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FACULTY OF COMMERCE, LAW AND MANAGEMENT

SCHOOL OF ECONOMIC AND BUSINESS SCIENCES

MASTER OF COMMERCE IN BUSINESS FINANCE (100% DISSERTATION)

THE PERFORMANCE OF CROSS-BORDER ACQUISITIONS TARGETING AFRICAN FIRMS AND THE CAPITAL STRUCTURE INFLUENCE ON METHOD OF PAYMENT

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Johannesburg, South Africa

SCHOOL OF ECONOMIC AND

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This research project is dedicated to the future and its endless possibilities; may it judge my people favourably. To the African child aspiring to a better future; mine and yours is to disrupt the narrative and influence discourse, one research question at a time.

ABSTRACT

Aim: The purpose of this study is to examine the performance of cross-border mergers and acquisitions (CBAs) into Africa. Given that the method of payment predicts the performance of an M&A deal, the study further investigates the influence of capital structure on the method of payment.

Design, methodology, approach: The study first explores BHARs for the entire sample then the study splits the main sample into developed and emerging acquirers for a detailed analysis. ROEs and ROAs are also examined to assess the robustness of performance. The study then uses panel data of 503 deals from 43 developed and emerging countries in the three years post-acquisition. The panel data employs the GLS random effects regression technique. With regards to the influence of capital structure on the method of payment, the study uses cross-sectional logistic regressions on the full sample first, followed by the developed economy acquirer sub-sample**.**

Findings: Four key findings emerge from the study. Firstly, on aggregate Africa bound CBAs significantly underperform. Secondly, emerging economy acquirers outperform their developed economy counterparts. Thirdly, firms with low leverage have a higher propensity to use cash as a method of payment. Finally, financial slacking positively predicts the use of cash as a method of payment. The third finding lends some support for the pecking order theory; however, it lends no support for the market timing theory which is a dominant theory in choice of method of payment in the M&A setting.

Originality: The study examines the performance of deals exclusive to the African continent. It compares the quality of performance based on the acquirer country economic characteristics, a trailblazing quest considering available literature. Financing choices are explored in an environment (international setting) that is faced with more funding complexity (in contrast to domestic acquisitions).

KEYWORDS: Cross-border acquisitions, financial slacking, leverage.

List of acronyms and abbreviations

Acronym/Abbreviation	Explanation
ATP	Anti-Takeover Provisions
BHAR	Buy-and-Hold Abnormal Return
BoD	Board of Directors
BTM	Book to Market
CAAR	Cumulative Average Abnormal Returns
CAR	Cumulative Abnormal Returns
CBA	Cross-border Mergers and Acquisitions
CRA	Credit Rating Agencies (hereafter CRAs
DE	Developed Economies
EAC	East African Community
ECOWAS	Economic Community of West African States
EE	Emerging Economies
EMM	Emerging Market Multinationals
EU	The European Union
GDP	Gross Domestic Product
GLS	Generalised Least Squares
M&A	Mergers and Acquisitions
MSCI	Morgan Stanley Capital International
NDRC	National Development Reform Commission
NPV	Net Present Value
PE	Price to Earnings
ROA	Return on Assets
ROE	Return on Equity
SADC	Southern African Development Community
UAE	The United Arab Emirates
UK	The United Kingdom
US	The United States of America

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

The world is fast getting globalised and the integration of world economies (the developing and the developed alike) is inevitable. Investors are constantly searching for opportunities where they can optimally deploy capital. The main objective of any business has been long established as sustainable value creation or wealth maximisation for its shareholders (Denis, 2016). As strategies for growth, firms could either engage in organic growth or acquisitive growth. Organic growth is when firms engage in various strategic moves in a bid to increase their revenues (or market share). These can range from intensifying marketing efforts to broadening the product offering and, gaining a significant share of the market and growing their revenues.

Acquisitive growth usually takes the form of horizontal, vertical or unrelated merger or acquisition (hereafter M&A).[1] Broadly speaking, in a horizontal M&A the two firms are in the same line of business (as competitors or substitutes). In the case of a vertical M&A, it is a deal that is completed between a supplier and a customer in the production hierarchy (chain). When it is an unrelated M&A then the two firms are not in the same or similar industry, thus, they do not have a substitute, competitor, supplier or customer relationship. Firms can acquire or merge with local firms (domestic M&A) or foreign firms (cross-border M&A) in the three categories discussed.

In practice, however, the distinction between the two forms of firm growth may prove hard. For example, if a firm is seeking organic growth through access to new markets it may have to look beyond its national borders. This results in what is commonly referred to as cross-border acquisitions (hereafter CBAs). This is when a firm in one country acquires a firm domiciled in a different country. Over the years the volume of CBAs into Africa has increased tremendously.

[1] Mergers refer to two or more companies being combined into one company under a new identity. Acquisitions refer to cases where one company acquirers and assumes control of another or its assets, usually these firms retain their respective identities. In this study, the two are used interchangeably. Rao and Kumar (2013) define mergers and acquisitions as activities involving takeovers, corporate restructuring, or corporate control that changes in ownership structure of firms.

For example, Wilson and Vencatachellum (2016) document that between 2003 and 2008 the number of M&A transactions in Africa doubled as the value of M&As targeting the continent increased sevenfold.

The impact of M&As on shareholder wealth has been researched extensively. Studies are, however, still conflicted on the ability of M&As to create wealth, the success paradox of M&As lives on. Scholars have indicated that performance measures, firm and deal-specific factors affect the assessment of acquirer performance, in the post-acquisition period. Also, some factors may be specific to the CBA context, lending these types of deals more complicated than domestic deals. These include cultural distance, regulation and politics.

The present study seeks to investigate the performance of CBAs from developed and emerging economies into Africa. The study also extends this examination to exploring the influence of capital structure on the method of payment and subsequently performance (value creation) prospects of the acquirer in the long-run. This quest is relevant to all stakeholders who are aware that global integration in the context of business activities is a starring reality (these include: multinational firms, investment banks, governments and their economic development agencies) and are keen to develop intelligence around this vehicle of globalisation. For ease of commentary, the study follows Lebedev, Peng, Xie and Stevens (2015) by classifying acquiring firms according to their geographical area of domicile; EM (Emerging Markets) and DE (Developed Economies).

1.2 PROBLEM STATEMENT

Evidence on the impact of international diversification on acquirer performance or value creation is conflicted. A substantial body of literature indicates value destruction by CBAs (Kim, Haleblian & Finkelstein, 2011; Bertrand & Betschinger, 2012; Gregory & O'Donohoe, 2014; Andriosopoulos & Yang, 2015). An equally imposing body of literature indicates enhancement of acquirer value by CBAs (Deng & Yang, 2015; De Beule & Sels, 2016; Li, Li & Wang, 2016; Rani & Asija, 2017).

In the past, most of the studies sampled US-based acquirers, targeting firms in developed countries (Martynova & Renneboog, 2008). Most recent studies, however, have a fair representation of both developed and emerging markets (Tsuji, 2015). The picture nonetheless, remains the same, highly contradictory. One could argue, however, that since most of the studies are short-term they merely measure the short-term reaction of the markets. Hence the empirical results would reflect the uncertainty surrounding these deals, not the intrinsic value.

Another reason for the existence of the conflicting conclusions can also be traced to the fundamentals of targets. For example, targets in developed economies are comparable thus; the acquirer gets access to the same fundamentals in acquiring from another developed economy hence the similar performance results in CBA and domestic acquisition studies emerging from the developed world.[2] One may then further, argue that these types of deals do not fully capture the very essence of international diversification.

Fairly recent studies sampling emerging market multinationals (dominated by India and China) acquiring firms domiciled in developed markets also report results that indicate value creation. This is a picture in favour of value creation compared to developed market multinational acquirers (Aybar & Fucici, 2009; Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010). Literature specifically addressing the long-term impact of international diversification (by emerging and developed market firms into African markets) on acquirer value is practically non-existent.[3] *It remains to be empirically established whether international diversification (in the form of CBAs) creates value for the acquirer in the long-term. It also remains an empirical mystery, which firms (between developed and emerging economy firms) realise more value or performance through acquiring African targets.*

Literature documenting the impact of method of payment as a predictor of post-acquisition performance of an acquiring firm has almost established the positive link between cash acquisition and post-acquisition performance as a "near fact" (Travlos, 1987; Goergen & Renneboog, 2004). Likewise, equity acquisitions, on the other hand, have gained the notorious reputation of value destruction (underperformance). Some empirical evidence indicates that overleveraged firms are less likely to make acquisitions in contrast to underleveraged firms (Uysal, 2011; Harford, Humphery-Jenner & Powell, 2012).

In that same line of literature, Uysal (2011) documents empirical evidence that suggests that the choice of method of payment is largely a capital structure decision. More specifically the study notes that indeed overleveraged firms are less likely to engage in M&As. The study also

[2] This is in reference to CBA deals between developed economies; for example, the UK and the USA.

[3] Wilson and Vencatachellum (2016) indicate that M&A targeting Sub-Saharan Africa responds positively and significantly to international stock markets (S&P) and international bond yields (G7), thus, motivating an empirical investigation on the actual impact of these transactions on acquirer value and the subsequent implications for investors.

elaborates that in cases where they do, the method of payment is largely in the form of equity. Consistent with these empirical findings, one would also propose that the long-term strategy of financial slacking should yield positive value creation for the acquiring firm.[4] This is because firms that have slack are flexible enough to acquire other firms at a time most convenient for them.

Empirical evidence on the performance of firms that employ the financial slacking strategy in cross-border acquisitions is practically non-existent. Based on the notion that firms with financial slack have more agility in making acquisitions, it is a worthwhile quest to explore how this impacts their acquisition choices and subsequent performance. Bearing in mind that cross-border acquirers are faced with a plethora of opportunities (relatively speaking) in that they look at a broader market (global) in pursuit of opportunities. *The influence of capital structure and financial slacking on the method of payment in the cross-border (into Africa) context remains to be established. It also remains to be examined in a long-term study, how financial slacking affects the performance of a multinational in cross-border deals involving African targets.*

1.3 RESEARCH OBJECTIVES

The study has two major objectives. The first objective is to determine the long-term performance of cross-border acquisitions by firms from developed and emerging economies into Africa. The second objective is to determine the impact of capital structure on the method of payment. The two main objectives highlighted are further dissected into four sub-objectives.

1.3.1 Sub-objectives

The sub-objectives of this study are to determine:

- if developed and emerging economy firms overperform in the long-run when acquiring African targets in CBA deals.
- if emerging market acquirers outperform developed economy acquirers in the long-run in CBA deals acquiring into Africa.
- the influence of capital structure on the choice of method of payment in CBA deals into Africa.

[4] Accumulating reserves and operating at a capital structure that leaves room for one to conveniently borrow as and when an opportunity for acquiring other firms arise Almazan, De Motta, Titman and Uysal (2010).

- the influence of financial slacking on the choice of method of payment in CBA deals into Africa.

In exploring the performance related objectives the study dissects the main sample into sub-samples constructed on the basis of the financial development of the target country, industry of the target firm and economic blocs to which target countries belong. This provides for a multifaceted approach.

1.4 RESEARCH HYPOTHESES

The performance of CBAs is largely a function of a myriad of national, industry and firm-level characteristics of a deal. These include but not limited to, cultural distance, managerial hubris, government policy as well as absorptive capacity. The distinctive characteristics give rise to differences in the performance of respective firms. For example, empirical evidence suggests that there is more cultural clash in cross-border acquisitions, owing to national cultural distance (Dikova & Sahib, 2013). Also, from a purely risk-oriented perspective, multinationals (and aspiring multinationals alike) are aware of the risks that are inherent in CBA deals (Tsuji, 2015). One is thus justified to believe that these multinationals acquire firms domiciled in Africa with the full cognisance of these political, institutional, market and other risks. Also, in choosing to disregard these widely documented risks, cross-border acquirers signal their ability to navigate or mitigate these challenges. Thus, consistent with the investment adage "high risks high returns", cross-border acquirers are thus expected to realise high returns for the risk exposure they assume.

Developed economy firms are generally known to engage in CBAs for asset exploitation (Tsuji, 2015). These firms subsequently use CBAs as a means through which they can enter a market. For an effective market entry, these developed economy firms may acquire firms that have a footprint (and a thorough understanding of the consumer psychographics) in the frontier markets to penetrate the new market. The acquisition of Massmart by Walmart is probably one of the best examples that capture this phenomenon. On the token of effective asset exploitation, given that the middle-class has been on the rise in Africa, one has reason to believe that M&As into Africa from developed economy firms are more likely to create value for acquiring firm shareholders (Tschirley, Reardon, Dolislager & Snyder, 2015).

On the other hand, emerging economies have been empirically proven to be motivated into CBAs by asset seeking (Chen & Young, 2010). They engage in these deals to ensure that they

gain competitive advantage as they own and control key resources of production. Africa is popular for its natural resource endowments (Sala-i-Martin & Subramanian, 2012). The overarching motive of emerging market acquirers is a strategic fit for the African economy needs. Emerging market acquirers are thus able to partner (in M&As) with local firms and alleviate two challenges most African economies battle with; access to financial capital and unemployment for its unskilled and semi-skilled population.[5] Owing to the above-discussed, the present study, therefore, submits the following hypothesis.

Hypothesis 1**:** *Developed and emerging economy acquirers in Africa bound CBA transactions overperform in the long-run.*

The ability to outperform counterparts in the CBA context is largely a function of the acquiring firms' ability to navigate the determinants of value creation specific to the international transaction context. Developed economy firms are predominantly from Europe, Australia and North America whereas; the leading emerging economies in the CBA deals are India and China (Tsuji, 2015). Most recent research (long and short-term alike) indicate that emerging economy multinationals create value significantly when they engage in cross-border transactions (Li et al., 2016; Rani & Asija, 2017). Studies investigating developed economy acquirers, on the other hand, have documented conflicting findings on value creation (Bertrand & Betschinger, 2012; Danbolt & Maciver, 2012; Andriosopoulos & Yang, 2015). The deviations are attributed to a multitude of factors ranging from managerial hubris, cultural distance, and major economic events.

Cultural distance is a largely influential factor in value creation when it comes to CBA transactions. Cultural compatibility is essential to post-acquisition integration. National culture influences 50% of managers' attitudes, beliefs and values (Hofstede, Hofstede & Minkov, 2010). On this token, one could argue that firm culture is significantly influenced by the national culture. Emerging markets have a more egalitarian culture whereas developed economy acquirers have a hierarchical culture.[6] African labour, owing to cultural traditions and their history with colonialism are more inclined towards the egalitarian culture. Emerging

[5] Semi-skilled and unskilled labour can be converted into productive labour with little on the job training for projects such as building and other human-labour intensive roles.

[6] Some countries have an egalitarian culture and they rank the importance and social power of all members relatively equally, whereas hierarchical cultures delineate members into multiple vertical ranks of power. See Brett & Okumura (1998) for a detailed breakdown of egalitarian culture.

markets are thus more compatible with African national cultures. One thus maintains that this, aids managers in ensuring a smooth post-acquisition integration and thereby realising more value for shareholders.

Empirical evidence indicates that emerging economy governments also aid firms engaged in cross-border deals. China particularly offers financial assistance and other strategic support mechanisms for firms that engage in CBA for technology acquisition (Chen & Young, 2010). One would thus, expect such initiatives to translate into superior post-acquisition performance by emerging economy firms. Given the above arguments, the study submits following hypothesis;

Hypothesis 2**:** *Emerging economy acquirers outperform developed economy acquirers in Africa bound CBA transactions*

Extant literature records that firms use equity as a method of payment in M&As destroy value (generally in the short-term) and those which use cash create shareholder value (Travlos, 1987; Georgen & Renneboog, 2004). This is largely attributed to information asymmetry. The markets thus perceive equity purchases as an indication that the firm using equity to finance an acquisition is overvalued. The explanation may be plausible, assuming the decision of method of payment is a short-term decision. This, however, does not always hold true. One would argue, that acquisitions are largely a long-term business decision as such a long-term oriented explanation is rather more plausible.

Scholars have long explored the existence of optimal capital structure (Myers, 1984; Frank & Goyal, 2009). They define the optimal capital structure as a degree of leverage where the benefits of leverage (tax shield, low-cost of capital) and the cost (risk of bankruptcy, debt overhang) thereof, maximise the value of the firm. The attainment of the optimal capital structure should result in the maximisation of firm value. Implicitly resulting in the maximisation of shareholder value, which is the essence of the managers' mandate (Denis, 2016). Intuitively the deviation from these levels should result in the sub-optimal firm value. Although there is no consensus on the actual level of optimal capital structure, it cannot be disputed that generally, a high leverage ratio implies overleverage and a low leverage ratio indicated underleverage. The two scenarios are forms of deviation from the optimal capital structure which firms may seek to address. Thus, firms operating above this level (overleveraged) are bound to rectify that when engaging in M&As by choosing to use equity in a bid to address this disparity and achieve a lower debt ratio. Harford, Klassa and Walcot

(2006) document that firms operating at a debt ratio lower than the optimal levels are more likely to use debt in M&As to address this disparity. The present study, therefore, submits the following hypothesis;

Hypothesis 3**:** *Highly leveraged firms are more likely to acquire a target using equity in CBA transactions whereas firms with low levels of leverage are more likely to acquire a target using cash.*

Empirical evidence indicates that firms accumulate financial slack when they have acquisition opportunities and there is a link between acquisitions and security issuance decisions through leverage deficit (Morellec & Zhdanov, 2008; Almazan, De Motta, Titman & Uysal, 2010). Firms that engage in financial slacking usually use their reserves and cash to access debt facilities. This enables the acquirer to lower the weighted average cost of capital and maximise the value of the firm. Firms that have a higher debt capacity are well poised to take advantage of market opportunities as and when they arrive. Thus, the dexterity that is offered by financial slacking should enable the acquirers to subsequently take advantage of market opportunities and achieve superior post-acquisition performance. The present study, therefore, makes the following hypothesis;

Hypothesis 4: *Acquirers that have financial slack on their balance sheet prior to a CBA are more likely to use cash as a method of payment when acquiring a target.*

1.5 CONTRIBUTIONS

The contribution of this study is twofold; to academia (the body of knowledge) secondly and to the profession of Investment Banking. Multinationals which intend on carrying out CBAs would find the study valuable. Academics would also find it useful because to the knowledge of the author of the current study this is one of the few studies testing an alternative explanation for the choice of method of payment in CBAs into Africa. The study explores the plausibility of the information content hypothesis of the method of payment as well as the free cash flow hypothesis. The contributions are summarised as follows:

- The post-acquisition performance embedded in the international diversification of operations through CBAs into Africa has received limited attention in literature this study addresses this gap.
- The study identifies the lucrative industries for foreign investors.
- Globalisation and the implications thereof are a reality to all multinationals (in the developed and emerging markets alike). Multinationals need the market intelligence on

attributes that can enhance their value in their acquisition endeavours in the global arena.

- Foreign direct investment (FDI) is crucial to frontier markets' economic growth as such this study is of great relevance to banks, governments and other economic development agencies in the respective economies. Investment bankers facilitating FDI into Africa would benefit from the current study in that they would be able to determine the ideal strategic acquirer when advising on such deals. Governments are also able to use this study to explore opportunities for development of infrastructure that enables the facilitation on FDI that assumes the CBA form.
- Multinationals that have been engaged in greenfield investments into Africa can also use the study to better understand the viability of the alternative (acquisitive entry into African markets).
- The study intends to bring clarity to the plausibility of the market timing theory on the method of payment. It explores the degree to which the method of payment decision can be attributed to a longer-term phenomenon, capital structure; through the pecking order theory.

1.6 DELIMITATIONS

The study is confined to public listed acquirers due to the nature of information required to conduct the study. This introduces two major delimitations for the study.

1) Selection bias with regards to sample selection.
2) The sample has more developed economy acquirer deals than those from emerging economies.

1.7 A SUMMARY OF FINDINGS

The study makes the following findings:

- Firms acquiring African targets underperform in the 12, 24 and 36-months period after deal completion.
- Emerging economy acquirers have negative performance that is not statistically significant when measured by BHARs, it is nonetheless positive and statistically significant when measured by ROE and ROA.
- Developed economy acquirers perform negatively and this is statistically significant for BHAR, ROEs and ROE.

- Emerging economy acquirers outperform developed economy acquirers. The difference is statistically significant. This is robust to; the level of financial development of the country in which the target firm is based, the industrial sector of the target firm and the regional economic groupings around Africa.
- Firms acquiring into financially developed countries perform better than those who acquire into underdeveloped target countries.
- Firms acquiring into the consumer goods sector perform better than those who acquire into the basic materials sector.
- Firms acquiring into countries located in the SADC and Arab regions perform better than those who acquirer into the ECOWAS and EAC regions countries.
- Firms with low levels of leverage have a higher propensity to acquire using cash when engaging in a CBAs.
- Firms with high levels of financial slack have a higher propensity to acquire using cash when engaging in CBAs.
- Financial slacking negatively affects performance before and after the conclusion of a CBA deal.

1.8 CONCLUSION AND STRUCTURE OF DISSERTATION

The study proceeds as follows. Chapter two reviews the literature on the motivations behind CBAs, the factors affecting value creation for CBAs and capital structure as a determinant of the method of payment in CBAs. Chapter three discusses the data and methodology. Chapter four reports the results and discusses the implications. Chapter five concludes the study and provides recommendations for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter discusses the extant literature on CBAs. Section 2.2 discusses the motives behind CBA deals. These are generally classified as either asset seeking or asset augmentation. What emerges from the discussion is a bias towards the need (by the acquirer) to improve the current financial position or maintenance of a favourable position through gaining competitive advantage. Section 2.3 discusses the factors affecting the degree of value creation by CBA deals. In total, nine factors are discussed, most of which are generic to M&A deals. However, the discussion that follows also explores the impact of factors specific to the CBA context, such as national cultural distance and corporate governance regimes. Section 2.4 unpacks the empirical evidence from both the developed and emerging markets with regards to value creation. A value creation comparison between domestic and CBA deals is also tackled in this section. Section 2.5 discusses the implications of capital structure on the choice of method of payment. It presents an argument for an alternative explanation for the information signalling theory of the method of payment phenomena.

2.2 MOTIVATIONS FOR CBA DEALS

International financial markets are more integrated today than they were several decades ago. However, assuming that they are perfectly integrated would be an unrealistic stretch of reality. The imperfections that exist in the global markets present practitioners with ample motivation to be agents of arbitrage[7]. In an era of global interdependence, multinational corporations increasingly depend not only on other firms in their home country but also on firms in other countries for raw materials, intermediate products, or downstream markets (Bhagat, Malhotra, & Zhu, 2011). Upon a thorough analysis of literature documenting the motivations for CBAs, two main streams of motivation emerge; asset exploitation and asset augmentation (asset seeking). Li et al. (2016) distinguish between the two as follows; when exploiting existing resources, acquirers are teachers; when seeking (acquiring) strategic assets, they are students.

[7] See Doukas and Travlos (1988) who explore the CBA market plays a crucial role in rectifying anomalies in factor, product and capital markets.

Although other motives may appear in the literature the two, are the main categories that enable one to have a structural view of the theoretic framework of motivations behind cross-border acquisitions. It is worthwhile to understand in detail what the tenants of these motivations are.

Resources and capabilities can be viewed as a bundle of tangible and intangible assets, such as the firm's managerial skills, its organisational systems, and the knowledge it possesses (Peteraf, 1993).[8] Chen and Young (2010) describe asset exploitation motive as cases where an acquirer engages in CBA with the aim to leverage their firm-specific resources (specialised knowledge, management skill, patents, licences, etc.) in a new setting. This allows for acquirers to gain a competitive advantage over local firms in the process. On the other hand, they define asset augmentation motive as cases where an acquirer engages in a CBA deal with the motive to acquire resources, capabilities and knowledge (tangible and intangible assets). Thus, the crux of this motive is the improvement of internal capabilities and competitiveness, ultimately assuming a better competitive position. However, to develop a well-informed understanding of these motivations, it is imperative that one discusses these broad categories in fine detail.

A CBA is a strategic decision and it is without a doubt, the globalisation of world economies has serious implications for current multi-nationals and aspiring ones likewise. The twenty-first-century economy business managers have had to lift their heads beyond the horizon of their borders in understanding market forces. Porter (2008) designed a framework such that the managers formulate key strategies considering the implications of industry forces (customer, suppliers, new entrants, competitors and substitutes) when making or formulating corporate strategies. This framework offers a holistic way of exploring the forces that go into the CBA decision. Geographical and industrial expansion decisions are thus largely informed by these factors. The rationale of the analysis henceforth is that, at the core of management mandate, is the maximisation of shareholder wealth (Denis, 2016). For better insight into the motives behind CBAs, this study explores literature on how these forces can drive the geographical and industrial strategies and ultimately the decision to acquire cross-border.

Porter's implications for Industry concentration

According to Porter (2008) from a production perspective, an industry comprises of competitors, substitutes and new entrants. Industry concentration refers to the degree to which

[8] As the discussion proceeds assets and resources are used interchangeably.

production in an industry can be attributable to a few firms (Bain, 1951). According to Davis and Cobb (2010), firms engage in CBAs in search of new markets. One would thus expect firms which belong to high concentration industries to actively look for low concentration opportunities in other geographical locations. Seeing as competition can spark zero-sum price wars if firms compete exclusively on price, some firms may find it worthwhile to "expand the pie" in this way. [9] Elango and Sambharya (2004) investigate the factors influencing the mode of entry choices (greenfield or acquisitive) in determining the location of manufacturing firms. The study found that firms in industries with low concentration (industries exhibiting high gross profits) prefer to engage in acquisitions. High concentration industries, on the other hand, attracted fewer acquisitions. Instead, they experienced more greenfield investments. Firms may also decide to expand their operations into a different geographical position because of saturation in the local market and to avoid knowledge spillovers firms may move to locations with less industry concentration (Alcacer & Chung, 2007).

Porter's implications for the role of suppliers

Porter (2008) makes an emphasis that managers need to understand the influence of suppliers with broad intelligence. Suppliers may constitute, but not limited to, raw material suppliers, technology, information and labour suppliers. The extant literature on CBAs documents that most emerging market firms engage in CBAs in a bid to access these resources and capabilities (Drees & Heugens, 2013; Deng & Yang, 2015). Managers may be motivated to expand their factory or operations to a geographical position that would enable the firm to leverage the local resources such as raw material (natural resources) input and specialised labour. This is better explained by the resource dependence theory (hereafter, RDT). The theory postulates that the decision to engage in CBA is a means through which firms alleviate their degree of dependency on the external environment for key resources (Pfeffer & Salancik, 1978). Firms depending on the external environment can and do enact multiple strategies to combat their external constraints and procure critical resources (Pfeffer & Salancik, 2003). In illustration of this notion, Yao and Wang (2013) document how Chinese firms are largely motivated by their pursuit of natural resources in engaging in M&As into Africa. Further substantiating this theory, Kale, Singh, and Ramaan (2009) found that learning new or advanced technology from

[9] Zero sum, implying that firms are engaged in a war and they keep cutting into their profit margins until the industry is no longer profitable.

the acquired company is one of the major objectives of overseas acquisitions. They concluded that this inorganic route of international expansion enabled Indian acquiring firms to become more competitive.

2.2.1 Asset augmentation

Political

A well-documented example of cases where CBA decisions are politically motivated is the case of China. Chen and Young (2010) document that Chinese equity shares are largely controlled by State agencies, specifically, the State Council (in the case of state-owned enterprises). Legal person shares (shares owned by institutional investors) are largely controlled by regional and central governments as well as associated ministries. Individual as well as well as foreign investors are shareholders in the same firms (usually in the minority). Their non-controlling shareholding thus implies that they cannot influence key decisions in the business such as CBAs. Moreover, the dominant position of the Chinese government is guaranteed by the fact that legal persons and state shares are non-tradable.

The concept of agency then comes into play because corporate managers operate under the employ of shareholders (represented by the board of directors). Majority shareholders ultimately decide who is appointed to run the business, it is by this token, that the Chinese governments (local and national) have control over the corporate decisions (CBAs included) of the firm in which they have a shareholding. Corporate governance (through internal and external mechanisms) is meant to eliminate market imperfections and sub-optimal corporate practices, such as value-destroying M&As (Harford et al., 2012). Chen and Young (2010) further document that the legal system does not lend good support in rule-based impersonal governance structures. This sets the scene for "majority rules" type of governance. As a result, firms become an instrument for the pursuit of the strategic ambitions of the biggest shareholder (in this case, the Chinese government).

A convincing body of literature documents how the Chinese government uses shareholding in CNPC, CNOOC, and Sinopec to advance its political ties with Africa (Cheung, Haan, Qian & Yu, 2012; Yao & Wang, 2013). Chen and Young (2010) also refer to these Chinese government-controlled firms. More specifically, how they engage in sub-optimal CBAs, lending support for the notion that political motives may overshadow value maximisation motives in cases where governments are involved in shareholding.

In addition to using their proxy as a shareholder to influence CBA decisions, political motives could find other means through which they have their way ultimately. Seeing as the rational investors are motivated by profit and value creation, institutions with political motive thus can find common ground where they can partner or induce those with profit motives to engage in transactions in the direction which they want. Luo, Xue, and Han (2010) explore in greater detail, how the Chinese government facilitates the globalisation of its firms' operations. The study reviews ways through which the Chinese government promotes outward investment. The study further established that the government offers incentives such as tax deductions, low-interest loans and investment treaties with other governments. The Chinese government helped multinationals deal with foreign institutions. In the past multi-national firms had to navigate some capital control regulations. Prior to the adoption of the 2002 "go abroad" policy, the barriers constrained international investment activities of Chinese firms. However, after the adoption of this policy, the Chinese government relaxed capital controls and overseas investment restrictions. Ultimately, deregulation lowered the costs for Chinese firms entering international markets.

Exploring the location choices of EMMs, Buckley, Liu, Munjal and Tao (2016) determine that in the case of Chinese firms, the government has a lot of influence on such and their reasons are mostly informed by political ambitions of the Chinese government. Owing to this, they conclude that Chinese multinationals have had a strong impact on the world economy. Many scholars have credited the policy direction in China in its influence on location choices for its multinational companies (Quer, Claver, & Rienda, 2012; Richet, 2013).[10] This directive is largely driven by the political and strategic objectives of the Chinese government.[11]

Agency and governance motives

Thus far the discussion has been centralised around principals (shareholders) and their strategic ambitions.[12] The principal-principal conflict presented in Chen and Young (2010) submits that majority shareholders may expropriate minority shareholders because of divergent

[11] China, in its broader ambition to fuel its manufacturer base, encourages FDI in countries with large endowments of natural resources (Globerman & Shapiro, 2009).

[12] It also continues on that wavelength, shortly when we explore the strategic motivations centralised around profit maximisation and value creation.

strategic endeavours. The separation of ownership and management presents another conflict of interest scenario (principal-agent conflict). Agents (Managers) may have their own interests such as building up a reputation and building an empire which may be divergent to shareholders' interest of value creation (Cho, Arthurs, Townsend, Miller & Barden, 2016; Denis, 2016). It follows that agency cost fees may take the form of M&As.

According to Roll (1986), if managers suffer from hubris, there is an increased likelihood of overstatement of synergy forecasts and consequently, they may overstate their ability to improve the performance of the target. The scope of agency conflict is much express in instances where managers stand to gain from an M&A deal. In such cases, Jensen and Meckling (1976) argue, acquisitions are driven by managerial and not shareholder wealth maximisation objectives. Seth, Song and Pettit (2000) also term this, the managerialism theory. The theory submits that managers engage in M&As with the objective of maximising their own utility, regardless of the negative impact of the deal on the company's shareholders' wealth.

According to Danbolt and Maciver (2012) in countries with weak corporate governance, managers are well able to use their position to undertake value-destroying M&As. However, they may be constrained to carry out such in countries with strong corporate governance. Illustrating this notion, Bayazitova, Kahl and Valkanov (2012) found that acquisitions of public targets in the US typically do not destroy value, and by most measures, create value. They indicated that mega-mergers (the top 1% of mergers in absolute transaction value) destroy value for the acquirer. They present some further evidence that mega-mergers are driven by managerial motives and weak corporate governance. They conclude that the largest mergers appear to be driven by managerial motives, such as empire building. However other M&As did not destroy value, thus the strong corporate governance environment may have had an effective monitoring effect.

Unpacking a unique approach to the influence of managers on the decision to engage M&As, Cho et al. (2016) study acquisition premiums to explore how CEO celebrity status and financial performance affect a firm’s risk behaviour. The study reveals that these tendencies change when prior firm performance deviates from the industry average returns, thereby leading these CEOs to pay higher premiums. The study also finds that the premiums tend to be even larger when celebrity CEOs have more recently attained celebrity status. Celebrity status is a double-edged sword, they advance, and the internalisation of celebrity status by CEOs strongly influences the decision-making of CEO. It could destroy significant value if the CEO has

recently attained celebrity status and the performance of the firm lags the industry average. It could also yield good value creation in instances where the CEO is a seasoned celebrity, by way of a paying lower premium in acquiring firms. One could, therefore, argue that celebrity CEO status may motivate the decision to engage CBAs.

Finally, the consensus is that firms domiciled in poor corporate governance regimes are more likely to be undervalued owing to poor management (Danbolt & Maciver, 2012). It could, therefore, be a motivation that drives firms that hail from developed corporate governance systems to go into those markets with undervalued firms and make good buys. Managers and deal advisors alike should, none the less, have a full appreciation of the motives of the respective acquirer managers, particularly those coming from less developed corporate governance backgrounds.

Chasing factors of production (Natural resources, technology, intelligence and talent)

Firms have had to adapt to a fast globalising world economy. The extant literature has it on record that firms from emerging economies are driven by the quest for strategic resources in overseas markets (De Beule & Sels, 2016). These range from new technologies, managerial talent and natural resources. The rudimentary logic behind this school of thought is that resource ownership offsets the challenges of foreignness. According to Li et al. (2016) EMMs are usually latecomers in the global market. It is more likely, they submit, that EMMs also bring inferior resources (technology, skill and brands) to the market. They further submit that, given the less developed nature of the institutional environment (property rights protection framework etc.), the development of these competencies (particularly intangible resources) is met with great contention. The innovation environment is not as vibrant as in developed economies; hence EMMs come second best with regards to competitive advantage. It is therefore imperative that in their quest to compete on a global scale, they acquire these resources to gain the competitive advantage.

Firms acquire targets in a country to increase their ability to acquire (access) resources in the host country (Pfeffer & Salancik, 2003). When firms acquire cross-border, they limit (reduce) their dependency on the external environment (Deng & Yang, 2015). Consistent with the RDT theory, Pant and Ramachadran (2012) document empirical evidence that the magnitude of resource dependency on host nations predicts the likelihood of CBAs, with the aim of ensuring the autonomy of the acquirer. This implies that, the more a firm is dependent on resources in a

particular geographical location, the higher the likelihood that it may acquire a firm in that specific country.

Emerging economies such as China have an inherent competitive advantage in production through their less expensive labour. However, for them to exploit this competitive advantage through scaling production and leverage productively they would need to acquire natural resources and internalise the factor markets (Chen & Young, 2010). While it is on good record that China adopted the "go abroad" policy as a national development plan strategy and Chinese CBAs are as politically motivated (Buckley et al., 2016). Scholars offer robust evidence that Chinese firms are not just motivated by the politics but also motivated by the pursuit of natural resources in a bid to attain international competitiveness (Cheung et al., 2012; Yao &Wang, 2013).

According to Rugman (2008), emerging market firms lack managerial skill. Being late-comers and newcomers EMMs are thus also motivated by the acquisition of talent. This is to ensure they address their inherent shortcomings in competitive advantage by internationalising their operations. This has been coined, as the springboard theory. Adding on to this theory De Beule and Sels (2016:3) advance that EMMs "use international expansion into developed economies as a springboard to compensate for their competitive disadvantage." The study further classifies those as pull factors. Seeking strategic assets is not a phenomenon limited to emerging economies, but it is also relevant for developed economy firms as well. Developed market firms acquire strategic emerging markets to get access to their natural resources. It is thus common practice that these firms exploit resources more than they acquire.

A myriad of studies lend support to the notion of firms engaging in CBAs in pursuit of new technologies. Technology may refer to any knowledge, systems, mechanisation and intelligence pertinent to the production process or service delivery. De Beule and Sels (2016) document that international acquisitions of high-tech firms in developed economies by firms from emerging economies generate higher shareholder value for acquirers. Central to this pull factor motivation is that, in their desire to get access to advanced technologies available in developed economies, emerging market firms look to acquire firms that exhibit a commitment to research and development (R&D). This is proxied by a relative commitment to the R&D budget. The study found that Indian firms perceive the purchase of high-intensity R&D firms as a positive attribute, thus such purchases created value for acquirers.

The study further submits that firms that have their own research-intensive unit may be faced with the possibility of counter-productivity, should they want to purchase another firm that is research-intensive. The study highlights two possible reasons why value may be shed. Firstly, acquiring firms run the risk of resource redundancy, meaning the combined cost of R&D is not justified by the technological output derived from the process. Secondly, if both firms are research-intensive, it may cause some clashes in research methodologies and systems. This may pose challenges in the efficiency of the research process. The empirical evidence from the study, however, did not substantiate these submissions in the Indian firm context. Regardless of these findings, one may also argue that the R&D output from the respective firms (target and acquirer) may not be adaptable to the different contexts. For example, a store design may work out for the American consumer but may not be adaptable to the Chinese consumer. Thus, a Chinese firm acquiring this knowledge or technology may not have a productive use for it.

Emerging economy governments such as China have demonstrated a thorough understanding of the importance of technology and talent acquisition. For example, in 2004, the National Development Reform Commission (NDRC) and the China Export-Import Bank jointly issued what was called "Policy Note on the States encouragements to key foreign direct investments project by credit support" (Buckley et al., 2016). In the statement, the government-affiliated institutions pledged financial support to firms that set up overseas R&D centres. This was aimed at ensuring that these firms make use of internationally advanced technologies, management and talents and gain an international competitive advantage. While it may be true that some government involvement has some political motives, it cannot be dismissed that the governments (in this case the Chinese government) make valid arguments for their support and CBA promotion.

The resource dependence narrative has taken different forms in recent past. In the absence of proper institutions (which is likely the case in emerging economies as advanced by Gubbi et al. (2010) and in the presence of trade restraints, transaction costs of acquiring technology, talent and finance increase significantly (De Beules & Sels, 2016). When factors of production are hard to obtain on the open market, businesses which want to establish international operations may establish business groups. Business groups refer to many companies (subsidiaries) owned by one parent company. For example, when a UK based firm acquires an Indian firm it immediately gains a physical presence in two geographical areas. The physical presence in two countries enables the acquiring firm to then overcome the limitations of the

open market such as visa regulations and other trade restrictions. Other programs such as staff rotation can be used for the effective transfer of knowledge.

Owing to the evidence that firms which engage in unrelated and vertical M&As create more value in contrast to horizontal mergers as documented by De Beules and Sels (2016), one would thus, submit that seeking resources (through vertical integration) from other geographical areas allows for improved performance and subsequent value creation. Deng and Yang (2015) examine the extent to which strategic assets (such as technology) and natural resources attract (motivate inwards) foreign firms. This extensive study employed a sample of 1976 deals from 215 countries and territories from 1996 to 2012. Consistent with Yao and Wang (2013) and Yoon and Lee (2016), patents and natural resources positively induced firms into engaging in a CBA for a given country. Interestingly they also find that government effectiveness reduces the effects of natural resources and patents on the flow of CBAs. This implies that government effectiveness also plays a crucial role in inducing foreign direct investments.

The strategic asset seeking hypothesis is further examined by Gubbi and Elango (2016) in the Indian context using a sample of 1004 CBA deals conducted during the period 2000-2010. They advance that in strategic asset seeking, firms either want to deepen their resources or extend their resources. Resource deepening refers to acquisitions with the intention of filling gaps in their existing portfolios. Resource extension acquisition is driven by the aim of obtaining resources that are relatively distinct from what the firm currently holds in their resource portfolio.

Sampling Brazil, China, India, Mexico and Russia, Yoon and Lee (2016) determined that markets reacted positively to the acquisition of firms which owned more patents. This study was unique in that the findings were unanimous in all countries and the sample is representative of the leading emerging market CBA participants. One would thus argue that positive market reaction lends support to the asset seeking motivation theory. One can conclude that indeed firms are motivated to acquire other firms in order to subsequently access intelligence, systems and other technologies (tangible and intangible assets) that it cannot generate internally. This may be owing to the complexity of the technologies or simple lack of internal talent for that specific technology, in the talent pool of geographical location of the firm.

2.2.2 Asset exploitation

Leveraging on factors of production (technological intelligence, licenses and labour)

Industry diversification may be driven by the discovery of new markets. Firms may want to take their superior assets (superior manufacturing technology, brands, market knowledge, managerial talent) into the international arena and penetrate other markets. For example, a DE luxury brand firm from the US may acquire a firm in China (EE) with a good high-income customer network access for the sole purpose of wanting to tap into their consumers. The same can be done by EE who may have a unique competitive advantage. According to Yamakawa, Khavul, Peng and Deeds (2013), cross-border acquisitions are the primary mode of investment for many EMMs entering DE. The RDT postulate advances that markets are not merely channels of resources but also mechanisms to implement firms' strategies (Davis & Cobb, 2010). This represents the firms' ability to monitor and influence the flow of resources between countries.

Pollock, Chen, Jackson and Hambrick (2010) advance that the acquisition of and connections with prestigious local firms help EMMs in two ways. Firstly, they better-overcome challenges of market newness by conveying a signal of legitimacy to consumers. For example, a household appliance sold in a popular local chain store gets immediate audience and validation regardless of where it is made or by which company. Secondly, it helps acquirers in undertaking marketing endeavours. Local partners are more credible from the perspective of the customer, the acquisition of a local target thus mitigates the many hurdles that other foreign firms would otherwise have to overcome in order to gain the trust and validation from the intended market. According to classical market imperfection theorists, structural market imperfections give rise to the monopolistic clout of the EMM (Buckley & Casson, 1998). These monopolistic advantages take numerous forms including superior technology, control of strategic factors of production, economies of scale, privileged access to inputs and control of distribution networks (Kalfadellis, 2002). In imperfect markets, this implies that firms have different levels of aptitude in terms of operating in a particular industry. Firms can then take their respective advantages into different economies in response to these imperfections.

Firms that hold a competitive advantage over other firms in the production of a particular product may find it lucrative to carry out the production of that product in a foreign country as well (Hymer, 1976). Thus, firms internationalise by exploiting their firm-specific advantage (Dunning, 2001). A firm's specific advantage provides it with the competitive advantage to

compete successfully with local firms in a foreign market and mitigate the liabilities of foreignness. One may, however, argue that firm-specific advantages may not necessarily translate to value creation in a different context. This may be caused by differences in contexts; for example, the customers may have different appreciations for a product or service and the firms' unique proposition may not yield the same returns as in their domestic market.

Emerging economies have in the past gained the notorious reputation of "backwardness". Extant literature documents that emerging markets lag in key assets as observed by; weak human and entrepreneurial resources, inferior technological resources, and less effective marketing resources (Dunning, Kim, & Park, 2008; Meyer, Estrin, Bhaumik & Peng, 2009). This implies that the vast majority of firms engaging CBAs motivated by asset exploitation are from developed economies. There are indications that some emerging market acquirers also engage in CBAs for the exploitative pursuits as well. According to Tsuji (2015), India and China have been on the rise with regards to CBA participation. However, exploiting two major assets they hold; manufacturing advantage for Chinese firms and exploitation of drug technologies by Indian firms. Developed economies such as Western Europe, Canada, UK and US exploit their brands as well as managerial skill in developed as well as emerging economies.

According to Rugman (2009), emerging economies may also internationalise by exploiting country-specific advantages since they may have limited firm-specific advantages. However, Ramamurti (2012) counter this argument, citing that internationalisation based on country-specific advantages available to all firms located in that source country, may not be sustainable. Thus, this form of advantage is easy to simulate hence it may not be sustainable. Firm-specific advantages, however, are less susceptible to being replicated. Deng and Yang (2015) argue that local firms usually possess resources such as customers, channel controls, key supply sources, and relationships with regulators that cannot easily be replicated in the short-term. Multinationals are thus, motivated to obtain control of such resources. It is anticipated that large markets attract M&As due to economies of scale in production and distribution for goods and services sold in the host countries (Kyrkilis & Pantelidis, 2003; Tolentino, 2010). Large markets are also associated with external economies of scale that can effectively reduce the costs for all producers in that market (Dunning, 2009). Literature reveals a positive association between a firms' ability to create firm-specific advantages and the financial wealth of its country (Sun, Peng, Ren, & Yan, 2012). In line with logic, the size of the financial market in a host nation would positively affect the number of CBAs initiated by multinationals in both developed and emerging countries. Essentially, a large financial market contributes to some

more demands in the input and output markets. This creates more purchasing potential for investors to identify opportunities and possess the resources to exploit those opportunities (Globerman & Shapiro, 2005; Duanmu, 2012) [13]

In line with the extant literature, Deng and Yang (2015) employ the market capitalisation of the host country as a proxy for the financial wealth of the country. The study established that indeed, asset exploitation was a CBA motive. Seeking to exploit a firm's specific advantage was highly likely the bigger the market capitalisation of the host country. Consistent with Duanmu (2012) the wealth of a country meant greater opportunities for access to more markets. The recent rise of China and India CBA participation is thus partially explained (Tsuji, 2015). China enjoyed an impressive sustained GDP and financial markets growth in the past decade, ending with a significant pullback in financial markets in 2016. The corresponding inward flow of western brands (Gucci, Louis Vuitton and Apple) was a good example of how a rising economy with a strong consumer can attract (motivate) inward CBA to exploit their assets.

Zhu, Jog and Otchere (2011) found domestic acquirers to be differently motivated in contrast to foreign acquirers. The study also reveals that domestic firms are more likely to acquire poorly performing targets and restructure them afterwards. In contrast, foreign acquirers tend to invest in better performing firms. This lends support to the strategic market entry hypothesis.

Conclusion

Of the two main categories of CBA motives discussed, a thorough analysis of the empirical evidence indicates different sources of CBA motivations for developed economy firms and those for emerging economy firms. Developed economy firms are more likely to be motivated by asset exploitation. Emerging market firms, on the other hand, are in most cases motivated by asset augmentation. Nicholson and Salaber (2013) also emphasize that the motives for these foreign transactions by emerging market firms appear to be fundamentally different from developed-country acquirers. One thing, however, is consistent; value creation is central to most of the different variations of motives. Regardless of the face value of the different motives discussed above, the essence of CBAs is the creation of higher value for shareholders. Scholars define this concept as synergistic gains. According to Goold and Campbell (1998), the word synergy is derived from the Greek word "synergos" that means working together. One can thus

[13] Various studies employ varied proxies to measure financial markets; GDP growth, home market capitalisation and foreign reserves.

conclude that the central motive of CBAs is value creation through working together of two previously separate entities. The following section discusses factors that affect the value creation prospects of CBA deals from the acquirer's perspective.

2.3 CBA VOLUME DRIVERS: AN AFRICAN NARRATIVE

Acquirers may have their own intrinsic motivations for engaging in Africa bound CBAs as discussed above. It is undisputed, however, that the decision of the investment destination within Africa is also influenced by some features inherent in the local economy. Africa is not merely separated by borders, but the political alliances, geographic landscapes, the degree and nature of natural resource endowments, the degree of economic development and trade restrictions as well as trading blocks. This, one would argue, has an impact on the volumes and the direction of the flow of FDI in the form of CBAs. A discussion on the various elements influencing the flow and direction of CBAs into Africa is thus, imperative to developing a thorough understanding of CBAs into Africa.

FDI generally takes the form of CBAs and Greenfield investments (where a foreign firm sets up operations in a host country by starting a new firm there and not merely buying a firm that is already in operation). According to Agbloyor (2011), CBAs have over the years become a significant component of total FDI in Africa. CBAs are thus, part of the economic life in a liberalizing and globalizing world the study adds. CBAs share the primary virtues of FDI such as transfer of capital, technology improvement and economic growth stimulation (Brooks & Jongwanich, 2011).

Africa is different

Studies meant to build an understanding of issues around FDI and M&As into Africa are relatively few. In the scant literature available on FDI and M&A flow into Africa (SSA and North Africa alike) unique and enlightening insights emerge. Asiedu (2002) sampled 32 African firms during the period 1980-2000 in a bid to understand the extent to which Africa is different in as far as factors that affect the flow of FDI are concerned. Observing an increase in the aggregate volume of the flow of FDI into Africa, Europe, Asia and South America the study notes a distinct characteristic of this growth trend; the flow into Africa lags notably.[14]

[14] SSA FDI grew by 59% in contrast to 5 200% for Europe and Central Asia, 942% for East Asia, 740% for South Asia, 672% for all developing countries and 455% for Latin America and Caribbean. This is despite the high return on capital from SSA, for example the average return on investment to Africa during the period 1991-1996

The period 1990-2000 saw FDI to developing countries grow from $24 billion to $178 Billion. The study set out to establish the factors that influence the magnitude of the flow of FDI into developing countries and establish if SSA was affected differently by these factors.

The study made fascinating findings. It established that belonging to the SSA region has a negative influence on the flow of FDI. This was in line with prior literature that proves that this part of the continent is perceived as being inherently risky (Haque, Nelson & Mathiesoh, 2000). The study also adds that foreign investors perceive African countries as if the countries in the continent constitute one big country, thus FDI is influenced by the regional (continental) economic conditions, not country-specific conditions. To that effect, Basu and Srinivasan (2002) note that the enhancement of the business environment and deliberate image enhancement campaigns can improve FDI flows.

Asiedu (2002) further establish that a higher return on capital promotes FDI to non-SSA countries but has no significant impact on the FDI inflows to SSA countries (all things equal). The study clarifies, that the high-risk environment (as per the foreign investor perception) ultimately reduces the risk-adjusted returns, thus in the process deter the inward flow of FDI. Foreign investors particularly identify political administration changes as their chief source of discomfort with investing in Africa. That is to say, the policy uncertainty posed by the change of administration may cause investors to lose funds already invested in the country and cannot readily liquidate.

Concerning openness to trade, Asiedu (2002) finds that it has a positive influence on the volume of FDI flow. However, the marginal benefit derived from increased economic (trade) openness is less for SSA. The study adds that this is because foreign investors are sceptical about the plausibility of trade reforms from countries in the SSA region.[15] Finally, the study offers empirical substance to the notion that infrastructure development positively influences the flow of FDI, however, the same does not hold significantly for the SSA region.[16] One may

was 30%, and this is in contrast to 21% for Asia and Pacific and 16% for developing countries 14% for Latin America (Asiedu, 2002).

[15] These policies are seen as transitory for two reasons, Asiedu (2002) elaborates; 1) African governments have a track record of using their policy to manage their balance of payments (BOP), 2) Trade reform is only sustainable when it is consistent with macroeconomic equilibrium, unfortunately they note that African countries embark on trade reforms to meet financial aid conditions from multilateral institutions such as the IMF and the World Bank.

[16] The study uses the number of telephones per 1000 population to measure infrastructure development.

argue, nonetheless, that the influence of telecommunications infrastructure on natural resource (extractive industries) motivated FDI should be minimal. Bearing in mind that a significant number of SSA countries (e.g. Angola, Nigeria) attract FDI and M&A on the token of natural resource endowment, this outcome may be justified (Wilson & Vencatachellum, 2016).

The study concludes that Africa is different and what attracts FDI into Africa is not in the same degree as in other regions; Africa is different. Interestingly, in reference to more recent work, Wilson and Vencatachellum (2016) established some similarities in M&A trends between Africa and other regions.[17] Having established the uniqueness of SSA with regards to the distinctiveness of the degree to which the factors affect FDI flow into Africa, it is worthwhile to then discuss some of the above mentioned and more factors categorically under the following broad groupings; Macroeconomic, institutional and financial development factors influencing the flow of FDI and M&A into Africa.

Macroeconomic factors

Inflation and exchange rate are notorious for posing a wide array of challenges towards the functioning of many economies (developed and emerging alike). The consistent significant increase in prices ensues in price instability. The rise in inflation also ensues in increases in the interest rate as well as the volatility of the foreign exchange rates. According to Onyeiwu and Shrestha (2004), this instability may spill over to the repatriation of profits and firms may experience foreign exchange losses. Inflation is also seen as a reflection of poor economic management, the study adds. Jenkins and Thomas (2002:39) note: "…rapid depreciation of local currencies erodes the foreign currency value of both profits and equity and can create the perception that the profitability of the operations is static or declining…" Inflation is thus, bound to negatively affect profitability (de Mello, 1997).

Using sizable sample Onyeiwu and Shrestha (2004) sampled 29 African firms during the period 1975- 1999 investigation the factors affecting FDI inward flow. The study concludes a negative and statistically significant relationship between inflation and the flow of FDI. These findings were upheld by Asiedu (2006) who samples 22 African countries during a similar period (1984-2000). Yartey and Adjasi (2007) also support this logic.

[17] These regions are Asia and South America. Specifically, the study documents correlation coefficients of 0.85 and 0.87 between Africa and Asia as well as Africa and South America respectively.

Interestingly, there are more recent studies that challenge this conventional notion with some substantive empirical evidence. They establish a positive influence of inflation on FDI flow. For example, Sayek (2009) indicate two ways in which inflation may influence an increase in FDI; 1) intertemporal consumption 2) current consumption on current consumption can reduce the ultimate cost of FDI. Lending further support from this notion, Ezehoa and Cattaneo (2012) stress that since inflation is associated with the accelerated growth of economic activity that feeds into the growth of FDI.

Studies have also probed the impact of the real exchange rate on the flow of FDI. According to Ang (2008), an overvalued currency reduces international competitiveness. This simply implies that the local goods would be expensive and that may limit some export market appeal. This study found that an appreciation in the real exchange rate dissuades FDI flow. However, one cannot heavily rely on this study as these findings were only relevant for Malaysia. The currency area hypothesis states that firms are less prone to invest in weaker currency areas (countries) (Yol & Teng, 2009). The study substantiated this notion by revealing a positive link between the real exchange rate and FDI. More recently, Ezehoa and Cattaneo (2012) also found a positive link between the two variables although not statistically significant.

Market size (largely measured as per capita GDP) is also a factor to consider in developing an understanding of the factors that influence FDI. One would expect a large market to differ from small markets on a variety of aspects (e.g. spending and saving habits, cost of living, level of skill etc.). Ancharaz (2003) advances the economic growth hypothesis which states that large markets offer better opportunities for making profits and would thus, attract more FDI. Smaller markets, in contrast, may not be able to offer these opportunities as there is little room for product or service absorption (consumption).

It is on extensive empirical record, that foreign investors usually target economies with large market size. Asiedu (2006) established that the size of the market indeed played a positive role in inducing inward FDI flow. More recently, Ezehoa and Cattaneo (2012) sample 30 SSA countries over the period 1995-2008, the study concludes the same. Also, in line with the market size positively impacting FDI flow, economic growth established to positively impact FDI (Zhang, 2001; Onyeiwu & Shrestha, 2004). Growing economies, thus proxy a growing market, this further substantiates the economic growth hypothesis.

In a curious observation, Neubaus (2006) notes, that the market size impact on FDI cannot be generalised to all FDI. Size has a more significant impact on the horizontal FDI but has a less

significant impact on vertical FDI. This, one may advance, lends further fundamental substance to the notion of foreign firms setting up operations in African countries with the strategic objective of accessing their extensive market. Asiedu (2006) recommends a policy termed "regionalism", which refers to the use of regional trading blocs (e.g. ECOWAS, SADC) in a bid to present a bigger market and induce the flow of FDI to the region. This concept is also linked to some institutional factors such as trade openness that can be used to achieve the same.[18]

Conventional wisdom would appreciate that, business/investors are drawn to resources, natural or otherwise. Natural resources may take the form of minerals, precious metals (oil, gas etc.). Natural resource endowment should thus, positively induce the flow of FDI. Onyeiwu and Shrestha (2004) established that this positive link between FDI and natural resource endowment is even more pronounced in cases where the host countries are considered politically unstable (e.g. Nigeria). This, one may add, indicates that this factor has great power to induce FDI regardless of the other factors that may exist in the same locale. Acemoglu, Johnson and Robinson (2002) elaborate that the unprecedented economic growth of Botswana in the 1990's was attributed to natural resource endowment.

Asiedu (2006) found strong evidence indicating that indeed African firms attract FDI using their natural resources. This is in line with more recent a more recent study by Ezehoa and Cattaneo (2012). Of key note in the Asiedu (2006) study, while market size and natural resource endowment indeed induced FDI, the study also established that in the absence of these African countries could induce FDI patronage through designing investor friendly institutional framework. These factors range from trade openness, infrastructural development and corruption. Discussion on these ensues in the subsequent section.

Institutional factors

The value of economic openness to inducing FDI flow is unarguably crucial for African countries.[19] Onyeiwu and Shrestha (2004) define trade openness as the ease with which investors can freely move capital in and out of an economy. Investors thus, value not only the

[18] Asiedu (2006) depicts "regionalism", as the use of regional trading blocs (e.g. ECOWAS, SADC) to present a present congruent front on economic and trade policies in order to induce the flow of FDI into countries belonging to that bloc (region).

[19] Mostly proxied by the ratio of imports plus exports to GDP.

ease of access to an economy when investing in a foreign place but also the inherent openness to trade of goods between the host country and other countries. Law and Habibulah (2009) advance that open economies help keep the power of political and economic nobility in check. Economic openness, one may add, could thus be a mechanism that can be utilised to achieve economically sustainable equilibrium in the financial as well as the goods market.

Ang (2008) confirms the positive impact of trade openness in the developing country of Malaysia. Onyeiwu and Shrestha (2004) also determined that FDI was positively induced by trade openness. Trade open economies they add, are more likely to implement and maintain stable and credible policies than closed regimes. A sound investment framework incorporating regional economic co-operation in the form of trade blocs encourages FDI (Asiedu, 2006). The study argues that "regionalism" can be used as a means through which African countries can persuade FDI in their direction. The study emphasizes that countries that do not have natural resources can induce FDI through good economic policy framework instead. Ezehoa and Cattaneo (2012) also lend further empirical support to the notion that trade openness can indeed promote FDI flow. One would also take note, that although Asiedu (2002) established some uniqueness in the factors that affect the flow of FDI into SSA, trade openness is one factor the study notes as being significantly influential to FDI. This is indicative of the fact that investors may be induced by trade openness regardless of the location.

However, Agbloyor (2011) make a distinction between trade openness and financial openness.[20] This yields interesting findings and invigorates the debate. The study finds that while trade openness is negatively related (and negatively predicts) CBA volumes, financial openness was a positively related to CBA into Africa. They elaborate, that an economy that allows for open trade is much more susceptible to competition. As such, foreign investors may not be keen on such a host country. Also, firms prefer to rather export their home-produced goods to these countries that set up shop therein. Financial openness, on the other hand, was found to positively relate to inbound CBAs. The reason being that financial openness would aid in executing capital transactions and other balance sheet related issues as well as repatriation of profits.

[20] Trade openness is the free flow of goods (exports and imports) and financial being the free flow of capital or funds between countries.

Infrastructural development has also received some attention in literature as an influential factor in the flow of FDI. Infrastructure takes the form of telecommunications, road and rail, electricity etc. This is infrastructure that has different degrees of impact in doing business in different industries. A substantial body of literature shows that infrastructure is a positive motivator for FDI flow (Asiedu, 2002; Ang, 2008). The intuition behind these findings is that doing business in a place with good infrastructure (e.g. internet access, good road network) allows for businesses to easily deliver their products or services because of ease of access to the market. Good infrastructure not only allows the business to connect with its customers, but it also guarantees ease of connection with suppliers.

However, the logic and the empirical evidence of infrastructure being a positive influence on FDI has been also proven as being subordinate to other factors. Onyeiwu and Shrestha (2004), for example, find that the availability of natural resources, economic openness and macroeconomic stability tends to outweigh the effects of infrastructure and political stability. The study re-enforces the inferiority of the influence of infrastructure on FDI inflows. One could also argue that on the same token, this is also partially captured by the bias reflected in the negative attitude (of being perceived as inherently risky) associated the SSA region as highlighted by Asiedu (2002).

Africa has the notorious reputation of corrupt governance. Holmes, Feulner and O'Grady (2008) define corruption as the failure of integrity in the system, a distortion by which individuals can gain personally at the expense of the whole. Corruption defrauds the system and breeds operational inefficiencies and thereby scares away foreign investors, hence it is negatively related to FDI (Al-Sadig, 2009). More recently Wilson and Vencatachellum (2016) also found that corruption indeed has a negative impact on M&A volume into Africa.

There are studies that have challenged the notion of corruption being a negative factor as far as FDI inflow is concerned. Egger & Winner (2005) argue that corruption can be a helping hand for foreign investors in developing countries. They substantiate this notion as the study found a positive link between corruption and FDI. Focusing, specifically on SSA countries, Ezehoa and Cattaneo (2012) arrive at the same conclusion. One may thus add; corruption in resource-rich countries may be a means through which investors evade the time consuming bureaucratic processes (e.g. permits, licences etc.).

Financial system development

The financial system of any economy is essential to the development of the underlying economy. The financial system includes an array of organisations such as banks, insurance companies, micro-finance institutions and the stock markets. These institutions allow participants in the economy to; 1) acquire and transfer capital (debt or equity) through the primary markets (investment banks, retail banks) and secondary markets (stock markets) 2) transfer and manage business and financial risk (insurance companies, investment banks, derivatives counters etc.). One can thus advance, that the development of banks and the stock markets are a crucial positive contributor to FDI. This is mainly because these institutions have a myriad of products that facilitate the growth and sustainability of businesses and subsequently, the economy in which they operate. More specifically, the development of the financial system should directly influence the inward flow of M&As.

Economic efficiency is bred in an environment of financial development because such an environment allows for elimination of information asymmetry, low transaction costs and ease of contract enforcement (Méon & Weill, 2010). Banks largely deal with offering loans to address the capital needs of firms. Wilson and Vencatachellum (2016) find compelling evidence that indeed M&A activity is positively related to the banking sector development (proxied by the ratio of liquid liabilities in the economy and GDP). This study is profound in the sense that it came from a sample of three developing economy regions (Africa, Asia and South America).

The relevance of the stock market in inducing FDI flow is advanced by Kamaly (2007) in what the study terms as the expectation hypothesis. The hypothesis states that positive expectation about the future (economically) as observed in strong economic growth and high stock prices are conducive to mergers. This implies that foreign investors us the local stock market performance to proxy the general economic outlook for the host country. The stock market can also play a vital role in mitigating the liquidity risk that investors may be faced with. Having the assurance that they can liquidate their equity holdings in the local market without deviating much from its intrinsic value alleviates the fear liquidity. Levine (1997) also adds to this line of thought noting, developed financial systems increase liquidity by facilitating for the creation of secondary markets where financial instruments can be traded. Using the stock market capitalisation, as a proxy for financial system development Agbloyor (2011) and Ezehoa and Cattaneo (2012) found stock market capitalisation to positively impact M&A. More recently, Wilson and Vencatachellum (2016) also conclude the same.

A study by Kamaly (2007) on the other hand, finds that the development of the stock market is negatively related to M&A inflows in developing countries. One should, however, note that the study lost 20% of their sample because of lack of stock market data. One would argue that this would compromise the integrity of these findings. Giovanni (2005) brings refreshing insights to the debate. The study notes that the relevance of the stock market is particularly strong in a market-based economy in contrast to a bank-based economy. It may, thus, be argued, that the insignificance of the stock market (captured by Kamaly (2007)) to M&A inflows could also be explained by these findings.

Interestingly, when investigating the role of financial development in M&A outward flow (from the acquirer country perspective), Brooks and Jongwanich (2011) observe that the banking sector plays a more important role in facilitating M&As than both equity and bond markets. One would thus advance the notion that, for a foreign firm to find a domestic firm to acquire (or significantly invest in) in the local market it needs a local advisor who is well acquainted with the local economic landscape. The development of the local banking sector is thus crucial to FDI. Local firms should thus benefit the most from having a well-developed banking sector so as to generate deals that foreign investors would enthusiastically take on.

M&As are also induced by the on-going financial developments from other economies. Wilson and Vencatachellum (2016) found that Standard and Poor's Index and G7 bond yields positively impacts the flow of M&As into Africa.[21] More specifically, the study notes that a 1% increase in the average G7 bond yield results in a 0.7%-1.6% increase in M&A activity all else constant. This indicates that high-level of risk in the G7 countries (proxied by higher bond yields) leads to the diversion of investment to high growth regions such as Africa.

Emphasizing the importance of the development of the financial sector to attracting M&As in Africa, Agbloyor (2011) engage in a study aimed at understanding the influence of the financial sector development of M&A inward flow in 14 countries across Africa over the period 1993-2008. The study is unique in that it uses multiple proxies for financial development.[22] The two proxies used for banking sector development were positively related to CBA volumes.

[21] G7 refers to the developed economies Japan, USA, Germany, Italy, UK, France and Canada. The G7 bond yield is the average yield for the seven countries.

[22] The financial development proxies used are 1) First lag of bank credit 2) First lag of private credit 3) First lag of stock market capitalization and GDP ratio 4) First lag of stock market turnover.

However, although positively related to the flow of CBAs, none of the two proxies for stock market development was statistically significant.

The discussion highlights that Africa is a complicated economic landscape. Investors need to be fully cognisant of the realities and the risk associated with investing in Africa. Empirical evidence substantiates the fact that Africa is different. The same macroeconomic, institutional and financial factors observed in other regions should not be treated as having the same impact in the African context. Beyond the FDI (and CBA) volumes flowing in the direction of a particular country, every deal is unique and there are certain attributes that may impact the prospects of value creation in each instance. A discussion of the factors affecting the performance of these deals ensues.

2.4 FACTORS AFFECTING VALUE CREATION FOR CROSS-BORDER MERGERS AND ACQUISITIONS

Numerous factors have been deemed to affect the ability of M&A deals to create value. CBAs are not immune to these factors and more interestingly there are those that are unique to the cross-border context. Absorptive capacity, institutional infrastructure, corporate governance as well as cultural distance have been highlighted extensively in most literature as being a major influence on the value creation prospects of CBA transactions for an acquiring firm. Some factors such as deal size, acquirer experience, ownership structure and method of payment are also known to impact value creation. One should note, however, that the latter is generic to all forms of M&As. A detailed discussion of literature and empirical evidence that expounds on the effects of these factors follows below.

2.4.1 Absorptive capacity and Knowledge Transfer

One crucial factor that underlies the successful internationalisation in the case of CBAs is the absorptive capacity of the acquirer. Absorptive capacity refers to an organisation's ability to acquire and assimilate information, as well as to the organisation's ability to learn from it (Tzokas, Kim, Akbar & Al-Dajani, 2015). It is extensively recorded that firms engage in CBAs to acquire knowledge, nevertheless, it is not obvious that all firms have the same capacity to assimilate the knowledge or information. It is for this reason that many studies have examined the value creation impact of this capacity generally referred to as absorptive capacity. Knowledge transfer is the acquisition and utilisation of new sets of knowledge-based resources. It is one of the primary objectives of mergers and acquisitions and plays a significant role in the process of synergy realisation in acquisitions (Junni, 2011).

The use of M&A deals to resolve knowledge deficiencies, however, does not automatically result in superior returns because some strategic assets often are tacit, specific and complex (Deng, 2010a; Deng, 2010b). Absorptive capacity is imperative to the success of firms acquiring targets across borders. Most studies use R&D investments (a measure of research intensity) as a proxy for a firm's absorptive capacity. The argument here is that; R&D investments increase the likelihood of the firm to produce innovative ideas and products and possessing highly trained technical staff as well as advanced research facilities. This makes a firm better able to find and utilise modern technology from the external environment (De Beule & Sels, 2016). Acquirers who are better able to share and transfer complementary resources and capabilities (in this instance, knowledge) between themselves and the acquired firms would be able to benefit more from this acquisition in the future, creating more shareholder value (Gubbi et al., 2010; Malik & Aggarwal, 2012)

A study by De Beule and Sels (2016) investigated the role of absorptive capacity of emerging market firms in creating shareholder value from developed market acquisitions. The study employed a sample of 147 listed Indian acquiring firms in Europe over the period 1996 to 2010. The empirical findings revealed a U-shaped relationship between research intensity of Indian acquirers and their cumulative abnormal return following acquisitions in Europe. Their findings indicate that firms with low levels of R&D intensity (low absorptive capacity) have a better market response after an acquisition than a firm with some medium intensity R&D. However, firms that have high research intensity create superior value in contrast to the aforementioned. These findings are grounds for the argument that investors find asset seeking behaviour of firms that lack proper absorptive capacity more productive than firms that have built up some average absorptive capacity. They argue that this also lends support to the knowledge accessing hypothesis, which states that companies that have a bigger technological gap have more to gain from upmarket acquisitions by accessing the knowledge base of the target. In the case of Low R&D firms, there is a reduced likelihood of duplication of technologies hence that could partially explain the better performance in contrast to average R&D firms.

Li et al. (2016) engaged a much more dynamic study of how the absorptive capability of the acquiring company can influence the relationship between cultural distance and value creation in the context of Chinese firms. They hypothesised that cultural distance was a factor affecting absorptive capacity. Typically, managers interact extensively in negotiating CBAs, this makes cultural differences even more significant. Consistent with Malik and Zhao (2013) the study

found that cultural differences tend to obstruct learning, leading to higher costs of information acquisition, knowledge transfer or breakdown of communication. What makes this study unique is that it creates the view that absorptive capacity is also a dynamic function of other factors such as cultural distance. The study also found that firms with greater absorptive capacity were better able to overcome the challenges presented by cultural differences. They concluded that absorptive capacity was therefore positively related to value creation. This further affirms the earlier findings of Zou and Ghauri (2008) who established that the process of knowledge transfer and learning is favourable to performance enhancement of CBAs in the context of Chinese acquirers.

It is quite clear from literature, that absorptive capacity is a crucial factor in facilitating post-acquisition integration. It is an imperative that the acquirer builds superior learning skills into their internal skill set to be able to enhance the absorptive capacity and subsequently facilitate knowledge transfer. Intuitively, it could be deduced that the ability to learn and assimilate information is key to the integration of any two entities. As such absorptive capacity could also be a derivative of other factors such as organisational and national culture.

2.4.2 Cultural distance

Culture defines the generally accepted way of being in a particular space. Hofstede et al. (2010:6) define culture as ‘‘…the unwritten rules of the social game, the collective programming of the mind that distinguishes the members of one group or category of people from others…". It thus goes without saying, that culture plays a crucial role in facilitating ease of doing business internally and externally. Internal cultures may develop from the different constituencies within the firm; front office staff, back office staff, management etc. Externally, culture can be viewed as the distinguished ways of an organisation. In the context of CBAs, there are many layers of culture. Another layer of culture comes into play, which is the national cultural distance of the respective firms. Numerous studies examining the influence of the respective cultures on the success of M&A transactions have emerged in the recent past (Li et al., 2016). Most of these studies indicate that cultural distance is negatively related to value creation. That means that the greater the cultural distance the higher the propensity of value destruction. A detailed discussion of literature along with the empirical results substantiating or refuting the hypothesised relationship ensues.

Cultural distance is, therefore, the differences in the norms and practises embraced in different spaces. It could be at the organisational level, country or regional level (Li et al., 2016). In the

present study, keen interest is on country level cultural distance which is more relevant to the CBA context. Cultural distance can emanate from a variety of sources such as history, religion, and linguistic differences (Kogut & Singh, 1988; Riad & Vaara, 2011). Hofstede et al. (2010) believe that culture also has several dimensions, such as power distance, individualism versus collectivism, uncertainty avoidance, and masculinity versus femininity. The study also stresses that cultural dimensions seriously matter in the CBA context. Differences are, therefore, multi-dimensional. If these cultural distances are not managed proactively, they may culminate in clashes.

Culture scholars have discussed how cultural difference affects CBA outcomes in different ways. Li et al. (2016) effectively articulate the logic of how cultural distance destroys value, post-acquisition. They point out that cultural distance increases the difficulty in communication and establishing mutual trust. They argue that the most detrimental effect of cultural distance can be its effects on key people such as top management and other team members involved in the deals. Difficulty in communication, they argue, can lead to information problems and lack of mutual trust affects collaboration. In a hostile environment, target firm employees may stop co-operating and begin to resist and even fight against the acquiring firm. For numerous CBAs of strategic assets, a significant part of the value is entrenched in the core employees of the target company and relies critically on their willingness to participate and co-operate.

A strong link between cultural distance and learning ability has been established and also the fact that learning is key to absorptive capacity (Malik & Zhao, 2013). Diverse cultures have different administrative routines as such this poses a challenge to the process of transfer of managerial skill from one firm to another in a CBA. Limited cross-cultural understanding can lead to misinterpretations of a task assigned (Heiman, Li, Chan, & Aceves, 2008). In contrast to domestic M&As, target company executives are more likely to leave the firm after a CBA transaction. Taking crucial knowledge along with. That may subsequently negatively impact the value of a business. Extant literature documents, that emerging economies firms are more likely to go abroad to acquire strategic assets to build or enhance competitive advantage rather than to exploit their existing advantages (Sun et al., 2012). It is for this reason that emphasis is made on analysing more intensely, studies that explore the impact of cultural distance on acquirer value in the EM context. The directions of knowledge flow when exploiting existing resources and when seeking strategic assets are different. When exploiting existing resources, acquirers are teachers; when seeking strategic assets, they are students. Therefore, it is fair to

expect that learning and absorbing embedded knowledge (a variation of asset seeking) is more challenging than asset exploitation.

Hofstede et al. (2010) found that national culture explains about 50% of the differences in managers' attitudes, beliefs and values. Consistent with this finding, Li et al. (2016) stress that greater national cultural distance should be associated with greater corporate cultural distance and value destruction. On average, deals in their sample created value for the acquirers. They, nonetheless, recorded a negative relation between cultural distance and value creation. This was more pronounced because China is a non-English speaking country and as such language was the main challenge to cultural assimilation.

Distinguishing between the two forms of cultural distance, Ahammad, Tarba, Liu and Glaister (2016) set out to investigate the impact of national and organisational culture on the performance of the acquirer. The sample constituted 65 filled in questionnaires from 65 deals involving UK acquirers and targets from Europe and the US. The questionnaire was administered to managers (Financial Directors, Business development directors, Chief Executive Officers Etc.) involved in the actual M&A process. The findings from this study indicate a statistically significant negative relationship between organisational cultural distance and performance. These findings are consistent with a myriad of literature (Li et al., 2016). National culture, however, was determined to be positively related to performance although not statistically significant. This finding contradicts extant literature.

A follow-up study by Ahammad, Tarba, Liu, Glaister and Cooper (2016) investigated the impact of national and organisational cultural distance on the negotiation process. This study was unique in that it focused on the concurrent phase. The concurrent phase refers the stages of identifying a potential target, making the first contact, right to the moment when the deal is closed. For example, a hostile organisational or national culture may result in inadequate information being conveyed to the potential acquirer and subsequently, a firm may be bought at a discount or premium depending on the quality of the information provided. Also, when an acquirer exhibits a hostile organisational culture in the negotiation phase, it may cause high staff turnover (of key management personnel) when the acquirer takes over the target[23]. This may lead to loss of skill, which in some instances may have been the primary motivation for

[23] In some instances, cultural clashes are resolved by brute force such as replacement of key personnel (managers) by the acquiring firm's own women and men. (Hofstede et al, 2010)

the deal, thus undermining the whole objective. The study determined that both forms of cultural distance negatively impact the concurrent phase and that sets the tone for subsequent value destruction. The study also found that the positive effects of communication are lowest when the national cultural distance between the target and the acquirer is high. The organisational cultural distance was found to lower the effectiveness of the concurrent phase in a more pronounced way. These findings imply that CBAs value creation prospects can be undermined by the cultural distance at the negotiating phase as well. This brings new insight and stresses the importance of mitigating cultural distance for practitioners.

Extending the dialogue deeper into emerging markets, Nicholson and Salaber (2013) investigate value creation through CBAs by firms from India and China. The study sampled a total of 266 firms; 203 Indian and 63 Chinese acquirers, over the period 2000 to 2010. It was determined that deals from both regions significantly created value for the acquirers. The study attributes much of the value creation to the ability of Indian firms to bridge the national culture distance because it is a predominantly English-speaking country. China, on the other hand, was found to have significant challenges in communication and thus, cultural distance played a negative role in value creation. The study, however, indicates that Chinese manufacturers performed very well regardless of the cultural distance highlighted.

It was established that the manufacturing competitive advantage brought by the Chinese firm overcame the cultural distance. Thus, one may argue, this lends support to the notion that when the acquirer is exploiting its assets it is the teacher and the challenges of learning and absorptive capacity are not as dire as when they are a learner (asset seeking)[24]. The way in which cultural distance is influenced by learning and absorptive capacity is discussed by Li et al. (2016). Nicholson indicates the degree of limitation of the importance of cultural distance when acquiring firms are teachers (asset exploitation).

Nicholson and Salaber (2013) go on to advance that Chinese firms are primarily motivated by strategic asset seeking in the form of natural resources and superior managerial talent. Indian firms, on the other hand, are motivated by the pursuit of superior technology. Since Chinese firms where learners in talent seeking they may be little resistance on the cultural front and that

[24] Teachers are acquirers with skills (competitive advantage) and they impart this to their targets, hence the acquirers themselves need not be skilled in the ability to absorb knowledge. They should be skilled in the impartation thereof.

leaves little room for the cultural distance to negatively impact their CBA deals. Natural resource acquisition has little human interaction thus limited the impact of the influence of cultural distance on Chinese firms. Indian firms, on the other hand, seeing as they were in pursuit of superior technology, organisational and national cultural alignment was crucial to value creation.

Expounding the debate on the influence of national culture on CBAs, Ahern, Daminelli and Fracassi (2015) advance that there are three dimensions of national culture; trust, hierarchy, and individualism. They further submit that national culture distance affects CBAs in two dimensions; volumes and synergy gains. This unique study uses a 52-country sample of mergers from between 1991 and 2008. The study established that, the greater the distance between two countries along each of the three cultural dimensions, the smaller the volume of cross-border mergers between the countries. This was also the case for synergy gains. These findings are robust to year and country-level fixed effects.

Ahern et al. (2016) define trust as the dependence on another to fulfil an implicit or explicit obligation. They document that synergistic gains are likely to be high in an instance where two cultures trust each other as that facilitates for swift integration in the post-acquisition period. They also found that two cultures are most likely to be at odds. Some countries have an egalitarian culture and they rank the importance and social power of all members relatively equally, whereas hierarchical cultures delineate members into multiple vertical ranks of power. In hierarchical cultures, members from lower ranks defer to higher ranked members, who in turn have a responsibility to guarantee that the needs of lower ranked members are gratified. In this culture, when two equally ranked members differ, they allow a higher ranked member to arbitrate. At the firm-level, this implies that workers are more likely to follow instructions from superiors in hierarchical cultures. Workers in egalitarian cultures, in contrast, are more likely to think of themselves as equals with their superiors (Brett & Okumura, 1998). One would then expect challenges in integrating two businesses with such fundamental differences and that may adversely affect acquirer performance. Finally, individualism in contrast to collectivism is another area of national culture distance. Some countries or societies emphasise individual level accomplishments (individualism), while others favour group level accomplishments (collectivism). Reconciling the two cultures may be a tall order that destroys value for the acquirer and it may cause high staff turnover if addressed with brute force.

Bringing the debate to the developed economy acquirers, Dikova and Sahib (2013) take an interesting stance on the widely recorded negative impact of cultural distance on value creation. They used a sample of 1223 cross-border American and European acquisitions launched during the 2009–2010 period. The study suggests that the effect of cultural distance on CBA performance is also a function of acquisition experience of the acquirer. They argue that acquirers with international experience are much more conscious of the pitfalls that come with CBAs and are better skilled in resolving acquisition-related conflicts, allowing the acquirer to benefit from cultural differences resulting in higher acquisition performance. The findings of the study indicate that performance of culturally distant cross-border acquisitions launched by inexperienced acquirers is lower because such acquirers are unlikely to have a culturally sensitive anti-conflict action plan. This affects the ability of the acquirer to benefit fully from cultural distances. Interestingly, the study also notes that experience specific to CBA has a more positive impact on value creation in contrast to experience from domestic transactions. This emphasises the importance of international experience in mitigating the negative influence of national cultural distance in CBAs.

Although the study lends support to the impact of international experience, it does not disqualify the impact of national cultural distance on value creation. The positive results, however, one would argue, come from a time from which one would expect positive returns. Most recent literature shows that, the financial crisis in 2007-2008 had a negative impact on the value creation ability of CBA deals, as such one would argue that the research time period 2009 to 2010 falls on the recovery period and the results may be highly biased towards value creation (Gubbi & Elango, 2016; Rao-Nicholson & Ayten, 2016; Rani & Asija, 2017). Thus, it may have been a period where acquirers were beginning to enjoy the fruits of fire sale acquisitions from the financial crisis.

The picture that emerges from most recent literature with regards to the influence of culture on value creation is a negative one. That is, the greater the national and organisational culture distance the less value creation from the CBA transaction. Cultural distance destroys shareholder value for the acquirer. The analysis is wide, and it is informed by studies that sample firms from economies that are currently amongst the most active participants of CBA transactions globally. These include; India, China, the UK and the US (Tsuji, 2015).

2.4.3 Corporate governance regime

Corporate governance is defined by Shleifer and Vishny (1997) as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. External corporate governance mechanisms include an active market for corporate control, government and industry regulation. Internal corporate governance includes the board of directors and other committees made up of different stakeholders (Humphery-Jenner & Powell, 2014).

Humphery-Jenner and Powell (2014) lend evidence that active market for corporate control is indeed a mechanism through which the market forces monitor the corporate actions of managers in developed economies. The study samples 1900 Australian acquisitions from 1993 to 2007. They argued that anti-takeover provisions (hereafter ATPs) may offer some protection from disciplinary action, facilitating managerial entrenchment and value-reducing behaviour[25]. They examined the profitability of acquisitions in Australia, a market where US-style ATPs are prohibited. They found that that unlike their US counterparts, large Australian acquirers earn significant value for their shareholders in the long-run through operating performance improvements. Takeover premiums are also substantially lower than those reported for the US and UK and do not differ between large and small acquirers. This implies that an active market for corporate control is an effective tool for external corporate monitoring. Takeover premiums are also substantially lower than those reported for the US and UK and do not differ between large and small acquirers.

The issues of corporate governance are deeply rooted in the conflicts that exist between the different principals and agents. As Jensen (1986:323) states, corporate managers are the agents of shareholders, a relationship fraught with conflicting interests. Principals are shareholders and agents are managers involved in the day-to-day running of the business. There are two variations of conflict; Principal and Principal (PP) conflict and Principal-Agent (PA). The PA perspective argues that agent discretion is likely to increase due to inconsistencies in both information and specialised, localised knowledge between shareholders (principals) and managers (agents). The monitoring and supervision of agents can prove costly. Value creation derived from CBAs can thus be undermined by managerial entrenchment when managers attempt to pursue their personal interests through internationalisation such as hubris and

[25] ATPs are entrenchment mechanisms commonly used by US firms. They are mainly meant to protect firms from aggressive takeovers. One manifestation of entrenchment is poor acquisition choices (value reducing behaviour).

‘‘empire building’’ behaviours (Jensen & Meckling, 1976; Song, & Pettit, 2002; Beltratti & Paladino, 2013). In contrast, the principal–principal (PP) perspective focuses on the conflicts between controlling and minority principal shareholders. According to Chen and Young (2010), majority shareholders are more likely to advance their own strategic interests at the expense of the minority shareholders. In the absence of strong external corporate governance mechanisms, minority shareholders would most likely be expropriated and it is by this token that CBAs destroy value in the short-term.

The shareholding structure is an important governance variable influencing a firm's strategic decision-making and shareholder value creation, it aligns the interests of stakeholders (Jensen & Meckling, 1976). Concentrated ownership is much more prevalent in emerging economies (Filatotchev, Jackson & Nakajima, 2013). As such, there is increased likelihood for minority shareholders to fall victim to a majority shareholder who is in pursuit of their own strategic interests. This is mostly the case where the Chinese government is the biggest shareholder (when the shares are concentrated with them) the markets react negatively to PP conflict because they perceive that the company is in pursuit of other interests other than profit-making (Chen & Young, 2010). Ownership concentration can also mitigate challenges brought about by PA conflict, although it presents the challenge of exploitation of minority shareholders in the absence of strong external corporate governance mechanisms (Ning et al, 2015). Thus, the introduction or existence of a majority shareholder with the appropriate (profit-making) motive would ensure that the company is run in a manner consistent with shareholder wealth maximization.

Ownership may give rise to management entrenchment. For example, if ownership is highly concentrated a shareholder can appoint managers with whom they are highly affiliated. Harford et al. (2012) detail how management entrenchment destroys shareholder value. The study sample was comprised of 3935 takeovers made by US acquirers of public and private targets from 1990 to 2005. The sample is made up of both domestic and cross-border acquisitions. The study found two main ways in which entrenched managers destroy shareholder value. Firstly, they deliberately avoid purchasing private companies. This is because private firms have high shareholder concentration therefore in the presence of increased shareholding from such shareholders their entrenched position may be compromised. In order to protect their entrenched position in the firm, managers actively avoid the purchase of private targets. This is a downside to synergistic value creation as private firms targets are known to create value

for acquirers (Capron & Shen, 2007; Lys & Yehuda, 2016). Literature reveals that private target have high ownership concentration that brings with it a good internal mechanism to deal with entrenchment[26]. It stands to reason, therefore, that entrenched managers avoid mergers or equity deals that will see the shareholding structure adopting these blocs of shareholders and thereby mitigating their degree entrenchment. Secondly, when they do buy private targets or public targets with block holders, they tend not to use all-equity offers. This has the effect of inhibiting the transfer of a valuable block holder to the bidder shareholders list. Finally, they examine whether entrenched managers simply overpay for good targets or actually choose targets with lower synergies. They established not only overpay but they also choose low-synergy targets in the first place. This was indicated by combined announcement returns and post-merger operating performance.

Ownership concentration tends to be higher in emerging markets (Filatotchev et al., 2013). One would thus, expect corporate governance to be a major challenge in emerging economies owing to the increased likelihood of PP and PA conflicts. Humphery-Jenner and Powel (2014) studied the effects of size on CBA performance post-acquisition made unique findings. Using an extensive sample of 17647 takeovers from 45 countries, the study established that, in poor corporate governance environments the size of the firm derived more benefits in the form of political connections and influence. This enables the firms to alleviate the challenges presented by entrenchment. This was not the case in good corporate governance environments. One can extend this line of thought to submit that; institutional investors (backing large businesses) have more political clout. The positive market reaction to the purchase of a target by this constituency of shareholders is informed by the comfort of having a politically influential partner in their business.

The notion of strategic shareholders (such as institutional shareholders) found empirical backing a developed economy study. Andriosopoulos and Yang (2015) sampled 3697 UK acquisitions from 2000 to 2010. They found that Institutional investors can be effective external corporate governance monitors and can exert significant influence on firms' decision-making

[26] Illiquidity discount is when a private firm is priced at a discount owing to its “illiquid” state. Public firms have an active market for their share as such there are easy to sell on the open market, private company firms do not have that as such investors purchase the share at a discount because they do not have an active, liquid secondary market. Literature suggests that large block holders monitor managers through actions such as voting at shareholder meetings (Aggarwal, Saffi & Sturgess, 2015)

process. Thus, institutional investors increased competition in the market for corporate control and served as external monitors of corporate governance in the absence of excess protection of shareholders by the government. The study also found that the presence of institutional investors increased the likelihood of the transaction being a CBA and it being large. These findings are congruent with Humphery-Jenner and Powel (2014), who found that large size tends deals tend to be received positively in poor corporate governance environments or environments with less investor protection. Thus, one would suggest that the study also affirms the role of large size foreign shareholders as regulators that moderate managers into engaging in appropriate corporate governance practices. The study suggests that, "institutional ownership concentration can help protect shareholders' interests, particularly in cross-border deals where lower shareholder protection may apply" (Andriosopoulos & Yang, 2015:27).

Ironically, Andriosopoulos and Yang (2015) established that investors reacted negatively to the announcement of CBA deals of UK acquirers closing deals with domestic targets. This lends more substance to the argument by Humphery-Jenner and Powel (2014) that the external monitor role of big acquirers (which institutional investors are) becomes redundant in a good corporate governance environment. Thus, foreign institutional investors act as facilitators for reducing transaction costs and asymmetric information in the international market.

The market value of control is highly dependent on how minority shareholders perceive the risk of expropriation by controlling shareholders (e.g. the state, founders, and foreign investors) (Ning et al, 2014). According to Chen and Young, (2010) State-owned firms are prone to expropriate minority shareholders due to issues related to ownership transparency, managerial competence, and a preference for political interests rather than economic gains from internationalisation. Firms controlled by their founders are also faced with the potential PP as owners tend to retain control by forming close links with trusted managers in influential positions and are unwilling to share crucial business information with outsiders in a bid to protect their property rights and contracts (Wielemaker & Gedajlovic, 2011). Foreign-controlled firms, on the other hand, are more likely to focus on maximising returns as they tend to demand better corporate governance this, in turn, would create value for the acquirer (Filatotchev, Strange, Piesse, & Lien, 2007).

In corporate governance literature, the board of directors (henceforth BoD) is viewed as an essential internal control mechanism that is intended to advocate the interests of shareholders (Jensen & Meckling, 1976). It effectively reduces the cost of PA conflicts in instances where

control and ownership are separated. International investors take the characteristics of the BoD into account when evaluating the value creation prospects of a CBA acquirer. The major characteristics widely explored in literature are; board independence and size. Classical theory has it on empirical record, that smaller BoDs are more efficient while bigger BoDs are less efficient, thus, the former creates value, while the latter destroys value (Yermack, 1996; Eisenberg, Sundgren & Wells, 1998). However, given the empirical evidence presented by Humphery-Jenner and Powel (2014) in the CBA context one would contend, the implications of board size on value creation may just be the opposite. Cheng (2008) documents evidence that, it takes more compromises for a larger board to reach consensus as a result, decisions of larger boards are less extreme, leading to less variable corporate performance. One would then argue, that a bigger board enhances internal corporate governance mechanisms indirectly realising more value in contrast to smaller boards. This would even be more relevant with regards to complex corporate decisions such as CBAs. An independent BoD is better able to mitigate both PP and PA as such it results in value creation for the acquirer (Harford et al., 2012). This is because an independent board can effectively play its role without bias towards any of the parties[27].

Ning et al. (2014) submit that ownership structure, characteristics of control and internal control systems inform corporate governance, which in turn affects shareholder value in the CBA context. With a focus on Chinese firms listed on the Hong Kong Stock Exchange, the study used a sample of 335 acquisition announcements during the period 1991-2010. The findings concerning ownership structure impact indicate that expropriation of minority shareholders could not be mitigated by institutional shareholders and large blocks of non-controlling shareholders. The study also determined that in instances where investors believe the controlling shareholders can improve the performance of the combined firm they rallied behind the stock and the CBA created value. Findings concerning state and founder ownership indicate that the increased ownership of the two constituencies translates to value destruction. This is consistent with prior findings, Chen and Young (2010) and Wielemaker and Gedajlovic (2011). The study did not find any statistically significant impact of foreign ownership on value. Finally, the study lends support for the positive impact of BoD size and independence

[27] The parties referred to here are; principals (minority shareholders, majority shareholders) and agents (managers).

on the share price of the acquirer upon CBA deal as documented by Cheng (2008) and Harford et al. (2012).

2.4.4 Economic conditions

Economic conditions are characterised by booms and recessions. The economic conditions are sometimes conducive for business to thrive, but at other times present challenges for businesses. When the economy is growing the prospects for business are positive, but when the economy shrinking business suffers. Multinationals (prospective and present alike) exist in these economies and they are affected by the changes in economic conditions of countries in which they are domiciled. Drastic economic changes such as the 2007-2008 financial crisis have been on empirical record as having significantly negatively affected the short-term gains from CBA (Reddy, Nangia, & Agrawal, 2014; Rani & Asija, 2017).

The present study factors the impact of this financial crisis because it was on a global scale. The global financial crisis left a trail of bankruptcies as well as government bailouts of predominantly multinational financial institutions.[28] Earlier studies capture this in economic disturbance theory (Gort, 1969). The theory submits that economic disturbances change individual expectations and increase the general level of uncertainty[29]. Therefore, this shifts the ordering of individual expectations with respect to financial assets ownership. Previous owners of financial assets place less value on these assets than non-owners in conditions of economic disturbances. Those who did not own these assets prior, place some value on them, however, lower than their supposed intrinsic value. This results in in excess supply of financial assets in contrast to demand. This submission holds substance because asset prices take a knock when the economy goes into recession (Shleifer & Vishny, 2011)

It is well-established, that financial institutions (banks in particular) are more sensitive to economic shocks because of the nature of assets they hold in their balance sheets (James & Wier, 1987; Acharya, Shin & Yorulmazer, 2011). A study sampling CBAs that relate to European banks (EU, Switzerland and Norway) was undertaken by Beltratti and Paladino

[28] Financial institutions such as Bear Stearns, Citigroup, Lehman Brothers, Merrill Lynch, HBOS and RBS, Dexia, Fortis, Hypo Real Estate and UBS.

[29] Knight (1921) defines risk as situations where one does not know the outcome of a given situation but can measure the odds of an outcome with a high degree of accuracy. Uncertainty, on the other hand, applies to situations where there is insufficient information to accurately determine or estimate the odds of an outcome.

(2013). The study examined the acquirer's stock price market reaction to announcements and completions of acquisitions for 131completed deals in the period 2007-2010.[30] The stock price market reaction could either positively (in the case of a positive reaction) or negatively impact shareholder wealth. The study established that banks acquiring other financial firms during a crisis realised value creation. They also established that abnormal returns are larger for more efficient banks, banks with higher profitability and with less leverage[31]. They argued that a financial crisis presented opportunities for strong banks. They submit that healthy banks (from a capitalisation and liquidity perspective) have an opportunity to improve their market share and profitability during a crisis. The healthy banks then may shop around and buy competitors at distressed prices.

These findings also substantiate prior submissions by Acharya et al. (2011) who advance that gains from acquiring assets at fire-sale prices during a crisis is one of the reasons explaining bank holdings of liquid assets in normal times[32]. An earlier study brought an even more compelling argument that transcends across all sectors (an explanation not limited to the financial services but can be adopted for all sectors of the economy). James and Wier (1987) suggested that a reduction in the number of potential bidders and an increase in the number of potential targets, typical of crisis periods, may also allow stock prices to more clearly reflect advantages for the acquirers. Thus, fewer bidders meant fewer buyers pushed the acquisition price up, the increase in the number of targets implied increased supply (of potential targets) ultimately causing the target prices to fall significantly.

While Acharya et al. (2011) and Beltratti and Paladino (2013) US and European firms respectively, there is a study that samples a bigger scope. Reddy et al. (2014) conducted an investigative study of 26 countries and employed the adjusted event study methodology to examine the degree of difference between the means of pre-crisis period (2004–2006) and post-crisis period (2008–2010) for both sales and purchases in three variables; namely, number of deals, deal value and average deal value. To ensure that the sample represented countries that

[30] The interest of the present study is more interested in the value creation implications, post-acquisition, thus upon deal completion.

[31] For a more detailed account how capital affects a bank's performance (survival and market share) and how this effect varies across banking crises, market crises, and normal times that occurred in the US see Berger and Bouwman (2013).

[32] A fire sale is the sale of goods at extremely discounted prices, typically when the seller faces bankruptcy.

had significant participation in CBA deals during the time period under investigation the study employs stringent selection criteria[33]. The study determined that indeed CBA deals (sale and purchase) were adversely affected after two years of the 2007-2008 global financial crisis. This lends support for the 'economic disturbance theory' (Gort, 1969). However, emerging market countries were documented to have taken advantage of the attractive asset prices in developed countries after the crisis period and increased their foreign acquisitions. The study also indicates that Brazil, China and India were less affected by the financial crisis. This, one would argue, enabled firms from these economies to take advantage of the attractive valuation and partially explains the rationale behind the rise of Chinese and Indian firms in CBA participation in the past few years post-financial crisis. Overall these findings are consistent with previously indicates literature.

The financial crisis may have been an odd event, but it offers an opportunity for an understanding of the impact of the aggregate economy health on CBAs. Much more recently, Rani and Asija (2017) used a sample of 430 CBA announcements by Indian companies during 2003– 2015. The objective of the present article is to examine the market response CBAs by Indian firms during 2003– 2015 by conducting event study. A comparison between the acquisition gains before and after the financial crisis is made. The acquisition gains for the event window (–1, 1) are 2.06 percent for the entire period. The abnormal returns are positive and significant for the entire event window of 41 days. The empirical findings also suggest that the CAAR (Cumulative Average Abnormal Returns) on the event day for the pre-crisis period is 4.28 percent compared to CAAR of 1.70 percent during the post-crisis period. Results are statistically significant. This lends support that market response (positive value creation) muted after the financial crisis. The findings of this study are consistent with Gubbi and Elango (2016) and Rao-Nicholson and Ayten (2016). The study attributes positive but diluted performance to the attractive valuation of the targets available overseas due to the global crisis and at the same time, the recession in these economies in which the long-term performance is dependent.

2.4.5 Private or public target

Private firms are at the fundamental level different from public firms. Private firms are firms whose stock cannot be traded on any stock exchange. In contrast, the public firm stock can be

[33] First, the country's number of deals must have 1% or more than that of world economy number of deals during 1991-2010. Second, a country being selected at first measure should occupy at least 'thrice' during 2004-06 and 2008-10.

traded on a designated stock exchange. These firms are also known as listed companies. Generally, the value creation or destruction in M&As emanates from the price at which the acquirer obtains the target. For example, if they overpay for the present value of return they realise from the acquisition may be less than the consideration they paid for the target. This ultimately destroys shareholder value. Sources of misvaluation largely emanate from asymmetric information and misguided assumptions (Myers & Majluf, 1984; Cho et al., 2016).

Private firms, just like public firms have access to two main instruments of capital; equity and debt[34]. Listed firms can raise capital by issuing new shares to both existing shareholders and new, prospective investors. This large pool of potential investors makes for a good market for equity funding. Private firms, on the other hand, have an even tougher task of attracting new investors in the form of equity. According to financial securities law, these firms are not allowed to sell their shares in public as such this limits their investor pool to individuals or institutions that are already shareholders (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997). If at one point in time the firm is in need of funds, yet the current investors are not in a position to make the funds available the firm, it may lose on opportunities. With regards to debt funding, investors that invest in debt instruments monitor the share price of firms they invest in on the stock exchange to track the financial well-being of their investment. This is not possible for private companies; meaning that some debt instrument investors may be sceptical about investing in private firms because they cannot closely monitor the financial health of their investment. It is this scepticism that causes adverse selection and investor preference of public firms. When both a private and a public firm are faced with the prospect of a good, high return investment opportunity, public firms can access the funds to take advantage of the investment opportunity quicker than private firms.

In the US, Bayazitova et al. (2012) document evidence that firms which acquire private firms significantly outperform those that acquire public firms. They further extend their enquiry to show that these acquirers also outperform large public and mega-firms in terms of post-acquisition performance. Given that a significant body of studies which test the private-public target value creation relationships employ short-term measures (such as 3 and 21-day reaction windows). The narrative from longer-term studies could have been argued to offer a more

[34] Internal funds such as reserves for those firms which have been operational for longer constitute part of equity funding as retained earnings.

substantial comprehension if not a divergent view. Conn, Cosh, Guest and Hughes (2005) examine the announcement and post-acquisition share returns (long-run) of 4000 acquisitions by UK public firms during 1984-1998. The sample includes acquisitions of domestic, cross-border targets, publicly and privately held targets. They noted that; in acquisitions of cross-border public targets, abnormal returns are zero over the announcement period but negative over post-acquisition. In contrast, they noted that acquisitions of both domestic and cross-border private targets result in positive announcement returns and zero long-run returns. They stressed that the long run zero returns could be attributed to the negative influence of cultural distance. This is consistent with previous literature (Li et al., 2016). What is imperative, nevertheless, is the fact that their evidence indicates superior performance through the acquisition of private firm even in the long-run.

Many studies have made arguments for the higher valuation of public firms and why being listed would make a firm more expensive than being private. Firstly, public listing ensures that the firm is visible to a greater audience of investors (Maksimovic & Pichler, 2001). Secondly, listing ensures that investors (acquirers) do not have to pay an investment bank or any other financial intermediary to do a company valuation on their specific target (Brau, Francis & Kohers, 2003). Public firms are covered by several financial analysts at a time as such there are a lot of potential acquirers for them (Bradley, Jordan, & Ritter, 2003). This enables an investor to reliably estimate the intrinsic value of a stock. The price at which a public firm stock trade reflects all publicly available information about the firm.[35] This means that public firms are as good as priced items on the grocery shelves. Which is not usually the case with private firms, as such, investors tend to require a discount for the financial resources they would have to commit to determining the intrinsic value of a firm. Slightly deviating from the public valuation narrative, some evidence indicates that acquirers acquire private targets at a discount owing to the inability of valuations to capture (identify and quantify) the value of intangible assets. In a recent study, Lys and Yehuda (2016) examine 1481 US acquisitions in the period 2002-2006. They document evidence that acquirers on average, earn higher announcement-period returns when their targets are privately held than when their targets are publicly traded. They also show that show that private targets have significantly more intangible assets than do public targets. This enables the combined firm to realise synergies in the period after the acquisition.

[35] Fama and French (2012) revisit the efficient market hypothesis and lend further support for it.

The public listing also offers shareholders the advantage of liquidity. Franzoni, Nowak and Phalippou (2012) explore the liquidity narrative in detail. They define liquidity as the speed at which one can sell an asset without deviating from its intrinsic value. When the seller accepts a consideration far less than the intrinsic value of the asset it is an indication that the market for the asset is illiquid. Public firms are liquid, hence acquiring firms pay a premium for that, it is called the liquidity premium. Private firms, on the other hand, are not as liquid, as such their acquirers need to be incentivised for the liquidity risk to be assumed (in the form of a bigger discount) (DeAngelo, DeAngelo & Rice, 1984). Thus, sellers are willing to sell their private firms at a discount to compensate the acquirer of the liquidity risk. In short, acquirers earn a liquidity premium for their liquidity risk.

Most stock exchanges require listed firms to disclose any information which has a material bearing on the value of the firm (Ball, 2006). It is by this token that investors tend to also place much value on a public listing and are willing to pay a premium for the transparency offered by the target. Private companies do not have the same disclosure requirement as the public listed counterparts. For example, financial statements of public firms are required by law to be audited and published, this does not apply to private firms. Disclosing financial statements may reveal key information about the business that enabled investors to understand the future value creation prospects of the entity. Private companies may conceal material detail from their potential investors as such acquirers need compensation for such risks. Thus, private companies may be valued less on this token and the acquiring firm may realise excellent value for purchasing the firm at a discount.

Using an event study and survey data sampling 92 acquirers from the US, the UK and France, Capron and Shen (2007) also substantiate the notion of value creation by the purchase of private targets. The study documents that acquirers prefer private targets in related industries and only purchase public targets to enter new business domains or industries with a high level of intangible assets.[36] The study, however, also noted that acquirers of private targets perform better than acquirers of public targets on merger announcement. Finally, they document that acquirers of private firms perform better than if they acquired a public firm and acquirers of public firms perform better than if they acquired a private firm. This finding supports the notion

[36] The later part of this observation was subsequently contradicted by Lys and Yehuda (2016) who document the evidence that private firms have more intangible assets than public firms.

that expectation and experience in a given type of transaction could yield positive outcomes and value creation.

Turning the enquiry to North America and adding a long-term variation to the quest, Dutta and Jog (2009) investigate the long-term stock return performance of listed Canadian acquiring firms using 1300 CBA events between1993-2002. The study uses both event-time and calendar-time approach. They did not find negative long-term abnormal returns for the acquirer following an acquisition event. This finding was robust benchmarks, methodological choices, statistical techniques and other factors.[37] They cautioned that US-based studies finding negative abnormal returns on listed acquirers should be viewed with caution for the following reasons. Firstly, an examination of several deal specific, firm-specific, and governance factors, only univariate results are presented. This, they argued, ignores the confounding effects of dependent variables. Secondly, controversy still surrounds long-term performance methodologies that may yield distorted empirical outcomes. None the less, given that a rather substantive body of literature justifies the higher valuation of public listed entities this body of empirical evidence cannot simply be ignored (Bradley, Jordan, & Ritter, 2003; Franzoni, Nowak & Phalippou, 2012). As such the value destruction (through the acquisition of expensive (premium) public listed firms) reported by a myriad of studies is justified. One should, nonetheless, be cognisant the downsides of purchasing private entities in order to develop a well-informed intelligence on issues that impact value creation in the specific context.

The ownership structure also has indirect implications on value creation through its influence on corporate governance. The market for corporate control is more influential in public companies than it is in private companies because an exchange of shares can happen without consultation of other shareholders, which is not the case with private firms. The market for corporate control is well known to punish non-performing managers Humphery-Jenner and Powel (2014). It is an external corporate governance mechanism. Acquirers thus, place higher value (too much value in some instances) on this attribute and tend to pay more for public companies and destroy their value in the long-term. Another attribute of value destruction from

[37] Other factors such as; mode of acquisition (tender or merger), target type (public or private), related or unrelated target, payment type (stock, cash or mixed), growth or value acquirer, (board independence, level of managerial ownership and relative size of the deals.

the corporate governance perspective is that of ownership concentration. Private firms are generally more concentrated (Moeller, Schlingemann, & Stulz, 2004). The value of concentration is that when a single shareholder faces a lot of wealth destruction from their investment in a firm they tend to closely monitor the performance of the firm thus acquiring a target re-enforces the role of shareholders as monitors of managers. In a public firm, managers have more protection through alliances with some shareholders, this may in some instances result in the expropriation of other shareholders in the firm (Chen & Young, 2010).

Public companies as acquirers also (from a shareholder perspective) can culminate in value destruction. Jensen (2005) gives an example of how Nortel destroyed shareholder value through bad acquisitions[38]. Managers of public listed firms, they argued, are usually under pressure to keep the share price on the rise and resort to using M&As to get a positive reaction from the market. In the long run, the deals prove sour and the shareholders pay the school fees for managers to learn the bittrusher lesson. Private firm acquirers do not have the same "pressures" from their shareholders, as such, they are bound to make optimal acquisition decisions.

2.4.6 Relative size

Large and small firms have different fundamental characteristics. According to Robb (2002), large firms are most advanced in age in contrast to small firms and larger firms are usually in the maturity stage of the growth curve, whereas smaller firms are in their growth stage (organically). Smaller firms are young and mostly bringing something new to the market. This means the former has long-established customers whereas the latter is in the process of establishing a customer base. Larger firms have a big management team thus, it has a bigger board of directors and it has a stronger internal corporate governance mechanism whereas in smaller firms the opposite is true for smaller firms (Bennedsen, Kongsted, & Nielsen, 2008). One has reason to believe that all these differences in fundamentals may have a myriad of implications for value creation in a merger and acquisition context.

The most widely recorded means through which large targets destroy value is through the entrenchment of managers (Harford et al., 2012). Larger firms most likely have the separation of ownership and management. For example, it is highly likely that a small firm is run by the owner-managers whereas a larger business may be owned by a wider audience of investors.

[38] Nortel made 19 acquisitions in a period of 3 years and most of them were value destroying.

The likelihood of agency costs in the latter instance is bound to affect the operational performance of a business than in the case of a smaller business (Humphery-Jenner & Powel, 2014). Extant literature records that larger firms deal with issues of managerial entrenchment more than smaller businesses, particularly listed firms

From an acquirer perspective as well, empirical evidence points to rife managerial entrenchment in larger listed companies because of the separation of management and ownership. This implies that there is a higher likelihood for larger firms to make a bad acquisition that culminates in value destruction for the firm. This is owing to entrenchment. One, however, may also contend that larger businesses have bigger boards of directors (which smaller firms do not have) this may then serve as an internal means to monitor management, thus, to a certain extent mitigating the downside of entrenchment discussed by Harford et al. (2012).

Bayazitova et al. (2012) find that despite the negative reactions they get from investors, acquisitions of public targets typically do not destroy value. On the contrary, by most measures, create value. Only mega-mergers, the top 1% of mergers in absolute transaction value, destroy value for the acquirer[39]. This indicates substance to the value destruction by large firms submission made prior. However, to a limited extent as the study found that other large firms (non-mega) created value for acquirers. In contrast, however, non-mega-mergers create value for the acquirer. The study also shows that; value destruction in mega-mergers is driven by managerial motives and weak corporate governance.

The study makes a distinction between revaluation and value creation. This yields the revaluation-free value creation method.[40]The distinction yields several interesting conclusions about value creation inferred from short-term announcement returns. Firstly, large acquirers create less value than small acquirers. Secondly, acquirers of public targets create less value than acquirers of non-public targets; this is robust to measure of value creation. This also further

[39] Bayazitova et al. (2012) note the importance of this set of mergers (mega-mergers) as they constituted almost half the money spent on mergers.

[40] The three models were aimed at eliminating the value impact of announcements before the completion of the transaction to capture the real value creation. For a detailed breakdown of these models of the revaluation-free model see Bayazitova et al. (2012).

asserts the relevance of the distinction between public and private targets as well as large and small acquirers. Bringing the two into contrast; the empirical evidence indicates that those mega-mergers are driven by managerial motives such as empire building (hubris) whereas, the majority of smaller mergers; on the other hand, appear to be motivated by value-maximizing decisions. As postulated by the neoclassical M&A theory. Intuitively that has negative and positive implications for shareholders of the respective firm types.[41]

In contradiction to prior literature which indicates that larger acquirers' acquisitions create less shareholder wealth in developed markets, arising primarily from agency and management entrenchment problems (Jensen, 1986). Humphrey-Jenner and Powel (2014) bring a unique perspective to the widely recorded generalised value-destroying attribute of size. The study found that the acquirer size effect exists globally but is smaller in scale in weak governance markets. In contrast to larger acquirers in strong governance countries, large acquirers in weak governance countries engage takeovers that generate higher stock returns and increase post-takeover operating performance. Their deals are also more likely to be friendly and take less time to complete. They also find that the benefits of larger acquirer size increase with the importance of political connections in the acquirer's country.

There are two other solid arguments for paying less for larger targets that merit discussion. Firstly, given that competition for large targets is generally less intense (in contrast to smaller firms) as there are fewer potential buyers for large firms (Gorton, Kahl & Rosen, 2009). This can moderate the winner's curse problem, leading to lower acquisition premia. Secondly, large firms tend to be subject to less concentrated managerial ownership (Demsetz & Lehn, 1985). As a result, their insiders are more likely to accept smaller premia (Bauguess, Moeller, Schlingemann & Zutter, 2009). Alexandridis, Fuller, Terhaar and Travlos (2013) lend empirical support for these arguments.

A recent study by Alexandridis et al. (2013) brings a different perspective to the size effect narrative. They examine 3691 U.S. public acquisitions announced between 1990 and 2007. The study indicates that large firms are acquired at a significant discount relative to small ones, which contradicts prior literature (Harford et al., 2012). Interestingly the study noted no significant difference between acquirers of large and small targets regarding the level of managerial overconfidence to which most studies attribute value destruction. The study

[41] Size has a negative impact for mega-mergers and positive impact for smaller mergers.

documents a robust negative relation between takeover premia and target size. This means that acquirers paid less for larger firms. However, the study found that acquisitions of large targets still destroy more value for acquirers and translates to an escalation in their idiosyncratic return volatility around the deal announcement. This implies that investors perceive such deals as more uncertain projects. Just like previous literature, the study established that acquirers of large firms underperform small target acquirers in the long-run. The study, however, managed to offer empirical substance to challenge the notion of public firms being purchased at a premium. This finding is robust to both stock market and operating performance. Owing to their complexity large acquisitions consequently fail to deliver the assumed benefits regardless of being associated with lower premia.

The mere size of an acquirer can also bring opacity in the valuation or the quantification of relative performance. Examining an example from earlier studies, Asquith, Bruner and Mullins (1983), established the existence of a positive relationship between acquirer size and abnormal returns on share price, for both acquirer and target. These findings contradicted those of Dodd (1980), primarily because of the different methodology employed in the respective studies. Asquith *et al*. (1983) suggested that the flawed methodology distorted the measurement of returns for bidders. For example, in a competitive market, one would not expect abnormal returns. If one used NPV as a measure of abnormal returns (percentage), with an acquirer who was valued equally the same as the target the abnormal returns for the acquirer would be the same as the NPV of the target firm. However, if the target firm was half the value of the acquirer then the effective abnormal returns for the acquirer would be half the NPV (in percentage) of the target. This illustrates just how some methodologies may have concluded, value destruction or insignificant gains for the acquirers in mergers and acquisitions. Having adjusted for relative target size Asquith *et al*. (1983) concluded that, large acquirers made positive and statistically significant returns.

What is apparent from literature is that to a large extent size is a derivative of other factors that affect the value creation prospects of a CBA. Clearly, size effect is not a static linear influence on value creation but is it a dynamic factor that has both direct and indirect effects. It can influence as well as be influenced by corporate governance. The impact of size is subject to context. Being a public firm has its own unique implication as well. The following section dissects the main streams of classification and the implications to the valuation thereof.

2.4.7 Stock valuation

Public listed companies are exposed to a greater number of investors than private companies (Maksimovic & Pichler, 2001). The stock market offers a platform for the exchange of ownership of financial assets. Having a firm's shares, trade in this platform is a mechanism that alleviates the risks embedded in ownership of financial instruments, such as illiquidity. The valuation of public listed firms is subject to a lot of publicly available information. Regardless of whether the information is true or false, it could still affect the valuation of a company. Public listed firms are largely valued on a relative basis. This may be because intrinsic valuation is time-consuming and predominantly employed by investors with a long-term horizon. The most popular relative valuation metric is the price to earnings (henceforth P/E) and Book to Market Ratio (henceforth BTM).[42]

The extant literature from investment theory scholars uses the different relative valuation and other financial ratios to determine a firm's growth prospects, financial health etc. Listed firms are generally classified depending on their most recent financial performance or the perceptions of investors given the information that is available in the public domain. This creates the phenomena of value and glamour stocks, investment professionals' jargon of classifying the respective public listed firms according to the relative valuation. Lakonishok, Shleifer and Vishny (1994) classified value stocks as firms with low PE or high BTM and glamour stocks are firms that are classified as high PE and low BTM firms. Wang and Moini (2012) categorised glamour stocks as firms with high Tobin's Q and the opposite for value stock. Although different scholars use different proxies for ranking firms as either glamour or value stocks, the common thread is that value stocks are priced at close to their intrinsic value whereas glamour stocks are priced further away from their intrinsic value.

The seminal work of Lakonishok et al. (1994) details the behavioural science behind stock valuation in detail. They advance that, valuation of stocks is informed by investor sentiment and stock fundamentals. Fundamentals are the accounting numbers (such as earnings, sales, the value of assets etc.) that tell the story of the financial health of the firm. Investor sentiments are what investors make of the information/news that relates to a particular firm (corporate decisions such as M&As, management conduct and dividends etc.). The study explains that

[42] PE is calculated by dividing the single share price by the most recent earnings per share of that stock. BTM is calculated by dividing the book value of a single share by its current market price.

investors in the stock market are driven by two things, fear and greed. They expound on the concept of extrapolation. This refers to a case where upon receipt of new information investors take that information or news and value it way into the future than they should. For example, if a firm reports astronomical increases in its earnings for the year, investors then tend to think that the firm will continue to increase its earnings in the same magnitude for the next earnings period. This is the human element that drives share prices upward. In the same way, investors can extrapolate bad financial results way into the future and subsequently drive the share price downwards.

Lakonishok et al. (1994) go further to explain the mechanics of value and glamour stock. Firstly, firms may have a low PE or high BTM (value firms) because it has had a dismal run in operational performance. Thus, it has realised some drop in earnings in the recent past. This culminates in investors selling the shares because they perceive that it is only going to get worse. The value of the firm then tumbles. Likewise, firms that have high PE or low BTM owing good recent good run of operational performance and realised an increase in earnings. This culminates in investors demanding more of the firm's shares because they perceive that it is only going improve even more. Thus, in general, there are two types of firms on the stock exchange, a value firms that trade at close to or less than their intrinsic value and glamour firm that trade way above their intrinsic value.

Extant evidence lends support to the submission that value stocks outperform glamour (also termed growth stocks (Fama & French 1998; Andre, Kooli & L'Her, 2004). This is owing to two things; firstly, stock prices revert to a mean price in the long run and secondly, investors realise that they may have overreacted, as a result the share price recovers (Lakonishok et al., 1994). What subsequently happens is that value stocks then outperform glamour stocks in the long-run. Now, bringing it to the M&A context, acquirers with the objective to realise value creation for shareholders would be naturally attracted to purchase value stock in order to capture a good return on their investment. The logic is to simply buy a cheap firm and realise good returns when their fortunes turn around or by realising positive synergies with the acquired.

Intuitively, glamour stocks (firms) may be good acquisitions in the short-run since they enable the acquirers to hit the ground running in that they have sales growth momentum and they perform well in the short run. In contrast, value firms have poor past and perceived future growth. In the long-run, however, this may not be the case as value stocks have been proved to

outperform glamour stocks. Since most mergers and acquisitions are of long-term orientation, there is sufficient reason to believe that firms which acquire value stocks should outperform firms that acquire glamour stocks. However, there is limited evidence on this notion. Most of the published studies focus on the effect of the stock valuation of the acquirer on the subsequent performance of the combined firm or the acquirer, in the post-acquisition period.

Engaging a unique approach to this enquiry, Rau and Vermaelen (1998) set out to determine the causes of value destruction for acquiring firms. More specifically, to examine how the glamour firms perform as acquirers in contrast to value firms. The study uses a sample of 987 US-listed firms mergers and tender offers from 1980 to 1999. Hubris and extrapolation were argued to breed the mistakes that firms make when choosing a target. They argued that in firms with low BTM ratios (thus, glamour firms) managers are more likely to overestimate their own abilities to manage an acquisition, owing to hubris infection (Roll, 1986). Since glamour firms are firms with high past stock returns and high past earnings and sales growth this should presumably strengthen the management's confidence in their own capability. It is in this state of exaggerated self-belief that managers earn the confidence of shareholders. Shareholders in these firms are more likely to trust the management's decisions and approve their acquisition plans[43]. Conversely, in firms with high BTM ratios (value firms) shareholders may be more prudent before approving a major transaction that could compromise the survival of the company. On this token, the study documents that glamour firms perform badly as acquirers and value firms performed better as acquirers.

Rau and Vermaelen (1998) lend evidence in support of the negative impact of managerial hubris coupled with shareholder over-optimism. The findings are also consistent with the celebrity CEO hypothesis as postulated by Cho et al. (2016). CEOs essentially feed off their past performance or status in order to engage in transactions that ultimately compromise shareholders. One could also extend the argument, to submit that since glamour stocks are relatively overvalued in contrast to value stocks, glamour firms are more likely to use their slightly overvalued stock to purchase other firm and consistent with the information signalling theory, the market may react negatively to such a development. Value stocks, on the other hand, may have a positive market reaction as they most likely will not use the undervalued stock to acquire a target.

[43] This includes the board of directors and large shareholders.

While the arguments brought forward by Rau and Vermaelen (1998) hinge on managerial hubris as postulated by Roll (1986), Shleifer and Vishny (2003) present a different model. In this model, they assume that managers are rational and make objective decisions and they take advantage of stock market inefficiencies through mergers and acquisitions. They argue that when the markets tend to become irrational (for example a stock is undervalued for a prolonged period) mergers and acquisitions are used to address these irrationalities (managers acquire firms that are undervalued). In their model M&A is a form of arbitrage. The model predicts that the combined value created by an M&A deal is zero. Thus, whatever return shareholders of the acquiring firm earn is lost by target shareholders and vice-versa. Consistent with the extant literature, they established that stock payments implied acquirer over-valuation and the opposite for cash payments. Consistent with previous literature, they concluded that undervalued acquirers created value and overvalued acquirers destroyed shareholder value. Although they used different tenants and models the studies converge to similar conclusions.

Andre et al. (2004) examined the long-term performance of Canadian acquisitions for the period 1980-2000. The study followed Rau and Vermaelen (1998) and used BTM to proxy firm valuation. The study lends support for hubris and extrapolation coming from manager and shareholders respectively. The study found that glamour acquirers underperform in the long-run and value acquirers outperform in the long run. The differences in returns of glamour acquirers against value acquirers were statistically significant. Robust to methodology and location of the acquirers, empirical evidence indicates that the valuation of the acquirers' stock has an influence on the subsequent performance of the acquirer in the post-acquisition period.

2.4.8 Acquirer experience

Exposure to a particular way of doing things breeds familiarity and familiarity enables one to navigate the pitfalls inherent in a particular landscape. Scholars believe that the same mantra applies in the CBA context (Bertrand & Betschinger, 2012; Dikova & Sahib, 2013). Collins, Holcomb, Certo, Hitt and Lester (2009) document evidence that, recent international acquisition experience increases the propensity of a subsequent international acquisition by 102%. One may argue, such findings are an indication that experience in CBA dealings may cause acquirers to be more confident to engage in such deals.

Scholars have significantly explored the question of the degree of influence acquirer experience on post-acquisition performance. Bertrand and Betschinger (2012) compare acquiring and non-acquiring firms; domestic and international acquiring firms' performance in Russia. The study

documents that acquirers engaged in CBAs and domestic acquisitions alike destroy shareholder value. However, they note that the value destruction by domestic acquisitions is much prone in contrast to cross-border transactions. The crux of the study was to investigate the impact of cultural distance on the performance of the acquirer. They noted that firms which have experience in M&As were better able to deal with cultural distance. Interestingly, acquirer experience was even more positive and significantly related to value creation in the context of CBAs. Thus, the study lends support for the indirect impact of acquirer experience on value creation.

These findings are opposed to the findings documented by Aybar and Fucici (2009) who sample emerging market firms. They document that international experience has no positive impact on value creation. Notably, however, they did not find any negative impact as well. The results from their regressions with regards to international experience were inconsistent and inconclusive. The deviations from the positive relation (between international experience and value creation) postulate could be attributed to the fact that this study employed an international experience proxy that is different from the subsequent studies. Most studies used the actual number of transactions completed by the acquirer in the study window as a proxy for experience (Bertrand & Betschinger, 2012; Dikova & Sahib, 2013). In this instance, the study used the ratios; foreign sales/total sales and foreign assets/total assets ratios as proxies for internationalisation. The intuitive limitation of the proxy employed in this study is that a huge international acquisition can render a firm to be classified as experienced from a single transaction. One would thus argue the actual number of transactions completed better fitting proxy for acquirer experience and as such more credence should be given to such firms.

Exploring the international experience impact on value creation hypothesis with a worldwide sample (America, Europe and Asia), Dikova and Sahib (2013) conclude on findings consistent with those of Bertrand and Betschinger (2012). They also noted that international experience largely influenced the impact of cultural distance with regards to value creation. They determined that the performance of culturally distant CBAs launched by inexperienced acquirers was poor. They argue that inexperienced acquirers are unlikely to have a culturally sensitive anti-conflict action plan. This, in turn, affects the ability of the acquirer to integrate operations and affects learning. Thus, lack of experience reduces cultural distance awareness and subsequent planning around this crucial issue. The study makes an emphasis on the importance of experience specific to cross-border transactions in value creation compared to

experience from domestic transactions. This advances the notion that indeed international experience mitigates the negative influence of national cultural distance in CBAs.

2.4.9 Diversification of operations

Diversification in a business context is the act of deviating from one's core business operations (industrial diversification) or moving one's operations to a different physical location (geographical diversification). Diversification thus ensures that the firm is insulated from the consequences of risk concentration (Rani & Asija, 2017). It is without a doubt, firm managers are interested in limiting the risk exposure of their operations (Beltratti & Paladino, 2013). Denis (2016) asserts that most managers believe that their role is to ensure that the shareholder value is maximised. Research indicates that managers still hid, the age-old wisdom of "do not put all your eggs in one basket". Given the M&A deal volumes recently one can advance that, managers still use M&As more specifically CBAs to diversify their operations (Buckely et al., 2016). Using CBA to diversify operations, however, can prove challenging because firms are presented with numerous headwinds that are unique to these deal types.

Diversification of operations can take the form of geographical, horizontal, vertical or unrelated diversification. In some instances, it can be a combination of two or more forms in one deal. According to Rani and Asija (2017), CBAs prove valuable during recessionary times. Recessionary trends do not have a uniform impact on all markets (economies) globally. Geographical (regional) diversification enables acquirers to supplement the decline in their earnings in one region by their earnings from other markets in a different region. This ensures smooth earnings despite the recession. The logic behind this motivation is as follows; firm X may have operations in the UK (a European country) and it may have reason to believe that most European countries are about to be hit by an economic slowdown. Knowing that this may negatively impact consumer spending (their key revenue driver) in the UK, firm X is then motivated to move some of its operations to China where there is no expectation of an economic slowdown. This effectively limits the impact of the anticipated slowdown in demand if or when it comes.

Empirical evidence indicates that international diversification does not destroy value while industrial diversification leads to value destruction even after controlling for the pre-acquisition value of the target (Dos Santos et al., 2008). The study used a sample 136 deals comprised of

US acquirers between 1990 and 2000.[44] This deviates from the notion that investors believe that spreading a firm's risk profile across industries, makes the firm less sensitive to industry-specific shocks. In a nutshell, industry diversification does not seem to deliver the value creation goals as anticipated in literature and practice alike. This study does not make a distinction between vertical and horizontal variations of industrial diversification. Literature examining the same in the context of CBAs is virtually non-existent.

Sampling a different set of acquirers Aybar and Fucici (2009) obtain interesting findings to those of Dos Santos et al. (2008). The study used 433 deals with acquirers from emerging markets during the period 1991 to 2004.[45] The findings from the study indicate that acquirers that engage in industrial diversification, in fact, exhibit less value destruction in contrast to non-diversified acquirers. One would then argue that while diversification may be ideal for emerging market firms, developed economy firms are better able to exploit their expertise and realise good returns if they "stick to what they know".

2.4.10 Method of payment

The method of payment has been recorded as a critical factor in short-term value creation. The method of payment is generally perceived as a means through which the parties involved convey information that relates to the valuation of a firm to investors implicitly. It has been argued, that the method of payment is an indication of information asymmetry between the acquirer and target (Myers & Majluf, 1984). Firms use their stock to acquire other firms or transact when they believe that their stock is undervalued. Alternatively, firms use cash to acquire other firms, if they believe that their stock is currently overvalued. Investors and other market players interpret a cash acquisition offer as a signal, that the acquirer shares are undervalued hence they bid the acquiring firms' shares upwards realising short-term abnormal returns (Georgen & Renneboog, 2004). Extant literature has put the theory to test in recent years mostly lending support for it, however, the reasons behind, largely differ.

The seminal work of Travlos (1987) examines the role of the method of payment in explaining stock returns of the acquiring firms at the announcement of takeover bids. In the quest to test the signalling theory in the M&A context the study employs a sample of 167 US deals during the period 1972 to 1981. They found that there were significant differences in the abnormal

[44] The US is a fair representation of developed economies (Tsuji, 2015)

[45] A period similar to that of Dos Santos et al. (2008).

returns between equity-financed deals and cash-financed deals. The study noted that mergers are usually financed by equity whereas tender offers are usually financed by cash. More specifically the findings show that acquiring firms suffer significant losses in pure share funded acquisitions, but they experience "normal" returns in cash acquisitions. These results hold true for both types of acquisitions; mergers and tender offers. This lends support for the information signalling hypothesis.

In a recent long-term study, Dutta, Saadi and Zhu (2013) sampled 1300 deals completed by Canadian acquirers between 1993 and 2002 to examine the effect of payment methods in the CBA context. They employed a detailed buy-and-hold abnormal return (BHAR) analysis to evaluate the long-term stock returns for these firms. The findings reveal that cross-border stock financed deals significantly underperform in the long-run compared to cash financed deals. Further, the study examined the role of stock payment in mitigating information asymmetry in CBAs and alleviating the risk arising from making acquisitions in a foreign market with poor corporate governance. Their findings show that stock payment is viewed as a possible therapy for reducing information asymmetry and lowering corporate governance-related risk in CBAs.

Lending further support to the information signalling hypothesis, Georgen and Renneboog (2004) sampled 228 takeover deal announcements from 1993 to 2003. The study analysed the short-term wealth effects of large European takeover bids. They also find strong evidence that cash offers trigger much larger share price reactions than all-equity offers or combined bids consisting of cash, equity and loan notes. The findings hold even after controlling for the characteristics of the bid and the target firm. Thus, cash bids created value in the short-term, again this European study validated the information content hypothesis.

More recently, however, Alexandridis et al. (2013) challenge the generalisation of this hypothesis. The study sampled 39 countries around the world, which was a good representation of countries involved in M&As across the globe. The study established that equity swaps as deal currency did not destroy value in most countries except the UK, US and Canada. In the rest of the countries in the sample firms paid lower premia and realised gains, on average, while share-for-share offers are at least non-value destroying for their shareholders. These contradictory findings were attributed to the less competitive market for corporate control in the rest of the world. Hence, the shares of the acquirer and targets were a close reflection of the intrinsic value mitigating the possibility of buying a target using overvalued shares and vice-versa. They conclude that the information effect is overshadowed by low premiums paid in

acquisitions in other countries (other than US, UK and Canada). One would thus expect studies emerging from the three countries to uphold the information signalling theory logic.

Managers have a vested interest in the shareholding structure of the businesses they run. Interesting insights into how managerial consideration influences the method of payment are well documented in recent literature. Harford et al. (2012) bring an interesting finding in their examination of how entrenched managers destroy shareholder value. The study established that these managers deliberately avoided the purchase of potentially value-enhancing private targets. In instances where they do purchase them these managers deliberately avoid using stock to purchase targets simply because of wanting to keep new shareholders at bay. Thus, protect their entrenched position. Firms that do not want new shareholders on board will elect to use cash instead of equity swaps in M&A deal. The signalling theory in that instance again would have lost its relevance in explaining the choice of method of payment.

Interestingly, Harford et al. (2012) is not the only study to present empirical evidence contending the information signalling theory as being the dominant explanation behind the choice of method of payment. Beltratti and Paladino (2013) also established that European banks pay cash for targets in times of financial crisis (at a time when their stock prices are trading at a low range). This runs contrary to the signalling hypothesis and the study found that it was because investors were disappointed by the choice to use cash at times of a credit and liquidity crisis. They also advance the notion that the market for corporate control would be less active in a financial crisis, as Alexandridis et al. (2013) postulated in the context of countries with a less aggressive market for corporate control. One could, however, argue that in times of financial crisis, the information of stock under-valuation is public knowledge. It may, therefore, prove challenging to close a deal for equity swap in such an environment. This could imply that the information signalling theory may be more relevant at times other than a recession. The importance of payment method as a source of information is undisputed. What literature reveals, however, is that different contexts have different implications. As such one can draw the conclusion that, indeed payment method conveys much crucial information (financial health, corporate governance, valuation of the firm, managerial orientation and entrenchment etc.).

Conclusion

From this section, it is quite clear, that there are numerous factors affecting the performance prospects of a CBA deal. What is most striking is the degree of the interrelatedness of the

factors. Cultural distance (in both variations) is intricately linked to, learning. Size has implications for ownership structure and corporate governance. Acquirer experience also has implications for cultural distance. Lastly, the method of payment is also a function of corporate governance and other fundamental considerations. It is because of these complex relations that it becomes a challenge not only to manage the deals but to also make predictions on how the deal ultimately translates. The following section unpacks the empirical evidence that examines the degree of value creation derived from CBAs.

2.5 EMPIRICAL EVIDENCE OF CBAs IMPACT ON ACQUIRER VALUE

A myriad of studies have explored the concept of value creation by mergers and acquisition deals extensively. As the case in domestic M&A deal, the body of literature on cross-border acquisitions is just as conflicted. The value creation puzzle of M&A deals extends to CBAs. CBA research is, however, a quest that has not been explored extensively in relative terms. Shareholder value maximisation is, without a doubt, a noble pursuit, for the sustainability of commercial entities, thus at the core of management's strategic objectives should be value creation (Hart & Zingales, 2016). It is thus a worthwhile quest to understand if this type of growth does indeed create value. In this section, the degree of value creation is measured against that of domestic transactions. This is meant to ensure that the study puts befitting context to the literature. Growth is imperative to value creation and since acquisitive growth is one of the means through which a firm can achieve growth, managers should then take keen interest to know if CBA creates value.[46]

Table 1: A summary of CBA studies and the respective findings.

Study	**Acquirers' region of origin**	**Value impact**
Dos Santos, Errunza and Miller (2008)	DE	Inconclusive
Aybar and Fucici (2009)	EM	Negative
Chen and Young (2010)	EM	Negative
Kim, Haleblian and Finkelstein (2011)	DE	Negative
Bertrand and Betschinger (2012)	DE	Negative
Danbolt and Maciver (2012)	DE	Positive
Nicholson and Salaber (2013)	EM	Positive

[46] Even if a firm is more organic growth-oriented, they may need to consider this form of growth, in pursuit of new distribution channels for the increased production.

Ning, Kuo, Strange and Wang (2014)	EM	Negative
Andriosopoulos and Yang (2015)	DE	Negative
Deng and Yang (2015)	EM	Positive
De Beule and Sels (2016)	EM	Positive
Li, Li and Wang (2016)	EM	Positive
Rani and Asija (2017)	EM	Positive

Table 1 shows recent literature on value creation or destruction by CBA on the acquiring firm. The first column on the right lists the specific study, the second column identifies where the acquirer is domiciled, and the third column reflects the overall finding of the paper with regards to value creation.

Table 1 is a depiction of some most recent literature on the impact of CBS on firm value. Performance (value creation) is classified as either positive, inconclusive or negative. The collective body of research seems to indicate both value creation and destruction. One would note, however, that in most recent studies, research is biased towards value creation for acquirers domiciled in emerging markets (Deng & Yang, 2015; De Beule & Sels, 2016; Li et al., 2016; Rani & Asija, 2017). Notably, China and India are the leading emerging markets in these recent studies, which is not surprising, given their respective rise in global economic leadership in the recent years. Studies examining developed economy domiciled firms are biased towards value destruction (Kim, Haleblian & Finkelstein, 2011; Bertrand & Betschinger, 2012; Gregory & O'Donohoe, 2014; Andriosopoulos & Yang, 2015). The UK and US are a significant representation of developed economy acquirers, this is substantiated by Tsuji (2015), who points out that the two economies are active in the CBA market as acquirers as well as targets.

2.5.1 Value-creation in CBAs

The numerous motivations behind M&As converge in this one thing; ultimately, businesses want to create value. They aimed for the sustainable survival of the enterprise as well as the financial well-being of their investors (owners). Dos Santos et al. (2008) examined the long-term wealth effects of CBAs on US firms engaged in CBAs. They extend the study to investigate if industrial diversification in a cross-border acquisition or merger deal translates to even better performance. Their findings indicate that generally, CBAs do not destroy value. However, they do not lend solid evidence of value creation either. The study also found a weak evidence of value creation with regards to related industry acquisitions. This finding is at odds with the logic of sharing of "industry intelligence" to overcome information asymmetries as postulated by De Beule and Sels (2016).

In a recent study, Rani and Asija (2017) sought to investigate the market response to CBAs, by Indian firms using an event study. Most of the sample experienced positive and statistically significant returns over a 41-day window period. The study further extends the investigation to the impact of the financial crisis on CBA performance of emerging market economies (henceforth EMMs). The study also established that there was positive performance from EMMs which acquired firms domiciled in developed countries (economies). This was attributed to the attractive valuation of targets based overseas owing to the 2007-2008 financial crisis. These findings were consistent with Rao-Nicholson and Ayten (2016) and Gubbi and Elango (2016). The findings also substantiate the notion that Indian firms enjoy a cultural advantage in targeting foreign markets, thus ensuring fast entry into foreign markets (Nicholson & Salaber, 2013).

Value creation is embedded in the ability to navigate cultural differences both at national and organisational level. Nicholson and Salaber (2013) explored the concept of value creation in CBAs of Indian and Chinese firms along with the motivations thereof. The study established that CBAs created value for both Chinese and Indian firms. However, this value creation did not emanate from the same source. Value creation could not be attributed to cultural distance in the case of Chinese firms, which was the case for Indian firms, in keeping with Rani and Asija (2017). The study established that Chinese firms value creation could rather attributed to the firms' ability to leverage on resources (natural physical resources and advanced managerial skill) gained in the transaction. Indian firms' multicultural communication skills (being a former British colony) ensured the mitigation of cultural distance and the subsequent value creation. Notably, they also indicated that China brought manufacturing competitive advantage and Indian firms brought service competitive advantage, thus synthesising with resources in developed economies to create an improved performance.

Keeping with the theme of examining value creation in the emerging markets context, Li et al. (2016) investigated whether acquirers from emerging markets create value for their shareholders in CBAs. More specifically they sought to measure the influence of cultural distance and learning and absorptive capacity on value creation in CBA deals. Sampling Chinese firms, the study established short-term value creation by the EMMs from China (Tsuji, 2015). The Cultural distance was found to be negatively related to the value of the firm in the short-term. This asserts the notion, that cultural differences obstruct knowledge transfer and communication; thus, posing a challenge in post-acquisition integration and subsequent performance. Regardless of Chinese firms gaining the reputation of bigger cultural distance,

these findings still substantiate the previous research of value creation by CBAs (Nicholson & Salaber, 2013). Consistent with popular theoretic predictions and arguments absorptive capacity had a significant positive influence on value creation for the acquirer.

Emerging economy firms are further documented to create value owing to the ability to acquire and assimilate new information, technology and systems. A study by De Beule and Sels (2015) investigates the impact of absorptive capacity of EMMs on value creation in emerging market acquisitions, specifically in the Indian context. Using cumulative abnormal returns event study method on a sample of Indian acquirers and European targets, it was determined that CBA announcements created statistically significant value for the acquirer. The absorptive capacity of Indian firms was credited with the value creation. Using the degree of investments in research and development (R&D) as a proxy for absorptive capacity, the study shows that firms with low R&D receive positive market valuation by acquiring firms with intense R&D, this was, even more, pronounced for intense R&D acquirers. Horizontal acquisitions exhibit superior value-creation; they attribute that to the synergy that is realised through the combination of the respective R&D to overcome asymmetry.

In developed economies, corporate governance was established as being responsible for aiding value creation. Danbolt and Maciver (2012) examined acquisitions in and out of the UK, using a mix of inbound and outbound M&A deals. They established that acquirers in CBAs realised higher abnormal returns in contrast to their domestic counterparts. The cause of this, they explained, was that targets based in countries with poor corporate governance were poorly managed and subsequently potentially under-valued making for good performance for the acquirer post-acquisition. Firms domiciled in countries with good corporate governance standards (with higher investor protection) were determined to be less likely to be involved in value-destroying deals. Consistent with Jensen and Meckling (1976) and Jensen (1986), one would then extend the argument that, given the possible agency conflicts between shareholders and managers, acquisitions may be driven by hubris (with no significant external mechanism to moderate that condition) in poor governance economies and subsequently value destruction. Of crucial note, even after controlling for corporate governance significant national variations were noted, emphasising the relevance of geographical and cultural distance to M&A success as empirically substantiated by emerging economy studies (Nicholson & Salaber, 2013; Rani & Asija, 2017).

Finally, Deng and Yang (2015) set out to determine if M&A performance is context-specific by focusing on emerging markets acquiring firms.[47] This study was motivated by the quest to assess the relevance of the theory of resource dependence, which suggests that EMM dependence on host countries is largely influenced by the degree to which target firms control key resources and/or markets that are needed by EMMs. EMMs thus acquire the targets to mitigate their dependence on these firms (Pant & Ramachandran, 2012). The study established that a higher level of resource and market availability in host countries increases the intensity of international acquisitions by EMMs, as they pursue tangible and intangible assets. One would thus, suggest that the resource dependence motivation drives not only the direction but the magnitude of CBAs. The study also showed that host government effectiveness is a boundary condition of the M&A logic in global settings. Thus, the ability of target countries' craft and enforce effective and economically sound regulative policies is an essential requirement for foreign firms to engage in CBA.

They also concluded that positive performance for CBAs is subject to resource and market availability of host countries. These findings are consistent with Tsuji (2015) who, in analysing most recent CBA activity, indicated that the US, UK, Canada, Australia and Germany are the most popular destinations for Chinese firms acquiring into the developed world. This also partly explains the recent surge in the number of studies exploring the concept of CBAs coming from emerging economies. The study further describes emerging economies as "becoming a critical force in reshaping global business landscape".

2.5.2 Value destruction in CBAs

There is an equally imposing body of empirical evidence that suggests value destruction by CBAs coming from the developed economy and emerging economy acquirers alike. Aybar and Fucici (2009) conducted a seminal CBA study investigating the short-term wealth effects on EMMs by employing an event study on 433 acquisitions. Its relevance to CBA literature is unparalleled, because of the way in which it differs from most of the work that has been conducted and contradicts a myriad of previously postulated relationships in CBAs. The sample of acquirers originated from a wide array of emerging markets (Argentina, Brazil, Colombia, Chile, Mexico, India, Malaysia, Philippines and South Korea). Thus, the study was adequately

[47] The study focused on deals taking place Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Thailand.

representative of the emerging markets. They found that in the majority, CBAs destroyed acquirer shareholder value. They document that, target size, the ownership structure of the target (private vs public), and degree of diversification positively affect the bidder value. They further established that acquirer experience as not influential to value creation in the CBA context. The study could not, however, establish a significant impact of corporate governance. One may argue, however, that corporate governance regimes in emerging economies are similar and the impact may not be readily observable.

The study was subsequently contradicted by more recent CBA studies (Nicholson & Salaber, 2013; Li et al., 2016). The study makes queer findings with regards to cultural distance, where they noted less value destruction in transactions where the acquirer and target had a greater cultural distance. This may suggest that in emerging economies, the cultural distance yields positive results as employees may be more interested in learning from other cultures. This deviates from the findings of Nicholson and Salaber (2013) and Rani and Asija (2017). The study also established that diversified (industrially diversified) firms, destroyed less value than those that were not. This also defies the logic that firms that acquire targets in their line of business should more likely create value as they could use the information to enhance trade and overcome informational asymmetries. One could argue, however, that the findings may reflect cases where diversification pays off owing to steady streams of income for the acquirer (in the post-acquisition period) and investors approving of such strategies by bidding the share-price upwards.

Studies focussed on developed economy acquirers link value destruction to the implicit impact of agency cost that is presented by institutional ownership. A recent study by Andriosopoulos and Yang (2015) investigates the impact of institutional ownership on UK merger and acquisitions (CBA and domestic). Two major findings emerge from the study; firstly, institutional investors increased the likelihood of an M&A to be big. Secondly, they increased the probability of the M&A to be cross-border. The study also indicated that the market reacted negatively to an announcement of CBA deal. The CBA deal announcements destroyed value in the short-term and this was robust to the 2007 and 2008 financial crisis. The study further reports that institutional investors are more interested in obtaining a large stake suggesting they be interested in influencing decision-making.

Given the existence of empirical evidence indicating a negative relationship between value creation and firm size (Dutta & Jog, 2009) and considering that, Andriosopoulos and Yang

(2015) established an increased likelihood of deal size being larger owing to institutional ownership, size could also thus be a driver in value destruction in some of the deals involving institutional investors. Harford et al. (2012) show that large acquiring firms earn lower acquisition returns than smaller acquiring firms, this is consistent with the presence of agency conflicts and managerial entrenchment. They noted, however, that in contrast to large acquirers in strong governance economies large acquirers in less developed governance economies perform significantly better. This relationship still held even after controlling for firm, industry, country, and time-specific factors. These findings of short-term value destruction by institutional investors are consistent with findings from prior studies (Ning et al., 2014).

Engaged in a similar quest as Andriosopoulos and Yang (2015), Ning et al., (2014) explore reactions of international investors to CBAs by EMMs from China. Generally, CBAs created short-term wealth in that they were positively received by the market. However, consistent with the UK markets, deals that were concluded by acquiring firms that were held in the majority by institutional shareholders, received a negative market reaction, thus institutional shareholding had destroyed value in the short-term. Whereas the UK context study points in the direction of size as an explanation for value destruction in CBAs. The Chinese study indicated that principal-principal conflict was a rather more plausible cause for short-term value destruction.[48] Consistent with Chen and Young (2010), institutional investors were seen as more prone to expropriate smaller shareholders hence the higher the share institutional shareholding presented agency conflicts and subsequently destroyed shareholder value.

Governments can also take partake in commerce as institutional investors. Chen and Young (2010) explore the impact of CBAs on shareholder value in cases where the Chinese government was a majority shareholder. They conclude that; Institutional investor-controlled acquirers destroyed value in the short-term horizon. They argued that large institutional shareholders (in this instance, the Chinese government) impose CBA deals for reasons that are politically (national or industrial policy) motivated. Thus, deviating from value creation through profitability and giving rise to a conflict of interests at the principal level. The study concluded that investors are sceptical of institutional investor involvement (particularly, governments), hence institutional ownership destroys value in the short-term. Emerging

[48] Minority investors tend to be concerned that institutional investors (in most cases who are significant shareholders) may have other motives for engaging in CBAs other than profit.

markets are notorious for less advanced corporate governance infrastructure, leaving room for organisations to engage in value-destroying acquisitions, this is more pronounced where institutional shareholding is involved. Aybar and Fucici (2009: 1320) noted, "This factor is particularly important, because poor corporate governance practices in emerging markets, and their implications, have been well documented in the literature".

One should carefully note, however, that in some instances institutional ownership plays a crucial role in resolving and mitigating agency costs arising from the management-owner relationship. Ferreira, Massa and Matos (2010) document that foreign institutional ownership increases the likelihood of a merger to be successful worldwide. This relationship is more pronounced in less developed markets where foreign institutional investors play a crucial monitoring role in the enforcement of and maintenance of good corporate governance practices. Interestingly, they note that short-term market reaction to CBA announcement is not driven by the investment horizon of the different institutional investors.

One can conclude, that while institutional ownership is a vice it also has some virtuous attributes of institutional ownership that are readily visible in less developed markets. Specifically, the difference in the types of institutional shareholders may help explain the variation in attributes. For example, Ferreira, Massa and Matos (2010) defined institutional ownership as professional money managers, including mutual fund companies, pension funds, bank trusts, and insurance companies. Chen and Young (2010) on the other hand refers to institutional ownership and government owned entities or parastatals. The former has a pressing mandate of shareholder value creation in contrast to the latter. Overall, one can conclude that, institutional ownership is seen as a substitute for governance but not fool proof monitoring substitute.

The complexity of CBA deal can magnify the impact of factors that may be generally perceived to be manageable. While the lack of experience in M&A may have negative effects, employing deal advisors with international experience can mitigate the shortcomings of lack of experience in the CBA context. However, this does not always pay-out, long-run factors such as in the ability to mitigate the negative effects of cultural distance could still influence the prospects of value creation negatively.[49] Bertrand and Betschinger (2012) undertook a comparative study

[49] Firms, with international experience are better equipped to deal cultural distances that come with CBA deals.

involving Russian firms as acquirers. This study was unique because it deviated from the pattern of short-term studies and focused on a longer-term horizon. They determined that upon completion of a single deal domestically and internationally the firms' profitability decreased -0.003 and -0.006 respectively. This implied that CBAs destroyed value more than domestic deals. The sample period also covers the years 2006-2008 (financial crisis period) and significant negative effects of CBAs on value are reported. The study largely attributed this magnified poor performance to inexperience in the cross-border M&A dealings.

However, drawing from the conclusions of Aybar and Fucici (2009) who dismissed any link between value creation and acquirers' CBA experience and given that the two studies have different investment horizons and acquirer firm profile, the deviations are not surprising[50]. It can be argued that the effects of acquirer experience are notable in the long-run, owing to the nature of the factor. Thus, integrating two cultures is a long-term process and the effects of such can be truly observed in the long-term.

Gregory and O'Donohoe (2014) conduct a comparative study of short-term wealth effects of domestic deals and CBAs of UK firms (as targets). Sampling 15 years up to the year 2005, the study determined that all mergers and acquisition transactions destroyed shareholder value in the short-term. These findings held, regardless of the nationality of the acquirers (domestic transactions performed worse that CBAs). Importantly, the negative results hold regardless of corporate governance regime. The study also found that firm-specific attributes such as leverage have a positive influence on value creation. As such, firms with minimal gearing are more likely to destroy value. This finding hinges on the free cash flow hypothesis which postulates that when managers have excess cash-flow, instead of distributing the cash in the form of dividends. These then engage in value-destroying schemes of diversification. Debt could thus be used to mitigate the propensity of value destruction in this fashion by limiting agency costs (Jensen, 1986; Jensen, 2005).[51] For European acquirers, however, a negative

[50] Aybar and Fucici (2009) conducted a short-term wealth effects study and their sample was from emerging markets and the sample period older than that of Bertrand and Betschinger (2012). However, given that Indian and Chinese firms took advantage of the impact of the financial crisis on DE, buying DE domiciled firms at discounts, Russian firms' failure to do that could still have something to do with either their deal advisors or their international experience (Kim et al., 2011).

[51] Jensen (2005) explores an example of Nortel, which acquired 19 companies in 5 years in what they call managerial heroin state. Where they made acquisitions for the purpose of convincing the markets that they were

association between leverage and value creation was observed and attributed to different risk profiles instead.

In the past, scholars have attempted to explain the M&A paradox using behavioural theory. For example, Shleifer and Vishny (2003) explored the concept of Stock market-driven acquisitions, where they established that when stock markets are undervalued it causes increases in the volume of M&As and vice versa. While exploring the concept of how over-valuation destroys shareholder value, Jensen (2005) gives examples of how overvalued firms used their stock to make acquisitions in order to post a façade of good performance and prop up their already overvalued stocks. In keeping with this line of enquiry, Kim et al. (2011) used behavioural learning theory and risk-taking to examine whether firms desperate for growth overpay for acquisitions. Overpaying for target implies that the deal is most likely to destroy acquirer shareholder value.

The study by Kim et al. (2011) samples US acquirers and makes the submission that low organic growth and subsequent dependence on acquisition for growth are the two causes of firms' desperation; they called this the *desperation theory*. These firms subsequently go on an aggressive acquisition trail in a bid to get make up for the stagnation. The study found significant evidence that in a "desperate state" firms are more likely to pay a higher premium for targets than less desperate firms. This theory holds for both domestic as well as international acquisitions. The study concludes that deal advisor plays a positive role in mitigating the likelihood of acquisitions made from desperation and subsequent value destruction.

2.5.3 Domestic versus Cross-border M&As

Operating a business in the twenty-first century has a lot of implications for managers. For example, instead of being confined to just their domestic options for targets, acquirers can purchase firms across borders to create value for their shareholders. Risks associated with domestic acquisitions can be classified as; firm-specific, industry-specific as well as country-specific. In the CBA context, in addition to the aforementioned risks, managers need to also factor international risks. Also, the act of internationalising operations through M&As presents more complications for post-acquisition integration which is crucial for long-run performance. For example, upon completion of an M&A deal, domestic acquirer managers must integrate

in good "corporate shape" (in order to sustain their over-valuation), destroying the entire value of the firm in the process.

organisational cultures. In contrast, cross-border acquirer not only has to manage organisational but national cultural distance as well. Also, the risks involved in the international business space are more complex than those firms are faced within a national context. In the light of that, internationalisation of operations offers a plethora of opportunities such as access to new markets, technology, talent and natural resources. One would thus care to discern what value creation implications these costs and benefits translate to. In this section, an analysis of studies that specifically compare the two forms of M&As follows literature. [52]

Table 2: A summary of studies comparing domestic and CBA performance

Study	Country	Findings
Bertrand and Betschinger (2012)	DE	▪ Both domestic and international acquisitions tend to reduce the performance of acquirers compared to non-acquiring firms. However, domestic acquirers underperformed CBA acquirers.
Danbolt and Maciver (2012)	DE	▪ Both targets and bidders to gain more in cross-border than in comparable domestic acquisitions, with the target and bidder cross-border.
Gregory and O'Donohoe (2014)	DE	▪ Domestic acquirers underperforming cross-border acquirers in general.
Rani, Yadav and Jain (2014)	EM	▪ Cross-border acquirers outperform domestic acquirers.

Table 2 shows a summary of studies comparing domestic and CBA performance. The first column shows the authors of the study. The second column shows the respective country where the study was conducted. The third column shows findings from the respective studies in bullet form.

The contrast between domestic and CBAs is a relatively understudied area, as such, there are limited studies that exclusively compare the performance of domestic and cross-border transactions. [53] An analysis of studies which compare the performance of domestic and international acquisitions is skewed towards in the conclusion that indeed CBAs outperform domestic firms. This is consistent, for firms that document value creation and value destruction in M&A dealings. This is also robust to the region of domicile (DE and EM). At the crux of how CBA acquirers outperform domestic acquirers is this simple logic; "acquiring firms obtain strategic resources that may not be available in their domestic market, by cross-border

[52] The analysis focuses on studies not older than 10 years, specifically comparing domestic and cross-border acquisitions. This is to ensure the study reports most recent happenings in the M&A space ensuring the relevance of the present study.

[53] More specifically in the recent 10 years.

acquisitions, which improve their capabilities to be competitive" (Rani et al., 2014:92). It is through the possession of these competitive advantages that these firms are then able to post superior performance in contrast to domestic acquirers.

Rani et al. (2014) document domestic outperformance by CBA deals by Indian firms. Emphasising the inherent inferiority of domestic acquisition performance even in advanced emerging markets (Russia), Bertrand and Betschinger (2012) documented a positive relationship between acquirer experience and value creation. This was owing to the inability of inexperienced firms to mitigate the effects of cultural distance. One would have expected domestic acquisitions (less cultural distance) to outperform CBAs. However, this was not the case as CBAs outperformed domestic firms highlighting the inferiority of domestic transactions in value creation. Danbolt and Maciver (2012) also document superior CBA performance. The study specifically notes that poor corporate governance firms acquired by good corporate governance firms create value significantly. These findings were consistent with Martynova and Renneboog (2008) who studied European acquirers as well. They found higher acquirer returns in cases where hails from a country with better corporate governance standards than those of the target country. Gregory and O'Donohoe (2014) also noted crucial role of corporate governance in the CBA context. The study documents that European CBA acquirers outperform both domestic and American. However, after adjusting for corporate governance regimes American acquirers fair at par with European acquirers.

Conclusion

The literature discussed in this section, reveals that in general CBAs create value. This value creation is more pronounced in emerging markets. The negative influence of cultural distance in CBA value creation prospects is widely recorded in literature and is cited as the most prevalent source of value destruction. Corporate governance was also noted to be dynamic in its effect. Cultural distance influence is both direct and indirect. The section that compares the performance of domestic and international deals, reveals that CBAs pay off way better than domestic deals. Overall, evidence indicated that these types of deals are complicated, as many factors (that are intricately intertwined) come into play.

2.6 FINANCIAL STRUCTURE AS A DETERMINANT OF PAYMENT METHOD.

This section discusses two aspects of financial structure, namely: capital structure and financial slacking. More specifically, it explores the link between financial structure and the method of payment in detail. The implications of capital structure theory on the method of payment inform

the discussion. Although the discussion centres around two mainstream capital structure theories, it also addresses the implications of the contemporary market timing theory. Which is rather more popular in IPO (initial public offering) theory.

2.6.1 Capital structure implications for method of payment

The method of payment does indeed affect both short-term and long-term value creation of firm. Previous literature has focused excessively on the short-term wealth effects (Myers & Majluf, 1984; Travlos, 1987; Georgen & Renneboog, 2004; Beltratti & Paladino, 2013). Studies investigating both long-term and short-term impact of payment method are scarce (Dutta et al., 2013). Research indicates that the elements which inform the choice of payment method transcend beyond the information signalling theory as informed by the stock valuation deal participants (Harford et al., 2012; Alexandridis et al., 2013). Every deal has its unique motivation for the method of payment it elects to use. This section discusses literature that explores capital structure as an influence in M&A decision. The information signalling theory advances that, upon the announcement of an M&A deal, investors react in accordance to what they perceive the implication of the choice of method of payment to be.

In general, two instruments are used to finance business operations; debt and equity. Debt tends to be less expensive in contrast to equity (Bolton & Freixas, 2000). This is because debt instrument holders (investors) get preferential treatment in a situation that requires the business to be liquidated. Equity holders, on the other hand, are considered the residual owners of the business and on this token, when a business is liquidated, for whatever reason they are the last constituency to recoup any of their funds committed to the venture. Given their higher risk exposure equity investors have the implicit right to gain more than they invest, should a business do well. This justifies the higher cost of capital and is better captured by the age-old corporate finance adage, "high risks, high returns". Thus, from the investors' perspective, the risk exposure of a debt instrument investor is less than that of an equity investor. This translates (now from the business perspective) to high cost of equity and low costs of debt.

Also playing a vital role in influencing the cost of these capital instruments are Credit Rating Agencies (hereafter CRAs). CRAs play a vital role in the finance world by assessing the creditworthiness of a firm, institution, security or obligation and assigning a rating accordingly. CRAs play a critical role in influencing the interest of investors in an investment or security. They do this by disclosing and publishing crucial information to the market, alleviating information asymmetry and, consequently, lowering or increasing firm's cost of capital,

Almeida, Cunha, Ferreira, and Restrepo (2017) explain. CRAs thus, possess the capacity to determine the ability of a firm to raise capital in the form of both debt and equity. International investors are particularly influenced by credit ratings issued by these agencies. Popular credit rating agencies include Standard & Poor's (S&P), Moody's, and Fitch Group. S&P and Moody's are based in the US, while Fitch is dual-headquartered in New York City and London. Securities are ranked on a scale of “investment” grade to “in default”. Investment grade borrowing is cheaper than any other rating up to and including the speculative just before “in default”.

The widely recognised seminal work of Modigliani and Miller (1958) is credited with presenting one of the earliest generally accepted capital structure postulates, known as the capital structure irrelevance proposition. They submitted that when a firm chooses a particular capital structure, all it does is divide the cash flows among investors. Given that investors have equal access to both debt and equity instruments through the capital markets and they can satisfy their preference for the respective instruments through constructing such a portfolio, they called this "homemade leverage". The investor, they argued, can create any leverage that was wanted but not offered or likewise they could get rid of any unwanted leverage. The main criticisms of this theory are the very assumptions on which the hypothesis rests. The theory assumes the absence of taxes, transaction costs and bankruptcy costs. It also assumes equivalence in borrowing costs for both companies and investors, the symmetry of market information, meaning firms and investors have the same information and there is no effect of debt on a company's earnings before interest and taxes. A proponent of the theory comments, “While the capital structure theorem does not provide a realistic description of how firms finance their operations, it provides means of finding reasons why financing may matter” (Frank & Goyal, 2009: 11).

A recent critic argues that, while capital structure irrelevance theory has been praised as the cornerstone of modern scientific finance it is based on a set of assumptions, which are both unrealistic and contradictory to the main assumption of the mainstream academic finance (Ardalan, 2017). The very assumptions that were taken out by Modigliani and Miller (1958) to arrive at the capital structure irrelevance theorem have over the years been tested with regards to their influence on capital structure. Bankruptcy cost, transaction costs, adverse selection, agency conflicts as well as taxes have been advanced in extant literature as explanatory for the corporate use of debt funding. This gave birth to the two most influential theories of capital structure; the trade-off theory and the pecking order theory.

Building on the Modigliani and Miller (1958) framework, Kraus and Litzenberger (1973) is credited with pioneering the trade-off theory[54]. The trade-off theory submits that the optimal leverage reflects a trade-off between tax benefits of debt and the dead-weight costs of bankruptcy. Essentially this theory relaxes two capital structure irrelevance theorems; it assumes the presence of tax and bankruptcy costs. Myers (1984) expounds the trade-off theory at length. Frank and Goyal (2009) classified trade-off as either static or dynamic[55]. The static trade-off applies when a firm's leverage is determined by a single period trade-off between tax benefits of debt and the deadweight loss of bankruptcy. The dynamic trade of theory advances that a firm actively adjusts its leverage as and when it deviates from the target level and these deviations are gradually removed, thus the decisions happen over multiple periods.

Concerning the pecking order theory, on the other hand, a firm prefers internal to external financing and debt to equity if it issues securities (Myers, 1984). This ranking of preference of capital instruments is largely informed by the cost of these sources of funds. The tenant of the pecking order hypothesis is that internal funds (retained earnings) are cheaper than external funds (both debt) and equity. What is apparent is that the central mechanism influencing the decision of method of finding is the cost of capital. According to this theory, managers prefer cheaper capital over the expensive.

A more contemporary theory of capital structure has gained significant popularity in recent past. This is known as the market timing theory. Originally the theory stems from a group of theories explaining the IPO timing. According to this theory, the capital structure reflects the opportunities where the firm takes advantage of windows of opportunity where their share price is overvalued, they then issue equity in order to take advantage (Baker & Wurgler, 2002). Although not generally considered a mainstream capital structure theory, market timing theory is noteworthy. This is because it offers a good understanding the information signalling theory of the method of payment. One may argue that in instances where equity is overvalued, firms may raise cheap equity funds and acquire targets for cash. Market timing is thus an influence on capital structure. Several studies have undertaken to test the validity of the postulates of these theories in both developed and developing markets.

[54] This was following the relaxation of the tax assumption of the irrelevance theorem in a follow-up study by (Modigliani & Miller, 1963)

[55] Frank and Goyal (2009) detail the origins and the evolution of capital structures in this seminal study.

In the context of emerging markets, Chakraborty (2010) lends support for both theories using a sample of 1169 non-financial firms over the period from 1995 to 2008. The study documents that both the pecking order theory and the static trade-off theory explained in Indian companies' financial decisions. Noteworthy, these findings were robust across the numerous estimation methods. Singh and Kumar (2012) empirically test the theories of capital structure in the Indian context using the time series hypothesis. The study uses a sample from 10 industries for the period 1990 to 2007. The evidence lends support to the trade-off theory in the Indian firms. The findings consistent with the overall sample as well as for different industries separately. Khanna, Srivastava and Medury (2014) also tested the theories again in the Indian context. Their study also extended to the irrelevance theory of Modigliani and Miller (1958) and market timing theory. They comment that the two theories (trade-off and pecking order) have always dominated the capital structure decisions but recent theoretical and empirical work shows that market timing theory is challenging them as the managers are always keen to take advantage of market timing. One would, however, argue that this inclination towards timing can also be explained by pecking order, such that market timing is seen as a variation of the pecking order theory.

Turning focus to developed markets, De Jong, Verbeek and Verwijmeren (2011) tested the pecking order theory static against the trade-off theory for the US firms. Their study was aimed at examining the crucial difference in theoretical predictions. Specifically, the pecking order theory produces debt issuance until the debt capacity is reached while the static trade-off theory advances that a firm increases leverage until it reaches its target leverage ratio. They document evidence that, in general, the pecking order theory better describes US firms' financing decisions than the static trade-off theory. However, when focusing on repurchase decisions, the study shows that the static trade-off theory was a stronger predictor of US firms' capital structure decisions. One would argue that there is substance to this latter finding as well because repurchase has a much direct impact of the current taxes that investors pay hence tax consideration may be a real driving force in contrast to much more long-term oriented financing decisions.

Lending further some support for the pecking order theory in developed economies, Aggarwal and Zong (2006) examined the influence of internal cash flow on levels of investment. The study used firms from the US, the UK, Japan, and Germany in their sample. The findings indicate that in all four countries, investment levels were significantly positively influenced by

levels of internal cash flows. This lends support to the pecking order theory. Interestingly, Seifert and Gonenc (2008) also examined the relevance of the pecking order in the same contextual settings (the US, the UK, Germany and Japan). The study lends little support for pecking order behaviour for the US, the UK, and German firms. The evidence was generally favourable for Japanese firms especially during the 1980s and early 1990s.

Turning the focus on to the UK, Gaud, Hoesli and Bender (2007) used 5000 European firms to examine the driving factors of their capital structure policies. The study controlled for national environments and dynamic patterns the study shows that capital structure policies in European corporations could not be explained by a simple trade-off or pecking order theory. They further suggested that both corporate governance and market timing influenced on the capital structure policies in Europe[56]. Further, they found that European corporations limited themselves to an upper bound to leverage, however, not to a lower bound. This would seem to be congruent with the findings of Gregory and O'Donohoe (2014) who established that high leverage positively impacts UK firm value creation propensity in M&A deals. Tucker and Stoja (2011) investigate the impact of industry membership on the capital structure dynamics over the period from 1968 to 2006 using a sample of UK acquirers. Interpreting their findings, they note that the trade-off theory and pecking order explained certain aspects of UK firms' capital structure. They note that the theories, however, did not furnish a satisfactory universal explanation of their real-world behaviours. More precisely, they suggested that in the short-run, older firms followed the standard pecking order. Newer firms, on the other hand, preferred equity to debt when external financing was required. This has some empirical congruency with Frank and Goyal (2009) who document that in the US small public firms rely on equity financing and large public firms use retained earnings and corporate bonds. Smaller firms are most likely new and larger listed firms are most likely old firms (Robb, 2002).

Australia and Japan also indicate gravitation towards the pecking order theory. Voutsinas and Werner (2011) examined how financial constraints (more specifically in the supply of credit) influenced capital structure. The study uses a sample of 1537 Japanese firms during the period 1980 to 2007. They document that fiscal policy decisions of publicly listed Japanese firms were indeed affected by monetary conditions and the supply of credit. They also found that in, smaller sized corporations faced financial constraints, particularly during economic downturns.

[56] This lends mild support for the more contemporary market timing theory.

Consistent with Seifert and Gonenc (2008) these findings lend support for pecking order theory for Japan. Suchard and Singh (2006) also document support for the pecking order theory in the Australian case. The study reports that the Australian capital market has several unique characteristics that could distinguish it from the US and European markets. They reported that the debt market was limited in cases where most firms used bank debt, the convertible debt was not callable and standalone warrants were used to raise capital. Noting these differences, the study examined the determinants of security choice for hybrid issues in the Australian markets. Observing the ranking of choice of securities, they concluded in support of the pecking order theory.

Finally, three distinct findings are made by Qian, Tian, and Wirjanto (2009) who explored the capital structure determinants for 650 Chinese firms for the period 1999 to 2004. Firstly, Chinese firms slowly adjust toward an equilibrium level of leverage ratio in each year. Secondly, bigger firm size, tangibility and state shareholdings have a positive influence on debt ratio. Thirdly, profitability, growth and volatility were negatively related to firms' debt ratios. This would suggest that Chinese firms prefer equity instead of debt. Finally, Chinese firms adjust their leverage levels faster if they are far more distant from the equilibrium debt level or target level ratio.

What most of the literature reveals, is that firms indeed have or pursue an optimal capital structure of form or another. A more relevant question in the M&A context is the degree to which deviation from the supposed optimal capital structure can influence the choice of method of payment. Uysal (2011) sampled 10807 US firms from 1990 to 2007 with the objective to build an understanding of the relationship between leverage deficit and acquisition choices. Leverage deficit refers to the deviation from the target debt ratio. The study established that the probability of undertaking an acquisition decreases with leverage deficit. Thus, less leveraged firms are less likely to undertake an acquisition. Nonetheless, the effect of leverage deficit on the probability of acquiring is asymmetric for both overleveraged and underleveraged firms. While the study established the effect of overleverage to be negative and significant, underleveraged was noted to have an insignificant effect on acquisition probability.

Uysal (2011) also found that overleveraged firms are less likely to use debt markets to raise capital to engage in M&As but were more likely to use equity to finance their acquisitions. This choice of method of payment is not merely because the firm stock is overvalued but it is a means to address capital structure deviations from optimal levels. Furthermore, using equity

does not suffice for overleveraged firms to offer premiums as high as other firms. This, in turn, constrains the acquisition activity of overleveraged firms. Consequently, this study suggests that excess positive leverage deficit not only limits the access to debt markets but also constrains the exploitation of equity market. Which collectively, decreases the M&A activity of overleveraged firms. The study also found that overleveraged acquirers pay lower premiums and lower cash components in their offers. Furthermore, managers of overleveraged firms reduce leverage deficit and issue equity to mitigate the negative effects of overleverage. Interestingly, overleveraged acquirers received positive market reaction to acquisition announcements. This, they concluded, was owing to the perception that managers of overleveraged acquirers are selective in their acquisitions and only pursue the most value-enhancing acquisitions to acquire.

Access to debt or equity markets has implications for method of payment. For example, if a firm has constrained access to both equity and debt market it is highly likely that it will use either internal funds or acquirer using an equity swap. Karampatsas, Petmezas and Travlos (2014) sampled 6 819 US acquirers of both private and public firms from 1998-2009 to determine the influence of credit ratings on the choice of method of payment. They advanced that lowering financial constraints allows firms with rated public debt to issue funds in a short notice and according to their investment needs. Given the implied low financial constraints of (highly) rated firms due to their relatively higher debt capacity, the study examines the role of credit ratings in the choice of payment method M&As (Lemmon & Zender, 2010). The study raised two questions; (1) does the existence of the acquirer's credit ratings affect the financing decision in M&As? (2) what is the effect of rating level on acquisitions means of exchange?

The findings from the study established that; indeed, the existence of credit rating agencies positively affected the financing decision of a firm and a positive relation between acquirer's credit ratings and cash payment method. Thus, there is an increased likelihood for a firm to use cash as a means of payment in an M&A transaction because its cost of accessing debt being cheap owing to its attractive credit rating. The propensity to be induced by the low cost of credit indicated in these findings lends ample support for the pecking order theory. Finally, this extensive study determined that unused debt capacity positively influences the choice of using the cash method of payment lending additional support to the relationship of credit ratings with the choice of payment method. While not challenging the implications for short-term

investment strategies, just like Uysal (2011) these findings offer a more comprehensive appreciation for tenants of the method of payment choices.

Taking a different, much dynamic and robust narrative on the concept of financial constraints, Alshwer, Sibilkov and Zaiats (2011) used 2739 US acquirer observations completed between 1985 and 2007 to examine the influence of financial constraints on the method of payment chosen. They defined financially constrained firms using three criteria; annual pay-out ratio, firm size and bond rating. Consistent with Fazzari, Hubbard and Petersen (1988), in terms of annual pay-out ratio unconstrained firms exhibit higher payout ratios, the opposite held true for constrained firms.[57] Concerning firm size, smaller firms are younger and less known, they should be more vulnerable to capital market imperfections thus they were classified as financially constrained. The opposite held for larger firms.[58] With regards to bond rating classification, firms were considered financially unconstrained if they had their long-term senior debt not rated 'default'. Acquirer firms are constrained if they have debt outstanding the year before the acquisition but have never had their public debt rated before (or a long-term debt rating is unavailable). They classified acquirer firms with no debt outstanding as unconstrained.

They explained their findings as substantiating their opportunity cost of cash hypothesis. According to this study, the hypothesis predicts that constrained firms with more valuable growth opportunities (reflected by higher stock valuations) save cash to finance their future projects. Given that the opportunity costs of cash are high; they subsequently use stock for their acquisitions. Their findings indicate that indeed constrained acquirers with high stock valuations are less likely to choose cash than are other acquirers (thus, inclusive of both constrained acquirers with low stock valuation and unconstrained acquirers). The insinuation here is that the high opportunity cost of cash holdings causes constrained firms with high-growth opportunities (proxied by high stock valuations) to save cash to reduce their uncertainties about financing future profitable investment opportunities. Consequently, these firms choose equity as the mode of payment in acquisitions. The findings from this study lend partial support for the method of payment signalling theory. The fact that acquirers with high stock valuation are the ones that would most likely pay for another firm using equity indicates

[57] The pay-out ratio is the ratio of dividends and common stock repurchases to operating income.

[58] Firm's total assets are used as a proxy for firm size.

that managers may be aware of their firms' overvaluation. However, even low valuation and financially constrained firms have a higher propensity to use equity as consideration. This indicates that indeed the opportunity cost for cash is a valid explanation for the choice of method of payment in many firms. Unlike Karampatsas et al. (2014) the findings from this study contradict the pecking order theory.

From the discussion in this section, it is very much evident that capital structure has some implications for the method of payment. One may thus, submit that firms may design their capital structure to create this value. One may also extend this submission to argue that the choice of payment method is a significant function of long-term capital structure decisions. Not just merely a signalling mechanism conveying information about the valuation of a firm as may be suggested by the market timing theory.

2.6.2 Financial slacking implications for method of payment

Financial slacking is accumulating reserves and operating at a capital structure that leaves room for one to conveniently borrow as and when an opportunity for acquiring other firms arise (Almazan et al., 2010). Financial slacking can also take the form of creating large cash reserves for the firm in the form of liquid assets. It follows, therefore, that financial slacking may be imperative in the choice of the method of payment.

According to Harford (1999), firms with more cash execute more acquisitions. This is because the limited cash resources curb the firms' ability to fund new ventures and it is relatively difficult to raise massive amounts required to fund ventures within a relatively short period of time (Myers & Majluf, 1984). In a more recent study, Almazan et al. (2010) lend similar results. The study conducts an empirical analysis of the capital structures and cash holdings of firms located in and away from industry clusters. It concludes that firms located in clusters have an incentive to maintain more financial slack in contrast to those that are not. Through globalisation, industries have become more clustered more than ever, as industry clustering is no longer confined to the geographical context. It can, therefore, be argued that firms engaged in cross-border mergers and acquisitions should derive an incentive from maintaining more financial slack. While this narrative follows strong intuition and is substantiated by empirical evidence, a more classical theory links financial slacking to the method of payment; the free cash flow hypothesis. Free cash flows refer to the funds in excess of investment.

According to Jensen (1986), the free cash flow theory predicts which mergers and takeovers are more likely to destroy than create value. Growing firms share a similar attribute that serves as a source of value destruction, namely over-investment. Managers have incentives to cause their firms to grow beyond the optimal size, this is known as over-investment. Firm growth increase managers' power through increasing assets under their control this is also associated with higher compensation that is linked to sales growth. Instead of paying out excess cash flows to shareholders in dividends or share buybacks when managers insist on engaging in value-destroying acquisitions for their own benefit. On this token, they advance, managers of firms with unused borrowing power and large free cash flows are more likely to undertake low-benefit or even value-destroying mergers. Thus, in the presence of principal-agent conflict, the firm pays the agency cost in the form of dismal performance owing to sub-optimal investments.

Agency conflict is not always equally existent in all merger and acquisition scenario. So, in the absence of corporate governance policies that protect managers at the expense of shareholders, allowing shareholders to act (dismiss) managers that engage in sub-optimal investment behaviour the narrative may change. This is because the agency cost falls away, and the common goal becomes the maximisation of shareholder value as advanced by Denis (2016). Brush, Bromiley and Hendrickx (2000) conducted a study that shows that strong corporate governance in the form of management having a significant stake in the firm, eliminates agency costs. This, they conclude that this translates to increased performance from sales growth.

One could also challenge this notion value destruction based on the very conclusions Jensen (1986) put forward. The study makes two conclusions about the predictions of the free cash flow theory. Firstly, it predicts that many acquirers will tend to have exceptionally superior performance prior to the acquisition, this performance thus creates free cash flows for the firm which may likely have not been paid out to shareholders. Secondly, deals financed with cash and debt are more likely to generate larger benefits than those accomplished through the exchange of stock. Given these submissions, one could, therefore, argue that all things equal, firms that accumulate free cash flows may most likely use cash and cash acquisitions are more likely to perform positively post-acquisition. Therefore, firms accumulating free cash flows are prone to create a superior performance to those that do not. However, as indicated by the study one should be cognisant of the other dynamic elements at play such as agency cost. It is thus, evident that the election to use cash proxies both good and bad faith and cannot readily predict the performance post-acquisition.

While the impact of free cash flows on performance is subject to debate, the implications of the theory of cash flow hypothesis on the method of payment are apparent. Firms with more free cash flow should have a higher propensity to use cash and those that are financially constrained (as proxied by low free cash flow) should have a lower propensity to use cash when engaged in mergers and acquisitions. They would most likely elect to use equity or a combination of funding sources.

2.7 CONCLUSION

Most of the literature reviewed in this section is recent work in the field of cross-border acquisitions. The discussion on the motives behind CBA deals takes many variations. These were classified into the broad categories of asset exploitation and asset augmentation. Political motives, agency and governance were determined to be greatly intertwined (part of asset augmentation). The discussion also made the realisations that emerging economy firms are more inclined to asset augmentation motive in a bid to overcome their competitive disadvantages. Developed economy firms, on the other hand, were determined to be more inclined to asset exploitation; they take their competitive advantages and roll them out in different locations through M&As. Overall the discussion converges in the central motive for rational business dealings; creation of value for shareholders (Denis, 2016).

The second section was a discussion of the factors that affect this value creation. The striking strand in this discussion was the degree to which these factors are interconnected. For example, cultural distance has implications for, learning and absorptive capacity, acquirer experience as organisational governance. Size proxies for other factors such as ownership structure and governance. The discussion noted that stock market valuation (on target) literature was scarce. To the best of the knowledge of the author of the present study, there is no study examining the impact of glamour and value stock acquisition. Empirically substantiated arguments, however, indicate a potential area to be studied in detail. The discussion on the impact of the choice of method of payment concluded that the choice was a function of more than the mere valuation of the acquirer. Overall, the complicated nature of the relationship between these factors further increases the degree of complications in CBA deals.

The third section discussed in detail, the empirical evidence as to whether CBA deals create value for the acquirers or not. The section focused on recent literature. The overall conclusion was that indeed CBAs create value for acquirers. Specifically, they created superior value in contrast to domestic acquirers. Value creation was more pronounced in emerging market

acquirers. The discussion also elaborates through the empirical evidence, how the factors discussed in the second section affect value creation. What is significantly evident in the literature is that there is limited research on the value creation prospects of these firms (emerging and developed economy) acquiring into Africa. Finally, the method of payment was revisited. Particularly, the information signalling hypothesis and an analysis of literature suggest that the method of payment may also be largely influenced by capital structure decisions. Literature indicates gaps than need empirical testing. More specifically the influence of capital structure on both performance and choice of method payment. Chapter three that follows is the research design and methods (methodology). It unpacks the data criteria, variables and methodologies employed in the study.

CHAPTER THREE

METHODOLOGY (RESEARCH DESIGN AND METHODS)

3.1 INTRODUCTION

This chapter details the characteristics of the sample used and the methodology employed in testing the proposed hypotheses. Section 3.2 discusses the sampling period, event timing, sampling criteria and the sources from which the data is obtained. Section 3.3 is the methodology section; it discusses the method employed in assessing the performance of the acquirer. The section also details the benchmark employed in the study, to adjust performance. Section 3.4 details the proxies used for financial slacking. Section 3.5 outlines the regression equations employed and the independent variable proxies used as controls in the regressions. Section 3.6 concludes the chapter.

3.2 DATA

The sample period spans 20 years (starting 01/01/1994 right through to 31/08/2014), this is an extended period characterised by the accelerated integration of world economies owing to such inventions (and increased penetration thereof) as the internet and integration of world financial markets (Evans & Hnatkovska, 2014). This is also a period in which most African countries had gained their independence from colonial powers. This implies that the threat of violent political confrontations had subsided, and the dispensation was ripe for the flow of FDI. Consistent with Bayazitova et al. (2012) the present study employs the following restrictions on sample selection.

The sample comprises the following criteria:

- The acquirer must be a public company.
- All monthly close share prices (consecutive) should be available for the 36 months post-acquisition, these are used to calculate the BHAR.
- The acquirer controls less than 50% of the target before the merger but at least 50% afterwards; to allow for control of the target (its resources).
- Transaction value must exceed $1 million and at least 1% of the bidder's market capitalization 11 days before the announcement (Harford et al., 2012).
- The deal should be completed between 01 January 1994 and 30 September 2014.

- The end-of-year market capitalisation for the acquirer for the year of the M&A and for the subsequent three years must be available. This is used for portfolio matching for appropriate expected return portfolio and regressions.
- The end-of-year book-to-market ratio for the acquirer for the year of the M&A and for the subsequent three years must be available. This is used to assign the appropriate expected return portfolio (control portfolio) and regressions.

The initial population had 7019 deals. The selection is further confined to deals taking place between 1 January 1990 and 30 September 2014 the total number of deals sums up to 6006. Selection only cross-border deals the sample comes down to 3015 deals. The sample is further reduced to 1500 deals after public acquirer criterion is employed. Finally, confining the acquired stake to a minimum of 50% the sample comes down to 503 deals. Of these, 411 deals come from developed economies and 92 are from emerging markets. The study constitutes 33 African countries as target firm hosts. Acquirers come up to a total of 43, with 23 developed and 20 emerging countries represented. The deals are categorised according to, countries involved, number of deals per year, sectors (industries) involved and deal characteristics. Table 3 is a profile breakdown of the deals sampled.

Table 3: Countries participating in the deals.

Target Country	**Deals**	**Average deal value (Millions of USD)**	**Acquirer Country**	**Deals**	**Average deal value (Millions of USD)**
South Africa	179	1,132	Britain	108	1,149
Egypt	42	8,264	Australia	95	191
Ghana	30	488	USA	59	1,305
Namibia	27	307	Canada	48	219
Nigeria	22	1,477	India	41	928
Kenya	19	296	France	12	13,107
Mauritius	18	688	Singapore	12	593
Congo	16	110	Malaysia	11	315
Zambia	15	113	Switzerland	11	1,316
Morocco	14	8,133	Hong Kong	8	443
Tanzania	14	45	Japan	8	982
Mozambique	12	31	Netherlands	7	18,860
Algeria	11	136	Sweden	7	513

Table 3 shows the target and acquirer countries participating in the sampled deals. These are ranked in descending order according to the number of total deals completed. The first column on the left contains the name of target countries involved in the deals followed by the actual number of deals concluded in the second column. On the third column is the average deal value for the specified country. The fourth, fifth and Sixth column represent the same for acquirer countries in a similar fashion. The table only captures the top 13 of each group (acquirers and target firms)

A full list of countries involved in the deals is contained in table 1 in the appendix. South Africa leads the pack in terms of deal volumes flowing into African countries. This is not surprising as South Africa is a substantially big economy as measured by GDP and financial development. Egypt and Ghana take second and third positions at 42 and 30 deals respectively. Egypt is also highly ranked with regards to financial development (authors calculations). Acquisitions into Ghana are largely (70%) constituted by deals in basic materials sector.

Britain is a significant player from developed economies with a total of 108 deals. Australia comes in second at 95 deals, the USA comes in third with 59 and Canada takes the fourth position at 48 deals. The total 310 deals from the four leading developed economy acquirers constitute 61% of the entire sample. Also, interestingly 79% of deals from these countries are largely concentrated in the basic materials sector. India represents emerging economy firms with a significant 41 deals with an average value of US$928 Million. As highlighted by Tsuji (2015), countries mentioned thus far are active participants in the CBA space. One would note, however, that China is under-represented in the sample (refer to table 1 in the appendix). This may be because a significant population of Chinese acquirers in the population are private or wholly state-owned enterprises. Thus, falling off the current sampling scope. The annual deal volumes are captured in Table 4.

Developed economy acquirers represent most acquirers in the sample right through the years 1994 to 2014. It should be noted, however, that 98% of deals take place between the years 2001 to 2014 where both categories are fairly represented. It is quite striking that deal volumes seem to assimilate stock market trends. At the aggregate level, for instance, the internet (dot-com) bubble in the year 2000 was followed by a steep decline in 2001. The average deal volume for the entire sample was as a high as US$1.7billion in 2000 but steeply declining to US$548 million in the year 2001. During the 2007-2008 financial crisis, the same figure rose to a staggering average of US$3.3billion in 2007 followed by a steep decline to US$287 million in the year 2008. This could be indicative of the possible fire sale prices at which companies may have been sold at during the latter part of the financial crisis. More expressly, in developed market economies, the average deal values for 2007 went up as high as US$4.1billion. The year 2007 also recorded the highest number of total deals concluded, at 60.

Table 4: Annual breakdown of deals closed.

	Developed Economy		Emerging Economy		Total	
Years	Deals	Average deal value (Millions of USD)	Deals	Average deal values (Millions of USD)	Deals	Average deal values (Millions of USD)
1994	1	****	0	-	1	****
1997	1	****	0	-	1	****
1998	1	****	0	-	1	****
1999	2	1,475	0	-	2	1,475
2000	2	1,712	0	-	2	1,712
2001	18	587	3	1	21	548
2002	5	1,007	2	53	7	768
2003	13	104	2	****	15	104
2004	17	785	3	666	20	764
2005	25	3,259	0	-	25	3,259
2006	37	158	11	256	48	176
2007	48	4,163	12	837	60	3,352
2008	35	228	7	672	42	287
2009	40	490	10	303	50	465
2010	46	1,073	8	3,217	54	1,272
2011	42	384	15	1,206	57	622
2012	25	418	10	759	35	522
2013	38	4,712	6	11,711	44	6,211
2014	15	467	3	404	18	457

*Table 4 shows the annual breakdown of deals concluded. The first column on the left represents the specified year; the corresponding number of deals and the average deal value are depicted in the second and third column respectively. Emerging economy firm acquirers are representing in similar fashion in the fourth and fifth column. The aggregate number of deals and the average deal value thereof are depicted in columns six and seven respectively. **** means that the consideration paid by the acquirer was not disclosed for most of the deals included in that subset hence a reliable average could not be computed.*

The industrial breakdown of deals is depicted in Table 5 as follows; the basic materials sector is the biggest category followed by the non-cyclical consumer goods sector. The energy and industrial sectors assume third and fourth positions respectively. The basic materials sector relates to the extraction, value addition and processing of raw materials. The sector is comprised of sub-sectors that include chemical manufacturing, mining and metals, steel processing, construction materials, paper packaging, forest and wood products. The high volumes of basic materials, particularly in the extractive sub-sector could be rightfully expected as Africa is endowed with a vast variety of natural resources.

Table 5: Sectorial breakdown for target industries.

	Developed Economy		Emerging Economy		Total	
Sector	**Deals**	**Average deal value** (Millions of USD)	**Deals**	**Average deal value** (Millions of USD)	**Deals**	**Average deal value** (Millions of USD)
Basic Materials	168	359	21	1,110	189	445
Consumer, Non-cyclical	61	455	25	808	86	561
Energy	61	1,329	10	1,334	71	1,299
Industrial	39	7,359	9	174	48	6,053
Financial	31	1,803	12	1,012	43	1,677
Consumer, Cyclical	16	1,968	9	550	25	1,574
Communications	16	738	3	3,534	19	1,048
Technology	13	153	2	30	15	118
Diversified	4	5,507	1	****	5	4,409
Utilities	2	254	0	****	2	254

Table 5 shows a categorical breakdown of the number of deals per industrial sector. The first column depicts the different sectors. Column two and three represent the number of deals and average deal value per sector for developed economy acquirers. Columns four and five represent the same for emerging economy acquirers. The aggregate deal numbers and the corresponding average deal value are depicted in the columns six and seven.

Table 6: Deal characteristics.			
Characteristic	**Developed Economy**	**Emerging Economy**	**Total**
Cash Deals	293	86	379
Equity deals	47	3	50
Combination	71	3	74
Public targets	12	5	17
Private targets	399	87	486
Deals during the Financial Crisis	83	19	102
Deals with Industrial diversification	93	27	120
Average stake acquired	88%	85%	87%
Average deal size	1,413,083,458	1,992,020,667	1,510,932,000

Table 6 shows the deal characteristics of the 503 deals that constitute the study. The first column identifies the characteristic e.g. "cash deals, average deal size". The second, third and fourth columns tally the number of deals that bear the identified characteristic for developed economy acquirers, emerging economy acquirers and the aggregate sample respectively.

In aggregate, the industrial goods sector has the highest deal average this is because of the capital-intensive nature of the products traded in the sector. The consumer sector (cyclical combined with non-cyclical) aggregate to 111 deals, which represents 22% of the sample. These types of deals offer a foreign company an opportunity to tap into a footprint (brand or physical stores) of the target and hit the ground running. One would also note that there was a significant average of US$3,534 from two of the three deals from the communications industry in the emerging market subsample. This was due to a mega deal in Morocco. It is also imperative for one to understand deal characteristics as they tend to have an impact on the performance of the acquirer post-acquisition. Table 6 depicts these in detail.

It can be observed from table 6 that, of the total 503 deals in the sample, 379 are cash deals. Equity and combination constitute 50 and 74-deals each respectively. The propensity to the use of cash could be related to some foreign exchange regulations as well as the development of the financial sector in Africa. It can also be argued that this may also be because of most of the sample (486 versus 17) being private targets which may not have the equity swaps deals easily structured. This further substantiates the notion that the development of the financial sector could have some influence on the method of payment. To that effect, the present study notes intriguing trends in deal characteristics. In 14 of the 17 deals where the target is a public firm, the target country was ranked among the top two African countries in terms of financial development.[59] Deals concluded during the 2007-2008 financial crisis total 102; 83 from developed and 19 from emerging economy firms.[60] 120 deals involved industrial diversification, this is where the acquirer acquired a target operating in a different industry altogether. The average deal size for the entire sample is US$1.51billion, for developed and emerging economy acquirers is US$1.41billion and US$1.99billion respectively. Generally, the sample is qualitatively similar to that of other CBA studies. For example, Rani et al. (2014)

[59] Derived from the World Bank Global Financial Development database, the author ranked African countries by the ratio of stock market capitalisation to GDP and selected the top two as relatively financially developed (annually).

[60] The present study follows Beltratti and Paladino (2013) and takes the financial crisis to be the years 2007 and 2008.

have a sample that constitutes 94% cash acquisitions, 2% equity acquisitions and 4% of deals financed through a combination of methods. The same study also has 90% of the CBA deals in the form of private target acquisitions.

The Bloomberg terminal is used to retrieve information with regards to the acquirer; the monthly close share price, market capitalisation and market-to-book ratio. The same is also used to retrieve pertinent information on the deal: (name of acquirers and targets, the region of domicile, method of payment, and date of announcement). The study uses the French-Data Library to obtain the six Global Portfolios formed on Size and Book-to-Market (2 x 3 respectively). This is used to obtain the expected return for the given acquirers (control portfolios for developed economy acquirers). The Bloomberg terminal is also used to obtain the six (Morgan Stanley Capital International) MSCI emerging market indices used as control portfolios for emerging market firms. These portfolios are also based on Size and Book-to-Market. Data regarding the measure of corporate governance is sourced from the World Bank DataBank. The same is used to determine the classification of acquirers into the respective groupings (developed/emerging economies).

3.3 METHODOLOGY

Performance creation measures

"One performance measure is superior to others only when its theoretic logic is more connected to the theoretic dimension of the question under investigation" (Wang & Moini, 2012:2). It is worthwhile to discuss the popular performance measures to determine their empirical relevance. The objective of the study is to determine the long-term performance of cross-border acquisitions by firms from developed and emerging economies into Africa. Extant literature indicates, that one-dimensional approaches to measuring M&A performance may be partially responsible for some of the contradictory results often published in the M&A literature regarding the antecedents of successful acquisitions (Stahl & Voigt, 2008). What sustains these arguments is that there is no correlation between objective and subjective assessments (Schoenberg, 2006). Three measures of performance are reported in literature; accounting measures, market-based and managers' subjective assessments (Papadakis & Thanos, 2010).

Accounting measures are based on accounting figures obtained from the financial records. These are subsequently expressed in relation to one another. For example, return on equity (ROE) which is an expression of a firm's earnings as a percentage of total equity. Market-based measures use the share price of a firm to determine the performance of a deal. It usually takes

the form of CARs (cumulative abnormal returns). The two measures are arguably the most objective means to measure value creation in CBA deals. Managers' subjective assessments are more subjective measure in that they are measuring the outcome of the deal based on the supposed motive behind the deal, this is mostly known by the managers of the firms (Wang & Moini, 2012). This section discusses the different value creation measure categories in detail. One must also note that the different performance measures have previously been identified as being partially responsible for the contradictory value creation evidence in M&A literature.

3.3.1 Accounting based measures

The use of accounting ratios is founded on the principle that synergies gained from an acquisition are mirrored in accounting measures (Hitt, Harrison, Ireland & Best, 1998). According to Wang and Moini (2012), accounting-based measures embody ex-post, actual, realized returns. It is usually a comparison of accounting measures (expressed as ratios) before and after the deal. Martynova and Renneboog (2008) review a wide range of accounting measures including operating margin, gross profit margin, net profit margin, return on net worth, debt to equity ratio and return on capital employed. Return on Assets **(**ROA) is the commonly used ratio in M&A literature (Bertrand & Betschinger, 2011). This may be partially attributed to the empirical examinations of Meeks and Meeks (1981) who compared the effectiveness of the employment of profit/sales ratio, ROE (return on equity) and ROA in measuring M&A performance. The study concluded that ROA is the most suitable ratio for measuring M&A performance.

Accounting measures have their own advantages; Wang and Moini (2012) outline these. Firstly, they possess the ability to capture the actual realised returns. Secondly, owing to its long-term orientation more valuable information can be gained to assess M&A effect. Thirdly it is simpler to implement. Furthermore, Hagel, Brown and Davison, (2010) tag ROA as providing a more balanced view of profitability, when compared to other traditional metrics, due to its ability to holistically measure business operations. The authors go on to explicate that the decision to match assets to net income is noteworthy as ROA allows the benefit of holding management accountable for the cumulative decisions made in deploying assets. Therefore, if resources are used for projects that produce little value, ROA will stagnate and vice versa. Finally, ratios can be classified into various categories (profitability, liquidity, solvency, efficiency and market ratios). This means that various deal objectives can be examined, and the study may yield more informed results.

However, Wang and Moini (2012) maintain that these advantages come at a cost. This is because accounting-based measures incorporate the impact of outside factors. They also suggest that this measure reflects past rather than present performance expectations. Hult, Ketchen, Griffith, Chabowski, Hamman, Dykes, Pollitte and Cavusgi (2008) indicate that accounting standards across countries change over time and this compromises the validity of the use of accounting data. Accounting policies change over time within each company, thus it would compromise the validity of the respective accounting data. More importantly, they argue that accounting measures are more susceptible to manipulation. To that effect, Barber and Lyon (1997) argue that profitability ratios can be distorted by the fact that earnings can be easily manipulated. One could also further elaborate the Achilles heel of this measure. For example, when computing ROA (which is computed as earnings divided by total assets), total assets may constitute some technological assets[61]. These types of assets can diminish significant value in the short-term from events such as expiry of patents and the invention of a new technology (which could replace the one currently possessed) which may render the old technology obsolete. This would cause the value of total assets to shrink, without a corresponding increase (or even with a decline) in earnings. The ROA would increase, thus the study may reach an inaccurate, misleading conclusion.

3.3.2 Market-based measures

The market-based approach has been the predominant measure of performance in M&A literature since the 1970s (Martynova & Renneboog, 2008). Wang and Moini (2012) outline the underlying assumptions of the market-based measures. The key assumption of this measure is that the current share prices reflect all information, relevant to the firm. This is known as the efficient market hypothesis (EMH).[62] The assumption has several short comings. More specifically in the context of M&As, information takes a while to be revealed and disseminated and subsequently reflected in the share price of the acquirer. CBAs introduce more uncertainty (illusive information that may not be readily or effectively reflected in the price.) into the performance prospects of the acquirer.

The second assumption is that the merger or acquisition is an unanticipated event. Given that M&As are part of firm's strategy thus they can be anticipated, information may leak in the form of rumours, the assumption is faulty (Lubatkin & Shrieves, 1986). Since event studies

[61] In some instances, these are the chief motivators for an acquisition.
[62] See Fama (1970) for a detailed discussion.

assume an event date, market participants receive information about the pending event ahead of the actual date of transaction the event date is illusive and observing the share price around this date may cause gross misinterpretations and subsequent conclusions.

Finally, the models assume there are no confounding effects during the event window. This is highly subject to the length of the window period, thus the shorter the window, the lesser the propensity of confounding effects[63]. It is for this reason that researchers adopt models that isolate returns that lie outside of the norm or expectation (abnormal returns, henceforth ARs).

The measure has taken many forms but three are prominent in literature: CAR, BHAR and Calendar Time ARs.[64] Of key note, they all have the unique ability to measure abnormal returns (ARs). ARs are calculated as actual returns minus the expected returns (benchmarks) on the stock price had the event not taken place. The most common benchmarks are Market Model (MM), Capital Asset Pricing Model (CAPM) and Fama–French Three-factor Model.[65] According to Wang and Moini (2012), the event window is the most crucial research design component in such event studies. Thus, the study is centred on the event date. Therefore, it is important to first define the event date. Earlier studies used the announcement date as the actual event date. Otherwise, the event date is defined as the actual merger date (date of deal completion), a day on which all uncertainties are resolved (Halpern, 1983). Mitchell and Stafford (2000) used the end of the completion month as the event date. One can argue that this is also a fair estimate as it allows for the market reaction to revert to the fundamental valuation of the particular share price, post announcement.

Wang and Moini (2012) articulate the advantages of using the market-based measure as follows. Firstly, considering that at the least there is the weak form market efficiency, the market-based measures are a relatively objective public assessment measure. Secondly, data on firm share price (for listed entities) is easy to access, hence the studies can culminate in larger more informed samples. Short-term studies mostly use share price and they can screen the influence of outside factors, giving access to a clean window. Finally, the most attractive

[63] Many M&A studies employ a shorter event window periods on this token.

[64] The Cumulative Abnormal Returns (CAR) method was first designed by Fama, Fisher, Jensen and Roll (1969). The Buy-and-Hold Abnormal Returns method was pioneered by Lyon et al. (1999). The Calendar Time Abnormal Returns method was the work of Fama (1998).

[65] The Market Model (M&M) and the CAPM were designed by Sharpe (1963) and the Fama–French Three-factor Model by Fama and French (1993).

advantage of using these group of measures is that it affords the study the ability to effectively calculate abnormal returns. This ensures that the data is not subject to industry sensitivity and other external shocks.

Larsson and Finkelstein (1999) submit that this method of measurement suffers from severe restrictions. One of these limitations being that due to the short event window the performance measurement is only reflecting an *ex-ante* and not the *ex-post* performance, which means that they cannot predict future profitability of an M&A. While using a series of control variables Harrison, Oler and Allen (2005) found that markets are unable to forecast the actual performance of an acquisition. Wang and Moini (2012) on the other hand, indicate one of the most elaborate limitations of this method, is that it cannot be used for companies which are not listed, this leads to sampling bias. Along with this limitation, they indicate that the assumption of perfect markets is difficult to meet. Unlike accounting measures that allow for the empirical quest to assess performance from multiple perspectives, market-based methods are one dimensional. For example, a firm whose objective in engaging in a CBA is to realise operational efficiency or attain a certain capital structure cannot be assessed on shareholder value creation that is reflected in the share price. One may argue, however, regardless of the nominal objective the long run implication of the overarching objective would be linked to value creation or at the least the need to sustain the current levels of value creation. For example, if a firm engages in a CBA to maintain its competitive advantage through creating operational efficiency (which can be captured by some variations of accounting measures), the explicit objective may be the achievement of operational efficiency, but the implicit objective is the creation or sustenance of value. Schoenberg (2006) note that some of the share price movements may be due to factors other than the acquisition, this adds to the list of limitations of this measure.

3.3.3 Managers' subjective assessments

This method assesses the degree to which the objectives of an M&A are realised (Papadakis & Thanos, 2010). It is the least popular of the three measures chiefly because of the availability of information and the extent to which the process is tedious. Under this method, researchers use questionnaires to assess the degree to which the predefined objectives of a merger are met. The respondents are usually executives from both the target and the acquirer (Homburg & Bucerius, 2006). Both financial and non-financial metrics are used to assess the degree of

change. In some instances, managers and executives involved in the M&A process are asked to give their general rating about the entire performance of M&A (Schoenberg, 2006).

Like the other two measures of performance, this method of measuring value creation has its pros and cons. Firstly, the use of this measure could offer advantages of the use of private information thus, implicitly, outside noise has little influence on the assessment. Secondly, just like accounting-based measures, this measure allows for the employment of a multidimensional approach. This is crucial because M&As are driven by multiple motives. Finally, this measure may be quite suitable because, managers' perception of success will influence their action (Papadakis & Thanos, 2010).

The shortcomings of this measure are documented in literature as well. Most of the shortcomings are largely influenced by the respondents to the surveys. Firstly, to have a generalised conclusion, one should have a significant collection of willing participants who must have been involved in the execution of the deal, which is in most cases could be a tall ask (Bowman & Ambrosini, 1997). Secondly, the assessment may have some inherent managerial bias and the respondents may fail to maintain subjectivity, hence compromising the integrity of the assessment (Schoenberg, 2006). Thirdly, the assessments depend highly on accurate recollection on the part of the respondents (Wang & Moini, 2012).

3.3.4 Performance measures employed in the study

The present study employs the market-based approach mainly because of its ability to capture the experience of the investor across the different event horizon, which is the crux of this study. As indicated above, there are two chief shortcomings of this performance measure. Firstly, it is the confinement to short-term event horizon as researchers try to use a clean event window. It is for this reason that the present study extends the performance enquiry into the long-term horizon, where the irrationality of investors would have been corrected by other market forces. Secondly, although this measure confines the assessment of the acquisition activity through the value creation lens alone, one maintains that regardless of the explicit objective (e.g. increasing market share, increasing productivity of the acquirer etc.) the ultimate objective (implicitly) is the creation of shareholder value or at least the quest to sustain it.

The present study, however, also employs the ROE and ROA ratios as performance measures for robustness, consistent with the multi-faceted review of literature by Martynova and Renneboog (2008). This is because synergies are observed in accounting measures (Hitt,

Harrison, Ireland & Best, 1998). According to Meeks and Meeks (1981), ROA is the best accounting measure. It is to the enrichment of the quality of this study that ROE and ROA are incorporated to ensure empirical robustness.

This section further details the chosen methodology. Following Rau and Vermaelen (1998) the announcement date of completion of the merger or acquisition is used as the event date. This date is classified as the event date 0, referred to as T_0. This extends right through to 36 months after the event, depicted as T_{36}. The event periods are 0-12 months, 0-24 months and 0-36 months. The methodology employed in this study follows other long-term studies like Ikenberry, Lakonishok and Vermaelen (1995), Rau and Vermaelen (1998) and Giannopoulos, Holt, Khansalar and Mogoya (2017). This method uses a benchmark of a portfolio constructed using size and book to market valuation. This is consistent with investment theory, as the two factors have been found to influence stock returns (Fama & French, 1992; Lakonishok et al., 1994)

Procedure

Firstly, the abnormal returns (for each acquirer) for the event horizon for the sample are determined using the formula depicted in equation (1).

$$AR_{it} = R_{it} - E(R_{it}) \quad (1)$$

Where:

AR_{it} is the abnormal return of firm *i* in month *t.*

R_{it} is the actual return of firm *i* in month *t* calculated as $\ln\left(\frac{P_t}{P_{t-1}}\right)$. Where P_t is the share price close on month t and $P_t{-}_1$ is the return on the month before t.

$E(R_{it})$ is the expected return of firm *i* in month *t*. This will be proxied by the benchmark return.

Benchmark

A control portfolio is used as a benchmark. For each firm, the respective portfolio is a portfolio of firms with a similar market valuation (as measured by BTM) and size (as measured by the market capitalisation). To calculate the $E(R_{it})$ for firm *i* in the month *t,* the study uses the global portfolios constructed by French-Data Library for developed economy firms. This

approach is followed in Gianapoulos et al. (2017).[66] This is a set of 6 portfolios that constitute firms from 23 developed countries around the world. These are constructed by ranking firms into two quantiles based on size and three quantiles based on the BTM ratio. When these portfolios are interacted, it results in 6 different portfolios. The monthly returns of these portfolios are then calculated using Average Value Weighted Returns (AVWR) and Average Equal Weighted Returns (AEWR). The current study employs the AEWR, this is to avoid the influence of movements in big stocks. Dutta and Jog (2009) lend empirical evidence that the use of an equally weighted control portfolio yields reliable results in determining the statistical significance of the BHAR. These control portfolios are employed on developed firm acquirers.

The control portfolio for emerging market firms is the relative MSCI emerging market index. 6 portfolios are also used; these are constructed based on size and BTM. The indices enlisted as control portfolios are; the MSCI large-cap growth index, MSCI large-cap value index, MSCI mid-cap growth index, MSCI mid-cap value index, MSCI small-cap growth index and MSCI small-cap value index. Prior studies (Rau & Vermaelen, 1998; Andre et al., 2004) adjusted portfolios monthly. The current study deviates from that trend. Firms in the sample are ranked based on the size and BTM, then appointed to the appropriate $E(R_{it})$ portfolio for the three years event date. The reason for this approach is to ensure that the acquirer can be measured against the performance that was initially expected, not an adjusted version thereof.[67] This convention is consistent with Hertzel, Lemmon, Linck and Rees (2002) who carefully selected a matching firm to adjust the performance of the firm under examination for the entire three years post event. This eliminates rebalancing bias, as argued by Barber and Lyon (1997).

[66] Gianapoulos et al. (2017) however used a similar set of portfolios classified according to five sizes and five BTM ratio, yielding 25 different portfolios.

[67] For example, if a small firm (measured by market capitalization) engages in a CBA the expectations may be that it performs exceptionally in contrast to a larger firm (the size effect of equity returns supports this submission (Fama & French, 1992,1998)). In the subsequent period, the small firm indeed performs well and the market valuation increases and it becomes a relatively bigger firm, if this firm is then measured against other large firms (using a different portfolio) it may indicate that the previously small firm is posting significantly high returns because the control portfolio to which it has been assigned has lower expected returns. The present study maintains that to avoid such outcomes, a control portfolio based on size and BTM valuation is maintained right through the duration of the period being observed.

After obtaining the monthly abnormal returns (AR_{it}) for the individual firms, the next step is to compute the average monthly abnormal return for the sample. This is determined using the formula depicted in equation (2).

$$AAR_{it} = \frac{\sum_{i=1}^{N} AR_{it}}{N} \quad (2)$$

Where:

AAR_{it} is the average abnormal return of portfolio *i* in month *t.*

AR_{it} is the abnormal return of firm *i* in month *t.*

N is the number of sampled acquirer firms.

The last step is to determine the Buy and Hold Abnormal Returns (BHAR) for the sample of over the three event horizons. The formula for obtaining the BHAR is depicted in equation (3).

$$BHAR_{T_1,T_2} = \prod_{t=T_1}^{T_2}(1 + AAR_t) - 1 \quad (3)$$

Where:

$BHAR_{T_1,T_2}$ is the Buy and Hold Abnormal Return for all sample firms over the period T_1 to T_2.

AAR_t is the abnormal return for all sample firms at month *t*

T_1, T_2 is the time from month T_1 to month T_2.

This is a depiction of the degree to which the acquirer performance differs from that of the market in the event horizon under study.

Statistical significance

The study employs a parametric test, the *t*-statistic to determine the statistical significance of BHAR. This test has been extensively used in other long-term studies such as Dutta and Jog (2009) who also incorporate modifications by Mitchell and Stafford (2000) to lend a much reliable parametric test. The event time approach (BHAR) employed in this study has its shortcomings, these are documented by Barber and Lyon (1997). These include; skewness and

cross-sectional dependence of event-firm abnormal returns.[68] Lyon, Barber and Tsai (1999) made subsequent modifications to the conventional *t*-statistic (Equation 4) to yield a better model that eliminates the skewness shortcoming of the conventional *t*-statistic (Equation 5).

$$t_{BHAR} = \frac{\overline{BHAR_{\iota,t}}}{\left(\frac{\sigma BHAR_{i,t}}{\sqrt{N}}\right)} \tag{4}$$

Skewness adjusted t-statistic;

$$t_{BHAR_{sa}} = \sqrt{N}(s + \frac{1}{3}\gamma s^2 + \frac{1}{6N}\gamma) \tag{5}$$

Where;

$S = \frac{\overline{BHAR_t}}{\sigma BHAR_t}$ and $\gamma = \frac{\sum_{i=1}^{N}(BHAR_{it} - \overline{BHAR_t})^3}{N\sigma(BHAR_t)^3}$

Any methodology that ignores cross-sectional dependence of event-firm abnormal returns that are overlapping is likely to produce overstated test statistics (Fama, 1998). Hence, following Mitchell and Stafford (2000), the study ensures that adjustments for cross-sectional-dependence among acquisition events are made. Kothari and Warner (2005) further document that long-horizon abnormal returns are indeed cross-correlated. They advance three reasons for this;

> *"(i) abnormal returns for subsets of the sample firms are likely to share a common calendar period due to the long measurement period; (ii) corporate events like mergers and share repurchases exhibit waves; and (iii) some industries might be over-represented in the event sample (e.g. merger activity among technology stocks)"* (Kothari & Warner, 2005:33-34).

This would lead to gross misspecification of the test. The calculation of a standard deviation that considers the cross-sectional dependence of BHAR is articulated in equation (6);

$$\frac{\sigma\ BHAR\ (Independence)}{\sigma\ BHAR\ (dependence)} \approx \frac{1}{\sqrt{1 + (N-1)\overline{\rho_{\iota,t}}}} \tag{6}$$

Where N = number of sample events and ρ_{it} is the average correlation of individual BHARs.

[68] The rebalancing bias has already been eliminated as discussed above.

To measure the statistical significance of the difference between the performance of developed and emerging market acquirers a paired means test is employed. Specifically, this is a paired two-sample t-test for means that assumes unequal variances.

Dealing with outliers

An outlier refers to an observation far away from most or all other observations (Ghosh & Vogt, 2012). Outliers can be a result of an error in data collection, interpretation of data or other clerical errors. In such instances, where outliers enable the researcher to identify where they may have incorporated some errors in their data collection. However, if the respective adjustments are made and outliers persist then the outlier problem does not lie with the errors made during the data collection period. Resnick (2007) notes that genuine but extreme observations can be recorded in many facets of finance ranging from frequencies, return rates from risky investments to an insurance claim.

Outliers distort overall results in instances where averages are computed. This may lead the study to arrive at inaccurate conclusions because of the outliers. Ghosh and Vogt (2012) document three ways in which outliers can be dealt with. Firstly, they can be left as they are. Secondly, drop it from the sample. Thirdly, the outliers can be winsorised. Winsoring entails allocating a lesser weight to the outlier or modifying its value so it lies closer to the other sample values. While the advantages of dealing with outliers as per the three propositions are apparent one should also be cognisant of the negative impact of all of the three ways. All may produce poor estimates of parameters of interest. However, as can be observed the first two ways (ignoring and eliminating the outliers) are complete opposites and they still carry the same disadvantage.

The present study thus elects to use the winsorisation method to deal with outliers. Ghosh and Vogt (2012) argue that the desire for robust statistics and for measures insensitive to outliers is satisfied by either dropping outliers or by modifying their values. In the present study, three variables are winsorised at the 99% level. All BHAR, ROE and ROA whose value lay below -0.99 were restricted to -0.99. One would note nonetheless, that BHARs can assume such negative values as it is possible for a company to perform dismally almost losing most of its value while the benchmark firms (control portfolio) performs well in the same time period. For ROE and ROA it is also possible to have negative values below because of huge losses that may be captured by large net loses. It is nonetheless not the norm and hence the study

winsorised at the respective levels to avoid the exaggeration of loses incurred by a few individual companies.

3.4 FINANCIAL SLACKING AND LEVERAGE MEASURES

Financial slacking is the financial condition of creating capacity for the firm to be able to borrow. This may be in the form of having healthy cash flows, a strong balance sheet with regards to tangible assets and having relatively low gearing on the balance sheet. The study also seeks to assess the impact of financial slacking on the performance of the acquirer and the method of payment chosen. Almazan et al. (2010) highlight two features of financial slacking; cash holdings and the degree of leverage. They define financial slacking in line with two criteria; low debt ratio and large cash balance. With regards to cash holdings, the study takes the ratio of cash and marketable securities to total assets minus cash. This is depicted as $\left(\frac{cash}{\text{Total Assets}}\right)$. The higher ratio indicates financial slacking and the opposite holds true for a lesser ratio. While a low degree of gearing may imply that the acquirer has an increased capacity to borrow, it does not, however, directly imply a firm has the capacity to borrow. For robustness, the study uses the free cash flow to assets ratio as another proxy for financial slaking in line with Lang and Walking (1991). It is computed as the ratio of cash flow to total assets $\left(\frac{\text{cashflow}}{Total\ Assets}\right)$.

Finally, the study determines the degree and direction of the influence of the extent of gearing in the three years leading to the deal on the method of payment. This is done by regressing the method of payment on the debt ratio for the three years prior to the deal as depicted in the regression equation (9). The regression accounts for control variables that affect the method of payment (Corporate governance of the country in which the acquiring firm is domiciled, Valuation of the acquirer and Size of the acquirer).

3.5 REGRESSIONS

The study further examines the degree to which the difference in performances (of developed and emerging economy acquirers) can be attributed to the location of the acquirer. The study employs panel data for assessing the performance of acquirers. Using panel data regressions allows for the study to control for other factors affecting the performance of the acquirer in the period post acquisition (discussed in section 2.4). These may be time or location specific. However, because of the nature of the data, the study uses cross-sectional data for regressions pertaining to the method of payment.

The regressions enable the study to:

- compare the factors affecting the performance of acquirers from developed economies and emerging markets.
- determine the influence of capital structure and method of payment in CBA deals.
- determine the influence of financial slacking on the method of payment in CBA deals.
- determine the nature and significance of the relationship between financial slacking and acquirer performance in the CBA setup.

Regression models

This section details the regression equations applied, to determine the statistical significance of the impact of; 1) acquirer location, financial development of the target country, industrial location of target firm and regional location of target firm on performance. 2) leverage and financial slacking on the method of payment.

Acquirer performance location and performance.

$$\begin{aligned}\text{PERFORMANCE}_{i,t} = {} & \alpha_i + \beta^1\text{ABSORB}_{i,t} + \beta^2\text{CULTURE}_i + \beta^3\text{CORPORATE G}_i + \\ & \beta^4\text{ECONOMICCRISIS}_t + \beta^5\text{PRIVATE}_i + \beta^6\text{SIZE}_{i,t} + \beta^7\text{VALUE}_{i,t} + \\ & \beta^8\text{EXPERIENCE}_i + \beta^9 PAYMENT_i + \beta^{10}\text{DIVERSIFICATIONDUMMY}_i + \\ & \beta^{11}\text{XDUMMY}_i + \beta^{12}\text{LOCATION DUMMY}_i + \varepsilon\end{aligned} \quad (7)$$

XDUMMY represents the basic materials, consumer goods, financial development, and economic bloc dummies.

The impact of financial slacking on acquirer performance.

$$\begin{aligned}\text{PERFORMANCE}_{i,t} = {} & \alpha_i + \beta^1\text{ABSORB}_{i,t} + \beta^2\text{CULTURE}_i + \beta^3\text{CORPORATE G}_i + \\ & \beta^4\text{ECONOMICCRISIS}_t + \beta^5\text{PRIVATE}_i + \beta^6\text{SIZE}_{i,t} + \beta^7\text{VALUE}_{i,t} + \\ & \beta^8\text{EXPERIENCE}_i + \beta^9\text{PAYMENT}_\text{i} + \beta^{10}\text{DIVERSIFICATIONDUMMY}_i + \\ & \beta^{11}\text{LOCATION DUMMY}_i + \beta^{12}\text{SLACKING}_{\text{i,t}} + \varepsilon\end{aligned} \quad (8)$$

The influence of leverage on method payment.

$$\begin{aligned}\text{PAYMENT}_i = {} & \alpha_{i,} + \beta^1\text{CORPORATE G}_i + \beta^2\text{VALUE 3}_i + \beta^3\text{VALUE 2}_i + \\ & \beta^4\text{VALUE 1}_i + \beta^5\text{SIZE}_i + \beta^6\text{ROE}_i + \beta^7\text{LEVERAGE 3}_i + \beta^8\text{LEVERAGE 2}_i + \\ & \beta^9\text{LEVERAGE 1}_i + \varepsilon\end{aligned} \quad (9)$$

The influence of financial slacking on the method of payment.

$$\text{PAYMENT}_i = \alpha_{i,} + \beta^1\text{CORPORATE G}_i + \beta^2\text{VALUE 3}_i + \beta^3\text{VALUE 2}_i + \beta^4\text{VALUE 1}_i + \beta^5\text{SIZE}_i + \beta^6\text{ROE}_i + \beta^7\text{SLACKING 3}_i + +\beta^8\text{SLACKING 2}_i + \beta^9\text{SLACKING 1}_i + \varepsilon \quad (10)$$

***The influence of both leverage and financial slacking on the method of* payment.**

$$\text{PAYMENT}_i = \alpha_{i,} + \beta^1\text{CORPORATE G}_i + \beta^2\text{VALUE 3}_i + \beta^3\text{VALUE 2}_i + \beta^4\text{VALUE 1}_i + \beta^5\text{SIZE}_i + \beta^6\text{ROE}_i + \beta^7\text{LEVERAGE 3}_i + \beta^8\text{LEVERAGE 2}_i + \beta^9\text{LEVERAGE 1}_i + \beta^{10}\text{SLACKING 3}_i + \beta^{11}\text{SLACKING 2}_i + \beta^{12}\text{SLACKING 1}_i + \varepsilon \quad (11)$$

Table 7 depicts the variables employed in the regression equations. Each variable is defined and the source from which it is obtained is also identified

Table 7: Variable definition and source reference

Variable	Definition	Source
α_i	is the alpha of asset or portfolio *i.*	
	DEPENDENT VARIABLES	
BHAR	This is the abnormal buy and hold returns of acquirer shares held over the given event horizons (12, 24 and 36 months). It is computed as depicted in the equation (3). This measure of performance follows Rau and Vermaelen (1998) and Giannopoulos et al. (2017).	Bloomberg, MSCI database and French-Data Library.
ROE	This is the return on equity. It is calculated as the ratio of net earnings (net profit) to total equity. This is in line with most of studies reviewed by Martynova and Renneboog (2008).	Bloomberg.
ROA	This is the return on total assets. It is calculated as the ratio of earnings (net profit) to total assets. This is in line with most of studies reviewed by Martynova and Renneboog (2008).	Bloomberg.
SLACKING	This is the degree of financial slacking of the acquiring firm. The study employs the ratio of cash and marketable securities to total assets minus cash. This is depicted as $\left(\frac{cash}{\text{Total Assets}}\right)$, in line with Almazan et al. (2010). For robustness, the ratio of free cash flow to equity to total assets, depicted as $\left(\frac{\text{cashflow}}{Total\ Assets}\right)$ is used as a proxy. This is in line with Lang and Walking (1991). This is presented as FCFETA. The variable all takes three variations SLACKING -3, SLACKING -2 and SLACKING -1 which are the respective of the financial slacking figures for the three, two and one year prior to the deal, respectively.	Bloomberg.
LEVERAGE	This is the degree of leverage of the acquirer. It is computed as the ratio of total debt to total assets, consistent with Harford et al. (2012). The variable has three variations LEVERAGE -3, LEVERAGE -2 and LEVERAGE -1 which are respective of the debt ratio figures for the three, two and one years prior to the deal, respectively.	Bloomberg.

Table 7: Variable definition and source reference (Continued)

Variable	Definition	Source
	INDEPENDENT VARIABLES	
ABSORB	This is the absorptive capacity of the acquiring firm. It takes the value of the ratio of R&D expenditure divided by sales. It captures the extent to which a firm is dedicated to the development and assimilation of new information in relation to its income generation capacity. This measure is consistent with both classical and contemporary studies (Cohen & Levinthal, 1990; De Beule & Sels, 2016).	Bloomberg.
CULTURE	This is the cultural distance between two firms involved in the deal. It is calculated as the difference between the cultural rank of the acquirer and that of the target and the value is squared in order to obtain a positive value in every instance. The study follows a matrix developed by Hofstede et al. (2010). This considers five elements (Power distance, Uncertainty, Individualism, Masculinity and Long-Term orientation) of cultural distance to determine a cultural rank of a firm based in each country. The value of individual national cultures is then computed through the equal weights of the five elements. All elements are scored on the range 0-100. This determines the individual country culture ratings This is then used to calculate the value of the distance between countries in which the acquirer and the target are domiciled. This value is then squared. This proxy is consistent with the more recent work of Li et al. (2016). The larger the difference in the cultural ranks of the countries in which firms are domiciled the greater the cultural distance between the two firms.	Author's calculations.
CORPORATE G	This is the World bank corporate governance rating of the country in which the acquirer firm is domiciled. It takes any value in the range 0 to 1 (where 0 represents poorest corporate governance and 1 represents best corporate governance). Following Humphery-Jenner and Powell (2014), the study employs the World Bank Governance rankings to determine the degree of corporate governance at national level. Six attributes of national level corporate governance are weighted equally (Control of Corruption, Government Effectiveness, Political Stability and Absence of Violence/Terrorism, Rule of Law, Regulatory Quality and, Voice and Accountability) and an average percentile rank is obtained. This is then represented as a decimal between 0 and 1.	World Bank databank and World Corporate Governance Index (SAHA)
ECONOMICCRISIS	This is the economic crisis dummy variables. It takes the value of 1 for the years 2007 and 2008, and 0 otherwise. This is consistent with Beltratti and Paladino (2013).	Author's calculation.
PRIVATE	This is the form of ownership of the target firm. It is a dummy that takes the value 1 if the target is a private firm and 0 if the target is a public firm.	Bloomberg.
SIZE	This is the size of the acquiring firm. It is proxied by log the total value of the acquirers' market capitalisation. This is in keeping with Harford et al. (2012).	Bloomberg.

Table 7: Variable definition and source reference (continued)

Variable	Definition	Source
	INDEPENDENT VARIABLES	
VALUE	This is the market valuation of the acquiring firm. It is proxied by the BTM ratio of the acquirer. High BTM is categorised as value acquirers and low-BTM firms are categorised as glamour stocks. Value acquirers carry a BTM more than or equal to one. Glamour acquirers carry a BTM value less than one. This is consistent with Dutta and Jog (2009). The variable has three variations VALUE 3, VALUE 2 and VALUE 1 which are the respective of the debt ratio figures for the three, two and one years prior to the deal, respectively.	Bloomberg.
EXPERIENCE	This refers to the experience of the acquiring firm. It is proxied by the number of M&As concluded in the preceding 3 years (Dikova & Sahib, 2013).	Bloomberg.
PAYMENT	This is the payment method used by the acquirer to conclude the deal. This takes the form of cash, equity, or combination of any of these. There are three variations of the method of payment and they are presented as dummy variables in line with Harford et al. (2012). Cash method takes the value 1 for deals financed with cash only and 0 otherwise. Equity method takes the value of 1 for deals financed with equity and 0 otherwise. Combination takes the value 1 for deals that use a mix of financing methods and 0 otherwise. This is a dependent variable in equation (9) and (10) when evaluating the degree of the influence of leverage and financial slacking on the method of payment.	Bloomberg.
DIVERSIFICATION	This is a dummy variable that takes the value of 0 in deals that involve firms in the same industry and 1 in instances where the firms are in different industries.	Bloomberg.
LOCATION DUMMY	This is a dummy variable that differentiates between developed and emerging economies. It takes the value 1 when the acquirer comes from a developed economy and 0 if it is an emerging economy.	World Bank databank.

Table 7: Variable definition and source reference (continued)

Variable	Definition	Source
	INDEPENDENT VARIABLES	
FINANCIAL DEVELOPMENT	This is a dummy variable that differentiates between developed and underdeveloped target countries. It takes the value 1 when the acquirer comes from a developed economy and 0 if it is an underdeveloped economy. This is in line with Wilson and Vencatachellum (2016).	World Bank financial development database.
BASIC MATERIAL DUMMY	This is a dummy variable that distinguishes acquisitions of basic material sector firms. It takes the value 1 when the target is in the basic materials sector and 0 otherwise.	Bloomberg.
CONSUMER DUMMY	This is a dummy variable that distinguishes acquisitions of consumer sector firms. It takes the value 1 when the target is in the consumer sector and 0 otherwise.	Bloomberg.
Bloc DUMMY	This is a dummy variable that distinguishes acquisitions according to the economic blocs in which the target country belongs. It takes four forms, the Arab, SADC, ECOWAS and the EAC. The Arab bloc dummy takes the value 1 when the target country is a member of either the Arab Maghreb Union, Arab league or both bodies and 0 otherwise. The SADC bloc dummy takes the value 1 when the target country is a member of the Southern African Development Community and 0 otherwise. The ECOWAS bloc dummy takes the value 1 when the target country is a member of the Economic Community of West African States and 0 otherwise. The EAC bloc dummy takes the value 1 when the target country is a member of the East African Community and 0 otherwise	Author's calculation.
ε	Is the error term.	

Panel data estimation techniques

The study employs panel data to test the influence of location on performance as well as other deal-specific characteristics. This has both cross-sectional and a time series dimension, where all cross-section units are observed during the whole time period.[69] One of the major features of panel data is that it allows individual deals to be followed over many periods. More importantly, panel data accounts for individual heterogeneity (Ahn & Schmidt, 1995). Panel data allows for multilevel modelling; however, it is met with some drawbacks such as data collection, non-response and cross-country dependency in the case of macro panels (i.e. correlation between countries) (Hsiao, 2007). It could either be a balanced panel (where observations in all similar periods are recorded for all firms in the sample) or an unbalanced panel (where observations for other firms are missing in some periods). One must note, however, that having an unbalanced panel does not cause any major conceptual problems. Two main estimation techniques are available for panel data regression modelling; Fixed Effects and Random Effects.

The Fixed Effects technique assumes that time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics. Hsiao (2007) highlights that the main advantage of this technique is that it allows the individual and time specific effects to be correlated with explanatory variables. It also does not require modelling of correlation patterns. The same study also highlights the disadvantages of this technique. Firstly, this estimator that does not allow for the estimation of the coefficients that are time-invariant. Secondly, a large sample introduces the classical incidental parameter problem.[70]

The Random Effects technique, on the other hand, assumes that the variation across entities is random and uncorrelated with the predictor or independent variables included in the model. The model has the following advantages: (1) it allows for the derivation of efficient estimators that use both within and between group variations. (2) It allows for estimation of the impact of time-invariant variables. (3) The number of parameters stays constant when sample size increases (Hsiao, 2007). If one has reason to believe that differences across entities have some influence on the dependent variable, then the use of random effects is highly advised.

[69] Panel data applies when the same stocks are observed in similar periods.
[70] See Neyman and Scott (1948)

Despite the popularity of the two estimation techniques discussed above, the choice of use is not always obvious as such one must apply the Hausman test. The test assesses whether the unique errors are correlated with the regressors, the null hypothesis is that they are not. It requires one to run both models and save the estimates. If the "Prob>chi2" of the test results is significant then one uses the fixed effects model. In the current data set, the appropriate estimation technique was determined to be the random effects technique. Equations 7 and 8 employ panel data and more specifically the model that suited the data is the GLS random effects technique.

Cross-sectional data estimation techniques for binary outcome studies.

The method of payment is observed at the time of deal completion it takes three forms; cash equity or a combination of funding sources. For the current study, the independent variables take three forms. Under each, the method of payment takes the value 1 and 0 otherwise. This leads to a binary outcome dependent variable. The dependent variable thus does not change over time it is single static observation. Since the study seeks to assess seeks to observe the influence of several firm-specific characteristics (size, profitability, valuation, leverage, and financial slack) on the method of payment. These independent variables nonetheless change over time. Cross-sectional data is collected by observing many subjects (in this instance firms) at the same point of time, or without regard to differences in time (Johnston & Brady, 2002).

To ensure that the dependent variable is presented similar to the independent variables the study makes uniform observations. For example, with the LEVERAGE dependent variable, the debt ratios for the year prior to the acquisitions are categorised as a variable LEVERAGE -1. For the two and three years prior to the acquisition, the variables are grouped under the LEVERAGE -2 and LEVERAGE -3 variables. By making these adjustments, the data has all the characteristics of cross-sectional data.

Next, the study selects the appropriate regression technique for binary outcomes for cross-sectional data. There are two popular techniques for estimating binary outcome dependent variables namely probit and logistic regression. These share a common characteristic of being generalised linear models. Interestingly, logistic regression can be extended beyond the case of a dichotomous response variable to the cases of ordered categories and multiple categories. The major difference between the two techniques is embedded in the assumptions underlying each model. Logistic models do not assume that errors have to be normally distributed while

probit models assume a normal distribution of errors. Following Harford et al. (2006), Equations 9, 10 and 11 employ the logistic regression on the cross-sectional data.

3.6 CONCLUSION

This section started with a discussion of the data. This involved deal characteristics, firm-specific characteristics as well as country-specific elements on the data. The data section also discusses the sources from which all the variables were obtained. A discussion on the methodology then followed. This section details how data transcends from raw data into being computing BHARs. The section also details the methods employed in determining the statistical significance of the BHARs. The final segment detailed the regression equations to be employed. This goes along with detailed descriptions of the different variables to be employed in the regressions. The segment also discusses the regression techniques employed in the study. Section 4, unpacks the findings of the tests employed on the sample collected. A discussion of the results and the implications thereof ensues.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 INTRODUCTION

This chapter unpacks the results after running the tests as detailed in the methodology section. Section 4.2 outlines the descriptive statistics for the entire sample, developed economy acquirer and emerging economy acquirer sub-samples. Section 4.3 details acquirer performance in the large sample and the two sub-categories for a much more detailed insight. Section 4.4 unpacks the results for the impact of leverage and financial slacking on the method of payment. The section further examines the effect of financial slacking on the performance of the acquirer. Section 4.5 concludes chapter 4.

4.2 DESCRIPTIVE STATISTICS

Table 8 is a breakdown of the descriptive statistics for variables that are not dummy variables.[71] All dummy variables have already been detailed as deal characteristics. The rest of the variables are discussed in this section. The performance measures BHAR, BHR, ROE and ROA are all negative, depicting the generalised underperformance. The minimum value for all the variables is -0.99, the maximum values are notable in BHAR where firms multiplied values up to six times.

Looking at the independent variables in panel A, absorptive capacity registers an average of 0.0147. The same variable registers 0.0167 in the developed economy acquirer sub-sample, in contrast to the 0.0056 for the emerging economy acquirer sub-sample. This is indicative of the positive inclination to research and development in developed economies. Nonetheless, this observation is made in consideration of ample empirical evidence that indicates that the positive impact itself is subject to other deal fundamentals such and the degree of industrial diversification and industry type (De Beule & Sels, 2016).

[71] The dummy variables have already been discussed in table 6.

Table 8: Descriptive statistics.

Panel A: Descriptive statistics (full sample)

Variable	Obs	MEAN	STDEV	MIN	MAX
BHAR	1509	-0.2730	0.6339	-0.99	6.3757
BHR	1509	-0.1331	0.7783	-0.99	5.6530
ROE	1509	-0.0720	0.5921	-0.99	4.5740
ROA	1509	-0.1473	1.4892	-0.99	0.6922
ABSORPTIVE	1509	0.0147	0.1125	0.0000	2.0741
CULTURE	1509	76.359	124.461	0.0000	998.560
CORPORATE G	1509	0.8210	0.1674	0.0000	0.9839
SIZE (A) (Log)	1445	8.9779	1.4710	5.70	13.0127
VALUE	1400	0.9327	1.6094	-2.0670	27.473
EXPERIENCE	1509	0.3718	0.7947	0	6.0000
LEVERAGE	1485	0.1824	0.1847	0%	100%
Cash/Assets	1430	13.5765	17.4455	0.0264	99.51
FCFE/TA	1422	8.8579	84.2357	-247	1352

Panel B: Descriptive statistics (Developed Economy sample)

Variable	Obs	MEAN	STDEV	MIN	MAX
BHAR	1233	-0.3200	0.603	-0.99	6.3760
BHR	1233	-0.1890	0.728	-0.99	5.5550
ROE	1233	-0.1200	0.637	-0.99	4.5740
ROA	1233	-0.1910	1.643	-0.99	0.6920
ABSORPTIVE	1233	0.0167	0.124	0.0000	0.0770
CULTURE	1233	73.315	126.480	1.21	998.56
CORPORATE G	1233	0.8900	0.050	0.6668	0.984
SIZE (A) (Log)	1176	8.7690	1.4407	4.5440	13.0127
VALUE	1136	0.9460	1.736	-2.0669	27.473
EXPERIENCE	1233	0.3920	0.829	0	6
LEVERAGE	1213	17%	0.182	0%	98%
Cash/Assets	1167	14.433	17.974	0.0359	98.830
FCFE/TA	1162	7.8750	79.341	-238	1352

Panel C: Descriptive statistics (Emerging Economy sample)

Variable	Obs	MEAN	STDEV	MIN	MAX
BHAR	276	-0.0646	0.7232	-0.9942	5.4262
BHR	276	0.1168	0.9321	-0.9896	5.6530
ROE	276	0.1411	0.2247	-0.9104	1.5218
ROA	276	0.0491	0.1179	-0.8616	0.3173
ABSORPTIVE	276	0.0056	0.0132	0.0000	2.0741
CULTURE	276	89.960	114.231	0.0000	479.61
CORPORATE G -	276	0.5130	0.1615	0.0000	0.8823
SIZE (A) (Log)	269	9.8910	1.2371	6.9501	12.3430
VALUE	264	0.8767	0.8757	-0.3029	6.6225
EXPERIENCE	276	0.2826	0.6148	0	3
LEVERAGE	272	24%	0.1833	0%	90%
Cash/Assets	263	9.7752	14.299	0.0264	99.512
FCFE/TA	260	13.251	103.384	-247	1340

Table 8 shows the descriptive statistics for the entire sample. The table contains panels A, B and C. Panel A shows the descriptive statistics for the full sample. Panel B shows the descriptive statistics for the developed economy acquirer sub-sample and panel C shows the same for the emerging economy acquirer sample. Each panel contains six columns. The first column contains the name of the variable, followed by the number of observations in the sample and the average value per variable in the second and third columns respectively. Column four, five and six represent the standard deviation, minimum value and maximum value for the identified variable.

The cultural distance between developed economy acquirers and target countries is lower than that between emerging economy acquirers and target countries. This is not particularly surprising given that the Hofstede et al. (2010) framework highlights five elements (Power distance, Uncertainty, Individualism, Masculinity and Long-Term orientation) that inform culture. Therefore, culture is a dynamic concept. It can be argued that the mere position of developed economies as leaders in culture (consumer culture, lifestyle brands, religion, etc.) and the links they have to target countries through the legacy of colonialism could possibly account for the relatively shorter cultural distance (with Africa) observed.

The average corporate governance score of the acquirer of the entire sample is 0.82. The developed economy acquirer average for the same is 0.89, whereas it is 0.51 for the emerging economy acquirers. This is not generally surprising as one would expect emerging economies to lag developed economy acquirers in corporate governance owing to the level of development of institutions key to the development and sustenance of good corporate governance practices as documented by Chen and Young (2010).

The average acquirer size as proxied by market capitalisation is US$86 billion. Emerging economy acquirers are generally bigger than firms from developed economies. The former averages US$124 billion in market capitalisation while the latter has an average market

capitalisation of US$77 billion. As far as experience goes, one can note that generally developed economy acquirers are experienced in contrast to their emerging market acquirers. The former claims an average of 0.39 deals and a maximum of up to 6 deals. Emerging economy acquirers, on the other hand, have an average of 0.28 deals worth of experience and a maximum of 3 deals.

Moving on to details related to the financial standing of the acquirer, 17 and 24 percent are the average leverage figures for developed and emerging economies respectively. The relatively lower leverage observed in developed economies is largely congruent with empirical evidence. It points out that countries that have a developed financial system favour equity financing and their less developed counterparts tend to gravitate towards debt funding. The Cash to Assets ratio that is used as a proxy for financial slacking indicates that on a relative basis, developed economy acquirers have more financial slack on their balance sheet relative to emerging economies acquirers.

The correlation matrix for all variables.

Table 9 depicts a correlation matrix of all variables included in the computations of all results unpacked in this section. Expectedly, the performance measures are positively related. Notably, BHAR and BHR have a 0.9206 correlation that is statistically significant at the 1% level. Despite sharing the same qualities of measuring long-term acquirer performance, accounting performance measures have a relatively lower but statistically significant correlation with BHAR. Specifically, these are 0.2175 and 0.093 for ROE and ROA respectively. As highlighted by Stahl and Voigt (2008), the performance of M&As has been noted to be sensitive to performance measure convention, the low correlation is paramount to ensuring a robust study.

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Table 9: Correlation matrix for dependent and independent variables

	BHAR	BHR	ROE	ROA	ABSORPTIVE	CULTURE	CORPORATE G	ECONOMICCRISIS	PRIVATE	SIZE (A)	VALUE	EXPERIENCE	Cash	Equity	Combination	LEVERAGE	DIVERSIFICATION	Cash/Assets	FCFE/TA
BHAR	1																		
BHR	0.92***	1																	
ROE	0.21	0.24	1																
ROA	0.09	0.10	0.22	1															
ABSORPTIVE	-0.01	-0.01	0.01	0.00	1														
CULTURE	-0.04	-0.05	-0.07	-0.01	-0.02	1													
CORPORATE G	-0.16	-0.16	-0.18	-0.07	0.01	-0.21	1												
ECONOMICCRISIS	-0.11	-0.21	-0.06	-0.08	-0.02	-0.01	0.01	1											
PRIVATE	-0.04	-0.06	-0.05	-0.02	0.01	0.08	0.05	0.01	1										
SIZE (A)	0.27	0.31	0.40	0.16	-0.02	0.02	-0.36	-0.08	-0.10	1									
VALUE	-0.20	-0.21	-0.01	0.02	0.01	0.04	0.04	0.02	0.00	-0.25	1								
EXPERIENCE	-0.04	-0.05	0.00	0.02	-0.02	-0.09	0.05	-0.03	0.03	-0.02	0.01	1							
Cash	0.19	0.22	0.22	0.14	-0.06	-0.09	-0.25	-0.01	-0.03	0.46	-0.05	0.04	1						
Equity	-0.13	-0.13	-0.13	-0.04	-0.01	0.07	0.12	-0.02	0.03	-0.28	0.03	-0.05	-0.58***	1					
Combination	-0.12	-0.15	-0.16	-0.13	0.08	0.04	0.20	0.03	0.02	-0.33	0.04	-0.01	-0.73	-0.14	1				
LEVERAGE	0.03	0.06	0.14	0.06	-0.03	-0.07	-0.05	0.00	-0.05	0.41	-0.10	0.10	0.00	-0.01	-0.17	1			
DIVERSIFICATION	-0.07	-0.08	-0.02	0.02	-0.02	0.06	0.89***	0.06	0.03	0.01	0.05	-0.02	0.24	0.11	0.02	0.11	1		
Cash/Assets	0.04	0.01	-0.36	-0.19	0.01	0.10	0.11	0.11	0.03	-0.33	-0.13	-0.05	-0.18	-0.13	0.14	-0.34	0.03	1	
FCFE/TA	-0.05	-0.03	0.04	0.01	0.00	0.18	-0.05	-0.05	0.00	0.24	0.00	-0.03	0.06	-0.03	-0.04	0.04	0.03	-0.03	1
LOCATION DUMMY	-0.16	-0.15	-0.17	-0.06	0.02	-0.17	-0.21	0.00	0.05	-0.30	0.02	0.05	-0.20	0.11	0.15	-0.16	-0.06	0.10	-0.02

*Table 9 is the correlation matrix for all variables (both dependent and independent). The list is identical on the rows as well as on the columns. *** depicts variables whose correlation is greater than 0.5 or fall below -0.5 and statistically significant at 1%.*

Absorptive capacity generally has a negative correlation (but close to zero) with most performance measures except ROE, which is almost zero. The same is noted with all independent variables. Cultural distance is also negatively correlated with all performance measures. A similar correlation is noted with corporate governance. Acquirer country's corporate governance is negatively correlated with all performance measures. The same is noted in its correlation with size and cash method of payment which stand at -0.3642 and -0.2532. Notably, the more advanced the corporate governance regime the higher the propensity for diversification when engaging in CBA transactions. This is captured by the positive correlation between the two variables standing at a staggering 0.89 that is statistically significant at the 1% level. The correlation between the economic crisis and performance variables is unsurprisingly negative

The legal incorporation of the target (PRIVATE) has little (close to zero) correlation with all independent variables. It has a negative although low, but statistically significant relationship with all performance measures. Size has a notable positive correlation with all performance measures that are also statistically significant. This could possibly feed into the narrative that the size of the acquirer can serve as a corporate governance mechanism in low corporate governance environments. This indirectly ensures positive performance. The relative valuation of the acquirer has a positive correlation to performance when proxied by ROA. It, however, has a negative correlation with the other performance measures. Notably, also, Cash/Assets has a negative correlation indicating that financial slackers where bound to be growth acquirers than value firms. This follows intuition; growth firms are more likely to have liquid balance sheets than value firms hence the negative correlation between financial slacking and value acquirers. Experience does not have any notable correlations with other variables.

With regards to the method of payment, it is notable that cash acquisitions are positively related to all performance whereas equity and combination register negative correlation with the same. It is particularly striking that cash correlates with equity and combination at -0.5808 and -0.7261 respectively.

Worth noting, also is the significantly high positive correlation of 0.89 between corporate governance and diversification. This could imply that firms in good corporate governance regimes may be monitored into searching for profitable acquisition opportunities even outside of their industry. The data source unfortunately, does not have the provision for one to distinguish between vertical and horizontal mergers or acquisition. This falls in line with the

notion of corporate governance as a means of risk monitoring. Given that diversification ensures that the firm is insulated from the consequences of risk concentration, good corporate governance thus becomes a mechanism of alleviating risk concentration (Rani & Asija, 2017).

4.3 THE PERFORMANCE OF CBA DEALS INTO AFRICA.

The study makes two hypotheses in relation to the performance of acquiring firms. Hypothesis 1 states that *developed and emerging economy acquirers in Africa bound CBA transactions overperform in the long-run.* Hypothesis 2 states that e*merging economy acquirers outperform developed economy acquirers in Africa bound CBA transactions.* The results are reported in the same order. First, the performance of a full sample (developed and emerging economies) is assessed using the main performance criteria BHAR. ROE and ROA are also used to evaluate the robustness of performance findings. This is then followed by a breakdown and comparison of developed with emerging acquirers. Regressions are run to assess the statistical significance of factors affecting the respective categories and sub-categories. Section 4.3.1 details full sample results. Section 4.3.2 discusses the sub-sample categorised by the financial development of the target country. Section 4.3.3 unpacks the sub-sample categorised by the industrial location of the target. Section 4.3.4 delivers results and discussion on categories based on economic bloc membership. Finally, section 4.3.5 concludes section 4.3.

4.3.1 Full sample report.

This section reports results from the full sample of 503 deals. Table 10 is a depiction of the full set of results. Hypothesis 1 predicted that all acquirers would overperform (create value for their shareholders), the empirical evidence, however, indicates otherwise. On average acquirers posted a -0.15 BHAR for the 12-month horizon. In the 24 and 36 months period, the acquirers reported BHARs of -0.27 and -0.38 respectively. The BHARs are statistically significant for all event horizons at all relevant levels of significance. The BHRs are negative for the entire sample, although not as dismal as observed for BHARs in the respective horizons. These revelations diverge from the predictions of hypothesis 1. The findings are nonetheless, consistent with Andre et al. (2004) who samples Canadian acquirers.

Notably, when developed economy acquirers are compared to their emerging economy counterparts they underperform. For each event horizon, developed economy acquirers underperform in contrast to emerging economy acquirers. Developed economy acquirers post BHARs of -0.17, -0.31 and -0.45 for the 12, 24 and 36-month horizons respectively. These are

all statistically significant at all the relevant levels. This is dismal in contrast to emerging economy acquirers who post -0.04, -0.08 and -0.08 for the same periods. These, however, are not statistically significant. The outperformance of emerging market acquirers (relative to developed economy acquirers) by 0.13, -0.24 and 0.37 is statistically significant at the 5% level for the 12-month period and 1% for the 24 and 36 periods. Consistent with the submissions of hypothesis 2 it is evident that emerging economy acquirers outperform developed firm acquirers.

Table 10: BHAR full sample results.

	Full Sample	**Developed Economy Acquirers**	**Emerging Economy Acquirers**	**Comparison**
Full sample BHAR (12)	-0.15***	-0.17***	-0.04	0.13**
Full sample BHAR (24)	-0.27***	-0.31***	-0.08	0.24***
Full sample BHAR (36)	-0.38***	-0.45***	-0.08	0.37***
Full sample BHR (12)	-0.07***	-0.1***	0.06	0.16***
Full sample BHR (24)	-0.13'***	-0.18***	0.11	0.30***
Full sample BHR (36)	-0.18***	-0.26***	0.18	0.44***

*Table 10 shows the BHAR and BHR for the full sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second column represents the respective BHAR or BHR for the indicated event horizon for the full sample. The third and fourth columns depict the same for developed and emerging economy acquirers respectively. The comparison column is located fifth, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

Studying the BHR results for the sub-samples, one would note that indeed emerging economies created value posting 0.06, 0.11 and 0.18 for the 12, 24 and 36 periods. These, however, are not statistically significant. The superior performance is, nonetheless, still statistically significant at all relevant levels in contrast to developed economy acquirers. The outperformance is 0.16, 0.30 and 0.44 for the same periods.

Robustness

To verify if this aggregate poor performance is robust to alternative performance measures, Table 11 depicts the ROEs and ROAs for the full sample, developed and emerging economy acquirers.

Table 11: Full sample ROE and ROE.

Full Sample	**Developed Economy Acquirers**	**Emerging Economy Acquirers**	**Comparison**

	ROE	ROA	ROE	ROA	ROE	ROA	ROE	ROA
Full sample (12)	-0.01	-0.06*	-0.05***	-0.09***	0.15***	0.05***	0.20***	0.14**
Full sample (24)	-0.03	-0.08***	-0.07***	-0.11*	0.14***	0.05***	0.20***	0.16***
Full sample (36)	-0.04**	-0.07***	-0.07***	-0.09***	0.13***	0.04***	0.21***	0.13***

*Table 11 shows the ROE and ROA for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second and third columns represent the ROE and ROA respectively for the indicated event horizon for the full sample. The fourth and fifth columns depict the same for developed economy acquirers. The sixth and seventh columns depict the ROE and ROA for emerging economy acquirers. The comparison column is located at the last sub-panel, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

On aggregate, the full sample underperformed. The ROE shows aggregate annual performances of -0.01, -0.03, and -0.04 for the periods 12 to 36 months for the full sample. ROA depict the same results. The periods 12 to 36 have ROAs of -0.06, -0.08 and -0.07. One should note that although BHARs are not statistically significant for the emerging economy acquirers in all the periods, for both ROE and ROA all periods are positive and statistically significant at the 1 percent level. With ROEs of 0.15, 0.14 and 0.13 in the 12, 24 and 36-month period respectively, emerging economy acquirers outperformed developed economy acquirers by an average of 20 percent every period. This outperformance is statistically significant at the 1% level for all the periods. A similar trend can be observed in the ROA. The 0.05, 0.05 and 0.04 for the 12, 24 and 36-month periods is statistically significant at all relevant levels. Notably, also, the outperformance by 14 percent is statistically significant at the 5% level for the 12-month period in contrast to the 16 and 13 percent outperformance for the 24 and 36-month periods respectively this is significant at all relevant levels.

The empirical evidence thus far shows that when measured by BHAR, acquisitions into Africa underperform in the 12, 24 and 36-month periods. This holds true for the full sample, developed economy acquirer sub-sample and emerging economy acquirer sub-sample. The same underperformance is consistent for the full sample and developed economy sample when using ROE and ROA. In contrast when ROE and ROA are employed emerging economy acquirers perform positively and this is statistically significant at the 1% level.

To understand how various factors and deal attributes affect performance the study uses equation 7 specification. The BHAR sub-panel in table 12 shows a negative coefficient of -0.1576 for the location dummy which is not statistically significant. Since the dummy variable

assumes the value of one for a developed economy acquirer and zero for emerging economy acquirer, this means that acquirers domiciled in developed firms performed dismally in contrast to their emerging economy counterparts.

Table 12: The regression output for the full samples.

Dependent variable	**BHAR**			**ROE**			**ROA**		
	Full sample	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**
ABSORPTIVE	-0.9779*	-0.9558*	0.0630	0.0811***	0.0791***	-0.0244	0.0882***	0.0867***	0.5088
CULTURE	0.0003	0.00003	-0.0002	-0.0001*	-0.0002*	-0.0002	-0.00001*	0.0001*	-0.00002
CORPORATE G	0.1638	0.3105	0.2316	0.1363	-0.1767	0.1807	0.1309	-0.3273*	0.2281
ECONOMICCRISIS	-0.0878	-0.0849	-0.0898	-0.0181	-0.0240	0.0193	-0.0206	-0.0288	0.0311
PRIVATE	-0.0260	0.1083	-0.1667	-0.0605	-0.0757	0.0020	-0.0314	-0.0339	-0.0047
SIZE-A	0.1136***	0.1291***	-0.0091	0.1226***	0.1321***	0.0506*	0.0860***	0.0911***	0.0425**
VALUE	-0.0325***	-0.0236***	-0.2563***	0.0149***	0.0173***	-0.0381	0.0151***	0.0159***	-0.00001
EXPERIENCE	-0.0339	-0.0658***	0.1809**	0.0073	0.0015	0.0502**	0.0034	-0.0007	0.0350***
Cash	0.0090	-0.0385	0.3665*	0.0583	0.0475	0.0281	0.0707*	0.0638*	-0.0113
Equity	-0.1142	-0.1224	0.0912	-0.0470	-0.0456	-0.1223	-0.0317	-0.0332	-0.1052*
DIVERSIFICATION	-0.0786	-0.0327	-0.1821	-0.0354	-0.0363	-0.0302	0.0011	-0.0016	0.0022
LOCATION DUMMY	-0.1576			-0.1088**			-0.0783*		
CONS	1.1528***	-1.6925***	-0.0237	-1.1236***	-1.0124***	-0.4349	-0.9065***	-0.6098***	-0.4896*
Observations	1400	1136	264	1400	1136	264	1400	1136	264
Wald chi2	152.69	151.16	48.09	258.56	204.94	51.37	222.03	202.56	26.51
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0054
R^2	0.1070	0.1164	0.1840	0.2763	0.2616	0.2200	0.2926	0.2856	0.2796

*Table 12 contains three sub-panels. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. The first panel depicts BHAR as the dependent variable. It constitutes the columns two, three and four. The second one uses ROE as the dependent variable. The respective columns are five, six and seven. Finally, the panel that uses ROA as the dependent variable takes the columns eight, nine and ten. In their respective three columns per panel, the first one is a full sample regression, followed by the developed economy acquirers then the emerging economy acquirer sub-samples in the third column. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

When one further looks at the ROE and ROA panels, the negative performance of firms being domiciled in developed economies becomes more apparent and statistically significant. The location dummy in the ROE panel is -0.1088 and it is statistically significant at the 5% level of significance. The same dummy carries a coefficient of -0.0783 in the ROA panel and it is statistically significant at the 10% level. This affirms the hypothesis that emerging economy acquirers outperform their developed economy counterparts.

The financial crisis of 2007-2008 saw an economic growth slowdown that was accompanied by huge stock market declines across the world. Literature indicates that M&A deal volumes were negatively affected by the crisis (Reddy et al., 2014; Rani & Asija, 2017). Performance during such a period could thus, be negatively affected by such crises. However, literature also argues that during a financial crisis where stock prices are depressed, firms acquire targets at fire-sale prices and this could yield a positive return on their investment in the long run (Beltratti & Paladino, 2013). This relationship is, nonetheless more pronounced in the financial services sector literature elaborates. In the current study economic crisis is noted to have had a negative impact on the performance of Africa bound M&A deals. This is true for all performance measures (BHAR, ROE and ROA) except for emerging economy sample in the ROE and ROA samples. However, none of the sub-panels registered a statistically significant coefficient.

Extant literature indicates that management entrenchment afforded by big company sizes leads to value destruction (Harford et al., 2012). The present study presents a contradictory set of results that reveal otherwise. In the full sample BHAR sub-sample, the size of the acquirers has a positive coefficient of 0.1136 that is statistically significant at the 1% level. For all samples, performance is positively influenced by size. This relation is substantiated by the positive coefficients that emerge when ROE and ROA are used as dependent variables. This relationship is positive and statistically significant at the 1 percent level for full sample as well as developed economy acquirer samples in the ROE and ROA sub-panels. It can, therefore, be concluded that acquirer size indeed has a positive impact on the performance of the acquirer robust to the performance measure. This is in line with the findings of Bayazitova et al. (2012).

This further validates the findings of Humphrey-Jenner and Powel (2014) who also find that the benefits of larger acquirer size increase with the importance of political connections in the acquirer's country. Given the poor state of country-level corporate governance in Africa, it follows intuition that size plays a crucial positive role in value creation in these deals. This

means big firms acquiring into Africa can leverage off of access to the natural resources in Africa. These firms may also take advantage of the ability to dominate the market and leverage economies of scale.

Literature advances the notion that acquisitions made by value acquirers are optimal as these firms are undervalued and tend to make prudent financial decisions (Rau & Vermaelen, 1998). They highlight that glamour acquirers tend to extrapolate past performance hence perform badly in the future owing to overbearing confidence. In contradiction to these submissions, the results depicted in table 12 show that acquirers value tend to perform dismally in contrast to growth acquirers when BHAR is the dependent variable. The table shows coefficients of -0.0325, -0.0236 and -0.2563 for the full sample, developed and emerging economy acquirer samples respectively. All of which are statistically significant at the 1% level. The acquirer attribute of being undervalued influences performance negatively when BHAR are used as performance measures. Put differently, growth acquirers perform better than value acquirers in the CBA context. Although contradicting the empirical evidence advanced by the notion that value acquirers make optimal these findings substantiate a unique notion. One can argue that these findings may be linked to the celebrity CEO hypothesis postulated by Cho et al. (2016). Although it is argued that the celebrity status causes CEOs to make bad acquisitions, it also gives them leverage when negotiating a merger or acquisition and targets may sell at a discount being enticed by the desire to be part of a "glamorous establishment" hence the negative coefficients noted in BHAR regressions.

Employing ROE and ROA as dependent variables the negative impact of valuation had no significant impact on emerging economy acquirers' sub-ample. Intriguing results emerge when the same is done for the full sample and developed economy acquirers. Value has a positive relationship with performance that is statistically significant at the 1% level in all four sub-samples. This, one may advance, could validate the arguments that indeed value acquirers make optimal financial decisions whose pay-out can be observed through positive subsequent operating performance. Consistent with Rau and Vermaelen (1998).

Firms engage in CBAs so that they may be insulated from the consequences of risk concentration (Rani & Asija, 2017). While that may hold true for geographical and industrial individually, engaging in both forms of diversification in a single transaction one may argue that presents more risks. For example, if a firm had undertaken industrial diversification they need to develop management integration techniques relevant for that type of industry. If they

incorporate the geographical dimension to the transaction the acquirer now needs to incorporate culture sensitivity into their approach. This presents opportunities for a lot of things to go wrong. The full sample BHAR panel in table 11 shows a diversification coefficient of -0.0786, thus industrial diversification within the CBA context negatively impacts performance. This is not statistically significant at any relevant level. The same relationship holds for the rest of the developed and emerging BHAR samples as well as all ROE sub- panel in table 10 although not statistically significant.

Looking at the BHAR panel, absorptive capacity has negative coefficients for the full sample and developed economy acquirer sub-sample are statistically significant at the 10 percent level this indicates that firm investors may perceive investment in R&D redundant in the context of mergers and acquisitions. For ROE and ROA panels absorptive capacity is positive carrying coefficients of 0.0882 and 0.0867 for the full sample and developed economy acquirer sub-samples. These are statistically significant at the 1 percent level. This is in line with extant literature (Li et al., 2016). The seemingly contradictory nature of the relationship between absorptive capacity is not unique to this study, De Beule and Sels (2016) find a complicated "U" shaped relationship that suggests that there is an optimal level of absorptive capacity that may not necessarily be too high nor too low.

The statistically significant coefficients for cultural distance has a negative coefficient in Table 12. This is testament to the post-acquisition integration challenges that are posed by cultural distance (Malik & Zhao, 2013). The BHAR panels are not statistically significant. But, extending the regressions beyond BHAR and incorporating ROE and ROA as the dependent variables yield some interesting observations. The full sample and the developed economy acquirer samples indicate that cultural distance indeed negatively impacts performance. ROE shows negative coefficients of -0.0001 and -0.0002 for the full sample and developed economy samples respectively. For ROA the coefficients are -0.00001 and -0.0001. All these are statistically significant at the 10 percent level[72]. These findings indeed substantiate literature that advocates the notion of cultural distance as breeding and environment for underperformance, post-acquisition. ROE and ROA are operating accounting performance measures and as such, they capture some elements related to performance better. Given that national culture explains about 50 percent of the differences in managers' attitudes, beliefs and values, these results substantiate the hypothesis that states that bigger the cultural distance the

[72] The magnitudes of the respective coefficients do not have a strong economic significance.

lower the performance of the acquiring firm (Hofstede et al., 2010). This is also in line with Dikova and Sahib (2013) and Li et al. (2016) who study developed and emerging economies respectively.

Corporate governance of a country is a means through which investors can get some form of assurance of the safety of their investments (Shleifer & Vishny, 1997). It is the integrity and the power of various strategic institutions that shapes the structure of this crucial element. Empirical evidence indicates that corporate governance should positively impact the performance of a firm (Yermack, 1996; Eisenberg, Sundgren & Wells, 1998). Owing to the presence of these institutions that facilitate or in other instances pressure managers to make optimal investment decisions, acquirers from highly ranked corporate governance regimes ought to make good acquisitions and thus perform better than their counterparts from lower ranked regimes.

All BHAR sub-panels in Table 12 show positive coefficients for corporate governance of the acquirer country; however, none is statistically significant. There is, nonetheless, a positive coefficient of -0.3273 and it is statistically significant at the 10% level for the ROA developed economy acquirers sub-panel. This refutes the positive relation argued. It, however, adds substance to the notion of corruption being a possible aid to the ease of doing business in Africa. Firms from good corporate governance regimes want to do things according to the book. What the empirical evidence suggest here is that firms that "turn a blind eye" to improper corporate governance (for example bribing officials to get licenses, permits etc.) are better able to "navigate" bureaucracy and ensure superior operational performance. Developed economies generally have a higher level of corporate governance (average of 0.89 versus 0.513 in emerging economies) hence the negative impact as noted in the ROA regression. This may also imply that there is a "holy grail" of corporate governance where too much or too little corporate governance is not ideal for good performance for acquirers. The same is positive for emerging economy acquisition. It can, therefore, be argued that because of the low corporate governance in emerging economies, acquirers can easily bend the rule to better optimise profitability in a target country. The superior performance, one may further argue, could be partially attributed to such.

The strange relationship captured between corporate governance and performance captured in this study is in line with some existing literature. The literature in question studies this phenomenon from a perspective of the extent to which various aspects of corporate governance

affect the flow of FDI in Africa. On the one hand, it lends support the helping hand theory of corruption by Egger & Winner (2005) this is further substantiated by Ezehoa and Cattaneo (2012). Thus, corruption positively affects performance and serves as a helping hand. On the other hand, Al-Sadig (2009) contends that corruption defrauds the system and breeds operational inefficiencies and thereby scares away foreign investors. More recently Wilson and Vencatachellum (2016) found that corruption indeed has a negative impact on M&A volume into Africa.

Two variables are statistically insignificant in the regressions results depicted in Table 12 namely; the form of incorporation of the target (private/public) and diversification. One should note as already indicated in section 3.2, 17 of the 503 deals have public targets as such the variable could not be relied on substantially. Diversification generally exhibits negative relations with performance although not statistically significant it is in line with Dos Santos et al. (2008) who document value destruction for industrial diversification.

Firms with more experience are better able to foresee challenges in integrating a merged company or taking over operations of an acquired target (Bertrand & Betschinger, 2012). It is, therefore, expected that the more experience the acquirer has, the higher the likelihood of the acquiring firm to perform well. One also would be cognisant nonetheless, that through management retention and the use of experienced financial advisers or management consultants acquirer can alleviate problems associated with lack of experience. From a different perspective, one can also argue that experience in a sector may not necessarily translate positively in another because of the sheer nature of industries, human interaction therein etc. On this token, the impact of experience by itself may not yield readily predictable outcomes (positive or negative).

The BHAR sub-panel in Table 12 indicates that experience negatively impacts the performance of developed economy acquirers. The negative coefficient of -0.0658 is statistically significant at the 1 percent level. Consistent with Aybar and Fucici (2009) experience has no positive impact on the performance of developed economy acquirers. One can submit then similar to the celebrity CEO hypothesis (Cho et al., 2016), experienced acquirers tend to make poor acquisition choices because of familiarity and overbearing self-belief or hubris owing to past performance (Roll, 1986). A completely different picture arises in the case of emerging economy acquirers. These show positive experience variable coefficients of 0.1809, 0.0502 and 0.0350 for BHAR, ROE and ROA that are statistically significant at the 5, 5 and 1 percent

levels respectively. It can thus, be argued that since of emerging economies are relatively less developed (in as far as financial development is concerned) firms that are rather experienced in international acquisitions can simulate their experiences hence perform better in contrast to those less experienced.

Investment theory and practice has almost adopted the method of payment as a valuation proxy for the acquiring company as a stylised fact (Travlos, 1987; Georgen & Renneboog, 2004). Equity payment deals are generally perceived as value destroying. Cash payments, on the other hand, are perceived as more prone to value creation. The statistically significant Cash coefficients in the BHAR and ROA panels are positive. These are all statistically significant at the 10 percent level. The only statistically significant equity method of payment is in the emerging economy acquirer sub-sample for the ROA panel. It carries a negative coefficient of -0.1052 also statistically significant at the 10 percent level. Elsewhere, the coefficients were not statistically significant. As indicated in section 3.2, 379 of the 503 deals (75%) are cash deals thus, this may have an influence on determining the statistical significance of the variables cash and equity. One can nonetheless conclude that the avoidance of the use of equity by emerging economy acquirers positively impacted their outperformance of their developed economy counterparts. The quest is further divided into sub-categories to better understand the performance of these deals. Section 4.3.2 dissects the results from the developed target and underdeveloped target economies in Africa.

4.3.2 Developed versus underdeveloped Africa.

It is reliably documented that the financial development of a target country negatively impacts the inward flow of M&A deals (Ezehoa & Cattaneo, 2012). Being as it may, to the knowledge of the author of the present study the influence of financial development of the target country on the subsequent performance of the individual acquirers has not been established. Using the World Bank Financial Development database African countries were ranked according to the financial development as proxied by the ratio of stock market capitalization and GDP. Wilson and Vencatachellum (2016) use the same proxy for financial development. Target countries are subdivided into two categories; developed and underdeveloped. South Africa and Egypt, made the financially developed economies for the entire sample period under study. Mauritius, Morroco and Zimbabwe made the list for some years where they featured as part of the top five financially developed countries according to the criteria outlined. These calculations are in line with Chipeta and Deressa (2016) who also establish that South Africa, followed by Zimbabwe

lead the pack in as far as financial development is concerned.[73] The results are depicted in Table 13.

The full sample column in Table 13 shows that although deals directed at developed and underdeveloped target countries all underperformed, acquisitions directed at developed county targets performed better than those from underdeveloped target countries. BHARs for the acquisitions into developed target countries are -0.13, -0.23 and -0.29 for the 12, 24, and 36-month periods. This contrasts with -0.18, -0.31 and -0.45 percent for underdeveloped country targets. All the BHARs are statistically significant at the 1% level. This dismal performance is quite elaborate in the developed economy acquirer sub-sample where the 36-month BHAR for the underdeveloped target country goes down to -0.51.

Table 13: BHARs for acquisitions into developed and underdeveloped targets respectively.

	Full Sample	**Developed Economy Acquirers**	**Emerging Economy Acquirers**	**Comparison**
BHAR Into developed (12)	-0.13***	-0.14***	0.00	0.13
BHAR Into developed (24)	-0.22***	-0.27***	-0.03	0.24**
BHAR Into developed (36)	-0.29***	-0.38***	0.08	0.45**
BHAR Into Underdeveloped (12)	-0.18***	-0.21**	-0.07	0.14**
BHAR Into Underdeveloped (24)	-0.31***	-0.35***	-0.12	0.23**
BHAR Into Underdeveloped (36)	-0.45***	-0.51***	-0.19**	0.31***
BHR Into developed (12)	-0.04	-0.06*	0.07	0.14
BHR Into developed (24)	-0.07	-0.12**	0.16	0.28
BHR Into developed (36)	-0.08	-0.17***	0.30	0.47**
BHR Into Underdeveloped (12)	-0.1***	-0.13**	0.05	0.18
BHR Into Underdeveloped (24)	-0.17***	-0.23***	0.08	0.31**
BHR Into Underdeveloped (36)	-0.26***	-0.34***	0.08	0.42***

*Table 13 shows the BHAR and BHR for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second column represents the respective BHAR or BHR for the indicated event horizon for the full sample. The third and fourth columns depict the same for developed and emerging economy acquirers respectively. The comparison column is located fifth, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

Acquisitions into developed target countries by emerging economy acquirers yield BHARs of 0, -0.03 and 0.08 in the 12, 24 and 36 periods respectively. This is a contrast to the dismal -0.14, -0.27 and -0.38 posted by developed economy acquirers in the same periods. The 24 and

[73] The study also uses the ratio of stock market capitalisation to GDP.

36-month period difference of 24 and 45 percent is statistically significant at the 5% level. Acquisitions into underdeveloped target countries show -0.07, -0.12 and -0.19 BHARs for the corresponding 12, 24 and 36-month periods for emerging acquirers. -0.21, -0.35 and -0.51 are observed for the periods by developed economy acquirers. It is quite express that indeed emerging economy acquirers outperformed developed economy acquirers

Robustness

For robustness, Table 14 is a depiction of the performance of sub-categories as measured by ROE and ROA. The ROEs for the full sample of firms acquiring into developed Africa is not statistically significant. The same trend can be noted for the 12 and 24-month ROE and ROA for the developed economy acquirers as well as the ROA for the full sample. One can note nonetheless that emerging economy acquirers have positive results for ROE at 0.22, 0.19 and 0.18 in the periods 12 to 36. This is also the case with the ROA, where the sub-sample records 0.08, 0.08 and 0.06 in the same periods. These are statistically significant at the 1% level. The 0.22, 0.19 and 0.23 differences (between developed economy acquirers and emerging economy acquirers) in ROE are statistically significant at all relevant levels. The 14, 14 and 11 percent differences in the ROA are statistically significant at the 5% level.

Table 14: ROE and ROA of acquisitions into developed and underdeveloped target countries.

	Full Sample		**Developed Economy Acquirers**		**Emerging Economy Acquirers**		**Comparison**	
	ROE	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**
Into developed (12)	0.05	-0.03	0,00	-0.05	0.22***	0.08***	0.22***	0.14**
Into developed (24)	0.04	-0.04	0,00	-0.06	0.19***	0.08***	0.19***	0.14**
Into developed (36)	-0.01	-0.04***	-0.05**	-0.06***	0.18***	0.06***	0.23***	0.11**
Into Underdeveloped (12)	-0.06***	-0.1***	-0.1***	-0.13***	0.1***	0.03	0.2***	0.16**
Into Underdeveloped (24)	-0.09***	-0.11***	-0.13***	-0.15***	0.1***	0.03**	0.23***	0.18**
Into Underdeveloped (36)	-0.13***	-0.1***	-0.18***	-0.13***	0.1***	0.03	0.28***	0.16**

*Table 14 shows the ROE and ROA for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second and third columns represent the ROE and ROA respectively for the indicated event horizon for the full sample. The fourth and fifth columns depict the same for developed economy acquirers. The sixth and seventh columns depict the ROE and ROA for emerging economy acquirers. The comparison column is located at the last sub-panel, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

Acquisitions into underdeveloped target countries underperform those of developed target countries. The -0.06, -0.09 and -0.13 ROE and the -0.10, -0.11 and 0.10 ROA for the 12, 24 and 36-month periods respectively are far below the figures posted by acquisitions into

developed acquirer countries. These, one must also note, are statistically significant at the 1% level. The outperformance of emerging economy (in contrast to their developed economy counterparts) is robust right investment destinations (developed and underdeveloped target countries).

It can thus, be confidently concluded that financially developed target economies yield positive performance for the acquirers. This is much more elaborate in emerging economy acquirers. This also augments the notion that emerging economy acquirers outperform their developed acquirer counterparts regardless of the financial development of the target country, consistent with the submissions of hypothesis 2.

These results also indicate that the financial development of target country positively impacts the performance of the acquirer. Case in point, the full sample BHARs for financially developed target countries outperform 0.05, 0.08 and 0.15 for the 12, 24 and 36 months respectively. To further observe the empirical substance of this notion Table 15 displays the regression results that employ the financial development dummy variable. The specification used is equation 7.

Expectedly, the *IntodevelopedAfricaDummy* carries a positive coefficient of 0.0489 for the BHAR full sample sub-panel. It is nonetheless, not statistically significant. Three sub-samples, however, have some statistically significant results for this dummy. Firstly, the emerging economy acquirer sub-sample for ROE for the full sample which has a coefficient of 0.0900 that is statistically significant at the 10 percent level. Secondly, is the 0.0335 coefficient for the full sample on the ROA sub-panel which is statistically significant at the 5 percent level of significance. Finally, a 0.0498 coefficient for the emerging economy acquirer sub-sample for ROA, that is statistically significant at the 10 percent level.

These findings, therefore, indicate that the financial development of the target country not only leads to an increased flow of CBA as documented by Agbloyor (2011) but also positively impacts the acquirer performance in the subsequent period. One would note, none the less that this relationship is much more pronounced in deals involving emerging economies. It can, therefore, be argued that because they are also not as financially developed as their developed country acquirer counterparts, a marginal improvement in the target country's financial system may aid the quality of deal origination and thereby the quality of deals and the performance thereof. Beyond the financial development of the target countries, the present study seeks to

further investigate the most lucrative of the strategic industries in the sample. Section 4.3.3 expounds on this aspect

Table 15: Regression outputs for acquisitions into developed target countries.

	BHAR			ROE			ROA		
	Full sample	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**
ABSORPTIVE	-0.9833*	-0.9598*	0.4337	0.0768***	0.0769***	-0.5113	0.0849***	0.0840***	0.3079
CULTURE	0.00001	0.0001	-0.0004	-0.0001	-0.0002*	0.0001	0.0001	-0.00001	0.0001
CORPORATE G	0.1475	0.2894	0.2452	0.1242	-0.1919	0.1671	0.1197	-0.3493*	0.2206
ECONOMICCRISIS	-0.0885	-0.0852	-0.0870	-0.0186	-0.0242	0.0168	-0.0210	-0.0292	0.0295
PRIVATE	-0.0155	0.1165	-0.1612	-0.0529	-0.0699	-0.0050	-0.0241	-0.0255	-0.0074
SIZE-A	0.1106***	0.1270***	-0.0106	0.1203***	0.1306***	0.0531**	0.0840***	0.0890***	0.0436**
VALUE	-0.0325***	-0.0236***	-0.2607***	0.0149***	0.0173***	-0.0328	0.0150***	0.0158***	0.0028
EXPERIENCE	-0.0321	-0.0645***	0.1813**	0.0085	0.0024	0.0502*	0.0046	0.0007	0.0346***
Cash	-0.0158	-0.0422	0.4196	0.0535	0.0445	-0.0296	0.0661*	0.0601	-0.0437
Equity	-0.1203	-0.1253	0.1602	-0.0515	-0.0477	0.1970**	-0.0359	-0.0362	-0.1469**
DIVERSIFICATION	-0.0762	-0.0322	-0.1945	-0.0336	-0.0361	-0.0174	0.0028	-0.0013	0.0096
LOCATION DUMMY	0.1553			-0.1070			-0.0768*		
IntodevelopedAfricaDummy	0.0489	0.0312	-0.0832	0.0354	0.0218	0.0900*	0.0335**	0.0322	0.0498*
CONS	-1.1444***	-1.6760***	-0.0137	-1.1167***	-0.9998***	-0.4542	-0.9007***	0.5924***	0.4974*
Observations	1400	1136	264	1400	1136	264	1400	1136	264
Wald chi2	153.95	156.28	49.36	258.00	206.04	52.37	223.34	201.30	26.48
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0092
R^2	0.1085	0.1170	0.1861	0.2783	0.2623	0.2429	0.2963	0.2886	0.3041

*Table 15 contains three sub-panels arranged horizontally. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. The first panel depicts BHAR as the dependent variable. It constitutes the columns two, three and four. The second one uses ROE as the dependent variable. The respective columns are five, six and seven. Finally, the panel that uses ROA as the dependent variable takes the columns eight, nine and ten. In their respective three columns per panel, the first one is a full sample regression, followed by the developed economy acquirers then the emerging economy acquirer sub-samples in the third column. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

4.3.3 Basic materials versus the consumer industry.

The full sample is further divided into two sub-samples; basic materials and consumer categories. Literature documents that some firms acquire targets in a bid to tap into their already existent market. One industry where acquirers exercise this strategy is the consumer goods industry. The consumer goods industry (be it cyclical or non-cyclical) involves firms that already have an established network of stores or an easily identifiable brand. Therefore, acquirers get access these in the moment they purchase the target (Rani et al., 2014). The consumer goods industry includes sectors such as goods packaging, food production, beverages, clothing, electronics and retail. The basic materials industry is involved in the discovery, development and processing of raw materials. The industry includes sectors such as but not limited to the mining and refining of metals, chemical producers and forestry products. This industry requires huge capital outlays and most notable is an industry of interest for investors interested in acquiring into Africa as it is a resource-rich investment destination. It is thus, worthwhile to assess and compare the performance of these two industries to ascertain if the strategy of tapping into new markets using CBAs yields superior returns in contrast to the resource-driven industry in Africa bound CBAs[74]. Table 16 depicts the performance of the two industries.

Looking at the full sample BHARs in Table 16 the basic material industry underperformed at -0.16, -0.38 and -0.55 for the 12, 24 and 36-month periods. These are statistically significant at the 5, 1 and 5 percent levels respectively. The consumer goods industry, on the other hand, posted BHARs of -0.07, -0.11 and -0.13. These are statistically significant at the 5 and 10 percent for the 12 and 24-month period. Although both industries underperformed, the consumer goods sector performed better than the basic materials sector in all investment horizons.

The emerging economy acquirer performance in the basic materials sector is 0.14, 0.20 and -0.09 statistically significant at the 10% level. This compares to the -0.19, -0.42 and -0.60 for developed economy acquirers. This underperformance by developed firm acquirers is statistically significant at the 5% level for the periods 12 and 24 months and 1% level for the 36-month period. It is worth noting also, that although the basic materials emerging economy

[74] The study has a sample of 189 and 111 deals in the basic materials and consumer goods sectors, respectively.

acquirer BHAR is -9 percent for the 36-month period the BHRs for the same are positive at 0.32, 0.31 and 0.22 for the periods 12 to 36 months.

Table 16: BHARs for basic materials and consumer industries.

	Full Sample	Developed Economy Acquirer	Emerging Economy Acquirer	Comparison
BHAR Basic materials (12)	-0.16**	-0.19**	0.14*	0.33**
BHAR Basic materials (24)	-0.38***	-0.42***	0.02*	0.44**
BHAR Basic materials (36)	-0.55**	-0.60	-0.09*	0.51***
BHAR Consumer (12)	-0.07**	-0.1**	-0.02	0.08
BHAR Consumer (24)	-0.11*	-0.2***	0.09	0.28**
BHAR Consumer (36)	-0.13	-0.28***	0.24	0.52**
BHR Basic materials (12)	-0.09***	-0.14***	0.32	0.46**
BHR Basic materials (24)	-0.28***	-0.35***	0.31	0.66**
BHR Basic materials (36)	-0.44***	-0.52***	0.22	0.73***
BHR Consumer (12)	0.01	0.01	0.03	0.02
BHR Consumer (24)	0.08	-0.01	0.28*	0.29*
BHR Consumer (36)	0.16*	0.00	0.55**	0.55**

*Table 16 shows the BHAR and BHR for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second column represents the respective BHAR or BHR for the indicated event horizon for the full sample. The third and fourth columns depict the same for developed and emerging economy acquirers respectively. The comparison column is located fifth, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

The emerging economy acquirers posted -0.02, 0.09 and 0.24 in the consumer goods sector. However, this is not statistically significant. This compares to a statistically significant -0.10, -0.20 and -0.28 at the 5% level for the 12-month period and 1% for the 24 and 36-month periods for developed economy acquirers. Emphasising that indeed developed economy acquirers underperform their emerging economy counterparts. The emerging economy acquirers outperform developed acquirers by 8, 28 and 52 percent for the respective periods. These are statistically significant at the 5% level for the 24 and 36-month periods.

Robustness

To further assess the robustness of the superiority of the consumer sector acquirer performance in contrast to the basic materials sector, the study analyses the ROEs and ROAs for these industries. Table 17 shows negative ROEs for the basic materials sector for all the periods in the full sample sub-panel. In contrast to the -0.19, -0.26 and -0.21 posted by the basic materials sector, the consumer goods sector posted an impressive performance of 0.15, 0.15 and 0.08 for

the 12, 24 and 36-month periods respectively. A similar trend can be observed in the sub-panel for developed economy acquirers. The emerging economy acquirer sub-panel also indicates that indeed the consumer goods outperform basic materials. Interestingly, this is regardless of the fact that in this sub-panel the basic materials sector exhibits positive ROEs. When comparing developed economy acquirers to their emerging economy counterparts in the comparison column in Table 17 it is apparent that emerging market acquirers indeed exhibit superior performance. In the basic materials sector, they outperform by 0.22, 0.37 and 0.37 for the 12, 24 and 36-month periods respectively. This is statistically significant at the 1% level. The consumer sector shows that emerging economy acquirers outperformed by 0.13, 0.09 and 0.14 respectively.

Table 17: ROE and ROA for basic materials and consumer industries.

	Full Sample		**Developed Economy Acquirers**		**Emerging Economy Acquirers**		**Comparison**	
	ROE	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**
Basic materials (12)	-0.19***	-0.19***	-0.22***	-0.21***	0.01	-0.03	0.22***	0.17***
Basic materials (24)	-0.26***	-0.24***	-0.3***	-0.27***	0.06	0.01	0.37***	0.27***
Basic materials (36)	-0.21***	-0.21***	-0.26***	-0.23***	0.12	-0.02	0.37***	0.21***
Consumer (12)	0.15***	0.03*	0.11***	0.01	0.24***	0.09***	0.13**	0.08***
Consumer (24)	0.15***	0.02	0.13*	-0.01	0.21***	0.09***	0.09	0.1***
Consumer (36)	0.08***	0,00	0.04	-0.03	0.18***	0.08***	0.14***	0.11***

*Table 17 shows the ROE and ROA for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second and third columns represent the ROE and ROA respectively for the indicated event horizon for the full sample. The fourth and fifth columns depict the same for developed economy acquirers. The sixth and seventh columns depict the ROE and ROA for emerging economy acquirers. The comparison column is located at the last sub-panel, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

The ROA shows similar observations, in the full sample sub-panel, the basic materials sector deals have negative ROE of -0.19, -0.24 and -0.21, this is dismal in contrast to 0.03, 0.02 and 0 for the consumer sector. A similar trend is observed with the developed economy acquirers sub-panel as well as the emerging economy acquirer sub-panels. Emerging economy acquirers outperformed by 0.17, 0.27 and 0.21 in the 12, 24 and 36-month periods. For the consumer sector, they outperformed by 0.08, 0.10 and 0.11. All the outperformance is statistically significant at the 1% level.

Caution should be taken in interpreting these results owing to the nature of these industries. The basic materials sector involves the extractive industries, which require huge initial capital outlays and takes a long time to recoup. The consumer goods industry, on the other hand, recoup the initial investments faster because they hit the ground running. A different picture

can thus, emerge when the two industries are compared in a longer horizon (15 to 20 years). Some would suggest the comparison of the two industries in the long-term. This would nonetheless be a futile quest such a long-term horizon is subject to a broader universe of factors affecting its performance.

A conclusion can be drawn; robust to the measure of performance, acquirers into the consumer goods sector perform better than acquirers into the basic materials sector. It can also be resolved that emerging economy acquirers indeed outperform developed economy acquirers regardless of the industry (basic materials or consumer goods) in which the target is. Indeed, the phenomenon of acquiring a readily functional market (in the case consumer goods acquisitions) gives the acquirer performance advantage. Using the full sample BHARs in Tables 15 it can be observed that the consumer sector outperformed the basic materials sector by 0.09, 0.27 and 0.42 for the periods 12, 24 and 36. The study then incorporates respective dummies in the regression to evaluate the statistical significance of consumer sector performance. The study uses equation 7 specification. The results are depicted in table 18

.

Table 18: Regression output for basic materials and consumer industries.

	BHAR			ROE			ROA		
	Full sample	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**	**Full sample**	**Developed Economy**	**Emerging Economy**
ABSORPTIVE	-0.9731*	-0.9531*	-0.7490	0.0663**	0.0663**	-0.7072	0.0793***	0.0796***	0.2452
CULTURE	0.0001	0.00002	-0.0003	-0.0002**	-0.0002**	-0.0002	-0.0001**	-0.0001**	0.000001
CORPORATE G	0.1863	0.2699	0.3046	0.2245*	0.0576	0.2372	0.1913*	-0.1635	0.2605*
ECONOMICCRISIS	-0.0885	-0.0868	-0.0681	-0.0239	-0.0311	0.0181	-0.0246	-0.0328	0.0278
PRIVATE	-0.0135	0.1183	-0.1609	-0.0454	-0.0624	0.0054	-0.0227	-0.0283	-0.0017
SIZE-A	0.1203***	0.1332***	0.0060	0.1094***	0.1187***	0.0494**	0.0756***	0.0817***	0.0398**
VALUE	-0.0316***	-0.0232***	-0.2437***	0.0147**	0.0173***	-0.0412*	0.0147***	0.0157***	-0.0027
EXPERIENCE	-0.0403*	-0.0677***	0.1434	0.0016	-0.0029	0.0371	0.0005	-0.0030	0.0291**
Cash	0.0041	-0.0324	0.4568**	0.0320	0.0243	0.0198	0.0493	0.0471	-0.0266
Equity	-0.1034	-0.1173	0.1530	-0.0486	-0.0447	-0.1326*	-0.0347	-0.0340	-0.1184**
DIVERSIFICATION	-0.0657	-0.0268	-0.1435	-0.0549**	-0.0573*	-0.0348	-0.0154	-0.0167	-0.0048
LOCATION DUMMY	-0.1499			-0.1358***			-0.0994**		
BASICMATERIALSDUMMY	0.0959*	0.0589	0.2105	-0.0942***	-0.0962***	-0.0506	-0.0850***	-0.0786***	-0.0585**
CONSUMERDUMMY	0.1419**	0.0822	0.2279	0.0643**	0.0526	0.0837*	0.0209	0.0100	0.0363*
CONS	-1.3273***	-1.7464***	-0.4307	-1.0197***	-1.0604***	0.4546	-0.8029***	-0.6292**	-0.4599*
Observations	1400	1136	264	1400	1136	264	1400	1136	264
Wald chi2	150.43	151.67	51.67	274.98	228.64	64.72	227.36	208.45	35.59
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0007
R^2	0.1148	0.1194	0.1986	0.2954	0.2762	0.2729	0.3134	0.2989	0.3622

*Table 18 contains three sub-panels arranged horizontally. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. The first panel depicts BHAR as the dependent variable. It constitutes the columns two, three and four. The second one uses ROE as the dependent variable. The respective columns are five, six and seven. Finally, the panel that uses ROA as the dependent variable takes the columns eight, nine and ten. In their respective three columns per panel, the first one is a full sample regression, followed by the developed economy acquirers then the emerging economy acquirer sub-samples in the third column. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

The BHAR sub-panel in Table 18 shows positive coefficients for both the basic materials and consumer sector dummies. The 0.0959 and 0.1419 coefficients are statistically significant at the 10 and 5 percent levels for basic materials and consumer sector dummies respectively. This implies that these industries were generally perceived by the market to create value hence their share price was positively related to post-acquisition performance. One should note, however, that the statistical significance of the basic materials dummy is weaker than that of the consumer goods dummy. These findings do not lend much substance in comparing the two industries. The ROE and ROA sub-panels that use a more objective performance measures reveal some interesting findings that are in line with the predictions of the hypothesised relatively superior performance of consumer goods sector.

The ROE sub-panel shows negative coefficients of -0.0942 and -0.0962 for the basic materials dummy. These are statistically significant at the 1% level for the full sample and developed economy acquirer sample. The same panel shows coefficients of 0.0643 and 0.0837 that are statistically significant at the 5 and 10 percent levels respectively. These are for the full sample and emerging economy acquirer samples. The ROE regression thus, reveals that the basic materials sector acquirers are bound to underperform the consumer goods sector.

The ROA sub-panel further substantiates the findings observed in the ROE sub-panel. All coefficients for the basic materials sector dummy are negative. The full sample has a coefficient of -0.0850, the developed economy sample has -0.0786 and emerging economy sample has -0.0585. These are statistically significant at the 1, 1 and 5 percent levels respectively. Only the emerging economy sample for ROA shows a statically significant coefficient of 0.0363 for the consumer goods sector dummy. Overall these results substantiate the argument that firms that acquire consumer goods are bound to perform well as they hit the ground running when they tap into an already existent customer network. One can argue that these firms acquire customer network capital. The study further considered the impact of “regionalism”, as captured in section 4.3.4.

4.3.4 Economic blocs Analysis.

According to Asiedu (2002), trade openness encourages the inward flow of FDI (also in the form of CBA). Trade openness eliminates economic borders, and this increase the size of the market. Ezehoa and Cattaneo (2012) subsequently conclude that on the token of enlarged markets the flow of FDI is accelerated. Making a distinction between trade openness and financial openness, Agbloyor (2011) establish that trade openness is negatively related (and

negatively predicts) CBA volumes while financial openness is positively related to CBA volumes into Africa. There is no uniformity in the empirical results with regards to the influence of regional economic co-operation from a volume driver perspective. For this reason, the study sought to assess the performance of deals categorized by their regional economic memberships. This adds empirical substance to the debate as to whether "regionalism" significantly contributes to economic development.

Table 19: BHARs for the African economic blocs.

	Full Sample		**Developed Economy Acquirers**		**Emerging Economy Acquirers**		**Comparison**	
	BHAR	**BHR**	**BHAR**	**BHR**	**BHAR**	**BHR**	**BHAR**	**BHR**
ARAB (12)	-0.11***	-0.05***	-0.13**	-0.07	-0.04	0.02	0.09	0.08
ARAB (24)	-0.11	0.03***	-0.16	-0.04	0.07	0.23	0.24	0.27
ARAB (36)	-0.19***	0.08***	-0.28***	0,00	0.09	0.33	0.37**	0.33
SADC (12)	-0.17***	-0.1***	-0.18***	-0.12***	-0.01	0.09	0.17**	0.2**
SADC (24)	-0.29***	-0.14***	-0.31***	-0.18***	-0.1	0.11	0.21**	0.3**
SADC (36)	-0.39***	-0.2***	-0.45***	-0.27***	-0.09	0.17	0.36**	0.44**
ECOWAS (12)	-0.25***	-0.17***	-0.29***	-0.2***	-0.05	0.08	0.23	0.29
ECOWAS (24)	-0.38***	-0.27***	-0.45***	-0.34***	0.0	0.13	0.44**	0.47**
ECOWAS (36)	-0.53***	-0.36***	-0.6**	-0.46***	-0.1	0.18	0.5**	0.64**
EAC (12)	-0.03	0.19	-0.06	0.1	0.17	0.76	0.23	0.66
EAC (24)	-0.2**	0.05	-0.22*	-0.01	-0.1	0.42	0.12	0.44
EAC (36)	-0.39***	-0.15	-0.39***	-0.19	-0.33	0.14	0.06	0.33

*Table 19 shows the BHAR and BHR for the sample. The first column shows the event horizon e.g. ARAB (12). These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second and third columns represent the BHAR and BHR respectively for the indicated event horizon for the full sample. The third and fourth columns depict the same for developed and emerging economy acquirers respectively. The comparison column is located as the last sub-panel, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

The study uses four categories that are formed as the north, south, west and east parts of Africa. The Arab (north) Countries bloc constitutes of countries that belong to the Arab Maghreb Union, Arab league or both bodies. The Southern African Development Community (SADC) bloc (south) are member states of the SADC body. The Economic Community of West African States ECOWAS bloc (west) constitutes countries that are member states of the ECOWAS

body. Finally, the much younger the East African Community (EAC) bloc (east).[75] Economic blocs with better trade relations are thus expected to perform better than those that do not optimally utilize these arrangements. Table 19 depicts the performance of the respective economic blocs.[76]

The BHARs for the SADC and are statistically significant at the 1% for the full sample sub-panel and developed economy acquirers in all periods. The same can be noted for ECOWAS except for the 36-month period where it is significant at the 5% level. The best performing region is Arab countries in North Africa; they post full sample BHARs -0.11, -0.11 and -0.19 in the periods 12 to 36. These are statistically significant at the 1% level for the 12 and 36-month periods. The EAC is the second-best performer posting full sample BHARs of -0.03, -0.20, -0.40. SADC comes in third with full sample BHARs of -0.17, -0.29 and -0.39. The worst performer is ECOWAS at -0.25, -0.38 and -0.53 for the 12 to 36-month periods.

Comparing developed and emerging economy acquirer one would note that there is an interesting trend when one looks at the BHR. All emerging economy acquirers have positive BHARs regardless of the economic bloc to which they belong. In all instances emerging economy acquirers outperformed their developed economy counterparts. Statistically significant results are observed when comparing the two sub-samples in the Arab, SADC and ECOWAS regions only. All outperformance (by emerging economy acquirers) discussed for economic blocs is statistically significant at the 5% level. In the Arab region, the 36-month period reveals an outperformance of 37 percent. In the SADC region, the outperformance stood at 0.17, 0.21 and 0.36 for the 12, 24 and 26 percent month periods. Finally, in the ECOWAS region, the periods 24 and 36-month periods exhibit outperformance of 44 and 50 percent respectively. These findings substantiate hypothesis 2; emerging economy acquirers outperform developed economy acquirers.

Robustness

For robustness, the study makes an analysis of the ROEs and ROAs posted by the subcategories grouped by regional economic blocs. Table 20 depicts the results. Observing the ROEs for the full samples, Arab countries average 11 percent in the three periods. The ROEs are statistically

[75] Tanzania was double counted in the SADC and EAC because it is a member state in both economic blocs.

[76] The categorisation yields 316 SADC deals, 75 Arab deals, 86 ECOWAS deals and 36 EAC deals. It should be noted, that Tanzania is incorporated as part of east as well as southern African regions.

significant at the 1% level. SADC countries, on the other hand, averaged -7 percent, with 24 and 36-month periods posting ROEs of -0.12 and -0.07 respectively. These are significant at the 1% level. The ECOWAS region averaged -9 percent in the three periods and for the respective periods the sub-sample post ROEs of -0.09, -0.10 and 0.09. These are all statistically significant at the 1% level. The EAC has an average ROE of 11 percent for the three periods. The only statistically significant ROE is for the 12-month period and it stands at 0.15. ROE, one can readily observe that the Arab and SADC regions perform better than the ECOWAS and EAC. This is even more apparent in the Emerging economy sub-sample where both Arab and SADC ROEs are positive and statistically significant at the 1% level. The two regions average 24 and 14 percent respectively.

Table 20: ROE and ROA for the Arab, SADC, ECOWAS and EAC economic blocs.

	Full Sample		**Developed Economy Acquirers**		**Emerging Economy Acquirers**		**Comparison**	
	ROE	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**	**ROE**	**ROA**
ARAB (12)	0.09***	0.0***	0.04	-0.03	0.26***	0.09***	0.23**	0.13***
ARAB (24)	0.11***	0.01***	0.06	-0.02	0.24***	0.08***	0.18**	0.1**
ARAB (36)	0.12***	0.03***	0.08	0.01	0.22***	0.09***	0.14**	0.08**
SADC (12)	-0.01	-0.06	-0.04*	-0.09	0.14***	0.06***	0.18***	0.14**
SADC (24)	-0.12***	-0.09**	-0.17***	-0.12***	0.13***	0.06***	0.31***	0.18***
SADC (36)	-0.07***	-0.08***	-0.11***	-0.1***	0.14***	0.04***	0.25***	0.15***
ECOWAS (12)	-0.09***	-0.12***	-0.13**	-0.14***	0.11	0.02	0.24***	0.16***
ECOWAS (24)	-0.1***	-0.15***	-0.14**	-0.18***	0.06	0.01	0.19**	0.2***
ECOWAS (36)	-0.09***	-0.14***	-0.11**	-0.15***	0.02	-0.02	0.13**	0.13**
EAC (12)	-0.15**	-0.15***	-0.18**	-0.17***	0.04	-0.01	0.22	0.16
EAC (36)	-0.13	-0.11**	-0.17*	-0.13**	0.11	0.04	0.28	0.17

*Table 20 shows the ROE and ROA for the sample. The first column shows the event horizon. These are broken down into the event horizons depicted in brackets as 12, 24 and 36 months. The second and third columns represent the ROE and ROA respectively for the indicated event horizon for the full sample. The fourth and fifth columns depict the same for developed economy acquirers. The sixth and seventh columns depict the ROE and ROA for emerging economy acquirers. The comparison column is located at the last sub-panel, this shows the difference between the performance of emerging economy acquirers and developed economy acquirers. This is computed by subtracting the performance of developed economy acquirers from that of emerging economy acquirers. *, **, *** depicts statistical significance at the 10, 5, 1 percent, respectively.*

The full sample panel shows negative ROAs for all regions. All ROEs for the Arab sub-sample are negative with an average of 1% for all periods. All periods are statistically significant at the 1% level. SADC post ROAs of -0.06, -0.09 and -0.08 for the 12, 24 and 36-month periods, statistically significant at the 5 and 1 percent level for the 24 and 36-month periods respectively. This brings the annual average for the subsequent three years to -8 percent. This is better-off

in contrast to ECOWAS which saw an average of -14 percent. The EAC has an annual average of -12 percent for ROA. The 12, 24 and 36-month ROAs of -0.15, -0.09 and -0.11 are statistically significant at the 1, 10 and 5 percent levels respectively.

Looking at the comparison column one can note that emerging economy acquirers consistently outperformed their developed economy counterparts. For the Arab bloc on average, they outperform by 18 and 10 percent for ROE and ROA respectively. While for the SADC bloc on average they outperform by 25 and 16 percent for ROE and ROA respectively. In the ECOWAS on average, they outperform by 16 percent for both ROE and ROA. For the three regions, the outperformance is statistically significant. Although EAC shows some emerging market outperformance over developed economy counterparts there is no statistical significance in the findings. It can be concluded, with resounding confidence that emerging economy acquirers outperform developed acquirers in all four African regions. The outperformance is robust to regional location within the African continent

It is imperative, thus, to run a regression and introduce economic bloc dummies to further understand the empirical substance of these findings. The study uses equation 7 specification. Table 21 shows the results. The Arab BHAR sub-panel carries a coefficient of 0.0154 and it is not statistically significant at any level. Positive coefficients are recorded for the same dummy in the ROE and ROA sub-panels. These are also not statistically significant. The study cannot, therefore, conclude in a statistically sufficient manner, that indeed deals that are bound to the north African region are any superior performance wise.

Table 21: The regression output of Arab, SADC, ECOWAS and EAC economic blocs.

	BHAR				ROE				ROA			
	Full sample	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**
ABSORPTIVE	-0.9794*	-0.9739*	-0.9808*	-0.9769*	0.0800***	0.0813***	0.0799***	0.0817***	0.0879***	0.0891***	0.0869***	0.0883***
CULTURE	0.00002	0.00008	0.00009	0.00001	-0.0002**	-0.0001*	-0.0013*	-0.0002**	-0.0001*	-0.0001	-0.0001	-0.0001*
CORPORATE G	0.1610	0.1649	0.1396	0.1583	0.1267	0.1364	0.1316	0.1348	0.1277	0.1314	0.1250	0.1304
ECONOMICCRISIS	-0.0881	-0.0895	-0.0924	-0.0849	-0.0193	-0.0182	-0.0190	-0.0174	-0.0210	-0.0212	-0.0217	-0.0203
PRIVATE	-0.0226	-0.0282	-0.0153	-0.0308	-0.0496	-0.0606	-0.0584	-0.0618	-0.0277	-0.0322	-0.0287	-0.0318
SIZE-A	0.1133***	0.1125***	0.1099***	0.1148***	0.1212***	0.1225***	0.1218***	0.1229***	0.0856***	0.0856***	0.0852***	0.0861***
VALUE	-0.0324***	-0.0328***	-0.0327***	-0.0321***	0.0149**	0.0149**	0.0149***	0.0150***	0.0151***	0.0150***	0.0150***	0.0151***
EXPERIENCE	-0.03399	-0.0332	-0.0345	-0.0343	0.0072	0.0073	0.0071	0.0071	0.0034	0.0036	0.0032	0.0033
Cash	-0.0105	-0.0020	-0.0072	-0.0151	0.0537	0.0587	0.0587	0.0567	0.0691*	0.0735**	0.0711**	0.0702*
Equity	-0.1142	-0.1121	-0.1058	-0.1250	-0.0472	-0.0469	-0.0454	-0.0500	-0.0317	-0.0308	-0.0296	-0.0326
DIVERSIFICATION	-0.0771	-0.0873	-0.0866	-0.0782	-0.0302	-0.0358	-0.0369	-0.0352	0.0029	-0.0023	-0.0008	0.0012
LOCATION DUMMY	-0.1564	-0.1600	-0.1490	-0.1587	-0.1049**	-0.1089**	-0.1071**	-0.1090**	-0.0771*	-0.0793*	-0.0762*	-0.0784*
ARAB_DUMMY	0.0154				0.0501				0.0171			
SADC_DUMMY		0.0506				0.00024				0.0202		
ECOWAS_DUMMY			-0.1170**				-0.0224				-0.0286	
EAC_DUMMY				0.0755				0.0211				0.0067
CONS	-1.1530***	-1.1775***	-1.1019***	-1.1523***	-1.1221***	-1.1247***	-1.1138***	-1.1235***	-0.9061***	-0.9167***	-0.8945***	-0.9064***
Observations	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400	1400
Wald chi2	152.69	151.89	153.86	154.66	264.30	259.27	257.61	258.13	222	223.23	221.65	221.90
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
R^2	0.1070	0.1088	0.1116	0.1079	0.2785	0.2763	0.2768	0.2766	0.2932	0.2939	0.2942	0.2927

*Table 21 contains four sub-panels arranged horizontally. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. All panels employ BHAR as the dependent variable. The second column carries the Arab dummy, the third on carries the SADC dummy variable. Columns four and five carry the ECOWAS and EAC dummies respectively. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

The SADC dummy BHAR sub panel carries a positive coefficient of 0.0506 however, is also not statistically significant. The same dummy carries positive coefficients in the ROE and ROA sub-panels. The positive coefficients nonetheless indicate that firms domiciled in the SADC region may be attractive for foreign acquirers in the long-run. This may also be indicative of the value that may be derived from regional economic collaboration. All panels also show positive coefficients for the EAC dummy just like the SADC and Arab blocs they are not statistically significant. Again, this could be indicative of the positive value that these economic groupings and regional cooperation contributes to the performance of firms operating in these regions.

The ECOWAS dummy has negative coefficients for all panels and the only one statistically significant is the one for BHAR. The -0.1170 coefficient is statistically significant at the 5% level. This explains the substantial underperformance exhibited by acquirers from these regions. One should bear in mind that countries in this region are endowed with natural resources like oil and diamonds that are relatively easy to extract. These countries are thus generally characterised by corruption, political instability, terror threats and civil unrest etc.[77]

4.3.5 Conclusion on performance.

Divergent to hypothesis 1 on aggregate firms that acquire African targets underperform in the long run. In most instances nonetheless, emerging economy acquirers' performance is not statistically significant when measured by BHAR. The difference in the respective performance of developed and emerging economies is nonetheless statistically significant in most instances.[78] Emerging economy acquirers outperform their developed economy acquirers, in line with hypothesis 2. The study further establishes that the outperformance of emerging economy acquirers in contrast to developed economy acquirers robust to be the industry in which the deal is concluded, the financial development of the target country and the economic bloc to which the target country is a member. Finally, the study documents three intriguing findings; 1) acquirers of targets in financially developed African countries outperform those in African countries with a less developed financial sector 2) acquirers of targets in the consumer goods sector outperform those acquiring in the basic materials sector 3) acquirers of targets in Arab and SADC countries perform better than those from ECOWAS and EAC. It should be noted, that the persistent outperformance of emerging economy acquirers in all categories, sub-

[78] Regardless of the performance measure.

categories and sub-samples could be largely influenced by the size factor. Emerging economy acquirers are generally larger than their developed economy counterparts. The consensus from all regressions is that acquirer size has a positive impact on the subsequent performance of the acquirer. It can be concluded, therefore, that acquirer size may also have a huge influence on the complexion of these findings.

4.4 THE INFLUENCE OF LEVERAGE AND FINANCIAL SLACKING ON THE METHOD OF PAYMENT.

The study also explores the relationship between leverage and financial slacking, and method of payment. This section unpacks the results of the regressions testing these relationships. Section 4.4.1 delivers results and discusses the influence of leverage on the method of payment. Section 4.4.2 delivers the results and discusses the influence of financial slacking on the method of payment. Section 4.4.3 incorporates both leverage and financial slacking as independent in the same regression to assess the robustness of the most dominant factor with regards to the method of payment chosen. Section 4.4.4 reports the impact of the method of payment on performance. Section 4.4.5 concludes section 4.4.

4.4.1 The influence of leverage on the method of payment.

The present study seeks to examine the impact of leverage on the choice of method of payment. The study makes the following hypothesis with regards to the relationship between leverage and the method of payment; *highly leveraged firms are more likely to acquire a target using equity in CBA transactions whereas firms with low levels of leverage are more likely to acquire a target using debt.* Bharadwaj and Shivdasani (2003) document that debt is used to finance most cash offers. It, therefore, stands that firms increase their leverage prior to the deal use cash in the transaction. In testing hypothesis 3, equation 9 regression is run. The results are depicted in Table 22. The study is confined to the full sample and developed acquirer for two reasons; 1) Developed economies have developed financial systems and hence their firms have several choices for financing projects, this makes for a better-informed sample. 2) Emerging economies have inferior financial systems in contrast to developed economies, hence the firms' choice of financing is limited, thus, it may compromise the validity of the results or the interpretation thereof.

In Table 22, the leverage of the acquirer three years prior to the acquisition is negatively related to use of cash. LEVERAGE -3 carries a corresponding coefficient of -2.3326 is significant at

the 5% level. This means that the lower the leverage the higher the propensity of acquirer using cash. This is in line with the submission of hypothesis 3. Firms with low debt ratios have the capacity to borrow and thus make cash payments when acquiring their targets. The full sample sub-panel that uses equity as the dependent variable does not pick up any statistically significant coefficient for leverage in all the three years leading up to the acquisition. The full sample sub-panel where combination is the dependent variable interestingly shows two different signs for the three and one years prior to acquisition coefficients. LEVERAGE -3 and LEVERAGE -1 carry coefficients of 1.9295 and -3.7505; these are both statistically significant at the 10% level. In the three years prior to the deal, there is a positive relationship with the use of hybrid financing. In the one year prior, however, there is a negative relationship. This may be indicative of two possibilities. Firstly, firms are better able and are much more able to structure hybrid funding structures as part of a long-term strategy. Secondly, firms are less flexible in the short term in as far as creating hybrid funding structures is concerned. This, questions the plausibility of the short-term misevaluation of the acquirer's share price as a having a bearing on the method of payment.

Table 22: Full sample leverage on the method of payment regression.

	Full sample			**Developed Economy Acquirers**		
Method of Payment	**Cash**	**Equity**	**Combination**	**Cash**	**Equity**	**Combination**
CORPORATE G	-5.7448	1.8978	16.5504***	-12.2420**	4.5771	16.1528***
VALUE -3	-0.0851	0.1675	-0.0384	-0.0712	0.1561	-0.0363
VALUE -2	0.2641	-0.2154	-0.1922	0.2308	-0.1809	-0.1909
VALUE -1	0.0939	0.1170	-0.3429	0.1658	0.0864	-0.3352
SIZE-A	0.7811***	-0.5800**	-0.7723***	0.8718***	-0.6580**	-0.7689***
ROE	0.7698	-0.5738	-0.4206	0.6017	0.7799	-0.4163
LEVERAGE -3	-2.3326**	0.8013	1.9295*	-2.4915**	-1.7417	1.9245*
LEVERAGE -2	-0.4530	-0.5530	2.2188	0.0108	-0.1814	2.2380
LEVERAGE -1	2.1613	0.3245	-3.7505*	1.9783	-0.1815	-3.8053*
CONS	-0.0458	0.4549	-10.2962**	5.0661	-0.1816	-9.9577**
Observations	337	337	337	273	273	273
Wald chi2	47.22	21.92	30.67	49.29	23.37	29.76
Prob > chi2	0.0000	0.0091	0.0003	0.0000	0.0054	0.0005
Pseudo R^2	0.2640	0.1427	0.2676	0.2568	0.1568	0.2171

Table 22 contains two sub-panels. The first one is the full sample sub-panel, the second one is developed economy acquirer sample sub-panel. Each sub-panel constitutes three columns (regressions). The first column in each panel employs cash as the independent variable. The second and third columns constitute equity and combination methods of payment as the independent variable, respectively. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the Pseudo R2.

The study further probes this phenomenon using a sub-panel that samples developed economy acquirers. The results are like the ones observed for the full sample panel. For the first regression equation where *cash* is the dependent variable LEVERAGE -3 carries a negative coefficient of -2.4915. Where *equity* is used as a dependent variable no leverage variable was statistically significant. In the last regression where *combination* is used as the dependent variable the LEVERAGE -3 and LEVERAGE -1 carry coefficients of 1.9245 and -3.8053; these are both statistically significant at the 10% level. This affirms the findings from the full sample already discussed. These findings are similar to those of Harford et al. (2006) who established that underleveraged firms prefer cash a method of payment. This is line with hypothesis 3 of this study.[79]

The full sample sub-panel in table 22 also shows coefficients observed for size and influence on the method of payment. When cash is used as the dependent variable size has a positive coefficient of 0.7811 that is significant at the 1% level. This implies that size positively predicts the propensity to acquire a target using cash. Bigger firms are noted to have the inclination to acquire targets using cash. More expressly when equity is used as the dependent variable the only statistically significant relationship is the negative relationship between using equity and acquirer size. It carries a coefficient of -0.5800 that is statistically significant at the 1% level. This indicates that smaller firms have a higher propensity to acquirer using equity. The final regression for the full sample uses combination as the dependent variable. The negative coefficient of -0.7723 is statistically significant at the 1% level. This implies that smaller firms have a higher likelihood to use a combination of both means of financing.

The full sample sub-panel only shows a single coefficient that is statistically significant for corporate governance. This is the regression whose dependent variable is combination. The coefficient of 16.5504 is statistically significant at all relevant levels. The developed economy sub-panel shows that corporate governance of the acquirer is negatively related to the use of cash. It shows a negative coefficient of -12.2420 that is statistically significant at the 5% level for corporate governance in the regression that uses cash as the dependent variable. The same sub-panel shows a positive relationship between corporate governance and the propensity to use a combination of funding options. The 16.5503 coefficient is statistically significant at the

[79] Harford et al. (2006) sampled US firms, the current study samples a total of 43 countries (as acquirers).

1% level. This implies that good corporate governance allows for a combination of various forms of funding.

The prevailing narrative has largely been that the method of payment is influenced by the valuation of the acquirer. The markets positively react to cash acquisitions and negatively to equity acquisitions. The logic behind the negative reaction on equity acquisition is premised on the submission that equity acquisitions indicate that the acquirer's stock is trading at a premium (it is overvalued). Armed with this knowledge, markets believe that acquirers, therefore, offer to use their stock as currency in the equity deal thereby paying less than they would otherwise if it was a cash deal. None of the regressions indicate that valuation has any statistically significant relationship with any of the methods of payment.

Profitability may lend a firm with a strong balance sheet in the form of large cash reserves and high levels of liquidity. Such a strong balance sheet may place the acquirer in a position to acquire a target using cash. The study uses ROE as a proxy for profitability. Both sub-panels capture positive coefficients for ROEs in the *cash* and *equity* regressions these, however, are not statistically significant. Also, with no statistical significance, *combination* negatively relates to profitability. One may argue that profitability has the same impact on all three methods of payment, hence none are statistically significant. Firstly, a profitable firm is bound to get some positive market sentiments hence the firm may be overvalued and have the propensity to use this overvalued equity as a currency for deal consideration. Secondly, a firm that posts good profits may have a strong balance hence increasing the propensity to acquire using cash. Lastly, having a healthy balance sheet and a stock price that is performing well affords the acquirer to use a hybrid funding structure to "sweeten" the deal.

These findings provide some support for the pecking order theory of corporate finance decisions. The strong relationship between leverage and the choice to use cash in financing deals is indicative that firms may use the low cost of capital to drive at an optimal level of capital structure. The market timing theory on the other hand that advances that the valuation of the acquirer has an influence on the method of payment, the study finds no validation for this notion. This is because valuation in all the three years leading to the deal is not found to be statistically significant in its relationship with all methods of payment.

4.4.2 The influence of financial slacking on the method of payment.

With regards to financial slacking the present study makes the following hypothesis; a*cquirers that have financial slack on their balance sheet prior to a CBA are more likely to use cash as a method of payment when acquiring a target.* Employing equation 10, the results of the regressions are depicted in Table 23.

Expectedly as in section 4.4.1, size relates positively with cash method of payment and negatively with both equity and combination methods of payment. All six coefficients are statistically significant at the 1% level. The *cash* regression in the full sample sub-panel captures Cash/Assets -2 coefficient of 1.9304 and is statistically significant at the 10% level. This indicates that the more acquirers have financial slack in their balance sheet the higher the likelihood that they would acquire using cash. The financial slack for 12 and 36 months prior to the acquisition is not statistically significant. In the same full sample sub-panel, the *combination* regression shows Cash/Assets -2 coefficient of -2.6177 that is statistically significant at the 10% level. Similar results can be observed in the developed economy acquirer sub-panel. The *cash* regression shows a positive coefficient of 1.9360, the *combination* regression shows a negative coefficient of -2.6188. Overall this implies that firms with low financial slack have a higher propensity to use a combination of capital sources to finance a CBA transaction.

Table 23: Full sample financial slacking (Cash/Assets) impact on the method of payment regression.

	Full sample			**Developed Economy sample**		
Method of Payment	**Cash**	**Equity**	**Combination**	**Cash**	**Equity**	**Combination**
CORPORATE G	-5.1806*	1.9396	15.7582***	-10.1799**	2.6627	15.381***
VALUE -3	-0.0516	0.1653	-0.1284	-0.0337	0.1634	-0.1261
VALUE -2	0.3432*	-0.2200	-0.3095	0.3287	-0.2086	-0.3082
VALUE -1	0.0273	0.1238	-0.3169	0.1030	0.1225	-0.3090
SIZE-A	0.8291***	-0.6442***	-0.8476***	0.9435***	-0.7715***	-0.8435***
ROE	0.4408	-0.1497	-0.3520	0.3282	0.0432	0.3491
Cash/Assets -3	-0.7452	-0.7062	1.3810	-0.7553	-0.5192	1.3853
Cash/Assets -2	1.9304*	-0.2744	-2.6177*	1.9360*	-0.3895	-2.6188*
Cash/Assets -1	-1.5504	1.6125	0.4605	-1.3564	1.5986	0.4734
CONS	-1.0471	0.9851	-8.6289*	2.4667	1.2949	-8.3246*
Observations	340	340	340	276	276	276
Wald chi2	45.68	28.20	30.12	47.60	29.41	28.66
Prob > chi2	0.0000	0.0009	0.0004	0.0000	0.0006	0.0007
Pseudo R^2	0.2740	0.1768	0.2596	0.2637	0.1891	0.2090

Table 23 contains two sub-panels. The first one is the full sample sub-panel, the second one is developed economy acquirer sample sub-panel. Each sub-panel constitutes three columns (regressions). The first column in each panel employs cash as the independent variable. The second and third columns constitute equity and combination methods

of payment as the independent variable, respectively. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the Pseudo R2.

The full sample sub-panel *cash* regression shows that acquirers are much bound to use cash as a method of payment signalling the undervaluation of the acquirer. One must note nonetheless that the 0.3432 coefficient corresponds with VALUE -2 and is statistically significant at the 10% level. This mildly advances the argument that the undervaluation hypothesis may only be confined to the long-term and may not be plausible in the short term.

Robustness

The study further employs FCFETA as a measure of financial slacking. Lang and Walking (1991) argue that FCFETA better captures the degree of financial slack. The results of the regressions are captured in Table 24. Expectedly, size is statistically significant at the 1% level for all methods of payments in the full sample sub-panel and for *cash* and *equity* methods of payment in the developed economy acquirer sub-panel. It is a positive predictor of the propensity to utilise cash but a negative predictor of equity and combination *equity* methods of payment.

Table 24: Full sample financial slacking (FCFETA) impact on the method of payment regression.

	Full sample			**Developed Economy sample**		
Method of Payment	**Cash**	**Equity**	**Combination**	**Cash**	**Equity**	**Combination**
CORPORATE G	-8.5256***	3.6825**	21.8035***	-14.0637***	4.5701	21.6744
VALUE -3	-0.0334	0.1268	-0.0839	-0.0224	0.1222	-0.0832
VALUE -2	0.2275	-0.1931	-0.0951	0.2038	-0.1840	-0.0956
VALUE -1	0.2962	0.2182	-1.5271**	0.3515	0.2180	-1.5172
SIZE-A	0.9683***	-0.8515***	-0.9210***	1.0177***	-0.8404***	-0.9195
ROE	0.0902	0.0337	0.3334	-0.0047	-0.0080	0.3314
FCFETA -3	-0.1376	0.1319	0.0116	-0.1291	0.1193	0.0115
FCFETA -2	0.0315	-0.0322	-0.1650	0.0950	-0.0796	-0.1641
FCFETA -1	0.3338***	-0.3159***	-0.0380	0.0981*	-0.071	-0.0380
CONS	0.6500	1.2024	-13.2703**	5.2490	0.2904	-13.1672
Observations	301	301	301	246	246	246
Wald chi2	42.89	30.99	20.74	39.52	25.83	20.45
Prob > chi2	0.0000	0.0003	0.0138	0.0000	0.0022	0.0153
Pseudo R^2	0.2890	0.2130	0.2847	0.2520	0.1677	0.2375

Table 24 contains two sub-panels. The first one is the full sample sub-panel, the second one is developed economy acquirer sample sub-panel. Each sub-panel constitutes three columns (regressions). The first column in each panel employs cash as the independent variable. The second and third columns constitute equity and combination methods of payment as the independent variable, respectively. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the Pseudo R2.

The variable of key interest in table 24, nonetheless, is FCFETA. When CashAssets is used as a proxy for financial slacking it is found to be statistically significant 24 months prior to the acquisition. Intriguingly, when FCFETA is used the same relationship emerges strongly in the 12-month period prior to the acquisition. Table 24 shows that FCFETA-1 is a statistically significant impact on the cash and equity acquisitions at the 1% level for both cases. This is more express than the 10% of significance noted when using Cash/Assets as a proxy for financial slacking. From the full sample panel, one can note that in the *cash* and *equity* regressions FCFETA -1 coefficients are 0.3338 and -0.3159 respectively.

This implies that firms with financial slack are much more likely to use the cash method of payment. Firms with less financial slack on their balance sheet are confined to the use of equity as their method of payment in CBA deals. The developed economy panel lends further evidence to the positive relationship between the propensity to pay cash and financial slacking. The developed economy sub-panel *cash* regressions carry a FCFETA -1 coefficient of 0.0981 that is statistically significant at the 10% level.

Corporate governance is expressly captured as having a negative impact on cash as a method payment and a positive effect on the equity and combination. These have coefficients of -8.5256, 3.6825 and 21.8034 respectively, with corresponding 1, 5 and 1 percent levels of significance. This validates the argument that, a good corporate governance environment ensures that firms are valued appropriately hence targets could be willing accept equity as a method of payment as there is systemic assurance (liquid markets) that the valuation may be closer to the intrinsic value of the acquirer.

The valuation of the acquirer is not statistically for all regressions in the developed economy acquirer sub-panel. The full sample sub-panel, however, has one VALUE variation that is statistically significant at the 5% level. This is the *combination* regression whose VALUE -1 carries a negative coefficient of -1.5271. ROE does not carry any statistically significant coefficient. Interestingly, all regressions in the full sample sub-panel capture positive coefficients. This is in line with the arguments put forward in section 4.4.1 for the possible positive impact profitability could have on all three methods of payment.

One can confidently conclude that in line with hypothesis 4, acquirers with financial slack on their balance sheet are more likely to acquire using cash. Equity acquirers, as well as firms that use a combination of financing methods, are most likely firms with less financial slack. These findings are robust to the proxy for financial slacking. An interesting revelation emerges when

one considers both the proxies for financial slacking. Financial slacking influence lies within the 12 and 24 months prior to the deal implying that it is both a short and medium-term phenomenon.

4.4.3 A regression taking both leverage and financial slacking into account.

Sections 4.41 and 4.4.2 indicate that both leverage and financial slaking have an impact on the method of payment. On this token, it can be argued that both phenomena have the capacity to predict or influence the method of payment. It is worthwhile to incorporate both variables (in the three variations -3, -2 and -1-year formats) into the same regression. Table 25 depicts the regression results from equation 11.

Between the two variables under the spotlight (Cash/Assets and LEVERAGE) only the leverage, 36 months to the acquisition was statistically significant. The full sample sub-panel *cash* regression shows that LEVERAGE-3 has a negative coefficient of -2.7120 and it significant at the 10% level. The corresponding regression for the developed economy acquirer sub-panel is -3.0297. This further affirms the hypothesis that firms with low leverage are bound to use cash as their method of payment because they have the capacity to borrow. This is in line with observations in section 4.4.1

Table 25: The impact of both leverage and financial slacking on the method of payment.

	Full sample			Developed Economy sample		
Method of Payment	**Cash**	**Equity**	**Combination**	**Cash**	**Equity**	**Combination**
CORPORATE G	-5.4295	2.0060	15.1644***	-11.5240**	5.0379	14.7005
VALUE -3	-0.0804	0.1715	-0.0754	-0.0628	0.1592	-0.0733
VALUE -2	0.3188*	-0.2018	-0.3120	0.2894	-0.1602	-0.3111
VALUE -1	0.0296	0.1235	-0.2670	0.1273	0.0691	-0.2576
SIZE-A	0.8067***	-0.5581***	-0.8377*	0.9039***	-0.6379**	-0.8329
ROE	0.7240	-0.5134	-0.5265	0.6208	-0.3848	-0.5213
LEVERAGE -3	-2.7120*	0.8043	2.1134	-3.0297*	0.8696	2.1021
LEVERAGE -2	-0.2016	-0.4008	2.1490	0.5021	-1.7465	2.1759
LEVERAGE -1	2.0333	0.2865	-3.8554	1.9297	0.6011	-3.9022
Cash/Assets -3	-1.3054	-0.1066	1.6770	-1.3232	-0.03012	1.6737
Cash/Assets -2	1.5797	0.5603	-2.8027*	1.4799	0.5563	-2.8060
Cash/Assets -1	-0.4960	-0.1088	0.6089	-0.0577	-0.4213	0.6320
CONS	-0.4753	0.0776	-8.3556	4.1119	-1.8876	-7.9783
Observations	337	337	337	273	273	273
Wald chi2	50.66	24.42	46.62	52.60	25.88	44.94
Prob > chi2	0.0000	0.0178	0.0000	0.0000	0.0112	0.0000
Pseudo R^2	0.2723	0.1439	0.2892	0.2653	0.1580	0.2402

Table 25 contains two sub-panels. The first one is the full sample sub-panel; the second one is developed economy acquirer sample sub-panel. Each sub-panel constitutes three columns (regressions). The first column in each panel employs cash as the independent variable. The second and third columns constitute equity and combination methods of payment as the independent variable, respectively. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the Pseudo R2.

The full sample sub-panel also shows that value acquirers are also likely to use cash. This further lends substance to the valuation hypothesis as a predictor of the method of payment in the long term. The impact of financial slacking on the cash method of payment (as proxied by Cash/Assets ratio) is not statistically significant for most regressions except the *combination* regression in the full sample sub-panel. The CashAssets -2 coefficient is -2.8027 and it is statistically significant at the 10% level. These revelations could imply that leverage predicts the method of payment in the long-term, while financial slacking is a stronger predictor of the method of financing in the mid to short term.

4.4.4 Financial slacking and performance

Before the study concludes, it is worthwhile to assess the impact of financial slacking on the performance of the acquirer. This is motivated by the need to assess the validity of the stylised facts that advance that indeed the method of payment is a predictor of performance. If the method of payment can influence performance and the method of payment is influenced by slacking, it then raises the question; to what extent is performance influenced by financial slacking? This influence is twofold, slacking before the acquisition and after the acquisition. The current section tests the impact of slacking on the performance of the acquirer, controlling for all country, firm, deal and location-specific factors. Equation 8 regression is employed for this quest and the results are depicted in Table 26 for slacking after and table 27 for slacking before the acquisition.

The BHAR panel shows that the share price was positively influenced by post-acquisition financial slacking. The 0.0046 CashAssets coefficient is statistically significant at the 1% level. This implies that investors perceive financial slacking favourably as it may allow the acquirer to access funding easily as and when a lucrative business opportunity (like acquiring a strategic target) arises. This is only true for the CashAssets. When FCFETA is used to proxy financial slacking, it turns out there is a negative impact on BHAR that is statistically significant at all relevant levels. Given that the present study has already established that the influence of CashAssets and FCFETA is more apparent in the two and one-year periods from the acquisition. It, therefore, can be argued that the deviations indicate that the negative impact of

financial slacking could be is pronounced in the short term but in the medium term it has a positive impact.

Table 26: The impact of financial slacking (after acquisition) on performance acquirer post acquisition

	BHAR		ROE		ROA	
	Full sample	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**
ABSORB	-0.9643*	-0.9827*	0.0704**	0.0837***	0.0777***	0.0911***
CULTURE	-0.0048*	0.00007	-0.0034***	-0.00013*	-0.0024***	-0.00008*
CORPORATE G	0.0841	0.2116	0.0451	0.1355	0.0654	0.1308
ECONOMICCRISIS	-0.1029	-0.0908	-0.0060	-0.0176	-0.0107	-0.0206
PRIVATE	-0.0203	-0.0089	-0.0325	-0.0420	-0.0101	-0.0235
SIZE - A	0.1272***	0.1131***	0.1120***	0.1322***	0.0767***	0.0939***
VALUE	-0.0350***	-0.0489***	0.0141	0.0225**	0.0173***	0.0242***
EXPERIENCE	-0.0309	-0.0295	-0.0007	0.0053	-0.0036	0.0029
Cash	-0.0206	-0.0150	0.0339	0.0513	0.0512	0.0680*
Equity	-0.1201	-0.1072	-0.0671	-0.0491	-0.0496	-0.0335
DIVERSIFICATION	-0.0602	-0.0631	-0.0345	0.0376	-0.0033	-0.0004
LOCATION DUMMY	-0.1574	-0.1748	-0.0924*	-0.1012*	-0.0638*	-0.0731*
Cash/Assets	0.0046***		-0.0031***		-0.0031***	
FCFETA		-0.0002***		-0.0002**		-0.0001***
CONS	-1.2570***		-0.9390***	-1.2378	-0.7488***	010.9973***
Observations	1353	1343	1353	1343	1353	1343
Wald chi2	160.51	151.12	304	269.56	284.38	235.33
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
R^2	0.1221	0.1063	0.3200	0.2841	0.3840	0.3072

*Table 26 shows three sub-panels arranged horizontally. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. The first sub-panel depicts BHAR as the dependent variable. It constitutes the columns two and three. The second panel employs ROE as the dependent variable. The respective columns are four and five. Finally, the panel that uses ROA as the dependent variable takes the six and seven. In their respective two columns per panel; the first regression, takes Cash/Assets as a proxy for financial slacking, the second column takes FCFETA as a proxy for financial slacking. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

Intriguingly, the ROE and ROA sub-panels paint a completely clearer picture. Both panels have CashAssets coefficients of -0.0031. These are statistically significant at the 1% level. This then implies that financial slacking has a negative impact on the profitability of the acquirer. It is easy to intuitively deduce how this can be. Firms which accumulate financial slack on their balance sheet basically amass significant amounts of cash and or cash equivalent assets on their balance sheet, cash is a notoriously low return asset as such this ultimately reflects on the financial ratios. The simple reasoning is that assets are not being optimally deployed when a firm sits on huge reserves of cash. The longer the time the higher the opportunity cost. These findings are robust to the proxy for financial slacking, for the FCFETA variable the panels

show negative coefficients of -0.0002 and -0.0001 that are statistically significant at the 5 and 10 percent levels respectively.

Table 27: The impact of financial slacking (before acquisition) on the performance of the acquirer post-acquisition.

	BHAR		ROE		ROA	
	Full sample	**Full sample**	**Full sample**	**Full sample**	**Full sample**	**Full sample**
ABSORB	-0.9807*	-0.09832*	0.0655***	0.0740***	0.0772***	0.0830***
CULTURE	0.00003	0.00007	-0.0001*	-0.00008	-0.00008*	-0.00003
CORPORATE G	0.16801	0.1318	0.1308	0.1503	0.1282	0.1381
ECONOMICCRISIS	-0.0862	-0.0948	-0.0184	-0.0203	-0.0205	-0.0229
PRIVATE	-0.0252	0.0067	-0.0696	-0.0393	-0.0384	-0.01441
SIZE – A	0.1146***	0.1346***	0.1123***	0.1368***	0.0777***	0.0965***
VALUE	-0.0324***	-0.0296***	0.0135**	0.0170***	0.0140***	0.0166***
EXPERIENCE	-0.0344	-0.0365	0.0085	0.0056	0.0045	0.0022
Cash	-0.0108	-0.0219	0.0469	0.0489	0.0596	0.0633*
Equity	-0.1167	-0.1141	-0.0482	-0.0486	-0.0344	-0.0329
DIVERSIFICATION	-0.0793	-0.0589	-0.0363	-0.0253	0.0001	0.0100
LOCATION DUMMY	-0.1595	-0.1317	-0.1032**	-0.1038**	-0.0744**	-0.0759*
Cash/Assets 3	-0.0045		-0.1053		-0.1078	
Cash/Assets 2	0.0702		0.0355		0.0659	
Cash/Assets 1	-0.0357		-0.1542*		-0.1473**	
FCFETA 3		0.0004		-0.0024		-0.0011
FCFETA 2		-0.0064		-0.0012		-0.0016
FCFETA 1		-0.0011		-0.0013		0.0007
CONS	-1.1653***	-1.3512***	-0.9796***	-1.2790***	-0.7882***	-1.0184***
Observations	1400	1373	1400	1373	1400	1373
Wald chi2	154.08	162.49	274.56	285.33	226.36	239.07
Prob > chi2	0.0000	0.000	0.0000	0.0000	0.0000	0.0000
R^2	0.1071	0.1150	0.2874	0.2887	0.3111	0.3083

*Table 27 shows three sub-panels arranged horizontally. The upper component of the first column captures the independent variables used in the regression. The lower component captures details with regards to the regression output namely; the number of observations, the Wald Chi, Prob > chi2 and the R2. The first sub-panel depicts BHAR as the dependent variable. It constitutes the columns two and three. The second panel employs ROE as the dependent variable. The respective columns are four and five. Finally, the panel that uses ROA as the dependent variable takes the six and seven. In their respective two columns per panel; the first regression, takes Cash/Assets as a proxy for financial slacking, the second column takes FCFETA as a proxy for financial slacking. *, **, *** statistically significant at the 10, 5, 1 percent, respectively.*

While the study reveals certain revelations about the nature of financial slacking, the central question this section seeks to establish is the relevance of financial slacking as a firm leads up to the merger or acquisition. The results are depicted in Table 27. CashAssets 1 is the only, statistically significant proxy for financial slacking for the ROE and ROA in the sub-panels.

The -0.1542 and -0.1473 coefficients are statistically significant at the 10 and 5 percent levels for the respective sub-panels. This affirms a notion raised in the preceding discussion, financial slacking has a negative influence on performance more so in the short term as captured in table 27. These findings are consistent with the free cash flow hypothesis as per Jensen (1986) argument. Agency conflicts result in agency costs that manifest in the form of poor acquisition choices (manifesting as CBAs in this instance) at the expense of distributing the excess cash in the form of dividends.

It can thus be resolved that slacking not only predicts the method of payment but post-acquisition performance as well. Post-acquisition financial slacking is taken as a positive signal in the stock market when performance is proxied by BHAR. It is nonetheless a negatively related to all performance measures when the proxy for financial slacking is FCFETA. Financials slacking prior to the acquisition negatively predicts performance for the acquiring firm.

4.5 CONCLUSION OF SECTION 4.

The goal of this chapter was to unpack the results of this study. Overall the performance of acquirers into Africa is negative. Emerging market acquirers perform better than their developed economy counterparts. The outperformance of emerging economy acquirers is robust to all performance measures. The study reveals that firms with lower leverage have a higher propensity to use cash when engaged in CBAs. Firms with high leverage, on the other hand, have a higher propensity to use equity or a combination of capital sources. Two major revelations emerge concerning financial slacking. Firstly, financial slacking positively predicts the use of cash as a method of payment in the CBA setting. Secondly, financial slacking negatively predicts performance for the acquirer, although in the post-acquisition period the stock market reacts positively to such. Section 5 concludes the study by summarising the theoretic conclusions, empirical findings and recommending future research avenues.

CHAPTER FIVE

CONCLUSION

5.1 INTRODUCTION

This study submitted a substantive theoretic motivation for examining the impact of CBA acquisitions into Africa on acquirer performance. It also discussed some theoretic motivations behind the need to understand the impact of financial structure (capital structure and financial slacking) on the method of payment. The preceding chapter reported the results extensively. The results generally indicate underperformance by firms acquiring African targets. Concerning capital structure theory, the study lends some empirical support for the pecking order theory but not for the market timing theory. It also lends sounding support for the negative impact of financial slacking as projected by free cash flow hypothesis. The current chapter summarises the material aspects the links between theory and the empirical findings captured in the present study. The rest of this chapter is structured as follows; section 5.2 summarises the theoretical conclusions of the study. Section 5.3 highlights the major empirical findings of this study. Section 5.4 outlines the professional and academic (theoretical and empirical) contributions of the study. Section 5.5 concedes the shortcomings of the study and makes recommendations for futures studies.

5.2 THE THEORETIC CONCLUSIONS OF THE STUDY

The literature review is a five-dimensional discussion; on the motivations behind CBAs, the volume drivers from the African perspectives, classical factors affecting the performance of acquirers post acquisitions, empirical evidence on the performance of CBAs and a discussion on the influence of capital structure and financial slacking on the method of payment.

Literature reveals that the motivations for CBAs are varied and wide. However, two common threads dominate the multitude of reasons. Firms are motivated by asset augmentation and asset exploitation. In asset augmentation, the underlying objective is to acquire and control the strategic resources under the control of the target firm. The dominant theory capturing this motivation is known as the resource dependency theory. This advances the notion that the choice to engage in CBA is a means through which firms ease their degree of dependency on the external environment for key resources (Pfeffer & Salancik, 1978). The asset augmentation motive can be advanced for political reasons (Chen &Young, 2010), accumulation of power

(Roll, 1986; Cho et al., 2016) and acquisition of factors of production such as licences, natural resources, technology etc. (Rugman, 2008; De Beule & Sels, 2016). Concerning asset exploitation, this generally implies foreign firms acquiring domestic firms to make use of their assets (licences, technology, brands, skilled labour etc.) in the domestic context (Kalfadellis, 2002; Pollock et al., 2010). The discussion concludes that the overriding motive for acquirers in CBAs is value creation.

The study discussed the factors affecting the flow of FDI (as a part proxy for CBA activity) into the African countries. The discussion had contrasting views on a whole range of concepts. The debate begins with Asiedu (2002) advancing the notion that Africa is a unique investment destination with factors that affect the flow of FDI affection Africa differently than other investment destinations. Wilson and Vencatachellum (2016) unpack empirical evidence that refutes these claims. As such the debate goes on.

The discussion further discusses the three major categories of factors affecting the flow of FDI namely; macroeconomic factors, institutional factors and the development of financial systems. Market size and natural resources are the two major macroeconomic and they generally attract the flow of FDI into Africa (Asiedu, 2006). This is consistent with the economic growth hypothesis that advances that through "regionalism" countries can increase the size of their market and thereby inducing the flow of FDI (Neubaus, 2006). Financial openness and infrastructural development are institutional factors that induce the flow of FDI into developing economies (Onyeiwu & Shrestha, 2004; Ang, 2008). Financial development was determined to positively influence the flow of FDI.

The study went on to discuss factors affecting value creation for CBAs. The majority of the literature indicates that the absorptive capacity of the acquirer, a good corporate governance environment, acquisition of private targets, size of the acquirer (in the CBA context), acquirers classified as value stocks outperform growth acquirers, the experience of the acquirer and cash method of payment predict and facilitate for the acquirer to create value or outperform post-acquisition (Agloboyor, 2011; Humphrey-Jenner & Powell, 2014; De Beule & Sels, 2016; Li et al., 2016). Cultural distance, financial crises, the size of the acquirer (in the domestic acquisition) context, diversification and equity method of payment, on the other hand, predict and cause the acquirer to destroy value or underperform post-acquisition (Harford et al., 2012; Li et al., 2016).

On the analysis of recent literature exploring the value creation prospects of CBAs. Two pictures emerge. The extant literature indicates that acquirers from developed economies destroyed valued (underperform) when the conduct CBAs (Bertrand & Betschinger 2012; Andriosopoulos & Yang, 2015). Emerging economy acquirers, on the other hand, create value (outperform) when engaged in CBAs (Nicholson & Salaber, 2013; Deng & Yang, 2015; De Beule & Sels, 2016; Rani & Asija, 2017). The analysis also determined that domestic acquisitions underperform cross-border acquisitions. This is true for developed economies (Bertrand & Betschinger, 2012; Danbolt & Maciver, 2012; Gregory & O'Donohoe, 2014) as is for emerging economy acquirers (Rani et al., 2014)

The final discussion was on capital structure theory in the context of the theory that best explains the capital structures found in developed and emerging economies alike. Three theories dominate the discussion namely, pecking order theory, trade-off theory and market timing theory. The discussion lends ample evidence of extant literature for the pecking order as best explaining capital structure both in the developed and emerging economies (Aggarwal & Zong, 2006 Chakraborty, 2010; De Jong et al., 2011; Khanna et al., 2014) The discussion concluded with an analysis of the impact of free cash flows on the method of payment and subsequently the performance of an acquirer with such. Jensen (1986) makes a compelling argument to conclude that, because of agency conflict acquirers with free cash flow pay an agency costs in the form of value-destroying acquisitions.

5.3 THE EMPIRICAL FINDINGS OF THE STUDY

On aggregate, firms acquiring into Africa underperform significantly. This is robust to the performance measure for the developed economy acquirer. However, this is not the case for emerging economy acquirers. While the BHARs are negative and not statistically significant for emerging market acquirers, the ROEs and ROAs are positive and statistically significant for the same. Emerging economy acquirers outperformed their developed economy counterparts by a statistically significant margin, this is robust to the performance measure.

The study introduces three dynamics that alter the performance of the acquirer systematically namely; financial development of the target firm country, the industry sector to which the target firm belongs and the economic bloc in which the target is firm is domiciled. Acquisitions into financially developed African countries perform better than those that go into underdeveloped African Countries. Deals going into the consumer sector outperformed those directed towards the basic materials sector. This justifies the motive of acquiring targets so as to hit the ground

running as far as the clientele base is concerned. It can also be argued that this revelation seems to be compatible with the asset augmentation as well as the asset exploitation motive. Firms acquiring into the consumer goods sector internalise a key asset; the distribution network for their products (asset augmentation). In the same breath, those acquiring firms can distribute their own home-grown products or brands through the acquired distribution network (asset exploitation). The ECOWAS region has the worst performing deals from the entire sample and this is statistically significant. EAC region acquisitions are also prone to result in underperformance although not statistically significant. Acquisitions into the SADC and Arab regions were likely to perform better than the other regions. This is not particularly surprising as most of financially developed countries are based in these regions.[80]

Concerning other elements affecting value creation, size, cultural distance, valuation and experience merged as key factors in the CBA context. Size plays a crucial role in the ensuring positive performance for the acquirer. This substantiates the notion that size mitigates the shortcomings of poor corporate governance in target countries as advanced by Humphrey-Jenner and Powel (2014). As per theoretic predictions, cultural distance contributes negatively to the post-acquisition performance of the acquirer. Although firms classified as value stocks received positive market reaction post-acquisition, their performance from a profitability perspective (ROE and ROA) was negative. Value acquirers exhibit the ability to acquire targets prudently and thereby positively impact their operating performance. Experience is captured to be a vice for developed economy acquirers but a virtue for emerging economy acquirers.

Four revelations are captured by the results concerning the impact of capital structure on the method of payment. Firstly, firms with low leverage have a higher propensity to acquirer a target using cash. This relationship is more pronounced in the longer-term (the leverage 36 months prior to the acquisition). Secondly, firms with high levels of leverage have a higher propensity to use equity or a combination of financing sources in the long-term as well. Thirdly, firms with financial slack have a higher propensity to acquire using cash in CBA transactions. Lastly, firms with high levels of financial slack prior to the acquisition have a higher propensity to acquire using equity and a combination of finance means. The study lends

[80] South Africa, Egypt, Mauritius and Morroco. The list also includes Zimbabwe for the 2001 -2005 period.

mild support for the pecking order theory. But none of the evidence substantiates the market timing theory as being able to explain the method of payment. In the same section, it emerges that size is positively related to propensity to use cash in CBAs.

As a value-add, to enrich the quality of the study, the study further quests the performance of firms with financial slack in the period leading up to and after the acquisition. The empirical findings indicate that firms with financial slack post-acquisition underperform, this is an indication that holding on to cash resources or excess free cash flows is not an optimal means to deploy capital. Firms that accumulated financial slack prior to the acquisition had a higher likelihood to underperform. The study lends mild support for the free cash flow hypothesis. Overall financial slacking is more influential on the method of payment in the 12 and 24-month periods leading up to the deal. In contrast, leverage is more influential in the longer-term (36 months prior).

While these empirical findings deviate from hypothesis 1, the predictions of hypothesis 2 are substantiated by the findings. Indeed, emerging economy acquirers perform better than their developed economy acquirers. The predictions of hypothesis 3 and hypothesis 4 are also confirmed by the findings summarised.

5.4 THE CONTRIBUTIONS OF THE STUDY

The contributions of this study are twofold; professional, and academic. To the profession of Investment banking, these findings allow practitioners to do three things. Firstly, identify lucrative industries for foreign investors. Secondly, the study brings market intelligence for multinationals on the profitability of African targets base on attributes inherent in the target country (financial development and the economic bloc in which the target is located). Lastly, seeing as FDI is key to the development of Africa, this research would be of great relevance to central banks, commercial banks, governments and other economic development agencies in the respective economies. Investment bankers facilitating FDI into Africa would benefit from the current study in that they would be able to determine the ideal strategic acquirer when advising on such deals. Governments are also able to use this study to explore opportunities for development of infrastructure that enables the facilitation on FDI that assumes the CBA form. Multinationals that have been engaged in greenfield investments into Africa can also use the study to better understand the viability of the alternative (acquisitive entry into African markets).

To academia, the study provides empirical evidence on the performance of CBAs specific to Africa, along with a detailed analysis of regional performances. It also contributes to the debate on capital structure choices. Specifically, the study lends support for the pecking order theory as partly explaining the choice of method of payment. The market timing theory is refuted a possible explanation for the method of payment.

5.5 THE SHORTCOMINGS AND RECOMMENDATIONS OF THE STUDY

The study is confined to public listed acquirers due to the nature of information required to conduct the study. This introduces two major shortcomings for the study.

- Selection bias with regards to sample selection. This can, however, be easily mitigated without compromising the essence of the quest of this study.
- The sample has more developed economy acquirer deals than those from emerging economies.

Recommendations of the study are as follows. Future studies could;

- Use a sample that includes domestic and cross-border acquisitions and compares the factors influencing the method of payment in the different settings.
- A comparative study, among African, underdeveloped Asian and South American countries as CBA destinations. For the purpose of analysing the performance and the factors affecting CBA performance in those regions.
- Another extensive comparative study on post-acquisition performance can be conducted, among industries (consumer goods, basic materials, industrials, financials, hospitality etc.) in one investment destination. Or several industries in different invest met destinations.

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APPENDIX

Table 1: Countries participating in the deals.

Target			Acquirer		
Country	Deals	Average deal value	Country	Deals	Average deal value
South Africa	179	1 132 250 144	Britain	108	1 149 082 892
Egypt	42	8 264 493 929	Australia	95	191 534 730
Ghana	30	488 854 737	USA	59	1 305 151 471
Namibia	27	307 351 053	Canada	48	219 638 000
Nigeria	22	1 477 380 667	India	41	928 883 448
Kenya	19	296 640 000	France	12	13 107 483 333
Mauritius	18	688 542 222	Singapore	12	593 020 000
Congo	16	110 440 833	Malaysia	11	315 115 000
Zambia	15	113 604 615	Switzerland	11	1 316 430 000
Morocco	14	8 133 207 778	Hong Kong	8	443 865 000
Tanzania	14	45 630 000	Japan	8	982 660 000
Mozambique	12	31 067 143	Netherlands	7	18 860 856 000
Algeria	11	136 930 000	Sweden	7	513 186 667
Botswana	8	530 362 000	China	6	****
Cameroon	8	51 680 000	Italy	6	****
Tunisia	8	80 580 000	Jordan	4	412 450 000
Angola	7	170 170 000	UAE	4	36 906 695 000
Burkina Faso	7	177 017 500	Austria	3	2 750 100 000
Ivory coast	6	126 862 000	Germany	3	****
Sierra Leone	6	62 602 500	Guernsey	3	6 260 000
Malawi	5	99 690 000	Ireland	3	328 253 333
Mali	5	1 881 103 333	Malta	3	70 140 000
Zimbabwe	5	164 625 000	Portugal	3	1 326 920 000
Niger	3	121 800 000	Saudi Arabia	3	590 953 333
Senegal	3	182 663 333	South Korea	3	38 793 333
Swaziland	3	****	Spain	3	772 033 333
Gabon	2	****	Virgin Islands	3	806 586 667
Mauritania	2	1 670 295 000	Belgium	2	****
Uganda	2	****	Brazil	2	****
Benin	1	****	Chile	2	1 150 830 000
Chad	1	****	Greece	2	****
Liberia	1	****	Jersey	2	****
Rwanda	1	****	Israel	2	****
			Sri lanka	1	****
			Argentina	1	****
			Denmark	1	****
			Finland	1	****
			Kuwait	1	****
			Norway	1	****
			Poland	1	****
			Qatar	1	****
			Russia	1	****

	Thailand	1	****