

IMPACT OF MERGERS AND ACQUISITIONS IN FINANCIAL SECTOR ON BIDDER'S RETURNS IN EMERGING CAPITAL MARKETS

Grigorieva Svetlana,

Associate Professor Faculty of Economics; HSE

Grinchenko A.,

*Graduate of the master's program «Strategic Corporate Finance»
Faculty of Economics HSE*

Abstract

The performance of M&A deals in financial sector is the actual topic in financial academic literature for many years. Most existing studies examine the performance of M&A deals in developed countries. We contribute to existing literature by examining the impact of mergers and acquisitions on bidder's value in emerging BRICS countries over 2000–2012. In contrast to existing studies we analyse the latest period and examine the impact of the economic crisis of 2008–2009 on the performance of M&A.

To examine the impact of M&A on firm value we use a two-step procedure. First, we analyse the consequences of mergers and acquisitions using the event study method. Second, the abnormal returns are then used as the depended variables in regression models in order to explain the cross-sectional variation in abnormal returns.

We use the Zephyr M&A database to form our sample of 264 publicly traded deals. We require that (1) only acquirers are publicly traded firms from financial sector, (2) the acquiring firm controls less than 50% of the shares of the target firm before the announcement, (3) there is a lack of significant corporate events in estimation period, such as shares buyback, other mergers and acquisitions and joint ventures. Most deals were initiated by companies from China (52%), followed by firms from South Africa (22%), Brazil (13%), India (11%) and Russia (3%).

Analyzing the results for each country separately we get almost similar tendency in market reaction to the announcements of M&A deals. Cumulative abnormal returns (CAR) for acquirers from China, South Africa, India and Brazil are positive (0,5%, 0,66%, 1,19%, 3,6% respectively) and statistically significant at 1 per cent level. The market reaction to the deals initiated by Russian companies is negative and statistically significant at 10 per cent level. Since the sample includes only seven deals, it doesn't allow us to make any conclusion about the performance of M&A deals in Russia. CARs for the entire sample are also positive (0,9%) and statistically significant at 1 per cent level.

Our results also indicate that the main determinants of M&A performance are method of payment, deal size, number of previous acquisitions made by the acquirer prior to the current transaction, acquirer's intellectual capital and the difference in countries development.

Key words: mergers and acquisitions, financial sector, abnormal returns, emerging capital markets

JEL: G14, G21, G34

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