The value of control in emerging markets
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Discussion

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An interesting and new fact

- In the mainstream finance literature, we expect that the acquirer’s stock price does badly.
- COT create a dataset of 390 transactions with developed-market acquirer and emerging market target.
- In the dataset, acquirer returns are +1.18%.
- When over 50% is purchased, acquirer returns are 4.6 pp higher.
Explaining this fact

When would a multinational acquire and not merely contract out?
Incomplete contracting; weak investor protection.

1. Acquirer returns are bigger in industries with intangible knowledge
2. Acquirer returns are bigger when target country has bad shareholder rights
3. These two aspects are linked
4. Superior bargaining power of acquirer - access to better capital markets
Links to the FDI vs. portfolio flows literature

  FDI vs. Portfolio flows. Portfolio flows require strong institutional capability in target country.
- India vs. China, FDI vs. portfolio.
Links to the corporate governance literature

- *Corporate governance transfer and synergistic gains from mergers and acquisitions*, Cong Wang and Fei Xie, RFS, 2008.
- When acquirer shareholder rights > target shareholder rights, value is created.
- Based on firm characteristics and not country characteristics.
Implementation quibbles

- Really like to see event study CARs with confidence intervals
- Standard fears about influential observations when doing regressions involving accounting data. Robust regressions.
What we would really like to know

<table>
<thead>
<tr>
<th>Situation</th>
<th>‘Acquirer’ returns</th>
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<tbody>
<tr>
<td>Developed country firm contracts-out into emerging market</td>
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<tr>
<td>Developed country firm buys into emerging market</td>
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<tr>
<td>Emerging market firm buys into emerging market</td>
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E.g. India-India acquisitions with control can be studied.
Thank you.