

Mergers and acquisitions and firm value growth in emerging markets

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Abstract

Despite disagreements about whether mergers and acquisitions create value, it remains a dominant businesses' expansion strategy for firms worldwide. Several studies however suggest that the value of acquiring firms may increase or decrease after mergers and acquisitions. This study, specifically, investigates acquirer firms value growth in emerging markets, three years after M&A transactions in comparison with three years before the deals were executed. We use a panel of 160 listed firms from ten (10) emerging market countries gleaned from the Bloomberg and DataStream databases over the period of 2000 to 2016 and employ the two-step difference GMM (Generalized Method of Moments) estimator for a dynamic analysis of firms' value growth after M&A transactions. Our results revealed that emerging market acquirers do not experience value growth in terms of profitability and growth opportunities in the first three years after M&As deals. The total assets of these firms were, however, found to have a positive impact on their profitability levels and their ability to grow and expand. Managerial share ownership was also found to have a positive influence on these firms' growth opportunities but its impact on profitability is negative. Finally, there was no evidence of a positive relationship between total debt, financial leverage, working capital and the acquirers' profitability levels.

Keywords: Firm value growth; mergers and acquisitions; difference-GMM; emerging markets; Acquirers.

1. Introduction

Firms are able to grow internally (that is, organically) through the expansion of their activities or through the acquisition of other existing firms. Growth through either organic expansion or acquisitions is not the same in terms of underlying processes and economic consequences (Dahlqvist, Davidsson, & Wiklund, 2000). In their examination of high-growth firms, Davidsson and Delmar (2006) demonstrate that, for smaller and younger high-growth firms, their growth is largely organic, whereas, for older and larger firms, they mainly grow and expand through acquisitions.

Arguments surrounding value creation by mergers and acquisitions (M&As) for emerging market acquirers seem unending since different researchers in the literature express several divergent views. In spite of these disagreements about whether M&As create value or not, (Malmendier & Tate, 2008; Petmezas, 2009; Rau & Vermaelen, 1998) maintain the fact that M&As remain a leading global business expansion strategy. With respect to acquirer firms from the emerging markets, however, several factors affect the benefits or gains they realise from acquisition deals. Some of these factors are as discussed below:

A. The size of investment a firm pursues

The investment size hypothesis suggests that firms can achieve operating economies, leading to economies of scale in management, marketing, production, or distribution. Just like their peers in developed economies, emerging market multinationals may achieve substantial benefits from better use of fixed capital, accrue significant benefits from more efficient use of fixed capital and expanded international market presence which eventually may impact positively on their profitability levels. The successful growth in size through M&A transactions can lead to a combined value of both firms that is more than their individual values (Lamacchia, 1997).

B. The degree of control an acquirer has on a target firm

According to Chari, Ouimet and Tesar (2004), in general, foreign acquirers may have the desire to secure absolute control of the target if the productivity increases that occurred because of access to capital and synergy is more than the loss of control by the local management of the target. They find evidence on the need for acquirer value of obtaining a majority stake in the acquiring targets from the emerging market by multinationals from developed countries. Contrarily, when the merged firms fail to produce synergies mergers could result in value destruction (Ghemawat & Ghadar, 2000). This view is also reinforced

by Rousseau (2006) who maintains that the purchase of new and disassembled used-capital which does not expand the span of control is more likely to go towards wasteful acquisitions than internal growth.

C. The level of a firm's international experience in M&A transactions

Suggestions by previous studies are that international market experience gives a sustainable advantage for investing companies and results in significant positive returns generated around acquisitions (Harzing, 2002). Doukas and Travlos (1988) show that the announcement of the acquisition of firms with a well-established presence in the country of the target firm generates significant and statistically positive returns. It is proper to maintain that, firms that have a local presence are well positioned to identify opportunities of investment in the host market, and the likelihood for them to pay high premiums is less compared to their peers that have no prior local presence. In addition, the familiarity of emerging market conglomerates with the local environment helps to reduce the cost of integration after the acquisition which further reduces the liability of foreignness and information asymmetries that come with such transactions (Martin, Swaminathan, & Mitchell, 1998).

D. Favourable corporate governance on the side of the acquirer

This is a particularly significant factor since weak corporate governance practices in emerging markets and their consequences are well documented in the literature. The unavailability of proper monitoring systems, careless disclosure requirements, and the local equity markets that are not well-developed increase managerial discretion and provide motivations for value appropriation at the expense of minority shareholders. In view of the irregularities in emerging-markets, shareholders might approach foreign acquisitions of emerging market multinationals with suspicion and perceive such strategies as an integral part of value appropriation efforts or empire building.

From the perspective of corporate finance, motivations behind M&A transactions can be put into two main categories: maximisation of shareholders value and utility maximisation of the other stakeholders, including managers of firms. With regard to shareholder value maximisation, the understanding is that firms largely pursue M&As for improvements in the form of enhanced value to shareholders of the combined firms (Houston, James, & Ryngaert, 2001). They also expect that, by undertaking M&As, they can access other new markets (Gugler, Mueller, Yurtoglu, & Zulehner, 2003; Lanine & Vander Vennet, 2007), reduce competition and level of risks through geographical and

product diversification (Denis *et al.*, 2002). The utility maximisation motive also talks about maximising the utility of other stakeholders including managers. For example, the principal-agent theory suggests that managers' own value maximisation at the expense of shareholders has been a major incentive that drives managers into merger deals (Jensen, 1986; Matsusaka, 1993). According to Faccio (2006), managers of firms that are politically connected may also consider maximising the utility of other stakeholders, such as politicians (Luo & Tung, 2007). Managers sometimes also become entrenched when they own more shares in firms but whether as a result of that, they influence M&A transactions in the interest of shareholders' value maximisation requires investigation.

This present study, therefore, investigates mergers and acquisitions and firm value growth in emerging markets. We use a panel of 160 listed acquirer firms from ten (10) emerging market countries sourced from the Bloomberg database over the period of 2000 to 2016. They include China, South Africa, Brazil, Chile, Mexico, Poland, Russia, Argentina, India and Malaysia. The study employs the two-step difference GMM (Generalized Method of Moments), an estimation technique that considers the unobserved firm heterogeneity, potential endogeneity and serial correlation problems estimator for a dynamic analysis of firms' value growth after M&As transactions.

The study contributes to the extension of literature on firms' value growth for acquirer firms from emerging markets because most of the previous studies have largely focused on firms in developed countries. It also adds to the literature in terms of the GMM (Generalized Method of Moments) estimation technique it employs which is different from similar prior studies on emerging markets which used largely the event study methodology such as (Gubbi *et al.* 2010; Kohli & Mann, 2012). Several of these research studies appear not to have addressed the problem of dynamic changes in firms' value post-M&A transactions which this study attempts to handle.

To the best of our knowledge, this is the first study where acquirer firms from ten (10) emerging market countries are examined together to assess the gains they derive from pursuing M&A transactions which is different from other studies where only firms within individual countries are examined. Therefore, the outcome of this study has the potential to establish or show whether firms in emerging markets should continue to look at M&As as viable firms' growth expansion strategy or not. Our results reveal that emerging market acquirers do not experience growth in terms of profitability and growth opportunities in the first three years after M&As deals.

The rest of this paper is organized as follows: Section 2 presents the literature (both theoretical framework and empirical literature) and hypothesis. Section 3 deals with the description of the methods, specification of the model and data. In section 4, the results are discussed. The final section considers the concluding remarks and policy implications.

2. Literature review and hypothesis testing

The following theories are applied for this study to investigate mergers and acquisitions and firm value growth in emerging markets.

2.1. Agency theory

This theory mainly stresses on the relevance of monitoring the activities of managers to prevent and reduce the possibility for them to engage in any opportunistic behaviour (Fama, 1980; Jensen & Meckling, 1976; Nicholson & Kiel, 2007). According to this theory, managers approve of M&A deals primarily because of the improvement in the welfare of management of acquiring firms, and as the agency cost hypothesis states, managers are likely to make decisions that will maximise their value rather than the welfare of shareholders if not properly monitored. Some of the decisions they usually take in realising these self-maximising dreams are by aggressively growing the firm, which tends to destroy and reduce the firm's value in terms of both profitability and growth opportunities (Hope & Thomas, 2008).

2.2. Hubris hypothesis

This hypothesis basically talks about instances where acquiring firms pay more than what is considered the right and fair price for target firms. According to Roll (1986), under the hubris hypothesis, an acquiring firm's management could evaluate incorrectly a target firm's value as an incentive for merger activity when that management is desirous of pursuing an agenda of "empire building". According to Malmendier and Tate (2008), the presence of over-confident managers may result in value-destroying acquisitions. If managers' level of confidence increases due to previous acquisitions successes, it could be a reason for the decreasing trend in returns to acquirers.

2.3. The market for corporate control theory

Managerial discipline reasons have been identified as another incentive for M&As in order to create value. The theory for market control argues that most efficient firms of an industry usually acquire their counterparts that are less efficient.

According to this theory, a firm which is undervalued and has not attained its desire limit of performance because of inefficient management will be acquired by another firm's management team and will replace those inefficient managers. Managers who can generate higher returns for shareholders in a particular business area remain leaders in that field until other managers overtake them by creating a higher value for shareholders in that same business area.

2.4. Empirical review

Despite the abundance of literature on consequences of M&As, the evidence on shareholders' returns of the acquirer appears inconclusive. Several studies state that acquiring firms' value may decrease or increase after M&A deals. The suggestion from these studies is that the synergistic motive for pursuing mergers and acquisitions is related to acquirers' positive wealth effects (Andrade *et al.*, 2001; Berkovitch & Narayanan, 1993; Bradley, Desai, & Kim, 1983; Dennis & McConnell, 1986). Synergy can be realized from combining firms from different financial resources (financial synergy), or firms in the same industry (operational synergy), or firms with different managerial resources (managerial synergy) (Trautwein, 2013; Yook, 2003).

Other studies also suggest that M&As may result in value reduction for firms. Jensen (1986) for instance suggests that excess cash availability to firms may lead to a reduction in value for firms that engage in merger activities. Martynova and Renneboog (2008) add that the availability of excess cash reserves in firms makes managers become bolder and encourages them to potentially undertake investments that are value-destroying at the expense of those that create value. Shleifer and Vishny (1989) also argue that managers are likely to undertake investment projects that maximize their value at the expense of returns to shareholders. Further, negative or zero wealth effects are suggested to be motivated by empire-building and managerialism (Roll, 1986; Seth *et al.*, 2000; Shleifer & Vishny, 1989). The managerialism hypothesis states that acquisitions are pursued by managers to improve on their own satisfaction rather than the shareholders of the firm.

It remains difficult to conclude broadly whether mergers and acquisitions create value, or they are value-destroying for acquirers from the emerging markets because several varied opinions are articulated or documented by scholars based on their respective investigations. Nonetheless, Du and Boateng (2012) attempted a summary of related literature on cross-border M&As by emerging market firms and report of value creation for the majority of acquirer

firms from the emerging markets with only a few of them experiencing value destruction in cross-border deals.

2.5. Hypotheses;

2.5.1 Mergers and acquisitions and firm value growth in terms of profitability (GROAs: Growth rate in Returns on Assets)

The growth rate in returns on assets (GROAs) was used as one of the main dependent variables to measure the firms' value growth in terms of profitability. The impact of growth through M&As on improvements in profit levels of firms is an important factor for a firm to succeed (Kouser, Bano, Azeem, & Hassan, 2012). The argument concerning whether M&As create value for acquirers from the emerging markets still remains unsettled. For instance, the argument as advanced by the market for corporate control theory is that firms that are underperforming in an efficient market would either have to increase their profitability levels through the acquisition of more assets or are potentially likely to become targets thereby transferring their resources to another management team that is more capable. This means that firms that are underperforming are more likely to become targets to financially strong and healthy ones.

Bertrand and Betschinger (2012) after analyzing the performance of Russian acquirers find that, on average, acquisitions reduce the profitability (proxied by ROAs) levels of firms. GROAs is calculated as the difference between returns on assets of firm i at time t and $t-1$ divided by returns on assets of firm i at time $t-1$ and multiplied by 100. The study, therefore, hypothesizes that;

H1. Emerging market acquirers do not experience growth in terms of increase in profitability (measured by ROAs) after M&A transactions.

2.5.2. Mergers and acquisitions and firm value growth in terms of growth opportunities (GTOBQ: Growth rate in Tobin's Q)

The growth rate in Tobin's q (GTOBQ) was also used as another main dependent variable to measure the firms' value growth in terms of their growth opportunities. Prior researches have made use of Tobin's q to assess firms' value creation and performance of M&As (Adams and Mehran, 2008; Kammler and Alves, 2010; Delcours and Hunsader, 2006;). Firms with low Tobin's q usually have low growth opportunities expectations and therefore their counterparts outperform them which makes them become likely targets. GTOBQ is calculated as the difference between Tobin's q of firm i at time t and $t-1$ divided by Tobin's q of firm i at time t_{-1} and multiplied by 100. This study, therefore, hypothesizes that;

H2. Emerging market acquirers do not experience value growth in terms of growth opportunities (measured by Tobin's q) after M&A transactions.

3. Research design and data

This section presents the estimation model and techniques that were used in investigating the objective of M&As and firm value growth of emerging market acquirers.

3.1. Firms post-M&As value growth measures

Several post-M&A performance measures such as event studies, accounting and clinical approaches have been used in the extant literature for similar studies by previous scholars such as (Haleblian & Finkelstein, 1999; Hitt, Harrison, Ireland, & Best, 1998; Papadakis & Thanos, 2010; Schoenberg, 2006; Zollo & Meier, 2008). Some of these scholars suggest that making use of different measures in a study provides an in-depth understanding of the post-M&A performance better (Thanos & Papadakis, 2012). Therefore, in the footsteps of Papadakis and Thanos (2010), Bertrand and Betschinger (2012) as well as Zollo and Meier (2008), this study employs the following two post-M&A performance measures: ROAs (the return on assets) measuring growth in firms' profitability levels and the Tobin q measuring the acquirer firms' growth opportunities. The Tobin's q, for example, has been used by Adams and Mehran (2008), Bris, Brisley and Cabolis (2008) and Delcours and Hunsader (2006) in similar studies in different settings other than the emerging markets to investigate firms' performances and value creation of mergers and acquisitions.

3.2. Data sources

The study uses firm-level annual financial data set of a panel of 160 acquirers from ten (10) emerging market countries sourced from the Bloomberg terminal and Zephyr database over the period of 2000 – 2016. The choice of these firms is informed by M&As data availability for the individual firms on both the Bloomberg terminal and the Bureau Van Dijk's Zephyr, a specialized M&A database acclaimed to be the world's most comprehensive database of deal information (Zephyr, 2011).

TABLE 1: DESCRIPTION OF VARIABLES

VARIABLE	DESCRIPTION
GROA _{i,t}	Returns on assets growth rate of firm <i>i</i> at time <i>t</i> , which is calculated as the difference between returns on assets of firm <i>i</i> at time <i>t</i> and <i>t</i> –1 divided by returns on assets of firm <i>i</i> at time <i>t</i> –1 and multiplied by 100.
ROA _{i,t}	Returns on assets of firm <i>i</i> at time <i>t</i>
GTOBQ _{i,t}	Tobin <i>q</i> growth rate of firm <i>i</i> at time <i>t</i> , which is calculated as the difference between Tobin <i>q</i> of firm <i>i</i> at time <i>t</i> and <i>t</i> –1 divided by Tobin <i>q</i> of firm <i>i</i> at time <i>t</i> –1 and multiplied by 100.
TOBQ _{i,t}	Tobin's <i>q</i> of firm <i>i</i> at time <i>t</i>
ln (<i>LTAS</i>) _{i,t-1}	Total assets of firm <i>i</i> at time <i>t</i> –1, which is calculated as ln (the total of all short and long-term assets as reported on the balance sheet).
TDEBT _{i,t-1}	Total debt of firm <i>i</i> at time <i>t</i> –1, which is calculated as (total liabilities /total assets)
ln(<i>LWC</i>) _{i,t-1}	Working capital of firm <i>i</i> at time <i>t</i> –1, which is calculated as ln (current assets – current liabilities).
<i>FIN</i> _{i,t-1}	Financial leverage of firm <i>i</i> at time <i>t</i> –1, which is calculated as total debt / shareholder's equity.
<i>MGROWN</i> _{i,t-1}	Managerial share ownership percentage outstanding of firm <i>i</i> at time <i>t</i> –1, which is calculated as shares owned by insiders / shares outstanding.
$\beta_6 Y_3 MA, \beta_7 Y_2 MA, \beta_8 Y_1 MA$ $\beta_9 Y1 MA, \beta_{10} Y_2 MA, \beta_{11} Y_3 MA$	Year dummies for firm <i>i</i> at time <i>t</i> three years before and after the M&A deal was executed, where; $\beta_6 Y_3 MA$, $\beta_7 Y_2 MA$ and $\beta_8 Y_1 MA$ denote 3years, 2years and 1year before the M&A deal was executed respectively while $\beta_9 Y1 MA$, $\beta_{10} Y_2 MA$ and $\beta_{11} Y_3 MA$ denote 1year, 2years and 3years after M&A deal was executed respectively.

To isolate the impact of the M&A transactions on the acquirer firms' value growth three years after execution of M&As in comparison to three years before these deals, we perform a multivariate analysis to look at the impact of each variable on the firms' value growth performance measures of ROAs and Tobin's *q* representing profitability and growth opportunities respectively. We regress the two measures of post-M&A firm value growth as dependent variables in separate equations using a dynamic panel data model as developed by Arellano and Bond (1991) with the GMM estimation technique to cater for the potential endogeneity and heterogeneity using emerging market acquirer firms' and contribute to the existing body of financial literature in this respect.

3.3. Estimating technique

We employ the two-step difference GMM (Generalized Method of Moments), an estimation technique that considers the unobserved firm heterogeneity,

potential endogeneity and serial correlation problems estimator for dynamic analysis of firms' value growth after M&A transactions. In order to estimate the firms' value growth therefore, we specify the following models in line with Park and Jang (2011) and Ketenci (2015):

$$GROA_{i,t} = \alpha ROA_{i,t-1} + \beta_1 \ln(LTAS)_{i,t-1} + \beta_2 Tdebt_{i,t-1} + \beta_3 \ln(LWC)_{i,t-1} + \beta_4 FIN_{i,t-1} + \beta_5 MGROWN_{i,t-1} + \beta_6 Y_3 MA_{i,t-1} + \beta_7 Y_2 MA_{i,t-1} + \beta_8 Y_1 MA_{i,t-1} + \beta_9 Y_1 MA_{i,t-1} + \beta_{10} Y_2 MA_{i,t-1} + \beta_{11} Y_3 MA_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

$$GROA_{i,t} = \alpha ROA_{i,t-1} + \beta_1 \ln(LTAS)_{i,t-1} + \beta_2 Tdebt_{i,t-1} + \beta_3 \ln(LWC)_{i,t-1} + \beta_4 FIN_{i,t-1} + \beta_5 MGROWN_{i,t-1} + \beta_6 Y_3 MA_{i,t-1} + \beta_7 Y_2 MA_{i,t-1} + \beta_8 Y_1 MA_{i,t-1} + \beta_9 Y_1 MA_{i,t-1} + \beta_{10} Y_2 MA_{i,t-1} + \beta_{11} Y_3 MA_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

where; Equations 1 and 2 were for the estimation of the growth in the firms' Tobin Q (proxy for growth opportunity) and returns on assets (proxy for profitability) respectively. These equations were however incorporated with year dummies to capture the firms' value growth by evaluating the impact of the M&A transactions on the *ROA* and *TOBIN Q* three years after the deals in comparison with three years before. Year dummies of $\beta_6 Y_3 MA$, $\beta_7 Y_2 MA$ and $\beta_8 Y_1 MA$ assess the value growth in the firms' ROAs and TOBIN'S Q positions three years before the M&A transaction while year dummies of $\beta_9 Y_1 MA$, $\beta_{10} Y_2 MA$ and $\beta_{11} Y_3 MA$ also evaluate the firms' value growth in *ROA* and *TOBIN'S Q* three years after the deals. Similar to Beccalli *et al.* (2009), the year of the deal itself is left out of the analysis as it can be considered as a transition period strongly affected the accounting practices regarding M&As.

Based on prior studies (Carpenter & Petersen, 2002; Oliveira & Fortunato, 2008; Opler & Titman, 1994; Park & Jang, 2011), this study incorporated control variables such as *LTAS*, *LWC*, *TDEBT* *FIN* and *MGROWN* representing the natural logarithm of total assets (proxy for firm sizes), working capital and total debt respectively. Others were financial leverage and managerial share ownership percentages outstanding of the firms. α is a constant, $\beta_1, \beta_2, \beta_3, \beta_4$ to β_{11} are the coefficients to be estimated while ε_{it} is the idiosyncratic error term.

4. Empirical results and discussions

4.1. Unit root tests

The study made use of four different unit root tests of ADF Fisher, PP Fisher, Hadri and IPS to check the stationarity of data used. Based on the results of these alternative unit root tests, it is good to conclude that, series are produced by a stationary process; hence, series may be estimated by the GMM approach.

TABLE 2: UNIT ROOT

Variables	Returns on Assets (ROAs)				Tobin Q (TB)			
TEST	ADFa	PPa	IPSa	Hadrib	ADFa	PPa	IPSa	Hadrib
Level	400.55**	532.53**	-2.612**	15.22**	429.44**	653.95**	-6.13207**	17.56**
Difference		814.17**		14.29**		1038.87**		21.73**

Note: In panel unit root tests, probabilities are computed assuming asymptotic normality. (a) tests the hypothesis of the presence of the individual unit root process, and (b) tests the hypothesis of no unit root in the common unit root process. ** denote the rejection of the null hypothesis at the one (1) percent significance level.

4.2. Summary statistics

Firms' annual financial information on the two dependent variables for the models, returns on assets, Tobin's q and the other control variables such as working capital, financial leverage, total debt and managerial share ownership percentages outstanding were collected. All emerging market acquirer firms with data available from the ten (10) selected countries from 2000- 2016 were used to avoid selection bias. The methodology used requires estimation of equations in first differences and lagging of regressors twice or more. We have 540 observations from an unbalanced panel data of 160 emerging market acquirer firms used over a period of 10 years from 2004 to 2013. Table (6.3.) shows the descriptive statistics of returns on assets, Tobin's q and the other control variables.

TABLE 3: SUMMARY STATISTICS

VARIABLE	MEAN	STANDARD DEVIATION	MINIMUM	MAXIMUM
<i>ROAGR_{i,t}</i>	1.3488	1.4928	-5.3645	5.5468
<i>TOBQGR_{i,t}</i>	0.4398	0.7341	-1.4727	7.8354
<i>Lin(LTAS)_{i,t-1}</i>	9.3827	2.5944	-0.6824	16.2161
<i>Lin(Ltdebt)_{i,t-1}</i>	2.8027	1.3128	-6.5023	4.9562
<i>lin(LWC)_{i,t-1}</i>	5.9946	0.0339	5.5132	6.2998
<i>FIN_{i,t-1}</i>	0.1131	53.6932	-954.197	400.44
<i>MGROWN_{i,t-1}</i>	104.3736	949.929	0	12674.23

Source: Author's estimation, 2018, based on data collected.

It is evidenced from the table that, there is more variation in financial leverage and managerial ownership percentages as shown by their high standard deviations of (949.93) and (53.69) respectively relative to their means of (0.113) and (104.37). The descriptive statistics also show that there is high

variation in returns on assets levels in emerging market acquirers as shown by the high standard deviation (1.493) relative to its mean (1.349). Most emerging market acquirers exhibit low variation in growth as shown by the relatively low standard deviation (0.734) compared to its mean of (0.4398). This is evidenced by Tobin's q which is one of the measures used in this study to evaluate growth in firms' value. An inspection of the table also shows less variation in working capital of these acquirer firms as is shown by a low standard deviation of (0.039) relative to its mean of (5.994).

TABLE 4: CORRELATION MATRIX

	TOB	LTASSETS	TDEBT	LWC	FIN	MGROWN
TOB	1					
LTASSETS	0.126	1				
TDEBT	-0.191	0.289	1			
LWC	-0.083	-0.16	0.048	1		
FIN	-0.067	0.009	0.034	0.007	1	
MGROWN	-0.088	0.059	0.076	0.012	0.001	1

Source: Author's estimation, 2018, based on data collected.

Table 4 reports the correlation matrix of the response variables and growth in returns on assets (proxy for firms' profitability) which is one of the measures for evaluating firms' value growth in this study. The correlations are included to check for multicollinearity. A correlation above 0.5 between independent variables is an indication of the presence of multicollinearity. From the table above the highest correlation is 0.28 between total debt and total assets. All the values are below 0.5 which proves the absence of multicollinearity among the independent variables. The correlation table also provides evidence of a negative correlation between growth in returns on assets (ROAs) and all the independent variables except total assets. Pre-analysis of the data from the table also shows a negative relation between working capital and total assets and a positive relationship between working capital and total debt. There is also a positive correlation between managerial share ownership percentage (MGROWN) and all the other independent variables except the dependent variable which is the growth in returns on assets (ROA).

TABLE 5: CORRELATION MATRIX

	TOB	LTASSETS	TDEBT	LWC	FIN	MGROWN
TOB	1					
LTASSETS	-0.154	1				
TDEBT	-0.163	0.2899	1			
LWC	0.051	-0.16	0.048	1		
FIN	-0.016	0.009	0.034	0.007	1	
MGROWN	-0.088	0.059	0.076	0.012	0.001	1

Source: Author's estimation, 2018, based on data collected.

Table 5 reports the correlation matrix of the response variables and growth in Tobin Q which is another measure used for evaluating firms' value growth in this study. The table provides evidence of a negative correlation between growth in the Tobin Q and all the independent variables except working capital and managerial share ownership percentages (MGROWN). A positive relationship exists between managerial share ownership percentage (MGROWN) and Tobin's Q which represents the firms' growth opportunities.

4.3. Econometrics analysis

We regressed separately, the two dependent variables for Equations 1 and 2: Growth in returns on assets (GROAs) as well as in Tobin's q (GTOBQ) respectively on the dummies denoting years before and after the M&As were executed. Other control variables that relate to firms' value growth as contained in literature are also included to evaluate the value growth in terms of profitability and growth opportunities to the acquirer firms that executed M&A transactions.

The inclusion of the other variables is to look at other factors that may also impact on growth in value of the firms' profitability (proxied by returns on assets) and their growth opportunities (proxied by Tobin Q). Our dynamic panel data analysis model employs the two-step GMM with first differences. This has been proven to resolve panel data bias with the ability to handle unbalanced panel data analysis. The regression results are presented in Table (6).

TABLE 6: REGRESSION RESULTS

VARIABLE	Dynamic panel-data estimation, two-step difference GMM	VARIABLE	Dynamic panel-data estimation, two-step difference GMM
	MODEL 1 GROAi,t (growth in profitability)		MODEL 2 GTOBQi,t (improvement in growth opportunities)
CONSTANT	20.438*** (6.051)	CONSTANT	-3.082*** (0.911)
ROAi,t-1	α_1 0.293*** (0.024)	TOBQi,t-1	α_1 0.684*** (0.009)
LTASSETS	β_1 0.04756*** (0.02019)	LTASSETS	β_1 0.02824*** (0.0043)
TDEBT	β_2 -0.1399 *** (0.030)	TDEBT	β_2 -0.433 *** (0.008)
LAWC	β_3 -0.3.217 *** (1.037)	LAWC	β_3 0.595*** (0.155)
FIN	β_4 -0.001 *** (0.0003)	FIN	β_4 -0.0002 *** (0.00004)
MGROWN	β_5 -0.000 *** (3.69e-06)	MGROWN	β_5 0.00004*** (1.11e-06)
$Yr_{3before}MA$	β_6 0	$Yr_{3before}MA$	β_6 0
$Yr_{2before}MA$	β_7 0.3475*** (0.02793)	$Yr_{2before}MA$	β_7 0.05168*** (0.0169)
$Yr_{1before}MA$	β_8 0.1823*** (0.0198)	$Yr_{1before}MA$	β_8 0.0749*** (0.0097)
$Yr_{1after}MA$	β_9 -0.1899 *** (0.1137)	$Yr_{1after}MA$	β_9 (0.1137) (0.0316)
$Yr_{2after}MA$	β_{10} -0.4524 *** (0.0195)	$Yr_{2after}MA$	β_{10} -0.03559 *** (0.1064)
$Yr_{3after}MA$	β_{11} -0.5733 *** (0.0351)	$Yr_{3after}MA$	β_{11} -0.03577*** (0.0094)
AR (2)	0.404	AR (2)	0.738
Hansen P-value	0.220	Hansen P-value	0.402
Observations	540	Observations	538
Number of Instruments	72	Number of Instruments	72
Wald X ² (12)	6194.31	Wald X ² (12)	1.50e+06
Prob > X ²	0.000	Prob > X ²	0.000

Source: Author's estimation, 2018.

Note: * Significant at the 10% level, ** Significant at the 5% level and *** Significant at the 1% level.

Table 6 provides dynamic panel data regression results of whether M&As transactions by emerging market acquirers result in value growth for them or they are value-destroying. The two-step difference GMM estimation technique was used in this study. Two different measures of firms' value growth that is GROA and GTOBINQ, denoting growth in Returns on assets and Tobin's Q are the lagged dependent variables for the estimated models. Standard errors are provided in parenthesis below the coefficients of estimates. AR (2) is used to test for autocorrelation and the Hansen test is used to test for over-identification of the instrument.

The empirical performance of the difference GMM estimation in this study is reasonably satisfactory and robust. The test of second-order serial correlation AR (2) shows that all estimations have no problem of second-order serial correlation since the AR (2) test statistics are unable to reject the null of no second-order serial correlation (p-values 0.404 and 0.738 for Model 1 and Model 2 respectively). The Hansen test for over-identification indicates the null of exogenous instruments is not rejected with p-values of 0.220 (for Model 1) and 0.402 (for Model 2).

The coefficient α_1 of this study for Model 1 is positively significant (that is, 0.293, $p < 0.001$) indicating a positive relationship between the firms' previous returns on assets and their value growth in terms of profitability. That is, an improvement in the firms' earlier returns on assets will lead to an increase in the profitability levels and subsequently growth in value of these firms. This is contrary to previous studies by Mateev and Anastasov (2010) that there is a negative relationship between ROA and firm growth. Similarly, the coefficient α_1 for Model 2 is positively significant (that is, 0.684, $p < 0.001$) indicating a positive relationship between the firms' previous growth levels and the impact they have on their future growth opportunities. This shows that an improvement in the firms' growth abilities now impacts positively on their future growth value. This supports the findings of previous work by Khatab, Masood, Zaman, Saleem, and Saeed (2011) where they document a positive relationship existing between firms' growth and Tobin's q.

The coefficient B_1 is positive and statistically significant, that is (0.04756, $p < 0.001$) for Model 1 and (0.02824, $p < 0.001$) for Model 2. This indicates that, firstly, a positive relationship exists between the firms' total assets and their profit levels (which is proxied by ROAs), which means that an increase the firms' sizes (proxied by their total assets) could contribute to an increase in the profitability levels of these acquirer firms. This finding corroborates works

by Punnose (2008) and Vijayakumar & Tamizhselvan (2010) who came out with a similar conclusion. It is also in line with studies by Serrasqueiro and Nunes (2008) in their investigation of the relationship between firm size and performance of small and medium firms who also arrived at a conclusion of a positive relationship between total assets (proxy for firm size) and profitability. Lee (2009) in analyzing the impact of firm size on the profitability of more than 7000 publicly-held firms in the United States of America 1987-2006 also arrived at a similar conclusion that, firm size has a positive impact on its profitability. It also supports extant findings that firm size interacts with other factors to affect firm performance (Arend, 2014). Secondly, the result also indicates a positive relationship existing between the acquirer firms' total assets and their ability to grow (proxied by Tobin's q). The positive sign means that, as the total assets which represent their sizes increase, it offers them the ability and the opportunity for growth and expansion in order to add value to themselves.

This finding, however, is inconsistent with the empirical finding of Adetunji and Owolabi (2016) who find a negative relationship between firm size and Tobin's q and suggest that investors do not consider firm size to positively affect firm's growth and market performance.

The coefficient B_2 was found to be negative and significant, that is, (-0.1399, $p < 0.001$) for Model 1 and (-0.433, $p < 0.001$) for Model 2. This is an indication that the firms' total debt levels have a negative impact on their growth and profitability levels. The negative sign possessed by the total debt coefficient could be explained to mean that, a decrease (an increase) in the acquirers' debt levels adversely affect both their profit levels as well as their abilities to grow and expand. This is consistent with the assertion by Harrison *et al.* (2014) who examined the relationship between leverage for acquirers, targets and post-acquisition performance, and found a negative effect of leverage on post-acquisition performance of acquirers and targets but this negative performance gathers around acquiring firms with high debt levels. They conclude that mergers and acquisitions have a persistent and significant effect on acquirers' capital structure, causing a continuous increase in average debt-to-assets of acquirers in post-acquisition periods of up to five years. It also seems consistent with views expressed by Park and Jang (2011) that higher debt increases the probability of default or bankruptcy.

Further, the coefficient B_3 was found to be negative and significant (that is, -0.3217, $p < 0.001$) for Model 1 but positive and significant (that is, 0.595, $p < 0.001$) for Model 2 implying that, the effect of working capital on

improvement in firms' value in terms of profitability and growth opportunity is mixed. The negative but significant relationship between the firms working capital and ROAs (profitability) shows how poorly firms will perform in terms of profitability if they do not pursue good working capital management policies. This finding broadly seems similar to that of Malmendier and Tate (2008) who find some relation existing between firms' excess cash reserve and execution of acquisitions that are value-destroying. They claim that managers who do not handle their capital structure will tend to invest less time in analysing and searching for better opportunities and are potentially likely to settle for targets that are questionable. So broadly, otherwise well-meaning managers of firms that have more internal cash holdings tend to make less challenged, fast decisions compared to managers of firms with fewer cash reserves (Weitzel & McCarthy, 2011).

However, the results of a positive and significant relationship between working capital and Tobin's q suggest that the acquirer firms' working capital positions influence their growth potentials. The positive sign carried by the working capital coefficient means that an improvement in the management of the firms' working capital will impact positively on the growth potentials of these acquirer firms. This seems to be in support of previous findings of Ferreira and Vilela (2004) who suggest that working capital in the form of cash holdings are positively affected by a firm's opportunities of investment which reflects the trade-off model, which suggests that firms identify their appropriate cash holdings level by comparing the marginal costs with marginal benefits of holding cash.

For coefficient B_4 also, it was found to be negative but significant, that is $(-0.001, p < 0.001)$ for Model 1 and $(-0.0002, p < 0.001)$ Model 2. This reveals a negative association between financial leverage levels of firms and their growth, which means that a decrease (increase) in the leverage levels of the acquirer firms may not contribute to improving on both their profitability levels and their abilities to grow. This is consistent with prior studies (Opler and Titman, 1994; Oliveira and Fortunato, 2008; Ushijima, 2005) who submit that, firms with high levels of debt cannot efficiently and appropriately invest in their business to create value because of interest payment pressure. In a similar fashion, Myers (2003) submits that leverage is another variable that affects firm profitability negatively. His view is that firms that are highly-leveraged are softer competitors that will limit investment, so their inadequate power of competition can result in profitability decreases.

Additionally, coefficient B_5 is negative but significant for Model 1 (that is, -0.000, $p < 0.001$) giving an indication of a negative relationship between managerial ownership and profitability levels of firms implying that the managerial stakes in emerging acquirer firms do not necessarily help improve on their profitability levels. For Model 2, managerial ownership coefficient is positive and significant (that is, 0.00004, $p < 0.001$). This shows that managerial ownership and firms' growth opportunities as proxied by Tobin's q have direct or positive relationship indicating that, a firm maximizes its value when managers have an optimal level of managerial ownership or an optimal stake in the firm's cash flows. This finding is in agreement with that of Fahlenbrach and Stulz (2009) in their study of managerial ownership dynamics and firm value that, as the percentage of managers' share outstanding in the firm increases, their interest become better aligned with those of shareholders. However, they become exposed to the risk of the firm, if the stake they hold is large. Therefore, before managers will be desirous of holding a large stake in firms, it must commensurate with a higher level of compensation. The implication is that shareholders are likely to benefit from the increased managerial stake in firms it compels managers to align their interest better, but the shareholder incurs extra cost since those managers have to be paid more. If all managers have the same wealth and risk aversion, their ownership in the firm they manage will depend on the extent of agency problems in the firm and on the risk to managers of investing in the firm.

The main objective of this study was to investigate whether M&As transactions by emerging market acquirers lead to value growth or they are value-destroying.

Table 6 above reveals that, the coefficients β_6 , β_7 , and β_8 representing three years before the execution of the merger transactions by these acquirer firms were all positively significant. That is, β_6 (0, 0), β_7 (0.3475, $p < 0.001$: Model 1 and 0.05168, $p < 0.001$: Model 2) and β_8 (0.1823, $p < 0.001$: Model 1 and 0.0749, $p < 0.001$: Model 2) This indicates value growth in profitability levels and growth opportunities for the acquirer firms.

However, the coefficients β_9 , β_{10} , and β_{11} denoting the value growth for the firms three years after the merger deals were all negative but significant. That is, β_9 (-0.1899, $p < 0.001$: Model 1 and -0.02197, $p < 0.001$: Model 2), β_{10} (-0.4524, $p < 0.001$: Model 1 and -0.03559, $p < 0.001$: Model 2) and β_{11} (-0.5733, $p < 0.001$: Model 1 and -0.03577, $p < 0.001$: Model 2). This shows that there was no value growth to the acquirer firms from the emerging markets in terms of growth in

profitability (*GROA_{it}*) and growth opportunities (*GTOBQ_{it}*) respectively, and therefore confirms hypothesis ($H_{6.1}$) and ($H_{6.2}$) of this study.

Indeed, regarding the effect of M&As on firms' value growth, several studies find mixed results of positive and negative outcomes for firms that pursue M&As. However, the results of this study on firms' value growth for acquirers from ten (10) different emerging market countries together appear to be consistent with other previous studies that found negative value for firms that engaged in M&As, even though a lot of them used only firms within particular countries while this study used firms from ten (10) different emerging market countries. For instance, Bertrand and Betschinger (2012) conclude that domestic M&As reduce the performance of acquirers and destroy their value after undertaking a study on 600 domestic M&As in Russia. This view is supported by Kohli and Mann (2012) who through their study 66 domestic and 202 cross-border M&As by firms from India, suggest that less wealth or value is gained in domestic deals compared to cross-border transactions.

The negative growth in value for emerging market acquirer firms three years after the M&As activities is again corroborated by Harding and Rovit (2013) who maintain that M&As present a contemporary challenge to managers because most acquisitions do not actually create meaningful shareholder value (nearly 70%), and yet building a world-class company through organic growth is almost impossible. Finally, adding in support to the above findings is Brewis (2000) who reveals how 53 percent of M&As destroy the value of shareholder according to a KPMG survey in London.

The results of this present study again are consistent with prior studies by Miczka and Grosler (2004), in which they concede that, post-M&A integration process is time-consuming and does not occur instantly, therefore, firms should not expect synergy which will lead to value creation right after an M&A transaction, because integration of cultures are generally completed in the first three years after mergers and acquisitions, but actual synergy may even take a much longer period to achieve or realize (Miczka & Grosler, 2004).

5. Conclusion and recommendations

Based on our results for this study, we can conclude that emerging market acquirers do not experience growth in both profit and growth opportunities in the first three years after their M&A activities. However, there is evidence of a positive relationship between the firms' previous growth opportunities (proxied

by Tobin's Q) and as well as their previous profitability (proxied by ROAs) and their respective growth rates. It also revealed that the firms' total assets have a positive impact on profitability and their growth opportunities. Finally, managerial share ownership was also found to have a positive influence on firms' growth opportunities but its impact on profitability is negative. However, total debt, financial leverage, working capital were found to negatively related to their profitability levels.

From a practical viewpoint, some managerial implications can be identified. This study suggests that if emerging market firms are considering M&As for immediate value growth, they should recognize that M&A may not provide that immediately especially in the first three years after M&A. Rather, the effects of it on firms' value growth may be expected in the long-term period of 5-years and beyond. Therefore, this study again suggests that M&A should not only be used for growth purposes but for the creation of other types of value, such as market power enhancement, risk minimization through market or product diversification or cost-efficiency.

Biographical notes

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