Introduction

Mergers & acquisitions (M&A) are widely considered as a tool for companies' strategy implementation. Although firms in emerging economies apply M&As as the way to enter new markets and expand business in the world, these processes need significant financial preparations, and not every company is able to perform a successful transaction. As a result, the rate of inefficient acquisitions for acquirers in these countries is still high and amounted to 14% in 2016 (Baker & McKenzie, 2016).

What are the determinants of a successful M&A performance? In spite of a variety of possible explanations, one of the main aspects indicated to influence acquisition success is the institutional environment of a country (Dikova et al., 2010). As such, institutional infrastructure has found to be interesting for the authors examined the relationship between M&As and the institutional development of a country. Institutional infrastructure in emerging economies differs significantly from that in developed economies in regard to the execution of business processes (Ahlstrom & Bruton, 2010). Emerging economies are considered to have institutional voids that may be expressed as the lack of financial intermediaries which encourage the economic processes and apply regulations. These institutional voids are likely to increase the cost of market transactions and lead to less efficient consolidations. A strong institutional framework may, in turn, facilitate the extension of a business frontier and improve the effectiveness of business activities (Aybar & Ficici, 2009). These findings present a pivotal role of the institutional infrastructure in both domestic and international acquisitions.

This study is expected to complement both the literature on the M&A performance in emerging economies and the research on institutional influence in the context of M&As. The paper will fill the research with a comparative analysis of the impact of the institutional infrastructure on acquiring companies in case of domestic and international transactions. Moreover, the study complements existing research by investigating M&A deals over the recent time period from 2014 to 2016 in emerging economies.

Utilizing the event study approach and the multivariate regression analysis, we aim to explore the effect of institutional environment on firm value in emerging markets. This aim leads us to examine two research questions:

1. What is the relationship between the institutional environment and stock returns for acquiring companies in emerging countries?
2. To which extent does the institutional impact in cross-border and domestic transactions in emerging economies differ?

Institutional impact on M&A deals

Although the effects of institutional factors on M&As' performance have been seldom discussed in relation to emerging markets, and academic papers mainly concentrate on developed countries, the extant analysis of the institutional impact may be divided into two main groups.

Although many attempts have been made in order to investigate the institutional influence on the acquirer firm value, there is still a need for a discussion on how acquirer's stock returns are connected with the institutions' development of the acquirer's economy in both domestic and international deals. Since in cross-border deals, the effect of institutions on the relationship between the firm value and M&As depends on the development of these institutions in two different environments, domestic acquisitions tend to be influenced by regional imperfections and institutional voids in emerging countries to the greatest extent (Li & Qian, 2013). Our study is aimed to reveal this impact by considering cross-border and domestic M&As performed by acquirers from BRICS countries.

While BRICS represents a diverse group of countries, it accounts for an increasing share in all M&A transactions among developing countries and, by doing so, allows to give an overall picture of the performance of mergers & acquisitions by emerging-market firms. For these reasons, the investigation of the institutional impact in emerging economies is made in the context of BRICS countries.

Given that M&As are becoming a prevalent tool for emerging-market companies to penetrate new markets and expand the share on the world arena, as well as the fact that the institutional component of the acquirer's country may have the influence on M&A returns for acquiring firms, we develop these hypotheses:

Hypothesis 1: In emerging economies, M&A deals are, on average, effective and increase the firm value of acquirers.

Hypothesis 2: In emerging economies, the development of the institutions in the acquirer country has a negative impact on bidder value.

Hypothesis 3: In emerging economies, the influence of the institutional environment on acquirer's firm returns will be lower for cross-border transactions than for domestic deals.

Methodology and results

The study considers all completed deals performed by the acquirers from BRICS countries over the period from January 2014 to December 2016. We have decided to concentrate on this time period as it reveals the most recent trends on the M&A market in emerging economies in the post-crisis period. Moreover, the selected time interval allows to search for the necessary information for most of the analyzed companies.

The sample contains 281 M&As performed by acquirers from BRICS countries throughout the 3-year period from January 2014 to December 2016. We use event study methodology to calculate CARs for acquirers and perform multiple regressions of CARs on the explanatory and control variables to explain the institutional impact on cumulative abnormal returns for acquiring firms.

This work verifies arguments provided by a number of authors suggesting that M&As create firm value for acquirers in emerging economies (Aybar & Ficici, 2009; Du & Boateng, 2015; Malhotra, Sivakumar & Zhu, 2011). The results report that M&A deals, on average, have significant positive returns for emerging-market acquirers, and CARs range from 0.12 to 0.16, suggesting that stock markets react positively to M&A deal announcements in these economies.

For cross-sectional analysis, following our research hypotheses, we highlighted two independent variables. The first hypothesis is connected with the independent variable that evaluates the institutional environment of the acquirer's country. One of the main difficulties of the research is to give a quantitative assessment of institutions. There are a number of various indices that measure the overall institutional development of countries, in which a wide range of variables is included. A system of institutional factors, as a rule, includes a bureaucratic apparatus, the level of democracy, the level of corruption, a judiciary system, the existence of business coalitions and the level of information openness of a country. However, it is still problematic to separate the particular institutional factors that may affect the effectiveness of transactions as all institutional factors are highly correlated, and this may cause biases in the investigation of their separate impact. Therefore, we consider that the research on this subject would be proper and more effective if the overall institutional environment is incorporated. The institutional development of a country in this study is measured with the values of the Institutions indicator of the Global Innovation Index, which is published by Cornell University, INSEAD, and the World Intellectual Property Organization on an annual basis. Although this index has not been frequently used in prior M&A research, its framework comprises three important components that define the institutions of a country: political, regulatory and business environments, and can be used as the indicator of institutional development of a given economy (Global Innovation Index, 2018).

The second independent variable is the dummy variable that codes the deal with 1 in case of international deal, and 0, otherwise. International M&As are expected to be more effective for the acquirer than domestic deals as cross-border deals allow to access new markets and expand the market share, and consequently, increase firm's value (Du & Boateng, 2015). Additionally, as discussed earlier, the effect of institutional environment might differ in cross-border and domestic deals. We expect cross-border transactions to be less influenced by the quality of institutional development in an acquirer's country.

We also controlled a set of variables as acquirer's size, deal's size, method of payment, acquirer's prior experience and financial performance (return on assets).

The results of cross-sectional analyses provide evidence that institutions play a pivotal role in M&A returns for acquirers. It is obtained that there is a negative effect of institutional environment on stock returns for acquirers in emerging economies. This supports the arguments that emerging economies are likely to be affected by institutional voids and there is an institutional explanation for the increase of costs and risks in M&A transactions, and therefore, an adverse impact on acquirers in a weak institutional environment.

Another relevant point of our results is that a negative impact of institutional factors decreases in cross-border deals, indicating that entering new markets mitigates the effect of underdeveloped institutions. This result is consistent with the research of Li & Quan (2013) who find that domestic transactions are likely to be more influenced by local market imperfections and institutional voids than international deals.

A major contribution of this paper involves advancing existing explanations of the M&A performance in emerging economies. Our main goal in this study was to address the lack of research evidence on what impact the institutional environment of the acquirer's country has on stock returns in emerging markets. We have done so by analyzing the deals performed by BRICS countries with the attention to the origin of a target firm.

Accordingly, the practical contribution of the present research is that it provides empirical findings on the institutional influence on the acquirer's firm value and its difference in cross-border and domestic transactions. This information is important for the management of the companies in emerging economies that intend to perform a M&A deal. Emerging-market acquirers should take into account the fact that M&A deals can be affected by the institutional environment of their country, and cross-border transactions may mitigate the adverse effect of a poor institutional development.

Finally, the question of what institutional constraints the companies faced during the M&A processes in emerging markets offers the potential to expand the research and examine abandoned deals in emerging markets. Future study may incorporate the investigation of how particular institutional voids affect M&A performance in emerging markets.

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