



The Effect of Cross-Border Acquisition and Tax Avoidance on Post-Acquisition Firm Value

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ABSTRACT

This study aims to examine the impact of cross-border acquisitions (CBA) and tax avoidance on the firm value of an acquirer in the Asian region. This study also examines whether tax avoidance affects the relationship between CBA and firm value. The research covers 567 acquisitions by Asian firms during the period 2012–2014, with 1,117 firm-year observations. Multiple regression was used for data analysis. The study uses three measurements of tax avoidance, namely effective tax rate differences (ETR_D), book-tax differences (BTD) and residual book-tax differences (RBTD). It was found that CBAs destroy the acquirer's firm value, which is consistent with the managerialism and hubris hypotheses. The effect of tax avoidance on post-acquisition firm value is positively significant. The results also show that tax avoidance strengthens or increases the negative effect of CBA on post-acquisition firm value. This study has implications for companies that want to make acquisitions and make aspects of taxation a consideration in making acquisition decisions.

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INTRODUCTION

Foreign direct investment (FDI) has become an expansion path for companies during the current period of economic globalization. FDI is a type of company investment activity, or the long-term capital investment of a company in another country. Cross-border acquisition (CBA) has long since developed into one of the main alternatives strategy in FDI. In the last two decades, CBA activity has increased sharply. The United Nations Conference on Trade and Development (UNCTAD) (2016) declared that in 2015 the world's FDI flow had increased by 38% to \$1.76 trillion, which was the highest increase since the start of economic globalization and the financial crisis of 2008–2009. The wave of activities in cross-border mergers and acquisitions (M & A) increased to \$721 billion from \$432 billion in 2004, and was a key factor in driving the boom in the global economy.

According to UNCTAD's (2000) report on world investment, CBA has become an important expansion method in the Asian region. CBAs in South Asia, East Asia and Southeast Asia reached an average of \$20 billion during the period from 1997 to 1999; this is much higher than the level in 1994–1996, which averaged only \$7 billion. The total CBA contribution in Asia increased from 19% in 1996 to 68% in 1998. CBA transaction value continues to experience a significant increase to date, and CBA value growth in Asia is among the highest compared to other regions in the world.

The relationship between acquisitions and value creation for a company is explained in three main theories, which state that acquisitions are not only synergistic and can increase value, but can also destroy value. These three theories are synergy theory, managerialism theory and hubris theory (Seth et al., 2002). Based on synergy theory, an acquisition can create added value for a company based on the notion that when two firms join the value of the merger of the two companies (the value of the two combined) will result in a value greater than the value of the two companies individually (Bradley et al., 1988; Seth et al., 2002). Several studies state that CBA provides integrating benefits of internalization, synergy and risk diversification, and thereby creates wealth for both acquirer and target-firm shareholders (Kang, 1993; Markides and Ittner, 1994; Morck and Yeung, 1991, 1992). Seth et al., (2002) state that the multiple sources of value creation in CBAs are asset sharing, reverse internalization of valuable intangible assets and financial diversification.

The second theory, managerialism theory, states that the acquisition process can cause value destruction when a manager overpays in the acquisition process. The manager intends to maximise profits for himself/herself and thus sacrifices the interests of the acquirer's shareholders. The third theory is hubris theory, which states that an acquisition occurs because a manager has made a mistake when evaluating or assessing the target company, and the premium takeover only reflects the random error. In the context of CBAs, in which acquisition transactions have greater complexity, the possibility of value destruction due to managerialism and hubristic factors becomes greater. According to managerialism theory, if companies are undertaking CBAs with a higher complexity, this can lead to the emergence of differing interests from various parties. Managers can have their own interests, which negatively affect value creation. Furthermore, based on hubris theory, complexity in CBA transactions can increase the likelihood of errors in valuations or of the manager making mistakes in the target evaluation process of the acquisition, meaning the premium payment reflects an error in the assessment.

Many previous studies have examined whether CBAs create value for firms, but empirical evidence supporting the impact of CBAs on corporate value remains mixed, indicating that such impacts can be both positive and negative. Some studies have found that CBAs create added value for acquirer companies, while other research has found that they reduce the wealth of acquirer companies' shareholders. In addition, other studies have found that CBAs provide a neutral return or do not create value for shareholders. Li, *et al.*, (2016) summarize some research results on merger and acquisition (M & A), show different results. For example, Cakici, *et al.*, (1996), Doukas and Travlos (1988), Eun, *et al.*, (1996), Goergen and Renneboog (2004) and Markides and Oyon (1998) reveal that a firm's stock price responds positively to any CBA announcement that a company makes. Gubbi et al. (2010) found that international acquisitions provide positive abnormal returns for acquirer shareholders, while Li, *et al.*, (2016) state that, on average, a CBA creates value for corporate shareholders.

However, Chakrabarti, *et al.*, (2009) and Datta and Pula (1995) show negative results Bertrand and Betschinger (2011) state that a CBA has a negative impact on a company. Narayan and Thenmozhi (2014) also show that CBAs destroy value when firms from emerging markets acquire ones in developed markets; the losses will worsen when the acquisition model is a "tender offer" rather than a "negotiating deal". Aybar and Fici

(2009) find that for emerging-market multinationals (EMMs), CBA transactions do not create value for the acquiring company. The existence of value destruction in the acquisition process is also proven empirically by Masulis, *et al.*, (2007). In addition, Harford, *et al.*, (2012) state that value destruction in acquisitions occurs mostly due to entrenchment by managers. Their results also suggest that all the value destruction resulting from acquisitions is due to overpayment of the acquisition deal; however, there is empirical evidence that supports the value creation of acquisitions, while there is also empirical evidence supporting value destruction in the process. The difference in outcomes of CBA impacts on corporate value indicates the need for this topic to be re-examined.

Moreover, previous studies have documented that taxes are one of the incentives for firms to make CBAs. Ciobanu and Elena (2015) state that statutory corporate tax and labour tax are important factors that can explain the economic decisions of investors when conducting M & A in a country. In other studies, Chow (2013) and Col and Errunza (2011) examine the relationship between tax aggressiveness and acquisitions, while Belz *et al.*, (2013) explain –that tax avoidance is one of the drivers in conducting M & A. These studies identify that tax avoidance is influential in CBA decision-making, that it can be a driving factor for companies to undertake CBAs and indicate where its influence lies for decision-making in CBA activities.

When companies conduct CBA activities, they tend to also practise tax avoidance. With cross-border activities, they can take advantage of differences in the features between countries' tax regulations. Tax-avoidance activities undertaken by companies making CBAs are expected to provide additional benefits for them in the form of tax cost savings. These savings will reduce company expenses, thus creating more profits.

This research will examine whether tax avoidance can moderate CBA in creating added value for companies. To the best of our knowledge, no previous research has examined whether tax avoidance in M & A activities can add value to companies and how it affects the value of the acquiring company that conduct a CBA. The study will link the two variables, namely the impact of the value created by CBA activities and the tax-avoidance activities undertaken, by examining whether a CBA has a positive or negative impact on firm value and whether tax avoidance moderates the impact of a CBA on this value.

The study contributes to CBA and taxation literatures in two ways. First, to the best of our knowledge, no prior studies have examined the moderating role of tax avoidance in the relationship between CBA and firm value. This work will fill this research gap in the CBA literature. Many previous studies have examined the effect of CBA activity on firm value, and others have examined whether tax avoidance is a motive for CBA activities and how it affects firm value. Hence, this study will also examine the effects of CBA and tax avoidance on firm value through a cross-border analysis of Asia, a region on which there is limited research on CBA activity.

Second, many studies on CBA focus on well-developed regions such as the US and European countries. Several also focus on acquirers from a single country in Asia, such as China, Japan or India. This study is different from previous ones because it uses a cross-border context in Asia. Cross-border research in Asia is interesting, because Asian countries have different characteristics in terms of economic size, tax environment and market development. With the large size and significant increase in the number of CBA activities in Asia during the last few decades, research in the Asian context is crucial. In terms of tax, countries in Asia are also very diverse, which is another reason why the Asian context is interesting to study. With regard to this context, previous literature, such as Claessens, *et al.*, (2000), states that Asian firms face a high risk of entrenchment due to the separation between ownership and control. Furthermore, the risk of expropriation is higher when a company performs a corporate action such as acquisition, because a bad acquisition is a particularly costly manifestation of the agency conflict between shareholders and managers (see for example, Jensen (1986) and Harford, *et al.*, (2012)). This context could justify the argument as to whether the impact of CBA on value might be driven by a manager's self-interest, since the Asian context has unique characteristics of ownership.

The remainder of the paper is organised as follows: Section 2 reviews the literature and develops the hypotheses; Section 3 explains the research methodology; Section 4 analyses the results; and Section 5 provides the conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theory of Value Creation in CBA

Investment in a foreign country can be done mainly in one of two ways. First, through direct investment where a company brings capital abroad – in the form of cash, machinery, etc. – to the local company as a subsidiary. In this case, the value of the subsidiary will increase in the short run because the subsidiary will appraise the asset transferred by the parent company. Second, a company can buy a local company abroad through the acquisition process, either by making a tender offering or direct negotiation with the owner. Acquisition can be interpreted as a takeover of both ownership and control over a company (Hu & Ngo, 2015). Since the acquisition is across countries, then the second approach is called CBA. In the short run, the acquirer may not enjoy a higher value since the synergy result between the acquirer and target company may not be achieved until after a few years. In the previous literature on CBA, there are three main theories that can explain how CBAs can create value, namely synergistic acquisitions, managerialist acquisitions and hubristic acquisitions.

Synergistic Acquisition

The synergy theory assumes that acquisitions can create added value for firms. When two firms merge, the value of the combined company will be greater than the value of the two individual companies (Seth, Song, and Pettit, 2002). The increase in value is spread across both companies (the target company and acquiring company), where the target company achieves more of the proportion of the increase in value because the acquisition process has raised the level of competition for ownership of the shares of the acquired company.

The rationale behind the synergy in CBA hypothesis was developed from the general theory of firm growth proposed by Penrose (1959). Penrose explains that a company is a collection of productive assets, and aims to generate long-term benefits that are closely related to the productive opportunities of the company (that is, opportunities for the more efficient use of tangible and intangible assets). The sources of the value effects of CBAs are different compared to domestic acquisitions. In domestic acquisitions, the addition of value or profit from synergistic acquisitions is shown by the creation of an increase in operational efficiency, an increase in market power or in the form of financial gain (Singh and Monthgomery, 1987 cited in Seth, Song, and Pettit, 2002). On the other hand, CBAs benefit from the flow of capital and goods across countries, and differences in institutional factors among countries. One of the most important synergistic sources of CBA arises from the potential for the transfer of intangible assets, such as knowledge, between the two companies in different countries. Moreck and Yeung (1992 cited in Seth, Song, and Pettit, 2002) prove the existence of this source of economic value with their research on acquisitions in the US with foreign target countries. Another source of advantages in the synergy hypothesis is diversification, both line of business diversification and market diversification. Companies with multinational operations seek to benefit from diversification, which will create value for stakeholders. Multinational corporations can also have a larger debt capacity compared to domestic ones, resulting from financial diversification and related to tax benefits. Risk reduction can create value for shareholders on an international scale.

Managerialist Acquisition

The managerialism hypothesis states that managers often overpay in the acquisition process. A manager performs an acquisition to maximize profits for himself/ herself and forfeits the interests of the acquirer's shareholder. Berkovitch and Narayanan (1993) find evidence that in samples of managerialist acquisitions in the US, the acquisitions produced negative benefits (Seth, Song, and Pettit, 2002).

The managerialism hypothesis argues that managers pursue the maximization of sales or growth at the expense of shareholders' wealth. As long as the management compensation is tied to the amount of assets under its control, the manager will prefer to pursue the growth of assets compared to pursuing profit. Based on this model in a specific case of acquisition, Mueller (1969 cited in Seth, Song, and Pettit, 2002), states that managers have discretionary control in decision-making and will choose to maximize growth compared to profit maximization.

The manager also has an incentive to diversify in order to reduce the risks associated with his/ her human resources. In capital-market integration, the level of firms undergoing diversification activities to reduce risks in general does not result in shareholder benefits. However, CBA is one of the options preferred by management in reducing risks for domestic acquisitions, especially when there is a lack of government control mechanisms in a

country to oversee management decisions on acquisitions, which have the potential to overpay or pay above the required costs.

Hubristic Acquisition

In the hubris hypothesis, Roll (1986 cited in Seth, Song, and Pettit, 2002) states that the value of an acquisition is affected by the manager's mistakes in evaluating or assessing the target company, and the premium takeover only reflects random errors. Although the acquirer may make overvaluation or undervaluation errors, it may be expected to remain unfair in the acquisition. Management's miscalculation of the acquisitions value may result in an overpayment by the acquirer, which would harm the acquirer's shareholders. The extreme version of the hubris hypothesis predicts that there is no synergistic advantage in the acquisition and the overall premium paid to the target company is simply a transfer given by the acquiring company.

Seth, Song, and Pettit (2002) present empirical evidences for a more moderate version of the hubris hypothesis in the context of CBA. They hypothesize that if a true joining company produces a synergistic advantage, the rational manager (who might make a misjudgement) is motivated to create value from the acquisition. However, although the expected synergistic gain is positive (the value of the merged entity exceeds the value of the firm before the acquisition), since the valuation may be a mistake, some acquisitions result in overpayment to the target company and ultimately result in a loss to the acquirer's shareholders.

Hypothesis Development

The Effect of CBA on the Firm Value

A CBA is a corporate strategy used to increase firm value. With a CBA, the company aims to expand its business to gain new markets. Companies can also access strategic resources and assets, such as research and development (R&D), technology capabilities, patents, brands, ownership of local permissions and licences, suppliers, and distribution networks. Based on the synergy hypothesis, CBA can create added value for the acquirers. This added value is derived from the existence of asset sharing, reverse internalization and financial diversification. This synergy hypothesis will increase the added value for the acquirers. This hypothesis has been proven empirically by Seth, Song, and Pettit (2002), who find asset sharing, reverse internalization and financial diversification are positively related to the value creation generated by the acquisition process. Based on this hypothesis, CBA will have a positive effect on company value. Ansoff (1965) claims that acquisition is done with consideration to improve efficiency and create value through synergy effects; this was later developed by Williamson (1998 cited in Seth, Song, and Pettit, 2002). Wang and Moini (2012) mention that synergy is the main reason for CBA activity. Gubbi, et al. (2010); Li, Li, and Wang (2016); Basuil (2011); and Seth, Song, and Pettit (2002) prove that CBA creates added value for the shareholders of the acquirer.

However, it is also possible for CBA to reduce the value of the acquiring companies, as described in managerialism and hubris hypotheses. Therefore, if a CBA is made because of a managerialist reason or a manager makes an overvaluation, then the CBA will have a negative effect on value of the acquiring company. Datta and Pula (1995) state that CBAs do not create a positive return for shareholders, but rather the opposite occurs: using acquisition data from the US from 1978–1990, CBAs actually resulted in a significantly negative effect for the shareholders of the companies. After an acquisition decision is announced, on average there is value destruction for the acquirer. Datta and Agan (1995) explain that the impact of negative wealth (significant negative CARs) indicates poor investment. This result is in accordance with the hubris hypothesis put forward by Roll (1986 cited in Seth, Song, and Pettit, 2002), which states that the acquiring company has overbid and overpaid the target company. Overpayment can occur when managers overestimate their ability to manage or preserve the target company, as proposed by the hubris theory, and overestimate the profits to be generated by the acquisition transaction.

A CBA, in general, can affect the value of the acquirer, but the influence can be in one of two directions. A CBA can have a positive effect and can also have a negative effect. The hypothesis is as follows:

H1: CBA affects the post-acquisition value of the acquiring company.

The Effect of Tax Avoidance on Firm Value

Tax avoidance is often conducted by various companies in order to minimize tax costs. Minimizing the cost is expected to increase profits for the company and, ultimately, will raise the value of the company and improve the

welfare of its shareholders. From a traditional point of view, the shareholders' value will increase along with an increase in tax-avoidance activities by the company. When a company performs tax-avoidance activities, it indirectly transfers to the company or takes over the potential tax revenue of a country, so wealth is added to the company.

On the other hand, tax avoidance can also reduce the firm's value. In the event of avoiding paying taxes, the company will incur expenses for conducting its tax planning, as well as other direct or indirect costs related to tax avoidance activities. In relation to CBA activities where international transactions exist, more political costs may arise. The costs incurred can be greater than the benefits the company receives from reducing tax payments, to the extent that it may potentially reduce the increase in corporate value. Hence, instead of generating a positive influence, tax-avoidance activities will actually have a negative influence on the value of the company. Political costs faced by multinational companies may also mean that the company cannot be too aggressive in its tax-avoidance activities, so, for these multinational companies, tax avoidance will not affect the value of the company.

Therefore, based on the previous explanation it can be concluded that tax-avoidance activities will affect the value of the company positively or negatively, but it is also possible that tax-avoidance activities will not affect the value of the company; hence, the following hypothesis has been developed:

H2: Tax avoidance affects the post-acquisition firm value of the acquiring company.

The Effect of CBA and Tax Avoidance on Firm Value

CBA and tax avoidance are activities undertaken by a company to increase its value. On the other hand, one of a company's motives for CBA is to avoid taxes (Ross, Westerfield, and Jaffe, 2010). When a company considers its economic decision to conduct CBA, the taxable features of the target company is an important factor to consider and has an influence on the decision. A CBA will increase a company's value by achieving efficiency, gaining new markets, accessing resources and strategic assets, and tax avoidance that is related to CBA activity can be a leverage or can strengthen the increase in the company's value.

Multinational corporations can take advantage of the differences in tax regulations among countries to gain profit in cross-border transactions; i.e. minimizing tax costs or even avoiding tax payments. Thus, tax avoidance by an acquirer will increase in cross-border transactions, as will the motivation to perform a CBA and thus increase the value of the company.

However, based on the literatures on CBAs and tax-avoidance, both CBAs and tax avoidance may influence the value of the firm in a positive or negative manner. According to the synergy hypothesis of CBA, if it has a positive effect on firm value, then tax avoidance, as moderation variable, may be able to increase or strengthen the relationship between CBA and the value of the acquirer if tax-avoidance activities are conducted to provide benefits to the value of the company. Hence, the added value generated from the CBA will increase in line with the tax-avoidance activities undertaken by the company. This means that tax avoidance, as moderation between a CBA and the value of the acquiring company, strengthens the relationship between the two. However, if the benefits generated by tax-avoidance activities are less than the cost of tax avoidance, tax avoidance, as a moderating variable, will weaken the relationship between the CBA and firm value. In other words, the value of the company will increase due to the impact of CBA activity, but will decrease in line with the tax-avoidance activities undertaken by the company. Therefore, tax avoidance, as moderation between the CBA and the value of the acquiring firm, actually weakens the relationship between the two.

A CBA can also possibly negatively affect the value of the company; i.e. a CBA can have an impact on reducing the value of the acquiring firm. Therefore, if the company also conducts tax-avoidance activities, where tax-avoidance activities will generate benefits or added value for the acquirer, the negative impact caused by the CBA will decrease along with the tax-avoidance rate made by the company. Therefore, tax avoidance, as a moderation between the CBA and the value of the acquiring firm, actually weakens the relationship between the two.

However, if tax-avoidance activities have a negative effect on the value of a firm that has undertaken tax-avoidance activities, this will actually lead to greater costs compared to the benefits generated, and the negative impact or decrease in corporate value generated by the CBA will further increase the decline, as reinforced by the tax-avoidance activities. This means that tax avoidance, as moderation between the CBA and the value of the acquiring company, strengthens the relationship between the two. Based on this rudimentary idea, the following hypothesis has been developed:

H3: Tax avoidance moderates the relationship between the CBA and the post-acquisition firm value of the acquiring company

RESEARCH METHOD

Data Sources and Sample Selection

This research uses 567 acquisition activities conducted by companies located in Asia during period of 2012–2014. This study uses secondary data from the Eikon Thompson Reuters database. Other economic data, such as the gross domestic product (GDP), capital market intensity and statutory tax rate, was obtained from the World Bank. This study uses purposive sampling with criteria specified as follows (Hanlon and Heitzman, 2010):

- The company is a non-financial and publicly listed company;
- The company has made domestic acquisitions or across the country with a level of ownership above 50% in years 2012–2014, and the status of the acquisition transactions are ‘complete’;
- The company has a complete set of data associated with variables used in this research;
- The company does not have a zero or negative income.

Observations were conducted for one year before acquisition (t-1) and one year after acquisition (t+1), where t is the year in which acquisition activities were conducted. Hence, the initial sample of 567 acquisition activities became 1,134 final observations in this research. The additional criteria use the residual book-tax difference (RBTB) specifically to measure tax avoidance; this is because of the requirement for a minimum sample in same industry and same country, so that the data assumptions are met. The sample for the RBTB model thus became 445 acquisitions and 890 final observations. Table 1 provides the sample selection process.

Table 1 Sample Selection

No.	Description of Research Sample	Exclude	Number of Sample
1	Non-financial public corporation in Asia that acquires in 2012-2014		2,303
2	Companies that undertook acquisition other than major or fully acquisition, ie acquisition with ownership percentage below 50%	-412	1,891
3	Acquisitions have not been completed effectively in the same year	-438	1,453
4	Companies that made more than one acquisition activity in the same year	-439	1,014
5	Companies with incomplete financial data	-211	803
6	Companies have zero or negative income	-236	567
	Number of Selected Sample		567
	Number observations (Pre and Post acquisition period)		1134
	Models with BTB Residual measurements		

Model and Operationalization of Variables

This study uses an ordinary-least-squares (OLS) multiple regression analysis to test the hypotheses. Model 1 is used to analyse hypotheses 1 and 2, and Model 2 is used to analyse hypothesis 3. The models used in this study are the same as the models of Boapeah (2015), and Chen, Hu, & Money (2014).

Models 1 and 2 are as follows:

Model 1

$$FV_i = \alpha_0 + \alpha_1 CBA_i + \alpha_2 POST_i + \alpha_3 CBA_i * POST_i + \alpha_4 TAI_i + \alpha_5 TAI_i * POST_i + \alpha_6 PPE_i + \alpha_7 DEBT_i + \alpha_8 ROA_i + \alpha_9 SIZE_i + \alpha_{10} GROWTH_i + \alpha_{11} GDP_i + \alpha_{12} CAPMARINT_i + \alpha_{13-16} DYEARS_i + \alpha_{17-31} DCOUNTRY_i + \epsilon_i$$

Model 2

$$FV_i = \alpha_0 + \alpha_1 CBA_i + \alpha_2 POST_i + \alpha_3 CBA_i * POST_i + \alpha_4 TAI_i + \alpha_5 TAI_i * POST_i + \alpha_6 CBA_i * POST_i * TAI_i + \alpha_7 PPE_i + \alpha_8 DEBT_i + \alpha_9 ROA_i + \alpha_{10} SIZE_i + \alpha_{11} GROWTH_i + \alpha_{12} GDP_i + \alpha_{13} CAPMARINT_i + \alpha_{14-17} DYEARS_i + \alpha_{18-32} DCOUNTRY_i + \epsilon_i$$

Descriptions:

FVi:	Firm value of company i
CBAi:	Dummy variable (1 and 0) with a value of 1 for companies that perform CBAs and a value of 0 for companies that perform domestic acquisitions
Tai:	Tax avoidance of company i
POSTi:	Dummy variable (1 and 0), as a control variable, with 0 as the variable for t-1 years before acquisition (pre acquisition) and 1 for the variable for t+1 years after acquisition (post acquisition)
PPEi:	Plant, property and equipment (as a control variable) for company i, calculated as the net PP&E / average total assets
DEBTi:	Debt (as a control variable) for company i, calculated as total debt / average total assets
ROAi:	Return on assets (as a control variable) for company i, calculated as total profit / average total assets
SIZEi:	Firm size (as a control variable) for company i, derived from total assets
GROWTHi:	Company growth (as a control variable) for company i, calculated as (current operating income - prior operating income) / prior operating income
GDPi:	GDP (as a control variable) for company i, derived from the GDP of the state
CAPMARINTi:	Capital market intensity (as a control variable) for company i, calculated as the country's capital market value / the country's GDP
DYEARSi:	Dummy year (as a control variable) for company i, where the year of observation is 1 and the remaining years are 0

Dependent Variables

This study uses firm value as a dependent variable. It is measured using Tobin's q. This measurement was developed by James Tobin. Tobin's q (firm value) is calculated using the following formula:

$$FV = \frac{\text{market value of all outstanding shares} + \text{book value of liabilities}}{\text{total assets}}$$

Independent Variables

The measurement of CBA in this research uses a dummy variable, which has a value of 1 for companies that perform CBA, but a value of 0 for companies that perform domestic acquisitions.

Moderating Variables

This research uses three methods of measuring tax avoidance. This is expected to capture different dimensions of tax avoidance (Chen, Hu, & Wang, 2014). This study uses the book-tax difference (BTD), RBTD and effective tax rate (ETR) difference. These measurements represent a general measurement of tax avoidance. We do not measure tax-avoidance variable using international tax-avoidance practices, such as income shifting or transfer pricing, because tax-avoidance strategy is not done specifically by the acquirer at the level of each individual acquisition, rather it is done at the parent-company level. Therefore, the use of a general tax-avoidance measurement can still show how the acquirer conducts its tax-evasion strategy. Moreover, since the research sample is limited to firms that make one acquisition within a year, the use of a general tax-avoidance measurement already reflects tax-avoidance practice in the CBA context. The operationalization of the tax-avoidance variable is as follows:

1. Book-tax difference (BTD)

Jackson (2015) states that BTD captures the earning management of a company. This study uses a measurement of Total BTD. Total BTD reflects both temporary and permanent BTD in tax avoidance (Jackson, 2015). However, the Total BTD does not differentiate between real operational activities and transaction tax shelters; the difference is also influenced by the of earning-management activity of the company. Total BTD is measured with the following formula (Jackson, 2015):

$$\text{BTD} = (\text{net income} - \text{taxable income}) / \text{average assets}$$

Where:

$$\text{Taxable income} = \text{current tax expense} / t^* (1 - t)$$

2. Residual book-tax difference (RBTD)

This measures BTD that cannot be explained by variations occurring on total accruals (TA) (Desai & Dharmapala, 2006, 2009). The RBTD illustrates tax sheltering that occurs on TA. TA is used to control earning management. To calculate the BTD components related to earning management, TA will be regressed using OLS regression for each industry and each country, using the following model:

$$\begin{aligned} \text{BTD}_i &= \beta_1 \text{TA}_i + \mu_i + \varepsilon_i \\ \text{TS}_i &= \mu_i + \varepsilon_i \end{aligned}$$

Where:

$$\text{TA} = (\text{total operating income} - \text{cash flow from operating activities}) / \text{average assets}$$

Where μ_i is the average RBTD of company i , and ε_i is the deviation from the average residual value μ_i of company i . The residual value of the regression results (the BTD components that cannot be explained in variations in the totals accruals as a result of earning management) can be interpreted as tax sheltering activity (RBTD), is the total between the μ_i and the ε_i . The estimation is done by regressing the previous model for each industry and each country, in order to control the industrial and country-wise differences in tax avoidance. Regression per year is not done because the difference in years does not have a significant effect.

3. Effective tax rate (ETR)

The previous two measures (BTD and RBTD) calculate the general tax avoidance and, although the estimation is done partially by country, the measurement does not reflect the effect of tax shifts between countries (e.g. between the country of the acquirer and the country of the target). Other measurements that can describe tax shifting are very necessary given the context of this research, which focuses on companies that conduct CBAs. The following tax-avoidance measurement is the ETR difference (ETR_D), which is the difference between the statutory tax rate in the acquirer's country and the ETR. This measure illustrates how the parent decreases its ETR (which is a consolidation of the parent and overall subsidiaries) compared to the statutory tax rate. This measure is not yet able to fully describe the tax shifting of the acquirer to the specific target firm, since many of the target firms are private companies, so data on their ETRs are not available.

ETR describes the average tax rate per dollar or cash flow. The generally accepted accounting principles (GAAP) ETR is a rate that is influenced by accounting earning. The ETR is measured using the AS ETR formula (Chen, Hu, & Wang, 2014; Hanlon & Heitzman, 2010) as follows:

$$\text{ETR} = \text{income tax expense} / \text{pre-tax income}, \text{ETR} \in [0,1]$$

The ETR obtained will be cut (truncated) to either number 0 or 1; if the calculated $\text{ETR} < 0$, then the ETR is set to 0, and if the calculated $\text{ETR} > 1$, then the ETR is set to 1.

The ETR does not distinguish any difference between tax avoidance, government tax preferences and tax-lobbying activities. Hence, the measurement of tax avoidance will be more accurate if it uses the difference between the actual statutory tax rate and the ETR (Hanlon & Heitzman, 2010).

$$\text{ETR_D} = \text{actual statutory tax rate} - \text{ETR}$$

This indicator is influenced by the difference in tax rates between the parent company and its subsidiaries, especially because of consolidation of which aims to accounting and tax. A larger difference means a higher level of tax avoidance.

Control Variables

This study follows previous research that shows that fixed assets (PPES), capital structure (DEBT), ROA, firm size (SIZE), and sales growth rate (GROWTH) are related to firm value (Desai & Dharmapala, 2009), so these were chosen as some of the control variables in this research.

PPES is a variable that affects firm value, and it also can be used as an opportunity to perform tax avoidance with larger depreciation expenses.

DEBT, as leverage, is used as a control variable because it affects firm value. A larger amount of corporate debt will motivate companies to conduct tax planning.

ROA shows a company's ability to manage the assets that it owns to generate benefits for the company. A higher ROA means the more efficient the company is, the higher the profit produced by the company and the higher the firm value (Desai & Dharmapala, 2009; Chen, Hu, & Wang, 2014).

SIZE is used as a control variable because it affects performance improvements of the company and affects firm value. SIZE shows the capacity of the company to perform activities, and produce goods and services, so the larger the size of the company, the greater the profitability of the company. On the other hand, in the context of acquisitions, a company with a large size has a broader range of market opportunities, and risk and uncertainty will be greater also. Then, it can potentially decrease firm value.

GROWTH illustrates the ability of a company to grow and raise the firm value. Companies with a high level of GROWTH are likely to produce high market capitalization, which allows companies to have a low cost of capital and increase their firm value (himmelberg, Hubbard, & Palia, 1999).

Furthermore, GDP and capital market intensity (CAPMARINT) are also used as control variables because this is cross-border research and so it needs country-specific macroeconomic variables that also influence firm value.

RESULTS AND DISCUSSION

Analysis of Descriptive Statistics

Table 2 shows the descriptive statistics of the sample. The mean from Tobin's q is 1.31; this shows that, on average, the sample companies have a high value of q. This means they have good investment opportunities and high potential for growth. The tax-avoidance measurement of ETR_D has a range of between -0.76 and 0.46, with a mean of 0.02. This figure shows that, on average, the difference between the ETR of the company and the statutory tax rate is 0.02. There are companies that have a statutory tax rate greater than the ETR. The BTM has mean value of -0,003 with range between -0.27 and 0.34, while RBTD ranges between -5.75 and 3,748. The average BTM shows that companies have a taxable income greater than their accounting income.

The debt ratio of company has a mean value of 1.37. This shows that the debt of the companies is larger than total assets for that year and the previous year. Also, the highest ratio of PPES is 1.52. This reveals that in the year of observation there are some companies in the sample that have a net property, plant and equipment value that is larger than the average assets for that year and previous year. Only 27 percent of the companies from the total sample in the year of observation perform CBAs. More companies conduct domestic acquisitions compared to CBAs. From the analysis of the descriptive statistics shown in the previous table, it can be concluded that the whole sample range is reasonable for testing the variables.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FV	1134	1.31	1.51	0.00	17.68
CBA	1134	0.27	0.45	0.00	1.00
POST	1134	0.50	0.50	0.00	1.00
ETR_D	1134	0.02	0.16	(0.76)	0.46
BTM	1134	0.00	0.05	(0.27)	0.34
TS	890	(5.62)	0.97	(5.75)	3,750
PPE	1134	0.26	0.19	0.00	1.52

Table 2 Cont.

DEBT	1134	0.20	0.19	-	1,370
ROA	1134	0.06	0.06	(0.01)	0.69
SIZE	1134	20.20	1.75	15.43	25.46
GROWTH	1134	0.11	1.17	(5.31)	5.41
GDP	1134	28.65	1.34	24.90	30.02
CAPMARINT	1134	0.91	0.74	0.15	5.07

Table 3 provides the sample distribution across countries, and the numbers of firms that perform CBAs and domestic acquisitions by country. This study uses 16 countries in Asia that made acquisitions during the period of 2012 to 2014 as the research sample. The 16 countries are Japan, China, South Korea, Malaysia, Israel, Turkey, Taiwan, Singapore, Thailand, Indonesia, Hong Kong, Philippines, Sri Lanka, Vietnam, Pakistan and the United Arab Emirates. Table 3 shows that Japan and China are the countries with the largest percentages of CBAs. From Table 2 it can be seen that more than 65% of the sample are from Japan and China. In total, there are 156 companies or 27.5% making CBAs, and 411 companies or 72.5% making domestic acquisitions. The research sample indicates that, from the sample of companies conducting CBAs, most of the companies (53.2%) performing CBAs are companies originating from developed countries and the acquired companies are also from developed countries. The percentage of companies from developed countries that conduct CBAs and acquire companies from emerging countries is equal to 22.4%. In addition, the percentages of companies from emerging countries that conduct CBAs and acquire companies from developed countries and those that acquire companies from emerging countries are equal to 17.3% and 7.0%, respectively.

Table 3 Sample distribution across countries

Acquirer Country	Year									Total CBA	Total Dom	Total Sample	%
	2012			2013			2014						
	CBA	Dom	Tot	CBA	Dom	Tot	CBA	Dom	Tot				
Japan	28	50	78	24	40	64	18	43	61	70	133	203	35,80%
China	10	29	39	7	51	58	7	70	77	24	150	174	30,69%
South Korea	5	12	17	3	9	12	3	12	15	11	33	44	7,76%
Malaysia	2	7	9	3	12	15	4	6	10	9	25	34	6,00%
Israel	1	3	4	2	3	5	5	2	7	8	8	16	2,82%
Turkey	1	5	6	0	5	5	0	5	5	1	15	16	2,82%
Taiwan	4	3	7	1	0	1	3	4	7	8	7	15	2,65%
Singapore	5	2	7	1	2	3	2	2	4	8	6	14	2,47%
Thailand	1	3	4	1	4	5	0	2	2	2	9	11	1,94%
Indonesia	2	4	6	1	3	4	0	0	0	3	7	10	1,76%
Hong Kong	6	0	6	1	1	2	1	1	2	8	2	10	1,76%
Philippines	1	0	1	0	2	2	0	3	3	1	5	6	1,06%
Sri Lanka	1	1	2	0	1	1	0	2	2	1	4	5	0,88%
Vietnam	0	1	1	1	1	2	0	2	2	1	4	5	0,88%
Pakistan	0	1	1	0	1	1	0	1	1	0	3	3	0,53%
United Arab Emirates	0	0	0	0	0	0	1	0	1	1	0	1	0,18%
Total Sample	67	121	188	45	135	180	44	155	199	156	411	567	100,00%
Number of CBA firms from developed countries that acquired firm in developed countries												83	
Number of CBA firms from developed countries that acquired firm in emerging countries												35	
Number of CBA firms from emerging countries that acquired firm in developed countries												27	
Number of CBA firms from emerging countries that acquired firm in emerging countries												11	

Analysis of the Effect of a CBA on Firm Value

Table 4 shows the regression result of Model 1. Based on the regression results, there is no different in the firm value of companies conducting CBAs and companies conducting domestic acquisitions before those acquisitions.

This is illustrated by the insignificance of the CBA variable across the estimates. It means that there is no significant difference between the firm values before the acquisition for companies conducting domestic acquisitions and companies conducting CBAs. The POST variable has no significant impact on firm value (Tobin's q). This shows that there is no difference between the firm values from before and after the acquisition.

Table 4 Regression result of Model 1

FV	Exp Sign	Tax Avoidance								
		ETR_D			BTD			RBDT		
		Coef.	P Val	Sign	Coef.	P Val	Sign	Coef.	P Val	Sign
_cons		1,595	0,000	***	1,474	0,000	***	1,449	0,001	***
CBA	+	0,066	0,242		0,058	0,273		0,057	0,274	
POST	+	-0,044	0,365		0,003	0,489		0,059	0,287	
CBA*POST	+/-	-0,283	0,014	**	-0,271	0,018	**	-0,270	0,018	**
TA	+/-	-0,475	0,012	**	0,277	0,296		0,029	0,314	
TA*POST	+/-	0,417	0,072	*	1,108	0,084	*	0,103	0,092	*
PPE	+	0,089	0,297		0,130	0,220		0,130	0,219	
DEBT	+/-	-0,117	0,251		-0,101	0,283		-0,099	0,288	
ROA	+	5,857	0,000	***	5,938	0,000	***	5,945	0,000	***
SIZE	+/-	-0,078	0,000	***	-0,079	0,000	***	-0,078	0,000	***
GROWTH	+	0,001	0,466		0,000	0,472		0,000	0,473	
GDP	+	2,060	0,000	***	2,018	0,000	***	2,021	0,000	***
CAPMARINT	+	0,405	0,000	***	0,411	0,000	***	0,411	0,000	***
DYEAR		Included, all significant			Included, all significant			Included, all significant		
DCOUNTRY		Included, all significant			Included, all significant			Included, all significant		
N		1134			1134			890		
R-squared		0,318			0,316			0,316		
Prob > F		0,000			0,000			0,000		

Notes: * = significant 10% ; ** = significant 5 percent ; ***= significant 1%

There is a negatively significant impact of CBA*POST firm value (Tobin's q) for all three estimates. The variable is significant at 5% across the three regression tests. The firm value (Tobin q) decreases in line with the value of the CBA conducted by the company (relative to domestic acquisition). The result suggests that, after the acquisition, firms conducting a CBA have a lower value than firms conducting a domestic acquisition. CBA done by the company thus creates value destruction on firm value of the acquirer compared to domestic acquisition. This result supports the previous research that finds a CBA has a negative impact on the post-acquisition firm value, which means a CBA does not create value for a company but, instead, destroys firm value. This result is in line with the research of Datta & Puia (1995), and Aybar & Ficici (2009), which find a negative impact from a CBA on firm value. In their research, CBA thus lowering shareholders wealth. The result of this research is contrary to previous research that finds positive impact on firm value and to previous research that finds no impact on firm value. It should also be noted carefully that the negative effect of a CBA on the post-acquisition firm value reflects that a CBA creates a lower post-acquisition firm value relative to the post-acquisition firm value of a domestic acquisition.

The results of this research support the managerialism and hubris hypotheses, which explain the negative impact of an acquisition. Acquisitions with negative impacts occur because of managers' self-interest (agency theory), where managers in conduct acquisitions to get incentives. Managers overpay for the acquisition target companies compared to what should be paid or managers make expropriations. Managers maximize profits for themselves and sacrifice the wealth of the acquirer's shareholders (Seth, Song, & Pettit, 2002). Acquisitions can also have a negative impact because, even though manager acts in the interests of the shareholders, if the manager makes a mistake when evaluating or assessing the target company such that the company overvalues the target company, this causes the acquiring company to overpay for the acquisition, which makes the firm value of the acquirer lower.

It is also likely that the decision to make an FDI, in this case a CBA, is a long-term investment, so in one year a CBA will not yet have been able to provide or create added value for the company. It is possible that, for a long-term investment, a positive impact will be more visible in another few years; this is also a limitation of this research, which only observes one year's performance of the company after the acquisition.

Analysis of The Effect of Tax Avoidance on Firm Value

In this research, tax avoidance uses three measurements, which are ETR_D, BTD and RBTD. These measurements are expected to capture the different dimensions of the tax-avoidance activities. Based on the regression results shown in Table 4, before the acquisition, the effect of tax avoidance on firm value is only significant for the ETR_D measurement. Tax avoidance has a negative significant effect on the pre-acquisition firm value only for the ETR_D measurement, whereas for BTD and RBTD tax avoidance does not affect the pre-acquisition firm value.

Regarding the effect of tax avoidance on the post-acquisition firm value, the results demonstrate that there is the same result for all three measurements of the impact of tax avoidance, which is that tax avoidance has a positive significant effect on the post-acquisition firm value. This shows that tax-avoidance activities increase the post-acquisition firm value. A different coefficient for the ETR_D, BTD and a RBTD shows these three measurements capture different dimensions of tax-avoidance activities.

The results of this research support the findings of Wang (2010); Chen, Hu, & Money (2014); Lestari, Wardhani, & Anggraita (2013); and Chasbiandani & Martanti (2012). The results of this research prove that tax-avoidance activities affect the post-acquisition firm value. Tax-avoidance activities conducted by a company will reduce the cost of tax and will enlarge the profits of the company. These benefits will be accumulated, and then will ultimately increase both firm value and the shareholders' wealth. When companies perform tax avoidance, there is an indirect takeover of potential tax from a country to the company, so it adds to company wealth. The results of this research prove that tax avoidance provides benefits to the company. In conducting tax avoidance, a company will also generate both direct and indirect costs related to tax planning. This research confirms that tax avoidance can provide benefits to a company. This shows that the cost of tax avoidance generated by a company is smaller than the benefits of the tax reduction obtained by the company. This research also proves that tax avoidance has a positive impact on firm value in the long term (long-term tax avoidance) (Chasbiandani & Martanti, 2012).

The results of this research, it establishes that an impact of tax avoidance is increasing firm value. It proves the second hypothesis that tax avoidance affects the firm value of the acquiring company. The positive impact means that tax avoidance creates added value for the company.

Analysis of the Effect of CBA and Tax Avoidance on the Firm Value of the Acquirer

The results of the Model 2 regression are shown in Table 5. The third hypothesis in this study is that tax avoidance moderates the impact of the relationship between the CBA and the firm value of the acquirer. Based on the results of this hypothesis testing, CBA*POST*TA significantly affects the firm value of the acquirer (Tobin's q) when measuring tax avoidance using BTD and RBTD. This result illustrates that tax avoidance strengthens or increases the negative effect of CBA on the post-acquisition firm value. The post-acquisition firm value of firms performing CBAs decreases when a firm conducts tax avoidance. The result generally supports hypothesis 3.

This result reflects the fact that tax avoidance leads to greater costs compared to the benefits generated, and the negative impact or decrease in corporate value generated by a CBA will further increase the decline when reinforced by tax-avoidance activities. The cost of tax avoidance can be reflected in the market perception of tax avoidance, so that when a CBA firm performs tax avoidance, the market will value the company lower.

Table 5 Regression result of Model 2

FV	Exp Sign	Tax Avoidance								
		ETR_D			BTD			RBTD		
		Coef.	P Val	Sign	Coef.	P Val	Sign	Coef.	P Val	Sign
_cons		1,531	0,000	***	1,485	0,001	***	1,455	0,001	***
CBA	+	0,063	0,254		0,056	0,555		0,055	0,559	
POST	+	0,047	0,330		0,039	0,730		0,064	0,539	
CBA*POST	+/-	-0,257	0,026	**	-0,403	0,006	***	-0,265	0,039	**
TA	+/-	0,104	0,081	**	0,281	0,587		0,029	0,625	
TA*POST	+/-	0,008	0,280		-0,502	0,562		-0,054	0,511	
CBA*POST*TA	+/-	-0,020	0,169		-2,673	0,070	*	-0,217	0,077	*
PPE	+	0,123	0,231		0,113	0,501		0,113	0,502	
DEBT	+/-	-0,112	0,261		-0,089	0,614		-0,086	0,625	
ROA	+	5,947	0,000	***	5,905	0,000	***	5,916	0,000	***
SIZE	+/-	-0,080	0,000	***	-0,079	0,000	***	-0,079	0,000	***
GROWTH	+	0,000	0,478		0,000	0,962		0	0,962	
GDP	+	1,959	0,000	***	1,998	0,000	***	2,003	0,000	***
CAPMARINT	+	0,419	0,000	***	0,412	0,000	***	0,413	0,000	***

Table 5 Cont.

DYEAR	Included, all significant	Included, all significant	Included, all significant
DCOUNTRY	Included, all significant	Included, all significant	Included, all significant
<i>N</i>	1134	1134	890
<i>R-squared</i>	0,3164	0,318	0,318
<i>Prob > F</i>	0.000	0.000	0.000

Notes: * = significant 10% ; ** = significant 5 percent ; ***= significant 1%

CONCLUSION

The study aimed to examine the impact of CBAs and tax avoidance on the firm value of the acquirer for Asian companies. In addition, this research also examined tax avoidance as a moderating variable in the relationship between CBAs and the firm value of the acquirer. Based on these results, several conclusions can be reached. First, there is no difference in the pre-acquisition firm value between firms performing CBAs and firms performing domestic acquisitions firms, and there is no difference in firm value between before and after the acquisition. Second, the results of this study suggest that after an acquisition, firms performing CBAs have lower values than firms performing domestic acquisitions. CBAs conducted by companies in Asian countries thus destroy the firm value of the acquirer compared to the impact on firm value of companies conducting domestic acquisitions. Third, regarding the effect of tax avoidance on post-acquisition firm values, the results demonstrate that the three measurements of tax avoidance have the same result, which is that tax avoidance has a positive significant effect on the post-acquisition firm value. Fourth, the results show that tax avoidance strengthens or increases the negative effect of CBA on the post-acquisition firm value. The post-acquisition firm value of firms performing CBAs decreases when the firms conduct tax avoidance.

Several limitations of this research must be noted. First, this study is limited to acquisition activities occurring in Asia during the period from 2012–2014 for non-financial public corporations. Second, this study only examined the post-acquisition effects one year after the acquisition. Further research is required to add or extend the study period, so that more generalizable results can be obtained. There also may be many other factors that affect the timeframe. Therefore, it is possible that not all the effects or impacts have been seen within the timeframe of this research. Further research could also determine whether CBAs effect the firm value in a period of more than one year (i.e. over a longer period). Third, Narayan & Thenmozhi (2014) state that value destruction occurs when firms from emerging markets acquire firms in developed markets. Our study does not focus on the same setting, so our research results cannot be compared with Narayan & Thenmozhi's (2014) research. Further research can test more specific settings to identify whether CBAs in Asia cause value destruction when firms from emerging markets acquire firms from developing markets. Another limitation of this research is that the tax-avoidance measurements in this study do not specifically describe the level of tax shifting done from the acquirer to the target company. Specific measures such as the ETR_D are difficult to use because the data related to the ETR of the target company is hard to obtain given that many target companies are private companies. Further research can consider the size of the ETR_D by testing a research model specifically for an acquiring company whose target firm is the only listed company.

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