The role of financial advisors' reputation in M&A deals in Emerging Markets

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Abstract

In recent years, cross-border Mergers and Acquisitions (M&A) have become increasingly popular, and the success of these complex transactions is heavily reliant on the involvement of financial advisors. This study investigates the impact of financial advisor reputation on the performance of acquirers from developed countries in M&A deals with targets from emerging markets. The reputation of financial advisors is evaluated by classifying them into two groups based on the total value of deals advised: top-tier and non-top-tier advisors. A comprehensive analysis of 896 M&A deals reveals a positive association between financial advisor reputation and acquirer performance in M&A deals with public targets. However, this relationship was not found in transactions involving private or subsidiary targets. The results suggest that engagement with a top-tier financial advisor leads to a 0.726% increase in the acquirer's CAR when dealing with public targets, compared to acquirers who choose non-top-tier advisors. It was also found that top-tier financial advisors charge an average of 0.0923 percentage points more in advisory fees than their non-top-tier counterparts. Moreover, the study shows that top-tier advisors do not necessarily lead to a significant positive impact on the acquirers' CAR in advising on the largest deals and that their resolution time is comparable to that of non-top-tier advisors.

Keywords: Mergers and Acquisitions, Financial Advisors, Reputation, Emerging Markets, Top-tier Advisors, Cross-border Deals, Acquirer Performance.

Résumé

Ces dernières années, les fusions et acquisitions transfrontalières (M&A) sont devenues de plus en plus populaires, et la réussite de ces transactions complexes dépend fortement de l'implication de conseillers financiers. Cette étude examine l'impact de la réputation des conseillers financiers sur la performance des acquéreurs des pays développés dans les transactions de fusion-acquisition avec des cibles des marchés émergents. La réputation des conseillers financiers est évaluée en les classant en deux groupes en fonction de la valeur totale des transactions conseillées: les conseillers de top-tier et les conseillers non-top-tier. À travers une analyse complète de 896 transactions de fusion-acquisition, l'étude révèle une association positive entre la réputation des conseillers financiers et la performance des acquéreurs dans les transactions de fusion-acquisition avec des cibles publiques. Cependant, cette relation n'a pas été observée dans les transactions impliquant des cibles privées ou des filiales. Les résultats indiquent qu'un engagement avec un conseiller financier top-tier entraîne une augmentation de

0.726% du rendement des acquéreurs lorsqu'ils traitent des cibles publiques, par rapport aux acquéreurs qui choisissent des conseillers non-top-tier. Il a également été constaté que les conseillers financiers top-tier facturent en moyenne 0.0923 points de pourcentage de frais de conseil de plus que leurs homologues non-top-tier. De plus, l'étude montre que les conseillers top-tier ne conduisent pas nécessairement à un impact positif significatif sur le rendement des acquéreurs dans les plus grandes transactions et que leur temps de résolution est comparable à celui des conseillers non-top-tier.

Mots clés: Fusions et Acquisitions, Conseillers Financiers, Réputation, Marchés Émergents, Conseillers Top-tier, Transactions Transfrontalières, Performance des Acquéreurs.

Resumo

Nos últimos anos, as fusões e aquisições transfronteiriças (M&A) tornaram-se cada vez mais populares, e o sucesso dessas transações complexas depende muito do envolvimento de consultores financeiros. Este estudo investiga o impacto da reputação de consultores financeiros no desempenho dos adquirentes de países desenvolvidos em negociações de M&A com alvos de mercados emergentes. A reputação dos consultores financeiros é avaliada ao classificá-los em dois grupos com base no valor total das negociações aconselhadas: consultores top-tier e consultores non-top-tier. Através de uma análise abrangente de 896 negociações de M&A, o estudo revela uma associação positiva entre a reputação dos consultores financeiros e o desempenho dos adquirentes em negociações de M&A com alvos públicos. No entanto, essa relação não foi encontrada em transações envolvendo alvos privados ou subsidiários. Os resultados indicam que o envolvimento com um consultor financeiro top-tier leva a um aumento de 0.726% no CAR do adquirente ao lidar com alvos públicos, em comparação com os adquirentes que escolhem consultores non-top-tier. Também foi constatado que os consultores financeiros top-tier cobram em média 0.0923 pontos percentuais a mais em taxas de consultoria do que seus colegas non-top-tier. Além disso, o estudo revela que os consultores top-tier não têm necessariamente um impacto positivo significativo no CAR dos adquirentes no aconselhamento das transações de maior dimensão e que o seu tempo de resolução é comparável ao dos consultores non-top-tier.

Palavras-chave: Fusões e Aquisições, Consultores Financeiros, Reputação, Mercados Emergentes, Consultores Top-tier, Transações Transfronteiriças, Desempenho do Adquirente.

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1. Introduction

Mergers and acquisitions (M&A) have emerged as a popular strategy for corporations seeking external growth opportunities and to thrive in today's global economy. Such transactions have gained widespread acceptance as a strategy for businesses looking to expand their market presence, diversify their product and service offerings, and capitalize on economies of scale. According to the Global Mergers & Acquisitions Review (Q4 2021) by Refinitiv Deals Intelligence, 2021 witnessed an unprecedented surge in M&A activity, with over 63,000 deals worth $5.9 trillion. Moreover, the report highlights that M&A gains have spread across the globe, with the United States at the forefront, with a year-on-year increase in the volume of deals by 82%.

The significance of cross-border M&A has increased in recent years, as corporations endeavor to expand their operations beyond domestic markets to explore new growth prospects. As per Statista, the global number of cross-border M&A deals has grown by 104% from 1996 to 2021. In addition, cross-border M&A transactions in emerging markets have emerged as a crucial catalyst for economic growth and development by offering essential investment and expertise to facilitate local businesses' global competitiveness.

Nevertheless, the execution of an M&A transaction is a complex process that involves numerous legal, financial, and strategic aspects. Hence, to meticulously evaluate the potential risks and advantages of undertaking such transactions, companies frequently rely on the expertise of financial advisors to guide them through the complexities of the M&A landscape. Financial advisors play a critical role in ensuring the success of M&A transactions especially when involving an acquirer from a developed country and a target from an emerging market. One-of-a-kind challenges often arise in these transactions, including differences in cultural norms, legal systems, and business practices.

A group of firms, commonly referred to as "Bulge Brackets" and “Elite boutiques”, dominate the investment banking industry. These top-tier investment banks have built a solid reputation as experts in capital market transactions, indicating that they provide high-quality services to their clients in exchange for higher fees (Chemmanur et al. (1994)).

Nevertheless, the empirical literature does not show consistent evidence to support this intuitive relationship between reputation and quality. Specifically, Golubov et al. (2012) present empirical evidence indicating a positive relationship between reputation and acquirers' higher abnormal return, but only with public targets. On the other hand, Servaes and Zenner (1996) provide evidence of insignificance, and Ismail (2010) of a negative relationship. This poses several questions: Firstly, to what extent does the reputation of financial advisors influence the performance of the parties involved? Does prestige contribute positively to the acquirer's returns? Secondly, what effect does the reputation of financial advisors have on cross-border transactions? Is the choice of the financial advisor highly relevant for more complex deals?

Previous literature studying the role of financial advisors predominantly focuses on samples comprised of developed countries. Consequently, this thesis aims to fill this research gap by contributing to the growing body of literature on the role of financial advisors in M&A transactions, with a particular emphasis on the unique challenges presented by transactions between developed country acquirers and emerging market targets.

To analyze the imposed research question, a comprehensive analysis of 896 M&A deals between developed country acquirers and emerging market targets is performed, in order to investigate the influence of financial advisor reputation on the acquirer’s performance.

In accordance with Fang (2005) and Golubov et al. (2012), this study categorizes financial advisors into two groups. In this way, the top ten ranked advisors based on deal value are classified as top-tier, and the remaining as non-top-tier advisors. The findings of the study reveal a positive relationship between the reputation of financial advisors and the acquirer's performance in M&A transactions. Specifically, the involvement of a top-tier investment bank as a financial advisor leads to a significant increase in acquirer abnormal returns in M&A deals with public targets, but not in deals involving private or subsidiary targets. This suggests that selecting a top-tier financial advisor when targeting the public results in a 0.726% increase in the acquirer's cumulative abnormal returns (CAR), compared to those who opt for non-top-tier advisors. The potential explanation for the positive relationship between choosing top-tier advisors and higher CAR for acquirers in public takeover situations could be attributed to the greater reputational exposure and incentives for superior services created by external visibility, as suggested by Rhee and Valdez (2009). Moreover, the study conducted by Servaes and Zenner in 1996 has revealed that firms are more likely to select investment banks in complex

acquisition scenarios. This finding is particularly relevant in the context of cross-border M&A deals that involve targets from emerging markets.

Furthermore, top-tier financial advisors appear to charge an average of 0.0923 percentage points higher advisory fee than their non-top-tier counterparts. Top-tier financial advisors may demand higher compensation for their services to reflect the added complexity of cross-border transactions, particularly those involving targets from emerging markets. However, the study did not uncover evidence supporting the superiority of top-tier advisors in advising on the largest deals. Having a top-tier advisor and being one of the biggest deals in terms of value did not show a notable impact on the acquirer's CAR. Additionally, the study demonstrates that top-tier advisors perform similarly to other advisors concerning resolution time in M&A deals involving emerging market targets. Furthermore, the results of the robustness tests exhibited a certain level of coherence when altering the event window; however, they exposed a significant susceptibility to the classification of financial advisors' reputation.

Overall, this thesis contributes to the literature on the role of financial advisors in M&A transactions by providing empirical evidence of the positive relationship between the reputation of financial advisors and the acquirer's performance in M&A deals with public targets, particularly in cross-border deals involving emerging market targets. While top-tier financial advisors may charge higher fees, their expertise in navigating complex M&A transactions can be critical to the deal's success. On the whole, if a company is considering cross-border M&A deals, it is crucial to thoroughly evaluate the expertise and reputation of their financial advisors, particularly when targeting public companies.

The remaining part of the paper consists of 7 sections. Initially, the existing literature on the subject matter is reviewed. Next, the research question and hypothesis of this paper are presented. Thirdly, an overview of the data and methodology is provided. In the fourth section, the obtained results are analyzed and discussed. The fifth section involves testing the robustness of the results. In the sixth section, the paper discusses the limitations of the study. The paper concludes in the seventh section, where it presents its findings and recommendations.

2. Literature Review

2.1. Cross-border M&A

From 1986 to 2000, cross-border M&A accounted for 26% of total global acquisition value (Conn et al. (2005)) and it has risen to 45% in 2007 (Erel et al. (2012)) and over 50% in 2016. Cross-border mergers allow corporations to enter new markets and profit from economies of size and scope, but they can complicate the integration process due to country-specific institutional, legislative, and cultural differences. Recent research has focused on examining how large differences in cultures, norms, and values can impact M&A performance. In theory, by easing the transfer of knowledge and exposing the company to cutting-edge techniques and methods, these cultural differences could open up opportunities (Morosini et al. (1998); Sarala et al. (2010)).

As the speed of international competition rises, in order to keep up with competitors, businesses must act strategically and actively seek good opportunities (Morrow et al. (2007)). In this way, firms are increasingly choosing to tackle these challenges by establishing a market presence in new foreign markets (Luo (2004)). During the late 1990s and early 2000s, Francis et al. (2008) study discovered a favorable cross-border effect for US acquirers, especially when acquiring targets from segmented financial markets. According to the findings, the observed positive cross-border effect is attributed mostly to an increase in the number of transactions engaging targets from segmented markets, where the average firm faces considerable financial constraints.

In their paper, Erel et al. (2012) examine several variables that influence the probability of cross-border transactions. Among these variables, Erel et al. (2012) identify cultural and geographical disparities between countries, corporate governance practices, and market development levels as significant factors. Notably, advanced-market acquirers are expected to experience greater advantages from less robust contracting environments in emerging markets.

2.1.1. Emerging Markets

The IMF World Economic Outlook (2021) classifies 39 economies as "advanced" based on factors such as high per capita income, exports of a wide range of products and services, and

deeper integration into the global financial system. The remaining countries are classified as having "emerging market and developing" economies.

In light of this classification, the following countries have been classified as having emerging market economies: Argentina, Brazil, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Iran, Malaysia, Mexico, the Philippines, Poland, Russia, Saudi Arabia, South Africa, Thailand, Turkey, and the United Arab Emirates. This definition will be adopted for the purposes of this research.

Emerging markets have received significant attention in earlier literature. In accordance with this, Bhagat, Malhotra, and Zhu (2011) examined 698 cross-border acquisitions completed by firms from emerging markets between January 1991 and December 2008. According to the study's findings, emerging country acquirers noticed a positive and strong market reaction of 1.09% on the day of the announcement.

2.1.2. Developed Markets

Developed markets are classified as "high-income" economies by the International Monetary Fund (IMF) in 2021 and defined as economies with a high level of economic and social development that are appealing to foreign investment by the World Bank's International Finance Corporation (IFC). The Organization for Economic Cooperation and Development (OECD) also provides a list of countries with developed market economies of which the majority are located in North America, Europe, and Oceania.
For the purpose of this research, we will analyze the following developed countries from Europe and North America defined by the MSCI Developed Markets Indexes: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

Chari et al. (2010) examined the returns to shareholders of developed-market firms that engaged in acquisitions within emerging markets in a research paper. The findings reveal that there is a considerable and statistically significant increase in the acquiring firm's stock price when a multinational firm from a developed country obtained majority control of a firm in an emerging market. Specifically, in their sample of deals that took place between 1986 and 2006,

developed-market acquirers experience an average of 1.16% positive and significant abnormal returns over a three-day event window.

2.2. Financial Advisors in M&A deals

Financial advisors' overall responsibility in M&A transactions is to offer professional guidance and assistance to ensure that the transaction is set up in a way that optimizes value for all parties while also managing and reducing possible risks. Financial advisors are essential in M&A transactions, especially cross-border transactions in which the target company is headquartered in an emerging country and the acquirer is based in a developed market.

Financial advisors may have to navigate a challenging and frequently unknown business environment when working with an emerging market target firm, which may include unfamiliar legislation, currency concerns, and cultural differences. In order to give the acquirer meaningful recommendations that will actually be put into practice, they might also need to collaborate closely with local partners and advisors to develop a thorough understanding of the target business and its industry.

The literature has paid a fair amount of attention to the function that investment banks play in the market for corporate control. From top-tier advisors to less prestigious ones, literature has provided us with interesting findings.

In the classical works and models of Klein and Leffler (1981), Shapiro (1983), and Allen (1984), they realized that in case a product's quality can only be assessed after the purchase, a premium price arises as a signal of high quality and to reward the seller for the resources used in growing a reputation. As investment banking services are also unobservable beforehand, they need to build up their reputation to convey their quality to the clients.

In terms of reputation, Bowers and Miller (1990) demonstrate that while top-tier advisors are capable of spotting deals with more overall synergies, they appear unable to give their clients a bargaining advantage to obtain a larger share of these synergies. Rau (2000) demonstrates that, aside from the tender offers as a whole, first-tier investment banks do not consistently produce better deals in terms of bidder abnormal returns. Additionally, he discovers that the performance of the winning bidder after the acquisition is worse the higher the percentage of the contingent

fees. A positive correlation between the reputation of the bidder advisor and the returns of the bidder has also not been found by Hunter and Jagtiani (2003) and Ismail (2010). After that, Golubov et al. (2012) explore the role of financial advisors in M&A deals and show different results compared to previous research. Their study demonstrates that top-tier advisors deliver higher bidder returns than non-top-tier counterparts, but only in public acquisitions on which there is not only a higher reputational exposure but also a higher skill set required. Furthermore, in a study conducted by Faias (2017), the value of top-tier advisors for acquirers was also examined. The study analyzed 7,192 M&A deals in the United States between 1980 and 2015 and found mixed evidence regarding the association between top-tier advisors and acquirer returns. However, the study reconciled previous contradictory findings by revealing that top-tier advisors are associated with higher acquirer returns, but only in periods of merger waves for both public and private targets.

Additional financial advisor classifications have been used in the literature. Allen et al. (2004), for instance, look at the function of commercial banks as financial advisors. The firm's choice of its own commercial bank to act as its transaction advisor has no effect on bidding firm returns, according to the authors. Song and Wei (2013) also look at the function of "boutique" financial advisors in comparison to full-service investment banks. They discover that boutique advisors are more frequently used in smaller transactions and that, when advisor reputation is taken into account, acquirers who hire boutique advisors in public acquisitions pay less. However, this does not translate into superior abnormal returns, and boutiques charge the same fees as full-service banks do. Also unaffected are completion rates. The acquiring firm's use of boutique advisors has no impact on completion rates.

Chang et al. (2016) investigate the selection of advisors in M&As at the level of the particular bank, in contrast to other studies. The authors demonstrate how prior relationships with the bank, the advisor's industry knowledge, and a connection to the merging partner all influence the choice of advisor for a particular transaction in a positive way. Bao and Edmans (2011) examine the performance persistence of M&A advisors in a different bank-level study. They also demonstrate that advisors in the top quintile of acquirer performance continue to give better advice than those in the bottom quintile for the following few years. They identify significant bank-level fixed effects.

Moreover, Bodnaruk, et al. (2009) investigate the function of investment banks as insiders in the corporate control market. They assert that financial giants affiliated with the investment bank advising the bidder frequently raise their stake in the target before the announcement and make sizable gains. Additionally, they offer proof that this stake is positively (negatively) correlated to the likelihood of significant losses during the announcement period and positively (negatively) related to the bidder firm's post-merger profitability.

In their 1996 study, Servaes and Zenner look at the role that investment banks played in U.S. acquisitions from 1981 to 1992. It is interesting to note that neither using a top-tier advisor nor using advisors generally has any bearing on the announcement of abnormal returns in their sample. In case the deal is complicated and the bidders lack prior acquisition experience, they are more likely to hire advisors.

In contrast to earlier studies, Kale et al. (2003) place a greater emphasis on a measure of the advisors to the merging parties' relative reputation. The authors consider the negotiation-based nature of a takeover competition in doing so. According to their relatively small sample of 390 U.S. tender offers from 1981 to 1994, the relative reputation of the bidder advisor is correlated with bidder gains, total synergy gains, and the share of total synergies accruing to the bidder.

In terms of advisory fees, McLaughlin (1990) investigates investment banking advisory fees in tender offer deals. While banker fees for the bidding firm average 0.56% of deal value, advisory fees for the target firm are typically 0.77% of the acquisition value. The total fees for acquisitions are typically 1.29% of the transaction value. Nevertheless, it exists a sizable difference in the fees for similar deals. Moreover, advisory fees are largely dependent on the success of the offer in 80% of the contracts, which provides investment bankers with strong incentives to close the deal. Moreover, McLaughlin (1992) discovers that bidders using inferior bankers provide noticeably lower premiums and benefit from higher announcement period gains.

3. Research Question

The literature that has been reviewed provides the required background for a more detailed analysis of the function of financial advisors in M&A transactions in emerging economies. This research will focus on exploring the following research question:

Research Question: Does the financial advisor's reputation impact the acquirer's performance in M&A deals in which the target is from an emerging market and the acquirer is from a developed country?

3.1. Main Research Hypothesis

Hypothesis 1: Top-tier financial advisors' reputation do not significantly impact the acquirer's performance in M&A deals involving a target company located in emerging markets.

Hypothesis 2: Top-tier financial advisors' reputation positively impacts the acquirer's performance only in public M&A deals in emerging markets.

As evidenced by the examination of previous literature, various research papers exhibit disparate outcomes concerning the correlation between reputation and acquirers' returns. Thus, our primary conjecture is to initially evaluate if there exists a notable association between these two variables, followed by an investigation into whether it is a positive one. As exemplified by Golubov et al. (2012), no statistically significant association was detected for the entire sample. However, a distinct and favorable relationship was identified specifically in deals on which the target audience is public.

The impact of reputation may not have an equal significance across all types of deals, as its influence could be more prominent in situations that involve relatively larger reputational exposure. Rhee and Valdez (2009) argue that greater visibility leads to a greater potential for reputational damage. This creates stronger incentives for investment banks to act in the best interests of their clients, particularly in the case of public acquisitions, as these deals are closely monitored by the market and often involve public attention as part of the negotiation process. Accordingly, an examination of the relationship among various target types will also be conducted.

3.2. Secondary Research Questions and Hypothesis

Although the primary objective of this investigation is to evaluate the influence of financial advisors' reputation on the acquirer's performance, it also gives rise to other intriguing questions that are worth analyzing.

3.2.1. Research Question: Does the financial advisor's reputation impact the acquirer's performance in the largest M&A deals in emerging markets?

Hypothesis 1: Top-tier financial advisor's reputation do not impact the acquirer's performance in the largest M&A deals in emerging markets.

Hypothesis 2: Top-tier financial advisors' reputation positively impacts the acquirer's performance in the largest M&A deals in emerging markets.

It may be contended that certain significant transactions could benefit from the specialized knowledge of top-tier advisors, resulting in higher short-term returns. Nevertheless, the findings of Faias (2017) reveal no evidence supporting the dominance of top-tier advisors in providing advisory on the largest deals. Consequently, it is critical to evaluate the presence and nature of any potential correlation between these factors and ascertain if such a relationship is positive.

3.2.2. Research Question: Do top-tier advisors charge higher advisory fees in M&A deals involving a target company located in emerging markets?

Hypothesis 1: Top-tier financial advisors charge significantly higher advisory fees than non-top-tier advisors in M&A deals involving a target company located in emerging markets.

Numerous empirical studies, such as Golubov et al. (2012) and Faias (2017) indicate that there is a substantial and favorable relationship between being a top-tier financial advisor and imposing higher advisory fees.

As previously stated in the literature, Klein and Leffler (1981), Shapiro (1983), and Allen (1984) acknowledge that when a product's quality can only be evaluated after purchase, in order to make up for the time and money spent into establishing a reputation, a premium pricing is set as an indication of excellent quality. Therefore, it is expected that the findings of the analysis

will confirm that top-tier financial advisors charge a premium for their services as a sign of their high quality and reputation.

3.2.3. Research Question: Do top-tier advisors take less time to complete M&A deals involving a target company located in emerging markets?

Hypothesis 1: Top-tier financial advisors take significantly less time to complete M&A deals involving a target company located in emerging markets.

Hypothesis 2: Top-tier financial advisors take significantly more time to complete M&A deals involving a target company located in emerging markets.

On one hand, the hypothesis of the "skilled advisor" suggests that the deal process can be expedited by top-tier advisors, owing to their advanced skills and expertise. According to Golubov et al. (2012) findings, there is a positive relationship between top-tier investment banks and shorter time to completion, supporting the idea that high-quality advisors not only execute superior deals but also achieve faster closure.

On the other hand, the "diligent advisor" hypothesis suggests that top-tier advisors, who face higher reputational risk, may take additional time to evaluate the transaction terms and negotiate more favorable conditions for the bidder.

Given this context, it is important to investigate whether being a top-tier advisor has a significant impact on the resolution time, and if so, to determine the direction of this relationship, in order to validate either of these hypotheses.

4. Data and Methodology

4.1. Sample Selection and Methodology

In order to conduct this research, deal data from the Thomson Financial SDC Mergers and Acquisitions database is collected. This database provides information about the acquirer, target, and deal characteristics that are pertinent to the analysis. Acquisitions made across borders with a target located in emerging economies started gaining traction after the financial liberalization throughout the 1990s. In this sense, the sample of deals comprises completed acquisitions announced between January 1, 1996, and December 31, 2021. As defined previously, the locations of the targets include the emerging markets countries (Argentina, Brazil, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Iran, Malaysia, Mexico, the Philippines, Poland, Russia, Saudi Arabia, South Africa, Thailand, Turkey, and the United Arab Emirates). The acquirers are public firms from developed countries (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States). This leads to an initial sample of 8,859 deals. In order to guarantee that the transaction is significant and relevant, deals with a deal value of less than $1 million are excluded and the acquirer is required to have a minimum of 5% of the Percentage of Shares Owned after the transaction. After applying these filters, 3,582 deals are left. Furthermore, as the purpose of this research is to analyze the impact of the reputation of financial advisors, deals without the reported acquirer's financial advisor's name are excluded, which leaves a sample of 1,139 deals.

Moreover, an event study to analyze the impact of the deals on the acquirers' performance is conducted. In this sense, Refinitiv DataStream data is utilized to collect return data of the acquirers (R_{it}). As a benchmark for the market return (RM_t), the MSCI World Index from Bloomberg is used, which is comprised of large and mid-cap companies across several developed markets countries. The market model will be used to compute the estimated returns using an estimation period starting 240 days and ending 41 days prior to the announced date. The return of a security and the return of the market portfolio are assumed to be linearly related in the market model. The market model assumes that for each security the returns obtained are given by:

$$\widehat{Rit} = \alpha + \beta * RM_t + \varepsilon_{it}$$

In this equation, Ri_t is the return of the security *i* at a *t* given time and RM_t is the return of the market at a *t* given time. Moreover, ε_{it} is the firm-specific return that cannot be explained by the correlation between the stock and the market, and it is assumed $E(\varepsilon_{it})$ equals 0.

Then, the abnormal return (*AR*) will equal the actual return of the security minus the estimated one:

$$AR_{it} = R_{it} - (\alpha + \beta * RM_t)$$

Moreover, following the literature (Brown et al. (1985); Fuller et al. (2002); Golubov et al. (2012)) the CAR of the acquirer's stock in the 5-day event window (−2, +2) is calculated where 0 is the announcement day. The CAR will be calculated as the sum of abnormal returns during the event window established, as follows:

$$CAR_i = \sum_{t=1}^{T} AR_{it}$$

Additionally, accounting data of the acquirers from DataStream is obtained in order to create other relevant variables. We choose acquirer and deal-specific control variables most commonly identified in previous studies as having a significant effect on acquirer returns. In this way, we will have the following variables: *Ln (Size), Relative Size, Leverage, Cash-flows to Equity, Sigma, Book-to-Market ratio, Friendly Deal, Diversification,* and *Public Target*. Additionally, in line with Erel et al. (2012), to capture the cultural and regulatory aspects of cross-border deals, we introduce the variables *Same Language* and *Common Law Acquirer*. All the variables are further explained in detail in Appendix A. After cleaning the data for deals that do not contain the needed returns and removing outliers below the 5th and above the 95th percentile, we are left with a final sample of 896 deals.

In order to measure the impact of the reputation of financial advisors, we will use the global M&A League Table from Bloomberg from January 1, 1996 to December 31, 2021. In line with Fang (2005), we will rank the investment banks based on the value of the deals they advised and categorize them into, a top-tier group and a non-top-tier group. In this way, our top-tier variable will be comprised of the top 10 financial advisors, and the remaining as non-top-tier. Moreover, following Servaes and Zenner (1996) and Rau (2000) we will consider that in the

case of numerous advisors, the deal is assumed to have been advised by a top-tier advisor if at least one of them belongs to the top-10 group.

4.2. Sample Statistics

This research paper aims to analyze the investment landscape of emerging markets by examining a sample of targets from 20 countries. The countries in our sample are presented in Table 1. The analysis reveals that India, Brazil, and China present the highest number of deals among the countries in our sample. On the other hand, Mexico, India, and Turkey show the highest average deal value. In terms of total deal value, India, Brazil, and Turkey are the leading countries, accounting for over 47% of the overall sample's deal volume.

Table 1 - Target Descriptive Statistics

This table presents descriptive statistics for a sample of M&A deals in which the acquirer is from a developed country and the target is from an emerging market, from Refinitiv SDC database. The deals were announced over the period of January 1, 1996 to December 31, 2021. These statistics refer to the target.

Country	Number of Deals		Average Deal Value (USD, Millions)	Total Deal Value (USD, Millions)	
	Absolute	Percentage		Absolute	Percentage
Argentina	36	4.02%	170.32	1 873.55	0.48%
Brazil	154	17.19%	730.31	69 379.42	17.89%
Chile	58	6.47%	681.78	20 453.40	5.27%
China (Mainland)	88	9.82%	528.46	37 520.61	9.68%
Colombia	30	3.35%	701.18	15 426.05	3.98%
Egypt	18	2.01%	343.10	3 774.13	0.97%
Hungary	9	1.00%	407.74	1 630.95	0.42%
India	114	12.72%	833.20	74 154.47	19.12%
Indonesia	18	2.01%	594.40	6 538.37	1.69%
Iran	0	0.00%	0.00	0.00	0.00%
Malaysia	7	0.78%	23.90	47.79	0.01%
Mexico	74	8.26%	788.35	28 380.71	7.32%
Philippines	4	0.45%	308.93	617.86	0.16%
Poland	75	8.37%	595.68	23 231.56	5.99%
Russia	61	6.81%	534.22	28 313.61	7.30%
Saudi Arabia	4	0.45%	637.50	2 550.02	0.66%
South Africa	62	6.92%	699.44	25 179.97	6.49%
Thailand	23	2.57%	284.95	1 424.76	0.37%
Turkey	50	5.58%	985.71	39 428.57	10.17%
United Arab Emirates	11	1.23%	713.38	7 847.21	2.02%
TOTAL	**896**	**100%**	**10 562.57**	**387 773.02**	**100%**

In terms of acquirers, our sample includes 17 different developed market nations, as demonstrated in Table 2. The United States and the United Kingdom are the most active acquirers in our sample. These countries show a clear dominance as together they account for more than 45% of the number of deals and more than 56% of total deal value. As for the average deal value, Spain, Portugal, the United States, the United Kingdom, and Austria show the highest value within our sample. This might indicate that these countries have a favorable environment for large transactions.

Table 2 - Acquirer Descriptive Statistics

This table presents descriptive statistics for a sample of M&A deals in which the acquirer is from a developed country and the target is from an emerging market, from Refinitiv SDC database. The deals were announced over the period of January 1, 1996 to December 31, 2021. These statistics refer to the acquirer.

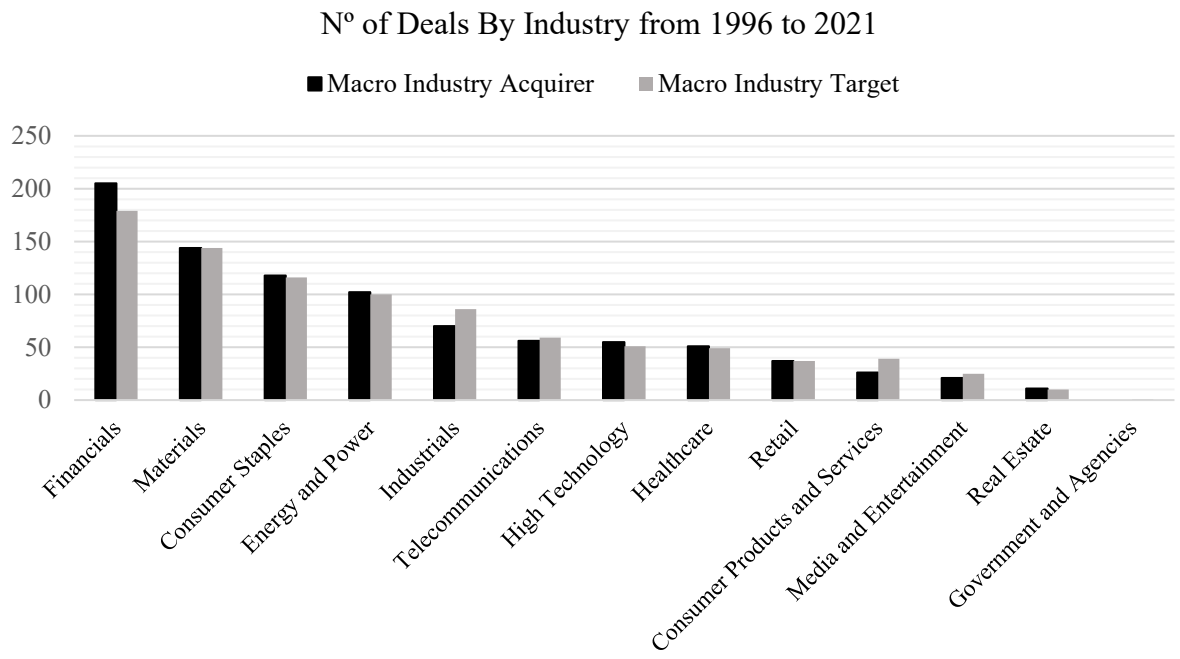
Country	Number of Deals		Average Deal Value (USD, Millions)	Total Deal Value (USD, Millions)	
	Absolute	Percentage		Absolute	Percentage
Austria	16	1.79%	840.83	10 089.96	2.60%
Belgium	23	2.57%	317.58	4 446.19	1.15%
Canada	50	5.58%	259.94	9 877.84	2.55%
Denmark	7	0.78%	254.48	1 272.40	0.33%
Finland	18	2.01%	153.57	2 303.58	0.59%
France	75	8.37%	520.07	27 563.86	7.11%
Germany	42	4.69%	657.42	23 009.77	5.93%
Ireland	7	0.78%	128.54	771.21	0.20%
Italy	24	2.68%	461.84	7 389.44	1.91%
Netherlands	39	4.35%	456.99	6 854.88	1.77%
Norway	16	1.79%	739.28	8 871.37	2.29%
Portugal	15	1.67%	903.28	3 613.10	0.93%
Spain	84	9.38%	1 093.20	45 914.28	11.84%
Sweden	36	4.02%	176.19	3 523.70	0.91%
Switzerland	33	3.68%	552.63	13 263.16	3.42%
United Kingdom	191	21.32%	824.61	105 550.40	27.22%
United States	220	24.55%	853.07	113 457.88	29.26%
TOTAL	**896**	**100%**	**9 193.52**	**387 773.02**	**100%**

Our sample is comprised of firms from 13 different industries as illustrated in Figure 1. The most representative industries from our sample are Financials, Materials, Consumer Staples, and Energy and Power, for both targets and acquirers. It can be observed that the industries are

uniformly distributed between the target and the acquirer, with comparable numbers of transactions per industry across all of them.

Figure 1 - Industry Distribution

This figure presents the distribution of industries for a sample of M&A deals on which the acquirer is from a developed country and the target is from an emerging market, from Refinitiv SDC database. The deals were announced over the period of January 1, 1996 to December 31, 2021.



In Table 3, the M&A League Table is displayed with the top 25 Financial Advisors ranked by deal value. Considering our classification, Goldman Sachs & Co, JP Morgan, Morgan Stanley, BofA Securities Inc, Citi, Credit Suisse, UBS, Lazard, Deutsche Bank, and Barclays are classified as top-tier financial advisors. The remaining ones are classified as non-top-tier financial advisors. These banks mainly conform to the findings of other studies, such as Golubov et al. (2012), which suggest that the top-tier specification remains overall consistent across various investment banking services and time frames.

Table 3 - Top-25 Global Financial Advisor Ranking by Deal Value

This table displays the global ranking of financial advisors for the top 25 investment banks, based on their involvement in M&A deals between January 1, 1996 and December 31, 2021. The data is drawn from Bloomberg and the transaction value is measured in millions of US dollars. The number of deals advised by each advisor is also included.

Rank by Value	Financial Advisor	Total Deal Value (USD, Millions)	Number of Deals
	Top Tier		
1	Goldman Sachs	16 856 593.77	6 971
2	JP Morgan	14 620 226.73	7 868
3	Morgan Stanley	14 463 868.51	6 447
4	BofA Securities	12 351 007.91	6 369
5	Citi	10 320 799.76	5 774
6	Credit Suisse	8 470 352.82	6 008
7	UBS	6 210 661.31	4 466
8	Lazard Ltd	6 057 391.49	4 589
9	Deutsche Bank	5 873 769.50	4 072
10	Barclays	4 820 842.52	2 301
	Non-Top-Tier		
11	Rothschild & Co	4 050 595.10	5 058
12	Evercore Partners Inc	3 284 307.38	1 578
13	Lehman Brothers	2 822 634.00	1 778
14	BNP Paribas	2 260 275.33	1 972
15	Centerview Partners LLC	2 084 891.49	477
16	RBC Capital Markets	1 865 356.21	2 562
17	HSBC	1 673 635.48	1 317
18	Nomura	1 368 931.98	2 254
19	Jefferies	1 326 747.52	2 733
20	NatWest Markets	1 323 370.43	1 605
21	Macquarie	1 230 270.70	1 940
22	Greenhill & Co	1 197 292.79	769
23	Commerzbank	1 120 864.87	1 035
24	Wells Fargo	1 111 187.48	1 022
25	Moelis & Co	1 083 949.55	1 143

Table 4 displays descriptive statistics for the whole sample, as well as the top-tier and non-top-tier groups.

Panel A presents the statistics regarding the acquirer characteristics. In this panel, the analysis reveals that the mean (median) acquirer *Size* for all the sample is $28 109.207 million ($4 259.055 million). Furthermore, the acquirers with top-tier financial advisors have a bigger size than the ones with non-top-tier advisors, with a mean (median) acquirer size of $28 844.215 million ($1 980.655 million) and $27 625.696 million ($545.615 million), respectively. This is an important variable to take into account as prior research suggests that firm size is inversely related to acquirer announcement returns (Moeller, et al. (2004)).

Table 4 - Sample Descriptive Statistics

The table presents descriptive statistics for a sample of M&A deals on which the acquirer is from a developed country and the target is from an emerging market, from Refinitiv SDC database. The deals were announced over the period of January 1, 1996 to December 31, 2021. For both the entire sample and for top-tier and non-top-tier advisors, Panels A and B provide the mean, median, and number of observations for

Panel A: Acquirer Characteristics									
	All Sample			Top-Tier			Non Top-Tier		
	Mean	Median	N	Mean	Median	N	Mean	Median	N
Size	28 109.207	4 259.055	688	28 844.215	1 980.655	273	27 625.696	545.615	415
Book-to-market	6.268	0.415	647	15.160	0.286	253	0.558	0.262	394
Sigma	0.018	0.016	658	0.019	0.016	260	0.017	0.011	398
Leverage	0.173	0.143	896	0.195	0.174	328	0.161	0.133	568
Cashflows-to-equity	0.028	0.001	523	0.052	0.000	205	0.012	0.000	318
Common Law Acquirer	0.522	1.000	896	0.582	1.000	328	0.488	0.000	568
Panel B: Deal Characteristics									
	All Sample			Top-Tier			Non Top-Tier		
	Mean	Median	N	Mean	Median	N	Mean	Median	N
Deal Value	566.525	170.291	896	517.287	234.839	328	594.958	131.545	568
Relative Size	0.400	0.000	684	0.778	0.000	328	0.153	0.000	568
Public Deals	0.307	-	896	0.000	-	328	0.484	-	568
Private Deals	0.260	-	896	0.000	-	328	0.410	-	568
Subsidiary Deals	0.366	-	896	1.000	-	328	0.000	-	568
Diversifying Deals	0.188	-	896	0.171	-	328	0.197	-	568
Friendly Deals	0.904	-	896	0.185	-	328	0.209	-	568
Same Language	0.191	0.000	896	0.177	0.000	328	0.199	0.000	568
CAR (-2, +2)	1.59%	0.00%	657	1.62%	0.00%	260	1.57%	0.00%	397
Advisory Fees	1.04%	0.86%	896	1.02%	0.89%	328	1.05%	0.86%	568

In terms of the *Book-to-market ratio*, the median of the whole sample is 41.5%. The top-tier median (0.286) yields a higher value than the non-top-tier (0.262). For public targets, Golubov et al. (2012) find a positive and substantial relationship between acquirer CAR and Book-to-Market ratio.

The mean (median) of *Sigma* for our sample is 0.018 (0.016). Acquirers with top-tier financial advisors show to have lower sigma than those with non-top-tier advisors. As sigma represents volatility and uncertainty, it is expected that higher sigma will lead to lower returns, as suggested by Moeller, Schlingemann, and Stulz (2007) which show that high sigma bidders yield lower announcement period returns in stock acquisitions.

In terms of *Leverage*, the sample mean (median) is 0.173 (0.143). Moreover, we can observe that acquirers with top-tier financial advisors have overall higher leverage than those with non-top-tier advisors. In 1993, Maloney, McCormick, and Mitchell, found evidence indicating that there is a direct correlation between the leverage of a bidder and the gains they acquire through acquisitions.

Regarding *Cashflows to Equity*, the mean (median) for all the sample is 0.028 (0.001) and it is higher for the top-tier sub-sample than for the non-top-tier. According to Golubov et al. (2012), a high Cash Flows-to-Equity ratio is related to a lower CAR.

For the *Common Law Acquirer* variable, the mean is 0.522 for the full sample. The top-tier sub-sample shows a mean of 0.582 and the non-top-tier 0.488. This means that the majority of acquirers with top-tier financial advisors come from Common Law Nations, rather than Civil Law nations. According to La Porta, Lopez-de-Silanes, and Shleifer (2006), common law countries not only have more comprehensive mandatory disclosure requirements but also provide investors with greater ease in recovering damages. The study suggests that the advantages of common law are attributed to its prioritization of private contracting and uniform disclosure standards, as well as its dependence on private dispute resolution using liability standards that align with market-friendly principles.

Furthermore, Panel B illustrates statistics regarding deal characteristics. In this panel, we can see that the mean (median) *Deal Value* for the whole sample is $566.525 million ($170.291). Moreover, top-tier advisors are commonly characterized by advising deals with a higher value

than other non-top-tier firms. As expected, acquirers with top-tier financial advisors show substantially higher median Deal Values than those with non-top tier.

When it comes to *Relative Size*, the whole sample's mean is 0.400. For the top-tier sub-sample, the mean is 0.778, whereas for the non-top-tier subsample is 0.153. According to Asquith et al. (1983) and Moeller et al. (2004), *Relative Size* and announcement-period return have a positive association.

More than 36% of our sample is comprised of subsidiary targets and this status appears to also be the top choice for the top-tier sub-sample. In contrast, public targets seem to be the second chosen ones, leaving private targets to be the least chosen among all.

Less than 20% of our sample is composed of *Diversifying Deals*, which means that on the majority of the deals, acquirers, and targets are from the same industry. Both top-tier and non-top-tier sub-samples show similar results. Morck et al. (1990) discover that diversifying transactions have an adverse impact on investors. Since the acquirer is more likely to have the knowledge and resources necessary to run and integrate the target company, related acquisitions should theoretically generate higher returns than diversifying ones (Rhodes-Kropf and Robinson, 2008). For the US, Fan and Goyal (2006) indicate that vertical mergers produce noticeably higher combined announcement returns than transactions that diversify.

The majority of the deals analyzed are friendly and less than 20% of the deals have targets and acquirers sharing the same official *language*. Erel et al. (2012) found no indication that having a shared language influences the likelihood of mergers, when controlling for other factors.

Table 5 corresponds to a correlation matrix which can guide our analysis and interpretation of the results by providing valuable insights into the relationships between the variables used in our regression model.

Table 5 - Correlation Matrix

The table displays the pairwise correlations between variables, which are defined in Appendix. The sample used for this analysis includes M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced between January 1, 1996 and December 31, 2021.

	CAR (-2,+2)	Top Tier	Advisory Fee	Ln (Size)	Relative Size	Leverage	CF-to-Equity	Sigma	Book-to-market	Ln (Deal Value)	Friendly Deal	Diversification	Same Language	Common Law	Mega Deal	Public Target
CAR (-2,+2)	1.0000															
Top Tier	0.0035	1.0000														
Advisory Fee	0.1254*	-0.0186	1.0000													
Ln (Size)	-0.0936*	0.0139	-0.1636*	1.0000												
Relative Size	-0.0091	0.0709	-0.0485	-0.2301*	1.0000											
Leverage	-0.0137	0.0905*	0.0243	0.3760*	0.0960*	1.0000										
CF-to-Equity	-0.0186	0.0544	0.0037	0.0264	-0.0047	0.0254	1.0000									
Sigma	0.1946*	0.068	0.1240*	-0.0293	0.0743	0.0824*	-0.0732	1.0000								
Book-to-market	0.0071	0.0494	0.014	-0.1319*	0.2609*	-0.0194	-0.0014	0.0426	1.0000							
Ln (Deal Value)	-0.0807*	0.0542	-0.5158*	0.2379*	0.1001*	0.0990*	0.0254	-0.1182*	0.004	1.0000						
Friendly Deal	0.0556	0.1060*	-0.0269	-0.0288	0.0209	0.0118	0.0131	0.0838*	0.0126	-0.0503	1.0000					
Diversification	0.0245	-0.0326	0.1040*	0.0274	-0.0348	0.0179	-0.0032	-0.059	-0.02	-0.1363*	-0.0182	1.0000				
Same Language	-0.0217	-0.0271	0.0274	-0.005	-0.0039	0.0715*	-0.03	0.028	0.0835*	-0.0096	-0.1214*	0.0141	1.0000			
Common Law	0.1024*	0.0913*	0.0882*	0.1266*	0.0337	0.0146	0.0163	0.1159*	0.0357	-0.0185	0.0752*	0.053	0.1460*	1.0000		
Mega Deal	0.0401	-0.0458	-0.2029*	0.0728	0.1574*	0.0632	-0.0181	-0.0005	-0.0118	0.4857*	-0.0677*	-0.0807*	0.1240*	0.0302	1.0000	
Public Target	-0.0528	-0.5057*	-0.0775*	0.0784*	-0.0329	-0.0449	-0.022	-0.0598	-0.0242	0.041	-0.2021*	-0.0717*	0.0832*	-0.1678*	0.0439	1.0000

5. Results and Discussion

5.1. Acquirer CAR

Table 6 - Acquirer CAR on the acquirer and deal characteristics by status of target

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between acquirer CARs and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. The sample used in the analysis consisted of M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from Jan 1996 to Dec 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

	(1)	(2)	(3)	(4)
VARIABLES	All	Public	Private	Subsidiary
Top Tier	0.00196	0.00726*	0.0489	0.00171
	(0.00461)	(0.00438)	(0.0303)	(0.00882)
Ln (Size)	-0.00207**	-0.00335**	-0.00425***	-0.00294
	(0.000839)	(0.00145)	(0.00158)	(0.00185)
Relative Size	-0.000781***	-0.00465*	-0.0608***	-0.000812*
	(0.000199)	(0.00276)	(0.0222)	(0.000414)
Leverage	0.0102	0.00283	0.0576**	-0.00385
	(0.016)	(0.0251)	(0.0286)	(0.0294)
CF to Equity	-0.000332	-0.0347	0.0521	-0.00104
	(0.000818)	(0.0825)	(0.102)	(0.000871)
Sigma	0.939***	0.00106	0.531	1.360***
	(0.209)	(0.317)	(0.393)	(0.23)
Book-to-Market	-0.000000001	-0.00000205	0.00000473	-3.6E-09
	(0.00000000259)	(0.00000421)	(0.0000122)	(0.00000000479)
Friendly Deal	0.00506	0.00515	0.0141	-0.000795
	(0.00673)	(0.00731)	(0.0144)	(0.0226)
Diversification	-0.00267	0.0133	-0.0128	-0.00122
	(0.00464)	(0.0101)	(0.00874)	(0.00795)
Language	-0.00591	-0.0198**	0.00774	-0.00883
	(0.00516)	(0.00847)	(0.0103)	(0.00982)
Common Law	0.0102**	0.0204**	0.00918	0.00368
	(0.00448)	(0.00803)	(0.00784)	(0.00746)
Constant	0.00439	0.0316**	0.00741	0.0173
	(0.0106)	(0.0154)	(0.0213)	(0.0295)
Observations	518	148	127	204
Adjusted R-squared	0.094	0.038	0.101	0.163

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In a multivariate OLS regression analysis, we analyze the relationship between the financial advisor's reputation and the acquirer's CAR. We take into consideration several acquirers and deal-specific features discovered to affect bidder returns. The key variable of interest in all of these regressions is *top-tier*, which takes the value of one if a top-10 investment bank advised on the deal and zero otherwise. For the regression, robust standard errors were used to adjust for heteroskedasticity and bidder clustering. As the effect of the reputation of the financial advisors might differ depending on the deal type, we analyze 4 different models. Model (1) includes all the sample. Models (2), (3), and (4) are sub-samples with public, private, and subsidiary targets, respectively.

In all models, the coefficient of the main explanatory variable, *top-tier*, exhibits a positive sign. In the entire sample, *top-tier* advisors show a 0.196% rise in the acquirers' CAR, all else equal. The discovery of insignificant coefficients in this study aligns with the findings of previous research. Servaes and Zenner (1996) demonstrate that the returns earned by acquirers in the sample were not influenced by the use of an investment bank, once the determinants of investment banking choice were taken into account. Ismail (2010) similarly finds no consistent relationship between acquirer advisors' ranking and the gains achieved by their clients. Moreover, Rau (2000) shows that, aside from the overall tender offers, first-tier investment banks do not consistently produce better deals as measured by bidder abnormal returns.
Nonetheless, this correlation attains statistical significance when the targets are public, with a confidence level of 10%, supporting the results of Gulobov et al. (2012). The results suggest that acquirers who choose top-tier advisors achieve approximately a 0.726% higher CAR than those who select non-top-tier financial advisors. This may be due to the greater reputational exposure and incentives for superior services created by external visibility in public takeover situations, as noted by Rhee and Valdez (2009). Furthermore, prior research has shown that firms tend to choose investment banks when the acquisition is more complex, as highlighted in the study conducted by Servaes and Zenner (1996). Given the cross-border nature of the M&A deals in question and the fact that the targets are from emerging markets, it can be reasonably inferred that the complexity of these transactions is high. Overall, in accordance with Golubov et al. (2012), it can be observed that the reputation of a financial advisor has a certain impact on bidder CAR in the context of acquisitions, particularly when the target is publicly traded.

The coefficient for the variable *ln(size)* is both negative and significant at a level of 5% in Model (1). This suggests that smaller firms appear to add more value than larger ones. These

results are consistent with previous research such as Moeller et al. (2004) which demonstrates that the abnormal return associated with acquisition announcements decreased as acquirer size increases. *Relative size* shows a negative and significant coefficient throughout all models. *Sigma* is a measure of volatility and uncertainty of the acquirer. As expected, the coefficient is both negative and significant at a 1% level of confidence for the full sample and subsidiary targets. Moeller et al. (2007) show that high sigma bidders in stock acquisitions provide lower announcement period returns. The coefficient for the variable *Common Law Acquirer* is positive and significant at a level of 5% for model (1) and model (2). This means that an acquirer being from a Common Law nation, rather than a Civil Law nation, has a positive effect on its CAR. Furthermore, with regards to model (2), the variable *language* exhibits a statistically significant negative coefficient at a 5% level of confidence. This implies that the commonality of language between the target and acquirer does not yield a positive effect on the acquirer's CAR, but rather has a detrimental impact.

5.2. Mega Deals

Table 7 - Acquirer CAR on acquirer and deal characteristics: Mega deals

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between acquirer CARs of Mega Deals and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. The sample used in the analysis consisted of M&A deals on winch the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from 1996 to 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

	(1)	(2)
VARIABLES	CAR (-2,+2)	CAR (-2,+2)
Top Tier	0.00503	0.00199
	(0.00463)	(0.00459)
Mega Deal	0.0195*	0.00587
	(0.0116)	(0.00907)
Mega Deal x Top Tier		0.0413
		(0.0297)
Controls	Yes	Yes
Observations	518	518
Adjusted R-squared	0.105	0.115

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

It is also possible that certain large transactions may benefit greatly from the expertise of high-level advisors, leading to substantial profits in the short term. In order to account for this effect, the variable *Mega Deal* is introduced, which is a dummy variable that takes the value of 1 if the deal value corresponds to the 10% largest of the overall sample. Moreover, to further capture the combined effect of *Top-tier* and *Mega Deal*, the two variables are interacted and created the variable *Mega Deal x Top Tier*.

Table 7 presents the results of the regression. In Model (1), we see that the *Mega Deal* variable shows a positive and significant coefficient at a 10% level of confidence. This means that being among the top 10% biggest deals concerning the deal value results in a rise of 1.95 % in the acquirer's CAR. However, when introducing *Mega Deal x Top Tier*, none of the variables show a significant coefficient. This means that being simultaneously one of the biggest deals and having a top-tier advisor does not yield a significant effect on the acquirer's CAR. In line with Faias (2017), these findings do not demonstrate the dominance of top-tier advisors in advising on the largest deals.

5.3. Advisory Fees

Investment banks rely heavily on M&A advisory fees for revenue. According to Kolasinski and Kothari (2008), M&A advising fees are at least as important as equity underwriting fees, if not much more so in some years. Therefore, this relationship was explored and it was assessed if the services provided by top-tier financial advisors in public acquisitions are rewarded with premium fees, as predicted by the reputation theory. Since advisory fees are not mandated to be disclosed and are solely accessible for public transactions, the examination will concentrate solely on publicly traded targets.

As previously stated in the literature, Klein and Leffler (1981), Shapiro (1983), and Allen (1984) acknowledged that a premium price is established as a signal of high quality when the quality of a product can only be evaluated after purchase to compensate the seller for the resources invested in establishing a reputation. In view of the fact that investment bank services are also evaluated only by ex-ante, they should, in theory, also charge a premium fee as an indicator of their high quality and reputation.

Table 8 - Advisory fees on bidder and deal characteristics for public deals

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between advisory fees and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. The sample used in the analysis consisted of M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from 1996 to 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

	(1)	(2)	(3)	(4)	(5)
VARIABLES	Advisory Fee	Advisory Fee	Advisory Fee	Advisory Fee	Advisory Fee
Top Tier	-0.00237***	0.000874*	0.000841	0.00079	0.000923*
	(0.000564)	(0.00049)	(0.0005359)	(0.000537)	(0.000541)
Ln (Deal Value)		-0.00257***	-0.00278***	-0.00278***	-0.00276***
		(0.00018)	(0.000219)	(0.000219)	(0.000222)
Relative Size			9.28E-06	0.0000158	0.00000468
			(0.000036)	(0.0000385)	(0.0000395)
Diversification				0.000665	0.000826
				(0.000891)	(0.000933)
Friendly				-0.00266*	-0.00291*
				(0.00151)	(0.00157)
Sigma					0.0414**
					(0.0208)
Constant	0.0111***	0.0229***	0.0244***	0.0268***	0.0261***
	(0.000377)	(0.00106)	(0.00132)	(0.00213)	(0.00213)
Observations	141	141	141	141	141
Adjusted R-Squared	0.014	0.266	0.294	0.301	0.306

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In this way, we perform regressions to 5 different groups of variables. In Model (1) only our key explanatory variable, the *top-tier* indicator, is included. Model (2) includes the natural logarithm of the *deal value* as an additional explanatory variable to account for the economies of scale effect. McLaughlin (1990) suggests that advisory fees as a percentage of transaction value decline with transaction size. As an additional control for the size effect, Model (3) adds the *relative size*. Since other deal-specific elements are likely to influence advising fees, Model (4) adds the variables *diversification* and *friendly deals*. Lastly, Model (5) includes *sigma* as a further explanatory variable. According to Officer et al. (2009), sigma denotes uncertainty over the firm's worth.

As expected, a positive and significant coefficient for *top tier* with a 10% confidence level is obtained. This suggests that top-tier financial advisors demand on average 0.0923 percentage points higher advisory fees than non-top-tier financial advisors. It is worth noting that cross-border deals, especially those involving targets from emerging markets, can be considerably more complex. Therefore, it is plausible that top-tier financial advisors may require higher compensation for their services to account for the added complexity of such transactions.

The coefficient of *ln (deal value*) is both negative and significant at a 1% level. These results go in line with McLaughlin (1990) which suggests that advisory fees as a percentage of transaction value decline with transaction size. *Diversifying deals* appear to have a positive coefficient. Diversification may indicate higher levels of complexity and uncertainty in the deal, even more, when the target is from an emerging market. This could lead to more difficult negotiations, more complex due diligence processes, and longer completion times, all of which could contribute to higher advisory fees. However, while there may be a positive relationship between industry diversification and advisory fees, the relationship is not strong enough to be statistically significant. Transactions that are not friendly are expected to be more complex and, as predicted, the *friendly deals* variable shows a significant and negative coefficient at a 10% confidence level. *Sigma* is representative of the acquirer's volatility and appears to have a positive relationship with advisory fees. As its coefficient is positive and significant at a level of 5%, advisory fees are higher the greater the uncertainty and risk around the acquirer's firm.

In general, these outcomes are consistent with a premium price-premium quality equilibrium, as investigated by Klein and Leffler (1981), Shapiro (1983), and Allen (1984). This relationship can lead to some interesting conclusions. Firstly, ranking financial advisors based on deal value advised appears to reflect the quality of their services. Additionally, top-tier advisors are incentivized to cultivate and protect their reputational capital, enabling them to demand higher fees and ultimately provide high-quality services to their clients.

5.4. Resolution Time

The expected relationship between advisor reputation and time to resolution is uncertain. Golubov et al. (2012) and Faias (2017) propose two perspectives that shed light on this relationship. Firstly, top-tier advisors might be able to expedite the deal process due to their advanced skills and expertise. This is referred to as the "skilled advisor" hypothesis.

Alternatively, considering the higher reputational risk top-tier advisors face, they may take additional time to assess the transaction terms and negotiate more favorable conditions for the bidder. This is referred to as the "diligent advisor" hypothesis. Building on the works of Hunter and Jagtiani (2003) and Golubov et al. (2012), the *Resolution Time* variable is introduced, which represents the number of days between the announcement and the effective date, as explained in Appendix A. In line with Officer et al. (2009), Golubov et al. (2012), and Faias (2017), we limit our analysis to public deals as non-listed firms often announce deals only upon completion, which would lead to an inaccurate assumption that the M&A process lasted for only one day.

Table 9 - Resolution time on bidder and deal characteristics for public deals

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between resolution time and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. The sample used in the analysis consisted of M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from 1996 to 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

	(1)
VARIABLES	Resolution Time
Top Tier	-3.977
	(35.82)
Controls	Yes
Observations	148
Adjusted R-squared	0.023

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The findings of the analysis are presented in Table 9. The primary coefficient in the *top tier* indicates a negative association, indicating that top-tier financial advisors require a lower amount of time to conclude deals compared to their non-top-tier counterparts. However, this correlation does not reach statistical significance at conventional confidence levels. These results are consistent with the conclusions drawn by Faias (2017), which did not provide support for either the "skilled advisor" or the "diligent advisor" hypotheses. The evidence suggests that when it comes to the time required to finalize M&A deals involving an emerging market target, top-tier advisors perform comparably to other advisors.

6. Additional Robustness Tests

Upon analyzing the principal findings of this paper, it is crucial to consider its resilience and assess its coherence when implemented with variations in methodology or assumptions. Henceforth, numerous robustness examinations were utilized to scrutinize the consistency of the outcomes.

6.1. Cumulative Abnormal Returns

In the analysis, another significant aspect is the assessment of the acquirers' short-term performance. Following prior literature, a primary event window of 5 days is selected. To examine the resilience of the findings, a similar analysis is conducted using alternate event windows, specifically CAR (-1, +1) and CAR (-5, +5), as exhibited in Appendix C. In terms of both signs and significance levels, the results are very comparable. The outcomes demonstrated some consistency across all the event windows.

6.2. Financial Advisor Classification

The focal point of the analysis is centered on the reputation of financial advisors, and thus, the classification of these advisors holds significant implications for the study's findings. Drawing from Fang's (2005) methodology, we rank the investment banks by the value of deals advised and categorize them into, a top-tier group and a non-top-tier group. To assess the robustness of this paper’s findings, an alternative classification scheme is employed. Specifically, the same analysis is conducted using a top-tier classification threshold of both top 8 and top 12 financial advisors. Our examination reveals that the classification used has some influence on the results, as exhibited in Appendix C. Although the relationship displayed across the various rankings is insignificant, the magnitude and sign of the coefficient vary greatly.

7. Limitations and Further Research

There are numerous limitations to the study that must be taken into account. The research's short-term focus, which might not completely capture the long-term influences of a financial advisor's reputation on deal success, is the first drawback. Although short-term measures are important indicators of deal outcomes, they may not reveal the potential negative consequences even when there are positive short-term returns, such as integration difficulties or cultural clashes. To enhance the understanding of the impact of financial advisor reputation on deal outcomes, it could have been considered to incorporate long-term performance measures or alternative methodologies that enable a more holistic evaluation of deal success. Furthermore, depending entirely on short-term performance indicators may cause one to ignore crucial non-financial outcomes that are crucial to the deal's success. For instance, even if a merger does not immediately result in cash gains, it may have long-term strategic advantages if it strengthens the acquirer's market position or enables access to new technology. Non-financial outcome metrics, such as market share, may have been included in the analysis to overcome this limitation.

In addition, given the focus of this paper on emerging market targets, data can be scarce or difficult to obtain, making it challenging to conduct thorough analyses. This could result in a limited sample, potentially restricting the scope of the inferences drawn.

Thirdly, the measure of financial advisor reputation used in the study may have a limited scope, focusing only on a narrow set of characteristics, such as the size and track record of the financial advisor. Additionally, the measurement may ignore other critical aspects of reputation, such as service quality, industry, or geographic expertise. Alternative reputational measures that are more thorough and consider a wider range of factors that potentially have an impact on the deal's success could have been used to get around this restriction.

Finally, it is important to note that regression analysis has limitations in terms of causality and generalizability. Regression analysis can uncover correlations between variables, but it cannot prove causality, and because the results are dependent on the sample and time frame employed in the study, they might not apply to different circumstances. To address these limitations, alternative analysis methodologies could have been employed.

8. Conclusion

The purpose of the research paper is to investigate how the reputation of financial advisors affects the performance of M&A transactions between acquirers from developed countries and targets from emerging markets. To achieve this, the study analyzed a total of 896 deals spanning from 1996 to 2021.

The study's results indicate that financial advisors' reputation positively affects acquirer performance in M&A transactions. Specifically, engaging a top-tier investment bank as a financial advisor leads to a significant increase in acquirer abnormal returns in M&A deals with public targets, but not for private or subsidiary targets. This indicates that when dealing with public targets, engaging a top-tier financial advisor leads to a rise of 0.726% in the acquirer's CAR compared to acquirers who choose non-top-tier advisors. While the top-tier coefficient is positive for the other deal types as well, it does not attain significance for the conventional confidence levels.

Additionally, on average, top-tier financial advisors charge 0.0923 percentage points higher advisory fees than non-top-tier financial advisors, with a 10% significance level. Given the complexity of cross-border M&A deals, it is reasonable that top-tier financial advisors demand higher fees to compensate for their high expertise, knowledge, and experience. However, the study did not find evidence supporting the dominance of top-tier advisors in advising on the largest deals. The combination of being one of the largest deals in terms of deal value and having a top-tier advisor did not demonstrate a significant effect on the acquirer's CAR. Furthermore, the thesis shows that top-tier advisors perform comparably to other advisors in terms of resolution time M&A deals involving emerging market targets. The results did not offer support for either the "skilled advisor", which posits that top-tier advisors expedite the deal process due to their exceptional skills and expertise, or the "diligent advisor" hypothesis, which assumes that top-tier advisors take longer to evaluate all the transaction terms and carry out comprehensive negotiations owing to the greater reputational risk they encounter.

In order to ascertain the consistency of the findings, various robustness tests were performed. Primarily, the CAR regression was scrutinized using diverse event windows. The results revealed similar top-tier coefficient signals and statistical significance across all target types for the wider event window of (-5, +5) days. On the other hand, for the narrower event window of

(-1, +1) days, while the top-tier coefficient exhibited a positive sign, it failed to attain statistical significance in any model. Overall, this robustness test shows some consistency in the obtained results. Secondly, the financial advisors' reputation was measured under different classifications. The findings of such analyses indicate a high degree of sensitivity to the chosen top-tier classification, leading to different outcomes.

In this study, various limitations have been identified. Firstly, the study concentrates only on short-term and financial performance outcomes. Future research could incorporate long-term performance measures and non-financial metrics to provide a more comprehensive assessment of deal success. Secondly, as the study focuses on emerging markets, there may be a lack of data and a restricted sample size, which may limit the study's ability to make broader inferences. Thirdly, the measure used to assess a financial advisor's reputation may have a restricted scope. Therefore, future research may consider more comprehensive alternative reputational measures. Finally, the use of regression analysis has limitations with respect to causality and generalizability, which could be addressed through the use of alternative analytical methods.

The findings of the study suggest that financial advisors' reputation is a highly relevant factor to consider in cross-border M&A transactions, especially in complex deals involving public targets. The paper's results also suggest that financial advisors' expertise and reputation are more important in cross-border M&A transactions involving public targets, as such transactions require more attention to legal, cultural, and regulatory differences across countries. While the fees of top-tier may be higher than those of other advisors, their expertise in navigating complex M&A transactions can prove to be invaluable. The success of such a transaction depends on numerous factors and a skilled financial advisor can help in all of the areas needed. In this way, they can ensure that the deal is executed effectively and in accordance with the clients' goals. In the end, the cost of hiring a top-tier financial advisor may be outweighed by the potential benefits that they can bring to the table as managers are facing a difficult trade-off decision.

In summary, the research paper provides valuable insights into the role of financial advisors in cross-border M&A transactions between developed country acquirers and emerging market targets. In terms of managerial implications, the study's results suggest that companies planning to undertake cross-border M&A transactions should carefully consider the reputation and expertise of their financial advisors, especially when targeting public companies. By doing so,

companies can increase their chances of success and maximize shareholder value in their pursuit of growth.

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10. Appendix

Appendix A- Variable Definition

Dependent Variables and Financial Advisor Reputation	
Variable	Definition
CAR (−2, +2)	Cumulative abnormal return of the bidding firm's stock in the 5-day event window (−2, +2) where 0 is the announcement day. The returns are calculated in line with Golubov et al. (2012), using the market model with the market model parameters estimated over the period starting 240 days and ending 41 days prior to the announcement.
Advisory Fee	Total advisory fee paid by the bidder as a percentage of Deal Value from Refinitiv SDC database.
Top Tier	Dummy Variable. One for transactions advised by one of the top-10 financial advisors according to the value of deals advised by each bank during the sample period (1996 to 2021), zero for all other financial advisors. The deal is considered to have been advised by a top-tier advisor in the case of multiple advisors if at least one of them falls under the top-10 group.
Deal Characteristics	
Variable	Definition
Deal Value	Value of the transaction from Refinitiv SDC database in US$ million.
Relative Size	Value of the transaction from Refinitiv SDC database A divided by the bidder's market value of equity 4 weeks prior to the announcement from Data Stream.
Public Deals	Dummy variable. One for acquisitions of public firms, zero otherwise.
Private Deals	Dummy variable. One for acquisitions of private firms, zero otherwise.
Subsidiary Deals	Dummy variable. One for acquisitions of subsidiary firms, zero otherwise.
Diversification	Dummy variable. One for cross-industry transactions, zero for same industry transactions.
Friendly Deals	Dummy variable. One for friendly acquisitions, zero otherwise.
Same Language	Dummy variable. One for deals on which the target and acquirer have the same official language, zero otherwise.

Mega Deal	Dummy variable. One for the 10% largest deals in the overall sample in terms of deal value, zero otherwise.
Resolution Time	Number of calendar days between the announcement and effective date from Refinitiv SDC database.
	Acquirer Characteristics
Variable	Definition
Size	Bidder market value of equity 4 weeks prior to the acquisition announcement from Data Stream in US$ million.
Book-to-market	Book value of equity at the fiscal year-end prior to the announcement divided by the market value of equity 4 weeks prior to the acquisition announcement. Book value of equity (Total Shareholders' Equity) and market value of equity are from Data Stream.
Leverage	Total debt divided by the book value of total assets for the fiscal year prior to acquisition announcement from Data Stream.
Cash flows- to-equity	Net Income before extra items plus Depreciation minus Total Dividends divided by the Number of Shares outstanding times the closing Stock Price at the fiscal year-end immediately prior to the announcement from Data Stream.
Sigma	Standard deviation of the bidding firm's daily returns from Data Stream over the period beginning 205 and ending 6 days before deal announcement.
Common Law Acquirer	Dummy variable. One for Acquirers from Common Law nations, zero for acquirers from nations from Civil Law nations.

Appendix B- Detailed Regression

VARIABLES	(1) Resolution Time
Top Tier	-3.977
	(35.82)
Ln (Size)	3.526
	(11.24)
Relative Size	13.85
	(23.69)
Leverage	-159.7
	(138.3)
CF to Equity	753.9
	(715.6)
Sigma	4,736*
	(2,737)
Book-to-Market	-0.0809**
	(0.0326)
Friendly Deal	-39.93
	(47.2)
Diversification	-29.05
	(70.21)
Language	93.03*
	(55.03)
Common Law	-73.88
	(45.35)
Constant	174.5
	(109.9)
Observations	148
Adjusted R-squared	0.023

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Appendix C- Robustness Tests

Table 10 - CAR Robustness Test

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between acquirer CARs and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. For this analysis, (-1, +1) and (-5, +5) event windows for CAR were used. The sample used in the analysis consisted of M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from 1996 to 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

	CAR (-1,+1)			
VARIABLES	(1) All	(2) Public	(3) Private	(4) Subsidiary
Top Tier	0.00474	0.0167	0.00441	0.00974
	(0.00446)	(0.018)	(0.0112)	(0.00896)
Controls	Yes	Yes	Yes	Yes
Observations	518	148	127	204
Adjusted R-squared	0.040	0.078	-0.023	0.087

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

	CAR (-5,+5)			
VARIABLES	(1) All	(2) Public	(3) Private	(4) Subsidiary
Top Tier	0.00385	0.0477*	0.00727	0.0121
	(0.00626)	(0.0279)	(0.0254)	(0.0105)
Controls	Yes	Yes	Yes	Yes
Observations	518	148	127	204
Adjusted R-squared	0.048	0.111	-0.045	0.096

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 11 - Financial Advisor Classification Robustness Test

The presented table showcases the outcomes of a cross-sectional OLS regression analysis, examining the relationship between acquirer CARs and various factors including advisor reputation, as well as specific characteristics related to the acquirer and the deal. For this analysis, top 8, top 10, and top 12 financial advisors' classifications were used. The sample used in the analysis consisted of M&A deals in which the acquirer is from a developed country and the target is from an emerging market. The deals were announced during the period from 1996 to 2021. The definitions of the variables used in the analysis are available in Appendix A. The symbols ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively. The robust standard errors provided in parentheses were adjusted for heteroskedasticity and bidder clustering. Additionally, the adjusted R-squared and the number of observations are provided.

VARIABLES	(1) CAR (-2,+2)	(2) CAR (-2,+2)	(3) CAR (-2,+2)
Top Tier 8	-0.00469		
	(0.00425)		
Top Tier 10		0.00196	
		(0.00461)	
Top Tier 12			0.00437
			(0.00456)
Controls	Yes	Yes	Yes
Observations	518	518	518
Adjusted R-squared	0.096	0.094	0.096

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1