

Review and Prospect of the Completion of Cross-border Mergers & Acquisitions

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Abstract

This article reviews and comments on the literature related to the completion of overseas mergers and acquisitions (M&A). It first clarifies the consequences of failing to complete cross-border M&A transactions, then sorts out the factors affecting the completion of cross-border M&A transactions from four levels: country level, industry level, firm level and transaction level. Then, it finally puts forward the research outlook from three aspects: finding new influencing factors, exploring their influencing mechanisms and paying attention to the new changes in the international situation.

Keywords: Cross-border M&A, M&A Completion, Influencing Factors.

Introduction

The completion of a cross-border merger and acquisition (M&A) refers to the finalization of M&A transactions after a company has initiated or publicly announced an M&A (Li et al., 2019). Failure to finalize the cross-border M&A transactions will bring huge losses to firms. Based on this, studying the cross-border M&A completion is of a great significance. However, domestic and international literature on cross-border M&A mainly focuses on the study of M&A motivation and M&A performance, and the study on the completion of cross-border M&A transactions has only gradually emerged and become active in the recent years (Li et al., 2019). Scholars at home and abroad believe that the factors affecting the completion of cross-border M&A transactions usually come from four levels: the country level, the industry level, the firm level, and the transaction level. This paper will sort out the factors affecting the completion of cross-border M&A transactions from these four levels and put forward a new research outlook.

Problem Statement

Failure to finalize cross-border M&A transactions will bring huge losses to firms, these losses include the following five aspects: first, the acquirer will lose the various costs invested in the process of identifying the M&A target, due diligence, negotiation, and the hiring of M&A consultants (Bainbridge, 1990); second, it will not be able to achieve the various synergies and strategic objectives brought about by the M&A (Meyer & Altenborg, 2008); third, the reputation of the acquirer will be damaged (Luo, 2005); fourth, the acquirer may miss other

M&A opportunities Bainbridge (1990); fifth, if the M&A target is successfully acquired by a competitor, it will become a competitive threat.

Literature Review

Country-level Factors

Country-level factors mainly include the development status of the countries where the M&A parties are located, the differences between the host country and the home country and the relationship between the countries where the two parties are based.

The degree of economic freedom of the host country and the country where the acquirer is located or acquirer's parent company is located can increase the completion rate of cross-border M&A. Besides, the country where the acquirer's parent company is located has a substitution effect on the country where the acquirer is located (Zhang et al., 2017). The worse the institutional environment of the host country is, the less favorable it is for the completion of cross-border M&A transactions, but the institutional stability of the host country has no significant impact on the completion of M&A transactions (Zhang et al., 2011; Zhang et al., 2011). The greater institutional risk of the host country has, the lower the probability of successfully completing a cross-border M&A transactions is (Chen et al., 2018). The stronger risk sense and the higher degree of risk aversion the host country has, the higher the completion rate of M&A transactions is (Wen, 2015).

The host versus home country differences focuses on the impact of institutional, cultural and knowledge differences on the completion of M&A transactions. The results of scholars' discussion on the impact of institutional differences are not consistent. Some scholars believed that large institutional and cultural differences make it harder for both parties to adapt and coordinate with each other, making it more difficult to complete cross-border M&A transactions (Yan, 2011). But some other scholars argued that there is a springboard effect, where formal and informal institutional distance can significantly enhances the success rate of cross-border M&A transactions of Chinese firms (Li et al., 2016; Feng et al., 2021). Cultural distance promotes the of cross-border M&A transactions due to the attraction of cultural diversity and complementarity (Feng et al., 2021). Knowledge distance can meet firm's need of seeking technology, stimulate its willingness of going into M&A, and promote the completion of cross-border M&A transactions (Jia et al., 2016).

With regard to the relationship between the countries where the M&A parties are located, it became obvious that the closer the China's diplomatic relations with the host country and the fewer historical battles between China and the host country are, the higher the completion rate of M&A transactions by Chinese firms in the host country becomes (Li et al., 2016).

Industry-level Factors

In terms of the industry level, the completion rate of cross-border M&A involving politically sensitive industries is low Zhang et al (2011); Li et al (2016); Zhai et al (2020), and the target party belonging to the natural resource industry is unfavorable to the completion of cross-border M&A transactions Yan (2011), while some scholars believe that whether the two parties are in the same industry and whether the target party belongs to the resource and high-tech firms do not significantly affect the completion of cross-border M&A transactions for Chinese firms (Dong, 2017).

Firm-level Factors

Firm-level factors are mainly firm nature and M&A experience. In terms of firm nature, as public companies have more open information and more complex stakeholders, it is more favorable to complete cross-border M&A transactions if the target company is an unlisted company (Dong, 2017). Due to government scrutiny, acquirers of state-owned enterprises are not favorable to the completion of cross-border M&A transactions (Zhang et al., 2010; Yan, 2011), and the success rate of cross-border M&A transactions targeting the Chinese state-owned enterprises is also low (Zhang and He, 2014). In terms of M&A experience, some scholars believe that the experience of successful cross-border M&A can effectively improve the success rate of subsequent M&A (Yan, 2011), while others believe that, for developing countries, the experience of cross-border M&A in the same host country is in a "positive U-shape" relationship with the success rate of M&A, and that at least two M&As in the same host country can effectively increase the success rate of cross-border M&A transactions in that host country (Jia et al., 2015).

Transaction-level Factors

At the transaction level, with the advantages of less information asymmetry and corporate governance risks Dutta et al (2013), share-based payments are more compelling than cash payments to the completion of cross-border M&A transactions (Dong, 2017). The acquirer's hiring of internationally recognized professional advisors can facilitate the successful completion of M&A transactions (Zhang et al., 2010; Yan, 2011). By studying the cross-border M&A of U.S. firms, it showed that hostile takeovers reduce the completion rate of cross-border M&A (Ngo and Susnjara, 2016).

Research Methodology

Although a number of research results with important theoretical and practical value have been recorded for the completion of cross-border M&A transactions, there is still room for further exploration. In addition, with the rapid changes in the global political and economic situation, cross-border M&A has continuously ushered in new opportunities and challenges, and new research directions are emerging. Future research on the completion of cross-border M&A transactions can be carried out in the following aspects.

Explore New Influencing Factors

Current research has unearthed factors affecting the completion of cross-border M&A transactions at four levels: country, industry, firm and transaction. However, there are still some possible factors that have not been discussed, such as the financial development status and tax system of the host country at the country level, the background of industrial upgrading and industrial transfer at the industry level, the development strategy and management characteristics of the firm at the firm level, and the M&A premium and the clauses relating to transaction termination fee at the transaction level. Therefore, future research can continue to identify and validate new influencing factors.

Focus on New Changes in the International Situation

At present, the confrontation between China and the United States is getting more and more intense, and the trend of "anti-globalization" and protectionism is obviously visible. In addition, affected by the Russian-Ukrainian war, national security issues related to food and energy have received widespread attention. Scholars can discuss the impact of the new

changes in the current international situation on cross-border M&A and the corresponding strategies needed to cope with the situation.

Research on the Influence Mechanism of the Factors

The current research on the factors influencing the completion of cross-border M&A is less involved in the influence mechanism; that is, relatively few researches has been conducted on how these factors have an impact on the completion of cross-border M&A. Thus, future research can add mediating variables or moderating variables to the empirical model to explore the influence mechanism of the factors.

Discussion & Conclusion

After a cross-border M&A transaction is initiated or publicly announced by a firm, if the transaction cannot be completed ultimately, it will cause huge losses to the firm in many ways. There are four levels of factors that affect whether a cross-border M&A transactions can be completed, namely the country level, the industry level, the firm level and the transaction level. So far, the literature studying the factors influencing the completion of cross-border M&A has explored a variety of factors at the four levels, but in the future, research on the completion of cross-border M&A can still be carried out in three aspects: exploring new factors, unearthing their influence mechanism and focusing on the new changes in the international situation.

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