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8

Shareholder Value Effects of Cross-Border Acquisitions Conducted by Poland's Asseco Group

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Summary:

The purpose of the paper was to investigate the impact of cross-border acquisitions on shareholder value, to verify the impact of prior foreign presence for acquisition performance and to compare results of acquisitions into Eastern and Western European markets. Event method was applied for a sample of multiple acquisitions conducted by a single acquirer. While we find that cross-border acquisitions in the studied sample tend to destroy value, these findings are not statistically significant. We find a weak tendency for transactions constituting the first entry into the market to have slightly better outcome for shareholders than transactions constituting subsequent entries, which confirms market access hypothesis. While on average cross-border acquisitions do not create value for Asseco Group, their impact on shareholder value seems to be less adverse than in case of domestic acquisitions. Our findings suggest that Asseco, and perhaps other similar Polish companies, could use acquisitions to enter a foreign market, but subsequently grow in this market organically. The paper constitutes a first approach to study an underexplored topic of outbound cross-border acquisitions from Poland.

Keywords: M&A, cross-border acquisitions, shareholder value, internationalization, performance
JEL classification: M16, G14, L25, L86, F23, G34

8.1. INTRODUCTORY REMARKS

The question of why companies internationalize and what are performance implications of internationalization has long been the focus of International Business research. Substantial part of this research has been devoted to Multinational Corporations MNCs, sometimes referred to also as Multinational Enterprises MNEs.

Multinational Corporations are defined in the literature in various ways, although operationalization of this concept has most often referred in the past to the number of foreign subsidiaries and foreign sales, while less frequently to foreign assets, employees and other factors (Aggarwal *et al.*, 2011). Emerging market multinational companies and their specific investment path is sometimes regarded as one of the big questions for International Business research in 21st century (Mathews, 2006). It is also argued, that International Business needs to focus on entry modes of these MNCs, particularly into developed markets, and performance consequences of entry mode choice (Griffith, Cavusgil & Xu, 2008). Cross-border acquisitions are an advanced entry mode that yields relatively greatest control but also is related to substantial risk. This makes them an interesting topic of research, especially that cross-border acquisition activity in case of emerging firms is a relatively new phenomenon. Some recent studies of outward foreign investment OFDI from Poland show (Klimek, 2011) that companies engaged in OFDI overall show better performance than companies which are not engaged in such activities. It is not, however, certain whether better performance is the result or a contributing factor to such an engagement. Therefore research into performance consequences of OFDI, and cross-border acquisitions of Polish companies is needed.

Research studies in the past have often indicated (Moeller, Schlingemann & Stulz, 2005) that acquisitions more often destroy than create value. Evidence on cross-border acquisitions is less conclusive, although they also do not seem to create value for bidder's shareholders (Aybar & Ficici, 2009, Danbolt & Maciver, 2012). However, even if shareholders of an average acquirer do not benefit from acquisitions this does not preclude that in individual cases, companies may successfully apply cross-border acquisitions for their international expansion. Research on cross-border acquisitions of Central European, even less Polish MNCs is very scarce. This leaves open the question, to what extent findings from cross-sectional studies apply in these specific circumstances.

This paper will contribute to analysing cross-border acquisitions from Poland by studying one particular company, which has extensively used this form of international expansion, namely Asseco Group. Asseco Poland is the largest Polish IT company with market valuation of around 3,8 milliard PLN and annual turnover of over 5,5 milliard PLN. It is present directly or indirectly in over 50 countries world-wide. Asseco Group makes up a federation of companies active in software development or more broadly speaking in IT services. While companies from Asseco group are active in diverse fields such as ERP software for SMEs, CRM and workflow packages, internet services, ATM services and hardware, its core competences and main revenues come from its solutions and custom software development for banking, financial sector, as well as public and corporate sectors. Asseco has received recently, along with four other Polish companies, an award for its foreign investments in the competition 'Polish company- International Champion' (PWC, 2013). It is frequently mentioned as an example for other Polish companies considering international expansion, both by popular media and research papers (Dolistowska & Bąkowska, 2013; Kaszuba, 2010; Rudke, 2013). For these reasons Asseco constitutes an interesting case for studying shareholder effects of cross-border acquisitions. This paper will thus assess the consequences of cross-border acquisitions for Asseco's shareholders as well as their determinants, simultaneously contributing to knowledge on cross-border acquisitions from Poland.

8.2. LITERATURE REVIEW

King, Dalton, Daily and Covin (2004) contend on the basis of meta analysis of a large number of M&A studies from developed markets, that acquisition transactions do not contribute to superior financial results and even destroy value to some extent. Moeller, Schlingemann and Stulz (2005) claim that during the merger wave between 1998 and 2001 bidder's shareholders lost on average 12%. In case of emerging market MNCs Aybar and Ficici (2009) also find that cross-border acquisitions tend to destroy rather than create value.

For reasons explained in the previous section, we might expect that Asseco could actually be different from majority of acquirers. To assess this, we want to test empirically, and perhaps reject, the following hypothesis:

H1: Cross-border acquisitions by Asseco Group do not create value for its shareholders.

While findings for cross-border acquisitions and their impact for bidder's shareholders are not very positive, Danbolt and Maciver (2012) comparing domestic and cross-border acquisitions find that acquisition bidders gain relatively more in cross-border transactions. Research is not, however, completely unambiguous and results may depend on the acquirer's domestic market. While more positive outcomes for cross-border acquisitions are found for acquisitions undertaken by British companies (Danbolt & Maciver, 2012) findings concerning Russian acquirers show a different picture. Bertrand and Betschinger (2012) find in this context that both domestic and cross-border deals destroy value. While cross-border deals destroy shareholder's value slightly more, the difference is not significant. These ambiguous results call for research in still other context. As Asseco Poland was very active in terms of mergers and acquisitions not only internationally, but also domestically, we can test whether results of Asseco's cross-border acquisitions are superior to those of domestic acquisitions by hypothesizing that:

H2: Asseco's shareholders gain more from its cross-border acquisitions than from domestic acquisitions.

Traditional internationalization models, such as Uppsala model (Johanson & Vahlne, 1977) claim that international presence is increased gradually. Companies enter first psychically close countries and apply low-risk entry modes. As they gain foreign market experience, they gradually move to psychically more distant markets and switch to more advanced entry modes. In the context of emerging market multinationals, Mathews (2006) argues, that as they create cross-border linkages and leverage resources of their foreign partners, they also gain new organizational capabilities and as a result improve, with time, efficiency of such linkage-leverage strategies. These arguments suggest that first acquisition into a new foreign market might pose a greater challenge and create less value than subsequent acquisitions into the same market. However, entering completely new markets by means of cross-border acquisitions offers also potential benefits from market expansion. Such acquisitions might for example provide access to networks, the lack of which could prevent the acquirer from entry. They also pose a lower threat of overlap between target's and acquirer's operations.

Research does not answer unambiguously whether cross-border acquisitions are more effective when they constitute initial entry into a foreign market or when they constitute an entry into a market where the acquirer previously operated. Aybar and Ficici (2009) indicate that lack of previous operations on the market of the target may increase difficulties in proper assessment of the target. Danbolt (2004) does not find a difference between first entries into a new market and acquisitions in markets where the bidder operated prior to the acquisition. In turn, Danbolt and Maciver (2012) find a weak but positive effect for cross-border acquisitions into new markets.

As the previous research is not conclusive, it is reasonable to test if Asseco's cross-border acquisitions into completely new markets create more or less value than acquisitions into markets where Asseco had earlier acquired a company. Therefore we want to test the following hypothesis:

H3: Value creation from cross-border acquisitions into countries where Asseco Group had previously established its presence (by an acquisition) is higher than in case of cross-border acquisitions into completely new markets.

As it has been argued earlier, cross-border acquisitions may be expected to contribute to value creation more than domestic acquisitions. By acquiring foreign targets acquirers can gain access to markets, new resources and/or capabilities. The extent to which this access will contribute to acquirer's value may depend on the characteristics of the target market. Research on cross-border acquisitions by emerging market firms has shown so far that acquisitions of emerging market multinationals into Western, developed markets create more value than acquisitions into other emerging markets. This has been shown for example on a sample of Indian companies (Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010). Gubbi *et al.* (2010)

argue that emerging markets MNCs may benefit in case of acquiring companies from Western countries by obtaining access to better quality of resources and institutions in the developed markets. Two other recent studies also provide supportive arguments concerning superior results of acquisitions into Western markets (Chernykh, Liebenberg, & Macias, 2011; Nicholson & Salaber, 2013). Thus overall, previous studies are relatively unambiguous on the superior benefits derived from choosing targets from Western markets. As these studies rely mostly on data from Asian emerging markets we want to test whether these findings apply to East European multinational like Asseco. Therefore following hypothesis is to be tested:

H4: Cross-border acquisitions into Western markets create more value than cross-border acquisitions into emerging markets.

8.2. MATERIAL AND METHODS

The object of this study are acquisitions undertaken by Asseco Poland, Asseco Slovakia, Asseco Germany, Asseco Romania and Asseco South Eastern Europe ASEE (see Table 8.1 for the list of acquisitions). Acquisitions were identified from EMIS™ DealWatch database provided by Emerging Markets Information Service. Countries of the targets were classified as East or West European. We also classified acquisitions as first entry into the market or subsequent entry. For the sake of this classification we treated former Yugoslavia countries as one, thus treating entry into Serbia by means of acquiring Pexim DOO as the first entry into the market and treating other acquisitions, such as for example acquisition of two Croatian companies Arbor and Logos as subsequent entries. In several cases acquisition of more than one company was announced on a single day. In such a case we treated such acquisitions as one event, as it would be unfeasible to discern separately the impact of each of them. We also considered only these transactions which led to gaining control either by Asseco Poland or its direct subsidiary. We dismissed deals undertaken by subsidiary of a subsidiary. We also did not include deals which constituted an increase in shareholdings in a company which was already controlled by Asseco Group or transactions which constituted an internal restructuring of Asseco holding.

We included in the analysis transactions conducted from the beginning of Asseco Poland's presence on the Warsaw Stock Exchange until the end of 2013. Deals of undisclosed value or valued at less than 2 million Euro were excluded due to expectations of negligible impact on shareholder value. For the sake of comparisons with domestic deals carried out by Asseco Poland, we compiled also a list of domestic transactions by this company in the same period (Table 8.2).

Table 8.1. List of foreign companies acquired by Asseco Group between 2007 and 2013

No.	Target company	Target country	Acquirer
1	FIBa Software S.R.L./ Net Consulting S.R.L.	Romania	Asseco Romania
2	AP Automation+Productivity AG	Germany	Asseco Germany
3	Sintagma	Lithuania	Asseco Poland
4	Uniquare Software Development GmbH	Austria	Asseco Slovakia
5	Pexim DOO	Serbia	ASEE
6	Arbor Informatika d.o.o. Rijeka/ Logos d.o.o. Zagreb	Croatia	ASEE
7	matrix42	Germany	Asseco Germany
8	Pexim Cardinfo DOO Belgrad	Serbia	ASEE
9	Antegra DOO	Serbia	ASEE
10	update4u Software	Germany	Asseco Germany
11	Raxon Informatica	Spain	Asseco Poland
12	IT Practice	Denmark	Asseco Poland
13	Terminal Systems	Spain	Asseco Poland
14	Pronet IT Konsalting Inxhiniering Telekomunikime Sh.p.k.	Kosovo	ASEE
15	Professional Bank Systems & Software - Probass	Romania	Asseco Poland
16	Statlogics Szoftverfejleszto	Hungary	Asseco Slovakia
17	Globenet Szamitastechnikai	Hungary	Asseco Slovakia
18	ITD (Iletisim Teknoloji Danismanlik Ticaret A.S.)/ EST - Elektronik Sanal Ticaret Bilişim Hizmetleri A.Ş.	Turkey	ASEE
19	Necomplus Mantenimiento, S.L.; Necomplus, S.L.; Necomplus Portugal; Grupo Drie, S.L.	Spain	Asseco Poland
20	Formula Systems	Israel	Asseco Poland
21	Biro Data Servis/ Cardinfo BDS	Bosnia	ASEE
22	Sigma Danismanlik	Turkey	ASEE
23	R-Style Softlab	Russia	Asseco Poland
24	Racunalstvo	Croatia	ASEE

Source: Emerging Markets Information Service EMIS.

We used in the study event methodology, which is common for studies assessing the impact of M&A on shareholder value. Market model and WIG index were used for estimating expected returns of Asseco Poland, according to the following formula

$$R_t = \alpha + \beta \ R_{mt} + \varepsilon_t \tag{1}$$

where :

R_t – is the return on Asseco Poland share at time t,

R_{mt} – is the return on WIG at time t,

β – is the coeeficient which links returns of Asseco Poland with WIG to be estimated from the regression

α – is the intercept term

ε – is a random error at time t.

This model allows to estimate expected returns on Asseco Poland's shares during the event window. For the sake of this analysis we decided for 120 day long estimation period ending d-3 (3 days before the event) and 3 days long event window (-1,0,1), where 0 denotes the day of the announcement. The Abnormal Return AR is calculated according to the following formula, by subtracting expected return from actual return on each day of the event window.

$$AR_t = R_t - (\alpha + \beta\ R_{mt})_t \qquad (2)$$

where :

AR_t – is the abnormal return at time t.

The sum of abnormal returns for the event window is called Cumulative Abnormal Return CAR and the cumulative average abnormal return CAAR for the event window is the arithmetical average of CAR.

Table 8.2. List of domestic companies acquired by Asseco Group between 2007 and 2013

Date	Target Company	Deal Type
2013-02-15	Zeto Bydgoszcz SA	Acquisition
2012-09-18	Centrum Informatyki ZETO S.A.	Acquisition
2012-06-27	SKG SA	Acquisition
2011-12-09	Centrum Komputerowe ZETO S.A.	Acquisition
2009-11-26	Otago	Acquisition
2008-10-22	Systemy Informacyjne Kapital SA	Acquisition
2008-05-13	ABG Ster-Projekt	Merger
2008-02-20	Prokom Software	Merger
2007-10-01	Anica System	Acquisition
2007-09-29	Prokom Software	Merger

Source: Emerging Markets Information Service EMIS.

8.4. RESULTS AND DISCUSSION

Cumulative Average Abnormal Return CAAR for cross-border acquisitions is -0.00142, while Median of CAR is -0.003616. Both values are below 0. Thus we cannot reject H1, that cross-border acquisitions do not create value.

This is even more clear when we look at abnormal returns for particular event window days, as d0 and d1 show clearly negative outcomes (Table 8.3).

Table 8.2. Average values and Median for Cumulative Abnormal Returns obtained during individual days of the event window

	d-1	d0	d1
CAAR	0.001676	-0.0007	-0.0025
MEDIAN	0.002591	-0.00182	-0.00499

Source: own calculations.

Furthermore, we compared cross-border to domestic acquisitions. Both CAAR and Median of CAR for domestic acquisitions are lower than for cross-border acquisitions (Figure 8.1) although the difference between them as calculated by U Mann-Whitney test is not statistically significant. Thus while we find that both CAAR and Median are lower for domestic acquisitions than cross-border acquisitions we can only speak of some tendency, as we do not find statistical significance for these differences.

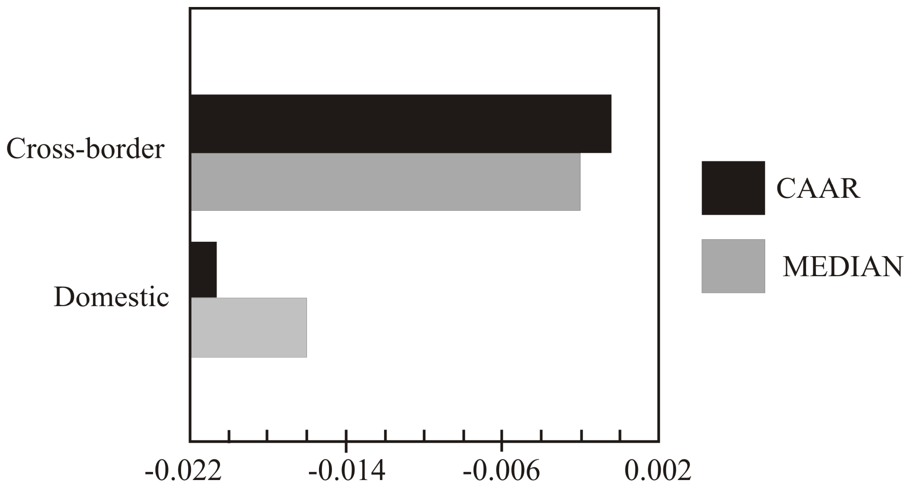

Figure 8.1. CAAR and Median of CAR for cross-border vs domestic acquisitions of Asseco Group
Source: own elaboration.

In order to verify H3 concerning impact of prior experience in the market of the target on acquisition performance, we analyzed whether cross-border acquisitions which constituted first entry into a specific foreign market generated worse results than acquisitions into markets where Asseco Group was already present at the time of transaction.

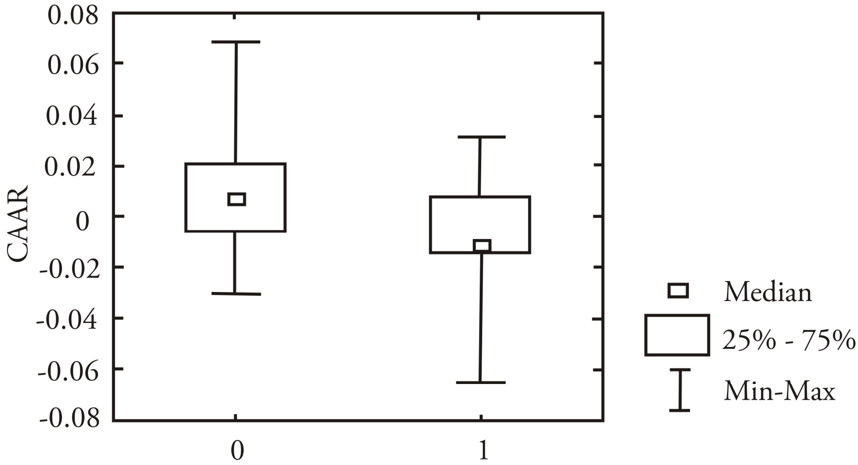

Figure 8.2. CAAR for cross-border acquisitions which constitute first entry into the foreign market (0) versus acquisitions into markets, where the bidder had earlier acquired another company (1)
Source: own elaboration.

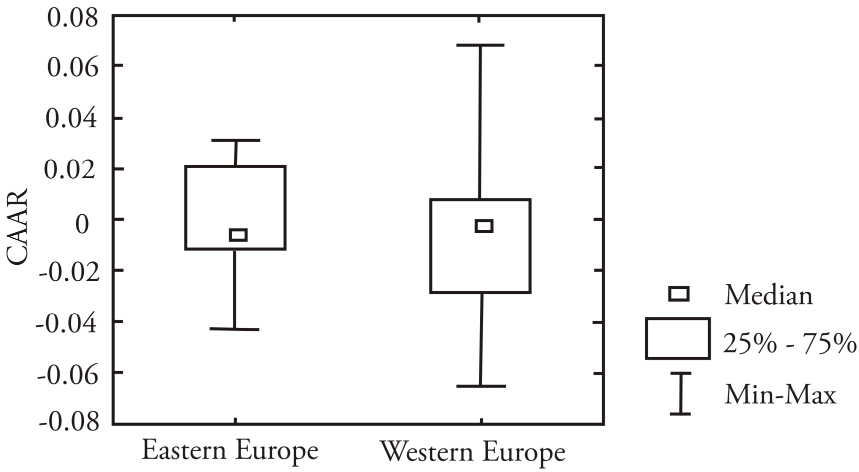

Figure 8.3. CAAR for Asseco's cross-border acquisitions into East versus West European markets
Source: own elaboration.

Our findings suggest that there might exist a difference between these two groups of acquisitions (Figure 8.2) but contrary to expectations first time acquisitions in new foreign markets generated better returns than acquisitions into markets where Asseco previously had acquired a company. Nevertheless again, probably due to small size of our sample these differences are not statistically significant.

The last objective was to test whether acquisitions into Western markets were superior as compared to acquisitions into East European markets. As Figure 8.3 indicates, differences between these countries are not substantial. What we do observe is that variance in results of acquisitions into West European markets (0.001354) is actually greater than in case of targets from East European markets (0.000405). Contrary to intuition, acquisitions of companies in Western Europe seem to present potentially both greater opportunities and greater risks.

8.5. CONCLUSIONS

Our research on the value creation stemming from acquisitions, particularly cross-border acquisitions of Asseco Group, show that at least in the short run these transactions do not create shareholder value. While our results are statistically inconclusive, we observe that descriptive statistical measures (in our case CAAR and Median for CAR) for cross-border acquisitions are higher than in case of domestic M&A transactions, suggesting that cross-border acquisitions might be superior. We also find that cross-border transactions which constitute a first entry into a foreign market tend to make shareholders better off than acquisitions in countries where Asseco, had previously acquired a company. Our analysis indicates also that value creation does not depend on whether the target is in a West or East European country. All this indicates that value creation in acquisitions of the Asseco Group might be related to accessing new markets. Further growth in these markets, however, should rather be conducted in an organic way.

While our findings are generally statistically inconclusive this could be ascribed to small sample size. Therefore further research into cross-border acquisitions conducted by Visegrad 4 companies is warranted, especially that existing studies only marginally refer to transactions from the region (Aybar & Ficici, 2009). Such studies would, however, certainly benefit from larger sample size that would increase statistical significance of the results and enable more elaborate approaches to analysis, controlling, among others, for bidder and target characteristics.

It is not certain to what extent conclusions from this study could be extrapolated to other cross-border acquisitions from Poland. The fact that we have concentrated on a single acquirer from a single industry might limit extending these findings to other contexts. In order to achieve more universal findings one should control also for other acquirer's characteristics, such as for example acquisitions experience.

Despite these limitations current study offers some interesting findings. While it is in line with research that suggests greater benefits from cross-border as compared to domestic acquisitions, it does not support the notion that emerging market acquirers will benefit more from acquiring Western rather than other emerging market companies. Perhaps East European acquirers are different in this respect from Asian acquirers? The other interesting finding, even if not completely conclusive, refers to shareholder value effects for first time acquisitions on foreign markets as compared to subsequent acquisitions. It seems that the market doubts whether increased knowledge about the foreign market gained from the initial acquisitions outweighs management challenges related to a following acquisition in the same market.

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