

## CROSS-BORDER M&A AND INTERNATIONAL STOCK MARKET INTEGRATION – EVIDENCE FROM TURKEY

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### Abstract

The objective of this paper is to analyze the impact of cross-border takeover announcements on Turkish shareholders wealth with a focus on capital market integration. We therefore examine whether announcement effects of takeovers differ for shareholders in a country like Turkey with limited shareholder protection, a developing capital market and a highly growing economy from studies for developed markets. We find significant positive abnormal returns for Turkish acquirers. However, we provide results showing that the Turkish capital market perceives cross-border takeovers as more profitable than domestic transactions. In relation to capital market integration the results confirm that the Turkish capital market is more integrated into the European than the Asian capital market. In the multivariate analysis we show that the stock price reactions of takeover announcements are negatively correlated with distance between target nation and Turkey.

**Keywords:** Cross-border mergers and acquisitions, emerging market, Istanbul Stock Exchange, capital market integration, bidder gains, European Union

**JEL Classification:** F 36, G 34

### Introduction

The international acquisition activity has increased in both absolute and relative terms over the last decades leading to a significant rise of the proportion of international to domestic merger activity, particularly since the end of the 1990s (Evenett, 2003). The question raised by this phenomenon is whether cross-border M&A transactions have a significant impact on value and if this value effect differs systematically from the effects of purely domestic transactions. Although there is more than 30 years of research about the question whether international corporate diversification is value enhancing when capital markets are not integrated internationally (Adler & Dumas (1975); Conn & Connell (1990); N.-H. Kang & Johannsson (2000); Mody & Negishi (2001); Shimizu, Hitt, Vaidyanath Pisano (2004)), only few studies address wealth effects of international mergers, especially with a Next 11 focus on fast growing emerging economies.

To a large extent, the international acquisitions are based on the belief that gains through scale and scope economies, cost reduction, increased market power, and reduced earnings volatility outweigh the acquisition and integration costs.<sup>1</sup> While in perfectly competitive and integrated capital markets the announcement of an international merger does not yield returns to shareholders that differ from national transactions on average, the existence of divergent valuations of domestic and cross-border mergers may indicate the prevalence of market imperfections (Stulz (1981); Errunza & Senbet (1981); Errunza, Hogan & Hung (1999); Bodnar, Weintrop & Tang (1999); Renze-Westendorf, Schiereck & Zeidler (2009)). Following Fatemi & Furtado (1988) and Lowinski, Schiereck & Thomas (2004), valuation divergences between national and international transactions may reveal a segmentation of the capital markets. We regard our results as a contribution to the discussion on the degree of integration of the international capital markets, with special emphasis on the Turkish and European capital markets. If the factor and capital markets in Turkey and Europe are still far from being integrated, as recently found by Oh (2003), one would expect significant differences in the valuation of national and international mergers.<sup>2</sup>

Turkey is one of the fast growing economies beside Mexico and South Korea belonging to the so-called Next 11 countries. These economies show significant potential to rival the current major economies in the future (O'Neill, 2007). Turkey is a large-population country with main common ground beyond the BRIC (Brazil, Russia, India and China). The negotiation process with the European Union (EU) started in October 2005 and is still pending. EU membership perspective will contribute to economic predictability and supports Turkey's ongoing economic and political reform process. By successful integration, conditions in Turkey may improve drastically allowing a complete catch-up considering the world's richest economies. Regarding these developments, the Turkish capital market provides opportunities and is interesting to analyze.

<sup>1</sup> See e.g. Seth, Song & Petit (2002); Eun, Kolody & Scheraga (1996), Morck & Yeung (1991).

<sup>2</sup> For the case of Spain, see also (De M n l, 1999).

The main purpose of this paper is to extend the international literature and to provide a good benchmark for a number of countries in the same development level and the same financial and economic backgrounds like Turkey, since our knowledge of capital markets outside the United States is primarily drawn from studies for developed markets.

In this paper, we present empirical evidence on the value gains and losses to bidder firm shareholders in M&A transactions. We apply event study methodology and use a sample of 112 acquisitions realized between 1992 and 2010. The sample is composed of 83 national and 29 cross-border transactions. The results reveal that takeover announcements in general show significant positive abnormal returns of about 2.35%. This observation obviously stands in sharp contrast to findings for more developed markets and underlines the importance of a specific focus on Next 11 countries. Turkish cross-border acquisitions have also a significant impact on value creation for shareholders, and this effect differs systematically from the effects of purely domestic transactions. Results show a cumulated abnormal return of 6%. This finding is even more remarkable as cross-border transactions often fail to generate gains for acquirers. Additionally, it is an indication for a not fully Turkish capital market integration into the world capital markets. Fatemi & Furtado (1988) point out that cross-border acquisitions may have characteristics which are very different from domestic acquisitions when the markets are not fully integrated. Differential wealth effects may exist if the market for corporate control are segmented across national boundaries which allow the existence of net benefits or disadvantages associated with international diversification (Fatemi & Furtado, 1988). For a fast developing country like Turkey, market integration is of crucial political and strategic and political importance since economic growth is fundamentally linked to the integration and development of the markets (Levine (1991), Pegano (1993), Bekaert & Harvey (1995)). Countries that fail to become integrated in the global economy will grow much less than integrated countries (Neuhaus, 2005).

The rest of the paper proceeds as follows. In section 2, literature on mergers and acquisitions and theoretical considerations are briefly reviewed. Section 3 shows the main features of the Turkish enterprise sector and gives some information about the Istanbul Stock Exchange (ISE) to clearly understand the overall economic setting. Section 4 describes the data and the methodology used to determine the effects of M&A. In section 5 we present and interpret the results of the event study. In section 6 we provide evidence on the robustness of the results. Section 7 concludes the paper.

## Literature Review on Past Empirical Evidence

In the last two decades M&A became a popular strategic instrument in Turkey. From 1990 to April 2010 there were over 600 completed takeovers (Thomson SDC 2010). One of the key drivers for this merger wave is the privatization process. Privatizations started in 1989 and progressed with the launch of the IMF's Staff Monitoring Program in 1998 and are still continuing (Yeldan, 2005). Consolidation counts as another factor forcing M&A in Turkey. The financial crisis in 2000 and the banking crisis following in 2001 led to a broad decline in the equity prices and therefore stimulated larger M&A activities. After the 2001 turmoil the growth was high improving the purchasing power of Turkish companies. This pushed a merger wave in Turkey (Yeldan, 2005).

Corporate decisions to acquire new assets or divest old ones play an important role in determining company performance and shareholder wealth. Two findings have emerged. First, returns to target firm shareholders are on average significantly positive.<sup>3</sup> Second, the returns to the acquiring firms' shareholders tend to be negative or close to zero.<sup>4</sup> Bruner (2002) outlines several studies on M&A profitability from 114 studies

<sup>3</sup> Schwert (1996), for example, documents a significant positive abnormal return of 26.3% when examining a sample of 1,814 transactions of US companies between 1975 and 1991, and Mulherin & Boone (2000) support those findings by reporting an abnormal return of 21.2%. For further empirical evidence of target firm returns see Dennis & Mc Connell (1986) or Servaes (1991).

<sup>4</sup> Agrawal, Jaffe & Medelker (1992) examine a data set of 1,164 US transactions between 1955 and 1987 covering a 5-year period following the merger announcement. They report a post-merger performance of -10% for acquiring firms. On the other hand, Andrade, Mitchell & Stafford (2001), when looking at 4,300 US transactions from 1973 to 2001 and considering a 3-day event window following the transaction announcement, find negative abnormal returns of -0.7%. There are also a few studies that report positive returns on a statistically significant level for acquiring firms, e.g. Jarrell & Poulsen (1989). For further empirical evidence on acquiring firm returns see e.g. Morck, Schleifer & Vishny (1990) or Walker (2000).

from 1971 to 2001. The findings of 44 studies on the returns to acquiring firm shareholders document that abnormal returns to acquiring firms are essentially zero. While 20 studies report negative returns ranging between -1% and -3%, whereof 13 are statistically significant, 24 studies state positive returns between 0% and 6.7% with 17 of these being significantly positive. Sudarsanam (2003) mainly confirms the results. Summarizing 11 major US studies, abnormal returns between 1% and 4% are reported for bidders during the period surrounding the announcement date. For 16 US studies focusing on long-term performance, abnormal returns between -26% and 43% are presented for bidder shareholders, whereby the majority of studies report significant negative results. With regard to US studies, (Sudarsanam, 2003) concludes that the chances of successful value creation for acquirer shareholders are at best even, while target firm shareholders are likely to receive substantial gains and therefore, taken together, acquisitions add value.

Focusing on the difference between domestic and cross-border transactions, Moeller & Schlingemann (2005) collect transaction data of US public firms from 1985 and 1995. Their sample contains 383 cross-border transactions and 4047 domestic transactions. For the years 1985-1995 the cross-border sample shows a CAR of 0.307% for the event window [-1; +1], but insignificant and national transactions show a three-day [-1; +1] CAR of 1.173% significant at the 1% level. Cross-border acquirers have announcement-returns of approximately hundred basis points less than domestic acquirers. Moeller, Schlingemann & Stulz (2005) prove the significance of the difference between cross-border and domestic transactions during times in which the value of the dollar is relatively weak. Despite controlling for many factors Moeller & Schlingemann (2005) underline that their results of a so called cross-border effect continue to hold.

With a focus on European countries, Lowinski, et al. (2004) analyze Swiss transactions and Renze-Westendorf, et al. (2009) the Spanish M&A market for domestic and cross-border takeovers. Lowinski, et al. (2004) do not find any difference in valuation of cross-border and national mergers. They reason their finding with the special role of Swiss in capital markets as a major marketplace in the world. Renze-Westendorf, et al. (2009) examine a sample of 177 acquisitions during the years 1990 to 2004. The returns are slightly positive and also show no evidence for a segmented capital market for Spain. In sum, takeover announcements in developed countries show mostly insignificant positive abnormal returns. Cross-border M&A transactions in contrast show an overall inconsistent picture with insignificant or more negative announcement returns.

Only a few studies are dealing with takeover effects on shareholder wealth in the fast developing countries of the Next 11. Mandaci (2004) examines the M&A announcement effects for companies listed at the Istanbul Stock Exchange (ISE) during the period from 1998 to 2003. For the event window [-1; +1] she detects a cumulated abnormal return of 7.21%, for [-2; +2] 11.39% and for [-5; +5] 9.7%. These findings are statistically significant. For the days [-2; 0] and [-5; 0] there are cumulated abnormal returns of around 6%. Wang & Boateng (2007) examine 27 cross-border M&A deals carried out by Chinese firms between 2000 and 2004. They report significant positive cumulative abnormal returns for acquiring firms averaging 1.32% during the two-day period [0; +1]. These findings show a positive cross-border M&A wealth effect for investors in China.

Kale, Kini & Harley E Ryan (2003) concentrates on a sample of 698 acquisitions from the years 1992 to 2002 in India. He shows that Indian bidding firms earn in terms of abnormal stock returns 1.71%. Zhu & Malhotra (2008) confirm these findings for a sample of 114 acquisitions made by publicly listed Indian firms acquiring U.S. firms between 1999 and 2005. On average, Indian firms gain 2.4% in the three days around the announcement date and 3.5% cumulated abnormal return in the [-2; +2] event window.

Overall, existing evidence indicates that bidders from fast developing emerging economies are on average able to generate shareholder value by acquisitions. This effect is even more pronounced in cross-border transactions which can be interpreted as an for still not fully integrated capital markets. For the case of Turkey we expect a similar positive but with ongoing integration declining wealth effect.

### **Main features of the enterprise sector and corporate governance structure in Turkey**

The analysis of the enterprise sector is important to understand the value effects of takeover announcements on shareholder wealth for Turkish bidders. Small and medium sized firms (henceforth SMEs) dominate the enterprise sector in Turkey. The average profile in terms of average work force and turnover is much smaller than that of SMEs in the European Union or in most other OECD countries. Although the SMEs constitute 77% of total employment they just produce 27% of total output. In contrast large enterprises which are employing more than 250 persons, produce 73% of total output with a work force of 23% (OECD, 2004). The percentage of sectors in the economy is as follows: Service industry 58%, industry 30%, and agriculture

12% (*The Turkish economy in 2009*, 2009). The Turkish economy is also characterized by a strong manufacturing sector, but less by industrial structures based on high technology. Agricultural production is decreasing while industry and service sectors are getting bigger in the economic portfolio.

Not surprisingly for an emerging market, only a small fraction of Turkish companies are publicly listed and traded. The number of traded companies increased from 80 at the end of 1986 to 323 in 2009 and the market capitalization amounts to 25% of the GDP in 2001 (*Annual Report 2009*, 2010).

Characterizing the Turkish corporate governance structure, Business Groups play an important role. Business Groups in Turkey are a collection of industrial and financial companies organized under the legal form of a holding company. A single family or sometimes a group of family members controls these Business Groups, which often include a bank. Most of the today's largest 500 firms in Turkey are founded in the 1970s or later. The ownership is highly concentrated so that there is no active market for corporate control. This fact makes it difficult or almost impossible to acquire a traded company through a hostile takeover bid since the controlling owner must approve a control change (Yurtoglu, 2003).

### **Structure of the Istanbul Stock Exchange**

The Istanbul Stock Exchange (ISE) was founded in 1986 and is still the only stock exchange in Turkey by 2010. The ISE provides trading services in equities, bonds and bills, revenue-sharing certificates and real estate certificates ("Istanbul Stock Exchange website," 2011). ISE was home to 80 companies in 1986 which increased to 320 national companies in 2008.

The stock market is organized by a number of indices: ISE National-All Share Index, ISE National-30, ISE National-50, ISE National-100, Sector and subsector indices, ISE Second National Market Index, ISE New Economy Market Index and ISE Investment Trusts Index. The ISE National-100 Index contains both the ISE National-50 and ISE National-30 Index and is used as a main indicator of the national market. The National Market comprises 241 companies, 100 of which are included in the ISE National-100 Index. There are also Regional, New Companies, and Watch-List Companies Market for companies which do not fulfill the listing requirements and lack the necessary qualifications for trading on the National Market.

The total market capitalization of the ISE was about US\$ 938 million in 1986 which increased to US\$ 236 billion in 2009 and ranks as the tenth largest market among the emerging markets in terms of market capitalization (*Annual Report 2009*, 2010). The market capitalization of the ISE constitutes around 0.5% of global market capitalization. The global average market capitalization to GDP is around 130%, ISE's market capitalization-to-GDP ratio is 44% at the end of 2007. In terms of number of listed companies, ISE ranks 32<sup>nd</sup>, representing 0.7% of the listed companies in the world. The increase in the equity trading volume is immense. In 1986 the equity trading volume was US\$ 13 million. In 2007 the trading volume came up to US\$ 301 billion. This is in global perspective a share of 0.3% (Fikirkoca et al. 2008). The IMKB index reached high levels of 56,000 in June 2010, nearly a six-fold increase after the financial and banking crisis in 2001.

The enterprise structure and the composition of the Turkish exchange listed companies both indicate that exchange listed Turkish bidder have a prominent position in their home market. The stock market boom of the last decade increased the price of the equity and facilitates the financing of even larger acquisitions. This attractive environment let us assume to also find positive announcement effects for our data sample.

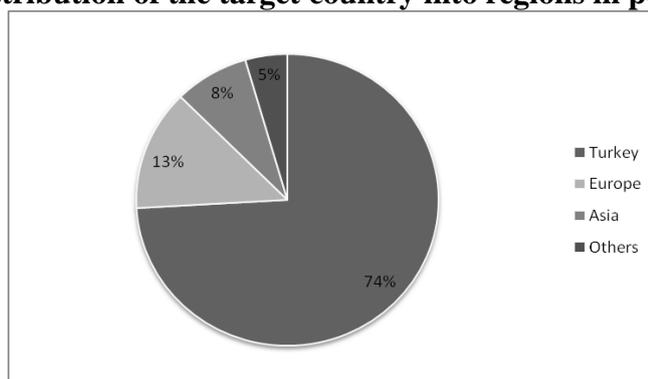
### **Data and Methodology**

Our analysis is based on acquisitions which were initiated by Turkish companies, listed on the Istanbul Stock Exchange (ISE), that were announced between May 1992 and March 2010. The data for these transactions is acquired from Thompson Financial SDC database whereas Thompson Financial Datastream provided the stock performance data. The official announcement date relies on Thomson Financial SDC database. The announcement data are verified by press research. We eliminate all transactions which do not fulfill the following conditions:

- The transaction was completed.
- The acquiring firm is a Turkish firm with headquarters in Turkey.
- The Turkish acquirer was listed on a stock exchange at least 200 days prior and 20 days after the announcement date.
- Stock data and percentage of acquired shares were available.
- In the period 200 trading days before or 200 trading days after the transaction announcement, the acquiring firm only announced the very transaction.

In total, 112 transactions fulfill these criteria. The sample includes 29 cross-border and 83 domestic transactions. In order to describe the peculiarities of our M&A sample, we briefly document some figures in Figure 1.

**Figure 1: Distribution of the target country into regions in percent.**



Foreign acquisitions of Turkish firms account for 26 % of our sample. Asian transactions constitute 8%, European targets account for 13% and other regions compose 5%. These are targets located in the US, Australia and Israel. Table 1 provides some information about the chronological distribution of the takeover activity during the years under consideration. Takeovers peaked after the financial crisis in 2001. Especially, the number of cross-border transactions increased. About one third of the cross-border transactions are realized during the period 2007-2009.

**Table 1: Development of considered number of firms over time**

Year	Total	Domestic	%	Cross-border	%
2010	4	4	3.57	0	0.00
2009	15	14	12.50	1	0.89
2008	13	10	8.93	3	2.68
2007	15	9	8.04	6	5.36
2006	7	5	4.46	2	1.79
2005	11	6	5.36	5	4.46
2004	5	4	3.57	1	0.89
2003	5	4	3.57	1	0.89
2002	11	6	5.36	5	4.46
2001	9	8	7.14	1	0.89
2000	8	6	5.36	2	1.79
1999	0	0	0.00	0	0.00
1998	0	0	0.00	0	0.00
1997	2	1	0.89	1	0.89
1996	1	1	0.89	0	0.00
1995	3	2	1.79	1	0.89
1994	2	2	1.79	0	0.00
1993	0	0	0.00	0	0.00
1992	1	1	0.89	0	0.00
Total	112	83	74.11	29	25.89

Table 2 shows that most of the acquirers stem from the energy and power (10.7%) sector, the financial services industry (16.1%), industrials (14.3%), materials (12.5%) and staples (23.2%). Most transactions in the overall sample are unrelated (61.6%). This ratio is a bit smaller for cross-border acquisitions where 48% of the takeovers are related. I detect 38% horizontal, 15% vertical and 46% diversifying (conglomerate) mergers and acquisitions. The relatedness is measured by comparing SIC codes of the acquirer and target. In domestic transactions acquirers are more interested in industrial diversification than they are in cross-border takeovers.

Industry	(No.)	(%)	(No.)	(%)
Consumer, Product & Services	0	0	5	4.46
Energy and Power	12	10.71	12	10.71
Financials	18	16.07	18	16.07
Health	5	4.46	3	2.68
High Technology	4	3.57	4	3.57
Industrials	16	14.29	16	14.29
Materials	14	12.5	16	14.29
Media and Entertainment	8	7.14	4	3.57
Real Estate	2	1.79	2	1.79
Retail	2	1.79	8	7.14
Staples	26	23.21	18	16.07
- Textile	2	1.79	1	0.89
- Agriculture	8	7.14	11	9.82
- Food and Beverage	4	3.57	1	0.89
- Household Appliances	13	11.61	6	5.36
Telecom	6	5.36	5	4.46
$\Sigma$	112	100	112	100
<b>Industry relatedness of acquisition</b>				
Related	(No.)	(%)	(No.)	(%)
2-digit SIC Codes	43	38.39	17	58.62
3-digit SIC Codes	34	30.36	14	48.28
4-digit SIC Codes	30	26.79	13	44.83
Unrelated				
less than 2-digit SIC Codes	69	61.61	12	41.38

Source: Thomson One Banker 2009

Table 3 offers some deal specific descriptive statistics. The total deal value of the transactions from 1992 to 2010 is about USD 3,411.83 million with a mean of USD 48.05 million and a median of USD 18.36 million. The sample is obviously dominated by a small number of large transactions which is expressed by the skewness of the deal value distribution. In international comparison these values are small. Smaller acquisitions are usually less complex and have therefore a higher probability to be successful. The entire deal value is calculated with 71 out of 112 transactions. For the remaining 41 takeovers there were not deal values available.

**Table 3: Deal characteristics in USD (million)**

	total	mean	median	min	max
Deal value (USD million)	3,411.83	48.05	18.361	0.01	544.05

**Table 4: Deal value and distribution**

Transaction value (USD million)	Number of deals
deal value $\leq 1$	9
$1 < \text{deal value} \leq 10$	21
$10 < \text{deal value} \leq 50$	21
$50 < \text{deal value} \leq 100$	11
$100 < \text{deal value} \leq 300$	7

300 &lt; deal value

2

**Table 5: Top ten deals in the analyzed sample firms by industry, country and target firm**

Acquirer name	Acquirer industry	Target name	Target country	Target industry	Deal value (USD million)
Enka Insaat ve Sanayi AS	Building/Construction & Engineering	Ramenka LLC	Russian Fed	Discount and Department Store Retailing	544.05
Migros Turk Ticaret AS	Food & Beverage Retailing	Tansas Perakende Magacilik	Turkey	Food & Beverage Retailing	427.00
Azertel AS	Telecommunications Services	Azercell Telekom BM	Azerbaijan	Telecommunications Services	180.00
Cimsa Cimento Sanayi	Construction Materials	Standart Cement Plant	Turkey	Construction Materials	175.50
Cimentas Izmir Cimento	Construction Materials	Lalapasa Cement Plant	Turkey	Construction Materials	166.50
Turkcell Iletisim Hizmetleri	Wireless	A-Tel Pazarlama ve Servis	Turkey	Wireless	150.00
Arcelik AS	Household & Personal Products	Beko Elektronik AS	Turkey	Telecommunications Equipment	127.12
Haci Omer Sabanci Holding AS	Textiles & Apparel	Dupont Sabanci Intl LLC	USA	Textiles & Apparel	110.00
Haci Omer Sabanci Holding AS	Textiles & Apparel	DuPontSA	Netherlands	Textiles & Apparel	108.00
Dogan Sirketler Grubu Hldg AS	Oil & Gas	Turk Dis Ticaret Bankasi AS	Turkey	Banks	94.25

One of the top deals in the analyzed sample was realized by Enka Insaat Sanayi AS (see Table 5), a construction conglomerate based in Istanbul with 37 subsidiaries engaged in a diverse range of construction activities. The company was founded in 1957. It acquired Ramenka LCC in 2007 from its joint venture partner Migros Turk Ticaret AS, a unit of KOC Holding AS for USD 544.5 million. Ramenka LCC is a Moscow-based owner and operator of shopping malls. Enka Insaat Sanayi AS has a total market capitalization of USD 8,216,748,768 and an overall work force of 28.562 in 2009. For comparison, the total market capitalization of the sample is USD 5,310.95 million.

Table 5 summarizes information about the top ten deals in the sample. The deal values of acquired Turkish companies are high compared to cross-border transactions.

## Methodology

We apply the event study methodology to estimate the return expectations ( $E(R_{it})$ ) of the capital market using daily data. An event study is based on the assumption that stock markets are efficient and the share prices reflect all currently available information at every point in time. The analysis compares what would

have occurred in the event window had the event not taken place to what actually took place. Positive or negative abnormal returns imply that the market evaluates the news as value generating or value destroying for a firm that is involved in a takeover. The choice of the event window is crucial here. The news of an impending merger might leak out prior to the official announcement date. To assess the impact of this news the event window surrounds the official announcement date (Lafontaine & Slade, 2007).

The analysis uses a market model approach with the index of the Istanbul Stock Exchange (ISE) as the relevant market index ( $R_m$ ). The index of the ISE reflects a broad market portfolio as it consists of 100 listed companies. To estimate the model parameters, we use a standard OLS regression model for each stock  $j$  with an estimation period between 220 and 20 trading days before the event date. The event date,  $t_0$ , is defined as the day of the public announcement of the transaction, according to the Thomson One Banker database for mergers, and applying the market model, the expected daily return is calculated as:

$$E(R_{jt}) = \alpha_i + \beta_i R_{mt} \quad (1)$$

The abnormal return ( $AR_{jt}$ ) is calculated as the difference between actual return ( $R_{jt}$ ) and expected return ( $E(R_{jt})$ ) in the event window:

$$AR_{it} = R_{it} - E(R_{it}), \quad (2)$$

Although we use primarily the event window from one days before till one days after the announcement date  $[-1; +1]$ , we calculate additional event windows to overcome accuracy problems in the determination of the event occurrence. The cumulated abnormal returns (CAR) for the different event windows  $[t_1; t_2]$  and the average abnormal daily returns (AAR) of event day  $t$  are calculated as follows:

$$CAR_{it} = \sum_{t=t_1}^{t_2} AR_{it}, \quad (3)$$

$$AAR_{it} = \left(\frac{1}{n}\right) \sum_{i=1}^n AR_{it}. \quad (4)$$

To examine the significance of the mean standardized cumulative residual between any two dates controlling for the event-induced variance of the announcement, we employ the procedure proposed by (Boehmer, Musumeci, & Poulsen, 1991). We also use the extensions of this procedure as proposed by (Bremer & Zhang, 2007). This approach explicitly estimates and incorporates event-induced abnormal return and volatility for each security each day within the event window while retaining the between-securities volatility estimated each event day by Boehmer, et al. (1991) (Bremer & Zhang, 2007).

Boehmer, et al. (1991) assume that the variability of abnormal returns is different across securities whereas the variability within a security is constant over the event window. They use estimation-window data to estimate  $(\hat{\sigma}_A^2)_{it}$ . But Bremer & Zhang (2007) remark that information regarding event-induced volatility is only in data in the event window. They use both data in the estimation window and in the event window to capture the true conditional variance structure within the event window. In a two-stage method they included a GARCH (1,1) structure to capture gradual stationary changes in conditional variances over time. Additionally, they included an indicator variable (D) to capture abrupt changes. This indicator variable shows if an observation is within the event window.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \eta_{it}, \quad (5)$$

$$\eta_{it} = \sqrt{h_{it}} e_{it}, \quad (6)$$

$$h_{it} = a_i + \sum_{j=1}^p b_{ij} h_{it-j} + \sum_{k=1}^q c_{ik} \eta_{it-k}^2 + d_i D. \quad (7)$$

We calculate the test statistic of the Bremer & Zhang (2007) and the test statistics of Boehmer, et al. (1991) But the results will be interpreted according to the test-statistics of the Boehmer, et al. (1991) proposed test method. Harrington & Shrider (2007) confirm that the standardized cross-sectional test is a good candidate for a robust, parametric test. The Boehmer, et al. (1991) test has greater power than other statistical tests which were examined by Harrington and Shrider (2007).

## Empirical Results

Table 6 reports the empirical evidence for all 112 acquisitions. The cumulated abnormal returns show significant positive wealth effects for the overall sample. For the event window [-10;+10] there is a highly significant CAR of 3.35%. On the announcement day there is only a slightly positive CAR but not supported by the test statistics. Overall, Turkish acquirers, similar to bidders from other emerging economies, are able to generate shareholder value by inorganic growth strategies.

However, Turkish shareholders earn positive abnormal returns during the twenty days before the event date. Mandaci (2004) reports an indication for insider trading considering the rise in CARs twenty days prior to the announcement of a transaction. Bhattacharya, Dauk, Brian, & Kehr (2000) argue that one has to be suspicious if nothing happens on the day of corporate news announcement. The information of insiders may have been incorporated in stock prices prior to the announcement. In order to shed more light on these findings I divide the sample into "cross-border" and "national" transactions.

**Table 6: Announcement period cumulative abnormal returns (CAR) of Turkish acquirers**

		Boehmer Test	Bremer Test	t-Test	
Event window	CAR	z-score	z-score	t-value	Nobs
[-20;+20]	2.47%	1.619	1.472	1.256	112
[-10;+10]	<b>3.35%</b>	2.671***	1.607	2.630***	112
[-2;+2]	1.15%	1.439	0.068	1.415	112
[-1;+1]	<b>0.48%</b>	2.958***	2.211**	3.086***	112
[0;+0]	0.48%	0.991	0.582	1.04	112
[-1;+10]	<b>2.64%</b>	2.691***	2.082**	2.752***	112
[-10;+1]	<b>2.95%</b>	2.725***	1.853*	2.688***	112
[-20;+1]	<b>2.31%</b>	1.876*	1.643	1.537	112

\*\*\*, \*\*, and \* indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 7 presents significant positive CARs for cross-border as well as for national takeovers for all event periods close around the announcement date. The CARs for national transactions reach up to 2.50% for the [-1;+10] period and cross-border transactions reach up to 6.99% for the event windows [-20;+20] and [-10;+1], respectively.

Event window	cross-border transactions (n=29)				national transactions (n = 83)				Mean Difference Test
	CAR	Boehmer Test z-score	Bremer Test z-score	Signrank Test p-value	CAR	Boehmer Test z-score	Bremer Test z-score	CAR difference	
[-20;+20]	<b>6.99%</b>	1.879*	1.952*	0.082*	0.87%	0.667	0.341	6.12%	1.415
[-10;+10]	<b>5.88%</b>	1.956*	1.633	0.043*	<b>2.46%</b>	1.884*	0.757	3.41%	1.302
[-5;+5]	<b>5.16%</b>	1.742*	1.313	0.058*	0.93%	1.027	0.116	<b>4.24%</b>	1.740*
[-2;+2]	3.39%	1.433	1.132	0.094*	0.37%	0.638	0.587	3.02%	1.468
[-1;+1]	<b>4.16%</b>	1.956*	1.5	0.053*	<b>1.57%</b>	2.228*	1.62	2.59%	1.222
[0]	0.94%	1.135	1.32	0.17	0.31%	0.507	0.067	0.63%	1.408

[-10;+1]	<b>6.99</b> %	2.091*	2.032*	0.025*	<b>1.54</b> %	1.788*	0.636	<b>5.45%</b>	1.774*
[-1;+10]	3.05 %	1.351	1.269	0.265	<b>2.50</b> %	2.316*	1.386	0.55%	0.033
[-20;+1]	<b>6.08</b> %	2.579*	2.365*	0.016*	0.99 %	0.783	0.409	<b>5.09%</b>	1.674*

On the announcement day we measure a slightly positive CAR for both groups of takeovers but not significant at any conventional significance level. The results for the two subsamples underline the assumed effect of cross-border acquisitions being more profitable for Turkish companies' shareholders. This finding is consistent with evidence from earlier studies by Morck & Yeung (1992) and Markides & Oyon (1998). A global diversification systematically influences the value generation of merger activity. The Turkish capital market is according to this evidence not fully integrated into the world capital markets. The fact should not be surprising. Apart from Argentina, Turkey was the most closed country among the BRIC and the Next-11 countries in 1980 (Neuhaus, 2005). The reforms since 1980 and the negotiations with the European Union since 2005 constrained Turkey to open its economy and become more integrated into the world capital markets. However, the reforms to develop the integration are not finished yet. Our findings are in line with the ongoing political and economic integration process.

**Table 8: CARs of acquirers for transactions into Asia and Europe**

Event window	Asian transactions				European transactions				Mean Difference Test	z-value
	CAR	Boehmer Test	Bremer Test	signrank test	CAR	Boehmer Test	Bremer Test	signrank test		
		(n = 9)				(n = 15)				
		Boehmer Test	Bremer Test	signrank test		Boehmer Test	Bremer Test	signrank test	Mean Difference Test	
		z-score	z-score	p-value		z-score	z-score	p-value	CAR Difference	z-value
[-20;+20]	-0.95%	0.107	-0.640	0.652	6.73%	1.302	0.792	0.252	-7.68%	-1.194
[-10;+10]	<b>-1.80%</b>	2.658** *	2.235* *	0.004** *	3.32%	0.476	0.084	0.639	-5.12%	-0.477
[-5;+5]	<b>-0.65%</b>	-2.325**	-1.496	0.203	5.39%	0.982	0.677	0.303	-6.04%	-1.552
[-2;+2]	-1.89%	0.058	-1.465	0.301	3.88%	0.943	0.513	0.421	-5.76%	-1.253
[-1;+1]	1.34%	1.071	0.063	0.355	3.95%	1.051	0.688	0.303	-2.62%	-0.179
[0]	0.19%	-0.822	0.788	0.820	0.43%	-0.577	0.688	0.890	0.62%	0.001
[-10;+1]	0.19%	-0.822	0.587	0.301	2.52%	0.246	0.310	0.561	-2.33%	-0.060
[-1;+10]	-2.27%	0.425	-1.521	0.305	4.75%	1.225	0.633	0.330	-7.02%	-1.253
[-20;+1]	0.28%	0.329	-0.548	0.914	4.26%	1.277	0.862	0.135	-3.99%	-0.955

In a next step we address the specific geopolitical position of Turkey between Europe and Asia and look for divergences in the degree of market integration in these two continents. Table 8 gives a comparison of the stock price reactions in response to Asian and European transactions. The results reveal that the capital market is not in favor of takeovers into Asia, while the effect for transactions into Europe is neutral. Having in

mind the small sample sizes we interpret our results as an at least weak indication that the Turkish economy is better integrated into Europe than into Asia.

The univariate comparisons support the assumption that the Turkish capital market is not fully integrated into the world capital markets. However, additional up to now not included factors may drive our findings. These factors have to be controlled for.

### **Multiple regression analysis**

We perform several multivariate OLS regression analyses to test whether the cross-border effect continues to hold after controlling for deal and firm specific variables expected to affect acquirer returns. The CAR for the [-10;+10] period around the announcement date is the dependent variable in each regression model.

A binary variable CROSS-BORDER ACQUISITION takes the value of 0 for pure domestic deals and the value of 1 for cross-border takeovers. A related issue is that firm and deal characteristics could affect acquirer gains for cross-border acquisitions differently than for domestic acquisitions. The variable EU ACQUISITION controls the geographical scope of the transaction. EU ACQUISITION is a dummy variable taking the value 1 for any acquisition taking place in Europe and a value 0 for any transaction which occurred outside Europe. This variable explains cross-border acquisition success within Europe for Turkish acquirers. EU acquisitions may have a different impact on abnormal returns than cross-border takeovers in other regions. The market integration toward EU might be progressed and the synergy and integration cost relations could show other dimensions towards acquiring firms.

If cross-border acquisitions are associated with greater concerns by investors of information asymmetries, agency problems, and managerialism, we expect measures of the acquirer's growth opportunities, like MARKET-TO-BOOK, to play a more important role in explaining the cross-section of bidder returns. Especially for cross-border transactions I expect higher market-to book values (Moeller, Schlingemann, & Stulz, 2004). Denis, Denis & Yost (2002) find that global diversification and industrial diversification are both associated with a significant firm discount. Being both globally and industrially diversified may lead to an even more considerable discount. In this context I introduce a variable INDUSTRY RELATEDNESS in the multivariate analysis. This variable might capture additional wealth effects in transactions that diversify both across industries and countries. A transaction is related when at least three digits of the primary SIC code of acquirer and target is equal. INDUSTRY RELATEDNESS takes the value of 1 if acquirer and target share the same SIC code and zero otherwise. This variable might capture additional wealth effects in transactions that diversify both across industries and countries.

The RELATIVE SIZE of the bidder to the target is used to determine the effects of firm size on abnormal returns. It is defined as the ratio of the market capitalization of the acquirer and target size. The target size is estimated with the transaction value. A large firm acquiring a small target should have a smaller abnormal return than otherwise. The regression analysis may emphasize this relation (Lang, Stulz, & Walkling, 1991). I expect a positive association between the variable RELATIVE SIZE and the abnormal returns. This variable measures the effect of synergies which are generated from acquisitions. It can also show a negative relation between bidder gains and RELATIVE SIZE. In this case it represents managerial preferences for empire building (Seth, et al., 2002).

The variable DEVELOPMENT is employed to test whether the acquiring firm's benefits from international acquisitions depend on the level of economic development of the target firm's country relative to that of the acquiring firm's country. It takes the value 1 if the target country is less developed and 0 for developed countries. As argued by Doukas & Travlos (1988) benefits from international acquisitions stem from the ability to exploit uniquely international biases (distortions) in capital markets or production. The benefits will be greater the less integrated the economies of the two countries are. So I expect, when firms expand into less developed countries, the AR should be greater since the degree of integration between two economies depends on their relative economic development. It is suggested a negative coefficient for the variable DEVELOPMENT. Bidder returns could be higher when foreign targets are undervalued stemming from an environment with less attention for shareholder rights and corporate governance, associated with higher agency and information asymmetry cost (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000).

As argued by Doukas & Travlos (1988) high agency costs in terms of monitoring and bonding cross-border operation may have a negative effect on the firm's market value when news about international expansion is published. The more the target country is away from the head quarter of the acquiring firm the higher the monitoring costs are. Grote & Ueber (2007) analyzed the effect of distance in cross-border mergers and acquisitions. They find that takeover success decreases significantly with increasing distance. The variable

DISTANCE takes the value 1 if the headquarter of the target is at least 600 miles away from the acquirer's headquarter and otherwise 0.

It is known that foreign direct investments levels are correlated with exchange rates. I test the effect of the relative strength of the Turkish Lira on bidder gains with the variable CURRENCY with the formula used in J.-K. Kang (1993) or Grote & Ruecker (2007). We calculate the difference between exchange rate in the year of announcement and the average exchange rate between 1992 and 2009 and divide this term by the average exchange rate between 1992 and 2009. To adjust for the introduction of the New Turkish Lira in 2005, the old Turkish Lira (TL) values for the years 1992 to 2005 were converted to New Turkish Lira (YTL). The data for the exchange rates were gathered from Datastream. As argued by Harris & Ravenscraft (1991) differences in asset and company valuation, due to exchange rate effects potentially explain the abnormal returns of cross-border acquisitions. I hypothesize the stronger the Turkish Lira the higher the CARs for the acquiring company, i.e. positive values indicate the currency is strong relative to the U.S. dollar.

Fuller, Netter & Stegemoller (2002) suggest that transactions prices in mergers vary with the type of the target. They find that acquirers earn significantly negative returns when buying public targets and significantly positive returns when acquiring private targets. Fuller et al. results are consistent with other studies using data from earlier time periods (Hansen & Lott (1996), Chang (1998), Moeller & Schlingemann (2005)). To test for this effect I use an explanatory variable PUBLIC which is a dummy variable taking the value one if the target is a public firm and zero for a private firms. The argument behind the positive bidder gains when buying a nonpublic target is that bidders receive a better price when they buy nonpublic targets (Fuller, et al., 2002). Private companies cannot be valued as easily as publicly traded ones. This difficulty in valuation makes these investments less attractive. The acquirer captures a discount in purchasing the privately held firm. I assume a negative sign for the variable PUBLIC. To determine the relevance of the target market growth on shareholder value I use the variable GROWTH. Since expanding into markets with faster growth rates might signal higher future growth for the acquiring firm. I measure relative target market growth as the difference between the GDP growth of the target country and the Turkish GDP growth in the year of the announcement (Grote & Ruecker, 2007).

In the cross-sectional regression models I test whether the cross-border effect continues to hold after controlling for other factors expected to affect acquirer returns. I calculated six different models using the CAR for the [-10; +10] period surrounding the announcement day as the dependent variable. Most of the control variables in each specification have signs that are consistent with the existing literature on acquirer returns in general.

In particular, the results in the event study analysis are underlined. There is a significant difference in wealth creation between domestic and international merger activity. The main result of the Table 9 is that acquirer gains are roughly 0.16% higher for transactions that are classified as cross-border acquisitions than for domestic transactions. The cross-border dummy variable is in all included models positive and significant. Investors, on average, expect significantly more value creation from the firm's decision to engage in a cross-border relative to a domestic takeover activity even after controlling for other variables expected to affect acquirer return.

**Table 9: Multiple regression results for CARs [-10; +10]) of Turkish acquirers**

Independent variables	1	2	3	4	6	7	8
	n=58	n = 41	n=41	n=59	n=112	n=112	n=58
Constant	0.0080	-0.1014	-0.1174	0.0084	0.0098	-0.0180	0.0197
	(0.170)	(-0.733)	(-0.863)	(0.193)	(0.500)	(-0.649)	(0.620)
Cross-border	<b>0.3210</b>	0.3295		<b>0.0972</b>	<b>0.1566</b>	<b>0.0842</b>	<b>0.323</b>
	(2.389)**	(1.522)		(1.705)*	(2.251)**	(2.052)*	(2.493)**
EU-Acquisitions	-0.1305	-0.1529			<b>-0.0959</b>	-0.0114	-0.1271
	(-1.249)	(-0.742)			(-1.731)*	(-0.223)	(-1.264)
Asian-Acquisitions	-0.0296	0.0615			0.0055	-0.0055	
	(-0.180)	(0.284)			(0.170)	(-0.178)	
Public target	-0.0120	-0.0149	-0.0190		0.0248		

	(-0.279)	(-0.253)	(-0.343)		(0.855)		
Relatedness (3-digit)	-0.0157	-0.0931	-0.0661	-0.0087			-0.0098
	(-0.350)	(-1.456)	(-1.060)	(-0.207)			(-0.232)
Distance	<b>-0.2779</b>	<b>-0.3573</b>	-0.0555		<b>-0.1134</b>		<b>-0.2901</b>
	(-1.967)*	(-1.931)*	(-0.809)		(-1.824)*		(-2.459)**
Currency Strength	-0.0097	0.0183	0.0028		-0.0119		-0.0165
	(-0.318)	(0.336)	(0.052)		(-1.268)		(-0.651)
Relative Size	-0.0614	0.0260	0.0589	-0.0484			-0.061
	(-1.218)	(0.169)	(0.443)	(-0.991)			(-1.257)
Growth	0.0102	0.0017	0.0137				0.0082
	(0.605)	(0.0801)	(1.150)				(0.736)
Market-to-Book-Ratio		0.0143	0.0236				
		(0.887)	(1.564)				
Development				<b>-0.1806</b>		<b>-0.1202</b>	
				(-2.543)**		(-2.332)**	
After 2001	0.0280	0.1436	0.1337	0.0274		<b>0.0588</b>	
	(0.478)	(0.799)	(0.745)	(0.574)		(1.967)*	
<b>Model Analysis</b>							
R <sup>2</sup>	0.2298	0.2785	0.1759	0.1322	0.0690	0.0936	
adjusted R <sup>2</sup>	0.0659	0.0048	-0.0301	0.0503	0.0158	0.0508	
Durbin-Watson statistic	1.8779	1.5511	1.4094	1.9525	2.1061	2.1139	
F-Statistics							
NB: t-values in parenthesis							
*, **, *** denote significant at 10%, 5%, 1% level							

The variable for EU transactions shows a negative coefficient. But just in one model the coefficient of EU transactions is highly significant. As reported by Fatemi (1984) there are differences in the rates of returns realized by the shareholders of multinational firms relative to those of purely domestic firms when the acquirer operates in competitive foreign markets, in which case the shareholders of acquiring firms experience negative abnormal returns.

For transactions into Europe this must be the case where negative abnormal returns are detected. The market for corporate control is competitive where firms pay high takeover premiums which reduce their abnormal returns. Another explanation for negative market reactions of European transactions might be if the firm's decision to expand internationally signals a firm's limited capacity to extract additional benefits from its existing domestic operations and therefore tries to expand geographically (Doukas & Travlos, 1988). For some firms expansion beyond national boundaries is a matter of survival than searching for abnormal gains (Shapiro, 2006). In this case the capital market reaction to cross-border takeovers is negative.

The acquisitions into Asia are not significant. The variable DISTANCE shows a significant negative impact on shareholder wealth in all models except one (Buch & DeLong, 2004). The monitoring costs and coordinating efforts increase as the distance to the target country increases.

Consistent with Moeller & Schlingemann (2005) and Servaes (1991) the acquirer's market-to-book-value has a positive impact on acquirer gains. We further find a negative and significant coefficient on transactions into developed countries. As mentioned in the prior section in developed countries the equity ownership are more concentrated. Higher premiums are required for controlling shareholders to give up their shares (Moeller & Schlingemann, 2005). We find no significant relation between target market growth relative to the acquirer market and the variable relatedness which compares the 3-digit SIC codes of acquirer and target. We detected also no association between public targets and their impact on acquirer gains. The second half of the sample period that is after the crisis in 2001, the dummy variable "AFTER 2001" shows in one

model a significant positive impact on wealth creation. After the crisis a flexible economy and regulatory reforms improved conditions in Turkey having positive effects on businesses.

In summary, the cross-sectional analysis shows that the positive relation between cross-border acquisitions and acquirer returns continues to hold after controlling for a variety of factors expected to affect acquirer returns. The analysis shows that returns for acquirers are significantly higher for transactions that increase the degree of global diversification. The acquirer returns are at their lowest the farther the target country is or the more developed the target country compared to the acquirer country. The results in an economic perspective show that the Turkish capital market integration into the world capital market is not completed.

## Conclusion

We document the capital market reactions for a sample of acquisitions performed by Turkish companies. The analyses concentrate on cross-border transactions. In the univariate as well as in the multivariate analyses a different valuation of national and cross-border transactions is detected. The so called cross-border effect is statistically significant in nearly all models and continues to hold after controlling for other variables expected to affect acquirer gains.

We find that acquirers expanding into developed countries experience significantly lower acquirer returns. This is consistent with the hypothesis that in developed markets the market for corporate control is competitive and lowers the takeover premiums. For target nations which are geographically far away from the acquirer indicates lower bidder returns. The distance between the involved countries has a significant impact on value destruction. The transportation costs and agency problems are becoming more complicated. A comparison with the results of Lowinski, et al. (2004) for Swiss and Renze-Westendorf, et al. (2009) for Spain shows that the full integration of Turkey into the world and especially into the European capital market is still not achieved yet.

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