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## Determinants Of Cross Border Merger and Acquisition in Advanced Emerging Market Acquiring Firms

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### Abstract

Cross border merger and acquisition (CBMA) deals worth over US\$2 billion every year but failure rate is between 70 to 90 percent. Many researchers have tried to explain those abysmal statistics but the outcomes are equivocal. This research aims to examine the determinants of CBMA that affect the shareholder value creation of advanced emerging market acquiring firms. Event study and regression analysis are applied for the study period 2000-2011. The result shows six determinants have a positive relationship with the shareholder value creation and are statistically significant for the advanced emerging market scenario.

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**Keywords:** Cross border merger and acquisition; determinants; event study; regression analysis

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### 1. Introduction

Ashoka and Shoko, 2001, explained that CBMA in Asian countries such as Indonesia, Korea, Malaysia and Thailand rose sharply in value from US\$3 billion in 1996 to US\$22 billion in 1999, before falling slightly to US\$18 billion in 2000. In 2004, Japan, China and ASEAN regions together accounted for 15.9 percent of the world's M&A deals and 7.7 percent of the world's M&A transactions value (Roger and Ali, 2006). Asian countries are foreseeable as the faster growing in terms of economy compared to other regions in the world and are playing important roles in the international trade and global investment. As a result, there will be more

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CBMA involving the companies from Asian countries in the future.

Malaysia is one of the developing countries that experienced rapid growth which transformed it from an agriculture-based economy to an industrial-based economy. Malaysia has been classified as an advanced emerging market in June 2011 by FTSE Group. This is the recognition for the continuous effort and commitment by the government, regulators and market participants to build a high quality market which will attract more investment from global investors. For decades Malaysia has been following prudent macroeconomic policies, focusing on low inflation, strong external reserves and current account surpluses. This study focuses on Malaysia as one of the advanced emerging market countries.

## 2. Statement of Problem

In Malaysia, Saiful, 2007, urged that there is a lack of empirical research on the economic consequences of the firms involved in M&A, particularly in an emerging market. None of the studies on corporate M&A activities in Malaysia is comprehensive to conclusively establish the economic gain in M&A of the bidder and target firms. She also suggested future researchers look into CBMA of Malaysian firms which are also lacking. Her suggestion is supported with the statement made by Sanjai *et al.*, 2011, on the very few academic papers focusing on the financial impact on the emerging market companies of CBMA. The increasing trend toward CBMA by firms from emerging market and lack of research in this area creates the need to address whether the extant conceptual framework and empirical evidence on international CBMA are relevant for acquirers outside the developed countries.

Therefore, this study is to fill in the research gap by exploring the determinants within the advanced emerging market acquiring firms, for example, financial data as suggested by Sanjai *et al.*, 2011, and external factors, for example, economic factors as suggested by Saiful, 2007.

## 3. Literature Review

There are inconclusive findings on shareholder value creation from mergers and acquisitions by previous researchers. Conn *et al.*, 2005; Black *et al.*, 2007; and Francis *et al.*, 2008, found out that the announcement of cross-border acquisitions resulted in positive abnormal returns. Glamour acquirers generated more value in cross-border acquisitions of public firms while value and high technology acquirers and a higher cultural difference resulted in a greater value creation in the cross-border acquisition of private firms. Meanwhile, Gregory and McCorriston, 2005; Moeller and Schlingemann, 2005; Wooster, 2006; Aybar and Ficici, 2009, show that there was no significant effect relating to the announcement of acquisitions on shareholders' wealth.

## 4. Research Methodology

An event study is carried out to examine the share price behavior of bidding firms and target firms over the specified period of time. This study focuses on how security prices respond to the information released during a public announcement of a specific event of a firm in the case of M&A. Franks *et al.*, 1977, commented that the market begins to anticipate mergers on average of at least 3 months prior to the announcement date. Daily historical prices for the stock of acquiring companies as well as market index are obtained from data-stream. The sample comprises 285 transactions of CBMA throughout 2000 to 2011. From 285 CBMA, only 73 transactions are considered as the final sample in this study that exceeds the limitation set in this research. The daily realized returns ( $R_{it}$ ) for each day  $t$  for the event window [-90; +90] are computed. The daily abnormal returns ( $AR_{it}$ ) are obtained as differences of realized and predicted returns on day  $t$  in the event period.

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