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Country-specific determinants of cross-border mergers and acquisitions: A comprehensive review and future research directions

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ABSTRACT

This article, to date, is the first to consolidate, review, and integrate over 250 earlier studies that examine the country-specific determinants of cross-border mergers and acquisitions. Following 6Ws' systematic review design and protocol, we survey the taxonomy of research published over the past three decades in international business, strategic management, finance, and economics. We present our syntheses in seven strands: macroeconomic and financial markets environment, institutional and regulatory environment, political environment and corruption, tax and the taxation environment, accounting standards and valuation guidelines, cultural environment, and geographical environment. Our integrative review and discussions are framed through Home–Host country, West–South, and South–West directional flows. We then show some highlights of the bibliometric analysis, provide a summary for each country-level determinant, and offer several theoretical propositions and research directions in need of future exploration. The review suggests that better the host country's institutional laws with regard to financial markets, taxation and corporate governance, then higher the number of inward acquisitions. It emphasizes that geopolitical distance, regulatory distance, and cultural distance between developed and developing economies are more likely to be moderated by the target country's market size, natural resources base, and weak institutional laws, especially corporate tax and capital gains tax. Overall, the article contributes to institutional framework and political economy view of globalized production by reviewing the crucial research question – what determines cross-border merger and acquisition transactions around the world?

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1. Introduction

Mergers and Acquisitions (M&A) is a favorite top-level managerial strategy of multinational enterprises (MNEs) and national champions in the changing global market landscape (Ferreira, Santos, de Almeida, & Reis, 2014b; Shimizu, Hitt, Vaidyanath, & Pisano, 2004). This capital-led growth strategy receives significant attention not only from the equity analysts and portfolio managers, but also from the popular international press (The Economist, 2012; Financial Times, 2014; Forbes, 2015). For instance, the world economy has recorded approximately 100 thousands of cross-border M&A transactions between 2005 and 2014, with a value of more than US$5 trillion (UNCTAD, 2014, 2015). The most important motive behind M&A deal is the creation of value. Although M&A strategic plans' crafts upon the value creation perspective of financial management, they are mainly based in an interdisciplinary dialogue that includes economics, accounting, finance, strategy, international business (IB), law, marketing, human resources, and sociology. Hence, extant M&A research has greatly contributed to the finance and accounting literature since the beginning of the 20th century, then strategy and IB.

Our search of the literature pinpoints three important research questions. First, what drives merger waves? Second, do mergers and acquisitions create shareholder value? Third, why do mergers fail? Efforts to answer these questions have produced mixed findings (e.g., Gugler, Mueller, & Weichselbaumer, 2012; Harford, 1999, 2005; Makaew, 2012; Martynova & Renneboog, 2008a). Due to globalization and privatization initiatives, waves of mergers originating in developed economies (DE) have engulfed developing economies. This phase has markedly increased the number of M&A transactions between borders across the world, especially since 2000 (UNCTAD, 2000). A close look at the research metrics on this topic reveals that the number of articles on M&A have skyrocketed, in not only economics and finance journals, but also in strategy and IB publications (see Ferreira et al., 2014b). Most of IB literature has investigated this topic through foreign market entry mode, internationalization, and global diversification lenses (Brouthers & Hennart, 2007; Shimizu et al., 2004; Stoian & Mohr, 2016). A small number of studies have examined the patterns, determinants, and performances of cross-border acquisitions in the banking and finance sector (Caiazza & Pozzolo, 2016; Gulamhussen, Hennart, & Pinheiro, 2016).

The extant literature on the conventional theory of multinational firms, coupled with emerging findings from emerging economies (EE), has revealed several components of cross-border M&A, ranging from the deal negotiation process, deal announcement returns, motives, determinants, post-acquisition performance, the post-merger integration phase, and the impact of cross-border deals on economic development. This in turn raises four questions. First, what theories explain cross-border M&A strategy? Second, how does distance (e.g., institutional, political, administrative, cultural) affect the incidence, the ownership choice and the likelihood of completing cross-border M&A transactions? Third, what motivates EE MNEs' outbound acquisitions in developed and developing economies? Finally, do acquisitions by firms from EE show dissimilar announcement returns compared to acquisitions by firms from DE? Moreover, because geopolitical issues affect firm-level corporate strategies, it would be helpful to understand the impact of the external environment on cross-border M&A transactions. On the one hand, how much we know about home country determinants affecting outbound acquisition transactions. On the other hand, how much we study about host country determinants affecting inbound acquisition deals. Thus, we ask: are there comprehensive reviews that summarize home and host country determinants of cross-border M&A deals? Our answer is "no." Have scholars from IB, strategy, economics and finance published literature reviews on this topic? After a thorough search,

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