora Electrica Regional SA	2011/01/20
23. Petrobras Argentina SA	Argentina	Energy	Buenos Aires Stock Exch	Petrobras Energia Participaciones SA	2008/09/03
24. JBS SA	Brazil	Consumer Non-cyclical	IBOVESPA/B3	Comercio e Industria de Massas Alimenticias Massa	2013/12/23
25. Engie Brasil Energia SA	Brazil	Utilities	IBOVESPA/B3	Ferrari Termoeletrica SA	2013/12/17
26. Engie Brasil Energia SA	Brazil	Utilities	IBOVESPA/B3	Parnaiba Gas Natural SA	2013/10/28
27. Engie Brasil Energia SA	Brazil	Utilities	IBOVESPA/B3	Suez Energia Renovavel SA	2009/12/22
28. Minerva SA/Brazil	Brazil	Consumer, Non-cyclical	IBOVESPA/B3	Mato Grosso Bovinos SA	2013/11/04
29. Eneva SA	Brazil	Utilities	IBOVESPA/B3	Parnaiba Gas Natural SA	2013/10/28
30. Duratex SA	Brazil	Industrial	IBOVESPA/B3	ThermoSystem Industrial Eletro Eletronica Ltd	2012/09/24
31. BR Malls Participacoes SA	Brazil	Financial	IBOVESPA/B3	Shopping Plaza Macae	2011/12/29

32. Kroton Educacional SA	Brazil	Consumer, Non-cyclical	IBOVESPA/B3	Uniao Norte do Parana de Ensino Ltda	2011/12/16
33. Terra Santa Agro SA	Brazil	Energy	IBOVESPA/B3	Maeda SA Agroindustrial	2010/12/07
34. WEG SA	Brazil	Industrial	IBOVESPA/B3	Trafo Equipamentos Eletricos SA	2009/12/09
35. Via Varejo SA	Brazil	Consumer, Cyclical	IBOVESPA/B3	Nova Casa Bahia SA.	2009/12/04
36. Sao Martinho SA	Brazil	Consumer, Non-cyclical	IBOVESPA/B3	Usina Boa Vista SA	2009/12/01
37. Bematech SA	Brazil	Technology	IBOVESPA/B3	CMNET Solucoes em Informatica e Agencia de Viagens	2008/12/22
38. CPFL Energia SA	Brazil	Utilities	IBOVESPA/B3	Cia Luz e Forca Santa Cruz	2006/10/02
39. Amil Participacoes SA	Brazil	Consumer, Non-cyclical	IBOVESPA/B3	Amil Saude Ltda	2009/11/19
40. Apator SA	Poland	Industrial	Warsaw Stock Exchange	Przedsiebiorstwo Wdrozen Postepu Technicznego Elko	2013/12/23
41. Trakcja SA	Poland	Industrial	Warsaw Stock Exchange	Przedsiebiorstwo Inzynieryjnych Robot Kolejowych T	2013/10/26
42. Neuca SA	Poland	Consumer, Cyclical	Warsaw Stock Exchange	ACP Pharma SA	2013/08/08
43. Cyfrowy Polsat SA	Poland	Communications	Warsaw Stock Exchange	Polskie Media Amer.Com SA	2013/03/28
44. Czerwona Torebka SA	Poland	Financial	Warsaw Stock Exchange	Malpka SA	2013/06/17
45. Grupa Azoty SA	Poland	Basic Materials	Warsaw Stock Exchange	Grupa Azoty Zaklady Azotowe Pulawy SA	2013/02/19
46. Stalprodukt SA	Poland	Industrial	Warsaw Stock Exchange	Zaklady Gornicze Hutnicze Boleslaw SA	2012/12/11
47. Asseco	Poland	Technology	Warsaw Stock Exchange	Centrum Informatyki Zeto SA	2012/09/21
48. Asseco Poland SA	Poland	Technology	Warsaw Stock Exchange	ABG SA	2008/05/30
49. Asseco Poland SA	Poland	Technology	Warsaw Stock Exchange	Prokom Software SA	2007/10/01

50. Grupa Azoty SA	Poland	Basic Materials	Warsaw Stock Exchange	Grupa Azoty Zaklady Azotowe Pulawy SA	2012/07/14
51. PBG SA	Poland	Industrial	Warsaw Stock Exchange	Betpol SA	2007/09/24
52. Rafako SA	Poland	Industrial	Warsaw Stock Exchange	Energomontaz Poludnie SA	2011/12/21
53. Jastrzebska S. Weglowa SA	Poland	Energy	Warsaw Stock Exchange	Walbrzyskie Zaklady Koksownicze Victoria SA	2011/12/19
54. Enea SA	Poland	Utilities	Warsaw Stock Exchange	Windfarm Polska Sp ZOO	2011/12/12
55. Korporacja B. Dom SA	Poland	Industrial	Warsaw Stock Exchange	CF Plus SA	2010/12/24
56. Alterco SA	Poland	Con., Non-cyclical	Warsaw Stock Exchange	TFI Omega SA	2010/12/24
57. Midas SA	Poland	Financial	Warsaw Stock Exchange	Mobyland Sp zoo	2010/12/16
58. PBG SA	Poland	Industrial	Warsaw Stock Exchange	Wschodni Invest sp	2009/06/20
59. Mercor SA	Poland	Con., Non-cyclical	Warsaw Stock Exchange	Bem Brudniccy Sp zoo	2008/05/14
60. Inter Cars SA	Poland	Con., Non-cyclical	Warsaw Stock Exchange	JC Auto SA	2007/07/14
61. Sygnity SA	Poland	Technology	Warsaw Stock Exchange	Emax SA	2006/05/26
62. Ciech SA	Poland	Basic Materials	Warsaw Stock Exchange	Zaklady Chemiczne Organika-Sarzyna SA	2006/03/30
63. Netia SA	Poland	Communications	Warsaw Stock Exchange	Regionalne Sieci Tekekomunkacyjne El-Net SA	2004/01/29
64. WISTIL SA	Poland	Cons., Cyclical	Warsaw Stock Exchange	Huta Szkla Gospodarczego IRENA SA	2005/04/18
65. Warsaw Stock Exchange	Poland	Financial	Warsaw Stock Exchange	Towarowa Gielda Energii SA	2011/11/08
66. LUKOIL PJSC	Russia	Energy	Moscow Exch.	Sever TEK ZAO	2005/11/22
67. Novatek PJSC	Russia	Energy	Moscow Exch.	Yamal LNG OAO	2009/05/26
68. Rosneft Oil Co PJSC	Russia	Energy	Moscow Exch.	RN Holding OAO	2013/11/06
69. Novatek PJSC	Russia	Energy	Moscow Exch.	NOVATEK-Kostroma OOO	2012/12/28
70. Avtovaz PJSC	Russia	Con., Cyclical	Moscow Exch.	United Auto Group LLC	2011/10/28
71. Inter RAO UES PJSC	Russia	Utilities	Moscow Exch.	OGK-3	2010/12/29

72. Uralkali PJSC	Russia	Basic Materials	Moscow Exch.	Silvinit OJSC	2010/12/20
73. LUKOIL PJSC	Russia	Energy	Moscow Exch.	LUKARCO BV	2009/12/11
74. Severstal PJSC	Russia	Basic Materials	Moscow Exch.	Severstal-Metiz JSC	2008/08/01
75. LSR Group PJSC	Russia	Financial	Moscow Exch.	Nova-Stroi ZAO	2008/07/16
76. Petropavlovsk PLC	Russia	Basic Materials	Moscow Exch.	Irgiredmet OJSC	2006/10/11
77. Huapont Life Sciences Co Ltd	China	Con., Non-cyclical	SSE	Shandong Fuer Co Ltd	22/10/2013
78. OPENCUT COAL	China	Energy	SSE	Tongliao Huolinhe Kengkou Power Co Ltd	22/12/2013
79. SAIC Motor Corp Ltd	China	Consumer, Cyclical	SSE	Nanjing Automobile Group Corp	27/12/2007
80. Rastar Group	China	Con., Cyclical	SSE	Guangdong Teamtop Information Technology Co Ltd	18/10/2013
81.Xiandai Investment Co Ltd	China	Cons., Non-cyclical	SSE	Hunan Xuhuai Expressway Construction Development C	7/11/2012
82. Shanxi Lanhua Sci-Tech Venture Co Ltd	China	Energy	SSE	Shanxi Lanhuaqinyu Coal Co Ltd	1/11/2012
83. Zhaojin Mining Industry Ltd	China	Basic Materials	SSE	Baicheng Xian Di Shui Copper Mine Development Co.	30/11/2011
84. China Communications	China	Industrial	SSE	Road & Bridge International Co Ltd	31/12/2010
85. DHC Software Co Ltd	China	Technology	SSE	Beijing Sino-bridge Technology Co Ltd	24/12/2009
86. Sundy Land Investment Ltd	China	Basic Materials	SSE	Hangzhou Songdu Property Group Co Ltd	17/12/2009
87.HarbinDongan Auto Engine Co Ltd	China	Consumer, Cyclical	SSE	Harfei Automobile Holding Co Ltd	31/12/2004

88. DHC Software Co Ltd	China	Technology	SSE	Beijing Werida Measuring & Controlling System Co L	2013/11/21
89. Shenzhen Expressway Ltd	China	Consumer, Non-cyclical	SSE	Guangdong Qinglian Highway Development Co Ltd	16/02/2005
90.China Automotive Sys Inc	China	Consumer, cyclical	SSE	Henglong Automotive Parts	26/12/2007
91. Scud Group Ltd	China	Industrial	SSE	Chaolitong Technology Co Ltd	21/12/2007
92. Tata Global Beverages Ltd	India	Consumer, Non-cyclical	BSE/NSE	Mount Everest Mineral Water Ltd	2013/11/12
93. Mahindra & Mahindra Ltd	India	Consumer, Cyclical	BSE/NSE	Mahindra Sanyo Special Steel Pvt Ltd	2013/06/17
94. PVR Ltd	India	Consumer, Cyclical	BSE/NSE	Cinemax India Ltd	2012/11/29
95. Welspun India Ltd	India	Consumer, Cyclical	BSE/NSE	Welspun Global Brands Ltd	2012/12/19
96. DLF Ltd	India	Financial	BSE/NSE	DLF Hotels & Hospitality Ltd	2011/12/05
97. Motherson Sumi Systems	India	Consumer, Cyclical	BSE/NSE	Sumi Motherson Innovative Engineering Ltd	2011/05/25
98. JSW Steel Ltd	India	Basic Materials	BSE/NSE	JSW ISPAT Steel Ltd	2010/12/23
99. Bharati Defence and Infrastructure Ltd	India	Industrial	BSE/NSE	Tebma Shipyard Ltd	2010/11/22
100. Bombay Rayon Fashions	India	Consumer, Cyclical	BSE/NSE	STI India Ltd	2010/10/27
101. Peninsula Land Ltd	India	Consumer, Cyclical	BSE/NSE	Topstar Mercantile Pvt Ltd	2010/10/29
102. Thomas Cook India Ltd	India	Consumer, Cyclical	BSE/NSE		
103. Siemens Ltd	India	Industrial	BSE/NSE	Siemens Healthcare	2009/11/30

				Diagnostics Ltd/India	
104. Tata Chemicals Ltd	India	Basic Materials	BSE/NSE	Rallis India Ltd	2009/11/10
105. Polaris Consulting & Services Ltd.	India	Technology	BSE/NSE	Laser Soft Infosystems Ltd	2009/10/15
106. United Spirits Ltd	India	Consumer, Non-cyclical	BSE/NSE	Balaji Distilleries Ltd	2008/12/01
107. Dabur India Ltd	India	Cons, Non-cyclic	BSE/NSE	FEM Care Pharma Ltd	2008/11/21
108. Shree Renuka Sugars Ltd	India	Consumer, Non-cyclical	BSE/NSE	Gokak Sugars Ltd	2008/10/20
109. Thomas Cook India Ltd	India	Consumer, Cyclical	BSE/NSE	Travel Corp India Pvt Ltd	2006/12/01
110. Reliance Industries Ltd	India	Energy	BSE/NSE	Adani Retail Pvt Ltd	2006/12/05
111. JSW ISPAT Steel Ltd	India	Basic Materials	BSE/NSE	Ispat Metallics India Ltd	2004/09/27
112.Unitech Ltd	India	Industrial	BSE/NSE	Greenline Construction Ltd	2004/07/31
113.Alsea SAB de CV	Mexico	Cons., Cyclical	Mexbol / BMV	Operadora Vips S de RL de CV	2013/09/10
114.America Movil S. de CV	Mexico	Communications	Mexbol / BMV	Corp de Medios Integrales SA de CV	2013/01/21
115.America Movil SAB de CV	Mexico	Communications	Mexbol / BMV	Telefonos de Mexico SAB de CV	2011/08/01
116.America Movil SAB de CV	Mexico	Communications	Mexbol / BMV	Carso Global Telecom SAB de CV	2010/11/19
117.Coca-Cola Femsa SAB de CV	Mexico	Con., Non-cyclical	Mexbol / BMV	Grupo Yoli SA de CV	2013/01/18
118.Coca-Cola Femsa SAB de CV	Mexico	Con., Non-cyclical	Mexbol / BMV	Corp de Los Angeles SA de CV	2011/09/19
119.Grupo Herdez SAB de CV	Mexico	Con., Non-cyclical	Mexbol / BMV	Grupo Nutrisa SAB de CV	2013/01/17
120. Minera Frisco SAB de CV	Mexico	Basic Materials	Mexbol / BMV	Ocampo Gold/Silver Mine	2012/10/09
121. Grupo Carso SAB de CV	Mexico	Diversified	Mexbol / BMV	Carso Infraestructura y Construccion SA de CV	2011/10/24
122. Arca Continental SAB de CV	Mexico	Con., Non-cyclical	Mexbol / BMV	Grupo Continental SAB de CV	2011/01/24
123. WalMart de Mexico SAB	Mexico	Cons., Cyclical	Mexbol / BMV	Walmart Centroamerica	2009/12/07

de CV					
124.Empresas ICA SAB de CV	Mexico	Industrial	Mexbol / BMV	Consorcio del Mayab S.A. de C.V.	2008/03/24
125. Fomento Economico Mexicano SAB de CV	Mexico	Cons., Non-cyclical	Mexbol / BMV	Coca-Cola Femsa SAB de CV	2006/10/31
126.Grupo Mexico SAB de CV	Mexico	Basic Materials	Mexbol / BMV	Ferrosur SA de CV	2005/11/25
127. Mexichem SAB de CV	Mexico	Diversified	Mexbol / BMV	Grupo Pochteca SAB de CV	2005/10/04
128. Grupo Bimbo SAB de CV	Mexico	Cons., Non-cyclical	Mexbol / BMV	Controladora y Administradora de Pastelerias SA	2005/07/20
129. Desarrolladora H. SAB de CV	Mexico	Cons., Cyclical	Mexbol / BMV	Controladora Casa Beta SA de CV	2005/04/21

130.Grupo Carso SAB de CV	Mexico	Diversified	Mexbol / BMV	Empresas Frisco SA El Porvenir Gold Deposit	2010/07/12
132.Grupo Carso SAB de CV	Mexico	Diversified	Mexbol / BMV	Inmobiliaria para el Desarrollo de Proyectos SA de	2009/07/16
133.America Movil SAB de CV	Mexico	Communications	Mexbol / BMV	America Telecom SA de CV	2006/11/07
134. Forus SA	Chile	Con., Cyclical	Santiago stock exchange (SSE)	Sieteveinte SA	2013/09/02
135. Sigdo Koppers SA	Chile	Basic Materials	Santiago stock exchange (SSE)	Sabo Chile SA	2012/01/17
135. Sigdo Koppers SA	Chile	Basic Materials	Santiago stock exchange (SSE)	Construcciones y Montajes COM SA	2011/10/27
136. Empresas CMPC SA	Chile	Basic Materials	Santiago stock exchange (SSE)	Industrias Forestales SA	2011/10/26
137. Cencosud SA	Chile	Cons., Non-cyclical	Santiago stock exchange (SSE)	Nutripro SA	2011/07/27
138. CAP SA	Chile	Basic Materials	Santiago stock exchange (SSE)	Cia Minera Huasco SA	2010/02/10
139.CTI Cia T. Industrial SA	Chile	Cons., Cyclical	Santiago stock exchange (SSE)	Inversiones Frimetal SA	2009/12/10
140. Engie Energia SA	Chile	Utilities	Santiago stock exchange (SSE)	Inversiones Tocopilla 1 SA	2009/11/06
141. Empresas La Polar SA	Chile	Cons., Cyclical	Santiago stock exchange (SSE)	Omega SA	2009/05/28

142. Aguas Andinas SA	Chile	Utilities	Santiago stock exchange (SSE)	Inversiones Iberaguas Ltda	2008/07/11
143. Salfacorp SA	Chile	Industrial	Santiago stock exchange (SSE)	Aconcagua SA	2007/10/04
144.Cia General de Electricidad SA/OLD	Chile	Utilities	Santiago stock exchange (SSE)	Empresas Emel SA	2007/09/12
145. Almendral SA	Chile	Utilities	Santiago stock exchange (SSE)	Empresa Nacional de Telecomunicaciones SA	2005/01/25
146. SACI Falabella	Chile	Cons., Cyclical	Santiago stock exchange (SSE)	Supermercados San Francisco	2004/07/27
147. Telekom Malaysia Bhd	Malaysia	Communications	Bursa Malaysia Berhad	VADS Lyfe Sdn Bhd	2013/11/28
148. DRB-Hicom Bhd	Malaysia	Cons., Cyclical	Bursa Malaysia Berhad	Konsortium Logistik BHD	2013/10/25
149. Scientex BHD	Malaysia	Basic Materials	Bursa Malaysia Berhad	Seacera Polyfilms Sdn Bhd	2013/11/11
150.Perisai Petroleum Tec Bhd	Malaysia	Energy	Bursa Malaysia Berhad	Emas Victoria L Bhd	2012/12/03
151. TH Plantations Bhd	Malaysia	Cons., Non-cyclical	Bursa Malaysia Berhad	Bumi Suria Ventures Sdn Bhd	2012/10/25
152. SCAN Associates Bhd	Malaysia	Technology	Bursa Malaysia Berhad	Skykod Polyscience Sdn Bhd	2011/12/23
153. Scientex BHD	Malaysia	Basic Materials	Bursa Malaysia Berhad	Johline Realty Sdn Bhd	2009/10/19
154. YTL Corp Bhd	Malaysia	Diversified	Bursa Malaysia Berhad	YTL Cement Bhd	2011/12/19
155. YTLL and & Dev't Bhd	Malaysia	Financial	Bursa Malaysia Berhad	Trend Acres Sdn Bhd	2010/11/23
156. TIME dotcom Bhd	Malaysia	Communications	Bursa Malaysia Berhad	Global Transit Communications Sdn Bhd	2010/11/15
157. Diversified Gateway Solns Bhd	Malaysia	Technology	Bursa Malaysia Berhad	Diversified Gateway Sdn Bhd	2009/10/12
158. PLUS, Expressways Bhd	Malaysia	Cons., Non-cyclical	Bursa Malaysia Berhad	Linkedua Malaysia Bhd	2007/06/01
159. Kulim Malaysia Bhd	Malaysia	Cons., Non-cyclical	Bursa Malaysia Berhad	Sindora BHD	2007/11/13
160. MTD Infra Perdana Bhd	Malaysia	Cons., Non-cyclical	Bursa Malaysia Berhad	Metramac Corp Sdn Bhd	2004/12/10

APPENDIX B
Turnitin Report

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APPENDIX C

Ethical Clearance Certificate

UNIVERSITY OF KWAZULU-NATAL ™

INYUVESI YAKWAZULU-NATALI

11 July 2017

Mr Emmanuel Okofo-Dartey (216073009)
School of Accounting, Economics & Finance
Westville Campus

Dear Mr Okofo-Dartey,

Protocol reference number: HSS/1036/017D
Project title: Drivers of Mergers and Acquisitions and Firm Value Growth in Emerging Markets

Approval Notification – No Risk / Exempt Application

In response to your application received on 19 June 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....

Dr Shamila Naidoo (Deputy Chair)

/ms

Cc Supervisor: Dr Kwenda Farai
Cc Academic Leader Research: Dr Harold Ngalawa
Cc School Administrator: Ms Seshni Naidoo

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APPENDIX D

Editing Confirmation

EDITORIAL

CERTIFICATE

Authors: Emmanuel Okofo-Dartey

Document title: Drivers of Mergers and Acquisitions and Firms' Value Growth in Emerging Markets

Date issued: 19/03/2019

SUPREME EDITOR

This document certifies that the above manuscript was proofread and edited by Dr Gift Mheta (PhD, Linguistics).

The document was edited for proper English language, grammar, punctuation, spelling and overall style. The editor endeavoured to ensure that the author's intended meaning was not altered during the review. All amendments were tracked with the Microsoft Word "Track Changes" feature. Therefore, the authors had the option to reject or accept each change individually.

Kind regards

Dr Gift Mheta (Cell: 073 954 8913)

SUPREME EDITOR