St. Petersburg University

Graduate School of Management

Master in Management Program

IMPACT OF BOARD OF DIRECTORS COMPOSITION ON M&A DECISION AND POST-M&A PERFORMANCE IN CROSS-BORDER M&A TRANSACTIONS: THE CASE OF EMERGING MARKET FIRMS

Master's Thesis by the 2nd year student

Concentration - International Logistics and Supply Chain Management

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St. Petersburg

2021

ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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07.07.2021

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07.07.2021

АННОТАЦИЯ

Автор	Диденко Антон Владиславович
Название ВКР	Влияние состава совета директоров на принятие решений о слиянии и поглощении и деятельность компаний после трансграничных сделок по слиянию и поглощению: на примере компаний из стран с переходной экономикой
Образовательная программа	Менеджмент (Master in Management - MIM)
Направление подготовки	Менеджмент
Год	2021
Научный руководитель	Панибратов Андрей Юрьевич
Описание цели, задач и основных результатов	Цель данного исследования - выявить влияние состава совета директоров на принятие решений о слияниях и поглощениях и деятельность компаний после трансграничных сделок по слиянию и поглощению. В этой работе рассматриваются компании из стран с переходной экономикой, которые относятся к отраслям обрабатывающей промышленности. Компании из этих отраслей участвуют в трансграничных слияниях и поглощениях с целью получить доступ к технологиям. Для достижения цели исследования были сформулированы десять гипотез. Результат проведенного регрессионного анализа выявил влияние размера совета директоров и количества независимых директоров в составе на результаты деятельности компаний из стран с переходной экономикой в трансграничных сделках по слиянию и поглощению. Кроме того, влияние количества независимых директоров и директоров женщин на решения о слияниях и поглощениях также было подтверждено результатами анализа.
Ключевые слова	Трансграничные сделки слияний и поглощений, совет директоров, состав совета директоров, формирующиеся рынки

ABSTRACT

Master Student's Name	Anton Didenko
Master Thesis Title	Impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions: the case of emerging market firms
Educational Program	Management (Master in Management - MIM)
Main field of study	Management
Year	2021
Academic Advisor's Name	Andrei Yu. Panibratov
Description of the goal, tasks and main results	The goal of this research is to reveal the impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions. This work is focused on emerging market firms from manufacturing industries. Companies from these industries participate in cross-border M&As with the goal to get access to technologies. In order to achieve the research goal ten hypotheses were formulated. The result of conducted regression analysis revealed the influence of the size and independence of the board of directors on the performance of emerging market companies in cross-border M&A transactions. Moreover, the influence of number of independent and female directors in the board on M&A decision also was supported by the results of analysis.
Keywords	Cross-border mergers and acquisitions, board of directors, board of directors composition, emerging markets

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INTRODUCTION

Since the beginning of the 1990s, the number of mergers and acquisitions in the world began to grow rapidly. Between 1990 and 2000, the number of deals increased more than three times from 12,594 to 40,090 per year[1] . As a result, their influence began to spread not only on the performance of newly formed companies, but on the industries in which these companies operate.

Cross-border M&As should be among important mechanisms of globalization. The superior share of flows of foreign direct investment, which are the prime instrument for business engagement across borders, nowadays is represented by cross-border M&As rather than greenfield investment. (Kang N. and Johansson S., 2000)

In 2020 in the world were concluded 45,652 M&A transactions. 10,000 deals of them represent cross-border M&As, that is almost the fourth part of all transactions (22%)[2]. The role of cross-border M&As in the global economy is quite large, because the growth in the number of such kind of transactions is one of the main factors for increasing the flow of foreign direct investment.

Most of the M&A deals occur in developed countries, but the share of countries with emerging economies is also quite large, especially in the case of the annual growth in the number of transactions. One of the main motives of cross-border M&A deals for companies from emerging markets is fast access to technologies. Due to the fact that the rapid growth in the number of M&As has occurred and attracted the attention of researchers relatively recently, this topic has not been sufficiently studied yet. In addition, most of the existing researches focused on the period when there was a rapid growth in the number of transactions namely between 1993 and 2000.

The boards of directors and its composition have a huge impact on decision and performance of firms. In a situation where a company goes through such complex processes as cross-border M&As, the characteristics of the board of directors become even more crucial. Board mistakes can lead to the failure of the entire transaction. In this regard, it is very important to understand what features of the composition of the board of directors have impact on the performance of firms in the post-acquisition period, in order to conduct a successful transaction. Apart from it, while companies in developed countries apply research findings on the impact of board composition, companies from emerging markets are not so active, that is why it is important to conduct research specifically targeted at developing countries.

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[1] https://imaa-institute.org/mergers-and-acquisitions-statistics/
[2] https://imaa-institute.org/m-and-a-statistics-transaction-type/

In this master thesis, the impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions is studied. The research is focused on emerging market firms from manufacturing industries of China, Russia and India.

The subject of master thesis is the impact of board of directors composition on M&A decision and post-M&A performance.

The object of master thesis is cross-border M&A transactions.

The research goal is to reveal the impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions. In accordance with the stated goal, the following objectives are considered in the work:

• to study and analyze existing theoretical and empirical studies on the impact of board of directors composition on M&A decision and performance;

• to define a research methodology for achievement of research goal;

• to carry out an empirical research in order to identify the characteristics of the board of directors that affect M&A decision and post-M&A performance;

• to analyze the data and to develop managerial implications based on the results of empirical research.

The research results should provide the answers for the following research questions:

1. What characteristics of the board of directors influence cross-border M&A decision?
2. What characteristics of the board of directors influence cross-border M&A performance?

The theoretical contribution of this work is identification of board of directors characteristics which have an impact on M&A decision and post-M&A performance in cross-border M&A deal specifically for emerging market firms.

The practical contribution of this paper is recommendations how to use results of research in order to receive positive impact on cross-border M&A transactions.

This master thesis consists of introduction, three chapters and conclusion. In the first chapter, the review of existing literature will be conducted. In the second chapter, the methodology of research will be defined. In the third chapter, empirical results of research will be shown. Apart from it, theoretical and managerial implications as well as limitations for future research will be formulated.

CHAPTER 1. BOARD COMPOSITION AND CROSS-BORDER M&A PERFORMANCE

In accordance with the goals and objectives that were set, the study begins with a review of the existing literature on the research topic.

The topic of M&As today is very popular among researchers, but still there a lot of questions which are not studied yet. The reason is that a keen interest in this topic appeared relatively recently in the early 1990s. The main factor of this interest was the accelerating globalization.

This chapter provides an overview of current and historical literature on cross-border M&A transactions, features of M&A deals with participation of emerging market firms, as well as characteristics of the board of directors and their impact on the results of transactions and performance of companies after their conclusion. The review is divided into the following subsections:

- Theoretical base of cross-border M&A deals;
- Effects of cross-border M&As on performance;
- Factors that affect cross-border M&As activity;
- Board structure and cross-border M&As;
- Methods of post-M&A performance evaluation;
- Overview of cross-border M&A transactions.

1.1 Theoretical base of cross-border M&A deals

This paragraph considers what definitions of cross-border M&A transactions suggest researchers of this topic, what types of cross-border M&As distinguish, what drivers encourage companies to the conclusion of M&As and what aspects determine deal parameters.

To begin with, consideration of the theoretical aspects of cross-border M&As will be started with the definition of this concept. There are many approaches to the interpretation of mergers and acquisitions. Kang N. and Johansson S. (2000) suggest the idea that M&As occur in a situation when an existing company acquires control over a business of another company. It can be a part or a whole business. A distinctive feature of cross-border M&As is different national origin of companies. Shimizu K., Hitt M.A., Vaidyanath D. and Pisano V. (2004) support the idea that cross-border M&As include an acquirer firm and a target firm with headquarters' location in different home countries. Thus, an acquisition implies that one company buys all or part of another company without creating a new company. In turn, a merger implies that two companies create a new one in the process of integration. Moreover, as note

Caiazza R. and Volpe T. (2015) the M&As include merger of structures, systems and processes of firms. Cross-border M&A process is very complicated process of integration of companies from different countries.

After the decision to carry out a M&A transaction, the company is faced with a choice of whether it will be majority or minority M&A. In case of majority M&A, a firm acquires more than 50% of the shares of acquired company. In case of minority M&A, a firm less than 50% of the shares of acquired company. Kang N. and Johansson S. (2000) note that trends in cross-border M&As differ among developed and developing countries. As an entry mode into markets, companies form developed markets prefer cross-border majority M&As to minority M&As, while companies from developing countries cross-border minority M&As.

Further, types of mergers and acquisitions which are distinguished in existing research papers will be considered.

First approach to classification is separation on horizontal, vertical, conglomerate and concentric M&As.

Horizontal M&A takes place when companies are from the same industry, market segment and produce similar product. For example, merger of soft drink producers. In the result of this type of M&As, companies optimize costs and reduce or avoid competition.

Vertical M&A takes place when companies are participants of the same supply chain, but operate on the different levels of production of the same finished product. For example, merger of soft drink producer and supplier of raw materials.

Conglomerate M&A takes place when companies operate in totally unconnected industries. For example, merger of soft drink producer and automobile producer.

Concentric M&A takes place when companies produce different products or provide different services for the same customers. For example, merger of soft drink producer and cinema network.

Similar approach to classification suggests Hijzen A., Görg H. and Manchin M. (2008). They distinguish horizontal and non-horizontal M&As. Horizontal M&As they define as mergers between enterprises from the same industry, whereas non-horizontal M&As they define as mergers between enterprises from different industries.

Second approach is suggested by Kang N. and Johansson S. (2000). In their paper they distinguish inward and outward cross-border M&As. The main criterion for the classification is direction of capital movement. Inward cross-border M&As appear with an inward capital movement through the sale of domestic companies to foreign investors, while outward cross-border M&As appear with an outward capital movement through the purchase of all or parts of foreign companies. In addition, inward and outward cross-border M&As are closely connected,

since M&A transactions include at the same time both sales and purchases. There are a number of other approaches for classification of cross-border M&A, but they are not as relevant as those mentioned.

Third approach for classification suggested Zhang Z., Lyles M.A. and Wu C. (2020). The key feature for their classification is purpose of M&A. In the result, they distinguish exploration-oriented M&A and exploitation-oriented M&A. Exploration-oriented M&A focuses on development of new knowledge. Exploitation-oriented M&A focuses on existing knowledge.

After formulating the definition of cross-border M&A deals and highlighting of their types, the drivers behind these transactions will be considered.

Kang N. and Johansson S. (2000) form the macroeconomic, industry and enterprise level groups of cross-border M&A drivers. Recessions or booms in global economy represent macroeconomic drivers. They affect the degree of cross-border M&A activity and regional focus. Characteristics of sector such as structure of the market and market competition have a sustainable influence on cross-border M&As. Increased competition and slow growth in a global and local markets drive industrial restructuring and push companies to look for partners for cross-border deals in order to reduce costs and exploit synergy.

Apart from it, authors highlighting technological and government-related factors.

Technological innovation simultaneously complicates and facilitates cross-border M&A activity:

- by supposing international expansion;
- by opening new businesses and markets;
- by fast changing market conditions;
- by increasing the costs of R&D.

Appreciating technological development increases pressure on companies. Under these conditions ability to innovate, flexibility, competence and know-how become strategic assets for firms. In the result, they looking for partners with these strategic assets in order obtain them.

Government-related factors also may become drivers of cross-border activities. Implementation of various reforms and policies oriented on creation of new opportunities for M&A deals may confirm this idea.

Deng, P. and Yang, M. (2015) in their study supports the resource dependence logic of cross-border M&As. The higher level of resource and market availability in host countries tends to growth of the intensity of international acquisitions by firms. Thus, following this logic the position and actions of the government are decisive, since it has huge influence on market availability.

Further, existing studies on the aspects which affect cross-border M&A transaction parameters will be considered.

With intention of cross-border M&A deal conclusion, firms consider a wide range of conditions, which involves country-level, industry-level and firm-level factors, which are related both to the acquiring firm and to the target firm. At country and industry levels, company focuses on significant institutional features such as culture, political environment and legal environment, moreover company focuses on factors such as labor, capital and natural resources. As for the company level, the crucial parts of internationalization strategy of organizations are identification and evaluation of potential targets of acquisition in the host countries (Shimizu K., Hitt M.A., Vaidyanath D. and Pisano V., 2004).

Fu X., Cui Y., Fernandez V. and Zhao Y. (2018) support the idea of impact of institutions. They point out that countries with strong institutions and low taxes are very attractive for acquisitions.

Pablo E. (2009) argues that business environment variables and macroeconomic variables of countries mainly determine the buyer and a seller in a transaction. Very often acquiring company is a representative of countries with better macroeconomic indicators and investment protection. Company-specific variables affect the decision of the companies to participate or not in a cross-border M&A transactions. Among the buyers, companies with high corporate market-to-book ratios are more likely to take part in cross-border transactions rather than in local. The results of Jain S., Kashiramka S. and Jain P. K. (2019) supports the previous idea. Their findings show higher wealth effect from cross-border M&A when acquiring company from developed country with better institutional environment and more innovative technologies.

Geographical location also one of the key factors that play an important role in cross-border M&A deals. A situation when acquiring company prefers a target company from a neighbor country has a higher likelihood than a situation with company from a country which is located far away. Apart from it, Erel, I., Liao, R. C., Weisbach, M. S. (2012) point out that higher level of economic development and accounting quality are both predispose companies for the role of a buyer in cross-border transactions. In addition, they support the idea that one of the major factors determining the pattern of cross-border M&A deals is currency movements. Countries that have appreciating currencies with higher likelihood are represented by acquiring companies while countries that have depreciating currencies with higher likelihood are represented by target companies. Also, stock market indicators between the two countries influence the tendency of companies in these countries to take part in cross-border M&As. The bigger the difference in stock market performance between the two countries, the higher the likelihood that firms from a country with higher performance acquire firms from a country with

lower performance. In the result, the effect of currency fluctuations and stock market performance on M&As tendencies is likely to highlight a more general valuation effect according to which firms with a higher value tend to acquire firms with a lower value.

Li F., Liang T. and Zhang H. (2018) argue that uncertain economic policy of a country influence cross-border M&A. In case of home country, it encourages cross-border deals. For host country, on the contrary uncertain policy hinders cross-border M&A.

Levine R., Lin C. and Shen B. (2020) point out the impact of labor regulations on the choice of target firms. Companies prefer to acquire labor intensive target firms from countries with low level of labor regulations development. The reason behind that is higher opportunity to increase profit through restructuring of labor. The situation with countries which have high level of labor regulations development is more difficult for acquirer in terms of higher profit generation. In result, taking part in such deals acquirers frequently fail in achieving their initial goals.

Free trade agreements (FTA) between countries also contribute cross-border M&As. Li T., Xue Y., Lu J. and Li A. (2018) found out that presence of FTA with third countries have positive impact on cross-border M&A between companies from countries which have FTA. Apart from it, depending on the type of cross-border M&A the influence of FTA may be different. It concerns vertical, horizontal and conglomerate cross-border M&A types.

Moreover, one of the important aspects of the deal is the negotiation process. Ahammad M.F., Tarba S.Y., Liu Y. and Glaister K.W. (2016) note that communication between the acquiring firm and target firm is one of the key factors affecting effectiveness of negotiation process. Clear and regular communication allows both sides of the deal to manage and understand different expectations, thereby, increasing the likelihood of a successful negotiation process and future cross-border M&A deal. In addition, national cultural distance can form a barrier for clear and frequent communication. Thus, the lowest positive effect from communication is taking place when the national cultural distance between the acquiring company and target company is higher.

Apart from it, Caiazza R. and Volpe T. (2015) point out the importance of human integration process, since it turns two companies into a unique entity. Dealmakers must pay close attention to human capital issues in every phase of the M&A process, because people who work in firms at all levels, actually represent the firms' culture which affects value creation.

Chen F. and Wang Y. (2014) pay a lot of attention to analysis of components of resource similarity and resource complementarity. In their paper they argue that both similar and complementary resources will generate revenue for M&A. Also, authors point out that similarity and complementarity between the acquirer and target firms are both part of corporate synergy

function and have a positive impact on cross-border M&A, which need balanced strategies to resolve the integration problem.

Thus, we can conclude that cross-border M&A transaction is very complicated process that requires careful study of all aspects and conditions before the start of integration, since this can become a decisive factor of its success.

1.2 Effects of cross-border M&A on performance

In this part of literature review will be considered papers investigating the effects of cross-border M&As on the performance of companies and countries.

Since cross-border M&A transactions are a very complex process affecting many different aspects of the functioning of companies, the effect after their implementation can be observed not only at the company level, but also at the industry and country levels. The impact can be both positive and negative, and it can also vary in the short-term and long-term perspectives.

One of the effects at the country level can be a change in GDP per capita. (Zvezdanovic-Lobanova J., Kracun D. and Kavkler A., 2018) In the period after the transaction, the GDP per capita tends to decline. It can be explained by the foreign investors' participation in capital intensive industries and possible decrease in production due to significant and complex technological and management restructuring (financially unstable and unpredictable firms can be even liquidated). Nevertheless, there is an idea that this cross-border M&A might have a delayed mid-term effect. Increase in GDP per capita may be created from relations between home and host companies and the use of the integration advantages. However, organizational change, progress in functioning and the increase in efficiency could be expected only in medium term. Thus, cross-border M&As have negative and significant effect on GDP per capita in long-term perspective. Since some investors from foreign countries have a tendency to decrease production capacities and the number of employees in the long run or even to transfer their production in other countries in order to increase profitability.

At the industry level, the impact of cross-border M&A transactions extends to R&D investment. Buyers enter into deals with companies that develop or already have the product or technology they need, thereby getting what they need in a shorter period of time. After the transaction, the acquirer company begins to use the product or technology, and the target company's R&D investment is reduced (Szücs F., 2014). As a result, competition in the industry is weakening, and this, in aggregate, reduces the level of technological development of companies. Bertrand O. and Zuniga P. (2006) point out that the effect cross-border M&A of

transactions on R&D investment differs from industry to industry. In some, this influence is weak, while in some specific industries it is more noticeable. In medium-technology intensive industries R&D investments are growing, but the opposite effect is observed at low-technology intensive ones.

Further, consider what effects are highlighted at the company level. There are more of them than at the country and industry levels since they are more visible.

Kang N. and Johansson S. (2000) point out that, in general, M&As can have in a perspective the following types of economic effects:

- Capital accumulation;
- Employment creation;
- Technology transfer;
- Competition;
- Efficiency gains.

Cross-border M&As can contribute to capital accumulation in a foreign country in the longer term. For example, intangible assets, namely knowledge. Management skills or advanced technology are typical representatives.

Contribution to employment gains is also possible in the longer term, since very often the purpose of cross-border M&As is restructuring. Although, sometimes M&A deals succeed by reducing of capacities, which often means a loss of product lines and jobs which could also be significant for the survival of actions. In the long term, acquirer from a foreign country may try to expand the volume of their business in the host country after successful restructuring and create new workplaces.

M&As can face positive effect by promoting and supporting the transfer of new technological solutions, qualified management skills and other intangible assets to the host country.

Further, M&As may negatively affect competition or in a best case may not change market structure. However, with the help of financial resources and advanced management skills from parent companies, firms acquired by investors from foreign countries also may initiate competition in the host country. Moreover, if non-competitive target firms, which may not have a chance to stay at the market, are acquired and restructured by investors foreign country, M&As may even increase market competition in the host country.

In addition, all these effects of M&A performance such as technology transfer and enhancing competition can increase efficiency in the host country. (Kang N. and Johansson S., 2000).

Ranju P. and Mallikarjunappa T. (2018) argue that both acquiring and target companies experience significant positive wealth effect after announcement of cross-border M&A deal. Moreover, target companies experience more value creation than acquiring companies. Li Y., Han Y. and Fok R. (2020) supports the idea that acquiring company faces positive announcement return in cross-border M&A deals. However, at the same time the credit risk of acquirer increases significantly.

Stiebale J. and Trax M. (2011) support that cross-border deals bring higher growth rates of employment and capital in acquiring firms, apart from it, authors point out the growth of domestic sales as an economic effect. Also, they note that in some cases all listed effects accompanied by better growth of productivity. The positive effects of cross-border M&A on domestic activities might occur from increased domestic production and increased headquarter activities. Growth in domestic production is the consequence of entering a new foreign market. The same reason is behind growth in headquarters activities such as marketing and product development. In addition, in their work, authors note that the effects of transactions depend on the industry in which the firms operate.

Another effect of cross-border M&As suggest Nagano M. and Yuan Y. (2013). In their paper, they argue that cross-border M&As contributed to an increase in shareholder's value. Cross-border transactions provide an increase in shareholder's value for both acquirer company and target company. Also based on the assumption that a growth in shareholder's value soon after the deal announcement reflects expectations of future overall corporate value, their results confirmed that the recent increase in cross-border M&As contributed to a future progress in economic development as the two countries follow economic reforms oriented to market.

According to Zhu P. and Jog V., (2014) cross-border M&As significantly reduce target firm risk in the long-run, namely, in a period up to 3 years after the partial acquisitions. These changes in the target firm risk in cross-border M&As are completely connected with the changes in the international shareholder base of the target firm as well as the strength of investor right protection of the acquirer.

Col B. and Sen K. (2017) points out that companies with a weak corporate governance can improve it through cross-border M&A transaction. For this purpose, acquiring company should choose target company with a strong corporate governance. This point is applicable for companies from developing countries in case of acquiring firm from developed country.

However, cross-border M&A transactions have not only positive effects. Bertrand O. and Betschinger M. (2011) point out rather negative effects associated with acquisitions. In a best case, acquisitions do not destroy value. Moreover, their findings suggest that emerging market firms suffer from the inability to use value due to low M&A experience and capabilities,

especially when making cross-border M&As. Apart from it, Liu H., Li Y., Yang R., Li X. (2019) argue that, in general, the cross-border M&As did not bring improvements in financial performances and in many cases resulted in a degradation in firm profitability. Thus, the complexity and riskiness of cross-border transactions carries with it many potential negative consequences. Structural changes in the organization, the introduction of new technological solutions, the attraction of new employees, and a change in the marketing strategy are very strongly reforming the company and bring negative effects on performance. In most cases, these effects are short-term and will contribute to the emergence of new positive effects in the long run.

To sum up, cross-border M&As have both positive and negative consequences for companies, industries and countries. The positive effect of transactions in most cases is observed in the long run. One of the most common effects is the transfer of knowledge and technology.

1.3 Factors that affect cross-border M&As activity

Further, researches that determine the factors affecting the activities of cross-border M&As will be considered.

There are many factors that affect cross-border M&A transactions. Boateng A., Hua X., Uddin M. and Du M., (2014) argue that macroeconomic indicators impact significantly on number of cross-border M&A transactions. Country macroeconomic factors, namely, GDP, inflation, money supply, interest rates and exchange rate are the key elements in description of trends of cross-border M&A deals, since their role in it is crucial. Also, stock prices positively influence cross-border M&A deals. Acquirer company in cross-border M&A can minimize costs and exploit financial synergy by focus on the relative levels of share price, exchange rates and interest rates. However, interest rate and inflation can also have a negative impact on cross-border deals. Xie E., Reddy K.S. and Liang J. (2017), in general, support the previous idea. Moreover, they point out other country level factors such as geographic and cultural factors, level of financial markets' development, country's institutional and regulatory framework, investor protection and taxation. All these have various effects on cross-border transactions. In particular, the number of acquisitions in country is higher when this country has developed institutional framework regarding tax regulation, financial markets and corporate governance. On the contrary, in countries with institutional problems, such as the pressure of political party, government intervention in economy, corruption and bureaucracy barriers, the likelihood of the conclusion of cross-border M&A transaction is lower.

Apart from it, trade barriers, also have negative effects on cross-border M&A deals. However, it is important to note that the effect of this differs depending on whether mergers are horizontal or vertical. The reason behind that fact is that trade costs for the companies from the same and from different industries are various. (Hijzen A., Görg H. and Manchin M., 2008)

According to Francis J.R., Huang S.X. and Khurana I.K. (2015) similar accounting standards allow firms to reduce costs in terms of collection of information on foreign partners and enable them to better value and monitor target companies. Thus, similar Generally Accepted Accounting Principles (GAAP) for two countries, make identification of value-creation opportunities in the partner's country with small deviation easier for acquirers, since information costs become lower and opportunities in terms of evaluation of the performance of the targets become wider. In the result, volumes of cross-border M&A activity between two countries with similar GAAP are expectedly higher. In other words, a smaller difference in GAAP between two countries leads to more M&A activity in targets of a foreign country. These results hold after controlling for the effects of country-level characteristics such as capital market and economic development, geographic and cultural differences. Thus, both similarity in accounting standards and strictness of execution in target countries matter in cross-border M&As in terms of obtaining the net gains of similar accounting.

Further, consider in detail the factors affecting companies' performance in a period after the cross-border transaction.

Changqi W. and Ningling X. (2010) support the idea that pre-acquisition performance and government share in equities positively influence performance of companies after cross-border M&A deal conclusion. These two factors in combination provide stability for the company in first years after transaction. Besides, the results of M&A also depend on acquired share of a target company, since the announcement of the full acquisition of the target company allows obtaining a much higher profit than partial acquisition of the target company. Furthermore, total abnormal income in the situation with a full acquisition is permanent, while in the situation with partial acquisition, it is temporary (Rani, Yadav and Jain, 2015).

Liu H., Li Y., Yang R., Li X. (2019) revealed a number of connections between host country characteristics, company post-acquisition financial performance and company differences. Technological level of development of host country positively influences post-merger performance in the long run. Moreover, companies looking for acquisition resource-oriented foreign companies, also have better financial results in the long run. Apart from it, Wu X., Yang X., Yang H. and Lei H. (2016) note R&D intensity, innovation orientation as the major factors influencing the cross-border M&As' wealth effect. Besides, an important role plays

previous cross-border M&A experience of companies. Growth rates and the size of assets on the contrary have a significantly negative impact on cross-border deals' wealth effects.

Agyei-Boapeah H., Fosu S. and Ntim C. G. (2019) point out an impact of multinationality premium in cross-border M&A announcement return. In terms of M&A for multinational companies there are more benefits than costs. The reason behind is their capabilities, competences and resources.

As was mentioned earlier, labor regulations have a significant impact on choice of target country for cross-border M&A. However, labor regulations also affect the return of the deal. Small announcement returns and slight improvements in profit are possible consequences of the choice of a target company from a country with strong labor regulations. Apart from it, companies from labor-intensive industries on the contrary, generate higher announcement returns and profit improvements (Levine R., Lin C. and Shen B., 2020).

According to Boateng A., Du M., Bi X. and Lodorfos G. (2018) cultural differences between participants of cross-border M&A deal negatively affects shareholder value. Moreover, the level of this effect depends on size and previous experience of acquiring company. Zhu H., Zhu Q. and Ding Z. (2020) supports the idea of influence of culture on cross-border M&A performance. Culture in host countries negatively impacts wealth creation. Apart from it, CEOs can handle these effects.

Prasadh S., Thenmozhi M. and Hu M. (2020) in their paper argue that difference in economic freedom quality between home and host countries in cross-border M&A influence the share of purchased equities and post-acquisition performance in the long-run. According to their results, higher economic freedom distance leads to lower share of equity purchased, but better post-acquisition performance. In addition, Kayaci A. (2020) also revealed factor influencing share of equity purchased. This factor is institutional distance. Higher formal institutional distance leads to lower share of equities purchased, while higher informal institutional distance leads to higher share of equity purchased.

Dell'Acqua A., Etro L., Piva M. and Teti E. (2018) revealed specific characteristics of the deal and company features that have an impact on cumulative abnormal return. Such characteristic of the transaction as deal value and such feature of a company as acquiring firm size are suitable examples. Feng Z. and Xie S. (2020) also found factors affecting cumulative abnormal return. Payment method namely pure cash payment has positive impact on cumulative abnormal return. Also, profitability of companies taking part in cross-border deals positively influence cumulative abnormal return.

It is also necessary to note the influence of such a factor as the board of directors and its composition on the performance of cross-border M&As. This is confirmed by works of Bazel-

Shoham O., Lee S. M., Rivera M. J. and Shoham, A. (2017) who studied influence of gender diversity in a board, Cao, J., Ellis, K. M., and Li, M. (2018) who studied influence of cultural diversity in a board and other researchers on this topic. They examined the influence of individual characteristics of the board of directors. These characteristics will be considered in more detail in the next subsection.

1.4 Board structure and cross-border M&As

In recent years, many researchers have paid attention to the role of the board of directors in the performance of M&A. The results of their work show that characteristics of the board of directors can have both positive and negative effects on cross-border M&A transactions. Of course, there are also such characteristics the influence of which has not been confirmed. As it was noted previously, this paper seeks to answer the following research questions:

1. What characteristics of the board of directors influence cross-border M&A decision?

2. What characteristics of the board of directors influence cross-border M&A performance?

This subsection will reveal the characteristics of the board of directors the influence of which has been studied in the literature.

In the analysis of corporate governance in cross-border M&A deals, it is important to pay attention to the agency theory and conflicts between principal and agent. Agent theory reveals the possible problems that companies may face due to different priorities of owners and managers and focuses on the ways to reduce them. Apart from it, agency theory provides different governance mechanisms which can help to control the agents and their actions (Panda B. and Leepsa N.M., 2017). Among the various governance mechanisms which reduce agency problem, in this paper will be considered characteristics of structure of the board and CEO duality and age as most commonly used.

Board size

The board size is one of the most frequently used characteristics in the literature. This variable reflects the number of directors in the board. Each member of board has their own knowledge and experience, consequently the bigger the board is the more knowledge and experiences it accumulates. Based on this principle, researchers suppose that lager boards positively influence performance of cross-border M&As. Datta D., Basuil D. and Agarwal A. (2020) in their paper confirmed that lager boards influence shareholder value creation in post-acquisition period of cross-border M&As. However, lager board means more members with

different views and various levels of influence on the decision-making process. This factor can have a significant negative impact on the functioning of the board of directors and, accordingly, on the performance of cross-border M&As. The possibility of negative influence is confirmed by the study of Ben-Amar W., Boujenoui A. and Francoeur C. (2011). In their study authors found out that size of board of director is negatively related to value creation. Tampakoudis I., Nerantzidis M., Soubeniotis D. and Soutsas A. (2018) also support the negative influence of large boards. Their findings show that boards with 8 member and more have negative impact on abnormal return. According to the existing literature, the following hypotheses were formulated:

H1a: The performance of cross-border M&As is inversely related to the size of the board.
H1b: The share of equity purchase of target firm in cross-border M&As is inversely related to the size of the board.

Board independence

The board independence is a concept that assumes the majority of independent directors in a board. Independent directors are those who don't have any kind of relationships with a company except the position of director in a board. The idea behind this concept is to have board members who acts only in interests of shareholders and doesn't have any other personal interests in a company.

The findings of Chadam A. (2018) confirmed that board independence has significant and positive influence on shareholder value. Independent boards better control the CEO and direct the CEO to the long-term value creation perspective. Moreover, results of Datta D., Basuil D. and Agarwal A. (2020) also support the role of outside directors in value creation as well as their advising and diligent monitoring of top management. In turn, Ben-Amar W., Boujenoui A. and Francoeur C. (2011) found that board independence has positive correlation with the short-term cross-border M&A financial performance. Guo C. and Lv P. (2018) note that independent directors in a board positively influence cross-border M&A success and size of the deal. Apart from it, they bring to the board their resources and experience. In contrast, findings of Cao J., Ellis K. M. and Li M. (2018) show negative influence of independent directors on decision-making process and profitability of cross-border M&A. The reason behind is cultural difference which interferes cooperation in the board. According to the existing literature, the following hypotheses were formulated:

H2a: The number of independent directors in a board positively affects performance of cross-border M&A.

H2b: The number of independent directors in a board positively affects share of equity purchase of target firm in cross-border M&As performance of cross-border M&A.

CEO duality

The CEO duality is a situation when a CEO of a company at the same time is a chairman of a board of directors. This corporate governance feature in the company affects the effectiveness of its work. The same applies to the work of cross-border M&As. Influence can be both positive and negative. The personal interests of the CEO can influence the decisions of the chairman of the board of directors, which may reduce the efficiency of the company. This confirms the work of Masulis R. W., Wang C. and Xie F. (2011). Their finding show that CEO duality leads to implementation of low-value policies. However, Defrancq C., Huyghebaert N. and Luypaert M. (2020) found out that CEO duality are not always associated with negative influence on value creation. It depends on M&A context. According to the existing literature, the following hypotheses were formulated:

H3a: CEO duality negatively influences cross-border M&A performance.
H3b: CEO duality negatively influences share of equity purchase of target firm in cross-border M&As.

CEO age

Many studies have focused on examining the effects of board age on cross-border M&As. The age of CEO is also important taking into account its impact on decisions. An older board of directors and CEOs are more likely to adopt less risky and diversified strategies. At the same time younger boards and CEOs are associated with high-risk and more innovation-friendly solutions. This confirms Serfling M. (2013) by arguing that CEO age has a significant influence on company as well as M&A performance and on risk-taking behavior. In turn, findings of Bordean O. and Borza A. (2016) show that board age doesn't affect company performance. According to the existing literature, the following hypotheses were formulated:

H4a: CEO age significantly influence cross-border M&A performance.
H4b: CEO age significantly influence share of equity purchase of target firm in cross-border M&As.

Female directors

The number of recent studies pay a lot of attention to the role of female directors in the board and their influence on cross-border M&A decisions and returns. Ossorio M., (2020)

supports the idea that female directors have significant influence on strategic decisions, since they minimize the risk of mistake in evaluation of potential synergy from cross-border M&A deal. The findings of Bazel-Shoham O., Lee S. M., Rivera M. J. and Shoham A. (2017) also support this idea. Defrancq C., Huyghebaert N. and Luypaert M. (2020) note that influence of gender diversity on cross-border M&A exists, but it is weak. According to the existing literature, the following hypotheses were formulated:

H5a: Gender diversity positively influences cross-border M&A performance.

H5b: Gender diversity positively influences share of equity purchase of target firm in cross-border M&As.

Table 1. Hypotheses.

Hypotheses	Literature
H1a: The performance of cross-border M&As is inversely related to the size of the board. H1b: The share of equity purchase of target firm in cross-border M&As is inversely related to the size of the board.	Bazel-Shoham O., Lee S. M., Rivera M. J. and Shoham, A. (2017), Datta D., Basuil D. and Agarwal A. (2020), Tampakoudis I., Nerantzidis M., Soubeniotis D. and Soutsas A. (2018)
H2a: The number of independent directors in a board positively affects performance of cross-border M&A. H2b: The number of independent directors in a board positively affects share of equity purchase of target firm in cross-border M&As.	Chadam A. (2018), Bazel-Shoham O., Lee S. M., Rivera M. J. and Shoham, A. (2017), Datta D., Basuil D. and Agarwal A. (2020)
H3a: CEO duality negatively influences cross-border M&A performance. H3b: CEO duality negatively influences share of equity purchase of target firm in cross-border M&As.	Masulis R. W., Wang C. and Xie F. (2011), Bazel-Shoham O., Lee S. M., Rivera M. J. and Shoham, A. (2017), Defrancq C., Huyghebaert N. and Luypaert M. (2020)
H4a: CEO age significantly influence cross-border M&A performance. H4b: CEO age significantly influence share of equity purchase of target firm in cross-border M&As.	Serfling M. (2013), Bordean O. and Borza A. (2016)

H5a: Gender diversity positively influences cross-border M&A performance. H5b: Gender diversity positively influences share of equity purchase of target firm in cross-border M&As.	Bazel-Shoham O., Lee S. M., Rivera M. J. and Shoham A. (2017), Ossorio M., (2020), Defrancq C., Huyghebaert N. and Luypaert M. (2020)

Source: Author

1.5 Methods of post-M&A performance evaluation

In this paragraph methods used in the existing literature to assess the performance of companies in the post-M&A period will be considered. There are four most common approaches:

- Accounting-based method
- Event studies
- Experts' assessment method
- Executives' assessment method

Each of these methods has its own pluses and minuses, which will be discussed below.

Accounting-based method

Accounting-based method allow to measure performance in a long-term perspective of acquisition. This approach is based on a comparison of accounting indicators before and after the deal conclusion. The goal of company in each cross-border M&A is to obtain benefits which eventually in some point will be eventually reflected in the company's accounting statements (Tuch C. and O'Sullivan N., 2007). Many different accounting indicators can be used to assess performance of M&A.

Accounting-based method has the following advantages: (a) a lot of relevant information can be used to evaluate cross-border M&A effect; (b) this method is quite simple in comparison with other existing methods; (c) a simple access to information on companies.

Nevertheless, this method also has disadvantages: (a) this method includes the influence of external factors; (b) accounting statements can be subject to manipulation; (c) accounting policy can be different between companies and can also change over time.

Event studies

This method supposes the measurement of an "abnormal" stock price effect caused by event such as M&A deal, which includes the stock returns reflected expectations of the value of

the company in forthcoming time period. The period of time over which influence of event will be calculated is called event window and is determined by researcher. Scholars distinguish short-term and long-term event studies. Short-term event study is preliminary analysis, which can help to forecast future return. Long–term event study is based on the idea that stock price cannot immediately and correctly react on the M&A and it needs more time.

Event studies have the following advantages: (a) this method is objective public assessment; (b) open to public data, easy to collect; (c) short-term event study can take into account the impact of external factors.

Nonetheless, this method also has disadvantages: (a) the assumptions are difficult to be met; (b) this method evaluates the expected synergy effect not the real; (c) although stock price is easy to collect, it is difficult to implement them (Wang D. and Moini H., 2012).

Executives' assessment method

According to this method, the respondents, in this case executives of company, evaluate to what extent company's pre-M&A objectives are completed several years after the conclusion of the deal. Initial objectives of company are represented in values of financial and non-financial indicators. Apart from it, managers can provide their aggregate assessment of cross-border M&A performance. As respondents can be managers of both the acquiring company and the target company.

Executives' assessment method has the following advantages: (a) performance can be evaluated with a both financial and non-financial data; (b) access to private information; (c) this method can be used with all types of M&As.

However, this method has a number of disadvantages: (a) subjective evaluation (it includes executives' bias), (b) difficulties with collection of data from respondents.

Expert assessment method

This method is very similar to previous one. The difference between them is that respondents in this method are expert informants. Data can be used by researcher from ratings in financial report and security analysts. In order to increase veracity of finding scholars can use several informants. Advantages and disadvantages of this method are also quite similar with previous one. However, there is an exception. This method provides external evaluation. Also, it allows assessing the output of acquisition on the project level, particularly if the firms are multidivisional (Wang D. and Moini H., 2012). Nevertheless, this method also provides subjective assessment and face difficulties with limited information.

1.6 Overview of cross-border M&A transactions

In the history of mergers and acquisitions, there were various periods of increasing interest in transactions of this type. These periods are called waves, and in the period of one of these waves, the popularity of cross-border M&As began to grow rapidly. It was the fifth wave, which began in 1993. Since then, with help of globalization processes, cross-border transactions have become a common practice for companies operating in the global market. For many companies, cross-border M&As have replaced such type of FDI as a greenfield investment.
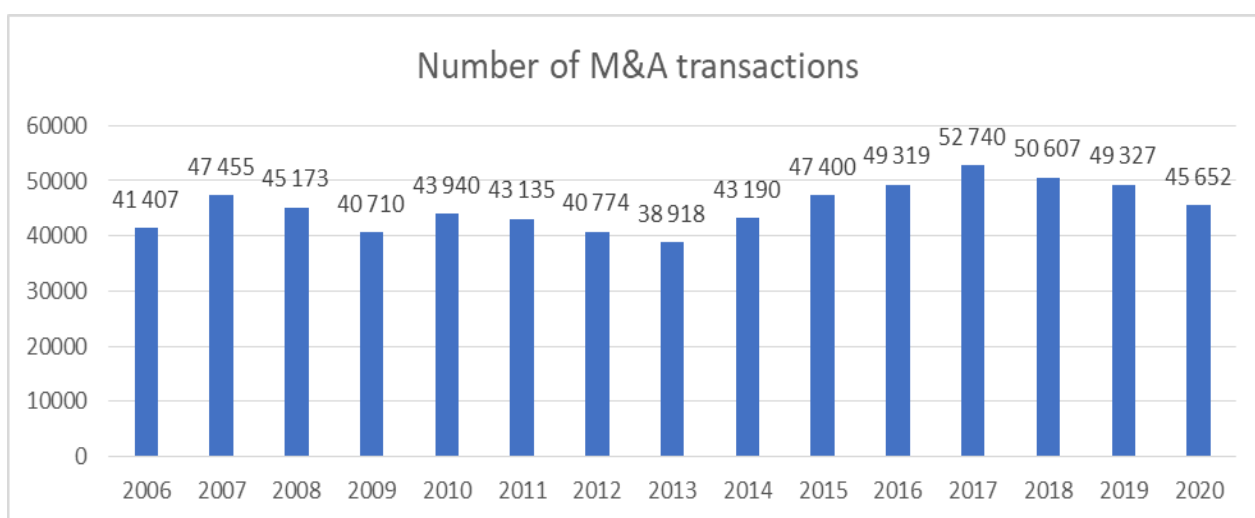

Figure 1. Number of M&A deals
Source: imaa-institute.org

Figure 1 shows that during a period from 2015 to 2019 the number of M&As was at the highest level in history. The largest number of M&As was concluded in 2017 (52 740 deals).
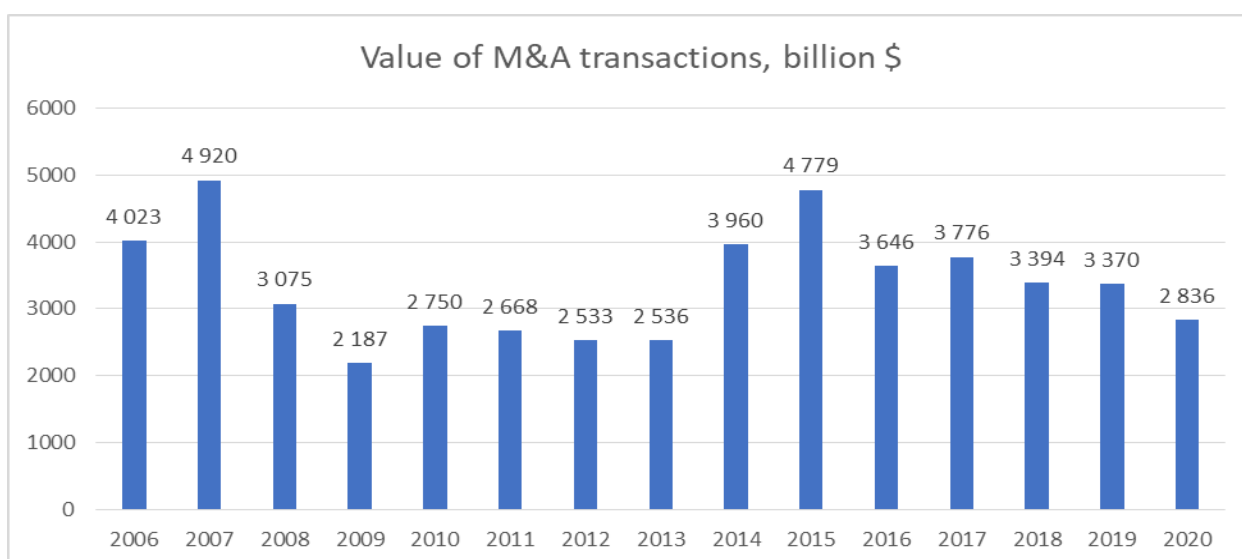

Figure 2. Value of M&A deals, billion $
Source: imaa-institute.org

However, despite this, in Figure 2, reflecting the value of transactions, the level is not so high. This is due to not the highest average transaction value in recent years, with the exception of 2015 or the dependence on mega M&As.
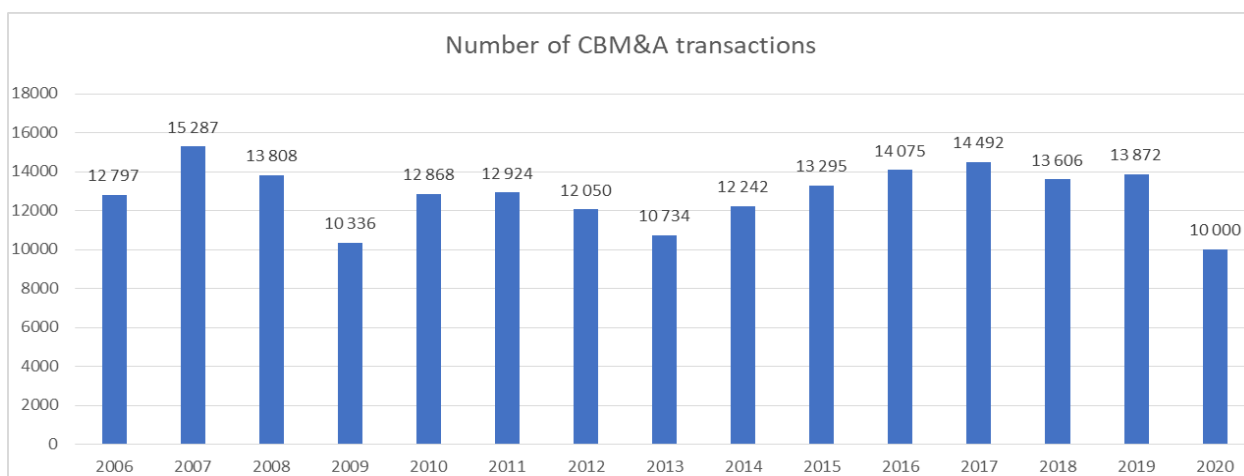

Figure 3. Number of CBM&A deals
Source: imaa-institute.org

The situation with the number of cross-border M&A transactions depicted in Figure 3 shows a similar picture with the total number of M&A transactions from the Figure 1. The largest number of cross-border M&As in 5 years was recorded in 2017 (14 492 deals) and the largest for all time in 2007 (15 287 deals). It is important to note a significant drop in the number of concluded deals in 2020. A total of 10 000 transactions were concluded. This is the lowest number since 2004, when 8 981 transactions were concluded. Of course, this fact was influenced by the closure of borders between countries, caused by the epidemiological situation in the world. When assessing the decrease in the number of concluded M&A transactions in 2020, it becomes clear that it is entirely due to the drop in the number of cross-border M&A deals.
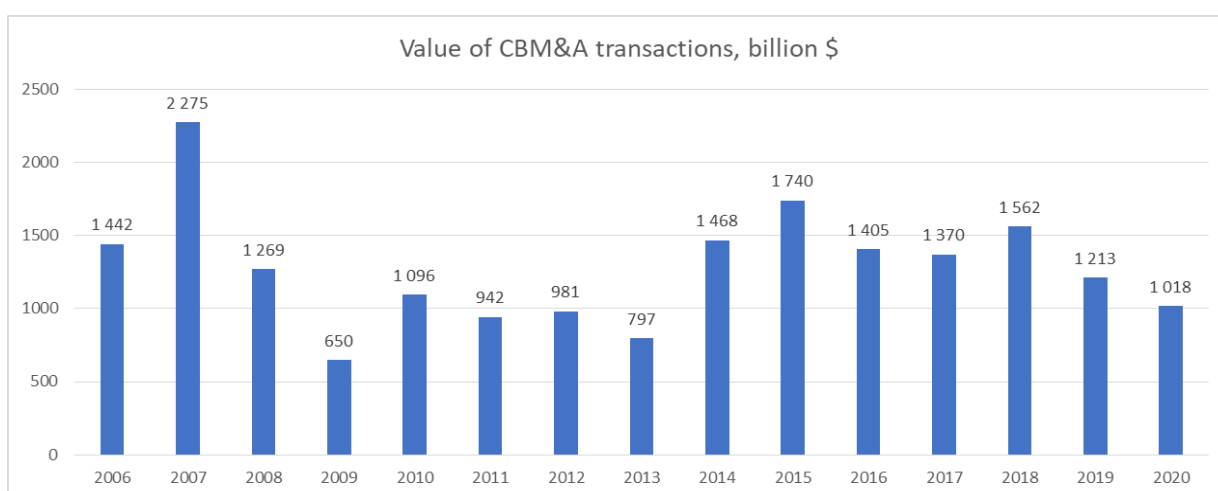

Figure 4. Value of CBM&A deals, billion $
Source: imaa-institute.org

According to Figure 4, the value of cross-border M&As over the past 6 years is at a high level after the recession in 2013. The highest value was achieved in 2015 (1 739,6 billion USD). The largest value for all time was recorded in 2007 (2 275,2 billion USD). It is also important to note that despite the fact that the drop in the number of M&A transactions was caused by the decrease in cross-border M&A transactions, the drop in the value of M&A transactions takes place to a greater extent due to the decrease in the average value of domestic M&A transactions.
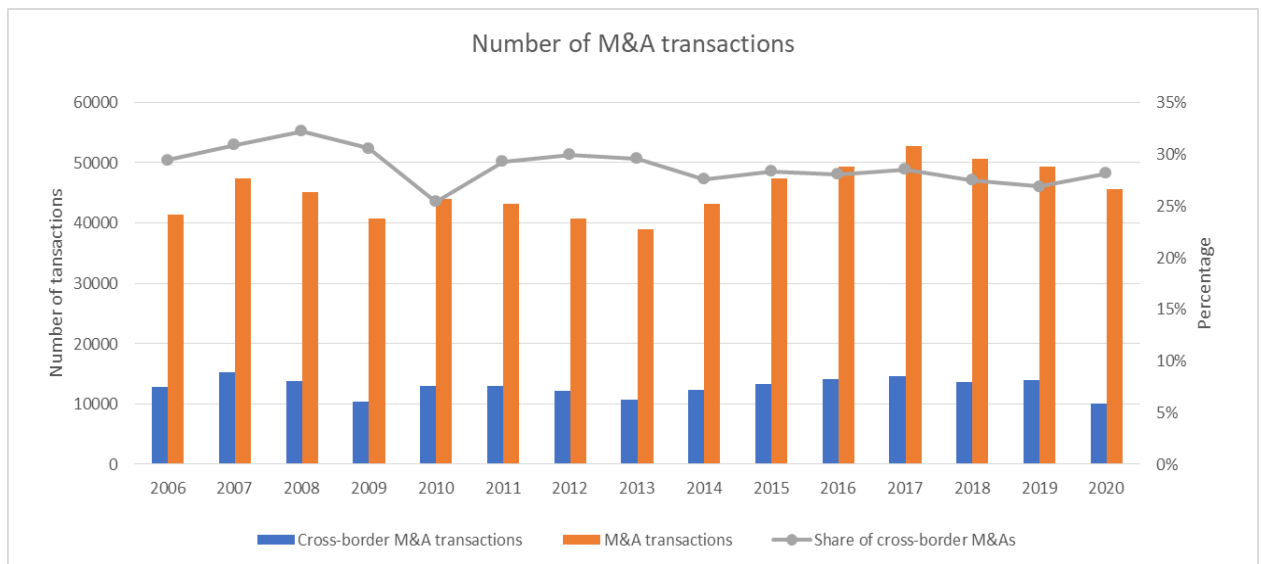

Figure 5. Number of M&A deals

Source: imaa-institute.org

In Figure 5, we see that despite a similar picture of the dynamics of the total number of M&A transactions and the number of cross-border M&A transactions between 2006 and 2020, the share of cross-border transactions tends to slight decrease.
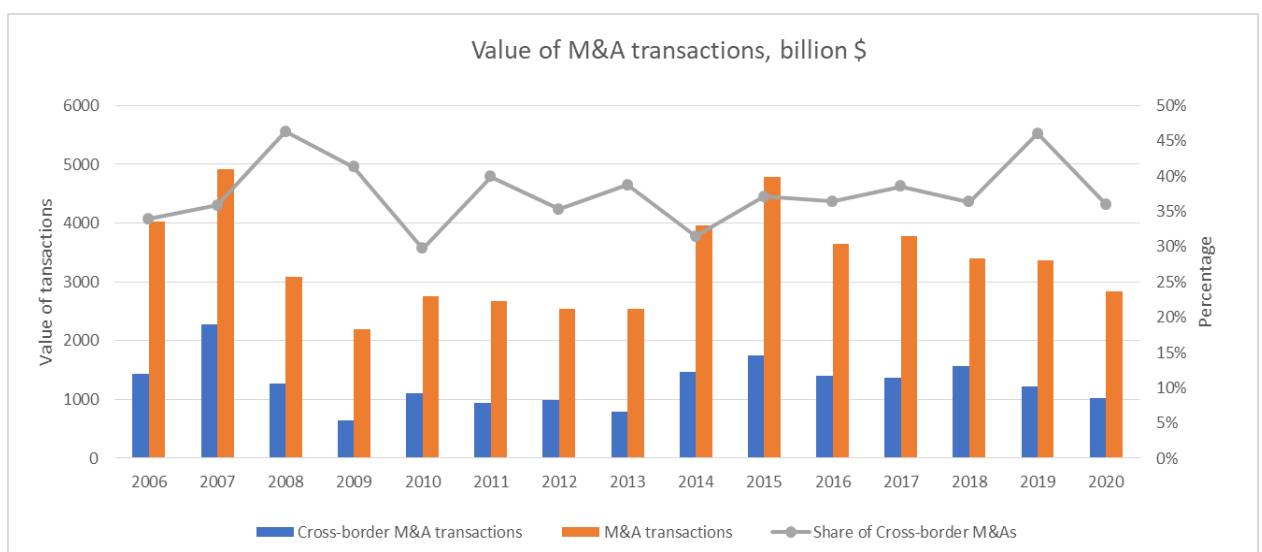

Figure 6. Number of M&A deals

Source: imaa-institute.org

The situation with the share of the value of cross-border M&A transactions reflected in Figure 6 was more volatile from 2006 to 2020 than the share of the number of transactions and also tends to decrease. In addition, it is worth noting that the share of the value of cross-border transactions in the total value of transactions is higher than the share of their number in the total number of transactions. This shows that the average value of cross-border transactions is higher than the value of domestic transactions.

Further, consider the situation with cross-border mergers and acquisitions in China, India and Russia.

As can be seen from Figure 7, China has a tendency to increase the number of cross-border M&As. The largest number of transactions was concluded in 2016 (438 deals).
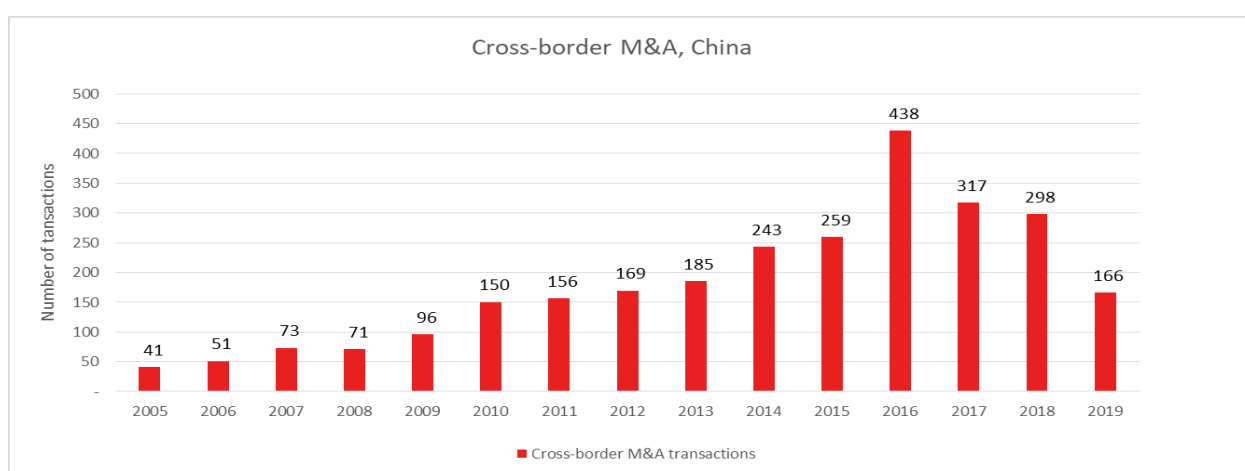

Figure 7. Cross-border M&A, China
Source: UNCTAD

In India, after the peak in 2007 (183 deals), the number of transactions is gradually decreasing. In 2019, the number of transactions amounted to 45 deals.
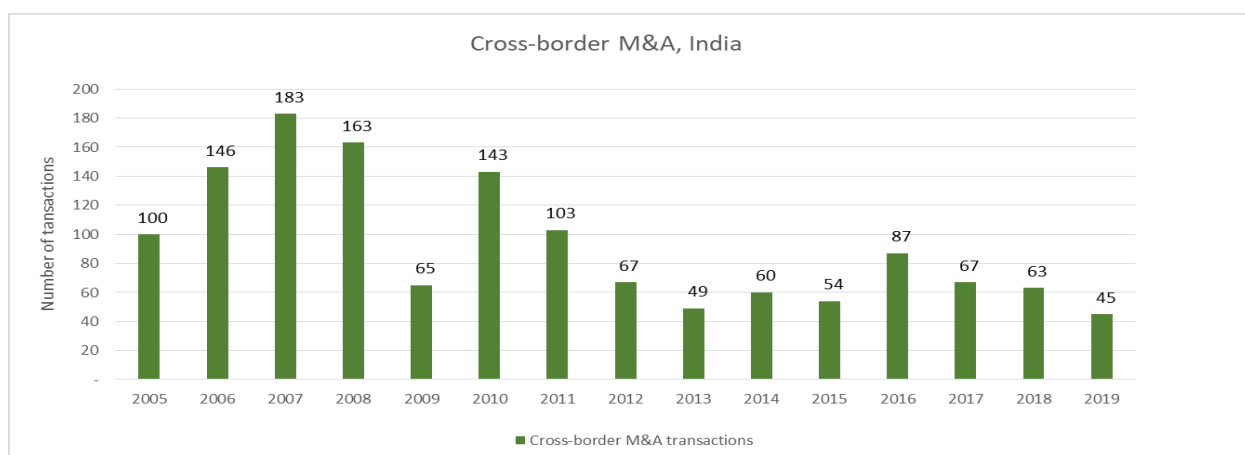

Figure 8. Cross-border M&A, India
Source: UNCTAD

In Russia, the situation is similar to the Indian one. After the peak in 2008 (109 deals), the number of transactions is gradually decreasing. However, since 2014, due to the geopolitical environment, the number of cross-border M&A deals has been reduced to almost zero. In 2019, the number of transactions amounted to 2 deals.
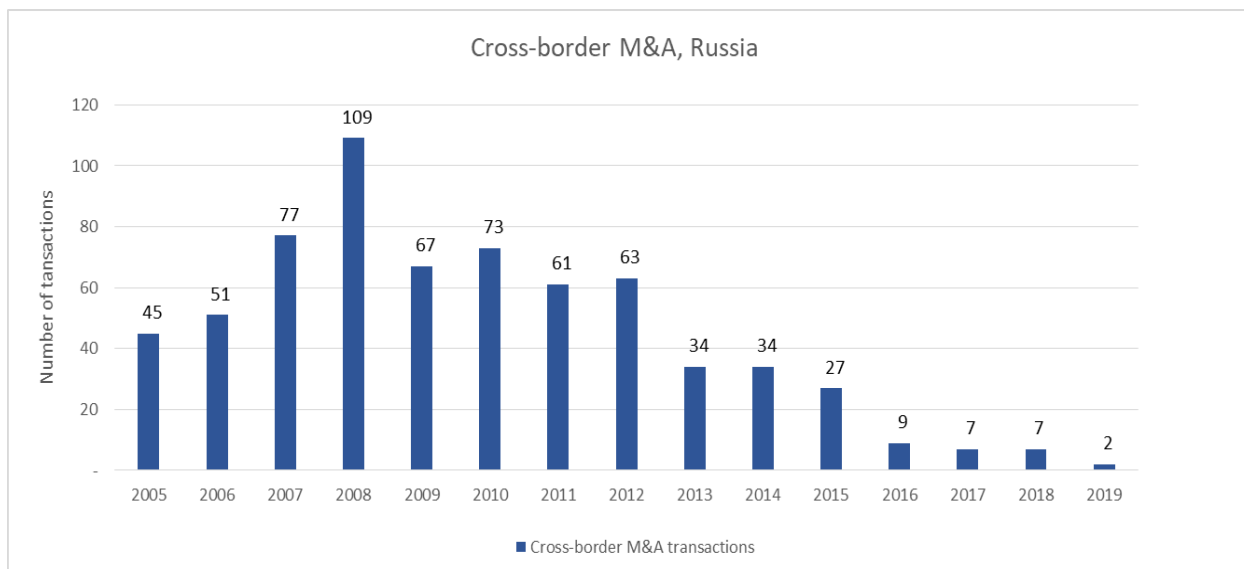

Figure 9. Cross-border M&A, Russia
Source: UNCTAD

Thus, we see that the economic crisis affected cross-border transactions in Russia and India, while China continued to increase their number.

Research gap:

From the analysis of the literature, we see that many studies examine the effect of cross-border M&As on various aspects of a company performance. However, it is worth noting that such a factor as the board of directors stands out from the rest because it directly affects the final decision, taking into account the influence of other factors. Therefore, the study of the influence of the composition of the board of directors on decision-making and post-performance is crucial for a success of a deal. Nevertheless, research results do not provide a clear understanding of whether there is a positive effect of particular board's characteristic on decision and performance of cross-border M&A, since sometimes they are contradictory.

In addition, most studies take as a basis data for one or two countries, which does not provide a clear and full picture. Also, it should be taken into account that the situation with cross-border M&As changes over time, so the need to conduct new research and thereby get new results on this topic is also exist.

For example, Caiazza R. and Volpe T. (2015) in their work note changes in cross-border M&As activity related to the role of countries with emerging economies. Chinese, Indian and Russian companies have been successful in venturing outside their domestic markets to conclude

deals, showing that they are well-managed, efficient and globally competitive and their activity challenge some commonly accepted assumptions, concepts and findings.

The effects of these new trends on performance of companies from emerging economies can be learned from detailed studies of this phenomenon using empirical data from multiple firms in different emerging economy countries (Datta D., Basuil D. and Agarwal A., 2020).

As a result of the literature review, a research gap was identified and hypotheses were formulated.

CHAPTER 2. METHODOLOGY OF EMPIRICAL RESEARCH ON INFLUNCE OF BOARD COMPOSITION ON CROSS-BORDER M&A

As it was noted previously, the goal of this master thesis is to reveal the impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions. The main objective of this paper is to identify the characteristics of the board of directors that affect M&A decision and post-M&A performance. This master thesis seeks to answer formulated research questions. The answers received to these questions will allow achieving the research goal. In the first chapter, theoretical aspects of this issue were investigated; in the second chapter, a plan of practical work on this issue will be considered.

This paper is aimed at a more in-depth study of a specific issue that was not sufficiently studied earlier. In a previous chapter, hypotheses regarding this issue were formulated and they will be tested further. Thus, in the thesis the explanatory type of research is used.

Various primary resources will be used for the collection of data in this thesis. In particular, databases will be used to collect information on cross-border M&A transactions. Annual reports will be used to collect data on companies involved in the transactions.

2.1 Method description

In order to answer the formulated research questions and to test hypotheses, it is necessary to choose a research method. In the literature review were revealed the main methods used to assess the performance of companies in the period after M&A transactions. Of these methods, event study and accounting-based method are most commonly used by researchers. Their popularity among scholars can be explained by the simplicity of data collection in comparison with other methods.

In this work, the choice is made in favor of accounting-based method. The reason behind this choice is the fact that this method allows to assess the real effect of the conclusion of cross-border M&A transaction. Apart from it, as it was mentioned in the review of the literature, the effect of cross-border M&As is most often manifested in the long-run, for which this method is most suitable.

The accounting-based method supposes comparison of accounting information before and after the conclusion of the cross-border M&A transaction. In order to perform it, first, it is necessarily to select the accounting indicators, which will be taken into account. In their research, scholars choose various indicators depending on which aspect of the company's performance they want to assess. Among such aspects may be profitability, efficiency and effectiveness of the company.

The next step is to select the period over which the changes in accounting indicators will be assessed. The period can be either short or long, however, in case of a too short period; the influence of the transaction may not yet appear, at the same time, in case of a too long period, the number of external factors influencing the result of the analysis increases.

Further, after selecting all indicators and the time period, it is necessarily to calculate the change in the average values of the accounting indicators in the period before and after the cross-border M&A transaction.

The next step in this work will be to assess the impact of the selected characteristics of the board of directors on the change in accounting indicators reflecting the company's performance after the transaction. For this purpose, a regression analysis will be carried out. Based on the results of the analysis, answers to the formulated research questions will be received and hypotheses will be tested.

2.2 Sample

The study will focus only on finally concluded deals on cross-border M&As for the period from 2010 to 2015. Data on the performance of companies will be collected for the period beginning 3 years before the year of completion of the transaction and ending 3 years after. It is necessary in order to compare the dynamics of indicators before the transaction and after. Thus, data on cross-border M&As which were completed between 2010 and 2015 will be collected, while financial performance indicators will be collected between 2007 and 2018. Data on board characteristics will be collected for the last year before the deal conclusion. The sample includes only deals in which acquiring companies are representatives of manufacturing industries of emerging markets. From developing countries were selected: China, India and Russia, as representatives of some of the fastest growing countries. The choice of manufacturing industries is caused by the fact that for developing countries the majority of cross-border M&A deals are concluded in these industries. This is largely due to the attempt by countries with emerging economies to gain access to new technologies.

Thus, the sample of this study should meet the following criteria:
1. Deal type: cross-border M&A;
2. Period of the deal: FY 2010-2015;
3. Deal status: completed;
4. Region of acquirer: China, India, Russia;
5. Industry: manufacturing industries.

However, only those companies for which there is relevant information can get into the final sample.

Further, it is necessary to identify sources of data on cross-border M&A transactions committed by emerging market firms. For this purpose, mergers and acquisitions database ZEPHYR from Bureau van Dijk will be used. This database contains a list of all cross-border M&A transactions involving companies from the emerging market firms. In addition, it allows getting all the necessary information for each transaction separately. Besides, this database allows forming the sample which is necessary. In our case filters for developing countries and finally completed transaction were used. Also, ZEPHYR helps to create different statistical reports specifically for the used sample. Thus, from this database a list of transactions, information about all participants, data, the value of transactions and the percentage of equities bought out will be received.

Also, for the research it is necessary to collect board characteristics and accounting data of companies that participated in cross-border M&A transactions. For this purpose, annual reports of companies and Thomson Reuters databases will be used. In majority of cases, all the information needed for this research is available in company's annual reports. Accounting information can be extracted from the financial section of report. In case of a lack of the required indicator, it is always possible to calculate it from the available data. Board composition can be extracted from corporate governance section.

2.3 Variables

In order to test hypotheses, for a start it is necessary to understand by what indicators this can be done. Thus, it is necessary to identify dependent, independent, and control variables that will help in testing.

Dependent

In this paper will be applied accounting approach of companies' performance assessment. It is supposing to use accounting information of company for assessment of changes in performance.

Rao-Nicholson, Salaber and Cao (2015) in their paper suggested using such indicators as ROA (return on assets) and Sales margin for evaluation of company performance after M&A. Akben-Selcuk E. and Altiok-Yilmaz A. (2011), Ossorio M., (2020) used ROA (return on assets), ROE (return on equity), ROS (return on sales). Leepsa N. M. and Mishra C.S. (2012)

investigated post-merger performance of companies from India by using profitability (ROCE, RONW), liquidity (quick ratio) and leverage (total debt ratio) parameters.

As an indicator responsible for the performance of cross-border M&A in this master thesis will be used ROA. Namely, as was already mentioned, the deviation between the average ROA values for 3 years before the transaction and 3 years after the transaction will be taken. This indicator allows assessing company's profitability after the transaction and is the most popular accounting indicators among scholars (Thanos I. C. and Papadakis V. M., 2011).

ROA (return on assets) - indicator that will be calculated as net income divided by total assets of the company. Thus, ROA shows how effectively the company's assets are used to generate income.

$$ROA = \frac{Net\ income}{Total\ assets}$$

As an indicator responsible for the decision in cross-border M&A, will be used share of equity in cross-border M&A deals bought by acquiring company (Prasadh S., Thenmozhi M. and Hu M., 2020).

Independent

Board size - this variable reflects the number of members in the board of directors of acquirer company.

Board independence – indicator that will be calculated as a number of independent directors divided by total number of directors in the board.

$$Board\ independence = \frac{number\ of\ independent\ directors}{total\ number\ of\ directors}$$

CEO duality – is a dummy variable. It will be equal «1» for companies in which CEO is a chairman of the board of directors simultaneously and «0», if it is not true.

CEO age – age of Chief executive officer of a company for the year of the deal.

Gender diversity – indicator that will be calculated as a number of female directors divided by total number of directors in the board.

$$Gender\ diversity = \frac{number\ of\ female\ directors}{total\ number\ of\ directors}$$

Control

As a control variable in this study will be used the number of employees of a company for the last year before the cross-border M&A transaction. This indicator will take into account the differences in size between the companies in the sample. In order to regulate skewness, there will be not just the number of company employees, but the natural logarithm. Besides, the natural logarithm of the deal value also will be used as control variable.

Based on the selected indicators, the following data will be collected for companies participating in cross-border M&A deals: net income, total assets, number of employees, board size, number of independent directors of the board, total number of members in the board, age of CEO of a company.

2.4 Models

To study the effect of the composition of the board of directors on cross-border M&A decision and performance will be used the regression analysis. In order to carry out a regression analysis, the following equations will be applied:

MODEL 1:

$$\Delta ROA_i = \alpha + \beta_1 board\_size + \beta_2 board\_independence + \beta_3 CEO\_duality + \beta_4 CEO\_age + \beta_5 gender\_diversity + \beta_6 number\_of\_employees + \beta_7 deal\_value + \varepsilon_i$$

MODEL 2:

$$Share\_of\_equity\_purshase_i = \alpha + \beta_1 board\_size + \beta_2 board\_independence + \beta_3 CEO\_duality + \beta_4 CEO\_age + \beta_5 gender\_diversity + \beta_6 number\_of\_employees + \beta_7 deal\_value + \varepsilon_i$$

- ΔROA – deviation between average ROA for 3 before deal and 3 years after;
- Share of equity purchase – share of equities bought by company acquirer;
- i – index of cross-border M&A transaction;
- α – constant variable;
- β_{1-5} – coefficients for independent variables;
- board_size – board of directors size of a company acquirer;
- board_independence – share of independent directors in a board of a company acquirer;
- CEO_duality – CEO also holds the position of chairman of the board of directors;

- CEO_age – age of CEO of a company;

- gender_diversity – share of female directors in a board of a company acquirer;

- β_{6-7} – coefficient for control variable;

- number_of_employees – natural logarithm of number of people worked in a company acquirer;

- deal value – natural logarithm of value of deal;

- ε_i – normally distributed random error.

Using equations, the formulated hypotheses can be tested and thereby answers to the research questions posed can be obtained. For this, it is necessary to conduct a regression analysis and obtain the values of the coefficients. The results of the study will be discussed in the next chapter.

CHAPTER 3. FINDINGS OF EMPIRICAL STUDY AND DISCUSSION

This chapter will examine the findings of an empirical study. The first part will discuss the characteristics of the final sample. In the second part, the results of the multicollinearity test and regression analysis.

3.1 Final sample characteristics

The final sample for analysis included 87 transactions made by companies. It consists of companies all the necessary information on which was in the open access. Information on transactions was collected from ZEPHYR and data on companies was collected from Thomson Reuters database and from annual reports of companies.

In accordance with Figure 7, out of 87 transactions, 41 deal were concluded by companies from China, 24 deals from Russia and 22 deals from India. Thus, Chinese companies from the manufacturing industries are most active in cross-border M&As in a comparison with Russia and India. As it was mentioned in the first chapter of the work, one of the effects of cross-border transactions is a technology transfer, which can be seen on the example of China and its economy.
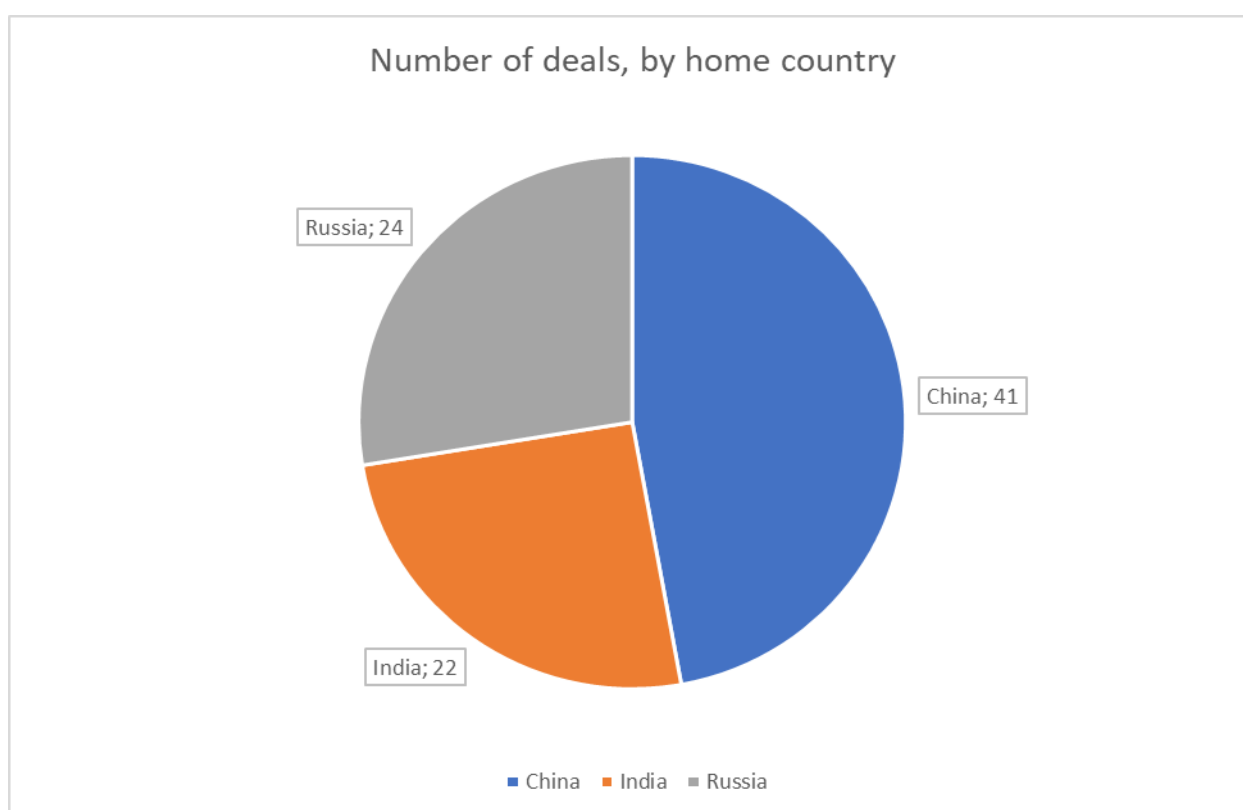

Figure 10. Number of deals, by home country
Source: ZEPHYR

However, despite the superiority in the number of transactions, China is inferior to Russia in their value. The value of transactions of Russian companies amounted to 73 billion $, Chinese companies 49 billion $ and Indian 7 billion $. This is primarily due to the fact that in the period from 2010 to 2015, Russian companies concluded several very large transactions, which account for the majority of the value. At the same time the number of mega-deals (more than 1 billion) in China is 17 and in Russia 9.
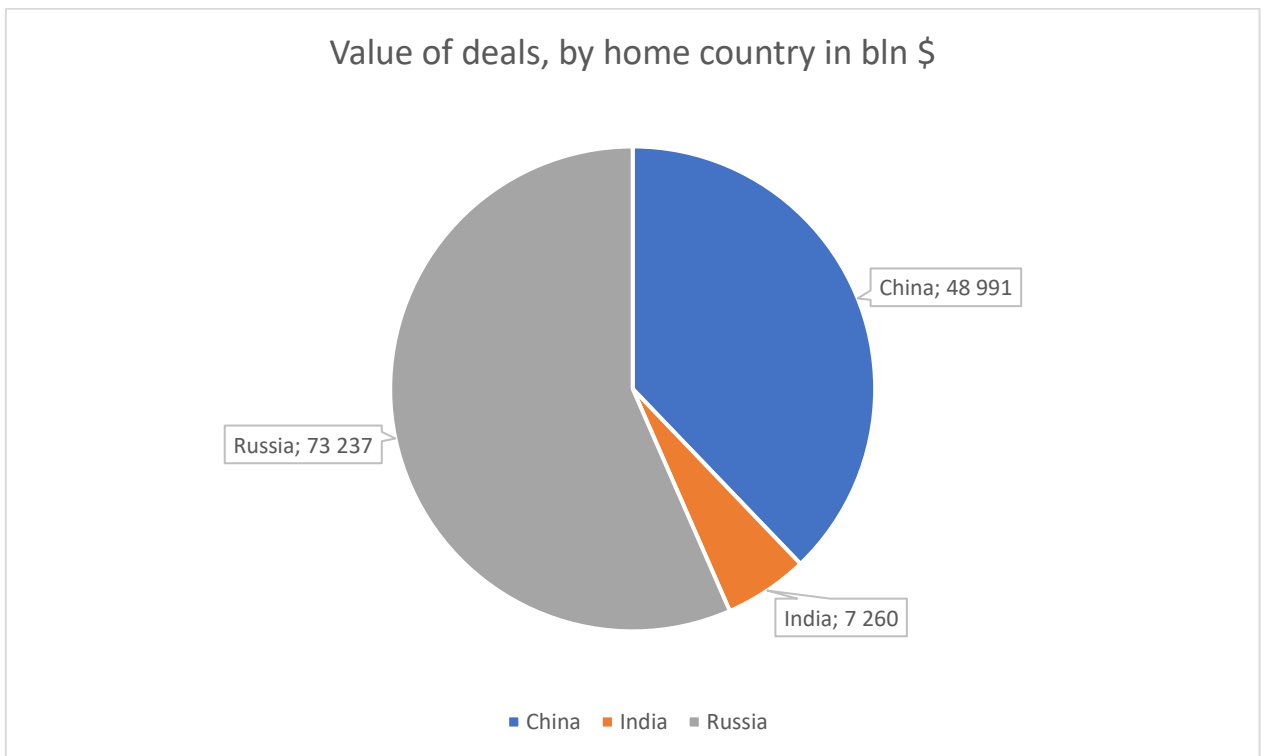
Figure 11. Value of deals, by home country in bln $
Source: ZEPHYR

Thus, we see that between 2010 and 2015, China was the most active in the number of transactions in manufacturing industries, while Russia concluded larger deals in terms of value.

3.2 Results of regression analysis

As was mentioned earlier, the final sample included transactions on cross-border M&As from 01.01.2010 to 31.12.2015, which included companies from manufacturing industries from India, China and Russia. For these companies, data was collected in accordance with the selected variables and criteria. In the Table 2 the summary in the form of descriptive statistics is presented.

Table 2. Descriptive statistics

Variable	Number of obsevations	Min	Max	Mean	Standard deviation
ΔROA	87	-0,836	0,358	-0,051	0,158
Share of equity purchase	87	0,048	1,000	0,774	0,301
Board size	87	4	18	9,805	2,583
Board independence	87	0,000	0,833	0,435	0,173
CEO duality	87	0	1	0,207	0,407
CEO age	87	30	70	51,483	7,167
Gender diversity	87	0	0,4	0,091	0,093
Number of employees*	87	4,844	13,749	9,645	2,043
Deal value*	87	3,933	10,920	6,056	1,394

*Natural logarithm
Source: SPSS

The Table 2 shows that in the sample, on average, the board of directors includes 9-10 members of which 4-5 are independent. On average, board includes 1 female director. In most companies, CEOs do not combine the post of chairman of the board of directors. On average the age of CEO in company taking part in cross-border M&A is 51-52 years.

The next step in the analysis is multicollinearity check of our independent variables. The results are presented below in table 3.

Table 3. Multicollinearity.

	Board size	Board independence	CEO duality	CEO age	Gender diversity	Number of employees	Deal value*
Board size	1,000						
Board independence	-0,238	1,000					
CEO duality	-0,016	0,039	1,000				
CEO age	0,266	0,066	0,029	1,000			
Gender diversity	-0,213	-0,001	-0,046	-0,110	1,000		
Number of employees*	0,415	-0,142	-0,292	0,067	-0,165	1,000	
Deal value*	0,100	-0,147	-0,081	-0,083	0,078	0,289	1,000

*Natural logarithm.
Source: SPSS

The obtained correlation coefficients do not exceed normal values, which show the absence of multicollinearity between our independent variables. The highest correlation coefficient is observed between the size of the board of directors and the number of employees. It amounted to 0.415, which is high, but does not exceed the values confirming multicollinearity. The remaining values of the correlation coefficients are less than 0.415.

After we have confirmed the absence of multicollinearity between the independent variables, we can proceed to determine the regression coefficients for Model 1 and Model 2. For this, the software product SPSS Statistics was used. The results obtained are presented in table 4 and table 5.

Table 4. Results of regression analysis for Model 1.

Significance level of F criteria	0,52%
R-squared	21,97%
ΔROA	Coefficient
Board size	-0,022*
Board independence	0,161**
CEO duality	0,008
CEO age	0,003
Gender diversity	0,208
Number of employees***	-0,007
Deal value***	0,012

Significant at the 1% level.
**Significant at the 10% level.*
***Natural logarithm.*
Source: SPSS

According to the results of the analysis for Model 1, we see that the model is statistically significant and accounts for 21.97% of the full regression. Among the independent variables, the size of the board of directors is statistically significant at 1% level and the independence of the board at 10% level. The influence of other variables is not statistically significant.

Based on the results of the regression analysis, it is possible to draw conclusions on testing hypotheses for model 1. The variable board_size (size of the board of directors) was statistically significant at 1% level and has a negative regression coefficient, which indicates the inverse relation between the dependent and the independent variable. This means that Hypothesis 1a is confirmed and the performance of cross-border M&As is inversely related to the size of the board of directors. The variable board_independence (share of independent

directors in the board) was statistically significant at 10% level. This means that Hypothesis 2a is confirmed and the number of independent directors in a board positively affects performance of cross-border M&A. The variable CEO_duality (CEO also holds the position of chairman of the board of directors) is statistically insignificant. This means that Hypotheses 3a is rejected and CEO duality doesn't affect cross-border M&A performance. The variable CEO_age doesn't have any statistically significant support. In the result, Hypotheses 4a is also rejected. Moreover, it means that analysis didn't confirm the relation between CEO age and cross-border M&A performance. Impact of female directors in a board on performance cross-border M&A didn't find any significant confirmation. Consequently, Hypothesis 5a is rejected. Thus, 2 out of 5 hypotheses that relate to model 1 were confirmed. Our control variables (number of employees, deal value) also are statistically insignificant.

Table 5. Results of regression analysis for Model 2.

Significance level of F criteria	1,11%
R-squared	20,03%
Share of equity purchase	Coefficient
Board size	0,018
Board independence	0,444*
CEO duality	0,008
CEO age	-0,003
Gender diversity	0,670**
Number of employees***	-0,043*
Deal value***	0,043**

Significant at the 5% level.
**Significant at the 10% level.*
***Natural logarithm.*
Source: SPSS

According to the results of the analysis for Model 2, we see that the model is statistically significant and accounts for 20.03% of the full regression. Among the independent variables, the board_independence is statistically significant at 5% level and gender_diversity at 10% level. The influence of other independent variables is not statistically significant.

Based on the results of the regression analysis, it is possible to draw conclusions on testing hypotheses for model 2. The variable board_size (size of the board of directors) is statistically insignificant. This means that Hypothesis 1b is rejected and the share of equity purchase in cross-border M&As doesn't have relation with size of the board of directors. The variable board_independence (share of independent directors in the board) is statistically

significant at 5% level. This means that Hypothesis 2b is confirmed and the number of independent directors in a board positively affects share of equity purchase of target firm in cross-border M&A. The variable CEO_duality (CEO also holds the position of chairman of the board of directors) is statistically insignificant. This means that Hypothesis 3b is rejected and the share of equity purchase in cross-border M&As doesn't have relation with CEO duality. The variable CEO_age is also statistically insignificant Consequently, Hypothesis 4b is rejected and CEO age doesn't influence share of equity purchase of target firm in cross-border M&As. The variable gender_diversity (share of female directors in the board) is statistically significant at 10% level. This means that Hypothesis 5b is confirmed and the number of female directors in a board positively affects share of equity purchase of target firm in cross-border M&A. Thus, 2 out of 5 hypotheses that relate to model 2 were confirmed. Control variable number_of_employees is statistically significant at 5% level, at the same time control variable deal_value is statistically significant at 10% level.

In addition, each model has confirmed hypotheses, therefore, the influence of the board of directors on decisions and performance of cross-border M&A is confirmed. In the next chapter, the results of the study will be summarized and discussed, as well as theoretical and practical recommendations.

3.3 Summary

This paper explores the impact of board composition on the decision and performance of cross-border M&As. In the beginning, the goals and objectives of the study were formulated. In the first chapter, a review of the existing literature on this topic was conducted with the aim of identifying indicators of decisions and performance of emerging market companies in cross-border transactions. A literature review also helped with formulation of hypotheses and determination of the research methodology. The second chapter describes the research methodology and obtained models, moreover, it defines the criteria for the sample and sources of information. The third chapter describes the analysis and the results of the study. The influence of the size of the board of directors and independence of the board on the performance of emerging market companies in cross-border M&A transactions was confirmed. Moreover, the influence of number of independent and female directors in the board on M&A decision also was supported by analysis. The influence of CEO age and CEO duality on M&A decision as well as on performance of emerging market companies didn't find any evidences.

3.4 Limitations and recommendations for future research

Like most studies, this work has limitations that may become a field for future research.

Firstly, the availability and relevance of the necessary information. For a number of companies in the public domain there was no information that was necessary for the study. As a result, these companies were excluded from the sample.

Secondly, in addition to the selected characteristics of the board of directors, there are also such as the level of education of board members, their experience and connections, average age of members, attendance of board meetings etc.

In addition, there are many external factors that also affect cross-border transactions and can be taken into account. Moreover, there are specifics of industries, which also influence the performance of companies.

Also, the study focuses on the example of manufacturing industries and companies from emerging markets. In this China, India and Russia were chosen. For future research, it is possible to focus on the other countries or a group of countries and other industries.

3.5 Theoretical and practical implications

This study contributes to the literature by increasing perceptions of the impact of board composition on M&A decision and performance of cross-border M&A in emerging economies. In particular, it determined board characteristics which influence M&A decision and performance cross-border M&A. Apart from it, this study evaluated the impact of these characteristics. In addition, it provided support to already existing works. Moreover, in the context of the growing economies of developing countries, the situation with cross-border mergers and acquisitions is changing rapidly and each study more and more complements the existing knowledge.

This study also has managerial implications. First, this study shows the importance of the board of directors for cross-border M&As. Further, the large number of members on the board of directors negatively affects the results after the transaction. Thus, it is important for companies to correctly evaluate the necessity of each board member and to maintain the size of the board of directors that allows effective decision making. Besides, a large number of independent directors in a board have a positive effect on the outcome of the transaction. Thus, it is useful for companies to invite independent directors to their boards. The reason behind is not only that they don't have any connections with executives, but that they have knowledge, experience and other competencies from their area. Apart from it, gender diversity positively affects the decisions. Thus, companies should invite in their boards female directors. They contribute to the board of directors different point of view on situations and help better evaluate potential effects of synergy of companies after M&A transactions. Also, it is important to mention that there wasn't

found any effect of CEO age and CEO duality on M&A decision and performance. Thus, these characteristics are not significant for emerging market firms.

CONCLUSION

In the beginning of the study the goal of research was to reveal the impact of board of directors composition on M&A decision and post-M&A performance in cross-border M&A transactions. In the course of the study, a review of the existing literature was carried out, the research methodology was determined, dependent, independent and control variables were selected, regression models were obtained and analysis was performed. Based on the results of the analysis, conclusions were drawn. Thus, all the objectives of the study were completed and the goals achieved.

The analysis confirmed the hypothesis about inverse relation of the size of the board of directors with the performance of cross-border M&As of emerging market firms. Thus, a large number of members on the board of directors have a negative impact. This is due to the large number of people with different backgrounds, experience, influence and personal interests.

The positive influence of independent directors on the board was also confirmed. This is due to a lack of personal interests and a focus on increasing of shareholders value. Moreover, positive influence of board independence and gender diversity on share of equity purchase of target firm also found support.

Apart from it, an impact of CEO duality and CEO age didn't find any confirmation. In the result, influence of a CEO as board member on M&A decision and performance of company after transaction is not significant enough.

Thus, the composition of the board of directors is important in cross-border M&As. The results of the study confirm this. However, this topic is still poorly discovered and requires more attention.

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