Effects of Cross-Border Mergers and Acquisitions on Firm Values

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Abstract
Economic and social developments of late 20th century saw a gain of new momentum in the level of competition between firms, while the quality and intensity of competition has changed radically. Recently, firms employ extraordinary methods in order to adapt themselves to the increasing level of competition and changing conditions of the market.
One of these newer methods, probably the most interesting one, is the act of merging with another firm or taking over it (acquisition). The result of a such merging or taking over activity leads to changes in the capital structure or legal entity of the involving firms, in certain instances one or several firms may see their legal entities disappear completely.
Firms need to choose between the following two alternatives in order to be able to cope with the increasing level of competition: (i) either improve firm operations using their own sources or (ii) take over/buy the other firm(s). Although the former option requires internal resources for improvement, this strategy may become insufficient in certain cases, especially in the case of firms that already attained certain levels of scale.
Globalization brings forth a farewell to the concept of national market. Companies tend to perform merge and acquisition in order to attain an optimal growth and strengthen their competitive position. One advantage of merge and acquisition activity is to avoid high level of expenses in the process of engaging in new markets.
In the wake of the financial liberalisation that has begun by 1980s in Turkey, we have seen an increase in the portfolio investments. However, direct investmens did not follow the suit. In 2000s, the global wave of merging and acquisiton significantly affected the merger and acquisition activity in Turkey. 21st century has already seen many Turkish firms either had been bought or taken over by foreign firms.
This paper primarily focuses on the financial performance of firms listed on BIST that have been involved in a merger or taken over by a foreign firm using “event study” methodology. Employing such methodology enable statistical tests for possible significant changes in stock returns of the respective firms, if any.