



Value Implications of Emerging Market Multinationals' Cross-Border Expansion  
Patterns: An Analysis of M&As, JVs and SAs

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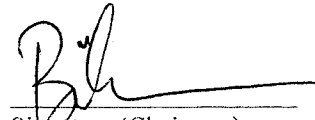
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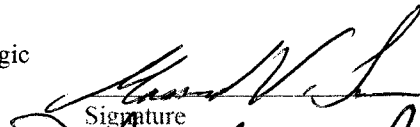
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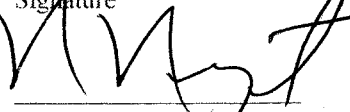
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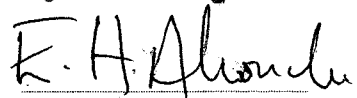
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## Abstract

The objective of this study is to examine the value implications of cross-border expansion patterns of Emerging Market Multinationals (EMMs) and to observe market reaction to these patterns. It primarily focuses on mergers and acquisition (M&A), joint venture (JV) strategic alliance (SA) and announcements that took place during the period of 1991-2003. EMMs considered in this study are listed in UNCTAD's world investment report (2002), as the top 50 non-financial Transnational Corporations (TNCs) from developing economies and the largest 25 non-financial TNCs based in Central and Eastern Europe. This study employs event study and examines a total of 982 international expansion activities entailing 436 (M&As), 387 (JVs) and 159 (SAs) performed by 66 EMMs.

The results indicate that market reaction to M&As is generally negative. Hence, EMMs that expand through M&As create little or no value. Similar results are evident for the JVs. SAs seem to generate more positive abnormal returns, but not statistically significant. While Asian and Latin American EMMs' expansions create value for shareholders, Eastern European EMMs' expansions are value destructive. A negative association between size of the acquisition and abnormal returns is illustrated suggesting value destructive impact of larger acquisitions. Acquisitions of SOEs are also value destructive. International experience and familiarity with the target market proved to be insignificant. Good governance is positively associated with cumulative abnormal returns. Diversified EMMs' cross-border acquisitions tend to create value for shareholders; however, hi-tech EMMs' cross-border acquisitions are value destructive.

Some target country characteristics have a significant impact on acquiring firms' value creation. While more developed institutional infrastructure and overall level of economic development have positive impact on abnormal returns, geographic and cultural proximity proved to be insignificant.

Cross-sectional and logistic regression analyses also support these results. Yet, the impact of all three expansion patterns on the performance of EMMs is positive. The improvement in performance is evident in all three years after the announcement. The performance in the third year surpasses the first two years. It is also indicative from the result that as EMM performance improves with time, multinationality measure decreases – stating a negative relationship between performance and multinationality.





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To my mother,

Ayşe Aktürk Fıçıcı – the meaning of my existence, the greatest teacher in the world,

who taught me  
the power of principle, dignity, dedication, courage, integrity, humor, vigor, endurance  
and compassion.

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Finally and most importantly, I wish to express my gratitude to my dearest mother for all the support and courage she has given me.

## List of Abbreviations

ADRs: American Depository Receipts

AMEX: American Stock Exchange

ARs: Abnormal Returns

CARs: Cumulative Abnormal Returns

EBIT: Earnings before Interest and Taxes Margin

EBITDA: Earnings before Interest Taxes Depreciation and Amortization

EM: Emerging Market

EMM: Emerging Market Multinational

FDI: Foreign Direct Investment

FSTS: Foreign Sales to Total Sales Ratio

GAAP: Generally Accepted Accounting Principles

GEO: Global Equity Offerings

JVs: Joint Ventures

IB: International Business

ICRG: International Country Risk Guide

NASDAQ: National Association of Securities Dealers Automated Quotation System

NIC: Newly Industrialized Countries

NYSE: New York Stock Exchange

M&As: Mergers and Acquisitions

OPM: Operating Profit Margin

QIB: Qualified Institutional Buyers

ROA: Return on Assets

ROCE: Return on Capital Employed

ROE: Return on Equity

RSHE: Return on Shareholder's Equity

SAs: Strategic Alliances

SARs: Standardized Abnormal Returns

SCARs: Standardized Cumulative Abnormal Returns

SDC: Securities Data Corporation

SEC: Securities and Exchange Commission

SIC: Standard Industrial Classification

TA: Total Assets

TS: Total Sales

## Chapter I

### Introduction

*Research Statement.* This study examines the valuation effects of cross-border expansion patterns of a distinct group of firms - Emerging Market Multinationals (EMMs)<sup>1</sup> that originate from the emerging markets (EMs).<sup>2</sup> The study commits its analytical foci on Mergers and Acquisitions (M&As), Joint Ventures (JVs), and Strategic Alliances (SAs) given that EMMs achieved to build multinational service and production networks akin to their developed country counterparts by internationalizing their operations through regional or global configurations with the utilization of these three specific types of expansion patterns. EMMs diffusion in to the global economic system signals formation of relatively complex organizational structures with potentially distinct characteristics. As a result of their dynamic international activities, these new players with regional and global focus have become a significant mechanism for the transfer of capital, technology, management and various other assets within and between developing and developed countries, and created new engines of growth in emerging markets.

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<sup>1</sup>The meaning of multinational corporation (MNC) is a firm that operates in more than one country. Therefore, by definition an EMM and an MNC are the same, as EMMs operate in multiple countries as well. In the early years, Most EMMs obtained their original know-how from developed countries. They are similar to the MNCs developed nations, which hold subsidiaries in export-processing zones to take advantage of lower wages and managerial costs. However, in some ways, they are different than the MNCs. These differences may be due to the policies of governments in their home countries. They are also different than the MNCs as their adaptation of technology to small-scale manufacturing generally resulted in a technology that is more labor-intensive than the large-scale technology employed by most multinationals.

<sup>2</sup>The term *emerging markets* historically refers to under-tapped market segments, such as the African American work-force in the United States. Yet, broadly defined, an *emerging market* or an *emerging market economy* is a country making an effort to augment and improve its economy with the goal of raising its performance to that of the world's more advanced nations. The term *emerging market* used in this study was established by the International Finance Corporation (IFC) in 1981. In this study EMMs' countries are referred to as *emerging* - in line with the *emerging market* definition of Standard and Poor's (S&P) Emerging Markets Data Base - where a stock market is categorized as *emerging* if it meets at least one of two following general criteria: 1) it is located in a low- or middle-income economy as defined by the World Bank; and 2) its *investable* market capitalization is low compared with its most recent GDP figures (Aybar, Kan, Milman 2002). In this study, the firms from the newly industrialized countries (NICs) are also included as EMMs. The NICs are not yet at the level of developed nations, but more economically advanced than the developing countries. Some NICs are Hong Kong, Taiwan and Korea.

*Motivation.* Therefore, this study is motivated by the dynamic international expansion patterns of EMMs that have been accelerated in recent years. Yet, the internationalization of EMMs is not a new phenomenon. The cross-border expansion patterns of EMMs, which initially began or came to be recognized in the late 1970s, were launched with exporting activities.<sup>3</sup> These activities are constantly evolving and stimulating modification in the way EMMs conduct their business operations. Although EMMs have been going through varying levels of transformation for several decades, their renowned transformation gained pace since the early 1990s in the face of intensified integration of their home markets to the world economy, which was inaugurated with the beginning of the new era of globalization.

Owing mostly to their home market integration to the global market, domestic companies located in these markets adopted increasingly outward oriented postures and included M&As, JVs, and SAs into their global operations as opposed to focusing solely on export activities. It was inevitable for them to diversify their expansion strategies since they either had to take advantage of regional or global business opportunities or needed to respond to increasing competition from foreign companies.<sup>4</sup>

With the ever-evolving international business climate, the growing role of EMMs in the world is now becoming more and more ostensible due to their movements, expansions and contributions. The complex patterns of movements and expansions exercised by EMMs, undeniably, have intrigued numerous scholars in the field of international business and compelled them to conduct studies to grasp a better understanding of the factors involved in

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<sup>3</sup> Louis T. Wells. *Third World Multinationals*. Cambridge, Mass.: MIT Press, 1983.

R. Aggarwal (1985). "Emerging Third World Multinationals: A case study of the foreign operations of Singapore firms." *Contemporary Southeast Asia*, 7: 193-208.

<sup>4</sup> See Chen (1981), White (1981), and Lau (1992).



EMMs' cross border operations. However, despite their growing regional and global importance, our knowledge of various attributes of these firms is limited and most work conducted in this area gives conflicting results on value creation effects of cross-border expansion activities of EMMs. Therefore, it is still mostly unknown whether there is a merit for these multinationals benefiting from their increasing international operations that are gaining momentum. Consequently, the problem, in this study obtains its charge from this premise.

*Research Question.* Drawing from the problem, the primary objective of this study is to examine the valuation effects of EMMs' cross-border expansion patterns. Therefore, the research problem can be presented in the form of a question: Do cross-border expansion activities that involve M&As, JVs and SAs, create value for EMMs? Hence, this study is particularly interested in the value implications of these cross-border expansions. More specifically, this study analyzes the impact of each types of cross-border expansion pattern individually on the firm value. Consequently, the research question is answered by applying a series of examinations in order to have a meaningful contribution to the international business (IB) research.

*Contribution.* This study contributes to the existing international business literature on four premises: 1) The Changing Epitome of Foreign Direct Investment (FDI) i.e. the cross-border expansion patterns of EMMs; 2) Market reaction to the three distinct expansion patterns i.e. M&A, JV, and SA announcements of EMMs; 3) The effects of these three distinct expansion activities on firm value creation; and 4) The impact of these activities on performance of EMMs.

This study includes a sample size of sixty-six emerging market multinational firms drawn from the *Top 50 non-financial Emerging Market Transnational Corporations* list and *Top 25 non-financial Transition Economy Transnational Corporations* list published in UNCTAD's

World Investment Report. Although in the beginning of the research there were 1,142 complied expansion announcements, this size is reduced due to unavailability of company data. The sample now includes a total of 982 cross-border expansion announcements made by these 66 firms between 1991 and 2003. These transaction announcements entail 436 mergers and acquisitions, 387 joint ventures and 159 non-equity strategic alliances.

Conceptual part of the study is vigorous and entails the findings of an extensive comparative and theoretical research in which the pieces of the puzzle put together through an integration of findings from diverse sources with the aim of deriving at a comprehensive exploration where the conceptual findings suggest accelerating cross-border expansions of EMMs - from which this study attains its motivation. Furthermore, the conceptual part of this study displays the patterns of EMM cross-border expansion activities - leading to the three distinct patterns - M&As, JVs and SAs exploited in EMMs' cross-border expansion strategies.

Besides a vigorous conceptual analysis, this study employs three robust empirical methodologies. The first one is the standard event-study methodology utilized to capture the market reaction to expansion announcements as well as to examine the impact of each announcement on the firm value around the announcement date. At this juncture, this study employs individual market indices of emerging markets using the Financial Times and Morgan Stanley classification. It includes such markets as the Hong Kong market - one of the most liquid and the largest; yet it also includes markets of lesser liquidity, such as that of Turkey, and Hungary. Here, all 982 events/expansion announcements of EMMs are examined individually. The patterns - M&A, JV and SA are also treated independently as expansion types, given that each is fundamentally unique in the way they are structured in business operations. In addition, the examination of announcements is performed by grouping additional relevant categories, such

as regions, firm factors, industry factors and country factors - stemming from the conceptual part of the research. Later, these factors are employed as independent variables in cross-sectional regression analysis.

The second empirical methodology involves cross-sectional regression analysis where the study investigates the value implications of these cross-border expansion activities. Here, several models are used to obtain robust results of firm value creation and the impact of the expansion activities on firm performance. The third empirical methodology consists of logistic regression analysis. The rationale for including the logit model is to make the research sounder and efficient so that international investors and students of IB may be able to use it as a channel in their endeavors. More to the point, the findings are further supported by logistic regression analysis through a supplementary examination of value implications of the cross-border expansion patterns of EMMs.

*Structure of Dissertation.* Since this research includes four interrelated criteria as the contribution of the study, the study is organized as follows: Chapter II focuses on the methodological literature review. The literature review is conveyed as methodological because it sheds light on the empirical determinants of EMM value creation employed to be tested in this study – meaning this study attains the determinants (variables for empirical tests) of value creation through an analytical examination of the previous research. In the first part of the literature review conceptual findings on the cross-border expansion patterns of EMMs are described from which the study builds on the premise for the next part of the literature review. The second part of the literature review includes a different strand based on value creation, and M&A, JV and SA activities in cross-border expansion patterns. Therefore, the first strand of the literature review in this study is strictly on the expansion patterns of EMMs while the second

strand is a more general and a theoretical evaluation of expansion patterns, providing conceptual background for the study where the evidence in the relevant literature is reviewed and EMMs' cross-border expansion patterns are integrated. Furthermore, the study illustrates the correlation between the two strands of literature.

The reminder of the study is organized as follows: Chapter III discusses the data and methodology; Chapter IV presents the empirical results; and Chapter V concludes the study with final remarks and discussion. This study is also supported by complementary mini cases on three EMMs considered in the research. These mini cases are based strictly on the evolving cross-border expansion patterns and their impact on value creation of EMMs. Therefore, they are original in the way they are presented. The mini cases are appended to Appendix A.

## Chapter II

### Methodological Literature Review

Owing to the nature of the subject area and as emphasized in Chapter I, the assessment of the literature review consists of two strands. The first one concerns the EMMs and the patterns of their cross-border expansions - leading to their own transformations in place and time and to the augmentation of FDI in general. The second strand – the theoretical strand, on the other hand, is related to the three distinct types of strategic decisions that EMMs exploit in their cross-border expansion patterns – M&As, JVs and SAs and the value implications of these expansion types.

The first strand is a compilation of evidence of various sources, which is carried out in an attempt to observe a pattern of expansion. The fact that no one document, in its entirety, suggests a recognized pattern for EMMs' cross-border expansion activities and that pieces of findings are put together through a strenuous work, makes this section of the literature review original and therefore conceptually methodological. Hence, in the first part of the literature review, the study examines the previous research in two interrelated periods: (1) The literature spawned during the 1970s, 1980s and the early 1990s, which is addressed as early research, and (2) The research conducted subsequent to the mid 1990s – to present is the recent research.

In this study, the collection of findings based on the evidence of the sources lead to an observation that in recent years, EMMs have been following three distinct cross-border expansion patterns, specifically, M&As, JVs, and SAs. These findings are mostly based on historical research. The historical research, in some cases, consisted of reviewing company historical records, company accounts, following up on multiple information sources such as books on developing country firms and other conceptual research. The relevant information obtained from such sources was later organized and united in a common configuration.

Numerous findings identified during research proved to be overlapping or related at times and anecdotal at other times. Therefore, subjective, overlapping and duplicate information were extracted and the findings were refined. The reliable and consistent information were sorted and grouped in a system of prioritization during this investigation. Although the prioritization system employed here follows a strict methodology, which is formulated as objective as possible, it may still be subjective in nature as any other prioritization system used in historical research. Therefore, the three expansion patterns (i.e. M&As, JVs and SAs) of EMMs should not in any way be considered a static ranking. At the same time, attention must also be drawn to the fact that during certain periods most EMMs intermingled and alternated all three expansion patterns in their international quest.

#### Changing Epitome of Foreign Direct Investment (FDI): An Overview of Cross-Border Expansion Patterns of EMMs

Plentiful studies of international business denote that internationalization of the firm is a process in which a firm gradually intensifies its international participation owing to the economic, business, political, cultural and geographical factors that influence the pattern and pace of international expansion of the firm.<sup>5</sup> Hence, the concept of cross-border expansion activities of EMMs is nothing short of pivotal for international business research but remarkable to observe given that most of them originate from nation states with once beleaguered governments that recently began to unveil to the free market economy. These governments gradually embarked on innovative structures for privatization and foreign investment by installing transformations to their political and economic laws and regulations, and launched support systems for their domestic companies' international outreach.

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<sup>5</sup> See Buckley and Casson, (1976), Dunning (1981), and Rugman, (1981).

The concept of the international operations of firms from developing nations (most are now identified as emerging market nations) is not a novel phenomenon.<sup>6</sup> The first recognizable emerging market firm operations dates all the way back to the pre-World War I period. However, this was only actualized within the Latin American region. Although, some Latin American firms experienced international expansion in the 1920s, it was too little to account for. In fact, expansion activities began in the 1960s and increased vigorously during the 1970s. The time lag was mainly due to the restrictive government policies of the 1930s - 1960s. Government restrictions, mainly exchange controls and inward-looking foreign trade policies of Latin American countries hampered Latin American firms for geographically wide-scale expansion.<sup>7</sup> For this reason, the expansion activities of the Latin American firms stayed only within Argentina and Brazil; hence, they were regional.

When the expansions began to increase and spread to outside of the region in the 1960s and the 1970s, they were mainly executed by private investors that historically invested in liquid form or in real estate, purchasing available stocks and securities. Furthermore, some investments can also be characterized as *capital flight*<sup>8</sup> rather than as FDI. In the late 1970s, however, the

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<sup>6</sup> The first multinational firm and the cross-border expansions existed during the Asur (Assyrian empire 1200BC) within the Assyrian colony - Kargamis (Gilgamiš). However, at the time of the Assyrians, scholarly work and the theories on money, value, economics, firm and FDI were not developed. Later, Free-market revolution began in the Aegean: 800-400 BC.

See, Karl Moore, David Lewis, *Birth of Multinationals: 2000 years of ancient business history from Ashur to Augustus*. (1999). Copenhagen Business School Press.

In the 1800s FDI became apparent in the East with the economic agreement signed between the British and the Ottoman Empires in 1827, and later FDI from Britain to the East increased. In January 1870 Italian investors began investing on Metallurgy related activities, mainly on Borax in Anatolia. In 1890 French investors invested on farms and the purchase of farmlands in the Eastern part of the Ottoman Empire, mainly in Adana. However, these investments were founded mostly on imperialistic schemes (Muazzez Ilcig, 1983).

<sup>7</sup> See Diaz-Alejandro (1977).

<sup>8</sup> Capital flight is the movement of money from one investment and/or one country to another to avoid such country specific risks as political instability and high inflation. This movement is carried out in order to attain greater stability or increased returns. It is generally experienced in substantial foreign capital outflows from a particular

decisions to expand were induced by cultural, political pressures and instability.<sup>9</sup> Such factors as risk diversification in unstable political systems, avoidance of domestic tax obligations, labor laws, and foreign exchange restrictions also provoked Latin American EMMs to internationalize.<sup>10</sup>

In later years (1980s and 1990s), changes in government policies, the economic growth within various Latin American countries, the improvement of their balance of payments, and implementation of interregional programs as well as the consequence of industrialization put together facilitated the interregional and international investments of Latin American firms.<sup>11</sup>

Government policies also affected the firms from the former command economy systems. Although Soviet and Eastern European FDI began in the 1960s as a new external strategy that meant to improve the structure of their foreign trade with the developed countries of the West, this was mainly due to needs and demands of centrally planned systems for raw materials and lower production costs. Therefore, investments were used to back up foreign policy objectives.<sup>12</sup>

Gradually, however, the unabated opening of transitional economies of the Eastern European countries to the free-market economy and the surge towards international markets by other emerging market economies (countries of the South and Southeast regions), which moved up the per capita income ladder and experienced some outflow of FDI, have encouraged domestic firms in these countries to expand internationally and to be effective participants in

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country, often at times of currency instability. When the outflows of investment are sizeable enough, they impact on a country's financial system as a whole.

<sup>9</sup> Diaz- Alejandro (1977).

<sup>10</sup> White (1981).

<sup>11</sup> White (1981).

<sup>12</sup> Macmillan (1987).



global business. In recent years, the increasing integration of firms from various regions of the world to business activities has come to contribute tremendously to the international economy.

Today, due to their integrations and increasing international activities most of these firms are recognized as multinationals. Therefore, EMMs are multinational corporations (MNCs) that originate in emerging markets<sup>13</sup> (EMs). They hold offices and subsidiaries in more than one developed, developing and/or emerging country. EMMs are firms that incorporate their firm strategy to specific locations through firm networks and serve diverse markets. Consequently, EMMs operate and organize their business activities in different international locations in line with their overall firm strategies and relate their technologies according to the environments they operate in. Hence, they strive to generate efficient allocation of capital and labor, and create various inputs and skills wherever their operations take place.<sup>14</sup>

In the early years of their cross-border expansions, EMMs were motivated by labor-intensive activities and were escaping the increasing labor costs, which constrained them at home.<sup>15</sup> Most EMMs that expand internationally were earlier licensees of firms from developed countries. Their sizes are similar to that required in the foreign markets (this is evident in the work of Balakrishnan, (1983) on Indians firms). They are now investing in larger developed nations, such as the United States since they need to achieve economies of scale in production

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<sup>13</sup> Their economies and infrastructure are substantially underdeveloped. However, the emerging markets are not necessarily small or poor. Emerging markets are the recipients of a variety of international financial support programs to boost their economies. These include loans and other assistance from such multi-national organizations as the International Monetary Fund and the World Bank, foreign aid from wealthy nations like the U.S. and special trading status with reduced tariffs for their exports to more advanced nations. In recent years, emerging markets have achieved tremendously to make their economies strong, more inviting to international investors, and more competitive in the international business arena.

<sup>14</sup> See Lecraw (1977), Wells (1977;1981), Kumar (1981), Thee (1981), White (1981), Akinnusi (1981), Agrawal (1981), S. Lall (1981), R.B. Lall (1986), and Lau (1992) .

<sup>15</sup> Chen (1990).

and distribution, which was difficult to do within small countries. Therefore, they are similar to the MNCs that originate in the developed countries.

However, in some ways, they are different than the MNCs. The home markets (EMs) of EMMs may limit them to small-scale labor-intensive processes and products. (This was generally the case in their early years); when this happens, EMMs, then substitute local inputs that are available for imported ones. They are also different than the developed market MNCs, as their adaptation of technology to small-scale manufacturing generally resulted in a technology that is more labor-intensive than the large-scale technology employed by most multinationals. In the early years of their existence, the technologies they held were versatile and labor-intensive and did not necessitate enormous capital expenditures (this may not be the case any longer). This gave EMMs a competitive advantage over firms in the host countries in which technologies were more suitable to needs and to the socioeconomic situation.

Although relatively small in size, over the years, EMMs signified an increasing growth due to the acceleration of their international activities. The trends that took place since the 1970s are indicative of this growth. In the 1970s, the total capital investment by EMMs was very small, amounting merely to \$120 million. The investments accounted for only 2 percent of overall international direct investment flows during the period between 1978 and 1980.<sup>16</sup> However, the share of the total international investments increased from 5 percent to 10 percent between the periods of 1980-1984 and 1990-1994. Between 1993 and 1995, total foreign assets of EMMs increased by around 280 percent, and between 1995 and 1996 to 31 percent, from \$79 billion to \$104 billion. Total foreign sales amounted to \$137 billion in 1996, compared to \$120 billion in 1995. Although international expansion of EMMs seemed to be sojourned in 1998 with the aftermath of the financial crisis in Asia, EMMs quickly recovered from this setback. The

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<sup>16</sup> OECD report (1987).

median foreign assets holdings increased slightly from 1.5 billion in 1998 to about 1.6 billion in 1999. In 2001 foreign assets grew by 21 percent and foreign sales by 56 percent.<sup>17</sup>

Although the total capital invested has not been nominally significant, the real importance of the investment has been the emergence of multinational enterprises from emerging markets and their increasing worldwide operations. As indicated previously, the EMM experience with international operations dates back to the 1970s. Yet, during this time, the trend of international expansion was mostly engaged in developing nations –meaning firms from developing nations investing in other developing nations. Rapidly, this trend began to take a significant pace by 1980s. Towards the end of 1978, there were 185 EMMs operating in developing countries. 75 of these EMMs were active in the continent of Africa, 40 of them were operating in the Middle East region, 36 were actively involved in parts of Latin America and 34 of them were carrying out operations in various regions of Asia.<sup>18</sup>

In the 80s and the early 1990s, it was mainly the Latin American, and South Asian and East Asian EMMs that exercised international expansions. This was mostly due to high intraregional expansions commenced by Latin American EMMs in Latin America where privatization activities in the context of developing countries were first initiated. Simultaneously, the developments in intraregional expansions were carried out by EMMs from South and East Asia.<sup>19</sup> Soon after, EMMs from other developing nations began to follow the trend; and in mid 1990s, EMMs from Eastern Europe came on board with the aftermath of the cold war. The unfeigned pace of expansion, therefore, began in the 1990s. During this time,

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<sup>17</sup> UNCTAD, World Investment Report (1995; 1996; 1997; 1998; 2001; 2002).

<sup>18</sup> OECD report (1987).

<sup>19</sup> UNCTAD, World Investment Report (1995; 1996).

EMMs accelerated their international operations and also increasingly involved developed nations as targets.

The early literature ( the period of 1980s) and the contemporary literature (1990s to present), on international activities of EMMs, although limited, sheds light to some groundwork and can be used as a foundation in more comprehensive understanding of the subject .

In the early years of EMM expansion, geographic preference mostly depended on host countries' geographic proximity, and ethnic/cultural closeness to their home countries.<sup>20</sup> However, being pressured and impacted by significant global economic trends, EMMs began to make new strives to gain more advantages in the world by internationalization and by expanding their operations into foreign markets that not only included neighboring countries, but also other developing and developed countries with no or little geographical proximity and ethnic ties to their home countries. Therefore, in recent years, the strategic significance of geographical location, geographic reach, as well as transnationality rather than cultural/ethnic ties came to be more important in making expansion decisions.<sup>21</sup>

In the early stages, geographic preferences and expansion strategies of EMMs depended on the policies of home country governments. Government policies provoked EMM expansions in two ways. First, interventionist or inward looking policies of home country governments, such as strict tax obligations, labor laws, and foreign exchange restrictions on international capital transfers constrained EMMs' operations at home. To avoid these domestic restrictions, EMMs began to expand internationally. Therefore, in reality, the inward looking policies of governments positively affected EMMs' expansion decisions and provided incentives for

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<sup>20</sup> See Wells (1981), and Ting and Shive (1981).

<sup>21</sup> See Lau (1992) and Lim and Moon (2001).

expansion.<sup>22</sup> Second, in some cases, EMMs were encouraged to invest abroad by home country governments to restrict monopolistic tendencies in their home market and large EMMs seeking foreign markets for their investments, chose to go abroad to preserve the existing export markets and to avoid quota restrictions. In addition, since firms affected foreign exchange earnings of their home countries, governments considered their expansions as an instrument of export promotion and motivated EMMs to expand.<sup>23</sup>

However, in recent years, outward looking policies of home and host country governments accelerated international activities and expansions of EMMs. The recent increase in international expansions of EMMs is mainly motivated by the changing attitudes and policy regimes of home and host country governments. In the 1990s, most emerging markets and developing countries experienced a shift towards market-oriented economies. The integration into the free market economy led to widespread privatization and liberalization movements, and initiated government policies to reduce and remove trade barriers. Privatization and liberalization in such areas as telecommunications, transportation and utilities, previously closed for foreign investment began to be accessible. With these developments, governments in emerging markets have demonstrated their awareness that EMMs could supply external resources, which would eventually contribute to development and growth of their countries, and therefore, they have begun to support and encourage the international activities of EMMs.<sup>24</sup> In order to encourage EMM investments, governments have also begun to initiate such major regulatory changes as investment incentives, ownership rights and transfer of funds in national regulations of FDI. The number of countries that introduced changes in their investment regimes has increased steadily

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<sup>22</sup> See Lecraw (1977), Kumar (1981), Thee (1981), White (1981), and Akinnusi (1981).

<sup>23</sup> See R.B. Lall (1986) and Agrawal (1985).

<sup>24</sup> See Diaz – Alejandro (1977), and Macmillan (1987).

from 30 in 1991 to 70 in 2002. The number of regulatory changes of which more favorable to FDI jumped significantly from 80 in 1992 to 236 in 2002.<sup>25</sup> The recent regulatory features of government policies towards international investment came to have an important effect on operations, and the size of EMM investments.

In response to these changes and with the opening of new markets, the scope and the mode of doing business have also been altered dramatically in recent years. When the scope of industry is traced, the developments become more apparent. In the 1980s, manufacturing was chosen to be the most prominent industry for operations among the EMMs. To pursue their manufacturing operations, a large number of EMMs explored such factors as securing and /or accessing a stable supply of raw materials and capital goods, better utilization of capital, gaining new markets, and manpower through economies of scale, as well as obtaining technical know-how and transferring technology.<sup>26</sup> These types of activities also contribute to the growth and diversification of exports.<sup>27</sup> In many cases EMM expansions were motivated by a need to increase home-based industrial production rather than replacing it. Therefore, they were expanding export-marketing activities.<sup>28</sup> EMMs developed their competitive advantage by matching their competencies, and resources to the environments they operated in. Specifically, EMMs made their technologies adaptable to smaller market sizes and factor endowments of other developing countries. In this way, they were able to attain specific advantages over the local firms. These advantages were mostly based on scale economies, managerial expertise,

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<sup>25</sup> UNCTAD, World Investment Report (2003).

<sup>26</sup> See, for example, Wells (1977), Agrawal (1981), Jo (1981), White (1981), Ting and Schive (1981), and Agrawal (1985).

<sup>27</sup> See Wells (1977) and Agrawal (1981).

<sup>28</sup> See Jo (1981).

technological and knowledge factors, product differentiation and financial strength EMMs possessed, which the local firms lacked.<sup>29</sup>

As EMMs accumulated knowledge in managing international operations, they gradually built additional facilities in other countries. Thus, market uncertainty was reduced when firms gained experience and knowledge from other markets with similar conditions and risk was diversified in unstable political and financial systems. EMMs gained special assets as a result of knowledge accumulation, and then adapted new technology to specific small-scale operations and applied it to new markets at low marginal costs and more competitive prices.<sup>30</sup> Therefore, internalization gains, as well as growth and profit opportunities also encouraged EMMs for international expansion. As interaction and integration with different market environments increased, EMMs gradually internalized their comparative advantages by investing production facilities in developed countries and established their own subsidiaries in these major markets.<sup>31</sup> Naturally, in order to expand into these markets, they were compelled to diversify their operations in different magnitudes into new industries other than manufacturing. Most decisions to operate a diversified portfolio of investment were meant to serve as a hedge against uncertainties inherent in their operational contexts.<sup>32</sup> While in the early stages of international expansion, EMM activities were mainly based more on labor intensive, low cost and technologically small-scale manufacturing operations, in recent years, their operations and technological adaptations have begun to display a more innovative outlook, which are more in line with rapid technological and industrial changes.<sup>33</sup>

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<sup>29</sup> See Nambudiri, Iyanda and Akinnusi (1981), and Agrawal (1985).

<sup>30</sup> See S. Lall (1977) and R.B. Lall (1986).

<sup>31</sup> See Khan (1986), Lau (1992) and Lim and Moon (2001).

<sup>32</sup> See Lecraw (1977), Wells (1981), Jo (1981), and Agrawal (1981).

<sup>33</sup> See R.B. Lall (1986) and Lau (1992).

These changes also triggered changes in the modes of international expansions of EMMs. In the early years of expansions, exports were favored for international operations. Especially, Latin American and Asian EMMs carried out trade-related export strategies and/or export led growth strategies and thereby established export businesses as incremental commitments throughout the 1980s.<sup>34</sup> In the early 1990s, however, joint ventures and strategic alliances began to dominate the expansion seen. Besides these activities, the operations of EMMs have come to include, cooperative arrangements, strategic alliances, firm networks, and M&A activities.<sup>35</sup> Although M&A activities have minimally been experienced since the mid-80s, in recent years, they have become more apparent. Today, M&A activities are becoming popular strategic tools for EMMs looking to expand their market reach or to develop new sources of material. In addition, the accumulation of ownership advantages is motivating and increasing M&A activities of EMMs. Due to these changes, EMMs are also modifying their internal operations at intra- and inter-firm levels in a wider geographic access.

Therefore, the focus of EMMs is now mostly related to efficient use of capital and resource as well as to their geographical reach. Yet, EMMs face a set of transaction costs, risks and opportunities more than they previously experienced. They also confront such issues as geographic dispersal of assets and liabilities across the globe and access to capital markets of different locations with variable exchange rates and differing regulations in further intensity. Thus, their activities are becoming much more similar to those of MNCs from the developed countries. However, unlike most MNCs, EMMs lack a solid capital base; in addition, capital is much more difficult for them to obtain. While constantly being tackled by these challenges, EMMs are entering the larger picture to the extent that they can perform a variety of roles in the

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<sup>34</sup> Wells (1977) Chen (1981), and Diaz-Alejandro (1977).

<sup>35</sup> See Kogut (1988), Hennart (1991), Buckley and Casson (1996), and Calantone and Zhao (2001).



changing context of international business; and perhaps potentially becoming a significant new source of FDI in due course.<sup>36</sup>

Thus, it is deduced from the previous literature that a series of interdependent factors influences value creation of EMMs. Generally, the literature suggests that such intangible aspects as political, cultural, and geographical factors as well as more tangible factors, such as the industry that the EMMs operate in and firm factors that include firm capital, investment size, and relational factors, such as governance structures and network relationships with other firms are all influential factors in EMMs exploiting specific cross-border expansion patterns (M&As, JV, SAs). They are, therefore, are influential factors in value creation as well. It is these factors and expansion patterns that motivate this study. Although, the early research does not provide scientific information on EMM value creation, and needs to be deeply mined out to find meaningful evidence, it provokes and catalyzes for a new and a more vigorous scientific and invigorated academic research for examining the value implications of the three distinct patterns of expansion strategies that EMMs exploit. An understanding of the cross-border expansion patterns is one key to understanding the impact of EMMs on international business and a channel in understanding EMM value creation.

## Cross-Border Expansion and Firm Value: Integration of Theoretical Issues to EMM

### Literature

In the fourth century BC, the philosophers of the Athenian Academy contemplated on the meaning of *value* and Aristotle (384-322) held that the foundation for value was based on need, and without it exchange would not take place. This view held by Aristotle signifies that value is

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<sup>36</sup> UNCTAD, World Investment Report (2003).

relative to alternatives. Indeed, since then the concept of value in economics and business has evolved with the Christian thought, the neo-classical thought, and the classical thought etc.<sup>37</sup> When the consideration of value is related to firms, it can be conveyed as a trade-off between costs and benefits – meaning it is relative to alternatives. Therefore, the explanation of value as being relative to alternatives is still valid today. According to the Webster Dictionary, the term *value* emphasizes the perception of worth in general. Then, *value* also has a subjective quality. Yet, this study articulates *value* in a more quantifiable term - more simply put EMMs generating abnormal returns and enhancing performance; or in a more experimental term – EMMs obtaining financial advantages due to their cross-border expansion announcements.

However, the inevitable advantages and disadvantages – mainly the value implications of EMMs' international expansions are still ambiguous. Is there truly a value creation for EMMs when they conduct cross-border expansion activities? If so what are the implications; if not, why do they exist within the international frontier?

Coase (1937), as one of the first contemporary scholars in the field, raises the question of why firms exist. His answer to this question is - firms should be looked at as internal markets for transactions that do not take place on external markets due to transaction costs - reflecting the fact that external markets are not perfect. Due to market imperfections and transactional advantages over the market, the firm itself, rather than simple price allocation, may be more profitable and cost minimizing. Therefore, the Coasian view posits that firms will exist only in

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<sup>37</sup> *In neoclassical economics the value of an entity or service was thought as the price it would bring in an open and competitive market. In classical economics price and value were not seen as equal* (Debunking Economics, p. 271).

locations where they perform better than markets could. Some locations may embrace *transaction costs*, which can trigger poor market performance.<sup>38</sup> Consequently, this answer is fundamental to the internalization theory of the firm.

Hence, Transaction Cost Economics and internalization perspectives in international business literature suggest that firms extract above normal returns from cross border investments by internalizing market imperfections when their firm specific assets cannot be sold for their internal value due to market imperfections.<sup>39</sup> Therefore, rents derived from internalization are expected to be capitalized into a higher value of the firm. Consequently, when EMMs first initialized their international expansion activities as manufacturing firms, they gained their initial advantage through internalizing market imperfections. They adapted large-scale technologies of the industrialized countries to manufacture at a smaller scale in their home countries and other developing countries. These firms first obtained the original know-how from developed countries as licensees. Once they mastered the ability to manufacture efficiently and gained other related skills, they began to expand into smaller markets and gradually ventured into larger ones.<sup>40</sup> The evidence of these operations indicates the existence of numerous firm advantages and therefore value creation for EMMs existed even in the early years. Thus, EMMs existed and continue to exist in the international frontier.

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<sup>38</sup> R. H. Coase. (1937) "The Nature of the Firm." *Economica* 4 (November): 386-405. Reprinted in R. H. Coase (1988) *The Firm, the Market, and the Law*. Chicago, Ill.: University of Chicago Press.

R.H. Coase. (1960) "The Problem of Social Cost." *The Journal of Law and Economics*. 3: 1-44. Reprinted in R. H. Coase (1988) *The Firm, the Market, and the Law*. Chicago, Ill.: University of Chicago Press.

<sup>39</sup> See, e.g., Caves (1971), Williamson (1975), Hymer (1976), Buckley and Casson (1976), and Morck and Yeung, (1992).

<sup>40</sup> Wells (1981).

Similarly, Market Structure Approach - The Industrial Organization Approach states that multinational firms are organizations of international production rather than international capital movement. Here, ownership advantages are seen as a *net cost advantage* of foreign owned firms in local markets. In order for a firm to invest abroad, it should have specific advantages to compensate for the advantages of local firms. Hence, firm specific advantages may be due to such reasons as market imperfection caused by product differentiation and marketing skills, imperfections in factor markets, economies of scale, and government intervention in the marketplace. To obtain these advantages, however, the production needs to be home-based.<sup>41</sup> This was particularly the case for Indian EMMs. In the early years of their expansions, Indian EMMs invested vertically, especially in ethnically related markets and carried out their operations with products from the home country. Furthermore, foreign subsidiaries of more advanced EMMs provided outlets for their products produced at home.<sup>42</sup> Therefore, home-based production played a crucial role in these firms' investments abroad and value creation.

When Latin American EMMs are considered, Hymer's theory can also explain some of the reasons for cross-border expansion and for their existence in the international frontier. In the early years, Latin American firms gained special assets through horizontal investments. This was mainly as a result of knowledge accumulation. In this way, firms adapted foreign technology to a specific small-scale operation and applied it to new markets at low marginal costs. This emerged as a necessary condition for the firms' cross-border expansion activities and value creation. Even "when tariff barriers are held constant, the desire to be closer to an important

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<sup>41</sup> Market Structure Approach/ The Industrial Organization Approach: First proposition of this approach comes from Hymer (1960, 1970).

<sup>42</sup> Wells (1981).

market previously serviced by exports motivated investments by Latin American firms from the largest semi-industrialized countries of Latin America”<sup>43</sup> (Diaz-Alejandro, 1977: 22).

In most cases, however, the decision for international expansion is determined by ownership, internalization, and locational advantages, which are available to the EMMs. This has especially been the case in recent years. Dunning’s (1981) macro level study on both the Brazilian and the Korean firms indicate that the net outward investment from these countries increased over time. Dunning ascribes this increase to the rising ownership advantages.<sup>44</sup> In line with Dunning’s argument, Agarwal and Prasad (1985) suggest that the eclectic theory can be applied to many other developing country multinationals. However, they insist that the ownership and internationalization advantages arise because EMMs are latecomers, and not because they are front-runners of international competition.<sup>45</sup>

Nevertheless, whether they are latecomers or front-runners, EMMs gained ownership advantages in two perspectives: the technologies they utilized for FDI were more labor intensive and appropriate for host countries; and they developed production processes as their factor endowments. Therefore, for EMMs ownership advantages and value creation arise from making technologies adaptable to smaller market sizes and factor endowments of other developing countries.

Overall, the existence of ownership advantages suggests that value creation had to exist for firms to expand abroad in the past. However, some researchers disagree and suggest that this theory is applicable to MNCs from the developed nations that do not show much interest in

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<sup>43</sup> Diaz-Alejandro (1977).

<sup>44</sup> In his macro level study, Dunning examines two emerging market countries. Here, the net outward investment means foreign investment in the country minus its overseas investment (Dunning, 1981).

<sup>45</sup> Agarwal and Prasad (1985).

exporting and therefore may not be pertinent to EMMs' earlier cross-border expansion patterns.<sup>46</sup> In addition, the theory of internalization explains the market expansion of firms through equity or non-equity forms of international involvement. However, the early expansion activities of EMMs were mostly based on export behavior of firms – signifying that the process of exporting was an incremental commitment. Therefore, the key consideration of EMMs during their international expansion has been the *risk on capital involvement in foreign operations*.<sup>47</sup> Other researchers agree “Maximum tolerable market risk, to a firm in expanding business operations to international market is a function of firm's resource position, and the firm's risk approach. Market uncertainty for a firm will be reduced through increases in interaction and integration with the market environment; therefore, additional commitments will be made” (Lau, 1992: 17). Hence, two conditions are evoked for value creation: 1) in order to invest internationally, EMMs needed to have a specific advantage over the local firms; and 2) the market had to be imperfect. Through the attainment of specific advantages they broadened their expansions. The advantages were mostly based on scale economies, managerial expertise, a technological or knowledge advantage, product differentiation or financial strength.<sup>48</sup> Hence, for the EMMs to exist in the international frontier, value creation has played a significant role even in the early cross-border expansion years. Moreover, as opposed to the EMMs' earlier expansion activities, the activities of the 1990s indisputably display the existence of ownership advantages.

When location advantages are considered, it becomes explicable that they arise from the foreign market – meaning low factor prices or customer access, together with the trade barriers or transportation costs make direct investment more profitable than exporting. Therefore, locational advantages may lead to value creation. The advantages also arise in part from the fact

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<sup>46</sup> Lau (1992).

<sup>47</sup> Johanson and Vahlne (1977).

<sup>48</sup> Lau (1992).

that for many products there is production cycle.<sup>49</sup> Product life-cycle theory can partially explain the cross-border expansion activities of EMMs.<sup>50</sup> For example, during the late 1970s, when China adopted an open-door policy and introduced *compensation trade*, it attracted investors from Hong Kong in the apparel industry, which were expanding internationally through licensing. At that particular time, the apparel manufacturing had reached a mature stage in developed countries due to the growth of developing country exports to developed countries. Hence, the operations in China attracted Hong Kong manufacturing ventures. When these firms accumulated knowledge in managing offshore operations, they built additional offshore firms – later these firms expanded into China through joint factories in other countries.<sup>51</sup> Therefore, value creation that the EMMs achieved during that time was also based on knowledge accumulation.

This is especially valid for Indian EMMs with mature technologies. As a result of having mature technologies, gradual expansion into the developed countries was actualized. In the early years, the investments seemed to originate from wealthier emerging market EMMs to smaller or poorer countries. Gradually, small horizontal investment flows from EMMs to the developed countries came to surface in the 1980s. This again can be identified as a stage in the product-life-cycle.<sup>52</sup> Taiwanese EMMs also illustrated the same pattern in that they received their original technologies from the developed nations, but later adapted these technologies to other

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<sup>49</sup> See, Locational advantages: The International Product Life-Cycle Approach (Vernon, 1966).

<sup>50</sup> Lecraw (1981).

<sup>51</sup> Wells (1977) suggests that most international production activities of the company in the developmental stages were located in developing countries. Wells also conveys reducing risk by diversifying as a significant driving factor for EMMs to expand, since some firms respond to market pressure well and are able to survive in foreign markets. Moreover, EMMs seem to have some kind of competitive advantage over the MNCs from the developed countries.

<sup>52</sup> Wells, (1981).

developing nations' standards. Doing so, gave them the competitive advantage in foreign markets that they expanded into and helped create firm value.<sup>53</sup>

Once value creation was actualized through export activities, the EMMs gradually began to attain other patterns of cross-border expansions. For most EMMs JVs were exploited first; but, later this pattern was followed by SAs – where both were exercised simultaneously in most cases. Therefore, in the 1980s and 1990s investments of EMMs were trade-related. However, the expansion activities were also linked by JVs and SAs. Recently, investments are based on market expansion strategies in which host and target markets are serviced by overseas production and service facilities.<sup>54</sup> Recent investments also include M&As. M&As are popular strategic tools for firms looking to expand their market reach or to develop new sources of material and technology and to attain knowledge since they have had previous international presence in variety of regions. Therefore, previous international presence and the choice of industry are also influential factors in cross-border expansion and value creation.<sup>55</sup> In addition, most of these firms are now investing more in private firms and not only in state owned enterprises as once they used to.

Although some M&A activities have been experienced since the mid-80s, they are coming up to the surface more forcefully today. For example in China, between 1985 and 1996, Hong Kong firms actualized 57.4 percent of M&A activities - amounting more than that of the U.S. firms, which was accounted for 48.2 percent. Hong Kong firms mostly chose acquisition of majority interests to expand into China in recent years.<sup>56</sup> The accumulation of ownership advantages also motivated and increased early M&A activities of EMMs. The early M&A

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<sup>53</sup> Ting and Schive (1981).

<sup>54</sup> Dent and Randerson (1997)

<sup>55</sup> Kogut and Singh (1988), Brouthers and Brouthers (2000), and Harzing (2002).

<sup>56</sup> See Milman (1999), and Dent and Randerson (1997).



activities of the 1990s were related to ownership advantages, which were based on EMMs ability to coordinate activities across sectors. These types of ownership advantages are usually identified as *transaction type O advantages* that were apparent in EMMs early stages of expansion. Later, *asset type Ownership advantages* were exploited.<sup>57</sup>

Both the *transaction type O advantages* and *asset type Ownership advantages* are valid for cross-border expansion strategies of most EMMs, but the Korean EMMs stand out. Jo (1981) by examining international expansion of Korean firms in the context of Korea's changing factor endowments and national policies, and the ever-changing international business environment, shows that in the early years of cross-border expansion, Korean EMMs invested in resource-rich countries to gain raw materials and invest in civil construction and engineering related industries. These firms invested in on-site trading and distribution to secure overseas markets for exports; manufactured in developing nations to serve local markets; and invested in research and development in industrialized nations to gain access to advanced technology.<sup>58</sup> However, in recent years, this has changed for these firms. Today, Korean EMMs are acquiring triad based high-tech firms.<sup>59</sup>

Subsequently, in today's global business milieu, ownership itself may be less important in value creation for EMMs. With the erosion of decision-making capabilities of national governments, EMMs now have international links for technology, training and executive development.<sup>60</sup> Therefore, the new factors may play a further role in value creation. These factors - changing patterns and the trend towards networks can be efficiently explained by contemporaneous theories on value creation and internationalization.

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<sup>57</sup> See Dunning, Hoesel and Narula (1997).

<sup>58</sup> Jo (1981).

<sup>59</sup> Business Korea (1999).

<sup>60</sup> Sklair and Robins (2002).

The Multinational Network Hypothesis is one of the contemporaneous theories that can explain EMM activities since EMMs began to exploit M&A, JV and SA patterns for their cross-border expansion activities in more recent years. The Multinational Network Hypothesis postulates that foreign investment decisions improve the expanding firm's ability to benefit from the systemic advantages inherent in a multinational network. The valuation effects of strategic actions leading to creation of a multinational network stem from the firm's ability to arbitrage institutional, and the informational externalities captured by the firm. The cost savings gained by economies of scale in production, marketing and finance also have a role – to the extent that these options can be exercised by the acquiring firm and cannot be traded and acquired by other investors because the value of the firm should increase to reflect the incremental value of these options.<sup>61</sup>

Furthermore, today strategic networks and interactions are significant incentives for EMMs since they have a great impact upon value creation. The impact of strategic interaction in explaining international expansion goes back to the influential work of Knickerbocker (1973).<sup>62</sup> More recent work in this area speculates that strategic linkage theory displays a reason for expansion and value creation. This theory views FDI as an attempt to link some strategic resources that the firm is deficient of, and which are available in a foreign country. For example, Chen and Chen (1998) find that strategic linkages stimulate Taiwanese EMMs for cross-border expansions. Taiwanese firms are especially motivated by strategic linkages in investing in the United States. On the other hand, they are also motivated by relational linkages for investing in Southeast Asia and China.<sup>63</sup>

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<sup>61</sup> Errunza and Senbet (1981, 1984), and Doukas and Travlos (1998).

<sup>62</sup> Knickerbocker (1973).

<sup>63</sup> Chen and Chen (1998).

Recent research on firm networks and organizational ties show that such features as cooperative arrangements and firm-specific characteristics in M&A, JV and SA activities add value to cross-border expansions.<sup>64</sup> A network is not only an entity made up of integrated structures, it is a process as well. Therefore, networks are structures arising from social relations. As Yeung (1997) expresses a network perspective emphasizes the three dimensions of multinationals – *extrafirm*, *interfirm*, and *intrafirm* networks. Multinationals shift to *extrafirm* networks through their *interfirm* level (personal relationships, and governance structures). Hence, *intrafirm* relations are based on trust and experience, which are vital for coordination. Today, EMMs are more competent to enter into foreign locations through these networks. Yeung (1997) illustrates this claim through an examination of Hong Kong firms whose transnational operations are entrenched in networks of relationships today.<sup>65</sup> Hong Kong firms that were once seeking economies of scale in the use of equipment and capital goods and internalizing the use of technology and capital goods<sup>66</sup> are now attempting to minimize risk through diversification and network ties. Today, Hong Kong multinationals hold competitive advantage over multinationals from developed nations, not only because Hong Kong multinationals' products are high quality and their management personnel is well trained and relatively low cost, but also because of their integration of relational linkages into their business activities through M&As, JVs and SAs.

Recent research indicates that the main reason for EMMs to prefer M&A, JV and SA patterns of cross-border expansion is because they are related to firm strategic objectives and linkages and that the key strategic objective of firms is being able to bring together different

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<sup>64</sup> Yeung (1994).

<sup>65</sup> Yeung (1997).

<sup>66</sup> Chen (1981).

types of expertise to promote and improve mutual operating competencies through network ties.<sup>67</sup>

Subsequently, *firm network tie* has become one of the most significant elements in Southeast Asian EMM operations. Today, EMMs are greatly influenced by organizational forms. Networks of inter –and intra-firm relations are certainly apparent in the international operations of EMMs giving that cultural, ethnic, political and economic ties between the home and host countries exist. The network tie is also becoming a norm for the EMMs from Eastern European countries, such as Turkey. Network relationships are more and more apparent in the operations of the Turkish EMMs.<sup>68</sup> This is also true for the activities of Polish-based subsidiaries and Ukrainian market specifics where network tie is a key determinant of the international expansion and value creation.<sup>69</sup> Thus, through network ties firms gain more flexibility in their joint venture and strategic alliance operations and therefore, they attain value creation.

Within the network relations cross-border acquisitions may also increase the operational flexibility of the firm by giving the firm the opportunity to exploit market conditions.<sup>70</sup> For instance, a multinational production network allows shifting of production in response to any large-scale changes in relative prices that can occur globally. The cost structure flexibility helps reduce the average marginal cost of worldwide production relative to that of purely domestic production and results in higher profit margins or greater market share. A similar argument can be made for average output prices in international markets when demand shocks are not perfectly correlated - provided that the costs of creating and maintaining such a diversified corporate

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<sup>67</sup> Kogut (1988), Hennart (1991), Buckley and Casson (1996), and Calantone and Zhao (2001).

<sup>68</sup> Culpan and Akzaoglu (2003).

<sup>69</sup> Rodziewicz (2002).

<sup>70</sup> Kogut (1983).

network are not excessive. Such a network can add additional value to the firm because of its ability to exploit a larger variety of market conditions.

In integrating various research findings, it can be pointed out that cross-border expansion into diverse markets has a high potential for the investing firms, no matter what pattern (i.e. M&As, JVs and SAs) the EMMs utilize. However, the decision for cross-border investment is a significant one since it involves various effects on the success of the expansion and, therefore, on the value of the firm. Studies related to cross-border mergers and acquisitions, joint ventures and strategic alliances state that firm-level factors, industry-level factors and country-level factors significantly influence the pattern of expansion into foreign markets.<sup>71</sup> On the other hand, these studies report mixed results in whether this influence on value creation is positive or negative because the degree of internationalization differs among diverse countries and industries. Furthermore, the factors that influence the choice of entry are related to the motives behind the expansion of each company with which firms rationalize their options.

Therefore, while international expansion through acquisitions offers significant value creation opportunities for the firms, it also presents significant challenges for them to materialize these hypothesized gains. An often cited complexity in cross-border acquisitions is related to the difficulties associated with post acquisition integration of the acquired company. In this context, a number of researchers highlight such risks as *liability of foreignness* and *double layered acculturation* pointing to the differences in natural culture, customer preferences, business practices and institutional forces in the vein of government regulations, which create impediments for complete realization of the strategic objectives.<sup>72</sup> On the whole, such significant factors as the extent of acquiring firm's experience in executing acquisitions and its

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<sup>71</sup> See, Doukas and Travlos (1988), Kogut and Singh (1988), Brouthers and Brouthers (2000), Harzing, (2002) and Shimizu, Hint, Vaidyanath and Pisano (2004).

<sup>72</sup> For a detailed discussion of risks associated with M&As, see Shimizu, et al 2004.

organizational capability to absorb the target, plus its prior presence in the target country may affect the degree of the acquisition impact on firm value. Furthermore, complications in target assessment and misidentification of asset complementarities, and informational asymmetries, as well as high premiums paid for the targets may also have adverse affects on the value of acquiring firms.<sup>73</sup>

Research also suggests that cross-border M&As often decrease the acquirer's shareholder wealth and increase the target's shareholder value.<sup>74</sup> This is especially relevant to U.S. firms' acquisitions of non-U.S. firms.<sup>75</sup> Other studies show wealth creation in reverse order.<sup>76</sup> Some disagree with value creation is being related to cross-border M&As. In addition, they point out M&As should not be categorized into two groups (domestic and international) because of globalization they can be categorized as the same.<sup>77</sup>

All in all, the results on cross-border M&As creating value to shareholders and/or the target firm are mostly contradictory. Some findings suggest that cross-border acquisition creates wealth both for the acquirers' and the target firms' shareholders.<sup>78</sup> But others indicate less value creation for the shareholders of the acquirer firm.<sup>79</sup> Although, these variations are not fully explained by the previous research concerned with M&As, an examination of other patterns of cross-border expansions may be able elucidate.

Hence, the implications are also examined by previous research on JVs that has been concerned with shareholder-wealth creation in cross-border expansions of firms. The research done by Hanvanich and Cavusgil (2000) on the shareholder value creation of international joint

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<sup>73</sup> Angwin, (2001), Hitt et.al (2001a, b), and Kissin and Herrera (1990).

<sup>74</sup> Kaplan and Weisbach (1992).

<sup>75</sup> Markides and Ittner (1994), Morck and Yeung (1992).

<sup>76</sup> Kang (1993).

<sup>77</sup> Datta and Puia (1995).

<sup>78</sup> Shimizu et al (2004).

<sup>79</sup> Fuller, Netter and Stegemoller (2002).

ventures, investigates the stock market reaction to the announcement of joint ventures. The results of the study based on event study show that announcements of joint ventures are associated with positive market reaction. The positive effects are also apparent a few days prior to the announcement in *informationally-efficient* markets.<sup>80</sup>

Similarly, Reuer (2000) conducts a study on firm performance and its relations to international joint ventures. This study examines parent firm performance result across international life-cycle stages by utilizing event study methodology and evaluates shareholder wealth effects of international joint venture formation and termination. The findings of the study maintain that international joint venture life cycle can have substantial impact on the total value of the parent firm.<sup>81</sup> This impact may vary according the information received by the market. For example, when the stock market receives general or specific information that alters expectations about cash returns from current and future assets the valuation of the firm changes. Therefore, in an *informationally-efficient* market, reactions to company announcements represent the market's evaluation of corporate decisions.<sup>82</sup>

Hanvanich and Cavusgil (2000), show that these variations and their risk may be avoided with cross-border expansion activities through international joint ventures. They state that the decision of joint ventures may be considered by many firms since it involves *trade-off between costs and benefits*, as explained by both the economic view<sup>83</sup> and the behavioral view.<sup>84</sup> When strategic option theory is considered, joint ventures substantially reduce risk<sup>85</sup> and some firms, rather than committing to full investment, choose joint ventures. JVs are also preferred since they

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<sup>80</sup> Hanvanich and Cavusgil (2000).

<sup>81</sup> Reuer (2000).

<sup>82</sup> Koh and Ventkatraman (1991), and .Madhavan and Prescott (1995).

<sup>83</sup> Economic view mentioned here is the transaction theory of Williamson (1975).

<sup>84</sup> Hanvanich and Cavusgil (2000).

<sup>85</sup> Kogut (1991).

are more lenient towards transferring knowledge that cannot be acquired through licensing agreements.<sup>86</sup> On the whole, most theories that can explain cross-border expansion through JVs state that joint ventures are strategic decisions on the way to attaining efficiency, knowledge and competitiveness. Therefore, JVs can be considered as a value creation mechanisms. This is especially true for EMMs that chose JVs to expand and to gain efficiency and knowledge.

However, it should also be realized that cross-border investments of Latin American firms did not necessarily emerge as a deliberate effort to promote joint ventures or other types of FDI. Not all EMM cross-border activities fall in clear categories. Some joint ventures may be the result of competitive pressures from extra regional transnational corporations (TNCs) and/or provoked by a key motivation - to benefit from high level of developed country technology and innovation. Furthermore, in some cases, JVs can be seen as mechanisms to move capital from one country to another.<sup>87</sup> At any rate, no matter where the incentive comes from risk reduction, in any form, is a viable reason for cross-border expansion of firms. This is indisputably the case for EMMs choosing expansion through JVs in order to reduce risk.

The results of previous studies on value creation are shared when strategic alliances are examined as well. Research that includes event study to measure the stock price response associated with the announcement of strategic alliances find that establishing strategic alliances creates significant value for the shareholders of the partnering firms.<sup>88</sup>

Previous research also suggests that strategic alliances reduce risk and promote firm value creation as SAs can be efficient for hedging risk since no one partner endures the full risk

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<sup>86</sup> Hanvanich and Cavusgil (2002).

<sup>87</sup> Diaz-Alejandro (1977).

<sup>88</sup> Das, Prayot k. Sen and Sanjit Sengupta. "Impact of Strategic Alliances on Firm Valuation." *Academy of Management Journal*, 41(1998): 27-41.

See also Chan, Kensinger, Keown and Martin (1997), and Chang and Kuo (2001).



of the joint project.<sup>89</sup> In some cases firms create flexible and focused organizational formations through strategic alliances. Specifically, in non-equity strategic alliances mutual commitment entails less impact on operations of the affiliating firms than joint ventures.<sup>90</sup> Since with the formation of a non-equity alliance a new organization is not created, it has been preferred by many EMMs. Moreover, strategic alliances can create value for partnering firms and provide flexibility for accomplishing strategic objectives as well as preventing agency costs. They can generate new links and disperse quickly when they experience changing demands in the market place.<sup>91</sup> In addition, when firms expand internationally through technological alliances, they experience greater abnormal returns.<sup>92</sup>

As it can be observed from previous studies, mergers and acquisitions, joint ventures and strategic alliances are strategic tools for firms operating in international markets. They are also a growing phenomenon in cross-border expansion activities of EMMs with which firms respond to globalization of various industries and a rapidly changing international business environment. In the annals of EMM cross-border operations, the changes in the global market appear to trigger modifications in the patterns of cross-border expansions.

Furthermore, when the scope of industry is traced, the changing cross-border patterns of EMMs become more apparent. During the early years of expansions, exports were favored for international operations. The EMM internationalization was also based more on manufacturing than technology. This was especially true for the Latin American and Asian EMMs. In many cases, EMM expansions were motivated by a need to increase home-based industrial production rather than replacing it. In the early 1990s, however, joint ventures and strategic alliances began

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<sup>89</sup> Porter and Fuller (1986), and Chang and Kuo (2001).

<sup>90</sup> Chan, Kensinger, Keown and Martin (1997).

<sup>91</sup> Jensen (1986), Mody (1993), and Chan, Kensinger, Keown and Martin (1997).

<sup>92</sup> Das, Sen and Sengupta (1998).

to dominate the expansion scene due to technological uncertainties. Therefore, EMMs began to diversify and included hi-tech to their operations in recent years.

Previous literature asserts conflicting results on industrial diversification and its influence on firm value. Bodnar et al. (1999), using comparable value measure find that international diversification increases shareholder value.<sup>93</sup> On the other hand, other the studies suggest a negative relationship. For example, recently Denis et al. (2002) by employing excess value measure and aggregate data illustrate that both international diversification and industrial diversification decrease shareholder value substantially.<sup>94</sup> Doukas and Lang (2003) consider a different view and suggest that industrial diversification and international diversification adorn or obliterate value in the existence or nonexistence of intangible assets – suggesting that advantage of internationalization arise from information-based asset of the firm. Their study examines the advantages of internalization to see whether the gains stem from the expansion of core or non-core business of the firm. The study finds that the internalization theory is more consistent with the core and not the non-core business of the firm.<sup>95</sup>

Hence, in addition to the patterns of cross-border expansion, previous studies also consider the importance of industry the firms choose and their degree of product diversification in value creation.<sup>96</sup> This is especially relevant in the case of cross-border expansions of EMMs since in response to changing world business climate and with the opening of new markets, the pattern and the mode (industry) of doing business for EMMs have also been altered dramatically in recent years.

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<sup>93</sup> See Bodnar et al. (1999).

<sup>94</sup> Denis et al. (2002).

<sup>95</sup> Doukas and Lang (2003).

<sup>96</sup> Wilson (1980), and Brouthers and Brouthers (2000).

Furthermore, several other factors are also instrumental in EMMs cross-border expansion and value creation. Previous studies exhibit that changes in governance of firms should influence the firms' cost of capital and valuation.<sup>97</sup> Most EMMs today are improving their corporate governance structures in order to be listed in developed countries. However, in most cases informational asymmetries constitute an impediment in development of financial markets. Emerging markets that EMMs originate in suffer from this consequence.

Historically, information problems in emerging markets led to the development of bank-centered financial systems and left corporations with limited choice and variety of financial resources. The natural outcomes of this are: over reliance of internal funds, and high cost of capital due to limitations of domestic financial markets. Therefore, equity becomes very costly due to information problems. A limited number of emerging market firms attempted to overcome the limitations of domestic financial markets by subscribing to more stringent disclosure requirements in more developed financial markets particularly by accessing tools such as medium called American Depositary Receipts (ADRs).

These firms raise equity capital by using an issuance of American Depositary Receipts (ADRs). ADRs are negotiable certificates funded by U.S. depository banks that represent a company's publicly traded shares in its home market. Foreign companies can be listed in the U.S. markets. The listings can range from Rule 144A to Level III ADRs. Rule 144A involves minimal registration and only partial disclosure; it is available to qualified institutional buyers (QIBs) that consider exchange listed program/ private placement. Level III ADRs take place in NYSE, AMEX and/or Nasdaq over-the-counter market. Level III ADRs oblige firms for full registration and continuous financial statement information.<sup>98</sup>

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<sup>97</sup> Stulz (1999).

<sup>98</sup> Foerster and Karolyi "The Long -Run Performance of Global Equity Offerings" (2000)

ADR issuance is considered to be a strong signal to the market that the issuing company is ready for compliance. Such a move by an EMM theoretically has some value implications. First, the issuing company reduces the risk premium by committing itself to transparency and continued disclosure at higher standards. In other words, commitment to good corporate governance creates value for the existing shareholders of the firm. The announcement and more importantly verification of such behavior should result in a decline in risk premium and therefore an increase in value. There are number of empirical studies verifying this expected increase in firm value in the context of an event studies by analyzing the returns around the ADR listing. Research finds that there is a link between better corporate governance structures and better operating performance. For example, firms listed on a US stock exchange have better corporate governance rankings since they are required to follow US GAAP accounting standards and also comply with Securities and Exchange Commission's (SEC) laws and regulations.<sup>99</sup>

Overall, the issue of information disclosure (transparency) plays a role in firm performance. Since *disclosure* (along with *accountability* and *responsibility*) is considered as one the criterion for good corporate governance structure,<sup>100</sup> it can be said that corporate governance structures of EMMs may have some impact on market reaction, firm performance, and value creation.

Finally agency cost framework suggests that managers may have the incentives to adopt and maintain value reducing diversification strategies which may not be entirely consistent with shareholder wealth creation. In other words, they may pursue international expansion strategies even if doing so reduces shareholder wealth. Dennis et al (2001) argue that at least three factors motivate managers to expand internationally. First, managing a large, multinational, corporation

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<sup>99</sup>Klapper and Love (2002).

<sup>100</sup> OECD report (1997).

provides greater power and prestige on the manager as articulated by Jensen's managerial hubris hypothesis and Stulz's empire building motives [see, e.g., Jensen (1986) and Stulz (1990)]. Second motivation stems from the link between the firm size and managerial compensation as established by Jensen and Murphy (1990). Third motivation is related to the manager's risk reduction incentives. As argued by Amihud and Lev (1981), to the extent that the cash flows of global segments are imperfectly correlated, global diversification reduces the risk of the manager's relatively undiversified personal portfolio. If these private benefits exceed the manager's private costs, the firm may pursue global diversification that is not consistent with shareholder value creation.

All things considered, today, EMMs through their cross-border expansions, diverse industries, and firm structures, may be adding a unique value to FDI. This is may also be related to their ever evolving financial performances. Therefore, in examining the valuation implications of EMMs, one crucial issue remarkably surfaces – firm performance. Behind all the activities that the EMMs carry out, there exist financial objectives. Wells (1977) indicates that financial growth of firm is the main reason for international expansion and all other factors are instrumental reasons.<sup>101</sup> A study by Millington and Bayliss (1995), also suggests a similar finding.<sup>102</sup> The study also adds the importance of financial aspects of cross-border expansion activities and expresses that the size of firms and size of investments influence the type of market they explore into and the type of activities they conduct. However, some studies suggest that when relatively highly valued firms acquire relatively less highly valued firms in the absence of synergy, the value creation may be absent.<sup>103</sup> Similar studies agree - both M&A and JV types

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<sup>101</sup> Wells (1977).

<sup>102</sup> Millington and Bayliss (1995).

<sup>103</sup> Shleifer and Vishny, "Stock Market Driven Acquisitions," *Journal of Financial Economics* 70 (2003): 295-311.

expansions may create wealth and that wealth effects are directly associated with the size of the event. However, if the target is small in comparison to the acquirer, even good acquisitions may not have a positive impact on the acquirer's stock price. In addition, if the transaction process takes longer than it is anticipated negative market reaction could be observed.<sup>104</sup> Therefore, research suggests that investment size may be an important factor in gaining higher abnormal returns.<sup>105</sup>

Furthermore, some researchers adopt transaction cost theory to their examinations to examine the impact of control level in value creation. Appropriate level of control, they say, is a key mechanism to limit the opportunistic behaviors of venture partners,<sup>106</sup> when equal level of control is exercised by partnering firms, value is created for both sides. Hence, the level of control of the acquiring firm is an important factor in cross-border expansion patterns of EMMs.

Similarly, in regards to the growth of the firm, Aharoni (1966) points out that the internalization of a firm is an incremental process and the focus should be on capital.<sup>107</sup> Therefore, the financial aspect EMM cross-border expansion, specifically firm performance is vital to explore.

Important empirical evidence comes from Gomes and Ramaswamy (1999). Their study addresses both the costs and benefits associated with multinationality. According to the examination, "relationship between multinationality and performance will be non linear with performance increasing up to an optimal level beyond which higher levels of multinationality

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<sup>104</sup> Mulherin and Boone (2000).

<sup>105</sup> Kogut and Singh (1988), and Brouthers and Brouthers (2000).

<sup>106</sup> See, eg., Beamish and Banks (1987), Geringer and Hebert (1989), and Hanvanich and Cavusgil (2000).

<sup>107</sup> Aharoni (1966) developed a behavioral model of internationalization. Aharoni like Hymer in his 'stages theory,' is concerned with technical and marketing experience. According to his theory, firms develop basic business skills in their domestic markets before entering into foreign markets. For Aharoni, the stages of the FDI process first consist of general indicators which are divided into risk and uncertainty.

lead to performance decline.” (1999: 178). Therefore, the increasing levels of multinationality bring benefits up to a certain optimum level; then when multinationality increases performance declines. With continuing cross-border expansion, the costs accelerate and the benefits begin to decline. However, firms’ initial benefit is greater than their cost. This is because firms tend to choose familiar markets for their initial cross-border expansion patterns. In familiar markets, the relevant cost is usually low due to the increased efficiencies realized by using skills and resources the organization already possesses.<sup>108</sup> Gomes and Ramaswamy also posit that the empirical research in the past had contrary results and that the impact of international expansion on firm performance still deceptive.<sup>109</sup> Nevertheless, there is relationship between excess value of firm and the extent of internationalization.<sup>110</sup>

Examining EMM performance is one of the objectives of this study. This examination is geared to shed more light on the value implications of cross-border expansion patterns. The next chapter (methodology part) clearly defines the methods used for this examination.

All things considered, the current international expansion activities of EMMs and their implications are due to numerous reason *raison d’êtres*. As a result, the theoretical synopsis indicates that value creation through a cross-border expansion depends on various interdependent factors. As mentioned previously, the first part of the literature review expresses that firm, industry and country factors are related to value creation of EMMs. This effect is also

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<sup>108</sup> The article “An Empirical Examination of the form of the relationship between Multinationality and Performance” written by Gomes and Ramaswamy (1999) utilizes a curvilinear model, which addresses both the costs and benefits associated with multinationality.

<sup>109</sup> There are two factors in the findings of Gomes and Ramaswamy. The state that previous studies assumed that the relationship between multinationality and performance is linear. Second, the studies have not examined the stability of the multinationality performance relationship.

<sup>110</sup> Erunza and Enber (1984).

communicated by the previous research on value creation of M&As, JVs, and SAs in which both the early and the late EMM literature support each other.

Therefore, drawing from the previous literature, the many factors that impact upon the value creation of cross-border expansion patterns of EMMs can be identified as regions that the EMMs originate from, the recent expansion patterns (i.e. M&As, JVs, and SAs), relational linkages with partnering firms, corporate governance structures of EMMs, control level, investment size, geographic and cultural factors, political factors, and industry factors. Previous literature also expresses that all of these factors are interrelated as they collectively impact upon EMMs' cross-border expansions and value creation, yet they also play individual roles.

Due to these interdependencies, it is critical to examine the specific factors individually in order to attain the objective of whether cross-border expansion of EMMs creates value. In doing so, this study, primarily, explores market reaction to these expansions. This study relies on previous research for the selection of the following detailed variables. The factors generated by the assessment of the previous literature are employed as proposed determinants of value creation. These determinants are united into three main categories: 1) Firm factors, which consists of such sub-determinants as regions that EMMs come from, expansion patterns (i.e. M&As, JVs and SAs), corporate governance structures of EMMs, investment size, control level, target being private or public, prior presence in the target country, previous international experience, and number of bidders (the term bidders considered here is derived from EMMs' relational linkages with other firms and looked upon as firms that jointly invest and take part in business activities after the announcement has been made); 2) Industry factors, which includes the following determinants, whether the EMM is diversified or not and whether the EMM is hi-tech or not; and 3) Country factors comprises the determinants of geographic and cultural



proximity, political and economic aspects, and whether the target country is developed or developing. All of these determinants are tested individually in the event study methodology to serve the purpose of this study. These determinants are also included as independent variables in both the cross-sectional regression and the logistic regression analyses in order to grasp the value implications of cross-border expansion patterns of EMMs.

## Chapter III

### Methodology

*Research Approach.* In order to have a comprehensive perspective on the issue and to contribute to the field of IB, multiple complementary research methods are employed. The primary research method is critical and empirical analysis of primary and secondary sources. Data are collected through two complementary methods – company accounts/records and the use of selected existing databases. The first reason for integrating two complementary sources is that there is not sufficient and/or extant empirical data regarding EMMs international expansion. The second reason is that one method could not satisfactorily answer all the questions raised in this study. In addition, scholarly articles, newspapers, books, government documents, and economic reports are appended to enhance and supplement the findings.

*Data.* EMM sample data are obtained from the United Nations' UNCTAD world investment report on transnational corporations and export competitiveness (2002). These findings are as follows: The top 50 non-financial Transnational corporations (TNCs) from developing economies; and the largest 25 non-financial TNCs based in Central and Eastern Europe. This sample is being expanded during the course of the study.

Merger and acquisition as well as joint ventures transactions data for 1991-2003 are extracted from the Securities and Data Corporation's (SDC) Worldwide Mergers and Acquisitions database. This information from the SDC database is classified as the role that an EMM played in a transforming event as one of the following: (1) acquirer: the firm purchased part or all of another firm; (2) target: the firm sold a substantial portion or all of itself to another firm; or (3) partner in a pooling merger: the firm pooled its assets with another firm or merged

with another firm of approximately equal size. Transaction to the firm's fiscal year based on the transaction announcement date.

Financial data - equity returns, ADR listings and company accounts on EMMs are complied from DataStream International. In addition, the index of Political and Economic Freedom Ratings provided by ICRG is utilized. This index measures the extent of economic freedom of all citizens in various nations.

### Method One

#### Event Study Methodology

The standard event study methodology is utilized to evaluate the impact of each expansion announcement on the firm value. The event-study methodology is inspired by the efficient market hypothesis that capital markets are efficient instruments to evaluate and process the impact of new information available on firms.<sup>111</sup> The principal logic of the hypothesis is the credence that investors in the capital markets oversee publicly available information on firm to assess the impact of firm activities, not just on current performance but the performance of the firm in the future as well. Furthermore, an event study discloses the impact of firm strategic decisions on shareholder value, and captures the firm's performance on market share. In addition, it makes a benchmark available to compare outcomes of these strategic decisions across firms, industry, and other firm and market characteristics.

Traditionally, the market model is assumed to be the underlying return process. The market model assumes a linear relationship between the return of any security and the return of the market portfolio. For each security  $i$  market model assumes that returns are given by:

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<sup>111</sup> Fama, Fisher, and Jensen (1969).

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_t,$$

where,

$$E[ei] = 0 \text{ and } VAR[eit] = \sigma^2 ei \quad (1)$$

and where  $R_{it}$  is the return on security  $i$  at time  $t$ . The subscript  $t$  indicates the time, the subscript  $i$  indicates a specific security, and the subscript  $m$  indicates the market.  $R_{mt}$  is the return on the market portfolio during period  $t$ . The model's linear condition arises from the assumed normality of returns. The  $\varepsilon_t$  is a random error term for security  $i$  at the time of  $t$ , and the  $\beta$ s are firm specific coefficients to be estimated.

Equation (1) is estimates a 255 - day estimation period from  $t = -11$  to  $t = -265$  where  $t = 0$  is the event day. In this study, the window is defined as the period between 10 days prior to the event to 10 days after the event. By the estimated regression parameters,  $\alpha$  and  $\beta$  from equation (1), a normal return during the event window is predicted. The estimated model is used to predict returns for the security during the event window ( $t = -10, 10$ ). The abnormal return (AR) due to the announcement on any given day of the event window is therefore equal to the actual return minus the predicted normal return, given by the prediction error:

$$AR_{it} = R_{it} - \alpha_i + \beta_i R_{mt} \quad (2)$$

Daily abnormal returns are then computed within the particular event window for each expansion. To obtain a general insight of the abnormal return observations of each expansion announcement, the abnormal returns for a sample of  $N$  firms a daily average abnormal return (AR) for each day  $t$  is calculated as the following:

$$AR_t = \frac{1}{N} \sum_{i=1}^n AR_{it} \quad (3)$$

Assuming that the returns on each day are independent, the standard errors are cumulative; therefore, the proper standard error is the cumulative standard error. This is due to the fact that adding independent normal variables requires adding the cumulative standard errors. Thus to précis the abnormal returns over the entire 21-day-event window yields the Cumulative Abnormal Returns (CARs):

$$CAR_t = \sum_{i=1}^n AR_{it} \quad (4)$$

To further test for the impact of each expansion during the event window  $(T_1, T_2)$ , the abnormal returns can be added together to find the cumulative abnormal returns  $(CAR_i(T_1, T_2))$  for firm  $i$  over the period  $(T_1, T_2)$ :

$$CAR_i(T_1, T_2) = \sum_{t=T_1}^{T_2} AR_{it} \quad (5)$$

According to previous researchers suggest that that abnormal performance measures such as cumulative abnormal returns (CARs) are less likely to generate false rejections of market efficiency. In addition, distributional properties and test statistics for cumulative abnormal returns are better understood.<sup>112</sup> However, this study utilizes standardized cumulative abnormal returns (SCARs) to determine whether an international expansion decision taken by an EMM has a material effect on the firm value. Therefore, the following procedure is applied.

To determine whether the abnormal returns are significant, they are standardized where they are divided by the estimated deviations (S). This is done to examine whether the abnormal

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<sup>112</sup> Fama (1998), and Mitchell and Stafford (1998).

return is statistically different from zero. The standardized abnormal return (SAR) is calculated as

$$SAR_t = \frac{1}{N} \sum_{i=1}^N \frac{AR_{it}}{S_{it}} \quad (6)$$

$$SAR_{it} = AR_{it} / S_{it} \quad (7)$$

where residual standard deviation is multiplied by  $AR$  for each day for each event. In other words,  $S_i$  is the square root of firm  $i$ 's estimated forecast variance computed as

$$S_i = \left[ S_i^2 \left[ 1 + \frac{1}{N} + \frac{(R_m - \bar{R}_m)^2}{\sum_{t=1}^N (R_{mt} - \bar{R}_m)^2} \right] \right]^{1/2} \quad (8)$$

where  $S_i^2$  is the residual variance for security  $i$  from the market-model regression,  $N$  is the number of observations during the estimation period,  $R_m$  is the return on the market portfolio for the  $K$ th day of the estimation period,  $R_{mt}$  is the return on the market portfolio for day  $t$ , and  $\bar{R}_m$  is the average return of the market portfolio for the estimation period - assuming that individual abnormal returns are normal and independent across firms.

In order to test the null hypothesis the study constructs a test statistic using the standardized abnormal returns, which are averaged across the EMMs and summed across the event window to find the standardized cumulative average abnormal returns (SCAR).  $SCAR_i$  for days is given by:

$$SCAR_i(T1, T2) = \frac{CAR_i(T1, T2)}{\sigma(T1, T2)} \quad (9)$$

$SCAR_i$  is obtained by multiplying  $CAR_i$  with  $\frac{1}{stdv}$  and then multiplying it by number of days.

The residual variance from the event study is used as the estimated forecast variance for firm  $i$ . Therefore, SCARs for a range of event windows spanning around the expansion announcement are examined. This examination begins with the standardized cumulative abnormal returns of day -10 through 0, SCAR (-10, 0), and reduce the event window to SCAR (-1, 0), and finally to day 0 through day +1, SCAR (0, +1). Specifically, the study examines the following intervals SCAR (-10, +10), SCAR (-5, +5), SCAR (-10, +5), SCAR (-5, +1), SCAR (-2, +1), SCAR (-1, +1), and SCAR (-1, 0). The SCARs employed in the event study are also utilized as dependent variables in the second (cross- sectional regression analysis) and third (logistic regression analysis) empirical models of this study.

*Logic behind Standardization.* Since abnormal returns for each announcement window are the dependent variables in the cross - sectional regression analysis (the second model employed by this study), it is perceived necessary to standardize the  $CARs$ . In this process, the independent variable (SCAR) is transformed so that the resulting mean is zero and the resulting standard deviation is one. In this rationale, information is not lost as a result of standardization. The advantages of standardization includes the following: 1) By standardizing  $CARs$  to  $SCARs$ , the problem of multicollinearity can be removed or reduced in a polynomial regression analysis since the method standardizes the linear, quadratic, and cubic terms in the polynomial regression equation. Therefore, multicollinearity among the abovementioned terms is reduced. Since multicollinearity reduces precision of estimation and makes it difficult to extricate the relative impact of each independent variable on the dependent variable, the standardization method becomes practical. In addition, the correlation coefficients with other variables are not impacted by this conversion. 2) The other significant benefit gained by standardization is that calculations

become more precise, meaning they do not lose precision due to rounding errors while calculating the variances or covariances.<sup>113</sup> This is especially valid when large values, many variables and many cases are involved, which is the circumstance in this study.

*Test Statistics.* Various studies emphasize the biases and misspecification of test statistics in event studies. The CARs or SCARs are likely to be subject to a skewness bias, and a new listing bias.<sup>114</sup> However, most of these biases appear in the long-run event studies. This study focuses on rather short windows. Nevertheless, in order not to be faced with biases, several statistical tests are utilized:

1) Mann-Whitney Test for unmatched pairs' z values of median differences calculated as the following:

$$H1: ETA1 \neq ETA2$$

$$Z_w = \frac{\left| w - \frac{n(m+n+1)}{2} \right|^{-0.5}}{\sqrt{\frac{mn(m+n+1)}{12}}} \quad (TS1)$$

Ho is  $ETA1 = ETA2$ , where ETA is the median. If the value is significant Ho is accepted.

This method is used here because all pairs in this study are unmatched.

2) Wilcoxon Signed-Rank Test (1-sample) for median z values. The normal approximation of Wilcoxon w statistics is given by:

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<sup>113</sup> Doo-Sub Kim. *Regression Analysis for the Social Sciences*. (1993) Bupmunsa, Seoul, Korea.

<sup>114</sup> S. Brown and J. Warner. "Measuring Security Price Performance." *Journal of Financial Economics* 8 (1980): 205-258.

and

S.O. Kothari and J.B Warner. "Measuring Long Horizon Security Returns." *Journal of Financial Economics* 43 (1997):301-339.



$$Z_w = \frac{\left| w - \frac{n(n+1)}{4} \right|^{-0.5}}{\sqrt{\frac{n(n+1)(2n+1)}{24}}} \quad (\text{TS2})$$

where  $n$  is the sample SCARs. The Wilcoxon Signed-Rank test Z-value is calculated using the formula  $Z = W/\text{Stdev}(W)$ .  $W$  is computed as the sum of the products of the signs and ranks of the absolute values of the SCARS.  $\text{Stdev}(W)$  is computed using the formula  $n(n+1)(2n+1)/6$ .  $Z \sim N(0,1)$  the standard normal distribution.

3) A  $z$  test for positives/negatives suggested by Doukas and Travlos (1988),<sup>115</sup> which this paper refers to as *Doukas' z*. This technique tests the significance levels of positives and negatives and it is computed as follows:

$$\frac{m - pn}{\sqrt{npq}}, \quad (\text{TS3})$$

where  $m$  = number of positives and  $p=q=0.5$ , and  $n$  = number of events.

In addition to the above mentioned tests, the  $z$  values for the mean of the SCARs are computed as  $Z = \bar{X}/(\text{Var}/\text{sqrt}(n))$ .  $Z \sim N(0,1)$  the standard normal distribution.

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<sup>115</sup> Doukas, John and Travlos, N., 1988. The Effect of Corporate Multinationalism on Shareholders' Wealth: Evidence from International Acquisitions. *Journal of Finance*, 43(5): 1161-1175.

## Essential Suppositions in Identifying Abnormal Returns in an Event Study

The extant literature clearly establishes that the effectiveness of the event-study technique depends largely on robust suppositions. If these suppositions are infringed, the empirical results may be subjective and vague.<sup>116</sup> Therefore, in identifying abnormal returns, it is crucial to clarify these suppositions.

*Supposition 1 - Markets are efficient.* In efficient markets, relevant financial information, which is newly disclosed to investors, will instantly be integrated into stock prices. Since the new information is an outcome of an event, this study utilizes the announcement day as the event date. With the use of the announcement day the study can identify a company's daily returns and their impact on how the market reacts to internationalization of EMMs. In order to do this, short event windows are chosen giving that the supposition of market efficiency is not easy to be captured with the application of a long event window. Another reason for this is that long event windows may not show the significance of test statistics.<sup>117</sup>

*Supposition 2 - The event was unanticipated.* The choice of utilizing short event windows can also be justified because the concern in this study is M&As, JVs and SAs with which EMMs endeavor cross-border expansion. These types of transactions are usually announced in the press and investors receive information from the announcements where markets do not have previous knowledge. All of these activities/events become new information to the investors instantly. Since these types of announcements are related to stock prices of EMMs, which usually adjusts within fifteen minutes of the release of firm-specific information, with the use of long event windows it would be difficult to control for the confounding effects.

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<sup>116</sup> See McWilliams and Siegel (1997).

<sup>117</sup> See above.

*Supposition 3- There were no confounding effects during the event window.* Although this study employs short event windows, they are long enough (beyond the two day period) to be able to capture and reveal confounding effects. The other reason for using short windows is to control for confounding effects and isolate the effects of other events. With long windows it is highly likely that events have experienced confounding effects. In addition, *cross-correlation* in abnormal returns is not pertinent in short event windows.<sup>118</sup> Therefore, in this study, a narrow interval around the announcement is applied.

### Essential Issues in Research Design and Implementation of an Event Study

*Sample Size.* The study uses a large sample size and the test statistics used in the event study framework are based on normality assumptions associated with large samples. With small samples the interpretation of significance and the outliers may be exigent. One important way to control for outliers is to report nonparametric test statistics. Therefore, this study applies the Wilcoxon Signed-Rank test, which considers both the sign and the magnitude of abnormal returns. In addition, the use of long event windows reduces the power of the test statistics, but the use of short event windows captures the significance of events.<sup>119</sup> This study has originally begun with 1,120 international expansion activities conducted by EMMs; however, this sample size was reduced to 982. Since it was not possible to subtract the financial impact, specific events were eliminated as suggested by previous research.<sup>120</sup> In addition, the transactions with confounding effects were extracted in order to analyze them in a further study. This study considers this elimination process necessary in retaining the soundness of the empirical results.

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<sup>118</sup> See S.P. Khotari and Jerold B. Warner (2000).

<sup>119</sup> Ryngaert and Netter (1990).

<sup>120</sup> Foster (1980).

*Event Window/Announcement Date.* Most cross-border expansion studies employ short event windows in examining cumulative abnormal return from the two preceding days as well as the day of actual announcement.<sup>121</sup> They use the three-day day interval. Therefore, this study is consistent with the previous work. This study employs 251-day estimation period with 11-day event windows. However, the study also looks at just long enough window to capture the effects of strategic decisions and implications that may involve in cross-border expansions, as these activities are M&As, JVs and SAs and need some strategic planning. As previously mentioned, the windows examined range from -10 to +10 in various intervals. However, according to the extant research, to capture results in event-studies 1 or 2 days in length is sufficient to report.

## Method Two

### Cross – Sectional Regression Analysis

In the past, econometric issues in evaluating abnormal returns have been given vast attention; yet, residuals in cross-sectional regression analysis have been discounted for many years. Recently, different techniques are being used to identify reasonable conditions that may have inference with abnormal returns.<sup>122</sup>

Therefore, in order to examine the impact of activities mentioned throughout the study on performance of EMMs Cross-Regression analysis is utilized.

However, in order to see the differences between expansion types, i.e. M&As (*EXP1*), JVs (*EXP2*) and SAs (*EXP3*), one way ANOVA is utilized prior to conducting cross-regression analysis. Once the differences are observed cross- regression analysis is applied accordingly.

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<sup>121</sup> Madhavan and Prescott (1995), Koh and Ventkatraman (1991), Madhavan and Prescott (1995), Das, Sen and Sengupta (1998), and Hanvanich and Cavusgil (2000).

<sup>122</sup> B.Espen Eckbo, Vojislav Maksimovic and Joseph Williams. "Consistent Estimation of Cross-Sectional Models in Event Studies." *The Review of Financial Studies* 3 (1990): 343-365.

The same procedure is also conducted for the regions, i.e. Asia (*REGION1*), Eastern Europe (*REGION2*), and Latin America (*REGION3*).

In the cross-sectional regression analysis SCARs by each interval are utilized as the dependent variables (this is true for equations 10, 11, and 12) and in the first analysis regressed against the expansion types in order to observe whether the expansion types have any impact on value creation, meaning creation of positive or negative standardized cumulative abnormal returns (SCARs). This is calculated as follows:

$$SCAR(-1,0) = \beta_0 + \beta_1 FS / TS_1 + \beta_2 EXP1_2 + \beta_3 EXP2_3 + \varepsilon \quad (10)$$

where, *EXP1*, *EXP2* and *ECOPOLFREE* are dummy variables. This is followed by a similar equation for to test the impact of the regions that the EMMs originate from:

$$SCAR(-1,0) = \beta_0 + \beta_1 REGION1_1 + \beta_2 REGION2_2 + \varepsilon \quad (11)$$

where, *REGION1* and *REGION2* are dummy variables. The procedure is exercised in order to see if there are any value creation effects of EMMs' country of origin.

In the next cross-sectional regression analysis SCARs are dependent variables once more (SCARs for the seven intervals utilized in the event study are tested individually) as in the first two analyses and regressed against a predictor variable *FS/TS* (foreign sales to total sales ratio) and thirteen dummy variables. These dummy variables are the same ones that are employed for the event study. They are included here to make further inference with the results from the event study and also to observe whether there is consistency in the findings. The variables that had no

previous significance are extracted from the regression. The equation for the cross-sectional regression analysis is as follows:

$$\begin{aligned}
 SCAR(-1,0) = & \beta_0 + \beta_1 GEOCULPROX_1 + \beta_2 ECOPOLFREE_2 + \beta_3 RELATEDINDSTRY_3 + \\
 & \beta_4 HITECH_4 + \beta_5 DEVELOPED_5 + \beta_6 FS/TS_6 + \beta_7 INVESTSIZE_7 + \beta_8 LEVELCONTROL_8 + \\
 & \beta_9 REGION1_9 + \beta_{10} REGION2_{10} + \beta_{11} NOADR_{11} + \beta_{12} 144A_{12} + \beta_{13} LEV1_{13} + \beta_{14} LEV2_{14} + \beta_{15} BID_{15} \\
 & \beta_{16} PRIOPRES_{16} + \beta_{17} PREVINTEXP_{17} + \varepsilon
 \end{aligned}
 \tag{12}$$

The next step is to examine whether the expansion activities of EMMs impact on firm performance. In order to have a sound examination several performance measures are utilized as the dependent variables. These performance measures are: *ROA*, *ROE*, *EBIT*, *EBITDA*, *ROCE*, *RSHE* and *OPM*, where  $\Delta$  (change in -1 year to 1 year, 2 year and 3 year are included in the dependent variables. (-1) year is 1 year prior to the announcement. In order to see if there is any improvement or decrease in the performance measures, post 1, post 2 and post 3 years of the announcement of the expansion are also examined. Here, the *FS/TS*, *TA* and *TS* are used as the predictor and control variables. The performance equations are as follows:

$$\Delta_1 ROA = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon
 \tag{13}$$

where, *ROA* (Return on Assets) is the dependent variable,  $\Delta_1$  is the change in *ROA* post 1 year of the expansion announcement.

$$\Delta_2 ROA = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon
 \tag{14}$$

where, *ROA* is the dependent variable,  $\Delta_2$  is the change in *ROA* post 2 year of the expansion announcement.

$$\Delta_3 ROA = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (15)$$

where, *ROA* is, once more, the dependent variable,  $\Delta_3$  is the change in *ROA* post 3 year of the expansion announcement. The same procedure is repeated for all the other performance measures utilized in this study.

$$\Delta_1 ROE = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (16)$$

where, *ROE* (Return on Equity) is the dependent variable,  $\Delta_1$  is the change in *ROE* post 1 year of the expansion announcement. This process is repeated for post 2 and post 3 year of the expansion announcement.

$$\Delta_1 ROCE = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (17)$$

where, *ROCE* (Return on Capital Employed) is the dependent variable,  $\Delta_1$  is the change in *ROCE* post 1 year of the expansion announcement. This process is repeated for post 2 and post 3 year of the expansion announcement.

$$\Delta_1 EBIT = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (18)$$

where, *EBIT* (Earnings before Interests and Taxes) is the dependent variable,  $\Delta_1$  is the change in *EBIT* post 1 year of the expansion announcement. This process is repeated for post 2 and post 3 year of the expansion announcement.

$$\Delta_1 EBITDA = \beta_0 + \beta_1 FS/TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (19)$$

where, *EBITDA* (Earnings before Interests, Taxes, Depreciation and Amortization) is the dependent variable,  $\Delta_1$  is the change in *EBITDA* post 1 year of the expansion announcement. This process is repeated for post 2 and post 3 year of the expansion announcement.

$$\Delta_1 OPM = \beta_0 + \beta_1 FS / TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (20)$$

where, *OPM* (Operating Profit Margin ) is the dependent variable,  $\Delta_1$  is the change in *OPM* post 1 year of the expansion announcement. This process is repeated for post 2 and post 3 year of the expansion announcement.

$$\Delta_1 RSHE = \beta_0 + \beta_1 FS / TS_1 + \beta_2 TA_2 + \beta_3 TS_3 + \varepsilon \quad (21)$$

where, *RSHE* (Return on Shareholders' Equity) is the dependent variable,  $\Delta_1$  is the change in *RSHE* post 1 year of the expansion announcement. This process is repeated for for  $\Delta_2$  and  $\Delta_3$ , change in post 2 and post 3 year of the expansion announcement for each of the performance measures.

### Method Three

#### Logistic Regression Analysis/Logit Model

To proceed with the Logit Transformation, negative SCARs are separated from the positive ones and the variables with significance are utilized in the analysis. Where  $(Li) = a + bXI$  is the transformation procedure.

$$a + \beta x = \ln \left( \frac{P}{1-P} \right)$$

where, (22)



$$Li = \text{Logit} = \ln\left(\frac{P}{1-P}\right)$$

(23)

and where,  $\ln = \log = \text{natural logarithm}$ ;  $P$  is the proportion of subjects in a group effected;  $a$  is the constant;  $\beta$  is the Logit regression coefficient; and  $X_i$  is the Level of the independent variable . Instead of the slope coefficients ( $\beta$ ) being the rate of change in  $Y$  (the dependent variables) as  $X$  changes, the slope coefficient is interpreted as the rate of change in the “log odds” as  $X$  changes. If  $x$  increases by 1,  $\ln\left(\frac{P}{1-P}\right)$  changes by  $\beta$ .  $\beta$  is used to predict  $P$ . If  $P \geq .5$  it is put into 1, and if  $P < .5$ , it is put into 0.

In the Logit analyses, the dependent variables are *SCARs* at the seven intervals, which the study utilizes throughout.

*Rationale for Utilizing Logistic Regression Analysis.* Logistic regression approach offers better forecasting performance for data sets that consist of categorical and dichotomous (divided or dividing into two parts or classifications) variables. Logistic regression model can be expanded to deal with multiple groups and in this case it develops into what is referred as multinomial logit model, which is very similar to the logistic regression model.

When performing logistic regression analysis, it is crucial to recognize that the dependent variable is the log of odds ratio. The odds ratio is, in essence, the ratio of probability of the event occurring to the probability of the event not occurring. The logistic regression model can be obtained under a large variety of alternative distributional assumptions whereas the multivariate linear approach is only applicable when the assumptions are the set of the independent variables is distributed multivariate normally with a common variance-covariance matrix. Therefore,

logistic regression approach performs better when the process departs from multivariate normality, especially in the case that there are dichotomous or zero variables. Consequently, logistic regression can be considered more robust than linear analysis.<sup>123</sup>

Adorning the results and robustness are the main reason for this study to include logistic regression analysis. One other reason for this attempt comes from the advice of Gomes and Ramaswamy (1999) indicating that previous studies assumed a linear relationship between multinationality and performance, but this may not be the case. They also suggest that the stability of the multinationality and performance relationship have not been examined. Therefore, in their study they utilize a curvilinear model, which addresses both the costs and benefits associated with multinationality.<sup>124</sup> Deriving from their work, this study also addresses multinationality, yet it includes logistic regression approach in order to observe the stability of the relationship between multinationality and value creation.

Hence, in this study foreign to total sales (FSTS) ratio is taken into account. The dependent variable is the log of the odds ratio, meaning (SCAR- Interval) - defined as when the odds of (probability of) (FSTS) being positive increases the odds of (probability of) the dependent variable being positive decreases or vice-versa. The reason for the inclusion of the (FSTS) ratio as an explanatory variable is that since it defines the international involvement vigorously and unambiguously, it is the most extensively used and accepted measure of multinationality.<sup>125</sup> Hence, (FSTS) ratio is used as one of the variables in this study to capture the degree of international experience of EMMs and logistic regression approach is included to have sounder results.

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<sup>123</sup> G. Hayden Green, Betsy V. Boze, Askar H. Choudhury and Simon Power. Using Logistic Regression in Classification. *Marketing Research* (1998).

<sup>124</sup> Gomes and Ramaswamy (1999) "An Empirical Examination of the form of the relationship between Multinationality and Performance."

<sup>125</sup> Sullivan (1994), and Aybar, Kan and Milman (2002),

## Proposed-Determinants of Value Creation in Relation to EMM Cross Border Expansion and other Variables

To better understand the predictors of wealth creation for EMMs in the international markets, the study primarily examines market reaction to cross-border expansion announcements of EMMs. For the purpose of our study and drawing from the conceptual part of the study (i.e. literature review) this study organizes these determinants into three categories: 1) Firm Factors; 2) Industry Factors; and 3) Country Factors (specifically of the target nation). Each category is also divided into subcategories to make sense of the importance of the proposed-determinants. In order to infer a relationship between market reaction and value creation of EMM cross border expansions this study includes the following proposed-determinants, so that one can observe if any of these variables can explain the SCARs and value creation. Each category is examined separately within the given length of the event windows. Therefore, it is necessary to give a synopsis of each proposed-determinant individually in order to recognize their importance in the case of EMM cross-border expansions.

### Firm Factors

Previous research on firm level factors that influence the choice of entry mostly consider degree of product diversification,<sup>126</sup> previous international presence,<sup>127</sup> and investment size,<sup>128</sup> but give mixed results on whether they are related to acquisitions or other types of expansion activities. Some research reports positive relations with acquisitions, yet others show no effects. In sum, these studies fall short of investigating further aspects related to firm factors. In

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<sup>126</sup> Wilson (1980), and Brouthers and Brouthers (2000).

<sup>127</sup> Harzing (2002).

<sup>128</sup> Kogut and Singh (1988), and Brouthers and Brouthers (2000).

addition to the factors previously studied, this study takes the unexplored aspects into account. Since the concern is EMMs and their diverse expansion patterns, it is necessary to include all related aspects. The firm factors considered in this study include, expansion patterns/types, the regions that the EMMs originate from, corporate governance structure of EMMs, investment size, level of control (only for M&A transactions), number of bidders, prior presence in the target country, previous international experience, and private or public target.

*Expansion Patterns/Types.* As stated previously, in the 1980s most EMMs expanded internationally through JVs and SAs; however, in late 1990s, they began to include M&As to their international expansion activities. Today, their international expansion patterns embrace more and more M&As. Therefore, in order to examine the impact of expansion patterns (individually and comparatively), all three types of activities are included in the research. In addition, this examination includes whether or not the market reacts differently to each expansion activity. As it is indicated throughout the paper, the choice of cross-border expansion type is interrelated with firm factors, industry factors and country-factors; each factor influences the choice of expansion pattern differently. Since EMMs have been conducting their cross-border expansions through M&As, JVs, and SAs, the study's most critical objective is to examine how announcements entailing each one of them lead to a positive market reaction and hence value creation.

When previous research considered, it becomes ostensible that there are some positive and some negative indications of market reaction and value creation. In taking JVs into account, several studies present positive results.

However, market reaction to M&A activities is contradictory in numerous previous studies. Some studies give positive results on value creation of M&As – stating that M&As are

utilized more often by firms to access new and profitable markets; therefore, there must be some value creation.<sup>129</sup> M&As can create value depending on the organizational types and managerial activities marketing strategies; diversification; market imperfections, and industry that they are in.<sup>130</sup>

Deriving from the previous studies and the empirical research, it can be concluded that all of the factors considered in the event study are interdependent. Therefore, it is especially critical to examine the factor of expansion type in order capture value creation.

*EMM Regions.* Previous research indicates that country of origin has a lot do to with the pattern of cross-border expansion. To reiterate, this is evident in the way EMMs from different locations expand according to their needs. For example Indian EMMs choose JVs in expanding abroad in order to secure supply of capital goods, machinery, basic materials, technical know-how, and management services. These types of activities also contribute to the growth and diversification of the Indian exports.<sup>131</sup> Motivations for Indian EMMs' expansion also include access to raw materials, exploring new markets, better utilization of capital and manpower through economies of scale, and preservation of the existing markets.<sup>132</sup> However, other research suggests that market protection has not been an influential factor for the international expansion Indian firms. Anticipation of higher profits in the host country than in the home country, is also and important factor.<sup>133</sup> Over the years, in pursuit of accessing raw materials and selling manufacturing technologies and to market their products and services, the number of Indian

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<sup>129</sup> Shimizu et al. (2004).

<sup>130</sup> See, e.g., Buckley and Casson (1976), Wilson (1980), Morck and Yeung (1991; 1992), Kang (1993) Markides and Ittner (1994), Brouthers and Brouthers (2000), and Seth et al. (2002).

<sup>131</sup> Wells (1981), and Agrawal (1981).

<sup>132</sup> White (1981).

<sup>133</sup> Agarwal and Prasad (1985).

EMMs investing abroad has increased, as they established subsidiaries and joint ventures.<sup>134</sup> Gradually, the expansion patterns began to include M&As as well.

When EMMs from other regions are observed it becomes clear that the main reason for Korean EMMs to expand internationally via JVs is to increase home-based industrial production rather than replacing it. They are, therefore, interested in diversifying exports and maintaining the industrial growth at home. However, Korean firms also expand internationally to secure a stable supply of raw materials through subsidiaries, strategic alliances and joint ventures.<sup>135</sup>

Other studies show that major drivers for Taiwanese firms' internationalizations are very similar to that of Korean multinationals - obtaining raw materials, pursuit of profits by supplying host country markets and by transferring technology and expansion of exports.<sup>136</sup> Similarly, the primary reason for the Hong Kong firms' international expansion through joint ventures, strategic alliances and acquisitions is to maintain and increase their exports to industrialized nations.<sup>137</sup>

On the whole, what ever their reasons for cross-border expansion may be, the country of origin seems to be an important factor in impacting upon where and with what pattern the EMMs actualize their cross-border expansion. Therefore, it can be assumed that country of origin may be related to value creation.

For the purpose of this study, all EMMs are grouped into three general regions – Asia, Eastern Europe and Latin America, according to their locations and cultural ties. All EMMs are examined individually in the event study and compared to the other regions in order to observe

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<sup>134</sup> Kumar (1981).

<sup>135</sup> Jo (1981).

<sup>136</sup> Ting and Schive (1981).

<sup>137</sup> Chen (1981), and Jo (1981).

the market reaction to different firms from different regions. The impact of regions on firm value is also examined in the cross-sectional regression analysis.

*Corporate Governance Structures of EMMs.* Previous empirical studies that utilize event study methodology give significant importance to the issue of corporate social responsibility. These studies attempt to study the impact of corporate social responsibility on public policy decisions. *Stakeholder theory* that evolved through these studies states that employing socially responsible decisions entails a *trade-off* between increased profit for the benefit of stockholders and the benefit for other stakeholders.<sup>138</sup> Studies suggest that event studies that include changes in stock prices should also examine the financial impact of a change in corporate governance structures.<sup>139</sup>

The relationship between corporate governance structures and financial performance has long been established. This study includes an examination of the impact of EMM corporate governance structures on market reaction to EMM expansion and value creation. It is surmised that corporate governance issues are especially important in the case of EMMs because in most cases informational asymmetries constitute an impediment in development of financial markets. Emerging markets suffer from this consequence.

There are number of empirical studies verifying this expected increase in firm value in the context of an event studies by analyzing the returns around the ADR listing. Research finds that there is a link between better corporate governance structures and better operating performance. In addition, measuring firm returns around through global equity offerings (GEOs) is a vital mechanism to evaluate the impact on the firm's global cost of capital since *firm-specific*, *issue-specific* and *market wide effects* are associated events. A study that examines the

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<sup>138</sup> Donaldson and Preston (1995).

<sup>139</sup> McWilliams and Siegel (1997), Wright et. al., (1995), and Davidson and Worrell (1992).

*long-run return performance* of multinationals, which raise equity capital in the U.S. GEOs suggests that the long-run return performance of companies that originate from markets with strict FDI regulations and that have reporting disparities and continuous disclosure gaps will be different that of the U.S. firms. In addition, firms from segmented markets that issue equity overseas can lower their cost of capital and increase the value of their shares.<sup>140</sup> Overall, however, firms from developing countries that list their shares in the US through ADRs generate negative *spillover effects* on the firm value.<sup>141</sup>

Since information disclosure and/or transparency plays a significant role in firm performance and since disclosure is considered as one the criterion for good corporate governance structure,<sup>142</sup> corporate governance structures of EMMs may have some impact on market reaction, firm performance, and value creation.

However, there are different tiers of ADR markets with varying levels of disclosure and to best of knowledge there are limited studies that investigate the value implications for the issuing firms in the post listing period in relation to their commitment to better corporate governance. The empirical research, which analyzes the value implications around the ADR issues, report that risk reduction is more prevalent for developed country firms with poor corporate governance standards.

This study explores the value implications of good corporate governance of EMMs, and employs alternative corporate governance measures associated with the origin of the issuing firm. Although the ADR literature primarily focuses on the impact of subscription to US disclosure requirements, it is contended that company and country specific corporate governance standards play a significant role in risk reduction and ensuing value. In this study, in order to see

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<sup>140</sup> Foerster and Karolyi (2000).

<sup>141</sup> Karolyi (2004), and Moel (2001).

<sup>142</sup> OECD report (1997).



the impact of corporate governance structures on market reaction, various levels of listings are utilized. Therefore, this study defines corporate governance structures as ADR levels. This category comprises five groups: 144A, Level I, Level II, Level II and no ADR in which EMMs are placed accordingly in order to examine the value implications of corporate governance structures in cross-border expansions of EMMs.

*Investment Size and Level of Control.* As it is stated in *merger contingency theory*,<sup>143</sup> if there is a strategic fit between the acquiring firm and the target firm, the potential of value creation will be better. The strategic fit between two firms depends on various factors; some of these factors could be their market positions, their long term strategies, level of control between them and unique combined capabilities of both firms. Since the strategic fit differs in diverse groups, the amount of value that can be generated from an acquisition would differ as well. This difference impacts the value of acquisition price.<sup>144</sup> Therefore, a key proposed-determinant is the value of the acquisition price, which is considered investment size in this study. These unique synergies are recognized by an efficient market as an increase in the value of the acquiring firm. Once investors notice the positive synergistic gains, a positive return may be observable in the acquiring firm's share price after the announcement.<sup>145</sup> Consequently, expected future benefits associated with the expansion can be perceived by the investors in the capital markets – creating a positive perception of the expansion.

When growing through cross-border expansions, firms can achieve operating economies, which lead to economies of scale in management, marketing, production or distribution. In the case of EMMs, significant benefits may accrue from more efficient utilization of fixed capital,

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<sup>143</sup> Libatkin (1983).

<sup>144</sup> Rieck (2002).

<sup>145</sup> Subramani and Walden (2001).

better global market presence; thus ultimately, higher profitability.<sup>146</sup> In addition, when firms expand their operations to international markets, they develop multiple national market bases from which they can retaliate against competitors.<sup>147</sup> Through these achievements, firm size grows as well.

The increase in the size through benefits of cross-border expansion leads to higher combined values of both companies than their stand alone value. This increased value will have a positive impact on the stock price of the companies. If the target firms are large, companies will have greater abnormal stock returns from acquisitions and therefore, increase performance. This may be due to competitive benefits of consolidation by taking advantage of the operating efficiencies, economies of scale and increased market presence that may especially be achieved through successful M&As.<sup>148</sup>

However, some studies suggest that when relatively highly valued firms acquire relatively less highly valued firms in the absence of synergy, the value creation may be absent.<sup>149</sup> Similar studies agree - both M&A and JV types expansions may create wealth and that wealth effects are directly associated with the size of the event. However, if the target is small in comparison to the acquirer, even good acquisitions may not have a positive impact on the acquirer's stock price. In addition, if the transaction process takes longer than it is anticipated negative market reaction could be observed.<sup>150</sup>

Other studies posit that capturing the valuation effects in event studies may depend on the length of the windows used. When a three-day window is utilized, target firm's shareholders

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<sup>146</sup> Ernest and Young, (1994).

<sup>147</sup> Hamal and Prahalad (1985), and Kim and Mauborgne (1988).

<sup>148</sup> Lamacchia (1997).

<sup>149</sup> Shleifer and Vishny, "Stock Market Driven Acquisitions," *Journal of Financial Economics* 70 (2003): 295-311.

<sup>150</sup> Mulherin and Boone (2000).

gain more than that of the acquirer's. When the event window is expanded to twenty-day interval, the losses of the acquiring shareholders increase.<sup>151</sup>

On the whole, however, research suggests that investment size may be an important factor in gaining higher abnormal returns.<sup>152</sup> Therefore, to capture the effects of investment size in value creation and market reaction to cross-border expansion announcements of EMMs, the study employs transaction value as the variable investment size - meaning acquisition price in the case of M&A investments and the monetary amount allotted for projects in the case of JVs and SAs.

When level of control is concerned, some researchers adopt transaction cost theory in order to their examinations. Appropriate level of control, they say, is a key mechanism to limit the opportunistic behaviors of venture partners.<sup>153</sup> Hence, the level of control of the acquiring firm is an important factor in cross-border expansion patterns of EMMs. Thus, in order to analyze its relationship with market reaction to cross-border expansion and with value creation, this study includes the number of shares acquired for each expansion as the measurement for the variable level of control. The mission here is to see if higher level of control can be associated with higher value creation or vice-versa. However, it is crucial to mention here that this is only applicable in the case of M&As. This variable is not utilized for examining JV and SA announcements.

*Number of bidders.* The term bidders considered here is derived from EMMs' relational linkages with other firms. In this study, bidders are considered as other firms that jointly invest and take part in business activities after the announcement has been made. This variable is on applicable

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<sup>151</sup> Mitchell Anrade and Stafford, "New Evidence and Perspectives on Mergers," *Journal of Economic Perspectives* 15 (2001): 103-120.

<sup>152</sup> Kogut and Singh (1988), and Brouthers and Brouthers (2000).

<sup>153</sup> See, eg., Beamish and Banks (1987), Geringer and Hebert (1989), and Hanvanich and Cavusgil (2000).

to JVs and SAs in this study). The pattern of international expansion in terms of location of production and the ownership of firms can be seen as the outcome of a supply of investment opportunities. Most emerging market EMMs expand through joint ventures with partners in the host country. The preference for joint ventures and mostly minority ownership arises mainly because home country of the EMM does not allow the firm to export capital. This was certainly the case for Indian EMMs during their first initialization of cross-border expansion.<sup>154</sup> Since the Indian government allowed no capital but machinery to be exported, the local partner generally provided the plant, specific equipments and the working capital. Therefore, the local partner became the majority owner of the project. In most cases, lower level of equity participation was widely practiced. As a result, the local subsidiary enjoyed a high degree of autonomy and reaped nearly all advantages.<sup>155</sup>

However, this is changing for most EMMs. They no longer hold mostly minority equity ownerships, but rather participate fully or partially. Therefore, this study sees necessary to include this factor to the examination. In order to do that, the study includes two dummy variables – multiple bidders and single bidder to the cross regression analysis to observe whether they have any impact on firm performance. The two factors are also examined in the event study in order to find any evidence of the impact on market reaction and value creation.

*Prior Presence in the Target Country and the Degree of Previous International Experience.* The level of international experience associated with cross-border expansions is a critical factor in previous research.<sup>156</sup> Previous studies show that having previous experience in the international

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<sup>154</sup> Agrawal (1985).

<sup>155</sup> Wells (1977).

<sup>156</sup> Kogut and Singh (1988), Markides and Ittner (1994), Barkema and Vermeulen (1998), Brouthers and Brouthers, (2000).

market is an ongoing advantage for investing firms.<sup>157</sup> Furthermore, these firms have additional benefits because their suppliers follow firms wherever they expand into.<sup>158</sup>

Although some of these studies are not based on event study methodology, they serve as a guide to this research. Therefore, in order to see if EMMs' previous international experience impact on its abnormal returns and the reaction they receive from the market to their new announcements, this study includes this factor into the examination. The measure used for multinationality is Foreign to Total Sales ratio (FSTS). With the integration of this ratio, the international involvement of firms is easily captured. FSTS ratio is widely used and accepted by the researchers, as it is unambiguous.<sup>159</sup>

Another issue that evolves in this research is firm's prior presence in the target country and its impact on market reaction and value creation. Doukas and Travlos (1988) find that the acquisition announcements of firms that have prior presence in target countries gain positive and statistically significant abnormal returns. However, the same study also posits that these results are also true for firms that have not has prior presence in target countries.<sup>160</sup>

Other research shows that firms are more willing to acquire firms in countries that they had prior presence. This may be related to value creation since the acquirer firm has familiarity with the target. Due to this familiarity the acquirer is less likely to pay a high premium. Furthermore, information asymmetries are minimized and the liability of foreignness is reduced.<sup>161</sup>

Therefore, this study examines whether prior presence in the target country has an impact on value and market reaction to announcements of expansion. To serve the objective, each

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<sup>157</sup> Anderson and Gatignon (1986), Agarwal and Ramaswamy (1992), and Beckman and Haunschild (2002).

<sup>158</sup> Martin et al. (1998).

<sup>159</sup> Sullivan (1994), and Aybar, Kan, Milman (2004).

<sup>160</sup> Doukas and Travlos (1988).

<sup>161</sup> Martin et al. (1998).

EMM's prior presence (documented through research) is utilized as a dummy variable in the analysis.

*Whether the Target is Public (State-Owned) or Private.* There is only limited previous research on target being private or public. Research finds that acquirers have significantly negative returns when buying public targets and significantly positive returns when buying private or subsidiary targets.<sup>162</sup> In explaining the differing market reactions to the acquisitions of private versus public, research also states that firms receive better price when purchasing private firms due to liquidity effect - suggesting that transaction prices vary with the type of the target, which may, in turn, impact upon market reaction.

This study recognizes this factor is a critical issue, especially in the case of EMM cross-border expansions, since most of them primarily expanded into developing countries and acquired and/or formed alliances with public firms when they first began their cross-border expansions. However, this study also recognizes that due to globalization, in most countries, there have been accelerated financial openings, privatization, and deregulation of the economies and as a result, EMMs are also investing in private firms. Therefore, in this study these two factors (i.e. private target and public target) are considered as independent variables for the cross-regression analysis. These two variables are also examined in the event study to be able to observe their impact on market reaction to the expansion announcements and value creation.

### Industry Factors

According to the extant literature, industry specification of a firm does indeed affect the expansion decision and the type of expansion activity.<sup>163</sup> This study recognizes the importance

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<sup>162</sup> Fuller, Netter and Stegemoller (2002).

<sup>163</sup> Markides and Ittner (1994), Brouthers and Brouthers (2000), Shimizu et al, (2004).

of industry activities of EMMs in their cross-border expansion patterns. Thus, it examines the market reaction to firm expansion by including several sets of categories: Set one includes hi-tech and non hi-tech (mostly manufacturing) firms, as most EMMs are now integrating more hi-tech related activities into their business activities. Set two covers whether the activity associated with the cross-border expansion is diversified or related to firm's general business endeavors. These proposed-determinants are examined to capture the impact that they may have on value creation and market reaction.

This study identifies both the diversified and non-diversified cross-border expansions. As maintained by theoretical arguments, firm diversification increases firm value in several different aspects. The internal capital markets experience a higher degree of independence from specific industry segments; therefore, their resource allocation will be more efficient.<sup>164</sup>

In addition, diversified firms have additional advantages from what is referred as *coinsurance effect*, as their combined cash flow will be less unstable than that of non-diversified firm of similar size. In this respect, diversified cross-border expansions will lead firms to balance off gains and losses from different segments.<sup>165</sup> Diversified firms also have a higher degree of conglomerate power by engaging in cross-subsidization.<sup>166</sup> In contrast, however, diversification can decrease firm value, as it can cause a rise to cross subsidization of failing business segments and increase agency costs of firms.<sup>167</sup>

Since all of these factors are relevant to this research, SIC codes of both the expanding EMM and the target are utilized in the examination. This classification is done in order to fully examine whether cross-border expansion of EMMs are diversified or not.

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<sup>164</sup> Matsusaks and Nanda (1996), Stein (1997), and Rieck (2002).

<sup>165</sup> Stulz (1990).

<sup>166</sup> Rieck (2002).

<sup>167</sup> Jensen, (1986), Stulz (1990), Stein (1997), Rieck (2002).

## Country Factors

*Geographical and Cultural Proximity.* In studying the relationship between cross-border expansion of EMMs and value creation as well as the market reaction to the expansion announcements, geographical factors endure a critical role. Previous studies find that firm, industry and country level factors, such as geographic origin increase the likelihood of international expansions and that geographic specification matters in market reacting to firm strategic activities.<sup>168</sup> Previous research also stresses the importance of geography in explaining the dynamics of internationalization. They suggest that the performance of firms can be affected with the increased cost of transport.<sup>169</sup> Expanding firms can experience other concerns, such as managing geographically disperse cross-border expansions. When the distance of merging firms increases, post-acquisition operations can become more challenging.<sup>170</sup> However, some researchers disagree and posit that such managerial factors have no effects on value.<sup>171</sup>

Most studies, however, suggest that geographical distance can have positive impact on firm value. When multinational firms expand into new geographical and economically dissimilar areas, shareholders' wealth may increase.<sup>172</sup> Geographic proximity may also be inversely related to the cost of information acquisition.<sup>173</sup> This factor may be applicable to the cross-border expansions of EMMs, as most of them expand into geographic locations that are less developed than their home country economies. The utilization of SCARs in this study may be valuable in comprehending whether geographic proximity and/or distance have any influence on how market reacts to EMM cross-border expansions.

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<sup>168</sup> Brouthers and Brouthers (2000).

<sup>169</sup> Krugman (1991).

<sup>170</sup> Penrose (1959), Shrivastava (1986).

<sup>171</sup> Kogut and Singh (1988).

<sup>172</sup> Doukas and Travlos (1988).

<sup>173</sup> Coval and Mostkowitz (2001).



In addition to geographic factors, cultural diversity may be another valuable factor to investigate in explaining firm value and market reaction. Previous research shows that cultural distance between the investing firm and the target country affects the mode of entry.<sup>174</sup> Studies find that cultural distance can prevent the success of integration; furthermore, cultural diversity can complicate the expansion, since firms would have to deal with transnational aspects of the business and reflect this to management issues.<sup>175</sup> Higher degree of cultural differences may negatively affect shareholders' value. In this case, most investing firms would prefer JV pattern to expand.<sup>176</sup> However, when firms match each other culturally, the impact may be positive.<sup>177</sup> Studies also suggest a positive relation between geographical diversification and the value of the firm.<sup>178</sup>

Deriving from the previous research, this study examines the impact of geographic and cultural differences on market reaction. A dummy variable is used to identify geographic/cultural proximity of the target country and the country that the EMM originates from. This examination is conducted to observe whether there is evidence of any impact of this variable to value creation and market reaction.

*Political and Economic Factors of the Target Country/Developed or Developing Country.* The other two critical determinants of value creation of cross-border expansion of EMMs are political and economic outlooks of the target country, which in some cases may or not create investment risk. Nevertheless, previous studies suggest that the impact of local institutions, including the

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<sup>174</sup> Shimizu et al., (2004, p.15).

<sup>175</sup> Kogut and Singh (1988)

<sup>176</sup> Chatterjee et al. (1992), Weber et al. (1996), and Hennart and Reddy (1997).

<sup>177</sup> Datta and Puia, (1995).

<sup>178</sup> Morck and Yeung (1991).

laws and regulations applied in the host country can act as barriers to entry. Firms entering markets with high levels of legal restrictions perceive high level of investment risk<sup>179</sup>

There are two ways in which the legal environment can affect firm performance. Countries with good legal environments have better developed markets, and protection of investors against expropriation. However, in countries with less political and economic freedom, these opportunities are lessened.<sup>180</sup> Since laws and regulations differ among host and home countries, these differences may become more apparent when the distance increases. Caught with dealing with additional issues, firms' strategic planning may also be influenced negatively.<sup>181</sup>

Giving the findings of the previous research, this study examines the impact of political and economic status of the target country on value creation and whether cross-border announcements of EMMs would lead to lower or higher abnormal returns and positive or negative market reaction. To test the impact, the study uses two interrelated variables: Political and Economic Freedom of the target country and whether the target country is developed or developing. This study uses an index provided by ICRG that ranks countries according to the freedom level of all citizens within the country.

#### Variables of other Nature/Financial Measurements

In order to examine the impact of cross-border expansion patterns of EMMs' performance, this study utilizes several financial (performance) measures.

*Return on Assets (ROA)* is a useful indicator that shows how profitable a firm is relative to its total assets. It is calculated by dividing a firm's annual earnings before interest and taxes by its total assets in a calendar year. ROA is displayed as a percentage. Sometimes this is referred to as

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<sup>179</sup> Brouthers (2002).

<sup>180</sup> La Porta, Lopez de Silanes, Schleifer and Vishny (1998).

<sup>181</sup> Radebaug (2001).

return on investment (ROI). It is a useful indicator that shows owners earnings generated from invested capital (assets). ROA measures the ability to generate profits from the firm's assets and is widely used to examine large investments. Therefore, it is useful to include to the examination of EMM performance. However, ROA is affected by financing decisions and do not solely reflect operating decisions. Therefore, this paper utilizes other indicators to make the empirical examination sound and efficient.

*Return on Equity (ROE)* is most thorough indicator of probability. ROE measures the firm's profitability from the standpoint of owners, who invest equity capital in the firm. It is the final result of all the activities and decisions of the firm. Therefore, ROE is the return on owners' investment. It is the ratio of earnings after tax (EAT) to owner's equity. Since one of the objectives of this study is to examine EMM performance, ROE may be able to indicate a comprehensive explanation of profitability.

*Earnings before Interest and Taxes Margin (EBIT)* is defined as earnings before interest and taxes margin. It is measured by earnings before interest and taxes divided by total sales. EBIT is the difference between sales and operating expenses; more specifically, it is the firm's operating profit less any unusual losses plus any unusual gains. EBIT is neither affected by the firm's decision to borrow or the occurrence of taxation on its profits. Therefore, it is a useful measurement for the purpose of this study. In the case of EMMs, it may give a clearer picture of the earning that may be affected after the cross-border expansion announcement.

*Earnings before Interest Taxes Depreciation and Amortization (EBITDA)* is useful for the investors as it reports how much the firm would have earned during a given period, if it did not have to pay interest on its debt, taxes, and had depreciated the full value of all assets at their acquisition or didn't have to take amortization changes. EBITDA is supposed to be an indicator

of a company's financial performance, not free cash flow. Since the study is interested in value creation and EMMs' financial performance, it is useful to include in this study.

*Return on Capital Employed (ROCE)* is an appropriate measure of operating profitability. It is measured by the ratio of EBIT to its invested capital. This measure is also useful for this study since one of purpose of the examination is to observe whether there is an increase or a decrease in EMM's operating profitability after the cross-border expansion announcement.

*Return on Shareholder's Equity (RSHE)* is also known as owner's equity. It is the difference (at a specific date) between what the shareholders of the firm own (assets such as cash, inventories, equipment and buildings) and what their liabilities (such as debts owe to banks and suppliers). Since performance is critical for the shareholders and since RSHE may be able depict whether there is value creation for the shareholders, it is crucial to include this measure to the examination.

*Operating Profit Margin (OPM)* is another measurement of management's efficiency. OPM compares the quality of firm's operations to its competitors. It is calculated as dividing operating income by the total revenue. If a firm has a higher operating margin than the average of the industry that it operates in, it is apt to have lower fixed costs and a better gross margin – giving management more flexibility in determining prices. This flexibility is what the EMMs need giving their cross-border expansion activities. Therefore, OPM is also included to the examination in order to observe if flexibility exists.

All of the abovementioned measures are included in the cross-sectional regression analyses as dependent variables. They are measured separately in different analyses. They are utilized as: for example,  $\Delta ROA$  (change in ROA) between 1 year before the cross-border expansion announcement and 1 year, 2 years and 3 years after the announcement ( $\Delta ROA -1$ ,

+1), ( $\Delta$ ROA -1, +2), and ( $\Delta$ ROA -1, +3). All of the financial measures are utilized in this way. The study chooses to employ the change in ROA up to 3 years after the announcement to have vigorous results. Usually, in such cross-border expansions, performance figures of the third year after the announcement provide sounder evidence; as such large investments take time to turn into profits.<sup>182</sup> This study uses variety of performance measures so that they all can supplement each other for robust results.

The two additional measures utilized in this study are Total Assets (TA) and Total Sales). These two measures are used as control variables to enhance the findings.<sup>183</sup>

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<sup>182</sup> See, for example, Lie (2002) and Eberhart and Siddique (2003).

<sup>183</sup> The explanations of performance measures are guided by Gabriel Hawawini and Claude Viallet, *Finance for Executives: Managing for Value Creation* (2002) South-Western, Cincinnati, Ohio., and supplemented by other sources.

## Chapter IV

### Analysis, Results and Discussion

#### Event Study Results

Although SCARs are used throughout the examination, SARs are also included in the examination to show the correlation with SCARs in examining all expansion patterns (i.e. M&As, JVs and SAs) collectively and individually.

The results indicate that all cross- border expansion events, on average, show negative abnormal returns during pre- and post- event day and on the actual event day. When SARs and SCARs of all expansions (M&As, JVs and SAs) are examined together, it can be concluded that cross-border expansions of EMMs create little or no firm value as SAR and SCAR values are mostly negative. In addition, market reaction to expansion events, on average, is also negative. This may be interpreted as when all events are considered together there is no value creation for Emerging Market Multinationals. It is also evident that market reaction is not immediate when M&A, JVs and SAs are examined together – meaning statistically significant values are not around the event day. When market reaction is taken into account, negative reaction outweighs positive reaction. In examining market reaction in various pre- and post –event days, the magnitude of negative reaction becomes apparent.

One reason for negative market reaction can be that it may not be possible to see accurate market reaction when all events, M&As, JVs and SAs are examined as one set of events rather than categorically. Another reason for this can be since M&As, JVs and SAs are all unique structurally, they may have different valuation effects and therefore market may react differently to cross-border expansions via M&As as opposed to JVs and SAs. On the whole, each expansion activity may also present differing valuation effects at different pre-and post- event

day periods. This may be more immediate for some expansion events and more long-term for others.

Therefore, in this section all M&A, JV and SA activities are examined individually and the categories related to each expansion pattern are treated accordingly. When expansion types are examined individually, SARs indicate that value creation may not be apparent for the M&A pattern. However, on average, market reacts positively to 47.29 percent of all M&A announcements and this reaction is just around the announcement day – meaning market reaction is immediate.

SCARs of M&A type expansion patterns indicate that there is little or no value creation for EMMs as all SCARs during all intervals are negative. Market reaction is also mostly negative, but immediate. Therefore, M&A pattern may not be associated with abnormal returns around the announcement date; however, this result may change in the long run. When JVs are considered there seems to be some value creation, and positive association with abnormal returns. However, market does not seem to react to JVs as immediately as it does to the M&A pattern. SA pattern, on the other hand, seems to create more value as compared both to JVs and M&As. SAs can be associated with positive abnormal returns around the announcement date and in longer periods. In addition, market reaction to SAs is mostly positive and at times immediate.

The following is the categorical break down of all results according to each factor and determinant. The results are presented in a detailed approach so as to fully grasp the effects of each factor. In the aftermath of the description of the test results, a discussion on the event study results is carried out. Description of the results is as follows:

*Results on Standardized Abnormal Returns (SARs) - Expansion Patterns.* Total number of events examined 982. Table 1 indicates that all cross- border expansion events, on average, show negative standardized abnormal returns (SARs) during pre- and post- event day and on the actual event day. This may be interpreted as when all events are considered together there is no value creation for Emerging Market Multinationals.

When market reaction is taken into account, negative reaction outweighs positive reaction. In examining market reaction in various pre- and post –event days, the magnitude of negative reaction becomes apparent. There is, however, some value creation and positive market reaction. This is evident when market reacts positively to 48.01 percent of expansion events on day (-9), the SARs are also positive during this day, and the mean z value is statistically significant at 5 percent level. Statistical significance is also apparent on day (-8), yet, SARs are negative. The statistical significance of z value for median computed by applying Wilcoxon Signed-Rank (non-parametric) test is at 5 percent level and z value for positives and negatives calculated by Doukas' positive/negative (parametric) test is at 10 percent level. Similar significance levels also apply to days (-7), (-6), (-3), (-1), where positive market reaction is 45.66 percent, 46.17 percent, 46.99 percent, 47.20 percent, respectively. On day (0), the event day (announcement day) positive market reaction is 45.57 percent.

Positive SARs are visible on day (1) immediately after the event day. However, only the mean z value is significant at 10 percent level where market shows positive reaction to 48.98 percent of all events. Subsequent to the event day, SARs are negative on average and yet statistically significant up until day (10) where market positively reacts to only 45.57 percent of all expansions. It is also noteworthy to mention that average positive market reaction is 46.75



percent from day (-10) through day (+10). This figure may be considered substantial for firms examined in this study given that they are from Emerging Markets. (See Table 1, Appendix B)

*Standardized Cumulative Abnormal Returns (SCARs).* Total number of events utilized in this examination is 982. Table 2 displays the SCAR results for all expansions. At the interval (-10, +10) market reacts positively to 47.76 percent of events (MAs, JVs, and SAs). This number (mean) is statistically significant at 10 percent level. However, SCARs are negative. There is some value creation at the intervals (-10, +5), (-5, +1), and (-2, +1), but significance only applies to (-2, +1) as positive/negative test for z values show 5 percent significance level where market reacts 47.35 percent of events positively. At the interval (-1, 0) market reacts positively to 47.66 percent of all events - statistically significant at 5 percent. However, mean of SCARs is negative. In addition, negative SCARs outweigh the positive ones. At intervals (-2, +1) and (-5, +1) where SCARs are positive. It can be concluded that although not significant, there is some value creation when SCARs are considered. (See Table 2, Appendix B)

As a result, it is imperative to examine the expansion types individually to make better sense of the impact of cross-border expansion activities both on the market reaction and on firm value creation.

*SARs M&A Expansions.* Total number of M&A transactions 436. When M&A activities are considered, the most appropriate event date is the first public announcement.<sup>184</sup> Therefore the concern here is to observe whether there is immediate (during the announcement day) market reaction. On day (-1), SARs are negative where negative mean, and median z values are significant at 5 percent level and z value for positives/negatives is significant at 10 percent level, where market reacts 46.33 percent of M&A events. On day (0), the event day, the mean significance level is at the 10 percent level, median significance is at the 5 percent level and the z

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<sup>184</sup> Halpern, 1983

value for positives/negatives significant at the 5 percent level with 44.72 percent of positive market reaction. On day (1) SARs are positive, however, they are not statistically significant. In general, results indicate that SARs are negative on average.

The mean and median significance levels of announcement effects become weaker over the pre-announcement days while positives/negatives z value significance stay somewhat strong over the twenty-one-day event window for most SARs. Value creation may not be apparent for acquirers. However, on average, market reacts positively to 47.29 percent of all M&A announcements. (See Table 1, panel A, Appendix B)

*SCARs M&A Expansions.* Total number of M&A transactions 436. At the interval (-10, +10), market reacts positively to 47.71 percent of M&A announcements, which is significant at 10 percent level. Positive market reaction is as follows: At (-10, +5) 47.48 percent, (-5, +5) 47.94 percent, (-5, +1) 45.87 percent, (-2, +1) 46.10 percent; they are all significant at 10 percent level. At the interval (-1, +1) 45.41 percent, and at (-1, 0) 45.41 percent positive market reaction is observed. The last two intervals are important to consider for M&A transactions since they take place around the announcement day. The figures corresponding to these intervals are significant at 1 percent level. The mean z values show 10 percent significance level at the intervals (-1, +1) and (-1, 0). When Wilcoxon signed-rank test is applied median z value for the interval (-5, +1) is significant at 10 percent level, and for the intervals (-1, +1), (-1, 0) show 1 percent significance. Positives/Negatives test show significant z value levels at (-5, +1), (-2, +1), (-1, +1), and (-1, 0) with 5 percent, 10 percent, 5 percent and 5 percent respectively. Overall, M&A type of expansion does not seem to create value for Emerging Market Multinationals as all SCARs during all intervals are negative. In addition, market reaction is also negative. (See Table 2, Panel A, Appendix B)

*SARs JV Expansions.* Total number of events considered 387. Results show negative SARs for day (-1) positive SARs for days (0) and (+1). Positive market reaction is 48.06 percent for day (-1), 47.55 percent for day (0) and 50.26 percent for (+1). Although days (-1) and (0) are not statistically significant, day (+1) shows mean significance at 10 percent level. The average positive market reaction is 46.43 percent during the event period (-10 to +10). There is some value creation for firms during days prior to the announcement; this is indicative in positive SARs. However, significance levels for all SARs are dispersed around the days (-9) to (+9). The market reaction throughout this period and especially the period following the expansion announcement indicates persistent negative SARs. The reason for this result may be due to market absorbing JV related news over an extended period. This lag may attribute to such factors as uncertainty about the firms future performance and activities as well as the interaction between the firms that initiated the joint venture where unanticipated changes that may occur. (See Table 1, Panel B, Appendix B)

*SCARs JV Expansions.* Total number of events considered 387. When JVs are considered, positive means outweigh the negative ones. However, they are not statistically significant except during the interval (-5, +5) where the z value for the positives/negatives is significant at 10 percent level and where market reacts positively to 46.51 percent of JV expansions. Positive market reaction to JV announcements at (-10, +10) interval is 45.74, which is significant at 10 percent level. However, mean value for SCARs is negative. The mean values suggest some value creation at the intervals, (-10, +5), (-5, +5), (-5, +1), (-2, +1) and (-1, +1), 50.65 percent, 46.51 percent, 49.61 percent, 47.80 percent and 49.61 percent positive market reaction respectively. However, median significance levels tested by Wilcoxon signed-rank test and positives/negatives significance levels tested by Doukas' z test are mostly negative and not

statistically significant. Especially, around the announcement day mean and median values are negative and not statistically significant. Significant response the announcement is captured only during the intervals (-10, +10) and (-5, +5). This may be due to response to JV announcements may be denoted at a longer time period than that of M&As. Perhaps longer windows need to be examined when JVs are concerned. Overall, the assessment of expansion through M&As conveys that there may be some value creation for Emerging Market Multinationals when they perform cross-border expansion through JVs. However, this value creation may be actualized in the long run and not around the announcement day. (See Table 2, Panel B, Appendix B)

*SARs SA Expansions.* Total number events considered 159. The results display a 46.06 percent positive market reaction on average. Days (-1), (0) and (+1) show positive SARs with 47.07 percent, 43.04 percent and 45.91 percent positive market reaction, respectively. However, when Doukas' parametric positive/negative z test is considered, the only statistical significance is during day (0) at 5 percent level. Mean, and median z values are not statistically significant. Overall, negative SARs are constant during pre-and post-event day except during days (4) and (3) (not statistically significant) indicating little or no value creation and negative market reaction. Day (+10) shows only 38.99 percent positive market reaction and a negative SAR with a significance level of 1 percent. (See Table 1, Panel C, Appendix B)

*SCARs SA Expansions.* Total number events considered 159. SA announcements show value creation for Emerging Market Multinationals at all intervals as all mean and positives/negatives, and most medians are positive. The market also reacts positively to most announcements where overall average for intervals is 52 percent. Positive market reaction to SA announcements are significant at (-10, +10) 52.83 percent and (-10, +5), 53.46 percent at 5 percent and 10 percent levels respectively. The rest of the intervals also show positive market

reaction at (-5, +5), (-5, +1), (-2, +1), (-1, +1) and (-1, 0), however, no statistical significance is indicated. Overall, results imply that cross-border expansion through SAs may create positive market reaction and value for EMMs. However, they may be more long term than short term just as the JVs. Overall observation is that market response to SA announcements may need to be examined at longer intervals in order to see the significance of both the market reaction and value creation. (See Table 2, Panel C, Appendix B)

The figures reiterate that market may take longer to absorb news related to strategic alliances just as that of joint ventures. These results may suggest that when examining joint ventures and strategic alliances through event studies, longer event periods may need to be observed. On the other hand, market reacts immediately to M&A announcements.

*Differences between Expansion Types.* Results indicate that there are significant differences between M&As and JVs during various intervals. Especially, the difference is apparent at the intervals (-5, +1), (-2, +1), (-1, +1) and (-1, 0) with 10 percent, 10 percent, 5 percent and 10 percent significance levels respectively. Median differences are significant at various intervals as well.

Mean differences between M&As and SAs are significant at all intervals mostly at 5 percent significance levels. There are considerable differences between these two types of cross-border expansions. Mean differences between JVs and SAs are only significant at (-10, +10) and (-10, +5) intervals with 1 percent and 10 percent significance level, respectively. Therefore, M&A type of expansions seem to be dissimilar to both the JVs and SAs. (See Tables 1.1, 1.2, 1.3, and 2.1, 2.2, 2.3, Appendix B)

The rest of the examination only utilizes SCARs since SCARs are the main concern of this study. Furthermore in the cross-sectional regression and logistic regression analysis SCARs will be utilized as dependent variables.

*SCARs – EMMs' Region Asia (M&As)*. Total events included 342. When SCARs for EMMs that originate in Asia and that expand through M&As are examined it is observed that most SCAR means and medians are negative. This means EMMs from Asia that expand through M&As may not experience value creation at any of the intervals. For example, at the interval  $(-1, 0)$ , the market reacts positively to only 44.44 percent of events where the mean and the median significance levels for  $z$  is 1 percent. The parametric test for positives and negatives shows  $z$  values at 5 percent significance level.

At the interval  $(-1, +1)$ , the market reacts positively to 43.57 percent of cross-border expansion of EMMs from the region of Asia. Here, the  $z$  value for mean significance is at 5 percent level and the  $z$  value for median significance is 1 percent level. Doukas'  $z$  value for positives/negatives is at 1 percent level. During this interval SCARs have considerable number of negative values. At the interval  $(-2, +1)$ , the market reacts positively to 46.49 percent of all expansion announcements where significance level of  $z$  value for median and positives/negatives is 10 percent. Since these results are just around the announcement date they may imply that market reacts immediately to M&A type of cross-border expansions of EMMs. Although there seems to be no value creation and mostly negative market reaction, there may be some value creation during  $(-10, +5)$  and  $(-5, +5)$  intervals where market reacts positively to 51.17 percent, and 50.58 percent, respectively to all expansion announcements and where median SCARs and  $z$  values for positives/negatives are positive. However, these figures are not statistically significant. Finally, as it is observed market reaction to M&A announcements of Asian EMMs is

immediate and that there is some value creation and positive market reaction at the longer intervals. (See Table 3, Panel A1, Appendix B)

*SCARs – EMMs' Region Asia (JVs).* A total of 360 events are examined in order to make sense of the JV cross-border expansions of EMMs that originate in Asia. Hence, when JV expansions are taken into account, the results are somewhat different than that of M&A expansions. There is value creation at almost every interval except the intervals (-1, 0) and (-10, +10). The statistically significant values are at (-10, +5) and (-10, +10). At the interval (-5, +5), the market reacts positively to 46.11 percent of all events where mean SCARs are positive, but median SCARs are negative. At this interval, the only statistically significant value is the z value for positives/negatives, which is at 10 percent significance level and it is negative. At the interval (-10, +10), the positive market reaction is 45.28 percent and the negative median z value is at 10 percent significance level. Here, the z value of for the positives/negatives is at 5 percent significance level and it is also negative. Therefore, it can be assumed that value creation and positive market reaction may change after the interval (-5, +5) and that it may make sense to examine longer windows when JV expansions are considered. (See Table 3, Panel A2, Appendix B)

*SCARs – EMMs' Region Asia (SAs).* Total of 149 expansion events considered. When EMMs from Asia expand internationally through SAs, the market seems to react positively to the announcements. In addition, the EMMs seem to be able to create value as all SCARs are positive at all intervals. However, the statistically significant SCARs appear during larger windows. At the interval (-10, +5), the market reacts positively to 53.02 percent of all events where the mean significance level of the z value is at 5 percent. At the interval (-10, +10), the market reacts positively to 51.68 percent of all SA announcements of the Asian EMMs with the

mean z value significance is at 5 percent. Therefore, positive market reaction is not immediate but long term. (See Table 3, Panel A3, Appendix B)

*SCARs – EMMs' Region Latin America (M&As).* A total of 66 events considered. EMMs from Latin America that expand through M&As seems to experience different results as opposed to the EMMs from Asia that expand through M&As. Since significant for market reaction values are at (-10, +10), (-10, +5), (-5, +5) and (-5, +1), market does seem to react to M&A announcements in longer intervals and not around the announcement day. At the interval (-5, +1), the market reacts positively to 36.36 percent of expansion announcements of acquirers from the Latin American region where the z values for median and positives/negatives are both at 5 percent level. At the interval (-5, +5), the market reacts positively to 39.39 percent of all events. The z values for this interval are statistically significant. The median z value is at 10 percent and the z value for positives/ negatives is at 5 percent. At the interval (-10, +5), the market reacts positively to only 36.36 percent of all events where the significance level for z value of the mean is at 10 percent level and for the median and positives/negatives is at 5 percent level. At the interval (-10, +10), the significance level of the mean z value is at 10 percent where market reacts positively to 43.94 percent of all M&A expansion announcements of EMMs from Latin America. Since the market reacts negatively to all announcements at all intervals, and since all SCARs are negative at all intervals. There does not seem to be value creation for EMMs from Latin America that expand internationally through M&As. (See Table 3, Panel B1, Appendix B)

*SCARs – EMMs' Region Latin America (JVs).* Total of 20 events considered. When JV announcements of EMMs from the Latin American region are examined, the results clearly supports value creation and positive market reaction, as most SCAR values are positive and



statistically significant except at the interval (-10, +10). The statistical significances of the values are noticeable at the following intervals. At the interval (-2, +1), the market reacts positively to 65.00 percent of all announcements with the significance levels of z values for both the mean and the median are at 5 percent level and the significance level for the z value of positives/negatives is 10 percent. At the interval (-5, +1), positive market reaction is 70.00 percent with the z value significance levels for both the mean and the median at 10 percent and for the positives/negatives at 5 percent.

At the interval (-5, +5), the market reacts positively to 65.00 percent of all events where the z value significance level for both the mean and the median is at 5 percent and the z value significance for positives/negatives is at 10 percent. Finally, at the interval (-10, +5) positive market reaction is 70.00 percent again, with the mean z value, 10 percent, and the median and positives/negatives z valuea are at 5 percent level of significance. The results indicate that there is definite value creation and positive market reaction, as all statistically significant results are positive. Value creation and positive market reaction are mostly apparent and statistically significant after the intervals (-1, +0) and (-1, +1). Therefore, the value creation and positive market reaction may both be more long-term than immediate. (See Table 3, Panel B2, Appendix B)

*SCARs – EMMs' Region Latin America (SAs)*. Total of 9 events included. There is a definite evidence of positive market reaction and value creation for EMMs that originate in Latin America and expand internationally through SAs. Results indicate that all SCARs are positive at all intervals and positive market reaction averages around above 60 percent. At the interval (-1, 0), the market reacts positively to 66.67 percent all announcements where the mean significance value is at 10 percent. At the interval (-1, +1), positive market reaction does not

change but the mean significance levels increases to 5 percent where the median significance levels is at 10percent. At the interval (-2, +1), the positive market reaction stays the same at 66.67 percent with mean significance at 5 and the median significance level at 10 percent. At the interval (-5, +1), positive market reaction decreases to 55.56 percent where mean significance value is at 5 percent.

At the interval (-5, +5), the market, once more, reacts positively to 66.67 percent of all events where the significance level for the mean z value is at 10 percent. At the interval (-10, +10), the market reacts positively to 77.78 percent of all events where the mean and the positives/negative significance values are at 5 percent. The results indicate that the value creation and market reaction are both immediate and long term and mostly positive. All SCARs are positive and statistically significant at all intervals. (See Table 3, Panel B3, Appendix B)

*SCARs – EMMs' Region Eastern Europe (M&As)*. Total number of events 14. When EMMs from Eastern Europe that expand through M&As are examined, there seems to be very different results than that of EMMs from Asia and Latin America. The existences of value creation and positive market reaction appear instantly during and around the announcement day with statistically significant values. At the interval (-1, 0), the market reacts positively to 64.29 percent of all expansion announcements where the significance level for both the mean and the median z values are at 10 percent level. At the interval (-1, +1), the market reacts positively to 71.43 percent of announcements with significant z values at 5 percent level for both the mean and the median as well as for positives/negatives. At these intervals, all SCARs are positive, meaning there is value creation. However, before the announcement day, SCARs and market reaction are both negative. For example, at the interval (-5,+1), the market reacts positively to only 14.29 percent of events with mean, median and positives/negative z values for all,

significant at 1 percent level. Similarly, at the interval (-5, +5), the market, reacts positively to only 28.57 percent of all events where mean, median and positives/negatives z values are all significant at 5 percent level. At the interval (-10, +5), market reaction stays the same with positives/negatives z values significant at 5 percent level.

Therefore, it can be concluded when EMMs from Eastern Europe expand through M&As, value creation and positive market reaction are actualized. However, this is only applicable to those intervals immediately around the announcement day. When longer intervals are examined negative market reaction and negative SCARs become visible. This may be a result of information leakage before the announcement. It may also mean that EMMs may have been unknown to the market that they were entering into. (See Table 3, Panel C1, Appendix B)

*SCARs – EMMs' Region Eastern Europe (JVs).* Total number of events considered 3. The results show the SCARs of EMMs from the Eastern Europe region and that expand through JVs do not experience value creation, as all SCARs are negative and positive market reaction is minimal. Furthermore, significant values are only at the interval (-1, 0) where the market reacts positively to 0.00 percent of all announcements with z value significance levels of 10 percent for the mean, 10 percent for both the median and the positives/negatives. Therefore, it can be assumed that there may not be any value creation for EMMs that originate in Eastern Europe when they expand through JVs. In addition, market does not receive these announcements positively; however, it reacts immediately. (See Table 3, Panel C2, Appendix B)

*Differences between Regions.* When M&As are considered, the mean difference between the SCARs of Asian EMMs and the SCARs of Latin American EMMs has 10 percent significance level at (-10, +10) interval. The results indicate that EMMs from the Asian region may experience more positive market reaction and value creation than the EMMs from the

region of Latin America when they expand through M&As. The mean difference between the SCARs of Asian EMMs and the SCARs of Eastern European EMMs is statistically significant at 1 percent level at the intervals  $(-1, 0)$  and  $(-1, +1)$ . The difference is also significant at 5 percent for the  $(-5, +1)$  interval and 10 percent for the  $(-5, +5)$  interval. Eastern European EMMs may experience more positive market reaction and value creation than Asian EMMs when they expand through M&As.

The mean difference between the SCARs of Latin American EMMs and the SCARs of Eastern European EMMs is statistically significant at 1 percent level at the intervals  $(-1, 0)$  and  $(-1, +1)$  and interval. This may be the indication of Eastern European EMMs may experience more positive market reaction and value creation than Latin American EMMs when they expand through M&As.

For JVs, the mean difference between SCARs of Asian EMMs and the SCARs of Latin American EMMs has 10 percent significance level at the intervals  $(-2, +1)$ ,  $(-5, +5)$  and  $(-10, +5)$ . EMMs from Latin America seem to experience both the value creation and positive market reaction more than the EMMs from Asia when they expand through JVs.

The mean difference between the SCARs of Asian EMMs and the SCARs of Eastern European EMMs is statistically significant at 10 percent level at  $(-2, +1)$  interval. As a result, it can be concluded that Latin American EMMs may have more positive market reaction and value creation than the Eastern European EMMs when they expand through JVs. Furthermore, the mean difference between the SCARs of Asian EMMs and the SCARs of Eastern European EMMs is statistically significant at 10 percent level at  $(-2, +1)$  interval. As a result, it can be concluded that Eastern European EMMs may have more positive market reaction and value creation than the Asian EMMs when they expand through JVs. In regard to JVs, the mean

difference between the SCARs of Latin American EMMs and the SCARs of Eastern European EMMs is statistically significant at 10 percent level for the intervals (-1, 0) and (-1, +1). The results indicate that Latin American EMMs may experience more positive market reaction and value creation than European EMMs when they expand through JVs.

When SAs are examined there are statistical significances for the mean differences between the SCARs of Asian and Latin American EMMs. The differences are at the following intervals: (-1, +0), (-1, +1), (-2, +1), (-5, +1), (-5, +5), (-10, +10) where the mean value significance levels are at 10 percent, 5 percent, 1 percent, 5 percent, 5 percent and 10 percent, respectively. The results display that positive market reaction and value creation are more long-term for Asian EMMs and more immediate for the Latin American EMMs that expand through SAs. (See Table 3, Panel A.1.1, A.1.2, A.1.3, B.1.1, B.1.2, B.1.3, C.1.1, Appendix B)

## Firm Factors

### Corporate Governance

*Corporate Governance (No ADR) M&As.* Total number of 116 events considered. There seems to be some value creation and positive market reaction during longer intervals for non listed EMMs that expand through M&As. However, the values are not statistically significant. (See Table 4, Panel A1, Appendix B)

*Corporate Governance (No ADR) JVs.* For this investigation a total of 91 events are employed. The results indicate although there is existence of positive market reaction, there is no value creation for the non-listed EMMs that expand through JVs. All SCARs are negative at almost all intervals and the values are statistically significant only during two intervals. This is exhibited as follows. At the interval (-1, 0) the market reaction is positive to 42.86 percent of all

events and the statistical significance of the z values of mean, the median and the positives/negatives are all at 10 percent level. At the interval (-5, +1) the market reacts positively to 41.76 percent of all events where the median z value is significant at 5 and the positive/negatives z value is at 10 percent. Overall, however there is some positive market reaction and that reaction is immediate as it is around the announcement date. (See Table 4, Panel A2, Appendix B)

*Corporate Governance (No ADR) SAs.* Total number of events is 31. When non-listed EMMs expand internationally through SAs, there is an evidence of value creation and positive market reaction. However, both the value creation and positive market reaction appear at the longer intervals and not around the announcement date. The statistical significances of SCARs indicate that at the interval (-5, +5) the market reacts positively to 64.52 percent of all events where the z value significance levels for the mean is 10 percent and for the positives/negatives is at 5 percent. In addition, all SCARs are positive. At the interval (-10, +5), the market reacts positively to 61.29 percent of all events with the mean, the median and the positives/negatives significance values at 1 percent, 5 percent and 10 percent levels, respectively. At the interval (-10, +10), positive market reaction is 61.29 where the mean significance is at 5 percent, and both the median and the positives/negatives significance levels are 10 percent. Therefore, although market reaction may not be immediate, it is, in general positive and that there is value creation. (See Table 4, Panel A3, Appendix B)

*Corporate Governance (144A) M&As.* Total number of events is 37. According to the results, there is some evidence of value creation and positive market reaction at several intervals. The statistical significance is apparent at the interval (-1, 0) the market reacts positively to 67.57 of all events where the median significance is at 10 percent level and significance for the

positives/negatives is at 5 percent level. The value creation and mostly positive market reaction are evident at this interval as the mean and median of all SCARs are positive and positive market reaction is over 50 percent. All SCARs and market reaction are positive up to the interval (-5, +1) where the market reacts positively to only 37.84 percent of events. Here the mean and median of negative SCARs are statistically significant at 5 percent level and positives/negatives z value at 10 percent level. At the interval (-5, +5) the market reacts positively to only 37.84 percent of all events with the mean and the median significance levels of 1 percent and significance level for positives/negatives at 10. At the interval (-10, +5) the market reaction decreases further to 35.14 percent where significance levels for the negative mean and the median are at 1 percent and the positives/negatives at 10 percent. At the interval (-10, +10) positive market reaction increases to 43.24 percent where the negative mean and the median statistical significance are at 5 percent for both. Therefore, it can be concluded that EMMs listed as 144As that expand through M&As, although with little statistical significance, may experience value creation and positive market reaction immediately around the announcement date. (See Table 4, Panel B1, Appendix B)

*Corporate Governance (144A) JVs.* A Total of 66 events considered. The results indicate that there is some value creation positive market reaction at several intervals. The market reaction is immediate during (-1, 0) interval. This reaction is considerable positive and covers 60.61 percent of all events. Here z value significance levels are 10 percent for the median and 5 percent for the positives/negatives where all SCARs are positive. At the interval (-5, +5), the market reacts positively to 40.91 of all events where the SCARs are positive. The z value significance level for the positives/negatives is at 10 percent. Therefore, the results indicate that

EMMs listed as 144A and expand through JVs experience value creation and positive market reaction. The market reaction is also immediate. (See Table 4, Panel B2, Appendix B)

*Corporate Governance (144A) SAs.* A total of 19 events included. The EMMs listed as 144-A may create value when they expand through SAs. Value creation is apparent around the announcement date but subsides during longer intervals. Positive market reaction is more visible at the interval (-5, +1). However, none of the SCAR values are statistically significant. (See Table 4, Panel B3, Appendix B)

*Corporate Governance (Level I) M&As.* Total number events included 223. The results indicate that market reacts immediately to the cross-border acquisition announcements EMMs that are listed as Level I; however this reaction is mostly negative. In addition there does not seem to be any value creation. The statistically significant values are evident at the following intervals. Positive market reaction is only 39.46 percent at the interval (-1, 0), where the significance levels for the mean, the median and the positives/ negatives are at 1 percent. However all SCARs are negative. At the interval (-1, +1), the market reacts positively to 41.70 percent of all events with the significance levels for the mean, the median and the positives/negatives at 5 percent, 1 percent and 1 percent, respectively. Here, again, all SCARs are negative. At the interval (-2, +1), the market reacts positively to 44.39 of all events where the mean, the median and the positives/negatives are all significant at 5 percent level. Once again, all SCARs are negative. Therefore, EMMs that expand through M&As and listed a Level I may not experience value creation, and do not receive positive market reaction. (See Table 4, Panel C1, Appendix B)

*Corporate Governance (Level I) JVs.* A total of 197 events considered. The results indicate that the EMMs that are listed as Level I ADRs and that expand through JVs do



experience positive market reaction and value creation. SCARs are mostly positive and considerably statistically significant. At the interval (-1, +1) the market reacts positively to 52.28 percent of all announcements where the z value significance level is 5 percent for the mean and at 10 percent for the median. Here all SCARs are positive. At the interval (-2, +1) the market reacts positively to 50.76 percent of all the events with the mean value significance level at 10 percent. At the interval (-5, +1) positive market reaction is 54.82 percent and the significance level for the z value of the positives/negatives is at 10 percent. However, positive market reaction decreases at the interval (-10, +10) to 45.18 percent and the SCARs become negative where the significance level for the z value is at 10 percent level. Therefore, it can be assumed that although positive market reaction and value creation are fairly immediate, they seem to subside during the (-10, +10) longer intervals. (See Table 4, Panel C2, Appendix B)

*Corporate Governance (Level I) SAs.* Total number of events is 86. When EMMs listed as Level I ADR, and expand through SAs, there is value creation. Furthermore, the market receives these announcements positively. All values for SCARs are positive at all intervals. At the interval (-1, 0) the market reacts positively to 56.98 percent of the events. Here, the z value is significant at 10 percent for the positives/negatives, and all SCARs are positive. At the intervals (-1, +1) and (-10, +10) the market reacts positively to 50.00 percent and 52.33 percent, respectively, of all expansions where the z value significance level for both the mean and the median is at 10 percent. Hence, it can be concluded that both the value creation and positive market reaction are immediate as well as long term. (See Table 4, Panel C3, Appendix B)

*Corporate Governance (Level II) M&As.* Total number of events included is 44. The results indicate that all SCARs are negative and positive market reaction is minimal. Although market reacts positively to 50 percent of all events at the interval (-1, +1), the values are not

statistically significant. The values become significant at longer windows. For example, at the interval (-5, +1) the market reacts positively to 34.09 percent of all events where the median and positives/negatives z value significance level is 5 percent. At the interval (-5, +5) the market reacts positively to 29.55 percent of all events with median and positives/negatives significance levels at 1 percent for both. At the interval (-10, +5) the market reacts positively to only 31.82 percent of all events where median and positives/negatives z values are significant at 5 percent and 1 percent, respectively. However, all SCARs are negative at all intervals. Therefore, EMMs that are listed as Level II does not seem to experience value creation during the giving intervals. Positive market reaction is also minimal at these intervals. However, market reaction seems to be immediate. Perhaps the use of longer intervals may give different results. (See Table 4, Panel D1, Appendix B)

There are no EMMs that expand through JVs and SAs listed as Level II ADRs in the sample of this study.

*Corporate Governance (Level III) M&As.* There are 16 events in this examination. EMMs listed as Level III ADRs and expand through M&As do seem to experience minimal value creation, as at the interval (-2, +1) the mean and median SCARs are positive. In addition, market reaction seems to be mostly positive and immediate.. However, these values are not statistically significant. (See Table 4, Panel E1, Appendix B)

*Corporate Governance (Level III) JVs.* Total number of events included, here, is 31. When the SCARs of EMMs listed as Level III ADRs that expand through JVs are considered, there is evidence of value creation, as most SCARs are positive. However, most of these values are not statistically significant and the statistically significant ones are mostly negative. At the intervals (-1, 0) and (-1, +1) the market reacts positively to only 29.03 percent of the

announcements where the positives/negatives z values are at 1 percent level; SCARs in both of these intervals are negative. At the interval (-2, +1) the market reaction increases to 35.48 percent where the positives/negatives z value is at 10 percent level. Here, the SCARs are positive. At the interval (-10, +10) the market reaction does not change, but the SCARs become negative with z value significance level at 10 percent for the mean, the median and the positives/negatives. Although mostly negative, market reaction is immediate and long-term. There seems to be some value creation; however this may need to be examined during longer event windows. (See Table 4, Panel E2, Appendix B)

*Corporate Governance (Level III) SAs.* Total number of events is 8. When EMMs listed as Level III ADRs that expand through SAs are examined, all SCARs at all intervals seem to be positive. However, although there is evidence of both the positive reaction and market value and that they are both immediate and long-term; the SCAR values are not statistically significant at any of the intervals. (See Table 4, Panel F3, Appendix B)

*Differences between Corporate Governance Levels - M&As between No ADR and 144A.* There are statistically significant differences during longer event windows where the mean values are positive. For example, the mean difference between these two groups shows 10 percent significance level for the z value at the interval (-5, +1). At the interval (-5, +5), the mean difference between them is significant at 1 percent. This is also true for the interval (-10, +5). Finally, at the (-10, +10) interval, the mean difference is statistically significant at 5 percent level. According to the results, it can be concluded that EMMs that expand through M&As and listed as 144A seem to experience better value creation than the non-listed EMMs that expand through M&As. Furthermore when listed as 144A market reaction seem to be positive as

opposed to the non-listed EMMs. However, market reaction seems to be immediate for both types of EMMs. (See Table 4.1.1, Appendix B)

*Differences between Corporate Governance Levels - JVs between No ADR and 144A.*

There are no statistically significant mean differences between NO ADR and 144A. Therefore, for EMMs that expand through JVs, positive market reaction and value creation exist whether they non-listed or listed as 144A. (See Table 4.1.2, Appendix B)

*Differences between Corporate Governance Levels - SAs between No ADR and 144A.*

There are considerable mean differences between NO ADR and 144A at various intervals. For example, the mean difference between these two pairs is at 5 percent statistical significance level at the intervals, (-10, +5) and (-10, +10). Therefore, it can be concluded that if EMMs that expand through SAs are listed as 144A they seem to experience better market reaction and value creation as opposed to the non-listed EMMs. (See Table 4.1.3, Appendix B)

*Differences between Corporate Governance Levels – M&As between No ADR and Level*

*I.* Mean difference between these two group show 10 percent significance level for z value only at the interval (-10, +10). Although there does not seem to be substantial differences between the EMMs that expand through M&As listed as Level I ADR and those that are not listed, market reaction is more positive towards the EMMs listed as Level 1. (See Table 4.2.1, Appendix B)

*Differences between Corporate Governance Levels – JVs between No ADR and Level 1.*

Although there are significant mean differences between the SCARs of non-listed firms that expand through JVs and the ones listed as Level I ADRs that expand through JVs, both indicate value creation and positive market reaction. The differences arise because each is significant at different intervals and Therefore, each one experiences both the value creation and positive

market reaction at different times. Significant levels for the z values of the mean differences are 5 percent at the intervals (-1, 0) and (-1, +1), (-5, +1) and 10 percent at the interval (-2, +1). Therefore, the non-listed EMMs may take longer to experience both the value creation and positive market reaction as opposed to the ones that are listed as Level I ADRs. (See Table 4.2.2, Appendix B)

*Differences between Corporate Governance Levels – SAs between No ADR and Level I.*

There are considerable mean differences between NO ADR and Level I at any of the intervals. Mean difference between these two groups shows 10 percent significance level for z value at the interval (-5, +5). At the interval (-10, +5), the mean difference is at 1 percent statistical significance level. (See Table 4.2.3, Appendix B)

*Differences between Corporate Governance Levels – M&As between No ADR and Level*

*II.* Mean difference between these two groups shows 10 percent significance at the interval (-5, +5). At the interval (-10, +10), the mean difference between them is at 10 percent significance level. There are minimal value creation and positive market reaction for both. (See Table 4.3.1, Appendix B)

*Differences between Corporate Governance Levels – M&As between 144A and Level I.*

Statistical significance levels for the mean difference between these two groups are 5 percent at (-1, 0) and at (-10, +5) intervals, 10 percent at (-1, +1) and at (-5, +5). EMMs that expand through M&As and listed as 144A seem to create value and receive better market reaction as opposed to the ones listed as Level I ADRs (See Table 4.4.1, Appendix B)

*Differences between Corporate Governance Levels – M&As between 144A and Level II.*

Statistically significant mean differences are at 10 percent level for the intervals (-1, 0) and (-1, +1). EMMs that expand through M&As and listed as 144A seem to create more value and

receive quicker and better market reaction as opposed to the ones listed as Level II ADRs (See Table 4.5.1, Appendix B)

### Investment Size

*Highly Valued Transactions (M&As).* In order to examine the impact of investment size on value creation and market reaction, in regards to M&A expansions, 200 most valued investments/events are considered. In general, results indicate that there is minimal (less than 50 percent to all events at all intervals) positive market reaction and no value creation as all SCARs are negative at all intervals. At the interval  $(-1, 0)$ , the market reacts positively to 45.50 percent of all events. Here, the mean and the median z value significance levels are 5 percent and the z value for positives/negatives is at 10 percent levels. At the interval  $(-1, +1)$ , the positive market reaction increases to 46 percent with z value significance level for the mean and the median is at 10 percent where the SCARs are negative. At the interval  $(-2, +1)$ , the market reacts positively to 45.50 percent of the events where the z value significance level of the positives/negatives is at 10 percent. At the interval  $(-5, +1)$ , the market reacts positively to 44.00 percent of all highest valued transactions and the significance level of the mean z is at 10 percent. Doukas' z value for the positives/negatives is significant at 5 percent level. At the interval  $(-5, +5)$ , positive market reaction is only 41 percent of all events with significance levels for the mean, the median and the positives/negatives are all 1 percent. At the interval  $(-10, +5)$ , the market reacts positively to 44.00 of all events. Here the significance levels for the mean, the median and the positives/negatives are at 5 percent for all. At the interval  $(-10, +10)$ , the market reacts positively to 45.50 percent of the events with significance levels of the mean and the median 5 percent and for positives/negatives 10 percent. Although mostly negative, market

reaction is immediate to these acquisitions. Reaction and negative SCARs are significant at all levels. There does not seem to be any value creation for highly valued acquisitions during the event windows utilized in this study. (See Table 5, Panel A1, Appendix B)

*Highly Valued Transactions (JVs).* This examination considers 80 events in order to observe whether large size of investments have any impact on market reaction and firm value creation. SCAR values seem to follow a pattern in which they are all positive. In addition, positive market reaction is also considerably over 50 percent for all announcements. However, the only statistically significant z value is observable at the interval (-10, +5) where the market reacts positively to 60.00 percent of all events and where the z value for the positives/negatives is at 5 percent level. Therefore, it can be concluded that value creation and positive market reaction are existent during longer event windows and not on the announcement day for EMMs that invest highly in their joint ventures. (See Table 5, Panel A2, Appendix B)

*Highly Valued Transactions (SAs).* In this examination there are only 5 events. When EMMs that expand through SAs invest in highly value business deals, there may be some value creation and positive market reaction; however, positive SCARs are not statistically significant. The only significance is at the interval (-5, +5) for the z value of the positives/negatives, which is at 10 percent. Yet, SCAR values are negative and the positive market reaction is only 20.00 percent. Therefore, higher value investments may induce some value creation or positive market reaction for EMMs that invest through SAs. On the other hand, market reaction does not appear to be immediate. (See Table 5, A3, Appendix B)

*Least Valued Transactions (M&As).* In order to examine the impact of investment size on value creation and market reaction 200 M&As (200 least valued transactions) are examined. The results, in general, indicate negative SCARs and less than 50 percent of positive market reaction

at all intervals. At the interval (-1, 0), the market reacts positively to 45.00 percent of all events with significance levels for the mean and the median at 5 percent and the significance level for the positives/negatives is at 10 percent. At the interval (-1, +1), positive market reaction is 41.50 percent for all events where the significance levels for the mean, the median and the positives/negatives are 10 percent, 5 percent and 1 percent, respectively. At the interval (-2, +1), the market reacts positively to only 44.50 percent of the announcements with both the median and the positives/negatives significance levels at 10 percent. At the interval (-5, +1), the market reacts positively to 41.00 percent of the events. Here, the significance levels of the mean, the median and the positives/negatives are at 5 percent, 1 percent and 1 percent, respectively. Finally, at the interval (-10, +5), positive market reaction is 46.50 percent where the mean and the median significance levels are both at 10 percent. Overall, value creation is not indicated for EMMs that invest in low value acquisitions since all SCARs at all intervals are negative. In addition, although market reaction is immediate, it is not necessarily positive. (See Table 5, Panel B1, Appendix B)

*Least Valued Transactions (JVs).* There are a total of 78 events to test whether smaller investment sizes have any impact on the JV expansions of EMMs. According to the results, there is an overall value creation and positive market reaction; however, the values are not statistically significant. The results are as follows: At the interval (-5, +1), the market reacts positively to 57.69 percent of all events with the positives/negatives z value significant at 10 percent. At the interval (-10, +5), positive market reaction is 58.69 percent with both the mean and the positives/negatives z values significant 10 percent level. Therefore, it can be assumed that both the value creation and positive market reaction are actualized during longer event windows. (See Table 5, Panel B2, Appendix B)



*Least Valued Transactions (SAs).* There are only 5 least valued transactions for SAs. There is no value creation when EMMs that expand through SAs take part in low value investments. In addition, positive market reaction does not appear to be higher than 20 percent during the first 5 intervals, which actually reduces to 0.00 percent during the last two intervals. All SCARs are negative and statistically significant at all levels and at all intervals. At the interval (-1, 0) and (-1, +1), the market reacts positively to 20.00 percent of all events where the significance level of mean z value is at 5 percent and the significance level of positives/negatives z value is at 10 percent. At the interval (-2, +1) positive market reaction stays the same with the mean z value significance at 1 percent and the positives/negatives z value significance at 10 percent. Negative market reaction is immediate when EMMs that expand through SAs invest in low value business deals. In addition, there does not seem to be any value creation. (See Table 5, Panel B3, Appendix B)

*Differences between the Most and the Least Valued Transactions/Investment Size.* For EMMs that expand through SAs seem to differ with both the EMMs that expand through M&As and JVs. The difference is more with the EMMs that expand through JVs. There are considerable mean differences between these two groups. At the intervals (-1, +1), (-2, +1), (-10, +5), (-10, +10) the significance levels are 10 percent, 5 percent, 10 percent and 5 percent, respectively. (See Table 5.1 for differences)

### Level of Control

In order to examine whether control level has any impact on value creation and market reaction, the study takes only M&A transactions into consideration. This is conducted by utilizing 200 highest shares and 200 least shares acquired by EMMs.

*High Level of Control (M&As).* A total of 200 events tested in order to see whether high level of control of acquiring EMMs can explain market reaction and value creation. EMMs that expand through M&As and that have high level of control experience value creation at longer event windows. The market also reacts more positively to these events during longer intervals. However the values are not statistically significant except during the interval  $(-10, +10)$ , where the market reacts positively to 49.50 percent of all events and where the significance levels for the z value of the positives/negatives is at 1 percent. At the window  $(-1, 0)$ , positive market reaction is 45.50 percent where the median and the positives/negatives z values are both at 10 percent significance level. Therefore, it can be assumed that when EMMs acquire higher percentage of shares in the target firm, market reacts more positively and that there is some value creation. However, these results may be exhibited in a longer time period rather than immediately. (See Table 6, Panel A, Appendix B)

*Low Level of Control (M&As).* In order to examine the impact of low control level of the EMM in the acquired company, 203 events are employed. The examination is done by observing the events where EMMs purchased the least number of shares in the acquired firm. Here, the results indicate that SCARs, in general, are negative. For example, at the interval  $(-1, 0)$ , market reacts positively to only 43.84 percent of all events where the significance level for the z values of the mean, the median and the positives/negatives are all at 1 percent. However, there is no value creation at this window since all SCARs are negative. Similar results are observed at the interval  $(-1, +1)$  where the market reacts positively to only 44.33 percent of all events, where the mean, median and the positives/negatives z value significance levels are at 5 percent, 1 percent and 5 percent, respectively. One other interval that is significant is  $(-5, +1)$  where the market reaction becomes more positive (45.32 percent of all events) and where the z

value significance of the mean is at 10 percent. The results indicate that although market reacts immediately to these announcements where EMMs have least control in the acquired firm, the reaction is negative and there does not seem to be immediate value creation. (See Table 6, Panel B, Appendix B)

*Differences between High Level of Control and Low Level of Control.* The only significant difference between the two sets of events are at the interval (-5, +1) where the mean z value is significant at 10 percent level. The difference indicates that EMMs with higher control level experience value creation and positive market reaction as opposed to the EMMs that has minimal control over the acquired firm. (See Table 6.1, Appendix B)

#### Private or Public (State-Owned) Target Company

*Private Target Company (M&As).* A total of 412 events included in this examination. When EMMs acquire private targets, value creation does not seem to be evident during the intervals examined in this study. All SCARs are negative at all intervals. Market reaction is also mostly negative (but fairly positive) but immediate to the acquisition announcements. At the interval (-1, 0), market reacts positively to only 45.63 of all events where z values for the mean, and the median are significant at 1 percent and the z value for positives/negatives is significant at 5 percent level. Similarly, at the interval (-1,+1), the market reacts positively to 45.87 percent of all acquisition announcements with mean, median and positives/negatives z value significance levels at 10 percent, 5 percent and 5 percent, respectively. At the intervals (-2, +1) and (-5, +1), the market reacts positively to 46.84 percent and 46.36 percent of the events, respectively - where the significance level for the z values of the positives/negatives are both at 10 percent. Overall, there is no evidence of value creation during and around the event day when EMMs

acquire private companies. However, market reaction is fairly positive at all intervals. (See Table 7, Panel A1, Appendix B)

*Private Target Company (JVs).* Total number of events considered is 321. The results indicate that when EMMs invest in private firms through JVs there is value creation and the market, in general, reacts to these investments positively. However, most values are not statistically significant. The value creation is evident at the interval (-2, +1) where the market reacts positively to 51.09 percent of all events. At this interval the z value significance level for the mean is at 10 percent and the SCARs are positive. At the interval (-5, +1), the market reaction is mostly positive as well, with a total of 53.27 percent. Here, the significance of the mean is, again, at 10 percent. The value creation and mostly positive market reaction correspond to longer windows rather than the windows around the announcement day. (See Table 7, Panel A2, Appendix B)

*Private Target Company (SAs).* A total of 147 events considered. When EMMs invest in private firms through SAs, there seems to be an unambiguous value creation and positive market reaction. All SCARs are positive at all levels and mostly statistically significant. In addition, market reaction is over 50 percent of all events at all intervals. At the intervals (-1, +1), (-5, +1), and (-5, +5), the market reacts positively to 51.02 percent, 54.42 percent and 53.06 percent, respectively, of all events where the mean value significance levels for all are 10 percent. At the intervals (-10, +5), and (-10, +10), the market reacts positively to 55.10 percent and 55.78 percent of all investments, respectively with both mean and median z values at 1 percent at 5 percent levels, respectively. For the interval, (-10, +10), z value significance of the positives/negatives is at 10 percent. Both the value creation and positive market reaction appear immediately around the announcement day. (See Table 7, Panel A3, Appendix B)

*Public Target Company (M&As).* Total number of events included is 23. When EMMs acquire public companies there does not seem to be value creation as most SCARs are negative. At the interval (-1, +1), the market reacts positively to 39.13 percent of all public company acquisition announcements of EMMS. Here, both the mean and the median z value significance levels are 10 percent. At the interval (-2,+1), the market reacts positively to only 34.78 percent of all events where z values for the mean, the median and the positives/negatives are significant at 10 percent level. Similarly, at the interval (-5, +1) and (-10, +10), the market reacts positively to 34.78 of all events where the significance of the z values of the positives/negatives are both at 10 percent level. Therefore, value creation and positive market reaction are not evident when EMMs acquire public companies. However, market reaction is immediate to these events. (See Table 7, Panel B1, Appendix B)

*Public Target Company (JVs).* Total number of events considered in this investigation is 66. The results indicate that there is almost no value creation for EMMs that invest in public companies through JVs. Market reaction to these events, on the whole, is negative. These results are suggested by the following findings. Although the only value creation is evident at the interval (-1, 0) where SCARS are positive, positive market reaction is only 39.39 percent. Here, the only statistical significance is the z value of the positives/negatives, which is at 5 percent level. After that point on, all SCARs become negative and positive market reaction mostly declines. At the interval (-1, +1), the market reacts positively to 36.36 percent of all events where the significance level for the positives/negatives is at 5 percent. At the intervals (-2, +1) and (-5, +1), the market reacts positively to 31.82 of the events with statistical significance for positives/negatives at 1 percent level for both. At the intervals (-5, +5), (-10, +5) and (-10, +10), the market reacts positively to 36.36 percent, 39.39 percent and to 37.88 percent of all events,

respectively with all the mean significances at 10 percent and the significance level for the positives/negatives at 5 percent. Market reaction, although negative, is immediate. (See Table 7, Panel B2, Appendix B)

*Public Target Company (SAs).* Total number of events included to this examination is 12 events. There does not seem to be value creation when EMMs that expand through SAs invest in state owned companies. All SCARs are negative and positive market reaction, in general, is way below 50 percent. For example, at the interval (-5, +1), the market reacts positively to 33.33 percent of all events with the mean and the median significance levels both at 5 percent. At the interval (-10,+10), the market reacts positively to only 16.67 percent of the events with both the mean and the median z value significance levels at 5 percent and the positive/negatives z value at 1 percent. In addition, negative market reaction is not immediate. (See Table 7, B3, Appendix B)

*Difference between Private and Public Target Company.* For M&A announcements, there are no significant mean differences. Therefore, it is indifferent for EMMs whether they acquire private or public companies. (See Table 7.1, Appendix B)

On the other hand, for JV announcements, the mean differences between the investments of EMMs to private firms and public firms are considerable. At the intervals (-2, +1), (-5, +1), (-5, +5) and (-10, +5), mean differences between these two groups are all at 5 percent significant level. Therefore, it can be concluded that when EMMs invest in private companies through JVs, they experience value creation. (See Table 7.2, Appendix B)

When SAs are examined the mean difference between the investments to private and public companies, shows 5 percent significance level at the intervals (-5, +1) and (-10, +10). Therefore, when EMMs that expand through SAs invest in private firms, they experience value

creation and positive market reaction as opposed the ones that invest in public firms. (See Table 7.3, Appendix B)

#### Relational Linkages/Bidders

This factor is only applied to JV and SA patterns and not the M&As due to their nature in this study.

*Single Bidder (JVs).* Total number of events considered is 309. When EMMs are the only bidders in joint ventures investments, results indicate that there is some value creation as SCARs are positive during several intervals. However, most of these values do not hold statistical significance. The intervals where the SCARs have statistical significance are only two: (-5, +5) and (-10, +10) where SCARs denote negative values. For example, at the interval (-5, +5), the market reacts positively to 44.01 percent of all events where the z value for the positives/negatives is at 5 percent significance level. Similarly, at the interval (-10, +10), positive market reaction is only 44.34 percent of all event. Here, the mean, the median and the positives/negatives significance levels are at 10 percent, 5 percent and 5 percent, correspondingly. In addition, market reaction is not immediate. (See Table 8, Panel A1, Appendix B)

*Single Bidder (SAs).* Total number of events is 145 events. There is evidence of value creation positive market reaction at intervals as all SCAR values are positive and mostly statistically significant. Therefore, when the individual EMMs are the single bidders on SA ventures, they are able to create value and receive positive reaction from the market. At the interval (-1, +1), (-2, +1), (-5, +1), the market reacts positively to 51.03 percent, 52.41 percent, and 54.48 percent, respectively of all the events with the mean z value significance at 10 percent

for all. At the interval (-10, +5) and (-10, +10) positive market reaction is 54.48 percent and 53.79 percent, respectively with the mean significances at 5 for both and the median significances at 10 for both. Both the positive market reaction and value creation appear to be immediate and long-term. (See Table 8, Panel A2, Appendix B)

*Multiple Bidders (JVs).* JVS: In order to examine the impact of multiple bidders in a joint venture investment that EMMs are involved in, a total of 78 events are considered. Although the results may indicate that there is value creation for EMMs and that market reacts mostly positively to the announcements, the positive SCAR values are not statistically significant. Statistical significance is only apparent at the interval (-2, +1) for the positive mean of SCARs are positive, but not for the median. Here, the market reacts positively to 41.03 of all events with the positives/negatives significance level at 10 percent. Statistical significance may be evident at longer intervals. (See Table 8, Panel B1, Appendix B)

*Multiple Bidders (SAs).* Total number of events is 14. When EMMs that expand through SAs take part in multiple bidding, there does not seem to be any value creation as all SCAR values are negative at all intervals. In addition, the positive market reaction is minimal. At the interval (-1, 0), the market reacts positively to only 28.57 percent of all the events where the mean significance value is 5 at percent level and the significance value for the positives/negatives is 10 percent. At the interval (-2, +1), the market reacts positively to 21.43 percent of all the events with the mean significance value at 10 percent and the significance value for the positives/negatives 5 percent. Market reaction, here, is immediate, but not positive. (See Table 8, Panel B2, Appendix B)

*Differences between Single Bidder and Multiple Bidders (JVs).* Although there seems to be some differences between the two groups of single bidder and multiple bidders, there is no



statistical significance for the mean differences. However, market reaction is more positive and immediate when EMMs engage in transactions, which include multiple bidders. (See Table 8.1, Appendix B)

*Differences between Single Bidder and Multiple Bidders (SAs).* The mean difference values between these two groups are not statistically significant, but when EMMs that expand through SAs are the only bidders on a transaction, they seem to create value and receive positive market reaction as opposed to the ones that take part in transactions that involve multiple bidders. (See Table 8.2, Appendix B)

#### Previous International Experience and No Previous International Experience

*Previous International Experience (M&As).* Total number of events included is 397. Deriving from the results, it can be said that when EMMs expand through M&As, previous international experience does not necessarily impact positively on value creation as all SCARs at intervals are negative. At the interval  $(-1, 0)$ , the market reacts positively to 45.09 percent of all events. Here, the mean and the median significance levels are at 1 percent level and the positives/negatives are at 5 percent level. Similar results are indicative at the interval  $(-1, +1)$ , where the market reacts positively to 45.09 percent of the events with the mean, the median and the positives/negatives significance levels are all at 5 percent. At the interval  $(-2, +1)$  market reaction stays the same where the mean, the median and the positives/negatives significance levels are at 10 percent, 5 percent and 5 percent, respectively.

At  $(-5, +1)$ , the market reacts positively to 44.58 percent of the announcements where the mean, the median and the positives/negative significance levels are all at 5 percent. At the interval  $(-5, +5)$ , positive market reaction increases to 46.60 percent with both the mean and



median significance levels are at 5 percent and the positives/negatives significance level is at 10 percent. At (-10, +5) window, the market reacts positively to 46.10 percent of all events where both the mean and the median significance levels are at 5 percent and the significance level for the positives/negatives is at 10 percent. At the interval (-10, +10), the market reaction does not change; the mean and the median significance levels are at 5 percent and the significance level for the positives/negatives is 10 percent. The significance of the market reaction that is mostly less than 50 percent is evident at all intervals, especially around the announcement day. Value creation is not necessarily visible at the intervals utilized in this study. (See Table 9, Panel A1, Appendix B)

*Previous International Experience (JVs).* To test the impact of previous international experience in value creation of EMMs that expand through JVs and the market reaction towards these expansion announcements, 354 events are employed. The results indicate that there is value creation in general as all SCARs are positive at all intervals except the interval (-10, +10). However, none of the values are statistically significant except the previously mentioned interval. At this interval (-10, +10), the market reacts positively to 46.05 percent of all events and the statistical significance is only visible for the z values of the median and the positives/negatives, which are at both at 10 percent level. As a result, it can be assumed that positive market reaction and value creation may be at intervals close to the announcement date. Therefore, market reaction is immediate. (See Table 9, A2, Appendix B)

*Previous International Experience (SAs).* Total number of events 149. The results suggest that value creation and positive market reaction are evident when EMMs that have had previous international experience expand internationally through SAs. All SCARs and market reaction are positive at all intervals. At the interval (-1, +1), (-2, +1), (-5, +1), and (-5, +5), the market

reacts positively to 50.34 percent, 51.01 percent, 53.02 percent, and 53.02 percent, respectively of all events where the mean z value significance levels, for all, are at 10 percent. At the interval (-10, +5), the market reacts positively to 54.36 percent of all the events with the mean significance at 5 percent and the median significance level at 10 percent. Finally, at the interval (-10, +10), positive market reaction is 53.69 experience. The SCAR values are significant at this interval since the mean value is at 1 percent and the median is at 5 percent. Both the market reaction and value creation are positive and significant at all intervals, except the (-1, 0) interval. This means that on the announcement day market reaction and value creation are not significant. However, it can still be assumed that market reaction and value creation are immediate as well as long-term. Yet, both improve after the (-10, + 5) interval. (See Table 9, Panel A3, Appendix B)

*No Previous International Experience (M&As).* Here, a total of 39 events are utilized in order to examine whether there is value creation and positive market reaction for EMMs that expand internationally through M&As and have no previous international experience. The results are indicative of value creation (mostly positive SCARs) and positive market reaction. The value creation is visible at all intervals except a day prior to the announcement date and on the announcement day. However, significant values are evident during longer windows. For example at the interval (-5, +1), the market reacts positively to 58.97 percent of all events where both the mean and the median significance levels are at 5 percent. At the interval (-10, +5), the market reacts positively to 61.54 percent of all events where the significance levels for both the median and the positives/negatives are at 10 percent. At the interval (-10, +10), positive market reaction increases to 64.10 percent where both the mean and the median z value significance levels are at 10 percent and the z value significance levels for the positives/negatives is at 5 percent. Therefore, it can be concluded that EMMs that have no previous international

experience and that internationalize through M&As can create value with their first cross-border expansions. The market also reacts positively to these expansions. (See Table 9, Panel B1, Appendix B)

*No Previous International Experience (JVs).* In order to examine the impact of no previous international experience on value creation of EMMs that expand through JVs, 33 events are employed. However, there does not appear to be value creation, as SCARs at all intervals are negative. In addition, positive market reaction is considerable below the 50 percent level at most intervals. These values are statistically significant at the interval (-5, +1) and (-5, +5) where positive market reaction is 39.39 percent 33.33 percent, respectively and the median significance levels are 10 percent and 5 percent, respectively. The mean z value is significant at 10 percent for the interval (-5, +1). The z value significance level for the positives/negatives is at 5 percent at the interval (-5, +5). (See Table 9, Panel B2, Appendix B)

*No Previous International Experience (SAs).* Total number of events is 10. There does not seem to be value creation for EMMs that have not had previous international experience and expand through SAs for the first time. All SCAR values are negative and mostly have no statistical significance. However, they may experience positive market reaction up to a degree as some intervals positive market reaction increases to 50percent. At the significant intervals (-2, +1), and (-5, +5), positive market reaction is 30.00 percent for both. Here, the z value significance level for the positives/negatives is at 10 percent for both. The results show that market reaction is mostly negative and not immediate, and there is no value creation. (See Table 9, Panel B3, Appendix B)

*Differences between Previous International Experience and No Previous International Experience (M&As).* The SCARs for the EMMs that expand without previous international

experience and the EMMs that have previous experience are significantly different. The differences are more visible at the following intervals. Mean difference between the two groups shows a 10 percent significance level at the interval (-2, +1). At the interval (-5, +1), the mean difference is significant at 1 percent level. Mean difference is significant at 5 percent during the interval (-5, +5). At the interval (-10, +5), the mean difference is significant at 10 percent level. Finally, the mean difference between these two groups is significant at 5 percent at the interval (-10, +10). Therefore, EMMs that expand through M&As experience value creation and receive positive market reaction when they have previous international experience. (See Table 9.1, Appendix B)

*Differences between Previous International Experience and No Previous International Experience (JVs).* There is considerable difference between the means of the two groups at the interval (-5, +1), and (-5, +5) with significance levels at 5 percent and 1 percent, respectively. Therefore, EMMs that expand through JVs experience value creation and receive positive market reaction when they have previous international experience (See Table 9.2, Appendix B)

*Differences between Previous International Experience and No Previous International Experience (SAs).* The significant difference for the mean difference between the two pairs has 10 percent significance level at the interval (-5, +5). Therefore, previous international experiences of EMMs that expand through SAs, create value and attract positive market reaction. (See Table 9.3, Appendix B)

#### Prior Presence in Target Country or No Prior Presence in Target Country

*Prior Presence in Target Country (M&As).* Total number of events is 254. Prior presence in target country does not necessarily create value for the EMMs that expand through M&As as all SCARs at all intervals are negative. Market reaction is immediate and mostly positive under 50

percent at all intervals. The median z values are statistically significant at all windows. The significance levels for means are visible during shorter intervals. At the interval (-1, 0), the mean significance is at 5 percent level and positive market reaction corresponds to 46.06 percent of all events. At the interval (-1,+1), the market reacts positively to 44.09 percent of the events with the mean, the median and the positives/negative significance levels all 5 percent. At the interval (-2, +1), the market reacts positively to 46.46 percent of all events where the mean and the median significance levels are at 10 percent.

At the interval (-5, +1), positive market reaction is 45.67 percent of all events. Here, the mean, the median and the positives/negatives significance levels are at 10 percent, 5 percent and 10 percent, respectively. Finally, at the interval (-10, +10), the positive market reaction is 44.49 percent of all events with the median significance level at 10 percent and the positives/negatives significance is at 5 percent. There is no indication of value creation for EMMs that expand through M&As and that have prior presence in target countries. However, it is evident that market reacts positively to these cross-border expansions. (See Table 10, Panel A1, Appendix B)

*Prior Presence in Target Country (JVs).* In order to examine whether prior presence has any impact on value creation of EMMs that expand through JVs and market reaction to these JV expansion announcement, 229 events are employed. In general, the results indicate that there is value creation for EMMs that have previously operated in target nation. Positive market reaction is also substantial. The assumptions are supported by the following results. At the interval (-1, +1), the market reacts positively to 51.97 percent of all events where the mean and the median z value significance levels are at 10 percent and where all SCARs are positive. At the interval (-2, +1), positive market reaction is 50.66 percent with the mean z value significance level is at 5

percent where all SCARs are positive. At the interval (-5, +1), the market reacts positively to 54.59 percent of all events. Here, the mean z value significance level is at 5 percent and significance level for the z values of the median and the positives/negatives are at 10 percent. At the interval (-5, +5), positive market reaction decreases to 48.47 percent with mean value significance level at 10 percent. Overall, value creation and positive market reaction are both immediate and long-term following the expansion announcement. (See Table 10, A2, Appendix B)

*Prior Presence in Target Country (SAs).* Total of 105 events are included. Although all SCARs and market reaction are positive at all intervals, the significant ones begin to appear at the interval (-5, +1). Here the positive market reaction is 51.14 percent with the mean, the median and the positives/negatives value significance levels at 5 percent, 10 percent and 10 percent, respectively. The interval (-5, +5) shows positive market reaction of 55.24 percent with the Z value of the mean at 10 percent significance level. At the interval (-10, +5), the market reacts positively to 58.10 percent of all SA announcement where the mean, the median and the positives/negatives z value significance levels are 5 percent for all. At the final interval (-10, +10) positive market reaction is 55.24 percent with both the mean, and the median significance levels are at 5 percent. As a result, EMMs that have had prior presence in the target country and that expand through SAs, are able to have value creation and positive market reaction, but not immediately. (See Table 10, Panel A3, Appendix B)

*No Prior Presence in Target Country (M&As).* Total of 182 events considered. There is no indication of value creation by EMMs that expand through M&As and that have not experienced prior presence in target countries, as all SCARs are negative at all intervals. However, positive market reaction is somewhat evident. For instance, at the interval (-1, 0), the



market reacts positively to 44.51 percent of all events where the mean and median significance level s are both at 5 percent. Here, significance level of positives/negatives is at 10 percent. At the interval (-10, +10), the market reacts positively to 52.20 percent of all events where the significance level for positives/negatives is at 5 percent. Therefore, positive market reaction is more evident at longer intervals; however, market reaction is immediate. Overall, the results indicated here demonstrate that there may not be value creation for EMMs that expand through M&As. (See Table 10, Panel B1, Appendix B)

*No Prior Presence in Target Country (JVs).* Total number of events 158. The results indicate that when EMMs that expand through JVs and that have had no prior presence in target countries do not seem to experience value creation and positive market reaction to the announcements of expansions. None of the SCARs are positive and Market reaction to these announcements is below 50 percent at all intervals. At the interval (-1, 0), the market reacts positively to 43.04 percent of all events. Here, the mean, the median and the positives/negatives z values are at 10 percent, 5 percent and 5 percent significance levels, respectively. At the interval (-2, +1), the market reacts positively to 43.67 percent of the events where the z value significance level for the positives/negatives is at 10 percent. At the interval (-5, +1), positive market reaction is 42.41 percent with the mean, the median and the positives/negatives z values all significant at 5 percent level. At the interval (-5, +5), the market reacts positively to 43.67 percent all events with the mean and the median z value significance levels at 5 percent and the positives/negatives at 10 percent. Finally, at the interval (-10, +10), positive market reaction is 43.04 percent with the median significance at 10 and the positives/negatives significance at 5 percent. However, all SCAR values are negative. Therefore, it can be concluded that there may not be value creation during the intervals utilized here. In addition, market reaction, for these

expansion activities, is both immediate and long-term following the expansion announcement. (See Table 10, Panel B2, Appendix B)

*No Prior Presence in Target Country (SAs).* Total number of events 54 events. Some SCAR values are positive however, not statistically significant. The only significance levels are at the intervals (-2, +1) and (-5 +1). At the first interval, the market reacts positively to 38.89 percent of all events with the z value significance level for the positives/negatives, is at 5 percent, and all SCARs are positive. At the second interval, the SCARs are negative, but positive market reaction increases to 44.44 percent and the statistical significance is 5 percent for the median. Therefore, there may be some value creation at (-2, +1); however, the market response is not immediate. Positive market reaction increases to 48.15 percent during the interval (-10, +10). (See Table 10, Panel B3, Appendix B)

*Differences between Prior Presence in Target Country or No Prior Presence in Target Country (M&As).* Although there are some mean differences between these two groups, they are not statistically significant. (See Table 10.1, Appendix B)

*Differences between Prior Presence in Target Country or No Prior Presence in Target Country (JVs).* For JVs, there is a considerable difference between the SCARs of EMMs that have previously been in target countries and the EMMs that have no prior presence in target countries. The assumptions are sustained by the following results. Mean differences between the two pairs is significant at 5 percent at the intervals (-1, 0), (-2, +1) and (-5, +5). The mean differences are also significant at 10 percent and 1 percent at the intervals (-1, +1) and (-5, +1), respectively. Therefore, EMMs that have prior presence in target countries are able to create value and receive positive market reaction as opposed to the ones that have no prior presence in target countries that they enter into. (See Table 10.2, Appendix B)

*Differences between Prior Presence in Target Country or No Prior Presence in Target Country (SAs).* The mean difference between the two groups shows 5 percent significant level for z value at the interval (-5, +1). Therefore, it can be assumed that positive market reaction and value creation are more experienced by the EMMs that expand through SAs and have had prior presence in the target country. (See Table 10.3, Appendix B)

### Industry Factors

#### Expansion through Related Industry and Diversified Industry

*Expansion through Related Industry (M&As)* Total number of events is 200. When EMMs expand internationally through M&As, but stay within the related industry, there does not seem to be value creation since all SCARs, at all intervals are negative. This is evident during all event windows where the values are statistically significant. At the interval (-1, 0), the market reacts positively to 46.50 percent of all events where the z values for the mean and the median are significant at the 10 percent level and all SCARs are negative. At the interval (-1, +1), the market reaction does not change, but the significance levels for the the mean and the median z values change to 5 percent level. Here, again, the SCARs are negative. At the interval (-2, +1), the market reacts positively to only 44.50 percent of all events with significant z value for the positives/negatives at the 10 percent level. At the interval (-5, +1), the market reacts positively to 43.50 percent of all events with the mean, the median and the positives/negatives z values significance levels at 10 percent, 5 percent and 5 percent, respectively.

At the interval (-5, +5), the market reaction does not change where the the mean, and the median z values are significant at 1 percent level and the positives/negatives at 5 percent level. At the interval (-10, +5), the positive market reaction increases to 42 percent with the mean, the

median and the positives/negatives significance level for z values at 5 percent, 1 percent and 5 percent, respectively. Finally, at the interval (-10, +10), the positive market reaction is 39.50 percent of all events; here, the mean, the median and the positives/negatives z values are all at 1 percent level. According to the results, value creation is not evident at the intervals examined in this study. Although market reaction is mostly negative, it is considerably positive during the (-1, +1) and (-1, 0) windows. Therefore, market reaction is immediate to M&A expansion activities of EMMs which chose to operate within the related industry. (See Table 11, Panel A1, Appendix B)

*Expansion through Related Industry (JVs)* Total number of events considered is 257. Here, the results indicate that when EMMs expand through JVs but operate within the related industry there may be some value creation and positive market reaction to these expansion announcements. However, most SCARS are not statistically significant. The only statistical significance is at the interval (-10, +10) where the market reacts positively to 45.53 percent of all events and where the significance level for the positives/negatives is at 10 percent. Then again, at this interval, SCARs are negative. Therefore, it can be concluded that there may be some value creation. In addition, market reaction is not immediate. (See Table 11, Panel A2, Appendix B)

*Expansion through Related Industry (SAs).* A total of 124 events considered. It is evident that there is value creation and positive market reaction as all SCARs are positive and statistically significant at intervals. Positive market reaction is over 50 percent at intervals. At the intervals (-1, 0), (-1, +1), (-2, +1) (-5, +1) and (-5, +5) all mean significances are 5 percent level and the positive market reaction is 54.03 percent, 50.81 percent, 51.61 percent, 50.81 percent, and 54.84 percent of all the events, respectively. At the intervals (-10, +5), and (-10, +10), the mean and the median significance levels for both are 1 percent and the

positives/negatives significance levels are at 5 percent and 10 percent respectively. At the two abovementioned intervals, positive market reaction is 59.68 percent and 56.45 percent, respectively. Both the value creation and positive market reaction begin immediately following the expansion announcement of non-diversified EMMs that expand through SAs. (See Table 11, Panel A3, Appendix B)

*Expansion through Diversified Industry (M&As)* Total number of events included is 235. When EMMs chose to expand through M&As and operate within the diversified industry, the existence of value creation and more positive market reaction is evident at longer event windows. For example, when the interval (-10, +10) is observed positive market reaction to 54.89 percent of all events becomes apparent. The SCARs are also positive at this interval, but the only significance is the z value of the positives/negatives at 10 percent level. The positive SCARs are also evident at (-10, +5), (-5, +5), and (-5, +1) intervals, yet the values are not statistically significant. Value creation does not seem to appear during and on the day of the announcement. This is clear at the following intervals. For example, at the interval (-1, 0), the market reacts positively to only 44.68% where the significance levels for z values of the mean, the median and the positives/negatives are at 1 percent, 5 percent and 5 percent, respectively. At the interval (-1, +1), the market reaction does not change with only significance z value for the positives/negatives at 5 percent level. Therefore, it can be concluded that although market reacts immediately to diversified EMMs' M&A expansion activities; value creation and positive market reaction are only actualized during longer event windows. (See Table 11, Panel B1, Appendix B)

*Expansion through Diversified Industry (JVs).* For this examination, a total of 129 events are included. Results indicate that there is, nevertheless, some value creation when diversified

EMMs expand internationally through JVs. In addition, the market may mostly react positively to the announcements. Then again, most of the SCAR values do not have statistical significance. The only statistical significance is seen at the interval (-10, +10) where the market reacts positively to 46.51 percent of all events and where the mean significance value is at 10 percent level. Therefore, market reaction and value creation are not immediate. (See Table 11, Panel B2, Appendix B)

*Expansion through Diversified Industry (SAs).* Total number of events is 31. There is no value creation when diversified EMMs expand internationally through SAs. However, there is a clear evidence of positive market reaction at various intervals. At the interval (-1, 0), the market reacts positively to 41.94 percent of all events where the mean significance is at 5 percent level and the median significance is at 10 percent level. At the interval (-1, +1), the market reacts positively to 41.94 percent of all events with the mean significance at 10 percent level. At the interval (-2, +1) positive market reaction is 45.16 percent where the mean significance at 5 percent and the median significance is at 10 percent.

At the interval (-5, +5), the market reacts positively to 41.94 percent of the events where the mean significance is 5 and the median at 10 percent level. At the interval (-10, +5), positive market reaction decreases to 32.26 percent but both the mean and the median significance levels increase to 1 percent and the positives/negatives become significant at 5 percent level. At the interval (-10, +10), the market reacts positively to 38.71 percent of the announcements where the only significance is the mean value at 10 percent level. Market reaction exists immediately after the announcement of the expansion. (See Table 11, Panel B3, Appendix B)

*Differences between Expansion through Related Industry and Diversified Industry (M&As).* Mean difference between the SCARs of diversified and non-diversified EMMs show

10 percent significant level for the z value at the interval (-5, +1). The significant level for the mean difference z values are at 1 percent, 5 percent and 1 percent at the intervals (-5, +5), (-10, +5) and (-10, +10), respectively. Diversified EMMs seem to experience value creation as opposed to the non-diversified EMMs. (See Table 11.1, Appendix B)

*Differences between Expansion through Related Industry and Diversified Industry (JVs).*

There are no statistically significant mean differences between the SCARs of diversified and non-diversified EMMs. Therefore, value creation seems to be experienced both by the diversified and non-diversified EMMs that expand through JVs. (See Table 11.2, Appendix B)

*Differences between Expansion through Related Industry and Diversified Industry (SAs).* SAs:

Mean difference between the two group show statistical significance at all intervals and at all levels. These results indicate that non-diversified EMMs that expand through SAs experience value creation and considerable positive market reaction as opposed to the diversified EMMs. In addition, market reaction is both immediate and long term for non-diversified firms and only short term for diversified firms. (See Table 11.3, Appendix B)

Acquirer Hi-Tech and Non Hi-Tech

*EMM Hi-Tech (M&As).* Total of 128 events included. The results indicate that all mean and median SCARs are negative. Therefore, when hi-tech EMMs expand through M&As, they do not necessarily experience value creation around the acquisition announcement date. Negative market reaction outweighs positive market reaction at all intervals. No value creation and negative market reaction are strongly exhibited as the z values are statistically significant. At the interval (-1, 0), the market reacts positively to 44.53 percent of all M&A expansions of hi-tech EMMs. The positive reaction is significant as the mean and the median z values have

significance at 1 percent level. At the interval (-1, +1), the market reacts positively to 41.41 percent of all MA expansion announcements of hi-tech EMMs. The positive reaction is significant as the mean and the median z values have significance at 1 percent level. The z values for the positives/negatives are at 5 percent significance level. At the interval (-5, +5), the market reacts positively to 44.53 percent of all MA expansion announcements. The positive reaction is significant as the mean and the median z value are significant at 1 percent level. Similarly, at the interval (-10, +5), the market reacts positively to 40.63 percent of all events where the mean and the median z values are significant at 1 percent level and the z value for the positives/negatives is at 5 percent significance level. At the interval (-10, +10), positive market reaction is to 39.84 of all events where the mean and the median z values are significant at 1 percent level and the z value for the positives/negatives is at 5 percent level. Hence, for M&A types of expansion activities of hi-tech EMMs, positive market reaction and value creation cannot be implied during the intervals utilized in this study (See Table 12, Panel A1, Appendix B)

*EMM Hi-Tech (JVs).* A total of 78 events are observed in order to examine the impact of being a hi-tech EMM on value creation and market reaction when expanding through JVs. Overall, the results indicate that there is unambiguous value creation as all SCARs are positive at all intervals and most are statistically significant. Market reaction is also positive and over 50 percent of all events at all windows. Statistically significant values are observed at various intervals. At the interval (-1, +1), the market reacts positively to 52.56 percent of all announcements. The positive reaction is significant as the mean z value has significance 10 percent level. At the intervals (-2, +1) and (-5, +1), positive market reaction is 53.85 percent in both cases where the significance of the mean z values are 5 percent and 10 percent, respectively.



At the following intervals (-10, +5) and (-10, +10), market reacts positively, in both cases, to 57.69 percent of all events, with mean z value significance levels at 5 percent for both and the z value for the mean at 10 during the (-10,+5). The z value for the positives/negatives is significant at the 10 percent level for both intervals and the z value for the median is significant at 5 percent level for both of the intervals. Overall, the results are positive for value creation and market reaction. In addition, the positive market reaction is both immediate and long-term. (See Table 12, Panel A2, Appendix B)

*EMM Hi-Tech (SAs)*. Total number of events is 66. When hi-tech EMMs expand internationally through SAs they experience both the value creation and positive market reaction. The value creation and positive market reaction are immediate. At the interval (-1, 0), the market reacts positively to 57.58 percent of all events where the mean value significance level is at 5 percent and the positives/negatives significance is at 10 percent. At the interval (-1, +1), the market reacts positively to 50.00 percent of all events where the mean value has significance at 5 percent level. At the interval (-2, +1) positive market reaction is 53.03 percent and the mean value is significant at 10 percent level. Positive market reaction is immediately after the expansion announcement. (See Table 12, Panel A3, Appendix B)

*EMM Non - Hi-Tech (M&As)*. Total of 308 events included. Negative SCARs outweigh positive SCARs. In most cases, there is no value creation except at intervals (-10, +10) where mean and median SCARs are positive and market reacts positively to 50.97 percent of all announcements. Positive market reaction is also visible at the interval (-10, +5) with 50.32 percent, here, the mean and the median SCAR values are also positive. However, the values are not statistically significant. The only statistical significance is at the interval (-1, 0), where the market reacts positively to 45.78 percent of all events. At this interval the mean, median and the

positives/negatives z value significance level is at 10 percent. However, SCARs are negative. Overall, non hi-tech EMMs that expand through M&As may have some value creation and may receive positive market reaction during longer intervals. (See Table 12, Panel B1, Appendix B)

*EMM Non - Hi-Tech (JVs).* A total of 309 events are included to examine whether non hi-tech EMM that expand through JVs experience value creation and positive market reaction during after the expansion announcements. In general, the results indicate that positive SCARs outweigh the negative ones, but not all have statistical significance. Statistically significant intervals include negative SCARs. At both following the intervals (-2, +1) and (-5, +5), the market reacts positively to 46.28 percent of all events, but the SCARs are negative. In both cases, the z values for the positives/negatives show significance at 10 percent level. At the interval (-10, +10), the market reacts positively to 42.72 percent of all events where the mean z value is significant at 5 percent levels, and the median and the positives/negatives z values are significant 10 percent level. Although there is some evidence for value creation, market reaction does not seem to be positive and immediate to the cross-border announcements of non hi-tech EMMs that expand through JVs. (See Table 12, Panel B2, Appendix B)

*EMM Non - Hi-Tech (SAs).* Total events included is 93. Value creation and positive market reaction are not experienced immediately during the announcements, but experienced in the longer intervals for non hi-tech EMMs that expand through SAs. At the interval (-10, +5), the market reacts positively to 54.84 percent of all events where the mean value significance level is at 5 percent and the median significance at 10 percent. At the interval (-10, +10), the market reacts positively to 58.06 percent of all events with both the mean and the median significance levels at 5 percent and the positives/negatives significance level at 10 percent.

Therefore, it can be concluded that both the positive market reaction and value creation are achieved in the long run. (See Table 12, Panel B3, Appendix B)

*Difference between EMM Hi-Tech and non Hi-Tech (M&As).* Mean difference between the two groups shows 5 percent significance level for z value at the interval (-1, +1). At the interval (-5, +5), the mean difference between the two groups shows 5 percent significance. Mean difference between the two groups is at 1 percent significance level at the interval (-10, +10). At the (-10, +5) interval, significance level is 1 percent. During these intervals, non hi-tech EMMs exhibit positive SCARs and above 50 percent of positive market reaction. Although differences do not indicate clear distinction between hi-tech and non hi-tech as the differences in the significance levels are not substantial, it can be concluded that non hit-tech EMMs receive better and faster reaction for the market and that there is minimal value creation after the announcement. (See Table 12.1, Appendix B)

*Difference between EMM Hi-Tech and non Hi-Tech (JVs).* When the mean differences are observed, it is evident that hi-tech EMMs that expand through JVs create more value than the non hi-tech firms. It is also evident that positive market reaction is substantial towards hi-tech EMMs as opposed to the non hi-tech ones. These assumptions are indicative when the results are observed. The mean difference between the two groups is at 10 percent significance level during the intervals (-2, +1) and (-5, +1). Once again, the mean differences between the two are at 5 percent and 1 percent significance levels, respectively, for the intervals (-10, +5) and (-10, +10). (See Table 12.2, Appendix B)

*Difference between EMM Hi-Tech and non Hi-Tech (SAs).* Mean differences between these two groups show 5 percent and 10 percent significance levels for the intervals (-1, 0) and (-1, +1), respectively. The results indicate that hi-tech EMMs that expand through SAs seem to

create value and experience positive market reaction immediately after the announcement as opposed to the non hi-tech ones that experience both in the long run. (See Table 12.3, Appendix B)

### Country Factors

#### Geographic and Cultural Proximity to Target Country

*Proximity (M&As).* Total of 121 events included. At the interval (-1, 0), the market reacts positively to 44.63 percent of all the events where both the mean and the median z value significance levels are 1 percent. However, SCARs are negative. At the interval (-1, +1) the market reacts positively to 48.76 percent of the events with the mean and the median z value significance levels are at 5 percent. Once again, SCARs are negative. At the interval (-5, +1), positive market reaction is only 38.84 of all the events where negative SCARs outweigh the positive ones. The mean, the median, and the positives/negatives z values are at 5 percent, 1 percent and 1 percent levels, respectively. There is no value creation; and positive market reaction is evident only during the longer event windows. Therefore, it can be deduced that geographic and cultural proximity to target country does not necessarily create value and/or positive market reaction in cross-border M&A expansion activities of EMMs. (See Table 13, Panel A1, Appendix B)

*Proximity (JVs).* A total of 239 events included. Geographic and cultural proximity of target countries seems to be related to value creation of EMMs that chose to expand through JVs. Positive market reaction is also evident at several intervals. However, the values are mostly not statistically significant. Statistically significant values are at the following intervals; however, all

SCARs are negative. At the intervals (-1, 0) the market reacts positively to 45.19 percent of all events. Here, the only statistical significance is for the positive/negatives, which is at 10 percent. At the interval (-5, +5), the market reacts positively to 43.51 percent of all events and the z value for the positives/negatives indicates 5 percent significance level. At the interval (-10, +10), the market reacts positively to 45.61 of all the events where the positives/negatives significant at 10 percent. (See Table 13, Panel A2, Appendix B)

*Proximity (SAs).* Total number of events 52. When EMMs expand through SAs into countries that have geographic and cultural proximity to their home countries, the evidence of value creation and positive market reaction seems to be minimal. According to the results most SCARs have negative values during the earlier intervals. Positive SCARs and market reaction appear after the (-5, +5) interval. At the interval (-1, +1), the market reacts to positively to 40.38 percent of all the events where the statistical significance level for the z value of the positives/negatives is at 10 percent and the SCARs are negative. Positive market reaction is on 36.54 percent at the interval (-2, +1) with the z value significance level for the positives/negatives is at 5 percent; here, again, the SCARs are negative. During these intervals, there is no indication of value creation. However, during the (-10, +5) interval, the positive market reaction increases to 53.85 percent and the SCARs take on positive values where the mean z value is significant at 10 percent. Therefore, it can be assumed that market reaction and value creation become apparent after the initial announcement date – meaning the reaction is not immediate. (See Table 13, Panel A3, Appendix B)

*No Proximity (M&As).* Total of 82 events considered. At the interval (-1, 0), SCARs are negative and the market reacts positively to only 42.68 percent of events. Here, z value for the positives/negatives is significant at 10 percent level. Significant values also apply to the interval

(-1, +1) where the market reacts positively to 37.80 percent of events with z value significance levels are at 10 percent for the median and 5 percent for the positives/negatives. Here, again, SCARs are negative. Therefore, during and around the announcement day there is no value creation and no positive market reaction. However, the results change when longer windows are observed. For example, at the interval (-10, +5), the market reacts positively to 58.54 percent of all events where the positives/negatives z value is at the 10 percent level. At the intervals (-5, +1), (-5, +5) and (-10, +10), SCARs are positive and market reacts positively to 54.88 percent, 52.44 percent, and 53.66 percent of all events, respectively; therefore, there is some value creation during longer windows. As a result, it can be assumed that the EMMs that expand through M&As can create value and be received by the market positively in the long run when they expand into countries with no geographic and cultural proximity. (See Table 13, Panel B1, Appendix B)

*No Proximity (JVs).* Total number of events 148. EMM expansion into countries with no geographical proximity to their home countries through JVs seem to create value for EMMs as SCARs are positive at all intervals except (-1, 0) and (-10, +10). Market reaction is generally positive over 50 percent at most intervals. However, most of these values are not statistically significant. The only statistical significance is at the interval (-5, +1) where the market reacts positively to 55.61 percent of all events and the z value for positives/negatives is statistically significant at the 10 percent level. (See Table 13, Panel B2, Appendix B)

*No Proximity (SAs).* Total of 107 events included. When EMMs that internationalize through SAs expand into countries where there is no geographic and cultural proximity to their home countries, do experience value creation and positive market reaction. According to the results all SCARS are positive and positive market reaction is over 50 percent during all

intervals. The market reaction is also immediate and long term. At the interval (-1, 0), the market reacts positively to 56.07 percent of all expansions where the z value significance level of the positives/negatives is at the 10 percent level. At the interval (-1, +1) the positive market reaction is 54.21 percent with the mean significance value at 5 percent. At the interval (-2, +1) positive market reaction is 56.07 percent with the mean and the positives/negatives z values both at the 10 percent level. At the interval (-5, +1) the market reacts positively to 54.21 percent of the events where the mean significance value is 10 percent. At the interval (-10, +10) the market reacts positively to 54.21 percent of all the announcements with the z value significance level for the mean at 5 and the median at 10 percent. Therefore, positive market reaction and value creation are both immediate and long term. (See Table 13, Panel B3, Appendix B)

*Differences between Geographic and Cultural Proximity and No Proximity (M&As).* The only significant difference is apparent at (-5, +1) interval where the mean difference between geographic and cultural proximity and non geographic and cultural proximity is significant at 5 percent level. Therefore, when EMMs expand through M&As into nations that are not geographically and culturally close to their home countries, they seem to experience more value creation and better market reaction. (See Table 13.1, Appendix B)

*Differences between Geographic and Cultural Proximity and No Proximity (JVs).* There is no mean significance between the two groups. In both cases, there is value creation and positive market reaction. (See Table 13.2, Appendix B)

*Differences between Geographic and Cultural Proximity and No Proximity (SAs).* The z value of the mean difference between the two groups shows 10 percent of significance level at the interval (-2, +1). At this interval geographic proximity show negative SCARs, therefore, it can be concluded that EMMs that expand through SAs enter into countries with no close

proximity to their home countries may experience more value creation and better market reaction as opposed to the ones that expand into countries with proximity. (See Table, 13.3, Appendix B)

#### Expansion into Developed or Developing Countries Expansion into Developed Countries

*Expanding into Developed Countries (M&As).* Total number of events is 171. When EMMs expand into developed countries via M&As, there is seems to be value creation and positive market reaction. This is especially valid for the intervals corresponding to the announcement day (and around it). For example, at the intervals (-1, 0) and (-1, +1), SCARs are positive and positive market reaction to events is considerable 49.71 percent and 50.20 percent. However, the values are not statistically significant. Positive market reaction is clear at the interval (-2, +1) as well where, market reacts positively to 52.63 percent of all expansions. At this interval, SCARs are also positive with mean z value significance level at 10 percent. At the interval (-5, +1), the positive market reaction applies to a considerable 56.14 percent of all M&A expansion announcements of EMMs into countries with the mean and positives/negatives z value significance levels at 10 percent. The results are indicative of value creation and positive market reaction; therefore it can be concluded that when EMMs expand internationally through M&As into developed countries their value may increase and investors receive their expansion decisions positively. (See Table 14, Panel A1, Appendix B)

*Expanding into Developed Countries (JVs).* A total of 133 events included. When EMMs expand into developed countries through JVs, there does not seem to be value creation as all SCARs are negative. There is, however, positive market reaction. However, the only statistically significant indication is at the interval (-1, 0), where the market reacts positively to 48.12 percent of all events and the significance level of z value for mean is at 10 percent; yet, SCARs are



negative. As a result, it can be concluded that positive market reaction is instantaneous to the announcements of JV expansions of EMMs into the developed countries; on the other hand, there is no evidence of value creation. (See Table 14, Panel A2, Appendix B)

*Expanding into Developed Countries (SAs).* Total number of events considered is 113. When EMMs that expand into developed countries through SAs, they experience value creation and positive market reaction. In this investigation, all SCARs are positive and positive market reaction is mostly over 50 percent at all intervals. At the interval (-5, +1), the market reacts positively to 54.87 percent of all expansions with the mean significance level at 10 percent. At the interval (-10, +5), the market reacts positively to 53.10 percent of all the announcements where the mean z value significance level is at 5 percent. At the interval (-10, +10), the market reacts positively to 53.98 percent of all the events with both the mean and the median z value significance level at 5 percent. Since the significance levels of SCARs are during larger windows, it can be concluded that value creation and market reaction are not immediate but develop over time. (See Table 14, Panel A3, Appendix B)

*Expanding into Developing Countries (M&As).* Total of 265 events included. When EMMs expand into developing countries through M&As, all SCARs become negative. Market reaction to the announcement is immediate spanning from the interval (-1, 0) to the interval (-10, +10); however, there does not seem to be value creation at none of the intervals. The results are as follows: At the interval (-1, 0), the market reacts positively to 42.64 percent of all events. The mean, the median and the positives/negatives z value significance level is at 1 percent for all. At the interval (-1, +1), the market reacts positively to 42.26 percent of all M&A expansion announcements where the mean, the median, and the positives/negatives z value significance level is 1 percent for all. At the interval (-2, +1), the positive market reaction is 41.89 percent of

all events and follow a similar pattern with the two previous intervals, meaning the mean, median and positives/negative z values are significant at 1 percent level for all.

At the interval (-5, +1), the market reacts positively to 39.25 percent of all announcements with the mean, the median and the positives/negatives z value significance level is, again, at 1 percent. At the interval (-5, +5), positive market reaction is to 46.04 for all expansions where, the z value significance level is 10 percent for both the mean and the positives/negatives, and 5 percent for the median. At the interval (-10, +5), the market reacts positively to 44.15 percent of all expansion announcements with the mean z value significance level at 5 percent and the median and the positives/negatives z values at 5 percent significance level. At the interval (-10, +10) market reacts positively to 47.92 percent of all events; however, the values are not statistically significant. Therefore, M&A related cross-border expansion of EMMs may neither create value for firms nor positive market reaction to announcements during the intervals with which this study is concerned. However, the use of longer event windows may give different results. (See Table 14, Panel B1, Appendix B)

*Expanding into Developing Countries (JVs).* Total of 254 events included. JV expansions of EMMs into the developing countries seem to create value at all intervals as most SCARs are positive. However, the statistically significant values appear only at the intervals (-1, +1) and (-10, +10). At the interval (-1, +1) where the SCARs are positive, the market reacts positively to 50.79 percent of announcements with mean and median significance levels at 10 percent. At the interval (-10, +10), however, the SCARs are negative where the market reacts positively to 45.28 of events with positives/negatives significant level at 10 percent. Therefore, market reaction is immediate and also long-term to these announcements. (See Table 14, Panel B2, Appendix B)

*Expanding into Developing Countries (SAs).* Total of 46 events included. Since all SCARs are positive at all levels, EMMs that enter into developing countries through SAs seem to have value creation and positive market reaction up to an extent. However, the SCAR values are not statistically significant. (See Table 14, Panel B3, Appendix B)

*Differences between Expansion into Developed and Developing Countries (M&As).* Mean difference between these two groups shows 1 percent significance level at the intervals (-1, 0), (-1, +1), (-2, +1) and (-5, +1), which are critical. The results are indicative of better value creation and positive market reaction by the EMMs that expand into developed countries through M&A. (See Table 14.1, Appendix B)

*Differences between Expansion into Developed and Developing Countries (JVs).* Mean difference between these two groups shows 10 percent significance level at the intervals (-1, 0) and (-1, +1). The results indicate that EMMs experience value creation and positive market reaction in both cases (whether they enter into the developed or developing countries through JVs). (See Table 14.2, Appendix B)

*Differences between Expansion into Developed and Developing Countries (SAs).* Although it seems as though the SCARs of EMMs that enter into developed countries are higher than the EMMs that enter into developing countries, there are no statistically significant mean differences between these two groups. (See Table 14.3, Appendix B)

#### Expansion into Most and Least Politically and Economically Free Target Countries

*Expansion into Most Politically and Economically Free Countries (M&As).* Total of 212 events observed. When EMMs expand into politically and economically free countries through M&As, all observed SCARs at all intervals are negative. However, positive market reaction is

considerable at all intervals. Nevertheless, the values are not statistically significant. The only statistically significant values are seen at the intervals (-1, +1) and (-10, +10). At the interval (-1, +1), the market reacts positively to 45.28 of all events where the z value for the positives/negatives is significant at 10 percent level. At the interval (-10, +10), the market reacts positively to 47.75 of all events with the mean and the median significance levels at 10 percent. However, all SCARs are negative. Therefore, entrance into the most economically and politically free target countries through M&As may not create value for EMMs while stimulating some positive and immediate market reaction. (See Table 15, Panel A1, Appendix B)

*Expansion into Most Politically and Economically Free Countries (JVs).* In examining value creation and market reaction of the JV cross-border expansion of EMMs into most politically and economically free countries, 116 events are considered. The results indicate that most SCARs are positive and the market in general reacts positively to the announcements. However, statistically significant values appear within longer windows. Those intervals are (-5, +1), (-5, +5) and (-10, +5) where the all mean are significant at the 10 percent level and where the market reacts positively to 55.17 percent, 48.28 percent and 53.45 percent, respectively. Therefore, it can be concluded that there is value creation and positive market reaction. However, they may be observable during longer periods. (See Table 15, Panel A2, Appendix B)

*Expansion into Most Politically and Economically Free Countries (SAs).* Total of 52 events considered. Positive market reaction and value creation appear at all intervals. However, the only significance is at the interval (-1, 0), where the market reacts positively to 53.85 percent of all events and the z value significance of the mean is at 10 percent level. Therefore, when EMMs expand through SAs into economically and politically free countries market reaction is immediate. (See Table 15, Panel A3, Appendix B)

*Expansion into Least Politically and Economically Free Countries (M&As).* M&As

Total of 203 events considered. Expansion into the least politically and economically free countries does not seem to create value for EMMs that expand through M&As, as SCARs, at all intervals, are negative. In addition, negative market reaction outweighs the positive reaction. This is apparent in the significance levels of values at various intervals. At the interval (-1, 0), the market reacts positively to 43.35 percent of all events where the significance of z values of the mean and the median are at 1 percent and the significance level for the positives/negatives is at 5 percent. At the interval (-1, +1) the market reacts positively to 46.31 of all events with significance level for the mean and the median z values is at 5 percent. At the interval (-2, +1) positive market reaction is only to 43.84 percent of the events where the mean, the median and the positives/negatives z value significance level is at 5 percent for all. At the interval (-5,+1) the market reacts positively to only 39.90 percent of all events with z value significance levels for the mean is at 10 percent, for the median is at 5 percent at for the positives/negatives is at 1 percent. At the interval (-10, +5) the market reacts positively to 44.83 of events. The z value for the positives/negatives is significant at 10 percent level. Positive market reaction to events is 50.25 percent; however, not statistically significant. Therefore, positive market reaction may take longer than anticipated when EMMs expand into least politically and economically free countries through M&As. It is questionable whether expansion into these countries helps create firm value during the event windows utilized here. (See Table 15, Panel B1, Appendix B)

*Expansion into Least Politically and Economically Free Countries (JVs).* When EMM entrance into least politically and economically free countries through JVs examined, 100 events are included. Although most SCARs seem positive and that the market generally reacts positively to the announcements, here again, the positive values are not statistically significant.

However, negative SCARs maintain statistically significant values. At the interval (-10, +10) the market reacts positively to 41.28 percent of all events where, the mean significance is at 10 and the positives/negatives significance is at 5 percent. Finally it is apparent that market reaction to these announcements may not be immediate. (See Table 15, Panel B2, Appendix B)

*Expansion into Least Politically and Economically Free Countries (SAs).* Total of 50 events considered. The value creation and positive market reaction appear to be at all intervals when EMMs that expand through SAs enter into countries that have less economic and political freedom. However, the statistical significance begins at the interval (-2, +1) where the market reacts positively to only 38.00 percent of all events with the z value significance level for the positives/negatives at 5 percent. At the interval (-5, +5), however, the positive market reaction increases to 56.00 percent where the mean z value is significant at 5 percent. At the interval (-10, +5) the market reacts positively to 62.00 percent of all events where the mean and the positives/negatives significance values are at 1 percent level for both. At the interval (-10, +10) the market reacts positively to 58.00 percent of all events where both the mean and the median statistical significances are at 5 percent level for both. Therefore, the most value creation and positive market reaction do not begin immediately but after the interval (-5, +5). (See Table 15, Panel B2, Appendix B)

*Differences between Expansions into Most and Least Politically and Economically Free Target Countries (M&As).* Mean differences are not statistically significant. In both cases EMMs do not experience value creation; however when they enter into the most politically and economically free countries, EMMs receive positive market reaction. (See Table 15.1, Appendix B)

*Differences between Expansions into Most and Least Politically and Economically Free Target Countries (JVs).* Statistical significances for the mean differences of these pairs are displayed in the longer intervals. For example, the mean difference between is at 10 percent significance level at the interval (-5, +5) and the mean difference is at 5 percent significance level at the interval (-10, +5). In both cases, EMMs receive positive and immediate market reaction and create value. (See Table 15.2, Appendix B)

*Differences between Expansions into Most and Least Politically and Economically Free Target Countries (SAs).* Since the mean difference between these two group shows a 10 percent significance at the interval (-5, +5), both the value creation and positive market reaction are achieved in the long run for EMMs that invest in least politically and economically free countries through SAs as opposed to the ones that invest in economically and politically free countries where both the value creation and positive market reaction are immediate. (See Table 15.3, Appendix B)

### Discussion on Event Study Results

Event-study results indicate that both SARs and SCARs are consistent with each other on M&A announcements - EMMs that expand through M&As seem to create little or no abnormal returns instantaneously. Value creation of M&As may be actualized in the long run. However, market reaction, though, not always positive, is immediate towards M&A announcements. The results also compliment each other when JVs and SAs are considered. In the case of JVs, expansion announcement indicates more negative SARs, but considerable positive SARs as well. Furthermore, JVs can to be associated with more positive SCARs than those of M&As; positive

means outweigh the negative ones. The mean values suggest some value creation at various intervals. However, statistical significance is not immense. Positive market reaction is more apparent in the case of JVs, but not as immediate as the market reaction towards M&As.

When SA announcements are taken into account, however, results indicate that value creation is mostly immediate, as SARs are mostly positive. Therefore, SA pattern can be associated with positive abnormal returns. SCARs, as well, show that SA announcements are related to value creation for Emerging Market Multinationals at all intervals utilized in the event-study. Market reaction to this pattern is mostly positive although not as immediate as it is towards the M&A pattern. However, this reaction is more immediate than the reaction towards the JV pattern.

SCARs of M&As and JVs show some differences. SCARs of M&As and SAs also show significant differences. However, the differences between JVs and SAs do not seem to be very significant. Therefore, M&A type of expansions seem to be dissimilar to both the JVs and SAs.

When observation is focused on regions, the results imply that EMMs from Asia that expand through M&As may not experience value creation. Since these results are just around the announcement date, they may imply that market reacts immediately to M&A type of cross-border expansions of EMMs. However, there seems to be some value creation during longer intervals. The mostly negative market reaction is immediate. Regions - EMMs from Asia that expand through M&As may not experience value creation. However, when EMMs from Asia expand through JVs, the results are somewhat different than that of M&A expansions. There is value creation at almost every interval. However, market reaction is not immediate. When EMMs from Asia expand internationally through SAs, the market seems to react positively to the announcements. Furthermore, the EMMs seem to be able to create value as all SCARs are



positive at all intervals. Market reaction to SA announcements of Asian EMMs are mostly positive, but not immediate.

When EMMs from Latin America are taken into account, market reaction is negative to the announcements. All SCARs are negative at all intervals. There does not seem to be value creation for EMMs from Latin America that expand internationally through M&As. Furthermore, market reaction is immediate but negative. However, when Latin American firms expand through JVs, there is definite value creation and positive market reaction, but this is only apparent at longer intervals. Value creation and positive market reaction are mostly apparent and statistically significant a day after, a day before and the announcement day. Therefore, the value creation and positive market reaction may both be more long-term than immediate. On the other hand, there is definite evidence of positive market reaction and value creation for EMMs that originate in Latin America and expand internationally through SAs. All SCARs are positive at all intervals and positive market reaction is immediate. The results indicate that the value creation and market reaction are both immediate and long term.

On the other hand, when EMMs from Eastern Europe expand through M&As, there seems to be very different results than that of EMMs from Asia and Latin America. The existences of value creation and positive market reaction appear instantly during and around the announcement day with statistically significant values. Therefore, it can be concluded when EMMs from Eastern Europe expand through M&As, value creation and positive market reaction are actualized. However, this is only applicable to those intervals immediately around the announcement day. When longer intervals are examined negative market reaction and negative SCARs become visible. This may be a result of information leakage before the announcement. It may also mean that EMMs may have been unknown to the market that they were entering into.

The results display that positive market reaction and value creation are more long-term for Asian EMMs and more immediate for the Latin American EMMs that expand through SAs. The results suggest that the three different cross-border expansion patterns experience both the market reaction and value creation differently. Therefore, it can be concluded that the pattern of expansion may make a difference in valuation effects of cross-border expansion activities. Furthermore, the regions that the EMMs originate from also make a difference in the way market reacts and in value creation. Most of the other firm factors, industry factors and country factors analyzed above (i.e. event study results) have influence on both the market reaction and value creation in different manners according to each pattern.

When the effects of corporate governance considered if EMMs are listed as Level II and if they are not listed, there does not seem to be value creation and positive market reaction in general. On the other hand, if EMMs are listed as Level III, both the JV and the SA types of announcements seem to attract positive market reaction and value creation.

All things considered, investment size plays a large role in cross-border expansion patterns of EMMs. Investment size is undeniably associated with abnormal returns. This is specifically the case when JVs and M&As are considered. When the investment size is small, there seems to be value creation and positive market reaction in the long run for both patterns.

Furthermore, level of control also has a significant influence on positive market reaction and value creation. When EMMs that expand through M&As exercise high level of control over the target firm they seem to experience positive abnormal returns.

When the target firm is private, the evidence of value creation and positive market reaction is certain for both the JV and SA patterns of expansion. Especially in the case of SAs, there is an unambiguous association with abnormal returns.

In examining the relational linkages, it can be observed that JVs receive positive market reaction and experience value creation if there are multiple bidders within the alliance. On the other hand, SA announcements receive positive market reaction and value creation when they are the only bidders at the time of the announcement. Therefore, it is indicative that relational linkages are associated with abnormal returns.

Previous international experience may not be associated with abnormal returns of cross-border M&A activities. However, JVs and SAs encounter value creation and positive market reaction if they have had previous international experience.

In the same vein, prior presence in the target country may not be associated with abnormal returns when M&As are considered. Once again, JVs and SAs differ, as both encounter value creation and positive market reaction if they have had prior presence in the target country before the expansion announcement.

Furthermore, industry factors suggest that when EMMs expand internationally through M&As, but stay within the related industry, there does not seem to be value creation. However, when M&A operations are diversified, value creation and positive market reaction are only actualized during longer event windows.

On the other hand, when JVs operate within the related industry there may be some value creation and positive market reaction to these expansion announcements. In addition, there may also be some value creation when JV expansion activities are diversified.

However, results also indicate that non-diversified activities of SAs experience value creation and considerable positive market reaction as opposed to the diversified SA activities of EMMs.

On the other hand, being hi-tech in M&A activities does not seem to be associated with positive abnormal returns. Similarly, no value creation and negative market reaction are strongly exhibited in JV expansions. However, when hi-tech EMMs expand internationally through SAs they seem to experience both the value creation and positive market reaction.

Country factors, as well, have differing affects in different patterns as in the case with both the firm factors and industry factors. When the target county has geographic and cultural proximity to the EMMs home country, value creation and positive market reaction are not evident for M&A announcements. This effect is minimal for SAs but more positive for JVS. However, JVs expansions seem to experience better value creation when there is no proximity. Overall, geographic and country factors do not seem to have a large effect on value creation and market reaction. In all cases, the distance does not seem to make a difference.

Finally, cross-border expansion into developed countries may effect in value creation and positive market reaction both for M&As and SAs. Yet, for JVs this influence is actualized when JV expansions take place in developing countries. Therefore, whether the target is located in developed or developing country is not a large determinant in value creation.

Furthermore, market reaction is immediate in every instance and in almost every factor for MAs. Receiving market reaction takes somewhat longer for SAs, and the longest for JVs.

Overall, the results obtained from the event-study display that each factor impacts differently on different patterns (i.e. M&A, JV and SA) and subsequently on value creation and market reaction. The patterns themselves are unique in the way they influence both the market reaction and value creation. These results are consistent with a number of previous research, but in divergence with others in regards to various factors that influence both the market reaction and value creation in cross-border expansions of EMMs, as some of these factors may or may not be

associated with the creation of abnormal returns. The following results further support these findings.

### Cross-Sectional Regression Results and Discussion

Overall, the results of ANOVA and the cross-sectional regression analysis are consistent with the findings of the event study. ANOVA results indicate that SA type of expansions positively impact on value creation as all mean values of SAs are positive at all intervals. JVs seem to impact at a lesser level on value creation, but indicate that there is value creation in general. JVs have some positive impact on value creation at various intervals and negative on the others; however, the positive impact is much less than that of SAs. M&As negatively impact on value creation at all intervals. This is consistent with the Event Study results. (See Table 16, Appendix C)

This is also confirmed by the cross-sectional regression analysis, meaning, SAs impact positively on value creation. JVs also denote positive correlation with abnormal returns and value creation, but the value creation is less than that of SAs. Furthermore, M&As seem to have little or no association with value creation and/or positive abnormal returns. These results are consistent with the results of ANOVA and event-study analysis. (See Table 17.2, Appendix C)

These results are indicated by the following descriptive analysis. There seems to be value creation for M&As at the interval (-10, +5), the coefficient is [1.2699],  $t$  value is [1.45] and the  $p$  value is [0.150], which is significant at 10 percent level. However, negative values outweigh the positive ones. The following intervals denote negative impact of M&As on value creation. At the interval (-2, +1) the coefficient is [-0.3659],  $t$  value is [-2.42] and the  $p$  value is

[0.016] significant at 1 percent level. At the interval (-1, +1), the coefficient is [-0.3954],  $t$  value is [-2.44] and the  $p$  value is [0.015], statistically significant at 1 percent level. At the interval (-1, 0), the coefficient is [-1.5],  $t$  value is [-1.48] and the  $p$  value is [0.140], significant at 10 percent level.

When JVs are examined, there is some value creation. This is indicative of the following. Value creation is apparent at the interval (-10, +5) as the values show coefficient is [1.5053],  $t$  value is [1.73] and the  $p$  value is [0.087] statistically significant at 5 percent level.

Drawing from the results, it can be assumed that SAs impact on value creation more positively as opposed to JVs and especially M&As. M&As seems to have the least value creation. However, as SAs shows positive impact on value creation increases, the FSTS ratio increases at longer intervals. For example, at (-10, +10) where  $t$  value is 1.39 significant at 10 percent level and (-5, +5), with a  $t$  value of 1.64 significant at 5 percent level – therefore, indicating positive correlation with multinationality in the long run. (See Table 17.1, Appendix C)

When the ANOVA results on EMM regions are observed, it becomes evident that the EMMs from the Eastern European region seem to have very little or no value creation as compared to the EMMs from Asia and Latin America. The mean values of EMMs from the Eastern European region are negative at all intervals. The results also indicate that EMMs from the Latin American region seem to experience more value creation than the EMMs from Asia. (See Table 16.2, Appendix C)

These results are also confirmed by the cross-regression analysis that if EMMs are from the Latin American region, the value creation is impacted positively. (See Table 17.3, Appendix C)

However, the rest of the determinants (variables) utilized both by the event-study and the cross-sectional regression analysis and suggested by the previous research not seem to show any impact on value creation. Only certain variables have statistically significant impact on value creation. The following results display the significant ones.

*Investment size.* Previous studies suggest a negative correlation between the investment size and profitability/value creation.<sup>185</sup> This study is consistent with previous research, as when the investment size is large the abnormal returns seem to take negative values. Investment size at all windows shows significance in the cross-sectional regression analysis, denoting that the smaller size investments create value as opposed to the larger size investments. Therefore, it can also be considered that there is a positive relation with abnormal returns and smaller size of investments. All  $t$  values for the investment size are negative at all intervals and significant at either the 5 percent level or the 1 percent level. For example, SCARs at (-10, +10), (-10, +5), (-5, +5), (-5, +1), (-2, +1), (-1, +1), and (-1, 0) denote the following  $t$  values: (-2.22), (-3.15), (-2.87), (-2.29), (-3.26), (-3.72), and (-2.21), respectively with significance levels at 5 percent, 1 percent, 1 percent, 5 percent, 1 percent, 1 percent and 5 percent, correspondingly. Therefore, it can be assumed that investment size – when it is large it is negatively correlated with the abnormal returns. This finding is consistent with event-study results. This is especially the case for M&A announcements, as EMMs that expand through M&As may gain positive returns in the long run, but not in short term. (See Table 17.1, Appendix C)

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<sup>185</sup> Somnath Das, Prayot K. Sen and Sanjit Sengupta. "Impact of Strategic Alliances on Firm Valuation." *Academy of Management Journal* 41(1998): 27-41.

*Level of control.* Cross-sectional regression results reveal that when there is high level of control there does not seem to be value creation. Therefore, low level of control impacts positively on value creation. However, the significance of negative impact of high level of control only appears at the (-10, +10), (-10, +5) and (-5, +5). This impact is seen at the longer intervals. Where for the first interval (above), coefficient is (-0.005829),  $t$  value is (-2.52) and the  $p$  value is 0.013, which are statistically significant at 1 percent level. At the second interval, the coefficient is (-0.003657),  $t$  value is (-1.77) and the  $p$  value is 0.078, statistically significant at 5 percent level. At the third interval, the coefficient is (-0.002691),  $t$  value is (-1.36) and the  $p$  value is 0.176, statistically significant at 10percent level. Level of control has a cumulative effect, as it only shows significance after the interval (-5, +5). (See Table 17.1, Appendix C )

*Economic and Political Freedom.* This variable has positive impact on value creation. The results indicate that if EMMs expand into countries that are economically and politically freer, they experience value creation. The findings are especially significant at SCAR (-2, +1) and (-1, +1) intervals. For the interval (-2, +1), the coefficient is (0.10),  $t$  value is (2.17) and the  $p$  value is (0.031) with statistical significance at 5 percent level. At the interval (-1, +1), the coefficient is (0.14),  $t$  value is (2.92) and the  $p$  value is 0.004, significant at 1 percent. (See Table, 17.1, Appendix C)

*Target Private vs. Target Public.* At SCAR (-1, +1), target companies' being private impacts positively to EMM value creation. Coefficient is (0.4787),  $t$  value is (1.36) and the  $p$  value is (0.175), significant at 10 percent level. Therefore, value creation is associated with investing in private firms for EMMs as opposed to the public ones. (See Table, 17.1, Appendix C)



*Hi-Tech or Non Hi-Tech.* The cross-sectional regression results indicate that EMMs being hi-tech or non hi-tech mostly does not seem to have any impact on value creation. However the result from the interval (-5, +5) shows that if the EMM is a non hi-tech firm there may be some negative impact on value creation. The coefficient is (-0.2306), the  $t$  value is (-1.37) and the  $p$  value is (0.173), significant at 10 percent level. At the interval (-1, +1), the coefficient is (-0.3055), the  $t$  value is (-1.39) and the  $p$  value is 0.167, significant at 10 percent level. (See Table, 17.1, Appendix C)

*Listed as Level 2 ADR.* At the interval (-5, +5) the coefficient is (-0.6193),  $t$  value is (-1.72) and the  $p$  value is (0.088) significant at 5 percent level. Although not so significant, being listed of EMMs as Level 2 ADRs may have negative impact on value creation. (See Table, 17.1, Appendix C)

Overall, these findings suggest that value creation for EMMs are mostly related to financial factors. Furthermore, EMMs seem to follow a pattern that increases profit. When performance of EMMs is examined, the result indicate that although value creation is less apparent especially for M&As (according to event study and previous cross-sectional analysis), this does not necessarily mean that the EMMs performance do not improve after the expansion announcements. The improvement in performance is evident in the long-term. Therefore, M&A investments may have a cumulative effect. This is apparent in the following examinations.

This study includes performance measures a year prior to the announcement and 1 year, 2 years and 3 years after the announcement in order to infer a constructive result on whether the cross-border expansion patterns of EMMs have any influence on firm performance. Usually, 3 years after the announcement is considered the most sound and reliable time period to show profit. Performance tests display that value creation is mostly attained in the long-run for most

EMMs. In most cases, their performance improves with time whether they expand through M&As, JVs or SAs. When all three years are examined individually, results, in most cases, show improvement in all years, but performance during the post 3 year seemed to improve more as opposed to post 1 and post 2 years.

Cross –Sectional Regression results indicate that Return on Assets (ROA) improves after the expansion announcement as compared to one year prior to the announcement. The values for the first and the second years after the announcement are positive showing gains for EMMs. However, these values are not statistically significant. In the third year after the announcement, there is a definite increase in the *t* value (2.82), which is statistically significant at 1 percent level. However, while ROA shows an increase, FSTS ratio decreases in all post three years. This decrease is higher in the third year after the announcement. The decrease is also true for Total Assets (TA) for all three post announcement years with a slight improvement in the third year. However, the values for Total Sales (TS) indicate an increase. The increase is higher in the second and especially in the third year, all values are statistically significant. (See Table 18.1, Appendix C)

The results for Return on Equity (ROE) indicate that there is an increase in all three years after the announcement. The increase is more apparent in the first and the second year after the announcement, but these values are not statistically significant. The improvement declines in the third year as compared to the first and the second year; however, the values are still higher than that of a year before the announcement. The significance level is at 1 percent level. Once again, the FSTS ratio significantly decreases on all post three years. This is also true for TA. However, TS shows increase in all three post announcement years, but lesser in the third year. The results are consistent with the results from the ROA examination. (See Table 18.2, Appendix C)

For EBIT, there is a definite improvement for all post three years and the increase is higher in the third year, with the  $t$  value statistical significance level at 5 percent. As in other cross-sectional regression analysis related to financial performance, FSTS ratio and TA decrease while increase in TS becomes apparent. This is especially significant at 1 percent level in the third year for all. (See Table 18.3, Appendix C)

EBITDA also denotes increase in the all post three years of the expansion announcement where the  $t$  values are all statistically significant. Once again, FSTS ratio and TA show decrease in all post three years and TS shows improvement in all three years, especially in the third year where the statistical significance levels are all at 1 percent. (See Table 18.4, Appendix C)

Return on shareholders equity (RSHE) decreases in the first year after the announcement and increases in the second and the third year as compared to a year prior to the expansion announcement. Here, the FSTS ratio increases in all post three years; however, the  $t$  values are not statistically significant. TA, once again, decreases in all post three years. TS, however, shows increase in all three years and this increase is more in the second year after the announcement. Yet, the  $t$  values are not statistically significant. (See Table 18.5, Appendix C)

Return on Capital Employed (ROCE) seems to increase in all three post announcement years as compared to the year prior to the announcement, but less in the third year. The increase is also true for TS, but less in the first year and most in the second year. Here, again, both the FSTS ratio and TA show decline in all post three years. (See Table 18.6, Appendix C)

Operating profit margin (OPM) increases in the first year and declines in the second and the third year of the post announcement. The FSTS ratio, however, increases in the second and the third year after the announcement. TA decreases in all years and the TS increases in all three

years, especially in the third year after the announcement with a 1 percent significant *t* value. (See Table 18.7, Appendix C)

The results on performance are consistent with the previous research. For example, Gomes and Ramaswamy (1999) show that out when multinationality increases performance declines.<sup>186</sup> Therefore, there is a negative relationship between multinationality and firm performance. This study shows similar results, for example, when operating profit margin (OPM) decreases, the FSTS ratio increases. This study also shows comparable results in reverse order. For example, cross-sectional regression results indicate that as performance (i.e. ROA or ROE) increases, the FSTS ratio decreases.

On the other hand, the findings of this study differ from the findings of Gomes and Ramaswamy at one point. They state that the incremental costs exceed incremental benefits and the marginal performance becomes negative beyond optimum level during firms' later expansion because MNCs that develop in the geographically and culturally remote areas have higher costs. However, this study finds that on the whole, in the later years of the cross-border expansion, EMMs are able to improve their performance. Yet, this study is in line with the suggestion of the authors that the expansion strategy increases their operation cost because of the requirement of specific management. This study shows similar results, for example, operating profit margin (OPM) increases in the first year and declines in the second and the third year of the post announcement. Furthermore, total assets (TA) show decreases in all years and in all tests.

These results are shared by the findings from the logistic regression analysis. The following results of the logistic regression indicate when FSTS ratio increases the probability of SCAR being positive decreases. The results are as follows:

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<sup>186</sup> Gomes and Ramaswamy (1999).

## Logistic Regression Results

The results of logit analysis indicate significance mostly at the (-1, +1) and (-1, 0) intervals; however there some significances at the (-10, +10) and (-5, +5) intervals. At (-1, 0) interval FSTS shows a  $t$  value of (-1.62) significant at 10 percent level. Since FSTS ratio increases negatively, the odds of SCAR being positive decreases at this interval. Therefore, there is a negative inference between the positive SCAR and the FSTS. (See Table 19, Appendix C)

Similarly, since the related industry increases positively at (-1, +1) and (-1, 0) intervals with  $z$  values significant 5 percent and 1 percent respectively, the probability of SCAR being positive increases for the EMMs that operate within the related industry. (See Table 19, Appendix C)

At the interval (-10, +10), the probability of SCAR being positive increases if EMM expands into a developed country, as the  $z$  value for developed target country is significant at 10 percent level. However, the results differ at the (-1, +1) interval where the dummy variable developed target country has a negative value with a  $z$  value significance level at 10 percent. Therefore, the odds of SCAR being positive decreases, meaning target being a developed country may have differing effects on the SCAR – meaning there is value creation in the long run, but this is not evident in the short run.

At the interval (-5, +5), geographic and cultural proximity denotes a  $z$  value, which is significant at 1 percent level. This may mean that the odds of SCAR being positive increases if the EMM expands into a country that has geographic and cultural proximity to the EMMs home country. However, this is only true for this interval. Therefore, this may mean that geographic

and cultural proximity may not be strongly associated with abnormal returns. (See Table 19, Appendix C)

If EMM is a hi-tech firm, SCARs being positive decreases since the values at the intervals, (-1, +1) and (-1, 0) are negative with  $z$  values significant at 5 and 10 percent, respectively. (See Table 19, Appendix C)

The interval (-1, 0) shows that if EMM is not listed or listed as a Level 1 ADR, the probability of SCAR being negative increases. Both the NO ADR and Lev 1 dummy variables indicate  $z$  values significant at 5 percent. (See Table 19, Appendix C)

Similarly, the results for the interval (-10, +10) indicate that if the investment size is large, the probability of SCAR being positive decreases. The dummy variable for the investment size (1 for large investments) denotes a  $z$  value significant at 5 percent level. (See Table 19, Appendix C)

The variables Region 1 and Region 2 indicate positive values with  $z$  value significance levels at 1 percent for both. Therefore, it can be assumed that if the EMMs are from Asia, the odds of SCARs being positive increase. However, if the EMMs are from Latin America this probability increases further. This is inconsistent with the cross-sectional regression analysis. Then again, at the interval (-5, +5) this probability decreases for SCARs of EMMs from Asia. This result is significant at 10 percent level. (See Table 19, Appendix C)

The results obtained from logistic regression analysis show higher probabilities at the (-1, +1) and (-1, 0) intervals denoting that various variables overlooked by the cross-sectional regression analysis may impact on value creation and that this impact may be mostly positive. The logistic regression analysis further supports the findings from the event study and cross-regression analysis, giving this study the added empirical vigor.

## Chapter V

### Conclusion

This study investigates the cross-border expansion implications on value creation of EMMs for the period between 1991 and 2003. First, the paper explores the effects of cross-border expansion patterns on firm value creation. Second, it examines market reaction to the announcements of cross-border expansion patterns. Third, it evaluates firm performance in relation to the cross-border expansion activities.

This study finds that most EMMs do not earn significantly positive abnormal returns during the event windows defined in this study. However, it is generally evident that there is value creation in cross-border expansion activities. According to the event-study results, value creation is mostly associated with SAs. This finding is consistent with previous research.<sup>187</sup> It is also indicated that most SA announcements are received by the market positively. JVs also experience value creation during the event windows utilized in this study. However, value creation of JVs is not to the extent that of SAs. Market reaction to JV announcements is also positive, but not to the degree of SAs.

On the other hand, when M&As are considered, value creation seems insignificant during the intervals utilized in the event-study. Yet, value creation is mostly achieved in the long-run. Similarly, market reaction to M&A announcements are not necessarily positive. However, M&A announcements experience more immediate market reaction as opposed to that of SAs and JVs. Still, market reaction to SA announcements seems to be more immediate than JV announcements. These results on valuation effects are also supported by cross-sectional regression and logistic regression analyses.

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<sup>187</sup> Shao-Chi Chang and Nicole L. Kuo. "Equity Participation and the Wealth Effect of Strategic Alliances: Evidence from Taiwan." (2001).

Through these findings, it can be assumed that M&A pattern of expansion is more recent for most EMMs than that of JVs and SAs. They are still new in venturing through M&As. This may have some influence in obtaining negative abnormal returns. Furthermore, obtaining negative abnormal returns and little value creation mostly in the case of M&A and some JV announcements may not be within the firm's control at all times. Events that occur outside the firm's control may have an affect on the firm's operations in some way. In this case, abnormal returns generated by the event may have been anticipated prior to the announcement date due to information leaks or market anticipation. As a result, investors may have modified their expectations of a firm's future profitability as they grasp new information.<sup>188</sup>

Since the multinationals considered in this study are from emerging markets and some may not be well known internationally, there may be investor uncertainty about the firms' internal and external activities. The new information may relate to the status of both the acquirer and the target firm as well. Therefore, market reaction may also be impacted by the target firms' status and overall behavior. Hence, value creation may be influenced by other external factors. This may be especially relevant in the case of M&As and JV (to a degree) in explaining negative abnormal returns.

The results attained from all three methods are consistent with previous research. For example, a number of research suggests that cross-border M&As often decrease the acquirer's shareholder wealth.<sup>189</sup> Hence, as indicated by the results, this study is inline with the previous research when M&A pattern is concerned. Previous research also suggests that the announcements of joint ventures are associated with positive market reaction. This positive effect is especially apparent a few days prior to the announcement in *informationally-efficient*

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<sup>188</sup> Campell *et al.*, (1997).

<sup>189</sup> Kaplan and Weisbach (1992) Markides and Ittner, 1994; Morck and Yeung, 1992).



markets.<sup>190</sup> Therefore, this study shares the view of previous work, as JVs can be considered as value creation mechanisms.

Furthermore, this study is also consistent with previous research on the value creation effects of SAs, as the previous literature expresses that establishing SAs creates significant value for the shareholders of all the partnering firms.<sup>191</sup> This is specifically the case in non-equity strategic alliances as this study also suggests – where mutual commitment necessitates less negative impact on operations of the affiliating firms than joint ventures. The positive effects on value creation are more noticeable within technological alliances where firms experience greater abnormal returns.<sup>192</sup>

Therefore, this study displays that SAs seem to capture more value creation as opposed to both JVs and M&As. However, this study also suggests that there is no one superior and/or optimal pattern in cross-border expansions of EMMs. Although value creation may not be apparent in the short- term for most expansions as in the case of M&As, it is certainly ostensible in the long-run. This result is indicated by the cross-sectional regression analysis as well.

Although the result indicate that value creation is less apparent for M&As, this does not necessarily mean that the performance of EMMs that expand through M&As do not improve after the expansion announcements. The improvement in performance is evident in the long-term. Therefore, M&A investments may have a cumulative effect on value creation. Consequently, this research is also consistent with extant literature that suggests value creation is related to cross-border M&As.<sup>193</sup>

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<sup>190</sup> Hanvanich and Cavusgil (2000), and Kogut (1991).

<sup>191</sup> Das, Sen and Sengupta (1998), (Chan, Kensinger, Keown and Martin, 1997). and Cahng and Kuo (2001).

<sup>192</sup> Chan, Kensinger, Keown and Martin (1997), and Das, Sen and Sengupta (1998).

<sup>193</sup> Datta and Puia (1995).

This study illustrates that EMMs are generating gains through their cross-border expansion patterns whether they are M&As, JVs or SAs. In accordance with the performance tests value creation is mostly attained in the long-run for most EMMs. For the most part, EMM performance improves with time for all three patterns. The examination that considers a time span of three years (individually) after the expansion announcement shows improvement in all three years, but performance during the third year seem to improve more as opposed to the first and the second years after the announcement as compared to a year prior to the expansion announcement.

The findings of this study differ from the findings of previous research - namely the findings of Gomes and Ramaswamy (1999) at one point. According to the researchers, the incremental costs exceed incremental benefits and the marginal performance becomes negative beyond optimum level during firms' later expansion because firms that develop in the geographically and culturally remote areas have higher costs. However, this study finds that in the later years of the cross-border expansion, EMMs are able to improve their performance whether there is no geographical and cultural proximity to target countries.

Nevertheless, the findings of this study on performance are also consistent with the previous research of Gomes and Ramaswamy (1999) where they show when multinationality increases performance declines – stating that there is a negative relationship between multinationality and firm performance.<sup>194</sup> This study is consistent with their finding in reverse order, giving that cross-sectional regression results indicate the following: As performance (i.e. ROA, ROE, etc.) increases, the FSTS ratio decreases, indicating there is a negative relationship between multinationality and performance. Furthermore, when operating profit margin (OPM) decreases, the FSTS ratio increases.

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<sup>194</sup> Gomes and Ramaswamy (1999).

This result is also supported by the logistic regression analysis, which indicates when FSTS ratio increases the probability of abnormal return being positive decreases. Therefore, there is a negative inference between the positive abnormal returns and multinationality. Subsequently, it can be assumed that multinationality may negatively effect value creation.

This study also shows, for example, operating profit margin (OPM) increases in the first year and declines in the second and the third year of the post announcement. Furthermore, total assets (TA) show decreases in all years and in all tests. Hence, this study is comparable to previous research in regards to one other factor where it is suggested that expansion strategy increases the operation cost because of specific management requirements.

However, this study contributes further to the previous research by discovering the following. According to the results, SAs shows positive impact on value creation, when the value creation increases, the FSTS ratio increases as well; however, this is only evident in the long-run for SAs. Thus, there is an indication of positive correlation between value creation and multinationality even though this may be achieved in the long run. Perhaps, the positive correlation may also be captured both by M&As and JVs if the performance examination is in longer calendar years. This finding suggests that there is relationship between excess value of firm and the extent of internationalization.<sup>195</sup> Thus, this study is consistent with other previous research conducted in this area.

Amongst the other factors that influence value creation, some stand out the most. According to the results, investment size is the most associated factor with value creation. This finding is shared by all three methods utilized in this study. However, this effect is invert, as the results indicate that if the investment size is large, there is no value creation and yet, when it is small it can be associated with value creation. Hence, it can be inferred that value creation for

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<sup>195</sup> Erunza and Enber (1984).

EMMs may be mostly related to financial factors and that they may be following a specific pattern in search of increasing profits.

From these results on investment size, several other deductive discoveries can be made. For example, the market reaction is mostly immediate and negative towards M&A announcements and M&A announcements are the ones with largest investment size in this study. Hence, this type of market reaction may be due to the large size of investment that EMMs may engage in. Market may assume that positive abnormal returns may not be actualized right away, but may be capitalized in a longer point in time. Consequently, cross-border expansions that entail large investments may be attracting immediate but negative investor reaction.

Previous studies also suggest a negative correlation between the investment size and profitability/value creation.<sup>196</sup> This study is consistent with previous research, as when the investment size is large the abnormal returns seem to take negative values. The results denote that the smaller size investments create value in the short-term as opposed to the larger size investments. Therefore, it can also be considered that there is a positive relation with abnormal returns and smaller size of investments. This result is supported by all three empirical methods utilized here.

One other factor that stands out in the empirical tests is the Level of control – in regards to M&As only. Cross-sectional regression results reveal that when there is high level of control, there does not seem to be value creation. Therefore, when the level of control is not high in the expansion activities, value creation becomes evident. Since it is indicated that lesser the level of control over the acquired firm - greater the abnormal returns, level of control has a cumulative effect on value creation.

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<sup>196</sup> Das, Sen and Sengupta (1998).

Furthermore, this study adds the importance of financial aspects of cross-border expansion activities and expresses that the size of firms, size of investments, and level of control are influenced by the three distinct patterns of cross-border expansion – where these patterns, in turn, influence the types of market and types of activities that EMMs explore. Therefore, this study is in further consistency with previous research.<sup>197</sup>

The influences also entail the regions that the EMMs originate from. Results indicate that Eastern European region seem to have least value creation as compared to the EMMs from Asia and Latin America. Furthermore, the EMMs from the Latin American region seem to experience more value creation than the EMMs from Asia. Therefore, it can be assumed that Latin American EMMs experience more value creation than Asian and the Eastern European EMMs. Once again, these findings are shared by all three empirical methods employed in this study. Furthermore, this finding introduces an added merit to the IB research.

Another factor that influences value creation is corporate governance structure of firms. The results suggest if EMMs are not listed or listed as Level I and Level II ADR, value creation decreases. EMMs listed as Level III seem to generate positive abnormal returns; therefore, the influence of Level III is most effective on value creation. These results suggest the importance of information disclosure and transparency in EMMs business operations. Therefore, it can be assumed that good corporate governance structures are positively related to value creation of EMMs. This finding adds a further value to IB research.

A related firm factor to corporate governance is a firm's being private or public. Similar to the positive effect of good corporate governance structures, when the target company is private EMM value creation is positively impacted. Therefore, value creation may be associated with investing in private firms for EMMs as opposed to the public ones.

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<sup>197</sup> Kogut and Singh (1988), Brouthers and Brouthers (2000), and Harzing (2002).

Besides the influences of firm factors, value creation is also influenced by other related factors. Some of these factors are suggested by the early research entail the industry factors, political factors and geographical and cultural factors.

When industry factors are observed there does not seem to be a clear distinction between the announcements of diversified and non-diversified cross-border activities of EMMs. However the findings are consistent with previous research as in some cases diversification increases,<sup>198</sup> and decreases<sup>199</sup> firm value. These results are similar when value creations of hi-tech and non hi-tech EMMs are examined. Furthermore, this finding highlights two major inconsistencies with previous literature.

On the other hand, economic and political factors seem to have impact on value creation in all cross-border expansion patterns. When EMMs expand into countries that are economically and politically freer, they experience value creation. However, when EMMs expand into developed countries the findings are conflicting, as at times EMMs seem to experience value creation and at other times value creation decreases. In any case, positive abnormal returns are attained in the long-run. Since target being a developed country may have differing effects on abnormal returns, it may be indifferent to value creation.

In considering geographic and cultural proximity, there seems to be some value creation for EMMs when they expand into countries that are closer both geographically and culturally. However, this is only true up to a point and value creation seems to subside in the long run. Therefore, it can be concluded that geographic and cultural proximity may not be strongly associated with abnormal returns and value creation, but may behave as an instrumental factor.

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<sup>198</sup> See Wells (1977), Wilson (1980), Millington and Bayliss (1995), Bodnar et al. (1999), Brouthers and Brouthers (2000), and Doukas and Lang (2003).

<sup>199</sup> See, for example, Denis et al. (2002) by employing excess value measure and aggregate data illustrate that both international diversification and industrial diversification decrease shareholder value substantially.

Since all three empirical methods share the same findings, it can also be assumed that although geographic factors were once critical in the expansion strategies of EMMs,<sup>200</sup> they may no longer be - due to the changing factors in the international business climate.

All things considered, financial factors stand out as the most influential factors in cross-border expansions of EMMs and that value creation is more related to financial gains. The rest are only instrumental factors in attaining value creation as Wells once suggested in 1977.<sup>201</sup> Indeed, this reason has not changed since EMMs first began expanding internationally. However, today, EMMs go anywhere they can capitalize financial gains. The markets they explore do not necessarily have to be close to their home countries. Therefore, today, geographical reach, rather than geographic proximity is related to value creation in relation to the changing attributes of international business. Yet, EMMs face a set of transaction costs, risks and opportunities more than they previously experienced. They also confront such issues as geographic dispersal of assets and liabilities across the globe and access to capital markets of different locations with variable exchange rates and differing regulations in further intensity.

All in all, with the changing attributes of international business, there will be additional factors continue to evolve in today's dynamic business world. Since change is the only constant and as EMMs continue to increase their cross-border expansion, their cost of capital will increase as well. Yet, today, they lack the most needed capital and raising of capital for cross-border expansions is a crucial factor. Therefore, there is a reason for their focus to primarily stay on capital. As Aharoni once articulated in 1966, the internalization of a firm is

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<sup>200</sup> See, for example, Lecraw (1977), S. Lall (1977), Wells (1977), Kumar (1981), Thee (1981), White (1981), Akinnusi (1981), Agrawal (1981), Jo (1981), White (1981), Ting and Schive (1981), Agrawal (1985), R.B. Lall (1986), Lau (1992) and Lim and Moon (2001).

<sup>201</sup> Wells (1977).

only an *incremental process* and the focus should be on capital.<sup>202</sup> Therefore, the study is consistent with previous research as the findings suggest the focus of EMMs is now mostly related to efficient use of capital and resource.

*Limitations and Prospects for Future Research.* Reflecting on some of the limitations of this study permits for giving direction to future research. One limitation is the lack of availability of financial data on EMMs, which forced this study for extracting a number of EMMs from the research. Therefore, the future research should include new sources if available, other financial factors and possible measures to examine value creation, so that the research may be enhanced.

The second limitation is the magnitude of the subject. There are multiple changing factors that may influence the cross-border expansion patterns of EMMs. Regrettably, this study is not able to include all factors involved. Therefore, the ever changing factors can justify the need for further research. Those factors could be network structures and network ties that include business groups, the differences in capital markets, and cooperation between the investing firms and the target firms. Future research should also include the implications economic and market risks as to how EMMs can spread these risks. Furthermore, the inclusion of target firms into future research may also be valuable to IB literature.

Looking ahead, the ever-evolving interdependent external and internal factors (firm, industry, and country factors) will still remain to matter in value creation of EMMs in the future. They will continue to either enhance or reduce and even diminish firm value creation. Furthermore, external factors, such as the Asian and the Mexican Crises that may have negative impact on firm value creation most probably will surface again. In addition, there will always be

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<sup>202</sup> Aharoni (1966) developed a behavioral model of internationalization. Aharoni like Hymer in his 'stages theory,' is concerned with technical and marketing experience. According to his theory, firms develop basic business skills in their domestic markets before entering foreign markets. For Aharoni, the stages of the FDI process first consist of general indicators which are divided into risk and uncertainty.



differences in the capital markets that EMMs operate in. Therefore, implications of events outside of the control of EMMs may have greater implications on EMM value creation in the future.

Besides all of the abovementioned instrumental factors, financial factors will remain to be the most influential factors on value creation of EMMs. One important financial concern for EMMs is obtaining capital. Today, EMMs lack a solid capital base and capital has been difficult for EMMs to obtain. Therefore, EMMs will constantly be tackled by financial challenges in the near future as well.

Through a strong conceptual analysis, three robust empirical analyses and three mini case studies (See Appendix A), this study finds that financial factors (attaining capital, improving performance and achieving value creation) are the main justification for EMMs that exploit the three distinct patterns (i.e. M&A, JV and SA) in their cross border expansions and all other factors are instrumental. Hence, the contribution to the field of international business of this research is supported by the following empirical findings.

While Asian and Latin American EMMs' cross-border expansions strategies on average create value for shareholders, Eastern European EMMs' expansions are value destructive. In addition, Latin American EMMs seem to attain value creation more so than the Asian EMMs. This may be due to the fact that Latin American EMMs have been the forerunners of cross-border expansions and have been in the international arena long before the Asian and the Eastern European EMMs. The finding of a negative association between size of the acquisition and abnormal returns suggests value destructive impact of larger acquisitions. This result can be explained by investors' cautious reaction to large size investments in informationally efficient markets. Since large size investments are associated with capital intensity and that financial

advantages may take longer to attain investors may react negatively in the short-run. Complications in target assessment and misidentification of asset complementarities, informational asymmetries, high premiums paid for the targets may also have adverse effects on the value of acquiring firms.

Results also suggest that acquisitions of state-owned targets are value destructive. This finding may be attributed the the fact that during the privatization processes of SOEs, there are a number of financial and governance factors that may be unstable. In addition, the governments may still have a stake in these target companies. Hence, investors may not consider these acquisitions positively and act vigilantly. Furthermore, the findings suggest that international experience and familiarity with the target market proved to be insignificant. This can be explained by the accelerating cross-border expansions of EMMs as they are becoming more active actors within the larger international picture and by their formations of network ties with other firms in various regions. Hence, the extent of acquiring firm's experience in executing acquisitions, its organizational capability to absorb the target may affect the impact of the acquisition on the firm value rather than its prior international presence.

Moreover, the results suggest that good governance is positively associated with cumulative abnormal returns. This can be associated with transparency and information disclosure. Hence, investors may react positively to the cross-border expansions of EMMs that are transparent so that they can speculate company returns and future financial gains.

Diversified EMMs' cross-border acquisitions tend to create minimal value for shareholders. This can be explained by the factor that especially large EMMs may be able to form institutions within firms that can provide them with needed capital. Since through these institutions EMMs can finance their diversified operations, they may not rely on external capital

institutions. Provided that the costs of creating and maintaining a such a diversified corporate network are not excessive, such a network can add additional value to the firm because of its ability to exploit a larger variety of market conditions. Conversely, results also suggest that hi-tech EMMs' cross-border acquisitions are value destructive. Since hi-tech operations are more costly and need better allocation of capital value creation may not be attained in the short run.

In addition, to firm and country level findings results suggest that some target country characteristics have a significant impact on acquiring firms' value creation. More developed institutional infrastructure and overall level of economic development have positive impact on abnormal returns. When EMMs invest in developing countries with less informationally efficient markets they may be face with winners curse (overpayment for the target company). Hence, this may prolong value creation. In addition, managers may have the incentives to adopt and maintain value reducing diversification strategies which may not be entirely consistent with shareholder wealth creation. In other words, they may pursue international expansion strategies even if doing so reduces shareholder wealth and creates agency cost.

The results also indicate that geographic and cultural proximity proved to be insignificant in value creation. This may be particularly true for EMMs that more interested in geographic reach as opposed to proximity in order to gain specific advantages.

This study also finds that EMMs do not have an optimal pattern, meaning there is no one pattern superior or inferior to another in cross-border expansions of EMMs as all three patterns, with their unique structures have different impact on value creation across time and space. With these cross-border expansions, EMMs are entering into the larger picture and performing a number of roles in the changing context of international business. Their cross-border expansions and performances are augmenting the essence of FDI as EMMs attain value creation step by step.

It is the hope of this study that through these findings, it can guide both the IB scholars and investors further in their future endeavors.

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