Dodo zu Knyphausen-Aufseß/Ulrich Pidun:

What are and what do we know about cross-border mergers & acquisitions?

1. Introduction

The global market for mergers & acquisitions (M&A) has revitalized after the 2007(2008) financial crisis. In 2017, so-called "mega deals" such as those between *AT&T* and *Time Warner* with a transaction volume of US$ 105 billion or between *Bayer* and *Monsanto* with a transaction volume of US$ 63.4 billion attracted the attention of a wide professional audience. The overall volume has to be interpreted with caution (see figure 1). It starts with the ambiguity of the term "global M&A" which can mean "world-wide" or "cross-border". *Thomson Reuters* and *Mergermarket* regularly publish – not always consistent – data that relate both of these meanings. *Thomson Reuters* (*Mergermarket*) quantifies the world-wide M&A volume for 2016 with US$ 3.7 (3.2) trillion, 38.3 (~41) percent of which being cross-border. The deal volume numbers measure deal *announcements*. In contrast, the *United Nations Conference on Trade and Development* (UNCTAD) publishes in its "World Investment Report" (latest edition: 2017) data on the *realized* M&A volume. Data on announced and realized deals are difficult to compare because the "deal closing" has, if ever, not to be achieved within the same year. However, on the basis of the data collected over years, it appears that the completion rate cannot be much higher than 50 percent, which is significantly lower than what we can find e.g. in Zhou *et al.* (2016).

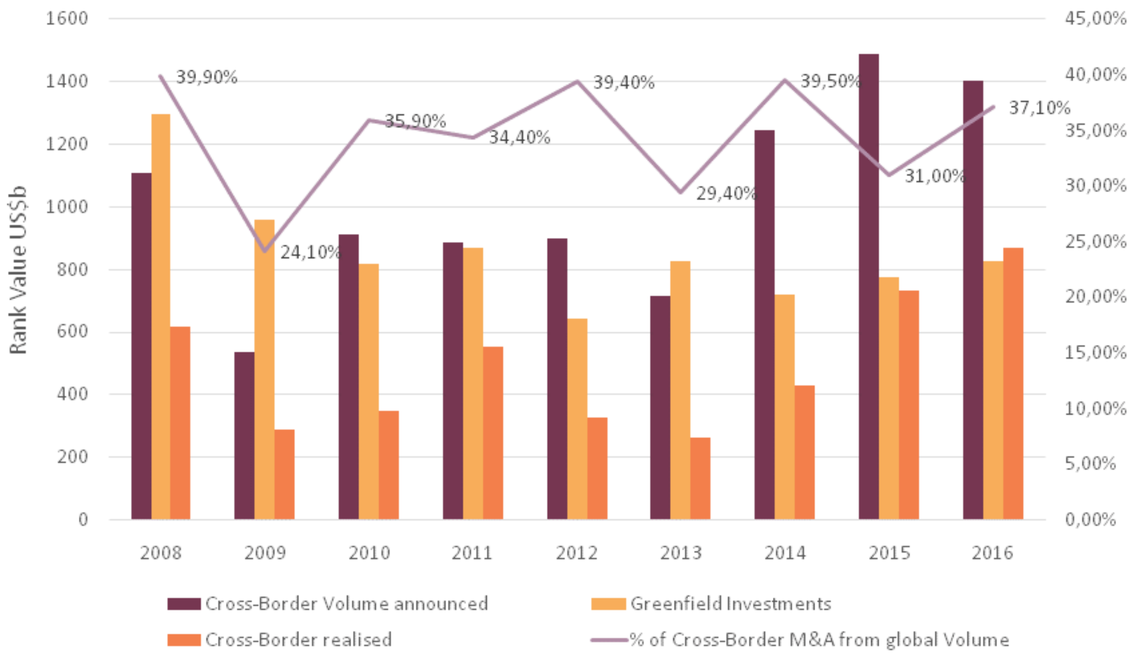

Figure 1: Global M&A volume, 2008-2016 (Sources: Thomson Reuters, Mergermarket, UNCTAD)

As these few remarks indicate, there is a number of questions which are of interest with regard to global and/or cross-border M&A transactions, such as: (1) What are the differences between "only national" and cross-border M&A transactions? (2) What motives cross-border M&A transactions in comparison to other forms of market entry and diffusion, such as greenfield investments or joint ventures? (3) How long does it usually take to "close" an M&A deal and what are possible reasons for failure? Or more generally: How successful are cross-border M&A deals and what are the most relevant success factors? And (4): What can academic research on this topic contribute to inform practitioners, what research results do we have and what are the implications for future research endeavors? This paper aims to answer these questions with a systematic literature review. Given the importance of the M&A phenomenon, it is surprising that such a literature review doesn't exist. Barkema and Schijven (2008), Cartwright and Schoenberg (2006), Das and Kapil (2012), Graebner *et al.* (2017) and Haleblian *et al.* (2009) take stock of the M&A literature in general, but do not have a special focus on cross-border M&A transactions. Dikova and Brouthers (2016), Slangen and Hennart (2007) as well as the meta-study by Klier *et al.* (2007) only focus on the so-called "establishment mode" which certainly does not cover the whole spectrum of cross-border M&A-relevant questions and topics. The study that is the closest to our research project is Shimizu *et al.* (2004), which indeed also calls for cross-border-specific M&A research; however, this paper is now outdated and formulates interesting research questions but is not able to present already existing empirical research (see also Hitt and Pisano, 2009). Thus, our research endeavor fills a gap which to close is of high relevance for academia as well as for the business practice.

2. What is specific about cross-border M&A deals?

Before we outline our approach to select and review the relevant literature, it needs some discussion of what is specific about cross-border M&A activities. Interestingly, most M&A studies do not systematically answer the question; most studies simply assume that cross-border deals have, as compared to only national deals, a higher complexity: They have to cope with regulatory or other institutional peculiarities and they suffer from a "liability of foreignness" (Zaheer, 1995) or the need for a "double-layered acculturation" (Barkema *et al.*, 1996) which results from cultural differences between the acquiring and the target company as well as between their respective nations (Shimizu *et al.*, 2004). Only a few studies explicitly focus on differences – or show that there is indeed a fine line between national and cross-border M&A transactions, making it very difficult to provide percentage shares for cross-border transactions, as e.g. *Thomson Reuters* and *Mergermarket* do (see above). Based on two ethnographic studies, Reynolds and Teerikangas (2016) show that the merger of national universities can have strong international drivers and consequences in terms of the general context (increased competition between universities on a global level), the universities' strategic orientation, their talent management, their internal organization and governance, as well as their focus on internationally visible research output. Calazza *et al.* (2014) study possible differences in the likelihood of national versus international banks to engage in cross-border M&A activities; their results indicate that the drivers may have a different magnitude but hat their sign usually shows into the same direction, with the notable exception of refused banking licenses for national versus foreign applicants. Finally, Anand *et al.* (2005) argue that seemingly national M&A activities can be motivated by the target's international networks that provide opportunities for the acquirer's future R&D, the improvement of its product quality and cost efficiency, as well as widening product lines. The empirical results confirm that the access to the target's dispersed geographic resources is more important than simply crossing a border. These findings are in line with the simple observation that the closing of seemingly national transactions is often dependent from the approval of other countries' anti-trust offices. In the abovementioned deal between *AT&T* and *Time Warner*, for example, it came out that the companies had to wait until October 2017 for the Brazilian approval; since then only the approval of the US anti-trust office is pending.

Other studies do not directly compare the propensity for national versus cross-border M&A activities but investigate under which circumstances M&A activities between companies with headquarters located in two countries may become more likely. Based on a sample of about 57.000 transactions between 1990 and 2007, Erel *et al.* (2012) found that the propensity for an M&A transaction between two countries depends (1) on the geographic distance between the countries, (2) the trade flows between these two countries (as an expression of their commonalities), (3) a quality gap between the accounting and governance standards of the two countries (with higher standards in the acquirers' country), (4) a tax gap between the countries, (5) changes in the exchange rate between the acquirer and target countries' currencies prior to the merger, (6) changes in the two *countries'* stock market valuations, as well as (7) differences between the two countries' market-to-book ratios, with the valuation effects being of special importance. How robust these results are, is not clear. For example, focusing on the geographic instead of cultural distance seems to be at odds with the abovementioned "double-layered acculturation" problem. A recent meta-study by Beugelsdyk *et al.* (2017) confirms the negative and significant relationship between cultural distance and the propensity of cross-border M&A transactions, but highlights also the instability of this result if alternative measures of cultural distance are applied (e.g., the Schwarz (1994) approach as opposed to the often used Hofstede (1980) approach). Moreover, Francis *et al.* (2016) argue and show empirically that not so much the gap but the *similarity* between accounting systems may impact cross-border M&A transactions, as has been seen after the IFRS introduction in 2005.

What other options do we have to identify the uniqueness of cross-border M&A transactions? One obvious approach would be to refer to the importance of legitimacy aspects which may find their expression in a foreign acquirer-friendly or –adverse public opinion. In the late 1960s, Servan-Schreiber's (1969) book on "The American Challenge" articulated the European concerns about the growing power of U.S. companies in Europe and around the world; after the success of the Japanese companies in the 1980s/1990s and under the current Trump administration the sensitivities may take the opposite direction, leading, for example, to the alleviation of *Bayer*'s management after the positive statement by the *Committee on Foreign Investments in the United States* (CFIUS) regarding the planned deal with *Monsanto* mentioned above. A recent study by Li *et al.* (2017)

shows that M&A deals in which the bidding firm is owned by a foreign government and is considered to be a potential safety risk by the target country's authorities, may suffer from a delayed deal closing. However, significant differences in the completion rate could not be observed in this study.

3. Literature selection methodology

Given the difficulties to draw a clear demarcation line between national and cross-border M&A deals, it comes as no surprise that the identification and selection of the relevant research literature is not an easy task. Simply searching for "international" or "cross-border" mergers & acquisitions/M&A does not seem promising, given that there are many research fields in which cross-border M&A transactions could be dealt with either theoretically or empirically (or both). Figure 2 illustrates this situation. "International"/ "cross-border M&A" may serve as a starting point, but there are also terms such as "establishment mode", "market entry mode" or "foreign direct investment" which are clearly related to our field of interest. From a more disciplinary perspective, one could expect to find studies in the international business, strategy, marketing or entrepreneurship field. And finally, also more specific topics, such as "foreign market selection" or "culture & distance", can serve as umbrellas for research on cross-border M&A transactions.

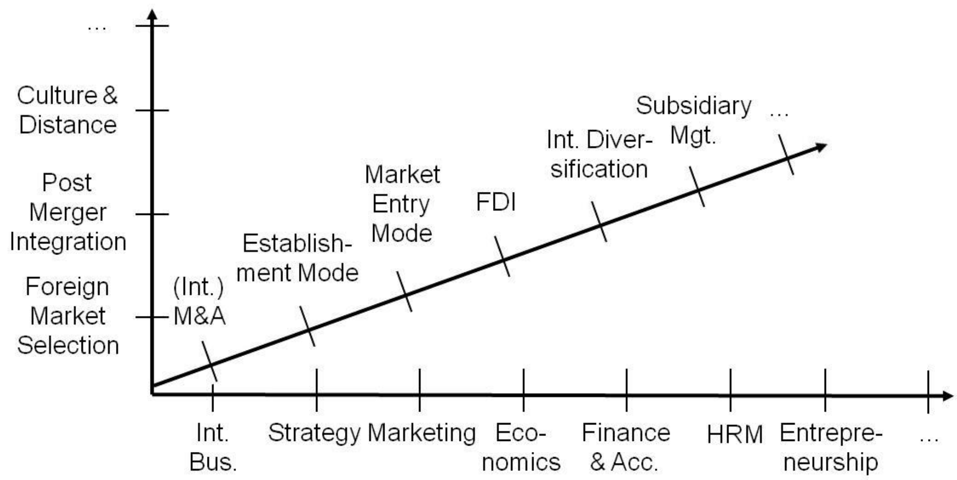

Figure 2: Selected topics with relevance for cross-border M&A research

Given this fuzziness of literature streams, we conducted our search for relevant studies in a very pragmatic way. Using the EBSCO Business Source Complete database encompassing the period between 2004 (the year of appearance of Shimizu *et al.*'s article) and 2017, we started with the key word combination "Mergers and Acquisitions OR M&A AND Cross-border OR international" and read in the first step the titles and abstracts of all the articles that appeared in journals rated as "A+", "A" or "B" journals in the latest version of VHB JOURQUAL (http://vhbonline.org/en/service/jourqual/vhb-jourqual-3/). Of those articles considered as relevant for our research topic, we also read the reference sections and retrieved additional articles which were evaluated analogously and repeated this procedure in further rounds. We also searched for literature reviews and meta-studies in domains mentioned in Figure 2, such as Beudelsdijk *et al.* (2017), Dikova and Brouthers (2016), Hitt *et al.* (2006), Hutzschenreuter *et al.* (2016), Klier *et al.* (2017) and Slangen and Hennart (2007). The resulting sample was then evaluated by reading and categorizing the articles in their entirety. Our current sample consists of about 90 articles; the finalization of the sample selection and evaluation will be conducted before the SMS conference in Paris.

4. Three domains of cross-border M&A research

Based on a plethora of theoretical approaches – such as transaction cost and internalization theory, learning theory, information economics, industrial economics, the resource-based view of the firm, institutional theory, principal/agent theory, upper echelon theory and real option theory – as well as methodological approaches (qualitative and quantitative), the academic studies published between 2004 and 2017 have investigated a broad spectrum of research questions and have generated a high number of interesting – but often inconsistent – results. We structure our review following Shimizu *et al.* (2004) who identified three major research streams: (1) Cross-border M&A transaction as a specific foreign market entry mode; (2) cross-border M&A transactions as a dynamic learning process; and (3) cross-border M&A transaction as a value-creating or –destroying business strategy.

Figure 3 provides an overview regarding the first research stream; it confirms that cross-border M&A transactions can indeed be discussed under different umbrellas and compared with different alternatives. The main focus here is on the so-called "establishement mode", i.e. on equity-based market entries where the basic questions is what the determinants of an M&A mode versus a greenfield (or brownfield) investment mode are, often under the assumption that the internationalizing company aims at a 100 percent or at least a controlling majority ownership of the foreign entity. The determinants of one or the other establishement mode can take place on different levels (company, industry, country, foreign subsidiary). The pluses and minuses indicate whether an M&A transaction (instead of a greenfield investment) can be expected or not; green signs indicate that the theoretical expectations tend to be empirically confirmed whereas red signs indicate that the empirical evidence is weak or inconsistent, in some cases a consequence of inconsistent theortical predictions. Overall, it is safe to say that the market entry and especially the establishment mode have attracted considerable research efforts but that the results are far away from being robust, with obvious implications for academics' ability to give profound advice to practicing managers regarding their internationalization decisions.

Research stream (2) focuses on the different steps of a cross-border M&A process: the (legal, financial, tax and commercial) due diligence, the negotiation of the contract, the completion of the deal and the integration and management of the new entity (Shimizu *et al.*, 2004). The due diligence phase has still not attracted much research attention, but there are some recent studies regarding the impact factors for the success of the negotiation phase, which are, among others, the similarities or differences of the country and company cultures, the communication intensity and information exchange, as well as the expected release of employees (Ahammad *et al.*, 2016a; Boeh, 2011). The successful deal completion within an acceptable time frame seems to be impacted by the individual country characteristics, the countries' distance, the exprience of the involved parties, the share size and the payment modalities (Zhou *et al.*, 2016). The successful integration of the entities can be impacted, inter alia, by a careful choice of the company language (e.g., Krohn *et al.*, 2015) and/or the modalities of the knowledge transfer (Ahammad *et al.*, 2016b; Reus *et al.*, 2016). The roles of the integration team, the HR management and consultants still seem to be underresearched, supporting the overall impression that the second research stream offers white spots for future work.

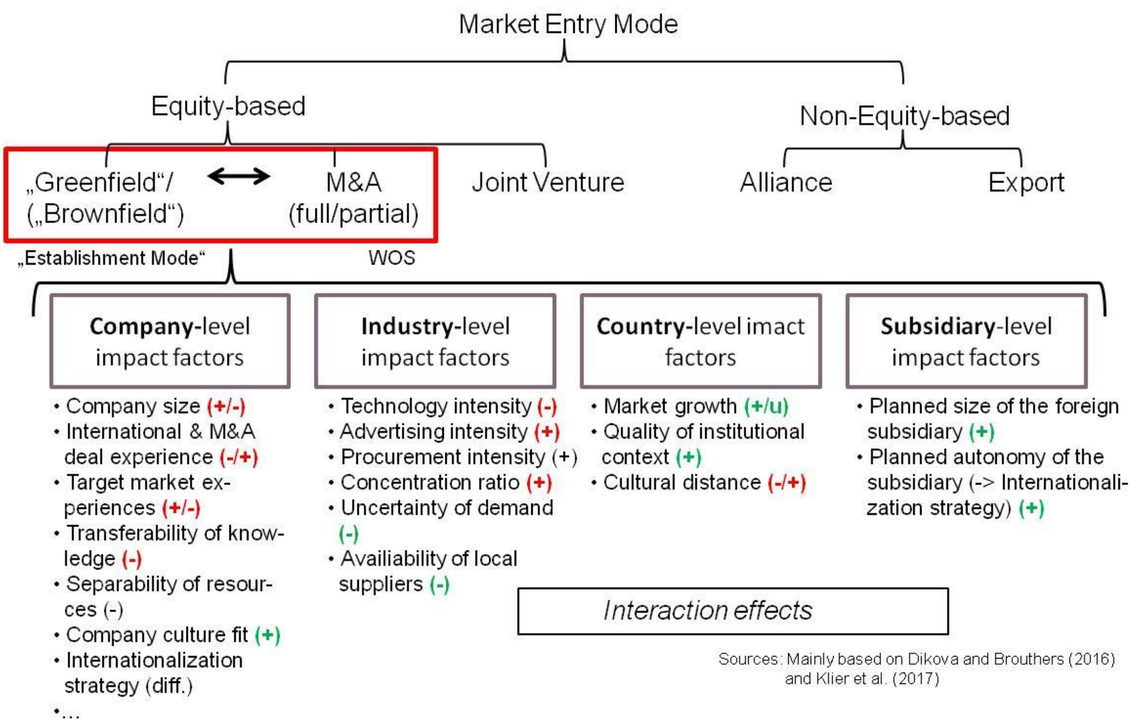

Figure 3: Cross-border M&A transacions as a market entry mode

Research stream (3) focuses on the performance effects of cross-border M&A transactions. The overall consensus seems to be that, similar to national M&A transactions, cross-border M&A transactions lead to significant gains for the target firm's shareholders (e.g., Ahern *et al.*, 2015; Kuipers *et al.*, 2009), whereas studies on the wealth effects of the bidder firm's shareholders have led to mixed results (see, e.g., Francis *et al.*, 2008; Kuipers *et al.*, 2009; Moeller and Schlingemann, 2005). The long-term, ex-post performance of the combined entity still seems to be underinvestigated. Other studies investigated the antecedents of a successful cross-border M&A transaction, including the impact of country distance and country-specific institutional characteristics (e.g., Zhu *et al.*, 2017), the support of institutional investors (Faelten *et al.*, 2014), the involvement of private equity firms (Humphery-Jenner *et al.*, 2017) and the payment modalities (e.g., Cho and Ahn, 2017). Note that most of these studies do not undertake a systematic comparison between national and cross-national M&A transactions. An exception is Danbolt and MacIver's (2012) study on national and between-country acquisitions of US and UK firms, focusing on the impact of country identity and the direction of the deal, as well as the role of accounting and governance systems, movements in the exchange rates and the companies' experience with the target country and cross-border M&A deals. The overall result is that the target shareholders' performance is better and that the bidding firms' shareholder performance is not as bad in cross-border as it is in national transactions.

5. Discussion and avenues for further research

Our literature review clearly shows that the amount of research on cross-border M&A transactions has significantly increased after the publication of Shimizu *et al.*'s (2004) paper, and that it now has a much more empirical flavor than before. The results of this research are mixed and difficult to summarize due to the sheer number of aspects and variables that have been investigated. However, the dominating theme is "distance", following Zaheer *et al.*'s (2012: 19) dictum that "[e]ssentially, international management is management of distance". Hutzschenreuter *et al.* (2016) and Lopez-Duarte *et al.* (2016) distinguish between geographic, cultural, economic and language distance and uncover in their literature reviews that about 80 percent of the internationalization literature focuses on cultural distance. The dominant assumption then is that more cultural distance makes cross-border M&A transactions more unlikely to succeed, but there are also studies that argue in the opposite direction (e.g., Chakrabarti *et al.*, 2009). The overall results are again mixed. Beugelsdijk *et al.* (2017) summarize their meta-study on the market entry mode as follows: "We find that overall the relationship between cultural distance and entry mode decision is not statistically significant. However, this result varies across cultural-distance data sources. …" (p. 21), and regarding the establishment mode they write: "Consistent with the extant literature (…), we find a negative and statistically significant effect of cultural distance on the likelihood of acquisition (…). This effect is consistent when using perceptual measures (…). These negative effects become insignificant when Schwartz data are used (…)." (pp. 21-22)

Are there remedies against these frustrating insights (which cross-border M&A transaction research shares with many other research areas in the management field)? The usual suspects are: the introduction of moderator variables, the sharpening of theories, the development of better constructs, and the collection of more comprehensive and more recent data sets (see, e.g., Slangen and Hennart, 2007). However, the first two remedies have a flip-side: Practicing managers will be increasingly unable to synthesize the relevant research insights and use them for their M&A-related decisions. More holistically oriented research approaches with an ethnographic lens (such as Reynolds and Teerikangas' (2016) study, cited above) might be helpful from this perspective.

In sum, our literature review contributes to M&A research by sharpening the attention on the specifics of cross-border M&A transactions, as a relevant subfield of M&A transactions in general.

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