Aalto University
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Do the country risk and the tax haven status of the target country play a role in Russian outward cross-border acquisitions?

Finance

Master's thesis

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2013

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Title of thesis Do the country risk and the tax haven status of the target country play a role in Russian outward cross-border acquisitions?

Degree MSc

Degree programme Finance

Thesis advisor Sami Torstila

Year of approval 2013 **Number of pages** 100 **Language** English

PURPOSE OF THE STUDY

The purpose of this study in to determine whether or not there is a need for a new type of internationalization theory and to examine the motives for the international expansion of emerging market multinational enterprises (EMNE) that have been proposed recently. This study concentrates on Russian outward cross-border acquisitions. To my knowledge, this is the first attempt to test these motives in connection with actual cross-border transactions. Moreover, this is the first study where country risk and the tax conditions of the target country are being tested as determinants for cross-border acquisitions by EMNE. I investigate how the level of country risk and the tax haven status of the target country affect both the volume of transactions and the market reactions to these transactions.

This study aims to contribute not only to our understanding of the phenomenon of outward FDI (OFDI) from the emerging economies, but also to contribute to recent domestic and international discussion regarding Russian FDI in offshore financial centers (OFC). Despite some evidence that OFC attract Russian OFDI, there are no studies that investigate to what extend OFC attract actual Russian cross-border acquisitions or acquisitions by the emerging market companies in general. Also, the value implications of Russian cross-border acquisitions are also still unclear.

DATA

The acquisition data is gathered from the Securities Data Corporation's (SDC) merger database. Stock market data and other company data is gathered from the Thomson Reuters database. The time period for the sample data is from 1998 to 2012 because country risk estimates for countries provided by IHS Inc. are only available from 1998 onwards. The total sample gathered for the analysis of the determinants of Russian outward cross-border acquisitions consists of 950 cross-border acquisitions distributed over 15 years and 81 countries. The final sample for the analysis of abnormal returns consists of 115 observations.

MAIN RESULTS

The findings suggest that target country risk has a significant negative effect on the volume of Russian outward cross-border acquisitions; a 1% increase in the country risk level leads to a 0.24% decrease in the volume of cross-border acquisitions (CBA) to that country. Also, I find that the tax haven status of the target country has a positive effect on the volume of Russian acquisition in a country. According to the results, the tax haven status increases volume by 15.3%. However, the results concerning tax haven status are not highly significant.

Further, I find that the effect of both determinants has changed over time. Results show that a 1% increase in the country risk level leads to a 0.48% decrease in the annual volume between 2009 and 2012, whereas the effect is only 0.17% for the earlier sub-period. Also, the tax haven status increases the volume by 21.4% between 2009 and 2012, but only by 12.4% during the period of time between 1998 and 2008.

Interestingly, the results suggest that companies assess the different components of the country risk of the target country separately and that some of the risks are more important than others. According to the analysis, legal risk, tax risk and operational risk of the target country are more important for Russian companies than political, economic and security risks.

Keywords cross-border acquisitions, country risk, tax haven, determinants, abnormal returns

Tekijä Rafael Osmanov

Otsikko Onko kohdemaan maariskillä ja veroparatiisistauksella vaikutusta venäläisten yhtiöiden tekemissä kansainvälisissä yrityskaupoissa?

Tutkinto KTM

Tutkinto-ohjelma Rahoitus

Ohjaaja Sami Torstila

Hyväksymisvuosi 2013 **Sivumäärä** 100 **Kieli** Englanti

TUTKIELMAN TAVOITTEET

Tämä tutkimuksen tavoitteena on testata uutta kansainvälistymisteoriaa, jota on ehdotettu selittämään syitä, jotka ovat kehittyvien maiden yritysten kansainvälistymispyrkimysten takana. Tutkimuksessa keskitytään tutkimaan venäläisten yritysten tekemiä kansainvälisiä yritysostoja. Tämä on tietääkseni ensimmäinen yritys tutkia asiaa yritysostojen kautta. Lisäksi tämä on ensimmäinen tutkimus, jossa tutkitaan kohdemaan maariskin ja veroparatiisistatuksen vaikutusta kehittyvien talouksien yritysten tekemiin kansainvälisiin yritysostoihin. Tutkin, miten kohdemaan maariski ja veroparatiisistatus vaikuttaa venäläisten yritysten tekemien yritysostojen volyymiin sekä tutkittavien transaktioiden markkinareaktioihin.

Tutkielman tavoitteena on lisätä ymmärrystä kehittyvien maiden yritysten tekemistä suorista sijoituksista sekä osallistua viimeaikaiseen kansainväliseen keskusteluun venäläissijoituksista nk. veroparatiiseihin. Huolimatta tuoreista näytöistä siitä, että veroparatiisit houkuttelevat venäläisiä pääomia, aikaisempia tutkimuksia, joissa tarkastelun kohteeksi olisi otettu varsinaiset venäläisyritysten tekemät yritysostot, ei ole. Lisäksi venäläisten yritysten tekemien kansainvälisien yrityskauppojen vaikutuksia osakekurssireaktioihin on tutkittu vähänlaisesti.

LÄHDEAINEISTO

Yrityskauppa-aineisto on kerätty Securities Data Corporation's (SDC) -tietokannasta. Osakekurssi- ja muu yritysaineisto on kerätty Thomson Reuters -tietokannasta. Havaintoperiodiksi on valittu tammikuu 1998 - joulukuu 2012, sillä IHS Inc.:n maariskiestimaatti on tarjolla ainoastaan vuodesta 1998 eteenpäin. Kohdemaan maariskin ja veroparatiisistatuksen vaikutusta venäläisyritysten tekemien yritysostojen volyymiin tutkitaan 950 transaktion otoksella. Nämä jakautuvat 15 vuodelle 81 kohdemaan kesken. Markkinareaktioiden analyysia varten kerättiin 115 havainnon otos.

KESKEISET TULOKSET

Tulokset osoittavat, että kohdemaan maariskillä on negatiivinen ja tilastollisesti merkitsevä vaikutus venäläisyritysten tekemien yritysostojen volyymiin, 1 %:n kasvu kohde maan maariskissä vähentää volyymiä 0,24 %. Vastaavasti kohdemaan veroparatiisistatuksella on 15,3 %:n positiivinen vaikutus venäläisyritysten tekemien yritysostojen volyymiin, vaikkakin tämä tulos ei ole tilastollisesti merkitsevä.

Lisäksi tulosten mukaan molempien tekijöiden vaikutus on voimistunut tarkasteluperiodin aikana. 1 %:n kasvu kohdemaan maariskissä johti 0,48 %:n laskuun yrityskauppavolyymissa vuosina 2009 - 2012 ja ainoastaan 0,17 %:n laskuun vuosina 1998 - 2008. Kohdemaan veroparatiisistatus taas kasvatti yrityskauppavolyymiä 21,4 %:lla vuosina 2009 - 2012, mutta vain 12.4 %:lla vuosina 1998 - 2008.

Tämän lisäksi tulokset osoittavat, että yritykset eivät suhtaudu eri riskeihin yhdenmukaisesti, ja että osalla riskeistä on suurempi merkitys. Analyysin mukaan venäläisyritykset vierastavat oikeus-, vero- ja operatiivista riskiä enemmän kuin poliittista, talous- ja turvallisuusriskiä.

Keywords kansainväliset yritysostot, maariski, veroparatiisi, determinantit, abnormaalit tuotot

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1. Introduction

1.1 Background and motivation

In 2010, the emerging economies, together with the transitional economies, absorbed more than a half of the global FDI inflows for the first time. Both efficiency-seeking and market-seeking projects in those economies are on the increase. Companies shift their production to these countries in search of lower cost, but also because of the increasing role that emerging economies play in global consumption. Thus, half of the top 20 receivers of FDI in 2010 were developing and transition economies. More interestingly, their outward FDI also rose sharply in 2010; it rose by 21%, accounting for 29% of global FDI outflows. All BRICs except Brazil were among the top 20 investors. (UNCTAD, 2011)

The direction of global FDI is slowly changing and we have seen increasing number of acquisitions coming from emerging markets. The Economist (2008) describes how globalization is entering a new phase where emerging market companies are now competing furiously against their counterparts from rich countries. We used to think that globalization is a global trend under which companies from developed countries expanded their operations towards less developed countries. The last few years have forced us to change our assessment of the situation. Developing economies, especially the BRICs, now play a larger role in the global mergers and acquisitions (M&A) activity, both as buyers and sellers.

Garabato (2009) reports that emerging countries are moving from being recipients to becoming active investors in the global M&A arena. The article explains that even though the drivers of M&A activity vary widely from one emerging country to another (and from company to company), the main reasons for acquiring a company in the developed part of the world are access to developed technology, lower level of risk and resources. Firms in emerging economies, which used to be seen as targets, are now the ones doing the acquisition in cross-border M&A. What is interesting is that the phenomenon attracts not only attention, but also raises concerns from policy-makers, practitioners and academics. This is partially due to the lack of understanding of what is happening (Bertoni, Elia and Rabbiosi, 2012).

The World Investment Report 2013 (UNCTAD, 2013) shows that six emerging economies are among the top twenty largest sources of foreign direct investment. Moreover, if Hong Kong and China were presented as one economic area, they would occupy second place on

the list. The change is substantial. For example, China was in eleventh place in 2008. Now both China and Russia are among the top ten investors worldwide.

The shift in global FDI has not gone unnoticed in the academic world. FDI from emerging markets are a hot topic in the International Business Literature at the moment and M&A appears to be the focus of attention. Bertoni et al. (2012) identify three reasons for this popularity. First, M&A coming from developing countries is a recent and growing phenomenon that isn't yet fully described or understood. Second, they originate from ~~the~~ economic conditions that do not easily fit into the traditional theoretical frameworks that have been adopted to explain the internalization of outward foreign direct investments from the developed countries. Third, the impact that M&A have on the country that is doing the acquisition and the country that is the acquisition target is still unknown and needs to be investigated more thoroughly.

This phenomenon could be seen as a direct result of the liberalization of FDI regulation, governance reforms, and overall deregulation of the economy. The general adoption of market-oriented policies by the developing countries we have seen during the past few decades is a contributing factor. As a result, companies in the emerging countries have been increasingly exposed to competition from foreign firms. Outward FDI (OFDI) from these countries could be seen as responsive action to increased competition in their home markets.

In an attempt to understand the phenomenon, ~~the~~ research on the subject has concentrated on the economic conditions in the home countries and the reasons behind BRICs acquisitions in advanced countries. For example, Garabato (2009) explains the reasons for this phenomenon in terms of population demographics, a thirst for the natural resources and the macroeconomic environment. These are seen as forces behind the outward M&A from emerging markets. Luo and Tung (2007) argue that emerging market multinational enterprises (EMNE) use international expansion as a springboard to acquire strategic resources and reduce their institutional and market constraints at home.

According to Bertoni, Elia and Rabbiosi (2013), the issue concerning whether OFDI from emerging markets requires a special internationalization theory is one the most debated questions in international business literature at the moment. This is not a surprise, since the most of the internationalization theory was developed in the second half of the 20th century; it only focuses on the point of view of companies that are from the developed economies.

Hence, it will be very interesting to join this discussion and to contribute to our understanding of the increasingly important OFDI that is coming from the emerging economies.

1.2 Research question and contribution

The purpose of this study in to determine whether or not there is a need for a new type of internationalization theory and to examine the motives for the international expansion of emerging market multinational enterprises (EMNE) that have been proposed recently (Deng, 2004; Luo and Tung, 2007). More accurately, this study concentrates on Russian outward cross-border acquisitions (CBA). Previous studies by Buckley, Clegg, Cross, Liu, Voss, and Zheng (2007) and Kalotay and Sulstarova (2010) test these motives to some extent by looking at OFDI flow; the first study examines China and the latter study examines Russia. To my knowledge, this is the first attempt to test these motives with actual cross-border transactions. Moreover, this is the first study where country risk and the tax conditions of the target country are being tested as determinants for CBA by EMNE. Thus, the study targets this gap in the existing literature by trying to answer the following question: do target country risk and tax haven status play a role in Russian outward CBA?

This study uses a two-fold approach to provide ~~a~~ deeper insight into the subject. First, I study whether the level of country risk and tax haven status of the target country have an effect on the volume of Russian CBA. Second, I investigate how these target country characteristics affect the market reactions to these transactions.

This study aims to contribute not only to our understanding of the phenomenon of OFDI from the emerging economies, but also to recent domestic and international discussion regarding Russian FDI in offshore financial centers (OFC). There is some evidence that OFC like the British Virgin Islands and Cyprus attract Russian OFDI, and it has been argued that the majority of these investments are in the form of capital flight that is not included in the official data (Ledyaeva, Karhunen, and Whalley 2013). However, to my knowledge, there are no studies done investigating to what extent the OFC attract the actual Russian CBA or acquisitions by the emerging market companies in general. Moreover, the value implications of these transactions are also still unclear. In other words, this study is positioned to contribute to a broader discussion within the international business literature and aims to shed some light on a number of questions that have yet to be answered by prior research.

1.3 Limitations of the study

I use the same methods as previous research in my methods, not necessarily because I believe that the methodology of these studies is superior, but to be able to compare my results with those of previous studies. Also, I cannot credibly argue that another methodology is better suited for this type of research. However, I challenge the fit of the methodology used by the closest reference articles (Buckley et al., 2007; Kalotay and Sulstarova, 2010) by testing the methodology for robustness, which neither of these studies do. Also, I try to refine the methodology used in earlier studies. In the end, methodology is typically the weakest spot in any type of research. Subsequently, constructive criticism is more than welcome.

The small number of completed CBA that have been done by Russian companies in general, and especially the listed ones during the sample period, dictates the scale of the study. I do not believe that using different or multiple data sources would yield a significantly larger number of observations. Securities Data Corporation's (SDC) merger database is well known for its reliability and it is widely used among academics. Using secondary data sources could have damaged the quality of the data, thus putting the reliability of the study in question. This issue affected both the analysis of acquisition determinants and acquirer returns. Also, the availability of sufficient stock price and company level data truncated the sample size even further. Unfortunately, there were no means available to compensate for this issue.

1.4 Main findings

My findings suggest that target country risk has a significant negative effect on the volume of Russian outward CBA. These results remain after controlling for other host and target country characteristics. Also, as hypothesized, I find that the tax haven status of the target country has a positive effect on the volume of Russian acquisition in a country. However, the results concerning tax haven status are not highly significant. Interestingly, I find that the effect of both country risk and tax haven status of the target country have both changed over time. Both target country risk and tax haven status seem to have played a larger role in CBA of Russian companies in recent years when compared to earlier times. Moreover, the results suggest that companies consider the risks of the target country separately and that some of the risks are more important than others. According to the analysis, the legal risk, tax risk and operational risk of the target country are more important for Russian companies than political, economic and security risks.

Further, I find that home country GDP has a significant positive effect on the volume of Russian CBA, thus indicating that Russia's growing GDP has been one of the most significant drivers of Russian CBA. Additionally, my results show that both physical proximity between Russia and the target country and CIS membership, which represents cultural closeness, appear to have a significant positive effect on the volume of Russian CBA.

However, despite the extensive investigation with the available data, I fail to find any conclusive results in regards to how target country risk and tax haven status impact the wealth creation in Russian outward CBA. I attribute the lack of findings to the small data set that was available for the analysis of cumulative abnormal returns. Nevertheless, the findings of this study concerning both target country risk and tax haven status of the target country are unique in both the M&A literature and the international business literature. As such, this underlines the need for further research in the field.

1.5 Structure of the study

In the next section I will go through the literature that is relevant to this study. First, I will discuss the question of: why companies internationalize in the first place and how they do it? After that, I will cover CBA in general, and more specifically CBA done by emerging and developing market companies (EMNE). At the end of the literature review, I examine the main paths of Russian OFDI.

Section three develops the hypotheses and sections four and five describe both the methodology that I use and the data set. Section six presents the empirical results of the study. Finally, in the last section I conclude the results of the study and suggest topics for future research.

2. Literature review

The literature review is divided into a two sections. The first section opens the main general internationalization theories and discusses the need for a special internationalization theory for companies from the emerging and the developing countries. Later I present findings of studies concerning cross-border acquisitions (CBA), their determinants and wealth creation. At the end of the section I go through some relevant empirical results in the field of M&A.

The second section focuses on the Russian FDI. The aim of the second section is to provide with an overview and a general understanding of the subject, which will help the reader to understand the logic behind the development of my hypotheses.

2.1 Internationalization of companies and cross-border acquisitions

In this section, I go through some of the main theories and relevant studies concerning internationalization of companies. I will try to shed some light on the following question: Why firms decide to expand their operations internationally in the first place, and why they might choose acquisition as a method of entry? Later in this section, I will cover available empirical findings and discuss CBA in general and those by emerging market companies and the determinants and wealth creation of such acquisitions.

2.1.1 Internationalization of companies

Modern business literature has presented many theories on why companies choose to expand their operations internationally. According to market imperfection theory (Hymer, 1976) the main reason for international expansion for companies is to try to take advantages of market imperfections. Market imperfection can be defined as anything that interferes with trade. This includes two dimensions of imperfections, one causing a rational market participant to deviate from holding the market portfolio and another causing a rational market participant to deviate from his preferred risk level. Market imperfections generate costs which interfere with trade that rational individuals make. Imperfections in the market for products translate into market opportunities for multinational enterprises (MNE - a firm that owns and controls activities in two or more different countries). Large international firms are better able to exploit such competitive factors due to economies of scale, managerial and technological expertise, product differentiation, and financial strength than are their local competitors.

According to Hymer (1976), market imperfections are structural, arising from structural deviations from perfect competition in the final product market due to exclusive and permanent control of proprietary technology, privileged access to inputs, economies of scale, control of distribution systems, and product differentiation.

On the contrary, Buckley and Casson (1976) argue that market imperfections are inherent attributes of markets, and multinational enterprises are institutions to bypass these imperfections. Markets experience natural imperfections, i.e. imperfections that exist because the implicit neoclassical assumptions of perfect knowledge and perfect enforcement are not realized. Their internalization approach of the multinational enterprise rests on two general axioms: (1) Firms choose the least cost location for each activity they perform, and (2) firms grow by internalizing markets up to the point where the benefits of further internalization are outweighed by the costs.

Eiteman, Stonehill and Moffett (2010) identify five general strategic motives which drive companies to invest abroad. (1) Companies that produce in foreign markets either to satisfy local demand or to export to markets other than their home market are market seekers. (2) Raw material seekers invest anywhere where they can find inputs for their production or for sale in any country. Oil and mining industries have good examples of such companies. (3) Some companies choose to produce in foreign country because of the production efficiency issues and are categorized as production efficiency seekers. Such investment is targeted to those countries where some of factors of production are underpriced relative to their productivity. For example, many labor-intensive industries shift their production to developing countries. (4) Knowledge seekers operate in foreign countries to gain access to technology or managerial expertise. There are many examples of technology firms rather buying other technology firms than developing same technology itself. (5) Some companies might invest in foreign countries seeking political safety. In this case investment usually comes from less politically stable countries to more developed western countries.

According to Eiteman et al. (2010) the categories are not mutually exclusive. Usually companies are driven by at least two of the above motives. Also, each of these categories should be divided in into proactive and defensive investments. Proactive investments are designed to enhance growth and profitability of the firm. Contrary, defensive investments' aim is to interfere with the growth and profitability of competitors. These are entry to a new market before competitors or acquiring strategic assets like oil fields.

In his paper, John Dunning (1980) says that the propensity of an enterprise to engage in international production rests on three main determinants: first, the extent to which it possesses assets which its competitors do not possess; second, whether it is in its interest to sell or lease these assets to other firms, or make use of them itself (internalize); and third, how far it is profitable to exploit these assets in conjunction with the indigenous resources of foreign countries rather than those of the home country. He argues that the inputs a firm uses are of two kinds. The first are those which are available, on the same terms, to all firms, whatever their size or nationality, but which are specific in their origin to particular locations and have to be used in that location. These are natural resources, labor, legal and commercial environment and market structure, government legislation and policies. The second type of input is that which an enterprise may create for itself or can purchase from other institutions, but over which, in so doing, it acquires some proprietary right of use. These ownership-specific inputs can be certain types of technology and organizational skills, legally protected rights, patents, brand names, trademarks, monopolies over raw materials or exclusive control over distribution channels. Also, they may arise from the size or technical characteristics of firms e.g. economies of large-scale production and surplus entrepreneurial capacity. However, these ownership advantages are not exclusive either to international or multinational firms.

According to Dunning's (1980) eclectic theory of international production, the possession of ownership advantages determines which firms will supply a particular foreign market, whereas the pattern of location endowments explains whether the firm will supply that market by exports or by local production. The more the ownership-specific advantages possessed by an enterprise, the greater the inducement to internalize them; and the wider the attractions of a foreign rather than a home country production base, the greater the likelihood that an enterprise, given the incentive to do so, will engage in international production.

Dunning (1988) later extends his theory to create an overall framework to explain why MNEs choose FDI rather than serve foreign markets through alternative models such as licensing, joint ventures, strategic alliances, and exporting. He identified three different types of parameters which influence individual MNEs in any particular production decision. These are specific ownership, location and internalization (OLI) parameters. Ownership-specific parameters include all kind of competitive advantage that can be transferred abroad. Location specific characteristics of the foreign market allow the firm to exploit its competitive advantage. And internalization parameters dictate how well the company can maintain its competitive position by attempting to control the entire value chain in its industry.

In other words, in deciding whether to invest abroad, management must first determine whether the firm has a sustainable competitive advantage that enables it to compete effectively in the home market. The competitive advantage must be firm-specific, transferable, and powerful enough to compensate the firm for the potential disadvantages of operating abroad such as foreign exchange risks, political risks, and increased agency costs. Examples of such are economies of scale and scope, managerial expertise, technology, financial strength and highly differentiated products.

Another model on international production is presented by Johanson and Vahlne (1977). They explain how firms gradually intensify their activities in foreign markets. The model proposes that foreign sales begin with occasional export orders that are followed by regular exports and later by foreign production. The model focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets. Attention is concentrated on the increasing involvement in the individual foreign country. The firm will not commit higher levels of resources to the market until it has acquired increasing levels of experiential knowledge and therefore the internationalization evolves stepwise at a relatively slow pace because of local market regulations and organizational learning. This so called Uppsala model specifies that level of commitment may also decrease or cease if performance and prospect are not sufficiently met.

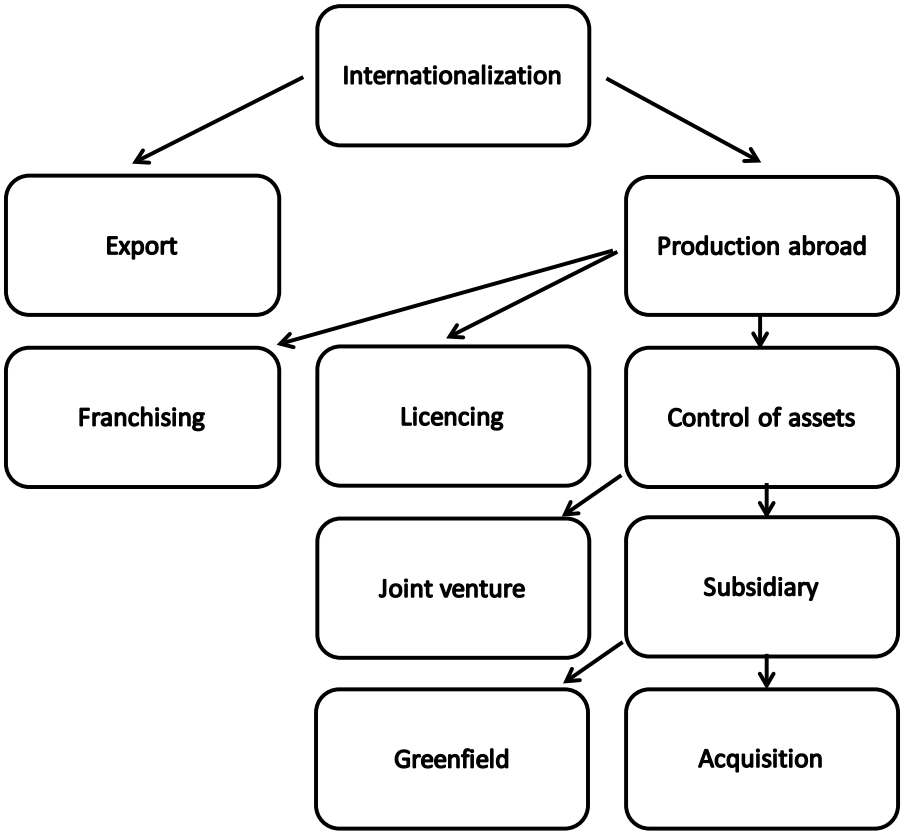
Eiteman et al. (2010) presents a sequence of strategic decisions a company must undertake on a path towards foreign direct investment. His model resembles Uppsala model presented by Johanson and Vahlne in 1977. According to Eiteman et al. (2010) a domestic firm is pushed towards international trade by interacting with multinational players and by growth opportunities in foreign markets. First step to take is to get involve in export of domestically produced products. Consequently further growth opportunities and efficiency issues will push the company towards establishing its production abroad. The easiest way to do this is through licensing or franchising. As the size of the company will grow it might make more sense controlling assets in foreign country. Again, this goal can be achieved in different ways e.g. a joint venture, a greenfield or an acquisition of another company. The sequence of strategic decisions is presented in Figure 1.

The greenfield strategy of entering a new market is most applicable when the production process demands unique technology, which forms firm’s competitive edge and thus cannot be endangered by technology transfer to local firm in host country as e.g. in case of joint venture would happen. Also, greenfield strategy might be the only way to enter foreign market if

suitable partner is difficult or impossible to find. (Luostarinen and Welch, 1997) Consequently, greenfield strategy is a dominating way of FDI in developing countries according to World Investement Report (UNCTAD, 2011).

Figure 1: Sequence of strategic decisions on a path towards FDI

This figure presents the sequence of strategic decisions a company must undertake on a path towards foreign direct investment. This sequence was originally presented by Eiteman et. al (2010).



An acquisition of a foreign company does not necessarily mean that a company wants to start production abroad. Acquisition of know-how and expertise is an important motive for CBA. Buying an existing company in the target country is the most rapid way to enter a new market. It might solve some difficulties like hiring local staff etc., which might arise in case of greenfield entry. Also, because of the ready-built customer base and market share the payback time of the investment is usually shorter. However, integrating two companies with different cultural background might turn out surprisingly difficult. (Luostarinen and Welch, 1997)

According to Shimizu, Hitt, Vaidyanath and Pisano (2004) there are advantages and disadvantages when comparing both joint venture and subsidiary type of foreign investment. Joint ventures are usually started with a local partner, which brings its market knowledge and

relations to local stakeholders. Thus, starting of operations will usually go more smoothly, especially in those countries with complex legal structures and troublesome government authorities. On the other hand, local partner usually expects one to provide its technology and know-how. This know-how leakage can be seen as disadvantage of cross-border joint venture. In their study of 175 entries by Japanese firms in the manufacturing industry into the U.S., Hennart and Reddy (1997) found that joint ventures are preferred over acquisitions when the desired assets are mingled with non-desired assets e.g. if the target firm is large and not divisionalized.

On the contrary, when foreign operations are totally owned through subsidiary, one can secure its technology and know-how. One of the benefits of totally owned operations is that decision making is often more efficient without local partner. In the case of joint venture partners might have deviant secondary or even primary objectives. Also, once the foreign operations are set and running well there is no need to share profits. However, success without local partner can be difficult due to local culture and politics. Moreover, finding experienced management and fulfilling capital requirements can become an issue. (Shimizu et al., 2004).

2.1.2 Cross-border acquisitions

Following the past literature in the field (Shimizu et al.,2004), I define cross-border mergers and acquisitions as those involving an acquirer firm and a target firm whose headquarters are located in different home countries. However, Shimizu et al. (2004) underline that M&A of companies with their headquarters in the same country, although normally classified as domestic, often have cross-border issues of concern when they integrate operations located in different countries.

There are many similarities between domestic and CBA. However, CBA carry more variables, which acquiring firm needs to take into account when considering such endeavor. Acquiring firm has to consider various conditions, including country-, industry-, and firm-level factors, which relate both to the acquiring and to the target firm. At national and industry levels, factors such as capital, labor, and natural resource endowments, in addition to institutional variables such as the legal, political, and cultural environment, are highly significant. At the firm level, organizations pursuing an internationalization strategy need to identify and evaluate potential targets to acquire in the host countries. After completing an

acquisition, firms generally must integrate the target firm into their operations to realize the potential value of their investment.

According to Shimizu et al. (2004) past literature on cross-border M&A can be divided into three main topics: (1) cross-border M&A as a mode of entry in a foreign market, (2) as a dynamic learning process, and (3) as a value-creating strategy.

Entry mode

The choice between acquisition and other entry strategies was partially covered in the previous section in the context of internationalization strategies. According to M&A literature the mode of entry into a foreign market is often influenced by (1) firm-level factors such as multinational experience, local experience, product diversity, internal isomorphism, and international strategy; (2) industry-level factors such as technological intensity, advertising intensity, and sales force intensity; and (3) country-level factors such as market growth in the host country, cultural idiosyncrasies between the home and host countries, and the specific culture of the acquiring firm's home country. However, the literature is not unanimous on the subject and scholars have reported mixed results. Shimizu et al. (2004).

Hennart and Reddy (1997) argue that joint ventures are chosen over acquisition when the investor has no previous experience of the target market and hence seeks to avoid post-merger integration problems. Also, they find that joint ventures are preferred when both companies manufacture same products, and when the industry entered is growing neither very rapidly nor very slowly. Their findings are in line with Hennart and Park (1993) who find that Japanese firms choose acquisitions when the market has either very high or low growth, relative size of entry is large, and entry is into a different industry.

Another study by Anand and Delios (2002) suggests that relative R&D intensity, advertising intensity, and sales force intensity increase the likelihood of acquisitions. Moreover, brand motivates acquisitions only in sectors in which foreign firms are making investments that exploit relative technological advantage. Whereas Harzing (2002) finds that R&D intensity and cultural distance are positively related to greenfield entry mode and internationally oriented strategy, relative size and foreign experience are associated with acquisition entry mode. This again contradicts with Barkema and Vermeulen (1998) whose findings suggest multinational diversity is associated with start-ups rather than acquisitions and local experience is associated with acquisition. Combined with findings of study by Kogut and Singh (1988) which suggest that diversification, country experience, and multinational

experience have no significant impact on mode of entry, we are left with mixed view on the subject. However, most of the scholars agree that uncertainty avoidance increases the likelihood of choosing joint venture or greenfield over acquisition.

Dynamic learning process

View of cross-border M&A as a dynamic learning process is also gaining popularity. This is mainly because such activity has increased during the past years and for many companies CBA is not a once in a life time experience anymore and we can witness many companies becoming serial cross-border acquirers. As the importance of and opportunities from cross-border M&A are likely to increase further in the global economy, learning from acquisition experience could be a critical source of competitive advantage. Thus, a more systematic approach is needed to understand the learning mechanisms operative in complex cross-border M&A. However, the extant research on learning from acquisition experiences is rather limited and contradictory. Although mistakes and failures are not a pleasant topic for practitioners, opening this black box and providing managerial insights would significantly inform scholarly research and practitioners. (Shimizu et al., 2004).

Wealth creation

The general opinion on wealth creation in M&A is that the targets are usually better off than the acquiring firms. (Bradley, Desai and Kim, 1988; Moeller, Schlingemann and Stulz, 2004). In context of cross-border M&A the situation is somehow different. Internationalization process of a firm, and CBA as a part of it, is seen as act for a firm to enter foreign markets to exploit the firm's specific resources to take advantage of imperfections in the markets. Such activity should generate gains for both the acquirer and the target. Research states that cross-border M&A provide integrating benefits of internalization, synergy, and risk diversification and thereby create wealth for both acquirer and target-firm shareholders (Kang, 1993**;** Markides and Ittner, 1994; Morck and Yeung, 1991, 1992). Thus, market reactions to cross-border M&A are sharply different from those regarding domestic M&A, which often are reported to reduce the acquirer's shareholder value while improving the target's shareholder value.

For example, Morck and Yeung (1992) in their study of 332 foreign acquisitions by U.S. firms between 1978 and 1988, using a transaction cost perspective, observed that acquiring firms with information-based assets experience a significant positive stock reaction. Overall

abnormal returns of acquirers were positive and significant. They found that the acquirers' R&D intensity, advertising intensity, and management quality were positively associated with the acquirer's abnormal returns.

Also Markides and Ittner (1994) found several factors that positively influenced abnormal returns. Specifically, these factors were the acquirer's home currency strength, industry advertising intensity, industry concentration, prior international experience, business relatedness, and the acquirer relative size compared with the target firm. Moreover, according to them international acquisitions create, on average, value for the acquiring firms. But, effects of most host country characteristics were not statistically significant. Their study contained a sample of 276 cross-border M&A by U.S. firms between 1975 and 1988.

Eun, Kolodny and Scheraga (1996) investigate the effect of foreign acquisitions of U.S. firms on the wealth of both target and acquirer shareholders with a total sample of 225 acquisitions in the period between 1979 and 1990. They estimate the combined wealth gains from CBA. Their results support the view that CBA on average do generate wealth for both counterparties. The wealth effects, however, vary greatly across countries of acquirer, acquisitions by Japanese companies generated the most wealth for their shareholders and by British companies the least. Their findings indicate not only the market entry choice, but also wealth creation is affected by country determinants.

Interestingly, Datta and Puia (1995) reported opposite results from those reported above. They used different sampling frame as previous authors, concluding that cross-border M&A, on average, do not create value for the acquiring firm shareholders, which are similar results to those studies investigating purely domestic M&A. However, they found a positive correlation of cultural fit and abnormal returns, i.e. cross-border M&A characterized by high cultural distance were accompanied by lower wealth effects for acquiring firm shareholders. Their results might be subject to their newer data set, which implies higher level of integration within global economy due to rapid globalization, which has reduced market differences across countries, and thus reducing differences between domestic and cross-border M&A.

Finally, Moeller and Schlingemann (2005) provide evidence from a large sample of 4430 acquisitions between 1985 and 1995 and controlling for various factors find that US firms who acquire cross-border targets relative to those that acquire domestic targets experience significantly lower announcement stock returns of approximately 1% and significantly lower changes in operating performance. Additionally, their evidence suggests that bidder returns

are positively related to takeover activity in the target country and to a legal system offering better shareholder rights. They argue that the cost of geographical diversification seems to perhaps best explain their results.

Seth, Song and Pettit (2002) suggest that a possible explanation for the conflicting results in the field of research might be a failure to account for the different motives of each acquisition. They found that the value creating deals originated from synergy-oriented M&A, in which the two firms intended to combine their complementary assets. Specifically, the multiple sources of value creation are asset sharing, reverse internalization of valuable intangible assets, and financial diversification. They also found that the value destroying deals originated from managerialism or hubris-based M&A, in which managers pursued their personal interest or made mistakes in the target evaluation process.

2.1.3 Cross-border acquisitions by emerging markets companies

We used to think that globalization is a global trend under which companies from developed countries expanded their operations towards less developed countries. Last years have forced us to change our assessment of the situation. Emerging countries are turning from recipients to active investors in global M&A activity. Developing economies, especially the BRICs, play larger role in growing global M&A activity, both on the buyer and seller sides. In 2011, three emerging economies were among top twenty largest sources of foreign direct investments. At the forefront of this development are multinational companies from developing countries, new players in the global business arena. (UNCTAD, 2011)

Emerging markets multinational enterprises (EMNE) can be defined as international companies that come from emerging markets (such as China, India, Brazil, Russia, and Mexico) and are engaged in OFDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries. This definition does not include emerging market-based large import and export companies because they do not engage in OFDI, and enterprises that are involved in minority joint venture relationships overseas because they do not effectively control these subunits. Also, those companies, that invest mainly or exclusively in tax haven countries for tax reasons are not truly EMNE. (Luo and Tung, 2007)

EMNE do not, however, comprise a homogeneous group and there are some key factors how they differ from traditional multinational enterprises. One of the main characteristic is that

EMNE are more often state-owned for historical, political, and economic reasons. Luo and Tung (2007) categorize EMNE roughly into four groups. (1) Niche entrepreneurs are non-state-owned multinational companies with narrow product and geographical coverage. (2) World-stage aspirants are non-state-owned companies with diversified product and geographical coverage. (3) Transnational agents are state-owned companies that have invested extensively abroad, while still being subject to influence by their home government. (4) Commissioned specialists are state-owned and their outward investments focus on only a few foreign markets in which they leverage their competitive strengths, but at the same time they have follow their home government's policies and agenda. (*Ibid*.)

Even though dividing EMNE into groups is far from unambiguous, understanding how they differ from one another helps to better understand their motives. For example, state-owned companies usually have less discretionary power than non-state-owned companies in their decisions concerning international expansion. Thus, decisions made by state-owned companies might be suboptimal if there are discrepancies and misalignments between optimal strategic options and actual choices under governmental influence. Also, world-stage aspirants and transnational agents might enjoy more opportunities and higher returns but face greater risks than niche entrepreneurs and commissioned specialists, which may lead them to engage in greater global integration, conduct broadened value chain activities abroad, and involve stronger interactions among subunits in different countries than do companies in the latter group. (*Ibid.*)

Bertoni et al. (2012) say that even though it is useful to analyze EMNE as a group, they are in fact likely to have quite different acquisition patterns. This is because of the important role played by the home country's locational advantages, such as resource availability and market size. Hence, to understand fully the motives behind their international expansion, we need to know the company and home market specific characteristics of EMNE. In their study Luo and Tung (2007) say, that EMNE use OFDI to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home. By conducting series of aggressive, risk-taking measures, such as acquisitions and greenfield investments, EMNE try to compensate for competitive weaknesses and to overcome their latecomer disadvantage in the global markets. EMNE need to overcome their critical bottlenecks such as poor governance and accountability, lack of global experience, managerial competence and professional expertise, and weak technological and innovation capabilities. However, their international expansion is often encouraged by their home

governments' and the willingness of global players from developed economies to sell or share strategic resources. Although EMNE do not necessarily follow the incremental approach in internationalization, they still attend carefully to the importance of organizational learning and global experience.

Dunning's (1988) eclectic paradigm discussed earlier is relevant also in the case of EMNE when they expand internationally, especially in other developing countries, in search of location-specific advantages by leveraging their unique capabilities. There seems to be few forces or conditions that have been stimulating the appetite of EMNE for international expansion. Their home governments have turned to support OFDI, which is facilitated by the liberalization of government policies and the relaxation of regulations on offshore investment. Moreover, some governments provide low-interest loans and other perks to encourage international expansion of EMNE. Second factor which has assisted OFDI by EMNE is that they have been able to shop around in developed markets. The willingness of companies from advanced markets to sell their strategic business units, technology, brands or other assets makes it possible for the sharp increase in international acquisitions by EMNE. Companies from advanced markets have their reasons such as improving business portfolio or productivity or enhancing financial position by cashing in on slowly growing business. For EMNE this provides an opportunity to advance faster into developed markets. Hence, this seems to be a win for both counter parties. (Luo and Tung, 2007)

According to so called 'springboard theory' (Luo and Tung, 2007) competition, both in domestic and foreign markets, is the third condition why EMNE pursue international expansion. They say that EMNE systematically and recursively use international expansion to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home. Broadly talking, their motives can be divided into two objectives: asset-seeking and opportunity seeking. Even though these apply to all multinational enterprises, EMNE have unique properties which distinct their motives from traditional multinational companies. For example, asset-seeking should be understood in this context more broadly as asset sought by EMNE may include technology, know-how, R&D facilities, human capital, brands, consumer bases, distribution channels, managerial expertise, and natural resources. Acquiring these assets is seen to strengthen economic and social development in the home country and compensate for competitive disadvantages against foreign competitors. Their arguments

follow findings earlier presented by Deng (2004), who advocates for special internalization theory for Chinese OFDI.

Luo and Tung (2007) distinguish between seven main motives behind international expansion of EMNE.

(1) EMNE often use international expansion to overcome their competitive disadvantages. By acquiring companies from developed countries, EMNE can get quick access to sophisticated technology or advanced manufacturing know-how. This differs greatly from motives of traditional MNE which generally leverage and exploit their ownership-specific competitive advantages in foreign countries.

(2) Through international expansion and mergers and acquisitions and strategic asset-seeking from advanced markets, EMNE are trying to alleviate some of latecomer or newcomer deficiencies in areas such as consumer base, brand recognition, and technological leadership. What is unique to EMNE is that their outward investments derive mainly from pull-factors such as the desire to secure critical resources, acquire advanced technology, obtain managerial expertise, and gain access to consumers in key foreign markets so that they can overcome their latecomer handicap.

(3) International expansion by EMNE is used as a counter-attack against their global competitors who have entered their home market. Even though domestic markets are still the main area for doing the business for EMNE, they face fierce competition from their foreign competitors. Thus, some EMNE try to enter their competitors' home market to be able to fight on many frontiers. Such counter attacks are usually executed through acquisitions of foreign companies.

(4) Outward investment by EMNE is also, of course, used to bypass stringent trade barriers they face. This motive is not unique to EMNE, but they often are more dependent on export markets than their counterparts from developed economies. To avoid export barriers EMNE can either invest directly in a target host country or first invest in a third country (typically another developing country) which is preferably treated by a target country's government and from there invest to a targeted advanced market.

(5) Institutional shortcomings of home market e.g. lack of legal protection for property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, and inefficient market intermediaries and political disturbance erode the competitiveness of EMNE. Handling these problems is

always costly no matter how well one knows the environment the company is operating in. International expansion is the used to alleviate these problems. By selecting and operating in an institutionally more efficient, transparent and encouraging environment without such constraints and hazards, EMNE can avoid these problems and concentrate on their competitiveness in global markets. Another possible incentive is the desire to diversify assets to protect against domestic instability.

(6) International expansion by EMNE is also used to secure preferential treatment offered by their governments to foreign investors. This is mainly done through reverse investments i.e. a company creates or acquires a subsidiary in a foreign country and then uses it as the foreign company to invest back home to enjoy financial (tax holidays etc.) and non-financial privileges (access to scarce resources etc.). Because attracting foreign investments will continue to be an important policy for emerging market governments, these financial and non-financial privileges are likely to remain. Also, many emerging markets governments offer financial incentives to encourage their businesses to go global. If a company is able to combine these two sequentially, this type of opportunity seeking is even more apparent.

(7) Many EMNE are national champions in their respective industries in their domestic market and they use international expansion to exploit their competitive advantages in other emerging or developing markets. Their low-cost position allows them to offer a price that is very attractive to local consumers, thus enabling them to acquire market share from their competitors who come from advanced markets.

Bertoni et al. (2012) use data set of 808 acquisitions that were undertaken by the BRIC companies in Western Europe, Japan, Canada and the US between 1999 and 2008, to investigate the patterns of these acquisitions by frequency of acquisitions into different industries. They report that the major part of acquisitions were directed to manufacturing and service industries, total of 96,9%, while the rest of the acquisitions occurred in primary industries. They notice differences in distributions between the BRICs. For example, 66% of Chinese OFDI were into secondary industries and 60% of Indian OFDI targeted services.

In general, knowledge-intensive services and medium research-intensive manufacturing were the most popular targets of acquisitions made by BRIC companies, 36,9% and 22,1% respectively. It is not surprising that most of the acquisitions made by Brazilian and Russian companies involve general services and medium research-intensive manufacturing firms

considering the sectorial composition of their economies. They also find that Russia and Brazil as resource-rich countries are much more active in acquiring firms in resource-based industry and low research-intensive manufacturing than companies from resource-scarce countries, China and India. Also, especially for Russia, general services have been relatively more important than for companies from other BRICs. (Ibid.)

Acquisitions made by Chinese companies, on the other hand, concentrated to manufacturing, particularly in industrial and commercial machinery and computer equipment, and electronic and other electrical equipment and components totaling 83,6%. Of these 29,9% were in high research-intensive manufacturing. The rest of the Chinese acquisitions were targeted to the business services sector. Indian investments are concentrated in chemical and allied products, 13,6%. These results show that the motives suggested by Luo and Tung (2007) are relevant. More accurately, technology and asset seeking motives seem to be of most importance to EMNE investing to developed countries. Moreover, the sectorial composition of home country economy plays, also, an important role in determining the agenda and motives behind these acquisitions. (*Ibid*.)

Further, using the acquirer-to-target relatedness classification, Bertoni et al. (2012) study the BRIC firms' rationales behind entering advanced country markets. They find that between 2000 and 2007 the majority (58,5%) of acquisitions by companies from the BRICs to developed countries were horizontal. Also, most horizontal acquisitions in developed countries occur in knowledge-intensive services, and in medium and high research-intensive manufacturing industries. Only Russia seems to be significantly active in horizontal acquisitions in resource based industries, which reflects the sectorial composition of Russian economy. Related acquisitions, which share common features with horizontal acquisitions, added up to 9,1% of acquisitions by EMNE to developed countries. This type of acquisition was mostly targeted to low and medium research-intensive manufacturing, in particular in sectors such as chemical and allied products, metal mining and the primary metal industry. Together these two types of acquisitions present a very strong case.

Horizontal and related acquisitions increase the market power through economies of scale and scope which is a valid motive for such actions per se. However, these findings indicate a strong presence of strategic asset and technology seeking motive by EMNE. Also, as horizontal and related acquisitions are often the only possible way for EMNE to quickly enter structured developed markets and compete more effectively against their global rivals, the counter-attack motive cannot be overlooked in this case either.

Bertoni et al. (2012) show that vertical acquisitions accounted for 12,7% of total acquisitions by BRIC EMNE to developed countries between 2000 and 2007. The division between forward vertical acquisitions and backward vertical acquisitions was highly dependent on the origin of EMNE. However, the total division was roughly even, forward vertical acquisitions being slightly more common. They say that forward vertical acquisitions are driven by strategic market seeking motives securing control of distribution. Hence, it is a way to establish a physical presence in those markets which are adopted by their competitors. On the other hand, backward vertical investments can be used to reduce the negative effects of inadequate upstream markets. EMNE tend to engage in backward vertical acquisitions in developed markets to secure the supply of crucial raw materials, services and suppliers. They also strengthen the technical and managerial assets faster than it would be to develop these by oneself. Thus, vertical acquisitions present evidence of strategic market and resource seeking as well as asset seeking motives behind CBA by EMNE to developed countries.

Lastly, 16,6% of all acquisitions by BRIC EMNE to developed countries according to the study (Bertoni et al., 2012) were conglomerate, which are usually seen as an outcome of a diversification strategy and are not necessarily aimed at seeking specific resources, assets or product markets. Conglomerate firms can more easily leverage privileged access to internal pools of risk capital and tangible and intangible assets, and more flexible readjust and reorganize their domestic and international operations. Also, such high percentage of conglomerate acquisitions might be due to the fact that acquiring a firm in a developed country, no matter the business sense, is a relatively easy path to becoming a truly multinational company.

High frequency of conglomerate acquisitions by BRIC EMNE does not directly support any of motives suggested by Luo and Tung (2007). It might be, of course, a sign that some acquisitions by EMNE are executed to secure preferential treatment offered by their governments to foreign investors or encouraged by national governments especially keen to see the development of state-owned MNC, but is not a solid proof of these.

To get a bigger picture of CBA by EMNE, we need to understand not only motives behind their actions but also their means. Luo and Tung (2007) identify three unique strategies, which EMNE usually undertake regarding their international expansion. First, before their actual international expansion EMNE are often able gain benefits from inward FDI by their global competitors into their home market. For example, through different joint ventures and manufacturing agreements EMNE can accumulate considerable financial and operational

assets, upgraded technological and process management skills, and developed unique capabilities and learning experiences. Thus, inward FDI has deepened EMNE' understanding of international markets and helped them develop international experience.

Second, as latecomers to global markets, EMNE need to accelerate their pace of internationalization so as to catch up with that of traditional multinational enterprises. EMNE tend to progress more rapidly in their internationalization endeavors than traditional MNE. For instance, they often expand their operations simultaneously to multiple foreign markets at a time. And the penetrating new markets is often done through acquisitions as it is the fastest way to enter the market and helps to secure brands and technology quickly and pre-empt similar moves by competitors. Also, EMNE do not necessarily follow steps of traditional MNE by expanding to geographically or culturally close markets first. What seems to be more important to them is availability of technology, political and economic environment. (*Ibid*.)

Third, EMNE tend to not only compete with their global rivals, but also cooperate. So called 'coopetition' goes beyond the old rules of competition and cooperation to combine the advantages of both. Companies might work together to collectively enhance performance by sharing complementary resources and committing to common task goals in some areas of common interest while competing by taking independent actions in other areas to improve their own performance. (*Ibid*.)

Working paper by Chernykh, Liebenberg and Macias (2011) presents very recent and interesting evidence on acquisitions by EMNE. According to their findings, EMNE seem to follow two main paths in their CBA. First, EMNE tend to engage themselves in so called mega deals, acquisitions of notable size. Second, many of EMNE have become serial acquirer executing many smaller acquisitions in a short period of time. Latter result is in line with findings of Bertoni et al. (2013), whose findings show that emerging market firms undertake acquisitions in developed countries in an incremental fashion. They also argue that acquisition experience in developed markets increases the likelihood of exploitative expansion, while acquisition experience in developing markets does not appear to have any effect.

What is more interesting, Chernykh et al. (2011) find that when EMNE acquire foreign firms, on average, targets experience positive and significant gains regardless whether they are from developed or emerging markets. Furthermore, the gains that targets experience is twice as high for targets from developed markets as for those from emerging markets. This evidence suggests that EMNE are willing to pay premium for special characteristics of developed

markets or market entry to these when acquiring foreign firms. These findings also support the motives of alleviating institutional problems of home market and bypassing stringent trade barriers suggested for EMNE' international expansion (Luo and Tung, 2007). Chernykh et al. (2011) make another interesting finding. It appears that when EMNE acquire emerging market firms, only the targets benefit from the acquisition. However, when EMNE acquire companies from developed markets, also the acquirer experience significant positive announcement returns.

In the light of findings from earlier studies (Bertoni et al., 2012; Chernykh et al., 2011) one can draw conclusions that the motives suggested by Luo and Tung (2007) seem to be valid for the international expansion of EMNE. Moreover, it seems that international expansion to developed counties through CBA are not seen as sign of managerial hubris (Roll, 1986) or the agency problem (Jensen and Meckling, 1976) but are, in fact, encouraged by shareholders.

2.1.4 Determinants of cross-border acquisitions

La Porta, Lopez-de-Silanes, Shleifer and Vishny (1997) started broader discussion on how legal environment affects economic condition of a country. They provide with numerous international comparisons based on legal systems within countries, based on which they argue that strong investor protection may be a particularly important manifestation of the greater security of property rights against political interference in some countries. Also, strong investor protection is associated with elective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms. Further, they present evidence that in higher investor protection is associated with higher company valuations in the country.

Rossi and Volpin (2004) study the determinants of mergers and acquisitions around the world by focusing on differences in laws and regulation across countries. They use as sample of deals in 49 major countries between 1993 and 2002. They find that better investor protection is associated with higher takeover premiums. Their study concentrated mainly on developed economies, and thus excluded some important emerging countries such as China and Russia. Also, as their study included both directions of cross-border deals (from developed to emerging countries and vice versa), the emerging countries companies with poorer investor protection were more often the targets than acquirers in acquisitions included into the study. However, their findings imply that investor protection and market stability play an important role in wealth creation in cross-border M&A. They find that in cross-border deals acquirers,

on average, have higher investor protection than targets, that is, firms opt out of a weak governance regime via cross-border deals, and that better investor protection is associated with the greater use of stock as a method of payment.

In past literature, five dimensional score developed by Geert Hofstede (2001) to measure cultural distance between countries has been both broadly criticized (Chakrabarti, Gupta-Mukherjee and Jayaraman, 2008) and used. Based on conducted survey Hofstede assigned scores to different countries on four orthogonal dimensions, which are individualism, power distance, uncertainty avoidance, masculinity and long-term orientation. The power distance focuses on equality among people within a country. Second dimension, individualism, concentrates on the degree how individual centric the society is. Masculinity index tells to what extend the society reinforces the traditional masculine role model, control and power. Fourth dimension, uncertainty avoidance, tries to depict the level of tolerance for uncertainty and ambiguity in a given society. Finally, long-term orientation focuses on the degree the society is devoted to long-term goals and encourages forward thinking values.

For example, Chakrabarti et al. (2008) use Hofstede's measure of cultural distance in their study of 800 CBA during 1991–2004. They investigate the effect of cultural distance on long-term (and short-term) performance of cross-border M&A. Their results show that acquisitions perform better in the long run if the acquirer and the target come from countries that are culturally more different. Their findings remain after controlling for several deal-specific, economic and corporate governance variables and country fixed effects. However, the positive impact of cultural differences is not captured in the announcement period returns. Their findings are interesting in the way that they contradict with the general perception of problem of cultural clashes attributed to post-acquisition integration.

Morosini, Shane and Singh (1998) report similar results to Chakrabarti et al. (2008). They also use Hofstede's measure of cultural distance and find a positive association between national cultural differences and acquisition performance in their study of 52 CBA that took place between 1987 and 1992. Their analysis shows that the greater the national cultural distance between companies, the better the post-acquisition financial performance. To acquire a deeper insight into the mechanics of cultural differences in the context of M&A, they also conducted a survey among executive of acquiring firms. The general result was that CBA provided companies with valuable country specific knowledge and organizational routines.

Lehtinen (2006) studies the impact of law and national culture on mergers and acquisitions with a sample of 4.999 acquisitions from 44 countries recorded between 1998 and 2004. He finds that M&A volumes are higher in countries with better law and regulatory environment and shareholder protection. He also finds that cultural distance has positive effect on acquirer's returns. Interestingly, he finds evidence that both target's country's and acquirer's country's corruption, risk of expropriation, weak accounting standards and shareholder protection have a negative effect on acquirer's returns.

Contrary, Stahl and Voight (2008) present results of a meta-analysis of 46 studies, with a combined sample size of 10,710 M&A, which suggest that cultural differences affect sociocultural integration, synergy realization, and shareholder value negatively. Also, a case study of merger of two companies by Buono, Bowditch and Lewis (1985) suggests that even within same country and same industry it is extremely difficult to merge two different organizational cultures. Again, in their study of 112 large CBA undertaken by U.S. companies between 1978 and 1990 Datta and Puia (1995) find that cultural fit between companies has a substantial impact on wealth creation in CBA. Their results indicate that cultural distance is negatively associated with returns of acquiring firm shareholder.

In other words, past literature provides us with somehow incoherent opinion regarding cultural distance in the context of cross-border M&A. Moreover, what is common to majority of earlier studies on determinants of cross-border M&A, is that these studies concentrate largely on acquisitions by companies from developed countries.

Deng (2004) conducts a study of aggregate data, both macro and micro as well as on a company level, that describes the overall patterns and destinations of China's OFDI. He agrees with the five motivations for multinationals to invest abroad: to gain resources, technology, markets, diversification, and strategic assets. This motives are later recognized also by Luo and Tung (2007) in their 'springboard theory'. Deng (2004) underlines that the distinction between motives is not always unambiguous as the companies might pursue many goals simultaneously. Moreover, the motivations for FDI might also change over time. What is interesting, he identifies unique features of Chinese OFDI. Cultural proximity is found to be a significant factor, indicating that reduced transaction costs and network effects are important in attracting Chinese investors, and that relational assets constitute a special ownership advantage, even for state-owned firms. This supports a role for reduced psychic distance in explaining Chinese OFDI. Another one is government's important role in encouraging outward expansion of Chinese companies. Since 1980' the Chinese government has required

companies with overseas subsidiaries to achieve one of four goals: advanced technology transfer, raw material access, foreign exchange earnings, and export expansion.He also argues that Chinese OFDI is triggered by 'pull' factors such as the desire to secure supplies of key natural resources, raise foreign exchange income, circumvent host country trade barriers, penetrate new markets, acquire advanced technology and management expertise, and seek strategic assets, compared to 'push' factors such as rising operational costs, shortage of labor and small domestic market. His findings indicate that conventional internationalization theory is not fit to describe determinants of Chinese OFDI.

Buckley et al. (2007) investigate the determinants of OFDI by Chinese companies over the period 1984 to 2001. They are one of the first to formally model the forces driving Chinese OFDI. According to them China presents a good environment for testing general FDI theory because it has many special conditions that rarely encountered elsewhere simultaneously. The three main conditions unique to China are capital market imperfections, the special ownership advantages of Chinese MNEs and institutional factors. In their study, authors try to depict how these factors influence OFDI flows. They find that host market characteristics such as absolute size of the economy, inflation in the target economy and cultural proximity have significant positive effect on Chinese FDI flow. On the other hand they find that geographic distance between countries, openness of target economy and know-how of the target economy measured by annual patents are found insignificant. However, their most interesting finding is that Chinese FDI is attracted by political risk of the target country. These findings contradict with findings of La Porta, Lopez-de-Silanes, Shleifer and Vishny (1999) and Lehtinen (2006) and are somewhat difficult to explain. They suggest that Chinese companies do not perceive political risk in the same way as companies from developed countries. They argue that due to home market imperfections Chinese companies are equipped to be competitive in other emerging economies.

Despite the evidence of positive relation of OFDI and political risk in the case of China presented by Buckley et al. (2007), one can argue that high political risk of the target country is just a condition Chinese companies have to accept when seeking for asset e.g. raw materials. China's thirst for natural resources is generally recognized. And most raw material rich countries, especially those of Africa and South America, are considered politically more risky than e.g. western countries. In that case, political risk of the target country is just a condition Chinese companies have to accept, and their abilities to operate in such conditions

nor their special ownership advantages do not drive them into investing specifically into politically risk environments.

Kalotay and Sulstarova (2010) perform an analysis of the determinants of Russian OFDI between 1993 and 2007, which resembles the one done by Buckley et al. (2007). Similarly they model Russian OFDI testing to which extent the mainstream theory explains Russian OFDI. They model OFDI with number of CBA completed by Russian companies obtained from UNCTAD FDI database.

They find that target country absolute market size, natural resources and cultural proximity have a positive and significant impact on the Russian FDI flow. These results are similar to those of Buckley et al. (2007), which might imply that there are similarities in home country factors and motives behind FDI of Russian and Chinese companies. On the other hand they find that geographical distance has a significant and negative impact on FDI flow from Russia, which is not the case with Chinese OFDI as reported by Buckley et al. (2007). Also, Kalotay and Sulstarova (2010) find that Russian GDP and development level of the target economy measured by share of services in GDP have a positive and significant impact on the Russian FDI flow. They argue that home market GDP growth accelerates the ability of Russian companies to make investments abroad, which can be hold as a fairly plausible explanation. Positive relation of FDI volume and share of services in GDP of the target country indicates the importance for Russian firms of investments in the downstream value chain supporting market-seeking motive. Their results remained consistent with the sub-sample of developed countries targets.

In contrast to study by Buckley et al. (2007), their model did not include the political risk of target countries, suggesting that target country business environment does not play an important role in the investing decisions of Russian companies. However, leaving this component from the model does not give us any answer to the question about the role of target country risk as a determinant of Russian OFDI, and thus leaves room for debate and further analysis.

Here I covered only a small and most relevant fraction on the research in the field. However, most of the studies on CBA have concentrated on CBA in general or only on acquisitions by companies from developed countries (with targets in developed or developing countries or both). Thus, it is important to extend the existing research by studying the determinants of acquisitions by EMNE as one can argue that internationalization patterns of these companies

do not necessarily follow the classical internationalization theories formulated to explain international expansion of traditional multinational companies.

2.1.5 Wealth creation in cross-border acquisitions by emerging market companies

Wealth creation in both domestic and CBA is a widely studied subject, which is covered earlier in this section. But there is still room for further research. Namely, the research on wealth creation in CBA by EMNE is lacking behind (Gubbi, Aulakh, Ray, Sarkar and Chittoor, 2010). However, there are some studies (Chernykh et al., 2011) which touch the subject. Here I will try to cover what existing literature says about wealth creation of CBA by EMNE.

Aybar and Ficici (2009) perform a study where they examine the value implications of CBA by EMNE. Their study includes 433 acquisitions during the period between 1991 and 2004 and concentrates on the impact of these acquisitions on the acquirers' value. It must be pointed out that the majority of the deals studied were executed by Asian companies and the rest by countries from Latin America. Only two companies have the Eastern European origin and one is from South Africa. Thus, the study does not provide us with the whole variety of CBA by EMNE. Interestingly they find that, on average, these acquisitions do not create value for acquirers and more than a half of these deals, destroy acquirers' value. Moreover, they find that such company and deal characteristics as relative size of the target, target public status and structure of the bidder (diversified vs. non-diversified) have a positive effect on acquirer's value. Whereas, high-tech nature of the acquirer and acquisitions of targets in related industries has a negative effect. Also, their findings show that cultural distance has a negative effect on the value. These findings complement those of Morosini et al. (1998) and Chakrabarti et al. (2008), who find that cultural differences have a positive effect on the post-acquisitions financial performance. This is the opposite of the findings concerning CBA by companies from developed countries, as those studies show positive returns for acquirers and positive correlation between returns and cultural fit (Kang, 1993**;** Markides and Ittner, 1994; Morck and Yeung, 1991 and 1992; Datta and Puia, 1995).

Another study by Gubbi et al. (2010) provides us with an interesting insight into value creation in cross-border deals by Indian companies. They conduct a study of 425 acquisitions during 200-2007 with interesting findings. They find the evidence of positive abnormal returns for the acquiring firm shareholders. Moreover, they find that the target country characteristics such as economic development measured by GDP and institutional conditions

measured by economic freedom index, which includes business freedom, trade freedom, investment freedom, labor freedom, and proprietary rights, is positively correlated with market expectation of the acquisition performance. According to the authors their findings support the theoretical propositions made by Luo and Tung (2007) that emerging market companies use OFDI to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home.

Similar results are presented by Bhagat, Malhotra and Zhu (2011). They also find positive announcement returns for acquirer with their data set of 698 acquisitions by emerging market companies between 1991 and 2008. Additionally, like Gubbi et al. (2010), they find that target country characteristics, more precisely the level of corporate governance, are positively associated with acquirer returns. Their explanation is following: emerging market companies voluntarily commit themselves to the higher governance standards of the target resulting in a positive valuation impact for the acquirer

Additionally, in their study of CBA by Chinese companies Chen and Young (2010) find that government ownership has a negative effect on acquirer announcement returns. Their sample includes 32 acquisitions undertaken between 2001 and 2008. They attribute their findings to the conflict of interest between the majority shareholder (government) and minority shareholders. They believe that CBA by state-owned companies are seen as managerial opportunism and mainly driven by political motivations on the part of the government. These findings are interesting in the sense that many EMNE making CBA are state-owned and their motives in these deals have been questioned (Deng, 2004; Luo and Tung, 2007).

Finally, findings by Chernykh et al. (2011) show that when EMNE acquire foreign firms, on average, targets experience positive and significant gains regardless whether they are from developed or emerging markets. Furthermore, the gains that targets experience is twice as high for targets from developed markets as for those from emerging markets. This evidence suggests that EMNE are willing to pay premium for special characteristics of developed markets or market entry to these when acquiring foreign firms. These findings are in line with those of Gubbi et al. (2010) and support the motives of alleviating institutional problems of home market and bypassing stringent trade barriers suggested for EMNE' international expansion (Luo and Tung, 2007). Chernykh et al. (2011) make more interesting findings. It appears that when EMNE acquire emerging market firms, only the targets benefit from the acquisition. However, when EMNE acquire companies from developed markets, also the acquirer experience significant positive announcement returns.

Unfortunately the existing research on wealth creation in CBA by Russian companies is very limited, even though CBA and Russian OFDI in general is somewhat popular subject. The main reason for that should be attributed to the lack of sufficient data for aggregate research. However, some interesting remarks could be drawn from scarce existing literature.

Bertrand and Betschinger (2012) investigate the impact of domestic acquisitions and CBA on the operational performance of Russian companies measured by EBIT[1]. Their sample consists of 609 acquirers of which 200 have made at least two acquisitions and 53 at least four. Their analysis shows that both domestic and international acquisitions tend to worsen the performance of acquirers. Authors suggest that Russian companies suffer from the inability to leverage value due to low M&A experience and capabilities, especially when making international acquisitions. Also they find that more experienced acquirers tend to experience worse post-acquisition performance. Interestingly, similarly to Chinese companies (Chen and Young, 2010) Russian state-owned companies show worse post-acquisition performance than companies without state ownership. Authors suggest that this phenomenon is due to the fact that state-owned firms per se follow other objectives than profit maximization, which is similar explanation to one suggested by Chen and Young (2010).

Chirkova and Chuvstvina (2013) study wealth creation in domestic and CBA by Russian metal industry companies. Their sample includes 56 acquisitions between 2005 and 2011, of which 23 are domestic and 33 CBA. Their findings show that CBA experience negative abnormal return around announcement and that CBA perform worse than domestic ones. Also, they find that acquisitions of financially distressed companies experience larger negative reactions. Even though the study is limited to a single industry and a small sample size, the results are similar to those of previous studies by Aybar and Ficici (2009) and Bertrand and Betschinger (2012).

Following remarks can be withdrawn. Wealth creation in CBA by emerging market companies is far from well-studied subject. The gap in the existing literature is more severe in the case of Russian CBA. Moreover, existing literature partially disagrees on the matter. Thus, this study aims to contribute to filling this gap by providing further analysis on wealth effects of CBA of Russian companies.

[1] EBIT = Earnigs before interest and taxes.

2.1.6 Relevant empirical findings regarding M&A

Bradley et al. (1988) show that M&A are efficient mechanisms to channel corporate resources to higher value uses and that the bidding firm that can achieve the highest valued reallocation of the target resources can always place the winning bid. Also, they show that target managers are always able to structure a tender offer within the firm that can defeat a value-decreasing tender offer coming outside the firm, i.e. the management team that can achieve the highest-valued allocation of the target resources will acquire (maintain) control of the target. Thus, their study shows that if the acquisition is motivated by any other reason than synergy gains it will be rejected and replaced by one that will generate shareholder true value to shareholders.

The study was performed with a sample of successful tender offers between 1963 and 1984 in which both the target and acquiring firms were listed at the time of the acquisition. The average synergistic gain created by the 236 offers in the sample was a 7.4% increase in the combined wealth of the stockholders of the target and acquiring firms. They also show that from 1981 onwards targets captured the gains from increased combined wealth when acquirers incur losses. Moreover, the competition between acquirers increases their losses and gains to targets. However, competition is not a zero sum game: total synergistic gains are larger in multiple-bidder acquisitions.

More recent study by Moeller et al. (2004) examines a sample of 12,023 acquisitions by public firms from 1980 to 2001. Like Bradley et al. (1988), they also report positive aggregate announcement return and negative announcement return for acquiring firm shareholders. Especially large firms experience significant shareholder wealth losses when they announce acquisitions of public firms irrespective of how the acquisition is financed. For small firms the abnormal return associated with acquisition announcements exceeds the abnormal return for large firms by 2.24 percentage points. Managerial hubris is playing a larger role in the decisions of large firms.

Negative acquirer returns argue against synergy motive in acquisitions. Betton, Eckbo and Thorburn (2008) report similar findings like Bradley et al. (1988) and Moeller et al. (2004). They conduct a study with evidence on takeover bids for U.S. targets during the period of 1980–2005. They find that the average target cumulative average abnormal stock return is positive and significant and that bidder's announcement period CAR are on average close to zero for the overall sample, with 49% of the bidders having negative abnormal return. Their findings agree with the study of Moeller et al. (2004) that small bidders acquiring private gain more than other types of acquisitions. Moreover, they argue that the major drivers of negative

bidder returns are the target's status a public or private, and bidder size. Betton et al. (2008) summarize the existing literature by saying that in the light of their and previous studies conducted in the field it is difficult to explain M&A activity with synergy motives as on average acquisition yield negative returns for the acquiring firm.

Some studies have find evidence of other motives behind acquisitions than synergy, i.e. hubris and agency motive. Berkovitch and Narayanan (1993) argue that even though synergies act as a main reason for acquisitions because of the negative total gain and the negative correlation of total gains and target gains, M&A activity cannot be explained with synergy motive only. They use a sample of tender offers during 1963-1988 and develop tests to distinguish among the three major motives for takeovers: synergy, agency, and hubris. They show that the synergy hypothesis implies positive correlation between target and total gains, the agency hypothesis implies a negative correlation, and the hubris hypothesis implies zero correlation.

They find that, on average, takeovers yield positive total gains, which occurs in about 75 percent of the takeovers in their sample. In the subsample of positive total gains, the correlation between target and total gains is positive, indicating that the synergy motive dominates. In the subsample of negative total gains, the correlation is negative, indicating that the dominating motive is agency. There is evidence that hubris exists, at least in the positive total gain subsample. Consistent with Bradley et al. (1988) they find that competition for the deal increases target gains and decreases bidder gains.

Malmendier and Tate (2008), on the other hand, find evidence in support of the overconfidence hypothesis. Using the psychological evidence, they develop a simple reduced form model of the acquisition decision of an overconfident CEO with the following findings. Overconfident CEOs are more likely to undertake diversifying mergers, which are unlikely to create value on average, than rational managers. They find that overconfidence positively impacts acquisitiveness not only in special circumstances, but on average. That is, overconfidence has a strong positive impact on the probability of conducting a merger. Thus, overconfidence plays an important part in explaining the causes of merger activity.

Besides the motives behind acquisitions, other areas of M&A activity have been also heavily investigated by the academic world. Sets of studies have concentrated on the method of payment in acquisitions and the strategic aspects of M&A, relatedness of acquisitions etc. For example, Ismail (2008) finds that acquisitions of subsidiary and private targets generate higher returns than acquisitions of public targets and that a pre-merger toehold ownership in

the target firm is positively associated with the acquiring firm return. This is confirmed by Betton et al. (2008). They say that the presence of a bidder toehold attenuates the drop in the target share price when all bids fail. They also comment on the method of payment arguing that offer premiums are greater in all-cash offers than in all-stock offers. They continue by saying that the payment method choice is in part determined by tax considerations, the degree of information asymmetry between the bidder and the target, the degree of market mispricing of bidder stock, and by corporate control considerations.

Regarding the method of payment, Faccio and Masulis (2005) find that bidders prefer cash financing in M&A when the voting control of their dominant shareholders is threatened. Their study of European transactions over the period from 1997 to 2000 shows a pattern of European bidders choosing stock financing with greater frequency as measures of their financial condition weaken. Their analysis also uncovers several other bidder characteristics that are significant factors in the M&A payment choice, including its prior stock price run-up and market-to-book value of bidder assets, deal, and target characteristics along with legal and regulatory variables. According to them the bidder financial condition, corporate control threat, and deal characteristics can explain up to 23% of the cross-sectional variability in M&A payment decisions, measured by the portion of the M&A purchase price paid in cash.

Probably the most popular argument for the choice of the payment method is the signaling hypothesis according to which paying with stock signals the belief of the management that their company's shares are overvalued, thus such signal would lead to decrease in bidder's share price. Travlos (1987) among others shows that stockholders of the bidding firm experience significant losses at the announcement of the takeover proposal if takeover is planned to be settled with stock.

Relatedness of acquisition is argued to be one of the main drivers behind value creation in acquisitions. For example, Salter and Weinhold (1979) argue that firms following related diversification strategies should outperform unrelated diversifiers. Later study by Chatterjee (1986), also, finds that horizontal mergers outperform the other types of mergers. However, earlier study by Seth (1990) shows that both unrelated and related acquisition strategies can create significant synergy gains and that performance differences between related and unrelated diversification strategies depend upon the basis of classifying firms as following one or the other strategy.

Thus following conclusions can be drawn. As both related and unrelated mergers can general synergy gains, other factors play important role in M&A activity. It appears that in unrelated acquisitions it is more difficult to show economic sense behind the merger and thus to convince shareholders that the motives are in fact attributable to the agency problem. However, relatedness of acquisitions falls out of scope of this study merely for the lack of sufficient data and the small sample size.

Learning from previous acquisitions has also received some attention in the investigation of wealth effects of M&A. Aktas, Bodt and Roll (2009) show that serial acquisitions experience lower abnormal returns. They argue that with experience rational CEOs gain more confidence becoming more aggressive in the bidding process. They say that that the pattern is not necessarily due to hubris. The declining CAR trend could be due to other causes, such as a declining investment opportunity set, budget constraints or increasing competition during merger waves. Moreover, rational CEOs, learning form deal to deal, should bid more aggressively over time. The fraction of synergies they concede to target shareholders should increase over time, leading to a declining CAR, and more frequent success in beating competitors.

Company characteristics are also shown to have an impact on returns in mergers and acquisitions. Harrison, Hitt, Hoskisson and Ireland (2001) argue higher acquirer slack, defined as debt capacity and idle cash reserves, should lead to more profitable deals as cash and debt financing is less costly than financing with new equity. However, this statement contradicts with agency problem (Jensen, 1986), according to which high amount of free cash flow creates a conflict of interests between management and the owners how to use these available funds. The higher the amount of free cash flow the more severe the problem.

2.2 Russian outward foreign direct investments

Russia entered the World Trade Organization (WTO) in august 2012. Yet it will take many years for Russia put it place measures agreed upon accession as implementation periods vary across different good longest being eight years.[2] Thus, still cannot observe fully how the WTO membership affects Russian economy, trade and FDI. However, it is of a common opinion that the membership will bring Russia closer the global economy.

[2] http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

Outward FDI (OFDI) might the fastest way to improve the international competitiveness of Russian firms, since increasing international competition inside the Russian market via attracting foreign companies into the country has led to a slow modification of old practices, as foreign firms adapt to the Russian business culture rather than push Russian firms to modernize their practices (Vahtra and Liuhto, 2005).

Increasing amount of studies is being conducted concerning OFDI from emerging countries and Russia is one of the largest investors abroad. Still the existing research is somewhat limited. Many studies have emphasized the of special internationalization theory for emerging market companies (Luo and Tung, 2007; Buckley et al. 2007; Kalotay and Sulstarova, 2010). In the case of Russia some studies describe the activities of the Russian corporations in some individual countries, such as in Cyprus (Pelto, Vahtra and Liuhto, 2004).

In this section I will take a closer look on Russian OFDI. I will try to depict the unique features of these and to shed some light on some interesting topics concerning the subject. This issue is somewhat delicate in the light of events of spring 2013 and public discussion on Russian investments in Cyprus.

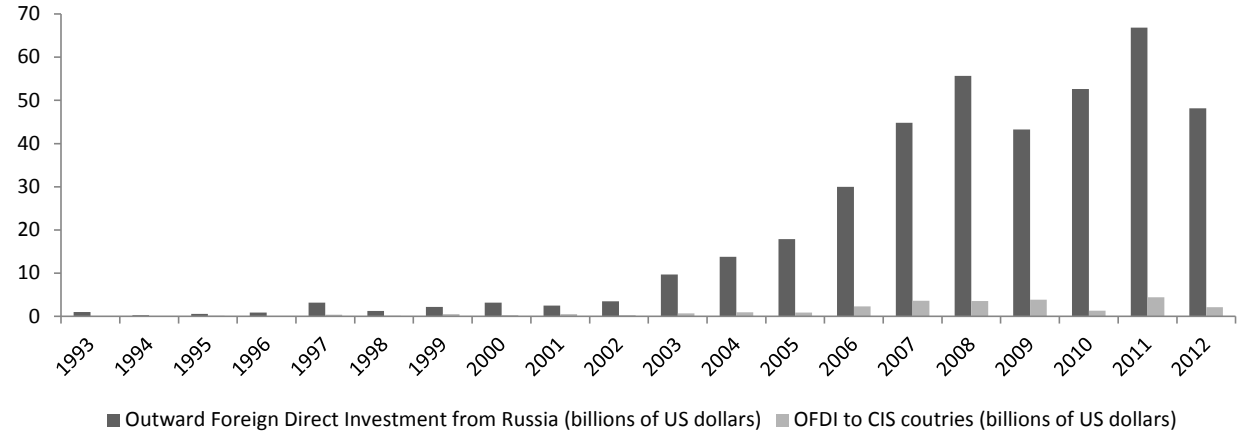
2.2.1 Overview of Russian OFDI

Just before the collapse of the Soviet Union its OFDI stock was modest amounting to less than $ 1 billion in 1990. Since that the OFDI from Russia has increased considerably. Nowadays Russia is one of the world's largest investor countries (The Central Bank of Russia, The World Bank). Oil and Natural Gas Industry, and Metal and Mining Industry are considered being the largest investors abroad.

However, one should keep in mind that OFDI stock forms only a fraction of the Russian capital abroad. In order to estimate the total amount of the Russian capital outside Russia, one should not forget the capital flight from the country. It has been estimated that Russian OFDI stock is only one fifth of the capital flight from country, which has drawn widespread domestic and international attention to the phenomenon. The reasons lie in the detrimental effects of the phenomenon on the Russian economy, including loss of productive capacity and its growth, tax and budget revenues, missing control over monetary aggregates and access to international financing, among others (Vahtra and Liuhto, 2005)

Figure 2: Outward Foreign Direct Investment from Russia

This figure presents time series of Russian outward foreign direct investment between 1993 and 2012. Columns show the annual volume of Russia OFDI in billions of US dollars. Dark columns represent the total outflow and light column represent the outflow to CIS countries. Source: The Central Bank of Russia.



Vahtra and Liuhto (2005) create a typology for Russian companies investing abroad addressing the specifics of the Russian economy. They identify four typological groups for the foreign operations of the Russia's largest industrial corporations. However, it must be emphasized that the Russian companies might have simultaneously different strategies in different regions or their strategy might change over time.

1) Patriots – these companies are controlled by state comprising mainly the industrial majors in the strategic natural resource-based industries. Their purpose is to serve the Russian foreign policy at least as much as it is to enhance their own economic performance.
2) Rope dancers – are companies which actively seek international business opportunities and establishing foreign presence to enhance their performance. The strategic nature of these companies forces them to balance between the business rationality and the governmental interests. Especially the companies in the strategic oil, gas and metals sectors are often obliged to play according to the state goals to remain in business.
3) Fugitives and outlaws - include the companies purposefully established for money transfers abroad and capital round tripping or, under the worst scenario, are engaged in direct money laundering and illegal activities. Transferring capital abroad and then moving it back home through various transfer regions, used to be a common practice throughout the 1990s. However, later scandalous events around some oligarchs in Russian oil and metals sector indicate the tightening state policy in the matter.
4) Free marketers – are the companies whose overseas activities are not considerably affected by political motives. These companies operate either in the less strategic

business sectors or are of smaller size. They are often profitable and employ western business practices, seeking strategic growth through their foreign expansion.

It is important to understand here that the specifics of Russian economy and its players differentiate them not only from developed countries but also to some extend from other developing countries.

2.2.2 Russian OFDI in offshore financial centers (OFC)

Capital flight can take various forms, and the origins of capital can be perfectly legal, making the phenomena difficult to fight. The situation is further complicated in the case of Russia, where the transition process has left the relationships between economic agents and the state unclear and subject to arbitrary changes (Mulino 2002, cited in Vahtra and Liuhto, 2005).

EU countries have attracted a notable share of Russian OFDI. The eastern part of the EU has been a particularly attractive investment target for the Russian firms. On the other hand, the United States has attracted more Russian FDI than any other single country. Also, it is known that Russian corporations are large investors in the CIS countries, even though the Russian FDI does not necessarily appear in the FDI statistics of CIS countries. One reason for the absence of Russia in these statistics, besides statistical deficiencies, is simply the fact that Russian corporations have invested indirectly i.e. via another country. In other words, Russian corporations can sometimes be detected behind investments from the Bahamas, Panama, the Virgin Islands, or even some EU countries, in particular Cyprus. Further, it is generally considered that a significant amount of the Cypriot FDI in EU member states is of Russian origin. (Vahtra and Liuhto, 2005)

Pelto et al. (2004) study the Russian investment flow via Cyprus. They say that e.g. OFDI from Russia to Cyprus according to official numbers by Russian officials has been at a low level in the late 1990s. However, according to the data from Central Bank of Cyprus the flow is many times larger indicating that the large capital outflow not registered by Russian sources. According to the Central Bank of Cyprus Russians are among the most active non-portfolio investors in Cyprus. This information indicates that the majority of Russian investments in Cyprus are derives from Russian capital flight. They argue that the majority of Russian capital in Cyprus is moved further to other destinations. Their study shows that the share of Cypriot FDI was usually higher in those countries where FDI from Russia was lower. Cyprus has double taxation treaties with most of the countries of Central and Eastern Europe,

while Russia has only with a few. Thus, Russian companies benefit from Cypriot subsidiaries when investing to Eastern Europe. What they also see, is that Russian firms seem to start fleeting Cyprus prior the accession Cyprus to the EU in 2004. To what extent this phenomenon has evolved the authors cannot say.

Recent working paper by Ledyaeva et al. (2013) investigates round-trip investment from Russia to offshore financial centers (OFC) and back to Russia. They find that OFC, such as Cyprus and British Virgin Islands, are both key destinations of Russian outward FDI, and main sources of inward FDI to Russia. They argue that this information provides the support to the existence of round-tripping phenomenon of Russian capital via offshore financial centers back to Russia in the form of foreign investment. They agree with Pelto et al. (2004) saying that particularly in the 1990s Russian investments in OFC were of capital flight nature rather than genuine OFDI. They continue by saying that Russian investments in OFC can be described as tax avoidance, institutional escape or corruption money laundering rather than a result of active internationalization strategy of Russian companies.

What is interesting, Ledyaeva et al. (2013) say that access to benefits granted to foreign investors, does not seem to be particularly valid in the case of Russia. Unlike Chinese government, Russian state has not actively attracted foreign investors to the country but rather followed a restrictive policy. The propose that the round-tripping of funds via offshore centers back to the Russian economy would represent the situation of institutional arbitrage, that is using OFC provides Russian companies with more developed infrastructure for financial operations compared to purely domestic companies. Hence, according the authors, Russian round-trip investments are attributable more to motive (5) rather than to motive (6) suggested by Luo and Tung (2007).

Further, Ledyaeva et al. (2013) find differences between the investment strategies of round-trip and genuine foreign investors. Round-trip investors tend to invest into more corrupt Russian regions than genuine foreign investors, which indicates that round-trip investors may indeed be better equipped to cope with institutional deficiencies, e.g., corruption. Also, round-trip investors invest more into regions with higher resource potential compared to their genuine foreign counterparts, which indicates that round-trip investors are better able to exploit the business opportunities provided by the Russian natural resources. And third, genuine foreign investors tend to invest more into Russian regions with higher educational potential of population and with sea ports compared to round-trip investors. The authors come to conclusion that genuine foreign investment is more technologically advanced than round-

trip investment and that round-trip investors are more oriented towards local suppliers of intermediate goods. Authors also suggest that round-trip investors favor the development of the Dutch disease in Russia concentrating on service sector, aim at exploiting natural resources in Russia, tend to establish manufacturing firms in resource-based industries and support the development of corruption in Russia by investing into corrupt Russian regions.

2.2.3 Cypriot financial crisis of 2013

The meltdown of Cypriot financial sector in spring 2013 focused the international and domestic attention on Russian investments in Cyprus. Vedomosti wrote on March 19, 2013: "The Russian economy to a large extent is controlled by holding companies registered in Cyprus, which—as a "foreign" EU investment—gives them additional protection from arbitrary actions by the notoriously corrupt Russian bureaucracy. Shell companies in Cyprus thus avoid the taxation of dividends and allow for the free movement of capital to a seemingly safe destination".

Crisis in Cyprus lead to a conflict between the EU and Russian government, which accused the EU of attempting to confiscate Russian property. Later PM Dmintri Medvedev threatened to denounce the 1998 Double Tax Agreement between Russia and Cyprus, effectively terminating the island's offshore status for Russian companies. According to Medvedev, Russian government structures are using Cyprus for its offshore banking services and that the volume of Russian illegitimate business going through Cyprus is grossly exaggerated. (Global Research, March 22, 2013).

According to Global Research (March 22, 2013) Russians, both oligarchs and lower caliber wealthy Russians, has used Cyprus for doing business for long time. Many of latter group have settled down in Cyprus, where the Russian community is estimated to be 50,000, and their bank accounts are frozen. According to the publication, losses by Russian citizens in Cyprus are unclear, but could amount to billions of euros.

3. Hypotheses

Luo and Tung (2007) present ‘springboard theory’ according to which EMNE systematically and recursively use international expansion to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home. They distinguish between seven main motives behind international expansion of EMNE. Two of these motives are of a particular interest of this study: EMNE use international expansion 1) to alleviate institutional shortcomings of the home market, the lack of legal protection for property rights, poor enforcement of commercial laws, non-transparent judicial and litigation systems, underdeveloped factor markets, and inefficient market intermediaries and political disturbance, and 2) to secure preferential treatment offered by their governments to foreign investors through reverse investments often from countries with a tax haven status.

The aim of this study is to investigate to which extent the diversification of home country risk and the tax reasons serve as motives for Russian outward CBA. If the motives hold, this should be seen in two ways. First, the volume of CBA from Russia should be negatively correlated with the country risk of the target country and positively correlated with tax haven status of the target country. Second, in the CBA by Russian companies the buyer will be willing to accept bad deal, i.e. pay more for the target than it makes sense considering business oriented goals and motives if the target is from a country with a low country risk and / or with a status of tax haven which should lead to a negative stock price reaction around the announcement date of the acquisition. That is, the diversification motive will override other goals and objectives.

However, it is important to understand that if the management is aware of the situation and is willing to accept such a deal, the diversification motive of managers is selfish and not in the best interest of the shareholders. Thus, this behavior is attributable to the agency theory (Jensen and Meckling, 1976). According to the theory, managers might want to secure their job, here by decreasing the overall risk of the company. If, on the other hand, managers do try to maximize shareholder value by decreasing the total risk of the company, the diversification motive should be reasonably priced and there should not be negative association of the stock price reaction and country risk and tax haven status of the target country.

In a recent IMF working paper, Aisen and Veiga (2010) find that political instability significantly reduces economic growth, both statistically and economically. They present

evidence that the political instability is particularly harmful through its adverse effects on the total factor productivity growth and, in a lesser scale, by discouraging physical and human capital accumulation.

Lehtinen (2006) studies the impact of law and national culture on mergers and acquisitions with a sample of 4.999 acquisitions from 44 countries recorded between 1998 and 2004. He finds that M&A volumes are higher in countries with better law and regulatory environment and shareholder protection. He also finds that smaller cultural distance has a positive effect on acquirer's returns, Interestingly, he finds evidence that both the target's country's and the acquirer's country's corruption, risk of expropriation, weak accounting standards and shareholder protection have a negative effect on acquirer's returns.

Buckley et al. (2007) find that Chinese outward foreign direct investments are attracted, rather than discouraged, by political risk, which suggests that Chinese companies do not perceive or behave towards risk in the same way as do firms from industrialized countries. They argue that the experience of operating in a highly regulated and controlled domestic environment may have equipped Chinese MNEs with the special ownership advantages needed to be competitive in other emerging economies with high political risk.

By studying the determinants of Chinese outward foreign direct investment, Buckley et al. (2007) consider three potential arguments (namely capital market imperfections, special owner ship advantages and institutional factors) for a special theory for EMNE to be nested within the general theory of internalization. Also, they find that Chinese OFDI is associated with higher levels of host country political risk. According to them, the apparent preference for less developed and risky host countries against developed hosts is consistent with an argument on the lower cost of capital enjoyed by state-owned enterprises as well as with the relatively unsophisticated country risk evaluation processes of Chinese investors. Their results support their theoretical contention that capital market imperfections in China have been crucial to outward FDI over the period in question. Despite the evidence of positive relation of outward FDI and political risk in the case of China, one can argue that high political risk of the target country is just a condition Chinese companies have to accept when seeking for raw materials. China's thirst for natural resources is a well-known fact (Economist Intelligence Unit, 2010). And most raw material rich countries, especially those of Africa, have higher political risk than e.g. western countries (IHS Global Insight, 2013). In that case, the political risk of the target country is just a condition Chinese companies have to accept, and their abilities to operate in such conditions nor their special ownership advantages do not drive

them into investing specifically into politically risk environments. I think that this is a far more plausible explanation than the alternative.

Kalotay and Sulstarova (2010) study the determinants of Russian OFDI with a sample of foreign direct investments by Russian companies between 1993 and 2008. Their findings mainly follow those of Buckley et al. (2007) but leave out the political risk from the equation as a determinant of outward foreign direct investment. However, they find that Russian OFDI is mostly dispersed over western countries and countries of former Soviet Union, what is different from Chinese OFDI which seems to be targeting natural resources around the world. This makes sense as Russia is already a resource rich country.

To my best knowledge, the effect of the target country risk as a determinant of Russian OFDI has not been studied yet. Hence, based on the past literature and on the shortcomings of the prior empirical evidence, I suggest the following hypothesis.

> ***Hypothesis 1: The volume of Russian outward cross-border acquisitions is negatively associated with the country risk of the target country.***

There is some evidence that offshore financial centers (OFC) like the British Virgin Islands and Cyprus attract Russian OFDI. It has been argued that the majority of these investments are in a form of capital flight unregistered in the official data (Ledyaeva et al., 2013). Luo and Tung (2007) have suggested that beneficial treatment by the home country government through round-trip investments is one of the main motives for CBA by EMNE. However, to my knowledge there are no studies done that investigate to what extend OFC attract actual CBA by emerging market companies, i.e. whether the tax haven status of the target country is a determinant in CBA from emerging countries. In the case of Russia, it seems that at least the capital flight from Russia is directed to these countries but whether the same holds for actual CBA is still unknown. This is the gap in the past literature this study aims to fill. Also, this study will contribute to the discussion on Russian investments in OFC which gained a lot of international and domestic attention during the Cypriot financial crisis in 2013.

> ***Hypothesis 2: The volume of Russian cross-border acquisitions is positively associated with the tax haven status of the target country.***

As I earlier presented, another way to approach this issue is through the study of the share price reaction around the announcement of the acquisition. Agency theory (Jensen and

Meckling, 1976) suggests that managers act in their own best interest. In this case the managers could try to diversify the total risk of the company by acquiring companies from countries with a low country risk and paying too much for the target destroying shareholder value.

The general opinion on wealth creation in M&A is that the targets are usually better off than the acquiring firms. Past literature shows positive aggregate announcement return for target's and negative or zero announcement return for the acquiring firm shareholders (Bradley et al., 1988; Moeller et al., 2004; Betton et al., 2008). Market reactions to cross-border M&A are, however, sharply differ from those regarding domestic M&A. For example, Morck and Yeung (1991) observe that acquiring firms with information-based assets experience a significant positive stock reaction. Also, Eun et al. (1996) find that CBA on average do generate wealth for both counterparties.

Chernykh et al. (2011) find that when EMNE acquire foreign firms, targets on average experience positive and significant gains regardless whether they are from developed or emerging markets. The gains that targets experience are twice as high for targets from developed markets as for those from emerging markets. This evidence suggests that EMNE are willing to pay premium for stability or market entry when acquiring foreign firms. Also, it appears that when EMNE acquire emerging market firms, only the targets benefit from the acquisition. However, when EMNE acquire companies from developed markets, also the acquirer experiences significant positive announcement returns.

Rossi and Volpin (2004) study the determinants of mergers and acquisitions around the world by focusing on differences in laws and regulation across countries. They use deals in 49 major countries between 1993 and 2002 as a sample. They find that better investor protection is associated with higher takeover premiums. Their study concentrated mainly on developed economies, and thus excluded some important emerging countries such as China and Russia. Also, as their study included both directions of cross-border deals (from developed to emerging countries and vice versa), they found that the companies from countries with poorer investor protection were more often targets than acquirers in CBA. However, their findings imply that investor protection and market stability play an important role in wealth creation in cross-border mergers and acquisitions.

Aybar and Ficici (2009) perform a study where they examine the value implications of CBA by EMNE. They find that, on average, these acquisitions do not create value for acquirers and

that more than a half of these deals in fact destroy acquirers' value. Also, what is probably most interesting in their findings is that cultural distance has a negative effect on the value. Whereas Gubbi et al. (2010) find evidence that target country characteristics such as economic development measured by GDP and institutional conditions measured by economic freedom index, which includes business freedom, trade freedom, investment freedom, labor freedom, and proprietary rights, is positively correlated with market expectation of the acquisition performance in CBA by Indian companies. Also Bhagat et al. (2011) find that target country characteristics, more precisely the level of corporate governance, are positively associated with acquirer returns. Study by Chirkova and Chuvstvina (2013) shows that CBA by Russian companies experience negative abnormal returns around the announcement and that CBA perform worse than domestic ones.

Despite the recent studies on CBA by emerging market companies, it is still not fully clear, how country risk of the target country affect the wealth creation in these transactions. Based on the past literature on wealth effects in the CBA by emerging market companies and on the shortcomings of the prior empirical evidence I suggest the following hypothesis.

> ***Hypothesis 3: In Russian outward cross-border acquisitions, country risk of the target country is negatively associated with the announcement returns.***

Ledyaeva et al. (2013) show, that offshore financial centers (OFC) like the British Virgin Islands and Cyprus attract Russian OFDI. They also argue that these investments are used for round-tripping and support the development of the corruption in Russia. Also, countries with tax haven status are a good destination for 'inverse tunneling' as they usually provide with mechanisms to easily conceal the ownership of companies. Management might buy companies in which they have ownership through complex ownership schemes and pay more than these companies are worth transferring shareholders' value to themselves. Hence, if investing in OFC provides with mechanism for self-dealing and corruption, such transactions should be followed by negative shareholders' reaction. Thus, the forth hypothesis:

> ***Hypothesis 4: In Russian outward cross-border acquisitions, announcement returns will be on average lower when the target is from a country with a tax haven status.***

4. Methodology

In this chapter, I briefly discuss the methods and their limitations I use to study my hypotheses.

4.1 The gravity model approach

For the analysis of the determinants of Russian outward CBA I use a derivative of the gravity model of trade which is widely used in international economics. The model predicts bilateral trade flows based on the economic sizes of (often using GDP measurements) and distance between two countries. Because the model does not expect linearity, the traditional approach to estimate the gravity model in economics is to take natural logarithms of both sides:

$$\ln(Y) = \beta_0 + \beta_1 \ln(X_i) +_{\dots} + \beta_n \ln(X_n)\ , \tag{1}$$

where Y represents the volume of trade between two countries and $X_{i \to x}$ represent the characteristics of these countries such as GDP and geographical distance between the two.

Buckley et al.(2007) and Kalotay and Sulstarova (2010) use similar approach in their studies. First study the determinants of Chinese OFDI and the latter study the determinants of Russian OFDI. Following prior empirical practice, I use similar approach in my study. I estimate the following model:

$$\begin{gathered} \ln(\mathrm{VOLCBA}) = \\ \alpha + \beta_1 \ln(\mathrm{CR}) + \beta_2 \mathrm{TH} + \beta_3 \ln(\mathrm{GDPRUS}) + \beta_4 \ln(\mathrm{GDPTRGT}) + \beta_5 \ln(\mathrm{INFL}) + \\ \beta_6 \ln(\mathrm{EXCH}) + \beta_7 \ln(\mathrm{PATENTS}) + \beta_8 \ln(\mathrm{OREEXP}) + \beta_9 \ln(\mathrm{SERV}) + \\ \beta_{10} \ln(\mathrm{FDI}) + \beta_{11} \ln(\mathrm{DIST}) + \beta_{12} \mathrm{CIS} + \beta_{13} \mathrm{EU} + \beta_{14} \mathrm{WTO} + \varepsilon_i\ , \end{gathered} \tag{2}$$

where $\ln(\mathrm{VOLCBA})$is the natural logarithm of the annual volume of outward CBA from Russia. All independent variables as well as controls variables, except for dummies, are included in the model in their natural logarithmic forms because the model assumes no linear relations between dependent and other variables.

4.2 Panel data and statistical models

For the analysis of determinants of Russian outward CBA I am able to obtain data for a number of target countries and over a time period of 15 years. This type of data is classified

as panel data (also known as longitudinal or cross-sectional time-series data). In this type of data set one can observe the behavior of entities, in this case countries, across time. In other words, observations in this type of data form a two-dimensional matrix with years on one side and target country on the other. This is important for the analysis of the determinants of Russian outward CBA because panel data allows one to control for variables one cannot observe or measure like cultural factors or difference in business practices across entities; or variables that change over time but not across entities (i.e. national policies, federal regulations, international agreements, etc.). This means that panel data accounts for individual heterogeneity. The usual drawbacks of panel data concern the data gathering process, which was not an issue in this study.

While it is possible to run the standard OLS regression (in the context of panel data often called Pooled OLS or POLS) with panel data, the data allows one to run more sophisticated models too. Previous studies (Buckley et al., 2007; Kalotay and Sulstarova, 2010) which use similar type of data discuss two models, the Country Fixed Effects (FE) and the Random Effects (RE) regression models. Both end up using the RE regression model because like me they also have time-invariant variables they want include in their studies. With the FE regression model one can investigate the relationship between the predictor and the outcome variables within an entity. Each entity has its own individual characteristics that may or may not influence the predictor variables. When using the FE, one assumes that something within the entity may impact or bias the predictor or the outcome variables and needs to be controlled. This is the rationale behind the assumption of the correlation between the entity's error term and predictor variables. The FE removes the effect of those time-invariant characteristics from the predictor variables by taking averages from all variables and deducting each observation from the average, and time-invariant characteristics turn to zero. Thus, this operation cancels out the unobserved heterogeneity and makes FE estimator robust for it. However, this also means that one cannot access the effects of time-invariant variables, which limits the use of the FE regression model if one wants to investigate the effects of these variables. The FE regression model fits best for studying changes within the entity over time.

The equation for the FE model is:

$$y_{it} - \overline{y_i} = (x_{it} - \overline{x_i})\beta + (\alpha_i - \overline{\alpha_i}) + (\mu_{it} + \overline{\mu_i}) = \ddot{y_{it}} = \ddot{x_{it}}\beta + \ddot{\mu_{it}} \ , \qquad (3)$$

where

$$\overline{x_i} = \frac{1}{T}\sum_{t=1}^{T} x_{it} \tag{4}$$

and

$$\overline{\mu_i} = \frac{1}{T}\sum_{t=1}^{T} \mu_{it} \tag{5}$$

Unlike the FE regression model, the RE regression model assumes that the variation across entities is assumed to be random and uncorrelated with the predictor or the independent variables included in the model. The advantage of the RE over the FE is that one can include time invariant variables into the model whereas in FE these variables are absorbed by the intercept. One should use RE if there is a reason to believe that differences have some influence on the dependent variable.

The equation for the RE model is:

$$y_{it} = \beta x_{it} + \alpha + \mu_{it} + \varepsilon_{it}\ , \tag{6}$$

where μ_{it} is a between-entity error term and ε_{it} is a within-entity error term.

However, the assumption of no correlation between the entity's error term and the predictors is very strong, and one should assess this assumption very carefully. To decide whether to use the FE or the RE, one can run the Hausman test where the null hypothesis is that the preferred model is the RE over the alternative FE. The test tests whether the unique errors (μ_i) are correlated with the regressors.

Further, the RE model allows for some specifications within the model. The model allows one to specify how to estimate the variance-covariance matrix (VCE) corresponding to the parameter estimates. The RE allows one to specify so called clusters within which correlation of standard errors are allowed, thus relaxing the usual requirement that the observations are independent. That is, the observations are independent across groups, clusters, but not necessarily within groups. Clustering affects the standard errors and variance-covariance matrix of the estimators but not the estimated coefficients. In case of this study, one could assume that there is, in fact, intragroup correlation of standard errors, either within a country or within a year.

Based on this discussion, I run the different models described above with the same specification of control variables. Then based on the results and tests I choose the most

suitable model for the main analysis. That model, however, will not be the FE regression model because it cancels out time-invariant variables important for the analysis. As a robustness check I test my results with the FE model because it is the most robust model of the above mentioned as it does not require heavy assumption about correlations within the data.

4.3 Event study methodology and the standard OLS regression model

Following the event study methodology by Brown and Warner (1980 and 1985), I use the standard market model methodology to measure the abnormal returns around the acquisition announcement date. First, I estimate market the model parameters for the all stocks during the estimation window which is 270 days prior the event window. Then, I calculate the abnormal daily returns for all stocks during the event windows. To capture the full effect of the acquisition on stock returns, I calculate the cumulative abnormal returns (CAR) during the event window. I calculate CAR for different event windows; (-5,+5), (-3,+3), (-1,+1) and (0) days.

Returns will be indexed in the event time using *t*. I define *t* = 0 as the event date, *t* = T1 + 1 to *t* = T2 represents the event window, and t = To + 1 to t=T1 constitute the estimation window. For any security the market model is:

$$R_{it} = \propto_i + \beta_i R_{mt} + \varepsilon_{it}$$

$$E(\varepsilon_{it} = 0) \tag{7}$$

$$var(\varepsilon_{it}) = \sigma_{\varepsilon_i}^2$$

where R_{it} is the period-*t* return on security *i*, R_{mt} is the period-*t* return on related market, ε_{it} is the zero mean disturbance term, and $\propto_i$, β_i, $\sigma_{\varepsilon_i}^2$ are the parameters of the market model.

The abnormal return for a security *i* is

$$AR_{it} = R_{it} - \propto_i - \beta_i R_{mt} \tag{8}$$

The cumulative abnormal return for a security *i* is

$$CAR_i(T_1 + 1, T_2) = \sum_{T_1+1}^{T_2} AR_{it} \quad (9)$$

where $CAR_i(T_1, T_2)$ is for the period from *t* = T1 + 1 to *t* = T2.

For the further analysis of short-term acquirer returns, I will run the standard OLS regression with CAR as dependent variable. Here I use the same methodology which is used in similar type of prior studies (Aybar and Ficici, 2009; Bhagat et al., 2011). To account for large differences in scale of different variables, I use natural logarithmic forms for those variables that are in an absolute form, e.g. the total assets and the market capitalization of the company. Those variables that are ratios are not transformed into natural logarithms. The equation for the standard OLSregression model is:

$$y_i = \alpha + \beta x_i + \varepsilon_i \quad (10)$$

where y_i is the dependent variable (CAR), α is the intercept, β is the OLS estimator, x_i is the set of variables, and ε_i is the set of error terms.

4.4 Limitations of the methodology

It is impossible to model the real world with statistical models. With that in mind, there will always be post hoc criticism regarding applied methods in an academic research. The main issue concerning the methodology faced in this study is the selection of suitable methods of those known to me and used by the prior studies. In this study, I follow earlier related research in my methods, not necessarily because I believe that the methodology of these studies is superior but to be able to compare my results with those of previous studies and because I cannot credibly argue that some other methodology is better. However, I question the fit of the methodology used by the closest reference articles (Buckley et al., 2007; Kalotay and Sulstarova, 2010) by testing the methodology for robustness, which neither of these studies do. Also, I try to refine previously used methodology when I investigate how clustering affect results with Random Effects model. In the end, the methodology is the weakest spot in any research, and here conductive criticism is more than welcome.

5. Data and sample description

In this chapter, I briefly discuss the data used in this study. The chapter is divided into two sections. First section describes data used in the analysis of the determinants of Russian outward cross-border M&A volume. Second section describes data acquired for the analysis of acquirer announcement return in Russian outward cross-border M&A.

5.1 Analysis of the determinants of the Russian outward cross-border M&A volume

For the analysis of the determinants of the Russian outward cross-border M&A volume I collect acquisition data from Securities Data Corporation's (SDC) merger database. The sample period is from 1998 to 2012. The main reason for such sample period is the fact that the country risk estimates provided by IHS Inc. are available only from 1998 onwards. To be selected in the sample, the acquisitions are to fulfill the following requirements:

a) The acquisition was published in SDC's merger database.
b) The acquirer's country of origin was Russia.
c) The transaction was announced and closed during the sample period of 1998 - 2012.
d) The country risk estimate is available for the target country at the time of the transaction.

5.1.1 Annual volume of cross-border acquisition from Russia

All the countries that were at least once a destination for Russian CBA between 1998 and 2012 were selected to the sample. Only Yugoslavia was dropped from the sample because country risk rating was not available for it. Also those country years with zero transactions were taken into the analysis as zero observation is seen as an informative observation. Taking zero observations into the analysis enables wider analysis on yearly fluctuation within a country. However, those countries which did not exist at the beginning of the sample period (Serbia, Montenegro) were taken into the sample from the first transaction. Table 1 presents the total annual volume of outward CBA from Russia by country between 1998 and 2012 selected for the analysis. The total sample consists of 950 CBA by Russian companies distributed over 15 years and 81 countries.

Table 1: Total annual volume of outward cross-border acquisitions from Russia by country

This table presents the total annual volume of the outward cross-border acquisitions from Russia by country between 1998 and 2012. Autonomic jurisdictions are presented as individual countries.

	Year of transaction															
Target Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Argentina											1			1		2
Armenia			1	1		7	2		2	6	2	2	1	2	1	27
Australia								1		2		1				4
Austria				2		1		2		3	2	2	1		1	14
Azerbaijan						1					2					3
Belarus			2	4		1	2		1	6	4	1	6	5	8	40
Belgium									1	1	2			1	1	6
Bosnia										1						1
Brazil													2	2	1	5
British Virgin								1		2	1	1	1	6		12
Bulgaria		1			1	2		1		1		1	1		1	9
Cambodia										1	1					2
Canada				1			1			3	4	4	2	2		17
China						1				1	1	1	1	1		6
Croatia						1								1		2
Cyprus				3					1	2	12	13	14	12	7	64
Czech Republic	1						4	1	2	2	3	1	3	3	2	22
Denmark									1		1	2		1		5
Egypt					1					1						2
Estonia	1					1	1			2	1		3		3	12
Finland	1							2		3	6		1		1	14
France					1		1	1	3	3			2	3	4	18
Georgia	3			1		1		1	2	1						9
Germany				2	2	1	1	3	7	6	8	3	5	6	4	48
Ghana											1					1
Greece				1					1	1	1				1	5
Guinea									2							2
Hong Kong													3			3
Hungary				1	1				1	1	1	1				6
India									3	2	3	1	2			11
Iraq															1	1
Ireland-Rep						1				2		1		1	1	6
Israel			1					1			3		1		1	7
Italy								3	4	2	10	4	2	2	3	30
Jamaica														1		1
Jersey										1	1					2
Kazakhstan		1		1	1		3	2	5	3	5	10	7	3		41
Kyrgyzstan		1		1					2	1				1		6

Table 1: Total annual volume of outward cross-border acquisitions from Russia by country; continued

	Year of transaction															
Target Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Latvia		2		1	2	1			1		2	1	1	2	3	16
Libya														1		1
Lithuania			2		5	3	2	2					2			16
Luxembourg			1		1	1		1	3	1				3		11
Macedonia										1						1
Malaysia										1						1
Moldova		1			2	8		1			5	1				18
Mongolia					2						1		1			4
Namibia															1	1
Netherlands				2			1		1	1	2	6	1	4	3	21
New Zealand											1	1				2
Nigeria										1						1
Norway				1												1
Oman												1			1	2
Peru												1		1		2
Poland						1	1		1	3				1		7
Romania	1				2	1					1			1	2	8
Serbia										2	2	3		1	1	9
Montenegro						3		1				1				5
Sierra Leone														1		1
Singapore											1					1
Slovak Rep			1	1	1						1	1				5
Slovenia										1						1
South Africa					1			1	1	1			1			5
South Korea									2		1		1			4
Spain						1			1		1		1	1	2	7
Sweden								1		1						2
Switzerland	1			2				2	3	2	2	2	1	1	2	18
Taiwan											1					1
Tajikistan								1		1						2
Thailand											1					1
Turkey				1				2	1	4	1	1	2	1	3	16
Turkmenistan								2								2
Turks&Caicos										1						1
Ukraine		1	12	6	9	11	7	5	8	14	18	17	18	16	6	148
United Kingdom		1	1	1	1	1	2	3	9	8	6	5	4	3	3	48
United States	1		1	1	2	2	3		8	4	16	6	7	9	3	63
Utd Arab Emirates										3	1					4
Uzbekistan				2	1	4	3	1	3	1	3	1	1	1		21
Venezuela														3		3
Vietnam											1			2		3
Total	9	8	22	36	36	55	34	42	80	111	144	97	99	106	71	950

Table 2: Total annual volume of outward cross-border acquisitions from Russia by target industry

This table presents the division of Russian outward cross-border acquisitions selected to the sample across the industry divisions. The division is done according to the target's industry group.

	Year of transaction															
Industry	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Agriculture, Forestry and Fishing					1	1						1	3			6
MIning	1			2	4	5	4	4	8	17	15	22	11	14	5	112
Manufacturing	3	6	11	18	19	27	11	13	35	32	55	29	36	30	24	349
Transportation, Communications, Electric, Gas, Sanitary	2	1		3	3	11	8	10	14	19	23	12	15	11	9	141
Wholesale Trade		1	2	1		3	1	1	4	1	1	3	1	4	3	26
Retail Trade				1		1	1	1	2	2	4	2	4	4	1	23
Finance, Insurance and Real Estate	1		4	10	5	5	7	11	10	27	26	24	22	33	19	204
Services	1		5	1	3	2	2	2	7	13	20	4	7	10	10	87
Public Administration	1				1											2
Total	9	8	22	36	36	55	34	42	80	111	144	97	99	106	71	950

The volume of the transactions was lowest in 1999 with 8 transactions. In 2008, the volume reached its peak with 144 transactions. The total volume of transactions rose with some yearly fluctuations to its highest level from 1998 to 2008. Since then the annual number of transactions has dropped and in 2012 it went below the 2006 level with the total of 71 transactions. Not surprisingly, Ukraine was the largest target for the Russian CBA with 148 transactions. Ukraine is one of the largest economic partners for Russia. Also other CIS countries were among the top targets. Ukraine was followed by Cyprus on the second place, which comes to no surprise, as Cyprus is said to attract a great deal of Russian OFDI. The number of acquisitions in Cyprus totaled to 64. Other EU countries are also well represented in the sample. Germany and the UK were the top targets within the EU after Cyprus. Of non-European countries the US was the largest target with the total of 63 transactions. Other non-European countries are not among the top targets within the sample.

Table 2 presents the division of selected acquisitions across the industry groups according to the target's industry. Manufacturing is the largest industry group represented in the sample with 349 transactions followed by the Finance, Insurance and Real Estate industry group with 204 transactions. The Transportation, Communication, Electric, Gas and Sanitary industry group comes third with 141 transactions. Also the Mining and Services industry group are well represented in the sample with 112 and 87 transactions. Other industry groups come far behind afore mentioned. Two transactions were done with targets registered operating within public administration. These companies were a part of public administration of the target country before the transactions. Both transactions targeted the transportation industry.

In general, the sample follows quite well the general composition of the Russian economy. Moreover, the sample follows the findings of Ledyaeva et al. (2013) which show that manufacturing is the leading sector in Russian OFDI. What is interesting is that the drop of the total volume of the transactions after 2008 is attributable mostly to the drop in the transaction volume within the Manufacturing and Services industry groups where the drop was the most severe, whereas the volume of the transactions within the Finance, Insurance and Real Estate industry groups stayed at the same level.

Within the sample, the transaction value was disclosed only for 298 transactions. The total value of all transactions was USD 94 billion. Thus, the average transaction was USD 315 million. Table 3 presents the total annual value of the disclosed transaction values of the Russian outward CBA for top 30 target countries for the sample period of 1998-2012.

Table 3: Total annual value of Russian cross-border acquisitions by target country

This table presents the total annual value of the disclosed transaction values of Russian cross-border acquisitions for top 30 target countries for the sample period of 1998-2012. The total number of the acquisitions where the transaction value was disclosed is 298. The bottom line summarizes the values of the transactions for all 81 target countries included into the sample. Values are presented in millions of US dollars.

	Year of transaction															
Target Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Canada				68.3						7 909.6	5 200.4	143.6	1 054.7	19.6		14 396.2
Ukraine			6.0	41.1	201.2	0.4	21.9	574.8		2 340.3	116.9	5 683.9	840.3	73.8		9 900.5
United States			71.1		388.5	285.5	49.3		2 597.0	471.5	4 123.3	948.0		50.0	39.8	9 024.0
United Kingdom			183.3	100.0	238.5	0.2		2 005.0	87.7	417.1	1 642.1	1 806.8	200.0	830.1	52.9	7 563.6
Turkey								1 608.3	21.5	353.0	25.0	90.2			3 861.7	5 959.6
Belarus							5.1			2 500.0		280.7	629.0	2 509.6		5 924.4
Italy								840.4	700.5	114.4	2 145.2			280.8	523.6	4 605.0
Austria						4.0				3 064.5		269.8	519.3	737.8		4 595.4
Netherlands				10.0					940.0	304.5		2 794.4				4 049.0
Germany							16.6		9.9	546.2		57.7	1 726.2	196.4	30.4	2 583.5
France										1 453.7				2.1	1 024.1	2 479.9
Kazakhstan		0.7					425.0	2.0	100.0		1 423.1	244.5				2 195.3
Hungary									3.8	173.3		1 851.6				2 028.7
Venezuela													1 800.0			1 800.0
China										22.1		5.1		1 531.0		1 558.2
Luxembourg									805.0	44.6				600.0		1 449.6
Uzbekistan				1.7	1.7	12.0	373.8		267.4		582.0	4.0				1 242.6
Belgium										17.7	36.4			1 128.2		1 182.3
South Africa								469.0	680.7				17.0			1 166.7
Bulgaria		52.0				5.0				50.2			69.7		926.2	1 103.1
Finland									816.0		115.9				33.0	964.9
Armenia			1.5	1.7		25.2			435.0	486.8				6.0		956.3
Cyprus										42.0	286.1	27.7	135.0	238.0		728.7
Serbia										601.1	52.3	6.5	56.7			716.7
Lithuania			4.1		236.0								462.6			702.7
India									3.6	56.4		607.7				667.7
Australia							461.0									461.0
Czech Republic							4.8	284.0	3.3	10.7	6.4			116.5		425.9
Romania	300.0					121.0										421.0
Jersey										404.494						404.5
Grand Total	301.0	54.3	302.0	325.3	1 205.3	694.0	1 357.5	5 954.5	8 277.0	21 559.6	16 091.0	14 932.5	7 704.2	8 789.2	6 514.0	94 061.5

5.1.2 Variables for the analysis of the determinants of the cross-border acquisitions from Russia

Table 4 presents the list of the variables considered and gathered for the analysis of the determinants of the annual outward CBA from Russia. However, I here briefly go through the variables that were selected for the analysis. Some of the variables were omitted from the analysis for the lack of sufficient time series or because they are not provided for all the countries in the sample. The list of the selected variables is below. The expected sign for each variable is presented in the brackets.

Dependent variable

Annual cross-border M&A volume: The total annual volume of cross-border acquisitions from Russia to a selected country. Cross-border deals are drawn from SDC's merger database.

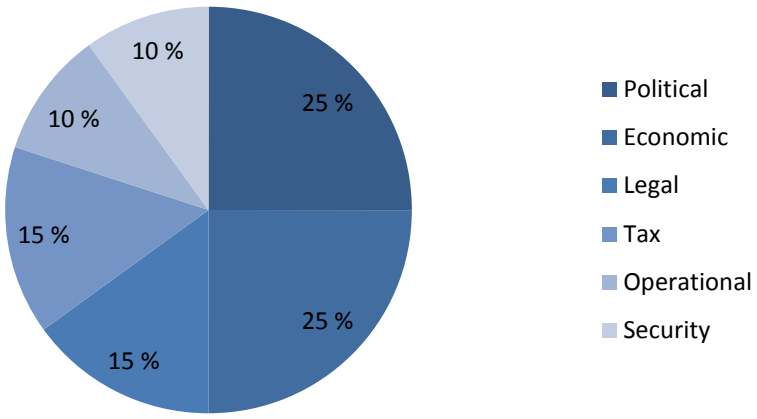
Independent variables

Country risk and its components [-]: Country risk ratings are provided by IHS Global Insight from 1998 to 2012. The overall country risk measure consists of six component ratings—Political, Economic, Legal, Tax, Operational, and Security. The principal quality these ratings are measuring is stability. Every country is given a risk rating of between 1 and 5 for each of the six factors; 1.0 indicates minimum risk and 5.0 maximum risk. The minimum increment for risk ratings is 0.25. The overall country risk is calculated by aggregating the six ratings according to their individual weightings. As Figure 3 shows, political and economic risks are given 25% weightings; legal and tax 15%; and operational and security 10%.

In order to highlight the potential differences between each country, the overall risk rating is calculated using a geometric mean of the individual risk categories. This means that each risk rating is squared before it is weighted and added together to the other risks. The resulting figure is then square-rooted to give the overall risk rating. Using this formula, countries with a Political Risk Rating of 1 and an Economic Risk Rating of 3, for example, end up with a slightly higher overall rating than a country where both the Political and Economic Risk Ratings are 2. This approach tends to "penalize"—other things being equal—countries whose single-risk categories exhibit high variance.

Figure 3: The compositions of country risk rating

This figure presents the composition of the country risk rating provided by IHS Global Insight (2013).



The equation used to calculate the overall Country Risk Rating is therefore:

$$\begin{aligned}\sqrt{[}&(Political\ Risk^2 \times 0.25) + (Economic\ Risk^2 \times 0.25)\\ &+ (Legal\ Risk^2 \times 0.15) + (Tax\ Risk^2 \times 0.15)\\ &+ (Operational\ Risk^2 \times 0.10)\\ &+ (Security\ Risk^2 \times 0.10)]\end{aligned} \tag{11}$$

Tax haven status of the target country [+]: Dummy variable which equals to 1 if a country is included on the OECD grey list. Also, some jurisdictions within countries were assigned as tax havens because they fall into the definition of tax haven. These are City of London and some states of the US: Delaware, Florida, Nevada, and Texas.

Control variables

Home country GDP [+]: The annual GDP of Russian Federation. Expected sign is positive, since the home market size and growth is expected to encourage investments abroad.

Target country GDP [+]: Annual GDP of the target is a proxy for the market size and is expected to have a positive relation with the annual volume in the analysis.

Target country annual inflation rate [-]: Annual inflation of the target country is expected to yield a negative relation to the annual volume of acquisitions since inflation in the target country depreciates the value of assets and thus discourages from investing into the country.

Target country annual average exchange rate against RUB [+]: Depreciation of the target country currency makes the assets more affordable to acquire, thus encouraging transactions.

CIS membership [+]: Dummy variable which equals to 1 if a country is a member of the Commonwealth of Independent States. This variable represents cultural proximity, and is thus expected to yield a positive sign.

WTO membership [+]: Dummy variable which equals to 1 if a country is a member of the World Trade Organization. Because of the market seeking motive, this variable is expected to have a positive relation to the annual volume of acquisitions.

EU membership [+]: Dummy variable which equals to 1 if a country is a member of the European Union. Because of the market seeking motive, this variable is expected to have a positive relation to the annual volume of acquisitions.

Geographic distance between Russia and the target country [-]: This is a continuous variable which measures the physical distance between Russia and the target country and is expected to yield a negative sign.

The ratio of ore and metal exports to merchandise export of target country [+]: This variable measures to which extend the target country economy is dependent on raw metals and is proxy for the availability of natural resources in the country. The variable is expected to have a positive relation because of the asset seeking motive.

Total annual patent registrations in the target country [+]: Patent registration in the target country is a proxy for availability of desired assets in the target country. The variable is expected to have a positive relation because of the asset seeking motive.

Services as percentage of GDP [+]: This variable measures the level of the development level of the target country economy through the ratio of service of the total GDP and is expected to have positive relation to the annual volume of acquisitions.

FDI net inflows to target country as percentage of GDP [+]: This indicator measures the openness of the target economy to foreign direct investments and is expected to have positive relation to the annual volume of acquisitions**.**

Table 5 summarizes the main descriptive statistics of the variables except for the dummies. Because the analysis is executed with the log values of the variables, also descriptive statistics are calculated from the log values. All variables have an equal amount of year and country observations. The descriptive statics indicate that there are no abnormalities in the data.

Table 4: List of variables for the analysis of the determinants of the annual outward cross-border acquisitions from Russia

This table presents the list of variables for the analysis of the determinants of the annual outward cross-border acquisitions from Russia. Table also includes information on the nature of variables, their expected sign, theoretical justification for the selection of a variable, source from which the data is acquired and the availability of data for each particular variable.

Variable	Nature	Range / Unit	Expected sign	Theoretical justification	Data source
Annual MA volume	*Depedent*				SDC Platinium
Country risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Political risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Economic risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Legal risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Tax risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Operational risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Security risk	*Independent*	*1-5*	*neg*	*Risk diversification*	*IHS Global Insight*
Ease of doing business	*Independent*	*1-185*	*neg*	*Risk diversification*	*World Bank Development Indicator*
Time required to start a business	*Independent*	*days*	*neg*	*Risk diversification*	*World Bank Development Indicator*
Tax haven status of target country	*Independent*	*dummy*	*pos*	*Risk diversification*	*OECD*
Home country GDP	*Control*	*BUSD*	*pos*	*Home effect*	*International Monetary Fund (IMF)*
Target country GDP	*Control*	*BUSD*	*pos*	*Market seeking*	*International Monetary Fund (IMF)*
Target country GDP per capita	*Control*	*USD*	*pos*	*Market seeking*	*International Monetary Fund (IMF)*
Target country annual GDP growth	*Control*	*percentage*	*pos*	*Market seeking*	*International Monetary Fund (IMF)*
Target country annual inflation rate	*Control*	*percentage*	*neg*	*Wealth effect*	*World Bank Development Indicator*
Target country official annual average exchange rate against RUB	*Control*	*percentage*	*pos*	*Wealth effect*	*International Monetary Fund (IMF)*
CIS membership	*Control*	*dummy*	*pos*	*Cultural affinity*	*Commonwealth of Independent States (CIS)*
WTO membership	*Control*	*dummy*	*pos*	*Market seeking*	*World Trade Organization*
EU memebership	*Control*	*dummy*	*pos*	*Market seeking*	*The European Union*
Geographic distance between Russia and target country	*Control*	*kilometers*	*neg*	*Spatial costs*	*CEPII*
Total annual patent registrations in target country	*Control*	*units*	*pos*	*Asset seeking*	*WIPO*
The ratio of ore and metal exports to merchandise export of target country	*Control*	*percentage*	*pos*	*Resource seeking*	*World Bank Development Indicator*
The ratio of agricultural raw materials exports to merchandise export of target country	*Control*	*percentage*	*pos*	*Resource seeking*	*World Bank Development Indicator*
Total natural resources rents as percentage of GDP	*Control*	*percentage*	*pos*	*Resource seeking*	*World Bank Development Indicator*
Services as percentage of GDP	*Control*	*percentage*	*pos*	*Market Seeking*	*World Bank Development Indicator*
FDI net inflows to target country as percentage of GDP	*Control*	*percentage*	*pos*	*Openness to FDI*	*World Bank Development Indicator*

Table 5: Descriptive statics of variables, excluding dummy variables

This table presents means, standard deviations, minimums, medians and maximums for the variables used in the analysis of the determinants of the annual outward cross-border acquisitions from Russia. Dummy variables are excluded from this table. All values are calculated from the natural logarithmic values of the variables.

Variable	Observations	Mean	Std. Dev.	Min	Median	Max
LN_VOL	1245	0.337	0.571	0.000	0	2.940
LN_CR	1245	1.198	0.263	0.000	1.21	1.730
LN_PR	1245	1.193	0.282	0.000	1.25	1.790
LN_ER	1245	1.187	0.323	0.000	1.25	1.700
LN_LR	1245	1.086	0.375	0.000	1.1	1.700
LN_TR	1245	1.107	0.326	0.000	1.1	1.790
LN_OR	1245	1.173	0.336	0.000	1.18	1.790
LN_SR	1245	1.158	0.344	0.000	1.25	1.790
LN_GDP_RUS	1245	7.397	0.325	6.830	7.44	7.830
LN_GDP_TRGT	1245	4.847	1.979	0.120	5.01	9.660
LN_INFL	1245	1.504	0.976	-2.920	1.46	5.690
LN_EXCH	1245	0.825	1.528	0.010	0.1	7.220
LN_PATENTS	1245	6.058	3.734	0.000	6.87	13.170
LN_ORE_EXP	1245	1.343	0.995	0.000	1.27	4.420
LN_SERV	1245	4.069	0.325	2.420	4.16	4.580
LN_FDI	1245	1.410	0.890	-2.590	1.44	5.160
LN_DIST	1245	8.058	0.791	6.530	7.83	9.730

Table 6 presents the correlation matrix. A few things must be mentioned here. First, there are high correlations between the country risk variable and the variables representing its components. This correlation comes directly from the composition of the country risk measure. Also, there are high correlations between the components of the country risk. It seems that different risks do not come alone. In other words, countries with e.g. high economic risk are also risky in other ways, which comes to no surprise. This high correlation between these variables, however, must be taken into account in the analysis. The effect of different risks must be investigated separately as otherwise they could capture each other's effects.

Second, the variable representing services' share in GDP of the target country has a strong negative correlation with all risk measures which might have offsetting results on the effects of the variables. I will take this into account in the analysis by leaving services' share of GDP from some of the specifications of the regression models.

Table 6: Correlation matrix of variables

This table presents correlation coefficients between variables, both dependent and independent. All correlations, except for dummies, are calculated using natural logarithmic values of variables.

	LN_VOL	LN_CR	LN_PR	LN_ER	LN_LR	LN_TR	LN_OR	LN_SR	TAXHVN	LN_GDP_RUS	LN_GDP_TRGT	LN_INFL	LN_EXCH	LN_PATENTS	LN_ORE_EXP	LN_SERV	LN_FDI	LN_DIST	CIS	EU	WTO
LN_VOL	1.000																				
LN_CR	-0.072	1.000																			
LN_PR	-0.043	0.963	1.000																		
LN_ER	-0.003	0.695	0.651	1.000																	
LN_LR	-0.034	0.767	0.717	0.909	1.000																
LN_TR	-0.040	0.681	0.642	0.886	0.897	1.000															
LN_OR	-0.007	0.717	0.685	0.931	0.940	0.916	1.000														
LN_SR	0.056	0.590	0.548	0.795	0.755	0.724	0.802	1.000													
TAXHVN	-0.001	-0.364	-0.335	-0.224	-0.310	-0.377	-0.278	-0.121	1.000												
LN_GDP_RUS	0.292	0.045	0.080	0.044	0.008	-0.007	0.029	0.088	0.000	1.000											
LN_GDP_TRGT	0.197	-0.288	-0.255	-0.133	-0.169	-0.119	-0.091	-0.028	-0.116	0.136	1.000										
LN_INFL	0.038	0.387	0.365	0.283	0.335	0.280	0.302	0.250	-0.181	0.057	-0.179	1.000									
LN_EXCH	-0.058	0.464	0.445	0.173	0.256	0.227	0.212	0.087	-0.234	-0.005	-0.233	0.239	1.000								
LN_PATENTS	0.200	-0.339	-0.290	-0.159	-0.251	-0.182	-0.184	-0.118	-0.127	0.011	0.780	-0.220	-0.226	1.000							
LN_ORE_EXP	0.128	0.007	0.027	0.071	0.016	0.047	0.080	0.049	-0.165	0.035	0.125	0.084	-0.176	0.241	1.000						
LN_SERV	0.155	-0.665	-0.639	-0.414	-0.567	-0.487	-0.506	-0.300	0.289	0.077	0.204	-0.332	-0.507	0.401	0.210	1.000					
LN_FDI	0.064	0.056	0.096	0.030	0.050	0.042	0.053	-0.055	0.002	0.103	-0.021	0.052	-0.004	0.078	0.109	0.017	1.000				
LN_DIST	-0.263	0.053	0.062	0.044	-0.027	-0.017	-0.004	0.058	0.023	0.000	0.120	-0.036	0.169	0.014	0.054	-0.076	-0.075	1.000			
CIS	0.213	0.426	0.416	0.388	0.410	0.362	0.396	0.316	-0.184	0.000	-0.281	0.208	0.114	-0.106	0.022	-0.264	0.143	-0.290	1.000		
EU	0.170	-0.430	-0.432	-0.273	-0.310	-0.208	-0.249	-0.281	-0.077	0.133	0.215	-0.179	-0.257	0.143	0.027	0.331	0.050	-0.408	-0.222	1.000	
WTO	0.003	-0.388	-0.403	-0.173	-0.283	-0.224	-0.220	-0.108	0.258	0.108	0.251	-0.118	-0.316	0.201	0.256	0.383	-0.038	0.133	-0.465	0.246	1.000

5.2 Analysis of the acquirer announcement returns in the Russian outward cross-border M&A

The acquisition data is gathered from SDC's merger database. Stock market data and other company data is gathered from the Thomson Reuters database. The sample was drawn for the time period from 1998 to 2012. The rationale for the sample period is the same as in the analysis of the determinants of the Russian outward M&A. The sample was drawn for the time period from 1998 to 2012 due to the fact that the country risk estimates for countries provided by IHS Inc. are available only from 1998 onwards. The acquisitions selected to the sample were to fulfill the following requirements:

a) The acquisition was published in SDC's merger database. The acquirer's country of origin was Russia.
b) The transaction was announced and closed between the sample period of 1998 and 2012.
c) The country risk estimate is available for the target country at the time of the transaction.
d) After the acquisition, acquirer held at least 50% of the target's shares.
e) The acquirer in the deal was listed at the time of the announcement of the deal.
f) Sufficient stock price data and corresponding market index data were available to estimate the market model and to measure the cumulative abnormal returns (CAR) during the event window.

Figure 4: Sample formation for the analysis of the acquirer returns

This figure illustrates the sample formation process for the analysis of the acquirer returns in the Russian outward cross-border acquisitions.

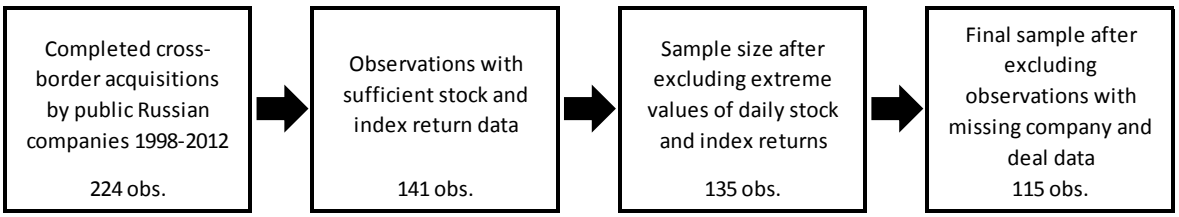


Table 7: Final sample, transactions by country and year

This table presents the transactions of the final sample by the target country and the year of transaction. Autonomic jurisdictions are presented as individual countries.

	Year of transaction															
Target Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Armenia										1		1		2		4
Australia									1							1
Austria				1										1		2
Azerbaijan											1					1
Belarus									1	1		1	1			4
Belgium											1					1
Brazil															1	1
British Virgin								1						2		3
Bulgaria													1			1
Canada				1						1	2	1				5
Cyprus										2	2	4	2		2	12
Czech Republic											1		1			2
Denmark												1				1
Egypt										1						1
Estonia											1					1
Finland									2		1					3
Georgia										1						1
Germany									1				1			2
Hong Kong													1			1
India										1		1				2
Italy											1	1		1		3
Kazakhstan							1		1		3	2				7
Kyrgyzstan									1							1
Luxembourg														1		1
Moldova		1									2	1				4
Mongolia													1			1
Netherlands									1			1		2		4
New Zealand											1					1
Oman															1	1
Peru												1				1
Poland										1						1
Romania						1									1	2
Serbia											1					1
Serbia & Mont.						1										1
Slovak Rep												1				1
Switzerland				1								1		1		3
Turkey									1						1	2
Turkmenistan								1								1
Ukraine										6	2		3		1	12
United Kingdom										1		1		1		3
United States			1		1		1			2	5	3				13
Uzbekistan							1									1
Vietnam														1		1
Total	0	1	1	3	1	2	3	2	9	18	24	21	11	12	7	115

The initial sample drawn from SDC's merger database consists of 224 CBA by Russian companies. Due to the lack of sufficient stock and index return data the sample was reduced to the sample of 141 acquisitions. Further, after the manual quality control of the daily stock price and corresponding market index data and excluding extreme values, 135 observations were left. Finally, the deal and company data was obtained for the analysis. Those observations with missing data were left out. The final sample size totaled to 115 observations. Figure 4 illustrates the process of sample formation.

Table 7 presents the final sample by the target country and the year of transaction. Two thirds of the observations are scattered to the second half of the sample period and year 2008 has the most observations within the sample. The US was the largest target within the sample with 13 transactions. Cyprus and Ukraine come second, both with 12 transactions.

5.2.1 Cumulative abnormal returns

The computation process of cumulative abnormal returns is discussed in the chapter dedicated to the methodology description. Figure 5 presents the daily average abnormal returns for the event window (-5,+5 days). Daily average abnormal returns are less than 1% throughout the event window. Before the announcement day, the daily average abnormal returns fluctuate around zero. The highest daily average abnormal return is on the announcement day, +0.46%. After day +1 the daily average abnormal returns are negative.

Figure 5: Daily Average Abnormal Returns

This figure presents the daily average abnormal returns for the event window for the selected sample. The event window consists of 11 days around the announcement day (-5,+5). The announcement day is day 0 in the figure.

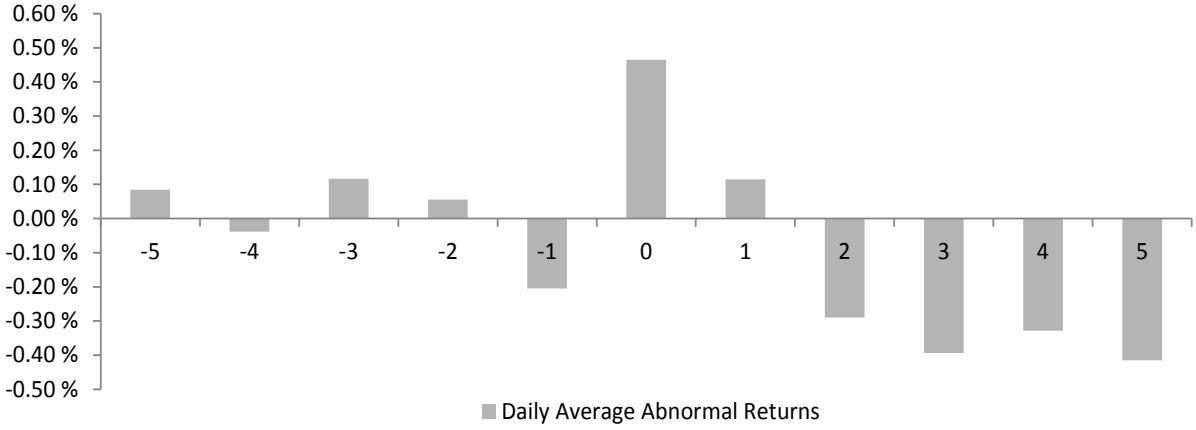


Figure 6 presents the Cumulative Abnormal Returns (CAR) around the event day for the selected sample. CAR remain slightly positive prior the event day and exceed one half of the per cent during the event day and one day after. From day +2 to the end of the event window CAR decrease steadily. The total cumulative abnormal returns for the event window are negative being close to minus 1%.

Figure 6: Cumulative Abnormal Returns

This figure presents the Cumulative Abnormal Returns for the event window for the selected sample. The event window consists of 11 days around the announcement day (-5,+5). The announcement day is day 0 in the figure.

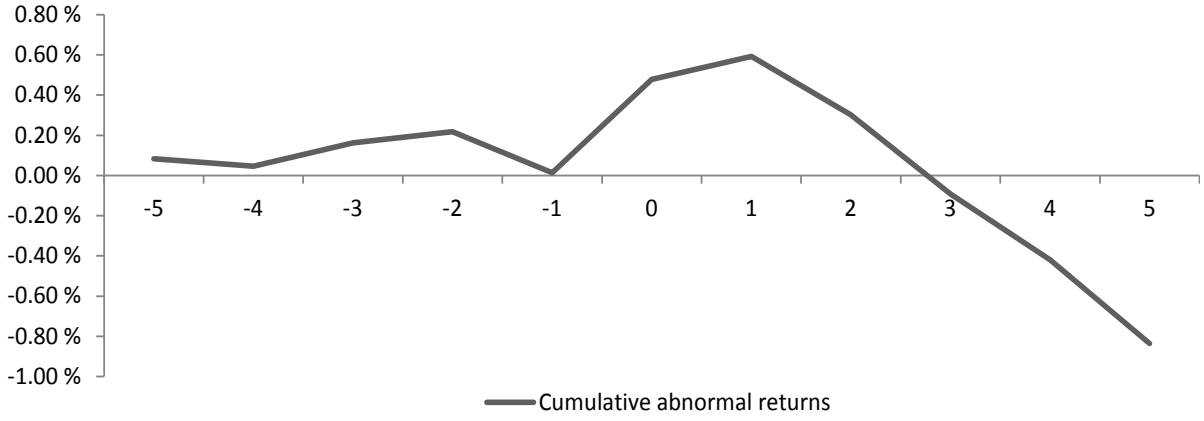


Table 8 presents summary statistics of CAR. Means, standard deviations, t-values and p-values as well as minimum and maximum values and values of 10th, 25th, 50th, 75th and 90th percentiles are reported for all four event windows. CAR (0) and CAR (-1,+1) are positive on average but both less than one half of per cent. CAR (-3,+3) and CAR (-5,+5) are negative, latter being almost one percent on the negative side. Minimum and maximum values as well as percentiles show in more details the composition of CAR. All CAR are relatively evenly distributed around their mean values. Further, I run the t-test for all the CAR. T-test statistics, which are presented in the table, show that only CAR (0) is significantly different form zero with 5% significance level. However, the magnitude of the value creation is low, only 0.5% on average.

These results suggest that on average the outward CBA from Russia do not create nor destroy significantly shareholder value. Also, these results complement to those of Chernykh et al. (2011) who find that EMNE create value for their shareholders only when acquiring companies from developed countries. This sample contains acquisitions from both developed and emerging countries as presented in Table 8, and thus averages returns among them. Therefore, these results come to no surprise.

Table 8: Cumulative Abnormal Returns, descriptive statistics

This table presents the descriptive statistics of Cumulative Abnormal Returns for the event window for the selected sample. Means, standard deviations, t-values and p-values, number of observations as well as minimum and maximum values and values of 10^{th}, 25^{th}, 50^{th}, 75^{th} and 90^{th} percentiles are reported for all four event windows [CAR (0), CAR (-1,+1), CAR (-3,+3) and CAR (-5,+5)].

							Percentile					
	Mean	*St.dev.*	*t-value*	*p-value*	*Min*	*Max*	*10th*	*25th*	*50th*	*75th*	*90th*	*Obs.*
CAR (0)	0.005	0.030	1.820	0.035	-0.065	0.210	-0.019	-0.009	0.002	0.009	0.034	115
CAR (-1,+1)	0.004	0.051	0.848	0.199	-0.150	0.425	-0.050	-0.019	-0.006	0.016	0.050	115
CAR (-3,+3)	-0.001	0.078	-0.204	0.419	-0.264	0.244	-0.079	-0.035	-0.009	0.033	0.093	115
CAR (-5,+5)	-0.008	0.098	-0.987	0.163	-0.393	0.418	-0.107	-0.056	-0.013	0.027	0.089	115

5.2.2 Variables for the analysis of the acquirer returns in the Russian outward cross-border acquisitions

Table 9 presents the list of variables gathered and used in the analysis of the acquirer returns in Russian outward CBA. Next, I briefly go through all the variables used in the analysis. The list of the selected variables is below. The expected sign for each variable is presented in the brackets.

Dependent variables

Cumulative abnormal returns (CAR): I study short-term acquirer abnormal returns in the CBA by Russian companies by analyzing the acquirer's cumulative abnormal returns around the announcement day of the deal. Short-term CAR are set to be a dependent variable in the analysis. I use three different event windows for which I calculate respective CAR: CAR (0), CAR (-1,+1), CAR (-3,+3) and CAR (-5,+5).

Independent variables

Country risk [-]: Country risk ratings are provided by IHS Global Insight (2013) from 1998 to 2012. For more detailed description of this variable, see section 5.1.2.

Tax haven status of the target country [-]: Dummy variable which equals to 1 if a country is included on the OECD grey list. Also, some jurisdictions within countries were assigned as tax havens because they fall into the definition of tax haven. These are City of London and some states of the US: Delaware, Florida, Nevada, and Texas.

Table 9: List of variables for the analysis of the acquirer returns in the Russian outward cross-border acquisitions

This table presents the list of variables for the analysis of the acquirer returns in the Russian outward cross-border acquisitions. Table also includes information on the nature of the variables, their expected sign, source from which the data is acquired and the availability of data for each particular variable.

Variable	Nature	Range / Unit	Expected sign	Data source
Cumulative abnormal return; day 0	*Depedent*	*percentage*		Thomson Reuters
Cumulative abnormal return; days -1,+1	*Depedent*	*percentage*		Thomson Reuters
Cumulative abnormal return; days -3,+3	*Depedent*	*percentage*		Thomson Reuters
Cumulative abnormal return; days -5,+5	*Depedent*	*percentage*		Thomson Reuters
Country risk	*Independent*	*1-5*	neg	IHS Global Insight
Tax haven status of target country	*Independent*	dummy	neg	OECD
Cash payment dummy	*Control*	dummy	pos	SDC
Target private status dummy	*Control*	dummy	pos / neg	SDC
Acquirer government involvement dummy	*Control*	dummy	neg	SDC
Target government involvement dummy	*Control*	dummy	neg	SDC
Toehold ownership prior the transaction	*Control*	*percentage*	pos	SDC
Acquirer debt-to-equity ratio	*Control*	*percentage*	pos / neg	Thomson Reuters
Market capitalization of acquirer	*Control*	MUSD	pos / neg	Thomson Reuters
Acquirer book value	*Control*	MUSD	pos / neg	Thomson Reuters
Acquirer market-to-book ratio	*Control*	*percentage*	pos / neg	Thomson Reuters
Total assets of acquirer	*Control*	MUSD	pos / neg	Thomson Reuters
Serial number of transaction	*Control*	unit	neg	SDC
First time cross-border acquirer dummy	*Control*	dummy	pos	SDC
Total number of bidders for the target	*Control*	unit	neg	SDC
Subsiadiary target dummy	*Control*	dummy	pos	SDC
Target country dummy	*Control*	dummy	pos / neg	SDC
Year dummy	*Control*	dummy	pos / neg	SDC
Target country GDP	*Control*	BUSD	pos	International Monetary Fund (IMF)
Geographic distance between Russia and target country	*Control*	kilometers	pos / neg	CEPII
CIS membership	*Control*	dummy	pos	Commonwealth of Independent States (CIS)
WTO membership	*Control*	dummy	pos	World Trade Organization
EU memebership	*Control*	dummy	pos	The European Union

Control variables

Cash payment [+]: Dummy variable which equals to 1 if the deal price is paid with cash only.

Target private status [+/-]: Dummy variable which equals to 1 if the target is a privately held company.

Acquirer government involvement [-]: Dummy variable which equals to 1 if there is government involvement on the acquirer side of the deal according to SDC's merger database.

Target government involvement [-]: Dummy variable which equals to 1 if there is government involvement on the target side of the deal according to SDC's merger database.

Toehold ownership [+]: This is a continuous variable which measures the ownership in target company prior to the transaction.

Acquirer debt-to-equity ratio [+/-]: This variable measures the availability of debt financing to the acquirer. It controls for the soft financing constrains and the loose corporate governance the management might enjoy.

Market capitalization of the acquirer [+/-]: This continuous variable controls for the size of the acquirer.

Acquirer book value [+/-]: This continuous variable controls for the size of the acquirer.

Total assets of the acquirer [+/-]: This continuous variable controls for the size of the acquirer.

Acquirer market-to-book ratio [+/-]: This is a continuous variable which controls for the market valuation of the acquirer's asset prior to the transaction.

Serial number of the transaction [-]: This continuous variable controls for the prior cross-border acquisition experience of the acquirer.

First time cross-border acquirer [+]: Dummy variable which equals to 1 if the transaction is the first cross-border acquisition for the acquirer.

Total number of bidders [-]: Continuous variable which controls for the competition for the target.

Subsidiary target [+]: Dummy variable which equals to 1 if the target was a subsidiary of the target prior to the transaction.

Year dummies [+/-]: Dummy variable controlling for year effects in the announcement returns.

Country dummies [+/-]: Dummy variable based on the target's home country.

Further, some of the target country characteristics were used instead of country dummies to control for country effects in some specifications of the regression analysis.

Target country GDP [+]: Annual GDP of the target is a proxy for market.

CIS membership [+/-]: Dummy variable which equals to 1 if a country is a member of the Commonwealth of Independent States. This variable represents cultural proximity.

WTO membership [+]: Dummy variable which equals to 1 if a country is a member of the World Trade Organization.

EU membership [+]: Dummy variable which equals to 1 if a country is a member of the European Union.

Geographic distance between Russia and the target country [-]: This is a continuous variable which measures the physical distance between Russia and the target country.

Table 10 presents the summary statistics for the variables presented and discusses above, except for dummies. For those variables which are used in the analysis in their logarithmic form, also the descriptive statistics are calculated from their logarithmic form. All variables have equal amount of observations.

Table 10: Descriptive statics of the variables, excluding dummy variables

This table presents means, standard deviations, minimums, medians and maximums for the variables used in the analysis of the acquirer returns in the Russian cross-border acquisitions. Those variables that are used in their natural logarithmic form in the analysis are also presented here in the logarithmic form.

Variable	Observations	Mean	Std. Dev.	Min	Median	Max
Country Risk	115	2.234	0.744	1.200	1.930	3.880
Toehold	115	2.308	9.509	0.000	0.000	49.000
Acq_D/E	115	1.241	1.929	0.000	0.655	14.570
LN_Acq_MKTC	115	8.850	1.934	2.301	9.214	12.515
LN_Acq_BV	115	7.849	1.913	1.226	8.056	11.924
Acq_M/B	115	5.195	26.019	0.110	2.430	264.300
LN_Acq_Assets	115	8.991	1.547	5.678	9.050	12.729
LN_SerialNumb	115	1.028	0.739	0.000	1.099	2.565
LN_Bidders	115	0.702	0.059	0.693	0.693	1.099
LN_GDP_TRGT	115	5.472	2.262	0.384	5.494	9.567
LN_DIST	115	7.829	0.773	6.532	7.748	9.728

5.3 Limitations of the data

The small number of completed CBA done by Russian companies in general and especially by listed ones during the sample period dictates the scale of the study. I do not believe that using different or multiple data sources would yield significantly larger amount of observations. SDC's merger database is well known for its reliability and is widely used among academics. Using secondary data sources could have damaged the quality of the data, thus putting the reliability of the study at question. This issue affected both the analysis of the determinants of the acquisitions and the analysis of the acquirer returns.

Regarding the analysis of the acquirer returns, the availability of the sufficient stock price data truncated the sample size even further. For many acquirer companies, sufficient stock price day was not available for the reliable computation of CAR. Moreover, for some acquirer companies there was no company related data available. Also, most of the target companies were private companies and the availability of company level data for these was very limited. Scarce company level data (both on the acquirer and the target sides) affected the analysis in two ways. Firstly, this decreased the final sample by 20 observations. Secondly, many of the control variables used in prior studies were dropped from the analysis as it would have decreased the sample size to one fourth of the current.

6. Results

This chapter is divided into a three sections. First, I present the results of the analysis of the determinants of the Russian outward CBA followed by the robustness check of the findings. In the last section, I present the results of the analysis of the acquirer returns in Russian CBA.

6.1 Determinants of the volume of the annual outward cross-border acquisitions

Table 11 presents the results on the determinants of the annual outward CBA from Russia with different regression models with control variables only. I run different models with the same set of control variables to be able to compare the results these models yield and to choose one of the models for the main analysis. Panel 1 presents the results of the Pooled OLS (POLS) regression, which is just a benchmark case. The data allows me to use more sophisticated statistical models of which the results are more likely to be robust. Panel 2 presents the results of the Random Effects (RE) model with countries set as clusters. RE allows one to specify so called clusters within which correlation of standard errors are allowed, thus relaxing the usual requirement of the standard RE model that the observations are independent. That is, the observations are independent across groups, clusters, but not necessarily within groups. Clustering affects the standard errors and variance-covariance matrix of the estimators but not the estimated coefficients. In the case of this study, one could assume that there is, in fact, intragroup correlation of standard errors, either within a country or within a year. I run also the standard RE model and the RE model with years set as clusters for a comparison. The RE model with country clusters yields the lower significance for the coefficients than the two others. Thus, I consider it being the most robust of the three models. Also, the number of year clusters is small which questions the suitability of clustering by year. For these reasons, I prefer using the country clustering over the year clustering. Moreover, I believe that intra-group correlation within the countries is more likely to affect my results. Thus, I choose the RE model with country clustering of the three RE models considered here.

Panel 3 presents the results of the Country Fixed Effects (FE) regression model which allows for any kind of correlation of the error term as it cancels it out. However, it also cancels out time-invariant variables. There are two variables of such kind in the analysis, distance and the dummy variable representing a CIS country. It is obvious that the geographical distance do

not change over time. Also, there have been no changes of the CIS country status for those countries which are included in the analysis. However, some countries that are included into the analysis have become members of the EU or/and the WTO during the sample period which makes the dummy variables representing membership of these two unions time-variant and thus are not omitted in the FE model.

By looking at the results of all three models one can conclude that all models yield fairly similar results. Especially promising is that FE model in Panel 3 yield similar results for most variables as compared to other models. The results show that the home country GDP has a significant positive effect on the volume of Russian CBA. The home market GDP represents the overall wealth in the economy which seems to encourage Russian outward CBA. Moreover, the coefficient of the home country GDP is highest with the FE regression model according to which a 1% increase in the target country GDP leads to a 0.9% increase in volume. The FE fits best to study changes over time within an entity and yields the highest coefficient for the variable of the home country GDP. These results strongly suggest that the GDP of Russia, which has increased dramatically over the past two decades, has been one of the most significant drivers for Russian CBA. Kalotay and Sulstarova (2010) find similar results in their analysis. They suggest that the OLI paradigm (Dunning, 1988) needs an "H" leg in the case of emerging markets, particularly Russia. My results show also support for that statement.

The target country GDP is placed in the analysis to capture market seeking motive of the CBA. In the preliminary specifications of the regressions also other variables measuring the target country market size (GDP per capita and GDP annual growth) were tested but they appeared not significant and also reduced the significance of the GDP coefficient. For these reasons, they were not included into the final regressions. Results in Panels 1 and 2 show weak but significant positive relation between the volume and the target country market size, whereas the results of the FE model shows strong and significant negative relation between these two variables. Kalotay and Sulstarova (2010) find positive and significant relation in their analysis. They, however, do not check their results for robustness with the FE model. The difference between the results of other models and the FE model regarding the target country market size might lie in the properties of the FE model which fits best for studying changes within an entity over time. That is, the model does not compare entities with each other but rather finds the relation for each variable within an entity over time. There might be a negative correlation between the target country GDP and the volume for some countries in

the sample. For many countries the GDP has shrank in the recent years while the volume of Russian acquisitions to these countries has in fact increased, or vice versa. Thus, the FE model interprets this as a negative relation between the volume and the target country GDP. For example, for Ukraine the peak of the acquisition volume was in 2008-2011. At the same time, the GDP was shrinking. When the GDP rose again in 2012, the volume of Russian acquisitions decreased. The situation is similar with Cyprus where Russian acquisitions peaked also in 2008-2011. During these years the GDP was more or less stable. In 2012, the GDP rose but the volume decreased. Another example is Germany where after the global financial crisis the economy grew past the pre-crisis level but the volume decreased. Same story applies to the US and the UK.

Another explanation could be that the target country GDP variable might be capturing other target country characteristics which are not included separately into the model and are correlated with the size of the target economy. Thus, it is interesting to see whether adding other country characteristics, more precisely country risk and tax haven status, into the FE model will affect the sign and the magnitude of the coefficient of the target country GDP. To conclude, regarding target country GDP, the FE model does not tell the whole truth here. This is why, rather than just to rely on one model, I test different models and the results for robustness later in this chapter.

Further, I find that the target country currency exchange rate against ruble has a significant positive impact on the volume of the CBA from Russia but the magnitude of the coefficient is small. Here positive relation of exchange rate means that the stronger the ruble against the target currency, the higher the volume. This relation is logical; appreciating ruble makes assets in foreign currencies more attractive for Russian companies. On the other hand, nor the target country inflation nor the openness of the target economy, measured by the ratio of FDI and GDP of the target country, seem to have a significant effect on the volume of Russian CBA. Unfortunately, Kalotay and Sulstarova (2010) do not include these two variables into their model, and thus I cannot compare my results with theirs.

The ratio of ore exports to GDP, controlling for the raw material intensity of the target economy, has a significant positive effect on the volume of Russian CBA. Even though the magnitude of coefficient is small in all regressions, meaning that 1% increase in ratio leads to only roughly 0,05% increase in the volume, the raw material seeking motive still looks viable for Russian companies. The variable of the ratio of services to GDP of the target country has a positive sign in two of the three regression models; in one model the variable is significant.

Table 11: Country level determinants of the outward cross-border acquisitions from Russia

This table presents regression results on the determinants of the annual outward cross-border acquisitions from Russia with different regression models: the Pooled OLS regression model, the Random Effects regression model with countries set as clusters and the Country Fixed Effects regression model. The dependent variable is the number of acquisitions in the target country in one year. All variables, both dependent and independent except for the dummies are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of t or z statistics depending on the model and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	Pooled OLS (1)	Random Effects; country clustering (2)	Country Fixed Effects (3)
LN_GDP_RUS	0.238	0.450	0.906
	(3.11) ***	(7.01) ***	(9.66) ***
LN_GDP_TRGT	0.088	0.047	-0.479
	(6.45) ***	(1.69) *	(4.55) ***
LN_INFL	0.011	0.001	-0.011
	(0.69)	(0.10)	(0.59)
LN_EXCH	0.047	0.038	0.192
	(4.13) ***	(1.98) **	(2.90) ***
LN_PATENTS	-0.012	0.009	0.007
	(1.67) *	(0.87)	(0.67)
LN_ORE_EXP	0.046	0.047	0.041
	(2.96) ***	(1.93) *	(1.74) *
LN_SERV	0.365	0.139	-0.133
	(5.88) ***	(1.45)	(0.86)
LN_FDI	-0.023	0.008	0.026
	(1.38)	(0.33)	(1.35)
LN_DIST	-0.161	-0.167	(omitted)
	(7.29) ***	(3.24) ***	
CIS	0.463	0.356	(omitted)
	(8.68) ***	(2.23) **	
EU	0.026	0.020	-0.019
	(0.63)	(0.17)	(0.26)
WTO	0.014	0.013	0.061
	(0.35)	(0.18)	(0.78)
Constant	-2.212	-2.662	-3.826
	(3.56) ***	(3.71) ***	(5.93) ***
R^2	0.288	0.254	0.012
Observations	1245	1245	1245

Kalotay and Sulstarova (2010) find similar results but the magnitude of equivalent coefficients in their analysis is much larger. Also, the number of the annual patent registrations in the target country which is another variable representing the asset seeking motive is significant in only one of the three models with small coefficients in all of them. Also, Kalotay and Sulstarova (2010) fail to find this indicator significant. However, it is difficult to draw any conclusive arguments since the availability of know-how in a country is difficult to measure with only one indicator.

Both the physical distance between Russia and the target country and the CIS dummy, which represents cultural proximity, appear to have significance in both POLS and RE models. In the FE model these are omitted as time-invariant variables. Change in the physical distance by 1% decreases the volume by roughly 16% and the CIS countries are on average 36% to 46% (depending on the model) more often targets in Russian CBA as they would be otherwise. These results support the theory suggested by Luo & Tung (2007) who argue that emerging market companies expand to geographically or culturally close markets first. Similar results are found by Kalotay and Sulstarova (2010) and Buckley et al. (2007), which makes a strong argument for the suggested theory. Lastly, the EU and the WTO member countries do not seem to attract Russian CBA. Both institutions form more or less uniform markets with restrictions to free trade. Russia is not a member of the EU and became a member of the WTO only in August 2013. Thus, these two dummy variables are placed to capture the market seeking motive of Russian companies. However, entering these markets through CBA do not seem to be a primary motive for Russian CBA.

As I present earlier, I have to choose one of the models for the main analysis. Here, Pooled OLS regression drops off, since there are more sophisticated models at hand. Previous studies (Buckley et al., 2007; Kalotay and Sulstarova, 2010) using similar type of data discuss two models, the Fixed Effects (FE) and the Random Effects (RE) regression models. Both studies end up using the RE regression model because, like me, they also have time-invariant variables they want to include into their analyses. However, the RE model implies a strong assumption of no correlation of error term with the predictors. To test this assumption, I run the Hausman test where the null hypothesis is that the preferred model is the RE to the alternative FE. The test tests whether the unique errors (μ_i) are correlated with the regressors. Based on the results of the test, the FE model is better suited for my data. That means that there are unseen characteristics that are correlated with the variables but are not included into the model. This is logical, since it is impossible to capture all country characteristics with any

set of variables. Also, many country characteristics are often correlated with each other. The result of the Hausman test is, however, unfortunate to some extent, since I consider the time-invariant variables being important for my analysis. That is why, despite the results of the Hausman test, I choose to use the RE model with country clustering for my main analysis. However, I will compensate this by doing the robustness check for all the results of the main analysis with the FE regression model. It must be also underlined here that neither of the reference studies (Buckley et al., 2007; Kalotay and Sulstarova, 2010) do test the fit of the RE model they run nor test their results with the FE model which questions notably the quality of the results they present.

Table 12 presents the regression results on the determinants of annual outward CBA from Russia with the RE regression model with target countries set as clusters. Panels 1 through 6 represent different specifications of the model. Panel 1 is equivalent to Panel 2 in Table 11 and is presented here for the comparison. Then I add gradually the independent variables, country risk and tax haven status, to study them separately and together. In general, all panels show similar results for the control variables. All control variables that are tested earlier with different models keep their sign and significance, except for the target country GDP variable which slightly falls from 10% significance level in Panels 2 and 5. This indicates that country risk variable captures some of the GDP variable's effects. I draw attention to this later when testing the results for robustness.

Panel 2 shows that the country risk variable acquirers a negative sign as hypothesized after adding it to the set of control variables which were used in prior studies as the explanatory variables (Kalotay and Sulstarova; 2010). Moreover, the coefficient is significant with 5% significance level and its magnitude is notable – according to the model, a 1% increase in the country risk level leads to a 24% decrease in the volume of CBA to that country. Next, in panel 3 the tax haven dummy is added to the set of control variables. As hypothesized, the sign of the coefficient is positive which suggests that the tax haven status does attract Russian CBA. Also, the magnitude of the coefficient is material. According to the model, the tax haven status increases the volume by 15.3%. However, the coefficient is not significant which does not allow for making a holding argument. Panel 4 shows the results of the regression where both independent variables are included. Both coefficients keep the magnitude but their significance decreases slightly. Now also the country risk coefficient misses the significance level. The possible explanation could be that countries with low country risk tend not to be OFC, and vice versa. There might be also other explanations. The country risk

Table 12: Country risk and tax haven status as the determinants of the outward cross-border acquisitions from Russia

This table presents the regression results on the determinants of the annual outward cross-border acquisitions from Russia with the Random Effects regression model with the target countries set as clusters. Panels 1 through 6 represent different specifications of the regression model. The dependent variable is the number of the acquisitions in the target country in one year. All variables, both dependent and independent except for the dummies, are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of z statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
LN_CR		-0.241		-0.210	-0.227	-0.264
		(2.15) **		(1.52)	(1.76) *	(2.62) ***
TAXHVN			0.153	0.120	0.125	
			(1.63)	(1.15)	(1.20)	
LN_GDP_RUS	0.450	0.472	0.446	0.466	0.473	0.481
	(7.01) ***	(7.21) ***	(7.07) ***	(7.23) ***	(7.33) ***	(7.29) ***
LN_GDP_TRGT	0.047	0.043	0.053	0.048	0.045	0.040
	(1.69) *	(1.61)	(2.03) **	(1.92) *	(1.82) *	(1.47)
LN_INFL	0.001	0.001	0.003	0.002	-0.001	-0.002
	(0.10)	(0.06)	(0.16)	(0.11)	(0.04)	(0.13)
LN_EXCH	0.038	0.045	0.045	0.050	0.047	0.042
	(1.98) **	(2.31) **	(2.35) **	(2.59) **	(2.43) **	(2.10) **
LN_PATENTS	0.009	0.009	0.010	0.010	0.011	0.011
	(0.87)	(0.97)	(0.98)	(1.05)	(1.24)	(1.19)
LN_ORE_EXP	0.047	0.050	0.052	0.054	0.055	0.051
	(1.93) *	(2.06) **	(2.04) **	(2.11) **	(2.14) **	(2.08) **
LN_SERV	0.139	0.075	0.111	0.060		
	(1.45)	(0.75)	(1.13)	(0.61)		
LN_FDI	0.008	0.009	0.007	0.008	0.009	0.010
	(0.33)	(0.41)	(0.30)	(0.38)	(0.42)	(0.47)
LN_DIST	-0.167	-0.166	-0.166	-0.165	-0.166	-0.167
	(3.24) ***	(3.17) ***	(3.15) ***	(3.10) ***	(3.08) ***	(3.15) ***
CIS	0.356	0.399	0.383	0.414	0.407	0.388
	(2.23) **	(2.53) **	(2.46) **	(2.68) ***	(2.64) ***	(2.47) **
EU	0.020	-0.004	0.035	0.011	0.011	-0.004
	(0.17)	(0.04)	(0.30)	(0.09)	(0.09)	(0.04)
WTO	0.013	0.006	-0.001	-0.004	-0.001	0.009
	(0.18)	(0.08)	(0.01)	(0.06)	(0.02)	(0.13)
Constant	-2.662	-2.274	-2.599	-2.272	-2.041	-1.987
	(3.71) ***	(3.04) ***	(3.66) ***	(3.03) ***	(3.35) ***	(3.40) ***
R^2	0.254	0.258	0.261	0.263	0.259	0.253
Observations	1245	1245	1245	1245	1245	1245

measure holds tax parameter inside and thus these two variables are partially measuring the same characteristics of a country and might not belong simultaneously in the model.

In the chapter devoted to the data description, I mention that the high correlation between the country risk variable and the variable measuring the share of the services in GDP must be investigated and taken into account in the analysis. Panels 5 and 6 present the regression results where the latter variable is omitted, after which the country risk coefficient regains its significance compared to Panel 4. What is especially interesting is that it also gains magnitude. According to the model in Panel 6, a 1% increase in the country risk level leads to a 26.4% decrease in the volume of Russian CBA. Also, the coefficient is significant with the strictest significance level. These results strongly argue in the favor of the Hypothesis 1.

Further, I continue my analysis with an investigation how the effect of the independent variables has changed over time. The period under study, 15 years, is a relatively long one in the sense that Russia is a young country and has experienced many changes during these years. This fact drives me to investigate more thoroughly the effect of the target country risk and the tax haven status of the target country and it change over the sample period. For this purpose, I divide the sample period into two non-equal time periods, 1998-2008 and 2009-2012. The reason for such division is the following. President Putin was a natural continuum to Boris Yeltsin's presidency when he came to power in 2000. Even though Putin started major reforms, the change came with a slow pace and no major and sudden changes in the political climate of the country were seen. During the presidency of Putin (2000-2008) his support rose steadily but to the end of his second term it was unclear what will happen after it as according to the Russian constitution only two presidential terms were allowed. Putin announced that he intended to stay in the charge of his party and aimed for the cabinet of the Premier Minister after his second presidential term in order to sustain political stability in the country. This was initially well received by the public and business community. However, during his second premiership (2008-2012) it became clear that Mr. Putin wants to hold the power over the country in his hands which lead to a wide criticism and the political instability began to rise. Moreover, the global financial crisis hit Russia hard in 2009 which worsened the situation even more. These are the main reasons why somewhere between 2008 and 2009 the general atmosphere towards political regime in the country changed dramatically. Thus, I divide the sample period into the two before mentioned sub-periods, which I believe is the most interesting division of the sample period. Also another division of the sample period was

tested. Dividing the sample period into three periods of five years each showed similar results, but in my opinion such division does not reflect any real changes in the country.

The analysis of the sub-periods is done with the help of interaction variables, which are computed for the two independent variables. The interaction variables are constructed for the earlier sub-period, 1998-2008. Alternative option of running separate regressions for each of the sub-periods was also tested, which yielded similar results but the results of the regression with the latter period were not statistically significant due to the small sample size.

Table 13 presents the results of the regression set with the interaction variables set to investigate the effect of the independent variables in the two sub-periods. For the control variables, the results are similar to the results of the analysis of the whole sample period presented earlier with the exception of the share of ore exports in the target's total exports. The magnitude and the sign of the coefficient are unchanged but the coefficient loses its significance, while the variable measuring the size of the target economy gains significance. This indicates that the effects of different target country characteristics are interlinked. The results presented in Table 13 suggest that the effect of the country risk has changed over time. According to the model in Panel 1, a 1% increase in the country risk level leads to a 0.48% decrease in the annual volume between 2009 and 2012 when the effect is only 0.17% for the earlier period. In Panel 5 where the share of the services in GDP is omitted due to high correlation, the magnitude of the results is even larger. Moreover, the coefficients are significant in both models. On the other hand, the coefficient of the tax haven status does not appear significant in either of the sub-periods. However, it seems that between 1998 and 2008 the tax haven status played a smaller role in attracting Russian CBA. According to the model, the tax haven status of the target country increases volume by 21.4% between 2009 and 2012 but only by 12.4% during the period of 1998-2008. Again, including both independent variables into the model reduces the magnitude and significance of both variables. This issue is already discussed earlier in this section.

It appears that the effect of both the country risk and the tax haven status of the target country has changed over time. It would be naïve to say that the change was sudden or the political atmosphere in Russia was totally different in 2009 than in 2008 and that it would have changed the behavior of Russian companies suddenly. Even though the political atmosphere changed somewhere around that time, this kind of change is seldom sudden. What one can say is that both the country risk and the tax haven status of the target country seem to have played a larger role in CBA of Russian companies in recent years compared to earlier times.

Table 13: Change over time of the effect of country risk and tax haven status as the determinants of the outward cross-border acquisitions from Russia

This table presents the regression results on the determinants of the annual outward cross-border acquisitions from Russia with the Random Effects regression model with the target countries set as clusters. Panels 1 through 5 represent different specifications of the regression model. The dependent variable is the number of acquisitions in the target country in one year. Two interaction variables (LN_CR*DV98-08, TAXHVN*DV98-08) are built to investigate how the country risk and the tax haven status affect the annual volume in two periods, 1998-2008 and 2009-2012. All variables, both dependent and independent except for the dummies, are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of z statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	(1)	(2)	(3)	(4)	(5)
LN_CR	-0.483		-0.423	-0.448	-0.515
	(2.36) **		(1.70) *	(1.87) *	(2.67) ***
*LN_CR*DV98-08*	0.313		0.275	0.273	0.312
	(1.99) **		(1.46)	(1.47)	(2.01) **
TAXHVN		0.214	0.136	0.145	
		(1.16)	(0.65)	(0.69)	
*TAXHVN*DV98-08*		-0.090	-0.040	-0.040	
		(0.64)	(0.25)	(0.26)	
DV98-08	-0.259	0.150	-0.205	-0.205	-0.261
	(1.32)	(3.97) ***	(0.85)	(0.86)	(1.35)
LN_GDP_RUS	0.577	0.568	0.573	0.580	0.586
	(8.24) ***	(8.17) ***	(8.21) ***	(8.31) ***	(8.35) ***
LN_GDP_TRGT	0.049	0.055	0.053	0.050	0.045
	(1.84) *	(2.13) **	(2.10) **	(1.99) **	(1.67) *
LN_INFL	-0.007	-0.007	-0.006	-0.010	-0.011
	(-0.45)	(0.46)	(0.41)	(0.61)	(0.69)
LN_EXCH	0.051	0.048	0.055	0.051	0.046
	(2.58)	(2.53) **	(2.81) ***	(2.57) **	(2.29) **
LN_PATENTS	0.008	0.010	0.009	0.011	0.010
	(0.79)	(0.91)	(0.86)	(1.08)	(1.05)
LN_ORE_EXP	0.037	0.046	0.040	0.042	0.038
	(1.49)	(1.87) *	(1.55)	(1.60)	(1.53)
LN_SERV	0.102	0.124	0.089		
	(1.03)	(1.24)	(0.88)		
LN_FDI	0.003	-0.007	0.001	0.002	0.004
	(0.13)	(0.32)	(0.05)	(0.11)	(0.21)
LN_DIST	-0.169	-0.168	-0.168	-0.170	-0.170
	(3.21) ***	(3.19) ***	(3.12) ***	(3.09) ***	(3.18) ***
CIS	0.423	0.397	0.437	0.428	0.411
	(2.71) ***	(2.53) ***	(2.84) ***	(2.78) ***	(2.63) ***
EU	-0.018	0.029	-0.003	-0.002	-0.019
	(0.16)	(0.24)	(0.02)	(0.02)	(0.16)
WTO	0.021	0.002	0.012	0.017	0.026
	(0.28)	(0.03)	(0.16)	(0.21)	(0.35)
Constant	-2.928	3.617	-2.978	-2.623	-2.515
	(3.71) ***	(4.84) ***	(3.65) ***	(3.90) ***	(4.08) ***
R^2	0.266	0.268	0.270	0.264	0.259
Observations	1245	1245	1245	1245	1245

Table 14: Components of country risk as the determinants of the outward cross-border acquisitions from Russia

This table presents the regression results on the determinants of the annual outward cross-border acquisitions from Russia with the Random Effects regression model with target country clusters. Panels 1 through 6 represent different specifications of the regression model. The dependent variable is the number of acquisitions in the target country in one year. All variables, both dependent and independent except for the dummies, are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of z statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
LN_PR	-0.102					
	(0.75)					
LN_ER		-0.173				
		(1.55)				
LN_LR			-0.280			
			(2.66) ***			
LN_TR				-0.253		
				(2.10) **		
LN_OR					-0.293	
					(3.09) ***	
LN_SR						-0.095
						(0.84)
LN_GDP_RUS	0.464	0.467	0.469	0.458	0.469	0.464
	(7.13) ***	(7.23) ***	(7.22) ***	(7.09) ***	(7.26) ***	(7.01) ***
LN_GDP_TRGT	0.045	0.042	0.044	0.045	0.047	0.046
	(1.65) *	(1.57)	(1.68) *	(1.71) *	(1.76) *	(1.66) *
LN_INFL	0.001	0.000	0.002	0.003	0.002	0.001
	(0.08)	(0.01)	(0.13)	(0.17)	(0.14)	(0.09)
LN_EXCH	0.041	0.044	0.049	0.047	0.049	0.039
	(2.08) **	(2.24) **	(2.46) **	(2.36) **	(2.59) **	(2.02) **
LN_PATENTS	0.009	0.010	0.007	0.009	0.007	0.009
	(0.97)	(1.04)	(0.80)	(0.90)	(0.79)	(0.90)
LN_ORE_EXP	0.049	0.049	0.051	0.050	0.053	0.048
	(1.99) **	(2.03) **	(2.07) **	(2.06) **	(2.16) **	(1.94) *
LN_SERV	0.108	0.099	0.038	0.074	0.051	0.119
	(1.06)	(1.02)	(0.37)	(0.74)	(0.52)	(1.23)
LN_FDI	0.008	0.008	0.011	0.010	0.011	0.007
	(0.37)	(0.36)	(0.51)	(0.43)	(0.51)	(0.32)
LN_DIST	-0.166	-0.162	-0.174	-0.170	-0.169	-0.166
	(3.21) ***	(3.10) ***	(3.27) ***	(3.18) ***	(3.23) ***	(3.20) ***
CIS	0.372	0.392	0.413	0.396	0.414	0.370
	(2.34) **	(2.47) **	(2.66) ***	(2.50) **	(2.62) ***	(2.31) **
EU	0.008	0.008	-0.014	0.003	-0.004	0.006
	(0.07)	(0.07)	(0.11)	(0.02)	(0.03)	(0.05)
WTO	0.007	0.011	0.003	0.004	0.005	0.010
	(0.09)	(0.16)	(0.04)	(0.06)	(0.07)	(0.14)
Constant	-2.516	-2.447	-2.016	-2.149	-2.088	-2.575
	(3.32) ***	(3.31) ***	(2.66) ***	(2.73) ***	(2.81) ***	(3.54) ***
R^2	0.255	0.257	0.261	0.265	0.262	0.251
Observations	1245	1245	1245	1245	1245	1245

In Chapter 5, I discuss the composition of the country risk ratings provided by IHS Global Insight. The country risk rating is composed of six individual risk ratings. Now, to study more thoroughly the effect of the target country risk on Russian CBA, I investigate separately the effects of each component of the country risk rating. Table 14 presents the results of the regressions with the components of the country risk rating. Panels 1 through 6 show the results of the regression models with one risk measure each. All of the risk variables gain negative sign similarly to the overall country risk variable. The effect of the operational risk and the legal risk on the volume is statistically significant with the 1% confidence level. Also, the tax risk of the target country has a significant effect on the volume of Russian CBA.

The results suggest that companies assess the different components of the country risk of the target country separately and that some of the risks are more important than others. According to the analysis, legal risk, tax risk and operational risk of the target country are more important for Russian companies than political, economic and security risks. For example, a 1% increase in the operational risk of the target country leads to a 0.29% decrease in Russian CBA volume, whereas the security risk leads only to a 0.1% decrease. Bottom line is, however, that the level of risk in the target country seems to have a negative effect on the volume of Russian CBA. Moreover, it seems that the target country risk level has become more important for Russian companies in recent years.

6.2 Robustness check of the determinants of the annual CBA volume

In the previous section, I discuss the choice of the regression model for the main analysis. According to the Hausman test, the Country Fixed Effects (FE) regression model is more suitable for the analysis. Despite the results of the Hausman test, I choose to use the Random Effects (RE) model for my main analysis as I consider the time-invariant variables being important for the analysis. In this section, I present results of the robustness check of the results presented earlier. I test the results with the FE regression model which does not require strong assumption as the RE regression model. However, the time-invariant variables are cancelled out by the FE regression model and thus cannot be tested here.

Table 15 present the regression results with the FE model. Panels 1 through 5 represent different specifications of the regression model. Panel 1 is equivalent to Panel 3 in Table 11 and is presented here for a comparison. Regarding the control variables, the results are similar with all specifications. Also, the results are similar to the results of the main analysis with the

Table 15: Robustness check of country risk as a determinant of the outward cross-border acquisitions from Russia with the Country Fixed Effects regression model

This table presents the regression results on determinants of the annual outward cross-border acquisitions from Russia with the Country Fixed Effects regression model. Panels 1 through 5 represent different specifications of the regression model. The dependent variable is a number of the acquisitions in the target country in one year. Two interaction variables (LN_CR*DV98-08, TAXHVN*DV98-08) are built to investigate how the country risk and the tax haven status affect the annual volume in two periods, 1998-2008 and 2009-2012. All variables, both dependent and independent, are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of t statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	(1)	(2)	(3)	(4)	(5)
LN_CR		-0.328	-0.330	-0.409	-0.415
		(2.26) **	(2.28) **	(2.06) **	(2.10) **
*LN_CR*DV98-08*				0.152	0.156
				(1.11)	(1.14)
DV98-08				-0.097	-0.101
				(0.58)	(0.60)
LN_GDP_RUS	0.906	0.967	0.965	0.960	0.957
	(9.66) ***	(9.93) ***	(9.91) ***	(9.31) ***	(9.30) ***
LN_GDP_TRGT	-0.479	-0.534	-0.544	-0.427	-0.435
	(4.55) ***	(4.95) ***	(5.07) ***	(3.61) ***	(3.68) ***
LN_INFL	-0.011	-0.012	-0.009	-0.020	-0.017
	(0.59)	(0.68)	(0.49)	(1.07)	(0.93)
LN_EXCH	0.192	0.194	0.197	0.207	0.209
	(2.90) ***	(2.94) ***	(2.98) ***	(3.11) ***	(3.16) ***
LN_PATENTS	0.007	0.011	0.012	0.012	0.012
	(0.67)	(1.04)	(1.10)	(1.08)	(1.13)
LN_ORE_EXP	0.041	0.040	0.040	0.033	0.033
	(1.74) *	(1.70) *	(1.68) *	(1.38)	(1.35)
LN_SERV	-0.133	-0.124		-0.109	
	(0.86)	(0.80)		(0.71)	
LN_FDI	0.026	0.029	0.029	0.019	0.019
	(1.35)	(1.52)	(1.50)	(0.96)	(0.94)
LN_DIST	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)
CIS	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)
EU	-0.019	-0.039	-0.034	-0.045	-0.042
	(0.26)	(0.53)	(0.48)	(0.63)	(0.58)
WTO	0.061	0.055	0.051	0.054	0.051
	(0.78)	(0.70)	(0.66)	(0.69)	(0.65)
Constant	-3.826	-3.666	-4.113	-4.131	-4.523
	(5.93) ***	(5.66) ***	(-12.41) ***	(5.67) ***	(9.60) ***
R^2	0.012	0.012	0.012	0.009	0.009
Observations	1245	1245	1245	1245	1245

RE regression model with one exception. In all of the specifications of the FE model, the target country GDP variable acquires a negative sign. I discuss this issue in the previous section. Adding additional country characteristics into the model does not have an impact on the sign of the coefficient but slightly reduces its magnitude. Of course, it might be that the target GDP variable still captures effects of some other unseen country characteristics. But the more likely explanation is that in this data set for many countries with large amount of observation, such as Ukraine, Germany, Cyprus, the US and the UK, there is a negative correlation of GDP and the volume of acquisitions within the country over time. And due to the nature of the FE regression model which seeks for changes within an entity (here country) over time, it yields here a negative relation between the annual volume and the target country GDP. Thus, here the FE model does not tell the whole truth. In fact, in the case of the target country GDP, the RE regression model, which compares between entities, should better answer the question regarding the effect of target country GDP on the Russian outward CBA.

Panels 2 and 3 show the results of the FE regressions with the country risk variable added to the set of control variables. In latter, the share of the services in GDP of the target country is omitted because of the strong correlation with the country risk variable. In both specifications of the model, the country risk variable is significant with a 5% significance level. Omitting *LN_SERV* increases the magnitude of the coefficient only a little. According to the model, a 1% increase in the level of the target country risk leads to a 0.33% decrease in the annual volume of Russian CBA to that country. These results strongly suggest that the country risk of the target country discourages Russian CBA. Interestingly, the magnitude of this effect is stronger with the FE regression model. This can be interpreted as follows. The volume has increased in countries, where the country risk level has decreased, and decreased in those countries, where the country risk level has increased. Hence, both results with the RE and FE regression models support the Hypothesis 1.

Next, I test also the results concerning the change of the target country risk effect over time. Panels 4 and 5 present the results. Like in the main analysis, the effect of the target country risk seems to be stronger during the latter sub-period of 2009-2012. According to the model, during 2009-2012 a 1% increase in the target country risk level leads to a 0.41% decrease in the annual volume, whereas during 1998-2008 the effect is only 0.24%. The effect is significant with a 5% significance level for the latter sub-period. These results are similar to those of the main analysis but the country risk coefficients are of smaller magnitude and less significant.

Table 16: Robustness check of the components of country risk as determinants of the outward CBA from Russia with the Country Fixed Effects regression model

This table presents the regression results on determinants of the annual outward cross-border acquisitions from Russia with the Country Fixed Effects regression model. Panels 1 through 6 represent different specifications of the regression model. The dependent variable is a number of the acquisitions in the target country in one year. All variables, both dependent and independent, are in natural logarithms. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. An increase in an underlying variable by 1% will lead to an increase in volume by 1% times the coefficient. Figures in parentheses below the coefficients are the absolute values of t statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	(1)	(2)	(3)	(4)	(5)	(6)
LN_PR	-0.164					
	(1.37)					
LN_ER		-0.218				
		(1.91) *				
LN_LR			-0.325			
			(2.39) **			
LN_TR				-0.168		
				(1.14)		
LN_OR					-0.362	
					(2.65) ***	
LN_SR						-0.291
						(2.61) ***
LN_GDP_RUS	0.951	0.949	0.942	0.920	0.962	0.998
	(9.58) ***	(9.86) ***	(9.94) ***	(9.73) ***	(10.03) ***	(9.99) ***
LN_GDP_TRGT	-0.515	-0.520	-0.516	-0.495	-0.532	-0.550
	(4.75) ***	(4.84) ***	(4.86) ***	(4.66) ***	(-4.97) ***	(5.07) ***
LN_INFL	-0.011	-0.013	-0.011	-0.010	-0.010	-0.012
	(0.62)	(0.74)	(0.58)	(0.55)	(0.56)	(0.63)
LN_EXCH	0.194	0.198	0.189	0.191	0.195	0.179
	(2.94) ***	(3.00) ***	(2.87) ***	(2.88) ***	(2.95) ***	(2.69) ***
LN_PATENTS	0.009	0.011	0.010	0.009	0.010	0.010
	(0.86)	(1.00)	(0.96)	(0.83)	(0.91)	(0.96)
LN_ORE_EXP	0.041	0.041	0.039	0.040	0.040	0.042
	(1.73) *	(1.72) *	(1.66) *	(1.70) *	(1.68) *	(1.77) *
LN_SERV	-0.136	-0.115	-0.116	-0.125	-0.128	-0.129
	(0.88)	(0.74)	(0.75)	(0.81)	(0.83)	(0.84)
LN_FDI	0.027	0.027	0.030	0.028	0.031	0.028
	1.410	(1.44)	(1.59)	(1.44)	(1.64)	(1.50)
LN_DIST	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)
CIS	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)	(omitted)
EU	-0.031	-0.022	-0.039	-0.029	-0.036	-0.049
	(0.43)	(0.31)	(0.53)	(0.40)	(0.50)	(0.67)
WTO	0.055	0.062	0.058	0.056	0.057	0.048
	(0.70)	(0.79)	(0.74)	(0.71)	(0.72)	(0.61)
Constant	-3.776	-3.775	-3.623	-3.693	-3.581	-3.821
	(5.85) ***	(5.86) ***	(5.58) ***	(5.64) ***	(5.51) ***	(5.94) ***
R^2	0.012	0.012	0.012	0.012	0.012	0.013
Observations	1245	1245	1245	1245	1245	1245

Nevertheless, these results, which are robust to the assumption of no correlation of the error term and the regressors, support Hypothesis 1. The results suggest that the country risk of the target country have played larger role in the CBA by Russian companies in recent years compared to earlier times.

Table 16 presents the results of the Country Fixed Effects (FE) regression model with the components of the country risk rating. Results for the control variables follow the results presented earlier. As in the main analysis, all risk variables acquire negative sign, but the magnitude of coefficient is larger than in the main analysis for all risk variables except for the tax risk variable. The tax risk variable also loses its significance with the FE model. On the other hand, the economic risk and the security risk coefficients gain significance; *LN_SR* is significant with a 1% significance level. Operational risk is highly significant and has the largest coefficient in both the RE (Table 14) and the FE models which suggest that it is the most important component of country risk for Russian companies. What is interesting here is that the political risk is not significant in neither of the models. It appears that Russian companies are more concerned of other risks than the political risk of the target country.

To conclude, both the results of the main analysis and the robustness check with the alternative model (FE) show evidence in support of Hypothesis 1. These results argue that the level of risk in the target country seems to have a negative effect on the volume of Russian CBA. Moreover, it seems that the target country risk level has become more important for Russian companies in recent years.

6.3 Acquirer returns in Russia outward cross-border acquisitions

In this section, I present the results of the analysis of the acquirer returns in Russian CBA. Table 17 presents results of the standard OLS regression model with Cumulative Abnormal Return (CAR) as dependent variable and the set of controlling deal variables as the regressors. Results for different event windows, (-5,+5), (-3,+3), (-1,+1) and (0), are presented in Panels 1 through 4. All regression presented in Table 17 include both country and year dummies. Including both sets of dummies improves the robustness of the results as dummies control for country and year effects. However, year and country dummies might also capture some of the deal effects due to the small sample size reducing significance of the deal related variables. As a test, same regressions were run also completely without year and country dummies or

with only one of these two. These regressions yielded same results. However, I will return to this question a little later.

As discussed in Chapter 5, according to the analysis of CAR, outward CBA from Russia do not on average seem to neither create nor destroy significantly shareholder value. Moreover, in the data set used in this study only CAR (0) is significantly different form zero with a 5% significance level. Even then, the magnitude of the value creation is low, only 0.5% on average. These findings follow those of Chernykh et al. (2011) who find that EMNE create value for their shareholders only when acquiring companies from the developed countries. Sample used in this study contains acquisitions from both developed and emerging countries as presented in Table 7 and averages returns among them. Thus, the results come to no surprise.

In Table 17, the attention is drawn to the small number of statistically significant coefficients in all panels. The small magnitude of CAR for all event windows together with the stump samples size of 115 observations are held responsible for the slim results. Most of the variables included into the model do not provide with any conclusive results as the sign of the coefficients varies across the event windows and the coefficients are not statistically significant. Nevertheless, I want to highlight some of the findings. As expected, the serial number of the CBA acquires a negative sign. With the CAR (-1,+1) the results are significant at 5% significance level. The declining CAR in serial acquisitions is also found by prior research (Aktas et al., 2009). Surprisingly, the first deal dummy does not get a positive sign in any of the event windows as expected but the coefficients are not significant. Also, the total number of bidders has a negative effect on the acquirer CAR in Panels 1 through 3. The number of bidders increases the competition over the target, which leads to higher bids and wealth transfer from the acquirer's to the target's shareholders.

Another expected result is the negative relation of the acquirer government involvement and CAR. Moreover, for CAR (-1,+1) the coefficient is significant. It seems that the shareholders do not appreciate the government involvement on the buyer side. It could be that government involvement in the deal is seen to indicate that the acquirer is tied to government's goals, which is not always for the best of shareholders. The target government involvement dummy, on the other hand, gets a negative sign for CAR (0) and a positive sign for all event windows. For CAR (-5,+5), the coefficient is significant at a 5% significance level. An interpretation of this could be that government involvement on the seller side is seen as insurance in cross-border deals and is appreciated by the shareholders of the buyer.

Table 17: Short-term acquirer returns in Russian cross-border acquisitions with control variables

This table presents the regression results on the short-term acquirer returns in the cross-border acquisitions by Russian companies with the standard OLS regression model. The dependent variable is Cumulative Abnormal Return (CAR) for four different event windows [event day (0); -1,+1 day; -3,+3 days; -5,+5 days]. Positive coefficients imply a positive relationship a between dependent and an independent variable, a negative coefficients imply negative relationship. An increase in an underlying variable by 1% will lead to an increase in CAR by 1% times the coefficient. Figures in parentheses below the coefficients are the t-statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

	(1)	(2)	(3)	(4)
Variable	CAR (0)	CAR (-1,+1)	CAR (-3,+3)	CAR (-5,+5)
CASH_D	-0.007	0.002	-0.008	-0.053
	(0.48)	(0.07)	(0.32)	(1.14)
PRIVATE_TRG_D	-0.007	-0.019	0.002	-0.005
	(0.62)	(0.82)	(0.09)	(0.13)
ACQ_GOV_D	-0.007	-0.049	-0.029	-0.046
	(0.45)	(1.70) *	(1.12)	(0.94)
TRG_GOV_D	-0.016	0.054	0.040	0.144
	(0.79)	(1.34)	(1.10)	(2.10) **
TOEHOLD	0.000	0.000	0.000	-0.001
	(0.13)	(0.03)	(0.28)	(0.51)
ACQ_D/E	0.003	0.022	-0.009	0.015
	(0.43)	(1.65)	(0.76)	(0.64)
LN_ACQ_MKTCAP	-0.014	-0.046	-0.038	-0.028
	(2.43) **	(3.98) ***	(3.61) ***	(1.43)
LN_ACQ_BV	0.025	0.067	0.045	0.065
	(1.72) *	(2.33) **	(1.75) *	(1.34)
ACQ_MKT/BV	0.004	0.009	0.009	0.007
	(1.52)	(1.98) *	(2.06) **	(0.85)
LN_ACQ_ASSETS	-0.001	-0.003	0.002	-0.024
	(0.11)	(0.15)	(0.12)	(0.63)
LN_SERIALNUM	-0.012	-0.063	-0.017	-0.052
	(0.86)	(2.21) **	(0.65)	(1.07)
FIRSTTIME_D	-0.007	-0.072	-0.021	-0.032
	(0.30)	(1.65)	(0.53)	(0.44)
LN_BIDDERS	-0.015	-0.019	-0.001	0.130
	(0.21)	(0.13)	(0.01)	(0.53)
SUBSIDIARY_D	-0.013	-0.020	0.009	0.026
	(0.75)	(0.57)	(0.28)	(0.43)
Constant	-0.037	-0.103	-0.064	-0.302
	(0.36)	(0.51)	(0.35)	(0.87)
Year dummies	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES
Adj. R^2	-0.328	-0.141	0.135	-0.422
Observations	115	115	115	115

According to the model, the market capitalization of the acquirer has a negative effect on CAR in three of the event windows. On the other hand, the book value of the acquirer has a positive effect on CAR within the sample. Findings are significant for both variables with three of four event windows. However, the magnitude of the coefficients is small. What is puzzling here is that the market-to-book ratio yields a positive and significant relation with CAR in Panels 2 and 3. It is somewhat difficult to come up with a logical explanation here, since in the light of the results regarding the market capitalization and the book value the relation should be the opposite. It could be that the results are driven by individual observations due to the small sample size.

Next, I add the target country risk variable and the tax haven status dummy into the model. Table 18 presents the results. I test two specifications for each event window, with and without the year dummies. Even though the results should be more robust with the year dummies, they might be not relevant in this case as most of the observation are scattered within a relatively short period of time, between 2006 and 2012. Also, because of the small sample size, the year dummies might capture some of the deal effects. Results presented in Table 18 follow those presented in Table 17. No major changes occur in the control variables after including the two independent variables. Also, omitting the year dummies does not affect results for control variables. In all but one specification, the country risk variable gets a positive sign. That is, the higher the target country risk is the higher is the CAR. This relation does not support Hypothesis 3 but does not provide a conclusive proof of the opposite since none of the coefficients is significant on any significance level. The tax haven dummy, on the other hand, acquires a negative sign when the year dummies are left out and a positive sign when they are included into the model which does not support Hypothesis 4. However, we can conclude here that the year dummies do belong to the model, since leaving them out changes the sign of the tax haven variable.

Table 18: The effect of target country risk and tax haven status on short-term acquirer returns in Russian cross-border acquisitions,

This table presents the regression results on the short-term acquirer returns in the cross-border acquisitions by Russian companies with the standard OLS regression model. The dependent variable is Cumulative Abnormal Return (CAR) for four different event windows [event day (0); -1,+1 day; -3,+3 days; -5,+5 days]. Positive coefficients imply a positive relationship between a dependent and an independent variable; negative coefficients imply a negative relationship. Increase in underlying variable by 1% will lead to an increase in CAR by 1% times the coefficient. Figures in parentheses below the coefficients are the t-statistics and ***, **, * denote statistical significance at 1%, 5% and 10% levels respectively.

Variable	CAR (0)		CAR (-1,+1)		CAR (-3,+3)		CAR (-5,+5)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
LN_CR	0.000	0.058	-0.012	0.155	0.056	0.034	0.079	0.065
	(0.00)	(0.71)	(0.14)	(0.95)	(0.71)	(0.23)	(0.57)	(0.23)
TAXHVN	-0.049	0.082	-0.045	0.237	-0.097	0.051	-0.066	0.183
	(0.68)	(0.57)	(0.31)	(0.83)	(0.73)	(0.19)	(0.29)	(0.37)
CASH_D	-0.002	-0.009	0.005	-0.005	-0.017	-0.009	-0.059	-0.056
	(0.17)	(0.66)	(0.19)	(0.19)	(0.71)	(0.36)	(1.41)	(1.15)
PRIVATE_TRG_D	-0.001	-0.010	-0.008	-0.025	0.005	0.001	-0.010	-0.008
	(0.11)	(0.79)	(0.35)	(1.04)	(0.28)	(0.03)	(0.29)	(0.19)
ACQ_GOV_D	-0.010	-0.009	-0.055	-0.057	-0.038	-0.031	-0.047	-0.049
	(0.78)	(0.62)	(2.07) **	(1.89) *	(1.61)	(1.13)	(1.13)	(0.96)
TRG_GOV_D	-0.013	-0.015	0.026	0.056	0.028	0.041	0.126	0.145
	(0.79)	(0.75)	(0.78)	(1.38)	(0.95)	(1.09)	(2.43) **	(2.09) **
TOEHOLD	0.000	0.000	0.000	0.000	-0.001	0.000	-0.001	-0.001
	(0.20)	(0.01)	(0.43)	(0.14)	(0.86)	(0.32)	(0.56)	(0.54)
ACQ_D/E	0.006	0.002	0.029	0.020	-0.004	-0.010	0.014	0.014
	(0.94)	(0.29)	(2.25) **	(1.44)	(0.31)	(0.78)	(0.68)	(0.58)
LN_ACQ_MKTCAP	-0.012	-0.014	-0.040	-0.047	-0.036	-0.038	-0.028	-0.029
	(2.28) **	(2.46) **	(3.73) ***	(4.04) ***	(3.73) ***	(3.58) ***	(1.68) *	(1.42)
LN_ACQ_BV	0.024	0.024	0.072	0.066	0.056	0.045	0.065	0.065
	(2.05) **	(1.70) *	(3.05) ***	(2.31) **	(2.65) **	(1.72) **	(1.75) *	(1.32)
ACQ_MKT/BV	0.003	0.003	0.008	0.009	0.009	0.009	0.006	0.007
	(1.57)	(1.47)	(2.37) **	(1.92) *	(2.93) ***	(2.02) *	(1.18)	(0.83)
LN_ACQ_ASSETS	-0.003	0.000	-0.014	0.001	-0.003	0.003	-0.020	-0.023
	(0.28)	(0.03)	(0.75)	(0.04)	(0.19)	(0.16)	(0.67)	(0.57)
LN_SERIALNUM	-0.010	-0.013	-0.059	-0.065	-0.022	-0.017	-0.055	-0.053
	(0.76)	(0.92)	(2.24) **	(2.28) **	(0.94)	(0.66)	(1.32)	(1.08)
FIRSTTIME_D	-0.004	-0.009	-0.054	-0.078	-0.024	-0.022	-0.046	-0.035
	(0.22)	(0.40)	(1.33)	(1.77) *	(0.67)	(0.55)	(0.74)	(0.46)
LN_BIDDERS	-0.028	-0.016	0.021	-0.021	0.007	-0.002	0.075	0.129
	(0.49)	(0.22)	(0.17)	(0.15)	(0.07)	(0.01)	(0.40)	(0.52)
SUBSIDIARY_D	-0.013	-0.013	-0.006	-0.019	0.014	0.009	0.020	0.027
	(0.77)	(0.73)	(0.18)	(0.54)	(0.46)	(0.28)	(0.38)	(0.43)
Constant	0.019	-0.235	0.030	-0.569	-0.118	-0.147	-0.194	-0.423
	(0.20)	(0.69)	(0.16)	(0.84)	(0.68)	(0.24)	(0.64)	(0.36)
Year dummies	NO	YES	NO	YES	NO	YES	NO	YES
Country dummies	YES	YES	YES	YES	YES	YES	YES	YES
Adj. R^2	-0.285	-0.342	-0.165	-0.143	0.138	0.117	-0.225	-0.453
Observations	115	115	115	115	115	115	115	115

So far, there is no evidence found supporting Hypotheses 3 and 4 which might be attributable to the small sample size. I consider leaving the country dummies out from the model to test whether the independent variables would gain some significance since the country dummies might be capturing the effects of the country risk and the tax haven status. One can argue that if the country dummies are left out from the model, the target country risk variable and the tax haven dummy could capture most of the country effects and the magnitude of the coefficients as well as the significance could be exaggerated. Alternatively, I consider including some additional country variables and leave the country dummies out to test whether the country risk and the tax haven variables gain significance and magnitude. Accordingly, I run also abovementioned specifications of the model. The results, however, do not show support for Hypotheses 3 and 4. Neither of the independent variables gains significance or magnitude. Thus, I do not present the results of these regressions here.

To conclude, I perform an extensive investigation with the available data set in order to find supporting evidence for Hypotheses 3 and 4. I run various specifications of the regression model for different event windows. Nevertheless, I fail to find any supporting evidence for the Hypotheses. On the other hand, I do not find enough evidence to reject them either. I attribute this lack of findings to the small data set available for this analysis. Another possible explanation could be that the managers do try to maximize shareholders' value by decreasing the total risk of the company and the diversification is reasonably priced in the transaction. Therefore there is no negative association of the stock price reaction and the country risk and the tax haven status of the target country.

Nonetheless, the results show that the acquirer's market capitalization has a significant negative effect on the short-term CAR. Also, it seems that the acquirer government involvement in the deal has a negative effect whereas the target government involvement has a positive effect on CAR in Russian CBA. I suggest the following interpretation. The acquirer's home government involvement could be seen as an indication that the company follows government's objectives which might not be in the best interest of the shareholders. On the other hand, if the target's government participates in the transaction, shareholders might find that reassuring. These findings are unique in the existing literature and need to receive more attention in the future research.

7. Conclusions

According to 'springboard theory' (Luo and Tung, 2007), EMNE systematically and recursively use international expansion to acquire critical resources needed to compete more effectively against their global rivals at home and abroad. Furthermore, EMNE do this to reduce their vulnerability to institutional and market constraints at home. Bertoni et al. (2013) advocate for the need of the special international theory that specifically addresses emerging country companies. They argue that this theory is needed because most of the internationalization theory was developed from the point of view of companies from the developed economies. In this study I put the proposed need for a new internationalization theory to the test by investigating to what extent diversification of home country risk and tax reasons serve as motives for Russian outward CBA, and furthermore I investigate whether or not these target country characteristics have any value implications for these transactions. To my knowledge, this is the first study where country risk and the tax conditions of the target country are being tested as determinants for CBA by emerging market companies. Also, despite the recent studies on CBA by emerging market companies, it is still not fully clear how country risk and tax haven status of the target country affect the wealth creation in these transactions.

The approach of this study is two-fold. First, I study whether the level of country risk and tax haven status of the target country have an effect on the volume of Russian CBA. Second, I investigate how these target country characteristics affect the market reactions to these transactions. Thus, the analysis is positioned to provide deeper insight into the subject of CBA done by companies from emerging economies.

My findings suggest that target country risk has a significant negative effect on the volume of Russian outward CBA. These results remain after controlling for the other host and target country characteristics that prior studies found to be significant in determining Russian OFDI flow. Also, as hypothesized, I find that the tax haven status of the target country has a positive effect on the volume of Russian acquisition in a country. However, the results concerning tax haven status are not highly significant and do not allow for the creation of a well-supported argument.

Interestingly, my findings show that the effect of both the country risk and the tax haven status of the target country have changed over time. Both target country risk and tax haven status seem to have played a larger role in the CBA of Russian companies in recent years in

comparison to earlier times. These results are confirmed with different sub-periods. I believe that the main reason for this is the change in the political atmosphere in Russia. In my analysis I take the global financial crisis as the turning point of the political situation in the country, but it would be naïve to argue that the change in both the political situation and the behavior of companies happened suddenly. It is more likely that the change in the behavior of Russian companies was gradual, thus happening in a similar way as the gradual change in the political atmosphere in the country. Moreover, the results suggest that companies assess the different components of the country risk of the target country separately and that some of the risks are more important than others. According to the analysis, the legal risk, tax risk and especially operational risk of the target country are more important for Russian companies than political, economic and security risks. The bottom line is, however, that the level of risk in the target country seems to have a negative effect on the volume of Russian CBA.

Like Kalotay and Sulstarova (2010), I find that home country GDP representing the overall wealth in the economy, has a significant positive effect on the volume of Russian CBA. These results strongly suggest that the GDP of Russia, which has increased dramatically over the past two decades, has been one of the most significant drivers of Russian CBA. Based on these findings, I lean towards supporting the addition of an "H" leg to the OLI paradigm[3] in the case of emerging market companies. This is suggested by Kalotay and Sulstarova (2010). My findings also support the theory suggested by Luo & Tung (2007), who argue that emerging market companies expand to geographically or culturally close markets first. I find that both the physical proximity between Russia and the target country and CIS membership, which represent the cultural closeness, appear to have a significant positive effect on the volume of Russian CBA. It is, however, difficult to generalize these findings to all emerging economies, but interestingly Buckley et al. (2007) find that cultural proximity plays a significant role in Chinese OFDI. This also supports the theory suggested by Luo and Tung (2007).

Further, according to the analysis of CAR, outward CBA from Russia do not on average seem to neither create nor destroy significantly shareholder value. Moreover, in the data set used in this study only CAR (0) is significantly different form zero with a 5% significance level. Even then, the magnitude of the value creation is low, only 0.5% on average. These findings follow those of Chernykh et al. (2011) who find that EMNE create value for their shareholders only when acquiring companies from the developed countries. Sample used in this study contains

[3] Dunning (1988).

acquisitions from both developed and emerging countries and averages returns among them. Thus, the results come to no surprise.

Also, despite the extensive investigation that was done with the available data, I fail to find any conclusive results in regards to how target country risk and tax haven status impact the wealth creation of Russian outward CBA. I attribute this lack of findings to the small data set that was available for the analysis of cumulative abnormal returns. Another possible explanation could be that managers do try to maximize shareholders' value by decreasing the total risk of the company. Additionally, the diversification is reasonably priced in the transaction and therefore there is no negative association between the stock price reaction and the country risk and the tax haven status of the target country. Nevertheless, I find that government involvement in the deal on behalf of the acquirer has a negative effect, whereas government involvement on behalf of the target company has a positive effect on CAR in Russian CBA. I suggest the following interpretation. Government involvement on behalf of the company doing the acquisition could be seen as an indication that the company follows the government's objectives, and this might not be in the best interest of the shareholders. However, if the target company's government participates in the transaction, shareholders might find that reassuring.

Table 19 summarizes my results throughout the hypotheses. In light of both my findings and those of previous research (Buckley et al., 2007; Kalotay and Sulstarova, 2010), it is clear that there is a justification for a special international theory for emerging country companies. The findings of this study concerning both target country risk and the tax haven status of the target country are unique to both the M&A literature and the international business literature. This highlights the need for further research in the field. Further research should be focused on a more thorough investigation of the motives behind the international expansion of EMNE. Besides the motives, the value implications of cross-border transactions by emerging country companies are still largely unclear. It is evident that emerging countries possess very different and often unique characteristics, and thus the companies might have a different agenda depending on what country they come from. This makes it difficult to conduct research that can be generalized over all emerging countries. As a result, studying one country at a time on a case-by-case basis would be a suitable approach for further studies. This type of research would provide with country specific findings while still contributing to our general understanding of the phenomenon of growing CBA by emerging market companies.

Table 19: Summary of findings

This table lists the results regarding the hypotheses tested in this study. For each hypothesis the listing includes the expected sign for the independent variable that tests the hypothesis as well as the sign that the independent variable acquires in the analysis. The table also indicates whether the results are significant and whether they support the hypothesis.

Hypothesis	*Exp. sign*	*Acquired sign*	*Significant*	*Conclusion*
H1: The volume of Russian outward cross-border acquisitions is negatively associated with the country risk of the target country.	*neg*	*neg*	*yes*	*supported*
H2: The volume of Russian cross-border acquisitions is positively associated with the tax haven status of the target country.	*pos*	*pos*	*no*	*not supported*
H3: In Russian outward cross-border acquisitions, country risk of the target country is negatively associated with the announcement returns.	*neg*	*pos / neg*	*no*	*not supported*
H4: In Russian outward cross-border acquisitions, announcement returns will be on average lower when the target is from a country with a tax haven status.	*neg*	*pos / neg*	*no*	*not supported*

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