

Modes of market entry: What are and what do we know about cross-border mergers and acquisitions?

Lecture 6
Multinational Corporations: Theory and Practice
Winter term 2023/24

Strategic Leadership and Global Management
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Note: The content of this file is released exclusively to support teaching in the context of the module "Multinational Corporations and Competitive Strategies" in the winter semester 2023/24.

GUIDELINE

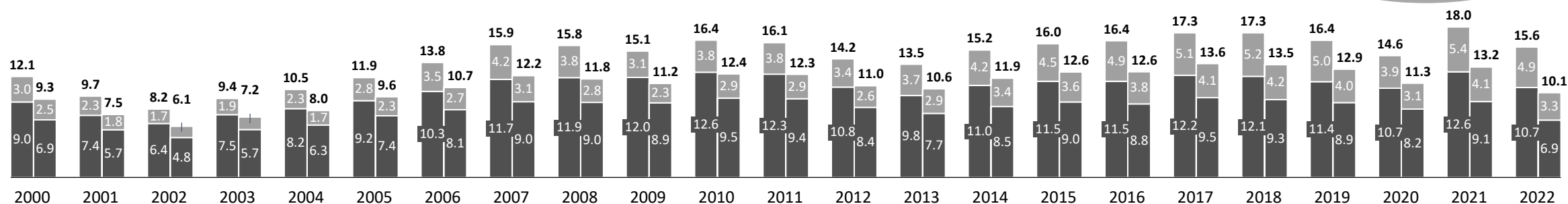
As we already know from lecture 2, the internationalization of companies can take place in different ways. In this lecture, we will focus on one of these ways—*mergers & acquisitions*. The focus will be on trying to give you an overview of the research literature of the last 20 years. The basis for this is an article that Manuel Wiedemann (our guest in the following session) and I have submitted to a journal and which we hope will be accepted for publication. The line of argument should be self-explanatory; I therefore refrain from a detailed run through the individual slides.

Motivation: After this lecture you should be able to...

- Understand and name distinguishing factors between only-domestic and cross-border M&A
- State why research on cross-border M&A is challenging
- Understand driving forces behind cross-border M&A as a...
 - market entry mode
 - dynamic learning process
 - value-creating or -destroying strategy
- State how research on cross-border M&A can be improved in order to even better provide answers to practitioners' questions

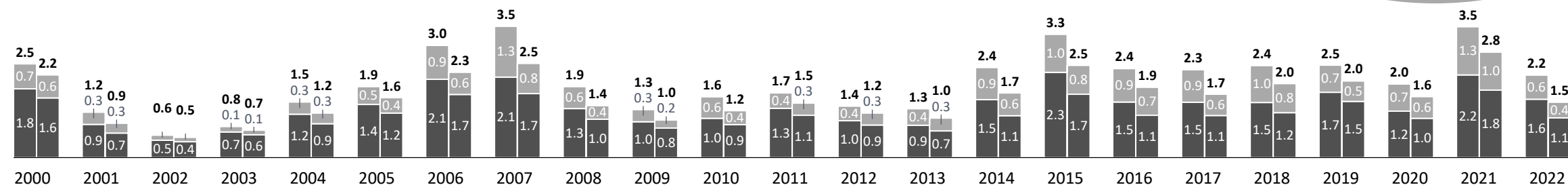
Overview of total number and volume of M&A deals from the year 2000 until 2022

Total number of M&A deals[in '000]¹⁾



≈1/4
of M&A deals since
2000 are cross-border
deals

Total volume of M&A deals [USD tn]¹⁾


















≈1/3
of M&A deal volume
since 2000 are cross-
border deals






■ Domestic M&A ■ Cross-border M&A

1) First column of each year = Announced M&A; Second column of each year = Completed M&A

Top M&A deals in 2022 and 2023 – Worldwide

Deal value [USD bn]	Acquirer		Target		Announcement date	Closing date	Industry	
69	Microsoft Corporation (US)		Activision Blizzard, Inc. (US)		18.01.2022	Still pending	Software/ Gaming	
61	Broadcom Inc. (US)		VMware, Inc. (US)		26.05.2022	Still pending	Software	
44	Elon Musk (US)		Twitter, Inc. (US)		14.04.2022	27.10.2022	Social Media	
43	Pfizer Inc. (US)		Seagen Inc. (US)		13.03.2023	Still pending	Healthcare	
40	Nvidia Corporation (US)		Arm Limited (JP)		13.09.2020	07.02.2022 - <i>Withdrawn</i> -	High tech	

Top M&A deals in 2022 and 2023 – Involving German firms

13	Carrier Global Corporation (US)		Viessmann Climate Solutions SE (DE)		25.04.2023	Still pending	Industrials	
13	Silver Lake Tech. Mgmt., L.L.C. (US)		Qualtrics Intern. Inc. (DE)		12.03.2023	28.06.2023	Software	
[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
3	Asterion Industrial Partners SGEIC SA (ES)		Steag GmbH (DE)		25.08.2023	Still pending	Energy	

✓ Successful deal ○ Still pending deal ✗ Unsuccessful deal

Specifics of cross-border M&A – Guiding questions



What are **distinguishing factors** between national and cross-border M&A transactions?



What are the **motives** for cross-border M&A transactions (as an alternative to other modes of market entry)?



What drives cross-border M&A **success** and **failure**? How long do cross-border M&A transactions take?



What does **academic research** contribute to improve cross-border M&A practice?

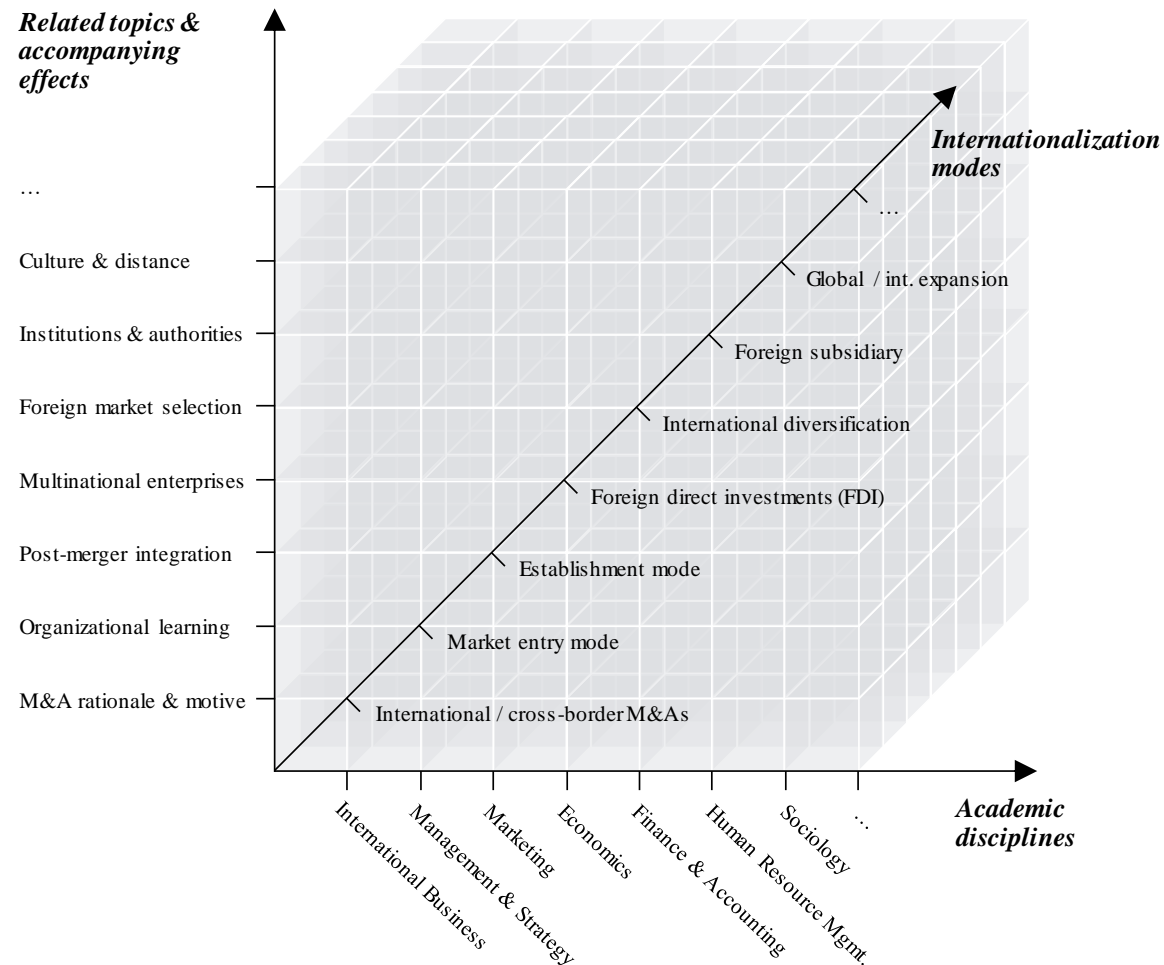
What makes cross-border M&A transactions special (as compared to only national deals)? (1)

- **Overall impression:** Differences between cross-border and domestic M&As tend to be under-researched
- **Implicit assumption that there are relevant differences**, e.g. higher complexity, regulatory peculiarities as well as “liability of foreignness” (Zaheer, 1995) and “double layered acculturation” (Barkema et al., 1996) issues
- **Ethnographic studies by Reynolds and Teerikangas (2016):** Even seemingly domestic M&A activities are influenced by international aspects (context, strategic orientation, talent management, work processes, output).
- **Banking industry study by Calazza et al. (2014):** Domestic and cross-border M&A determinants do not differ much. Although banks that bid cross-border are larger than those that bid domestically, and they are relatively more liquid and better capitalized, only one country characteristic and no bank characteristics have an opposite and statistically significant effect on the probability that a bank bids domestically or cross-border.
- **Study by Anand et al. (2005):** Acquirers attempt to enhance their capabilities (regarding R&D, product quality, cost efficiency, product line extension) and are rewarded by capital markets when they buy targets with a multinational geographic scope. Thus, the multinational scope of the target is more relevant than the target’s country of origin alone.

What makes cross-border M&A transactions special (as compared to only national deals)? (2)

- **Study by Erel et al. (2012):** M&A likelihood between two countries increases with
 - (1) geographic proximity
 - (2) intensified bilateral trade flows
 - (3) a quality gap in accounting standards (with higher standards in the acquirer's country)
 - (4) a tax gap (with a higher corporate tax rate in the acquirer's country)
 - (5) exchange rate fluctuations prior to the deal
 - (6) differences in the stock market performance (with a superior performing stock market in the acquirer's country)
 - (7) differences in the countries' market-to-book ratios (MTB) → Effect on valuation
- **Study by Francis et al. (2016):** *Similarity* between accounting standards determines the probability of cross-border M&As; hence the positive impact of IFRS introduction since 2005.
- **Other aspects: Impact of public opinion and legitimacy aspects?** CFIUS*/“The American Challenge” (Servan-Schreiber, 1968) ... **Study by Li et al. (2017):** Delayed deal closing if foreign bidder firms are state-owned, but no differences in the completion rates.

Conducting the review: Literature selection as a challenge



- Literature on cross-border M&A is oftentimes hidden and intermingled with other topics
- The term "cross-border M&A" is not uniformly applied in research (e.g., "global M&A", "international M&A")
- Cross-border M&A is a multi-faceted phenomenon

The study by Shimizu et al. (2004) provides an overarching structure to analyze cross-border M&A

Ca. 250 were published since 2004

Following Shimizu et al. (2004), the research field can be sub-divided into three areas

1 Cross-border M&As as a specific foreign market entry mode

Firm-level factors

Industry-level factors

Country-level factors

- What factors encourage/discourage cross-border M&As?
- What motivates cross-border M&As compared to other market entry modes?

2 Cross-border M&As as a dynamic learning process

Due diligence process

Negotiation process

Post-M&A integration process

- What learnings/ knowledge/ information/ insights are generated from cross-border M&A processes?
- How are these learnings/information used?

3 Cross-border M&As as a value-creating or -destroying business strategy

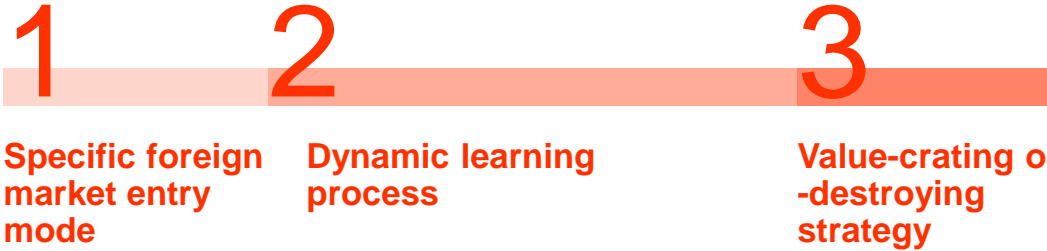
Wealth creation by M&As – "Announcement effect"

Post-M&A performance – "Long-term effect"

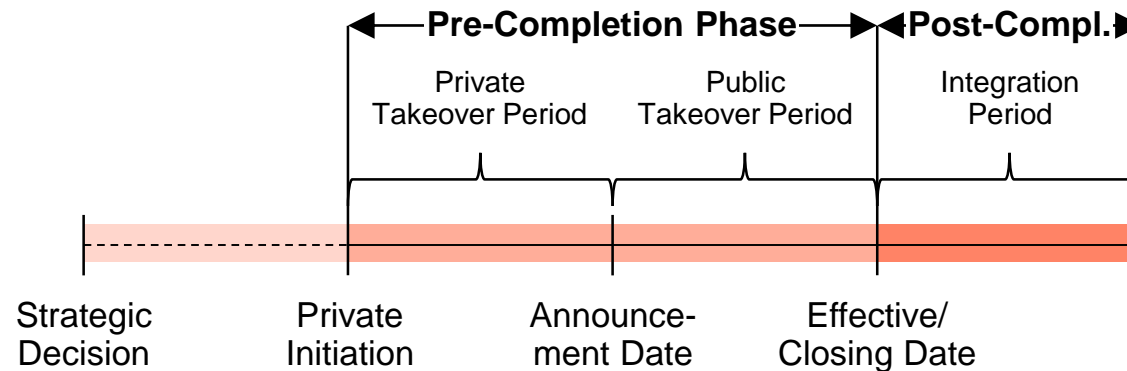
- What effects do cross-border M&As generate?
- What are critical success factors for cross-border M&A performance?

Shimizu et al.'s structure covers the M&A process holistically

Cross-border M&A as a...



The M&A procedure (adapted from Zhou et al., 2016)

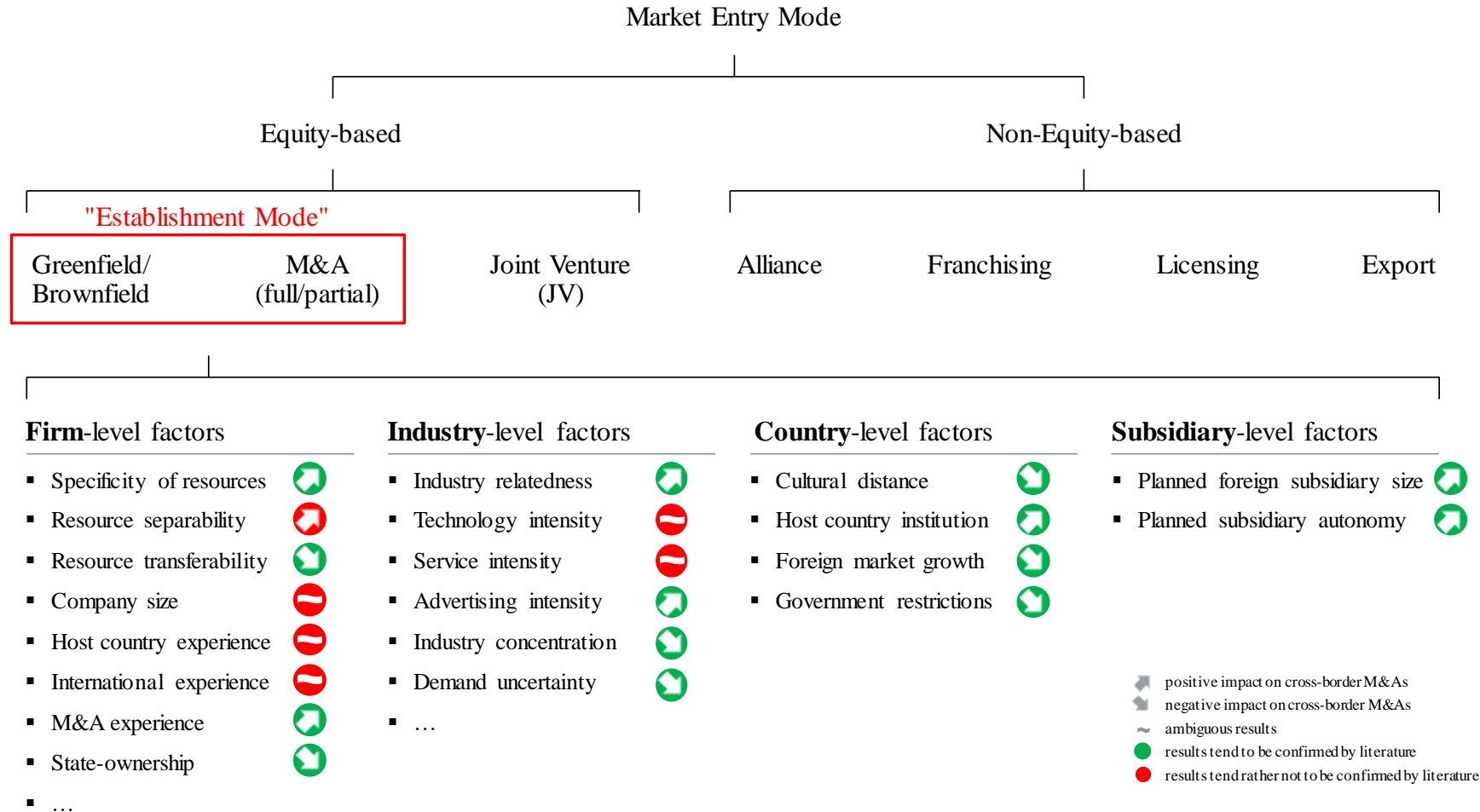


Theoretical foundations of the cross-border M&A literature:

- Transaction cost economics
- Internalization theory
- Learning theory
- Information economics
- Resource-based view
- Industrial economics
- Institutional theory
- Principal-agent theory
- Upper-Echelon theory
- Real option theory
- ...

Cultural differences constitute a core focus topic

1 Cross-border M&A as a specific mode of foreign market entry



2 Cross-border M&A transactions as a dynamic learning process

	Variables	Due Diligence process	Negotiation process	Integration process	Dynamic learning processes
Firm-level factors	M&A experience				
	Communication	N/A			
Country-level factors	National cultural distance			²⁾	
	Institutional distance ³⁾			N/A	
Deal-level factors	Cash payment	N/A		N/A	
	Advisors			N/A	

positive influence on outcomes of learning processes
 negative influence on outcomes of learning processes
 ambiguous results
 results tend to be confirmed by literature
 results tend rather not to be confirmed by literature

Welch et al. (2019)

Ahammad et al. (2016a)
Boeh (2011)
Zhou et al. (2016)

Ahammad et al. (2016b)
Kroon et al., (2015)
Piekkari et al. (2005)
Reus et. (2016)



Cross-border M&A transactions as a dynamic learning process are overall less researched and sometimes even producing ambiguous results

Source: Shimizu et al. (2004) unless otherwise stated

- 1) Control describes the acquirer's power exerted on the target, which is the opposite of "subsidiary autonomy"
 2) Ambiguous results are found for national as well as organizational cultural differences
 3) Assuming the target (host) country to be located in the environment with less effective/ developed institutions

3 Cross-border M&A as a value creating/destroying strategy

	Variables	Short-term	Long-term	Value-creation
Firm-level factors	Acquirer size		N/A	
	Target size		N/A	
	Acquirer market-to-book ratio	N/A		
Country-level factors	National cultural distance			
	Institutional distance		N/A	
Industry-level factors	Industry relatedness			
Deal-level factors	Cash payment			

Aybar and Ficici (2009)
Cho and Ahn (2017)

Chakrabarti et al. (2009)
Chen et al. (2017)

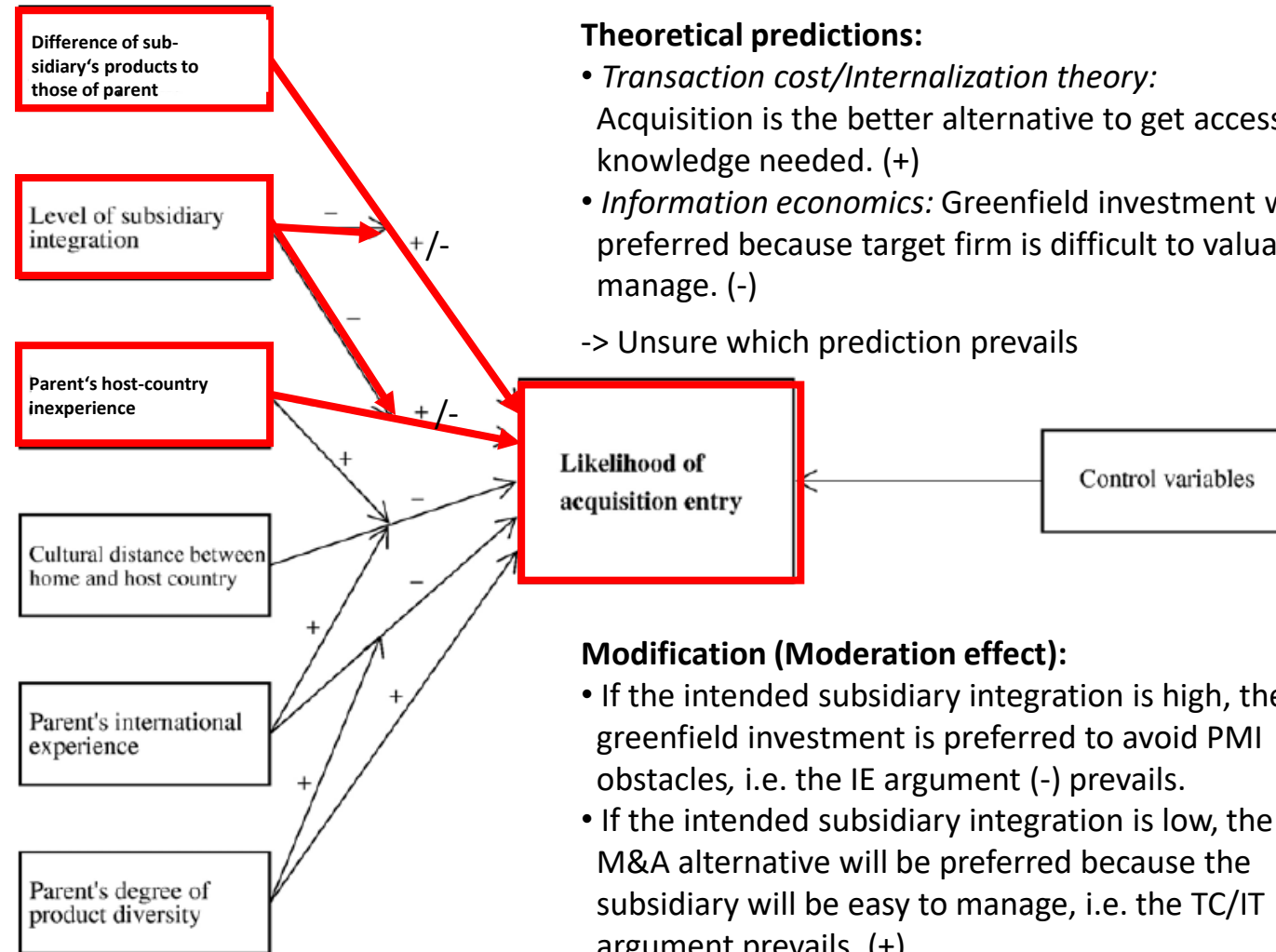
positive influence on value creation for acquirer
 negative influence on value creation for acquirer
 ambiguous results
 results tend to be confirmed by literature
 results tend rather not to be confirmed by literature



Cross-border M&A as a value-creating or -destroying strategy are well researched but results oftentimes remain ambiguous

Approaches for improvement 1: Inclusion of moderators

Example*



Source: Slangen and Hennart (2007), pp. 417 and 419; modified

Approaches for improvement 2: Refining measurement

Construct	Study	Operationalization	Limitation	Preferred operationalization through archival data
Parent's firm-embedded technological skills	[Authors]	<ul style="list-style-type: none"> - R&D intensity of industry entered - R&D intensity of industry in which parent is active (low, medium, high) 	An industry's R&D intensity is unlikely to accurately reflect a firm's technological skills	Parent's R&D intensity (e.g., [Authors])
<ul style="list-style-type: none"> - Benefit to quick entry - Scope for new firms 	<ul style="list-style-type: none"> - Andersson and Svensson (1994) - Barkema and Vermeulen (1998), Larimo (2003) 	<ul style="list-style-type: none"> - Host country's GDP growth - Host country's GNP growth 	Industries within a given country may exhibit radically-different growth rates	<ul style="list-style-type: none"> - Growth rate of industry entered (e.g., Brouthers and Brouthers, 2000; Chang and Rosenzweig, 2001) - Absolute value of industry growth's deviation from its sample mean divided by its standard deviation (e.g., Caves and Mehra, 1986; Hennart and Reddy, 1997)
<ul style="list-style-type: none"> - Difficulty to establish a greenfield - Disturbances that a greenfield causes in the market shares and revenues of incumbents 	<ul style="list-style-type: none"> - Zejan (1990) - Barkema and Vermeulen (1998) 	<ul style="list-style-type: none"> - Host country's GDP - Host country's GNP 	It is unclear why it would be more difficult to establish greenfields in large countries, and why greenfields would cause large disturbances in incumbents' market shares and revenues in such countries	<ul style="list-style-type: none"> - Growth rate of industry entered (e.g., Brouthers and Brouthers, 2000; Chang and Rosenzweig, 2001) - Absolute value of industry growth's deviation from its sample mean divided by its standard deviation (e.g., Caves and Mehra, 1986; Hennart and Reddy, 1997)

Source: Slangen und Hennart (2007), p. 426

BROADER AVENUES FOR FURTHER RESEARCH

- Understanding M&A capabilities
- Analyzing the relationships between M&A activities and Corporate Social Responsibility and/or sustainability-related aspects
- Investigating the impact of digitalization (e.g., the role of “aqui-hiring”)
- M&A activities in times of de-coupling and de-globalization?



Summary/Take aways

- Research on cross-border M&As has significantly increased since 2004, but is not always easy to find
- Multitude of theories with partially conflicting predictions/hypotheses
- Empirical results tend to be conflicting/without robustness (as always)
- Even within single studies different degrees of confirmation of hypothesized relationships (as always)
- Specification of independent and dependent variables often on uncertain theoretical grounds (Miller et al., 2013) – Implications for theory building?



As unsatisfying as these results may look like – the questions raised in these studies may still be helpful to advise business practice regarding their M&A-related considerations (ex ante and ex post)

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