

LITERATURE ON MERGER MOTIVES AND ADDITIONAL CONSIDERATIONS IN CROSS-BORDER MERGERS

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Abstract

This study reviews the literature on the motivations underlying the M&A decisions and additional complexities to be taken into account on cross-border mergers. First, we review the leading articles of three main theories on merger motives: value generation, misvaluation and agency conflicts. Second, we focus on the international perspective of M&A activity, which started to constitute a popular area among M&A researchers recently. We present the findings of selected cross-border M&A studies in order to identify the additional complexities of working with international data. We identify additional country-specific factors, which enable cross-border M&A studies to present the greater picture better compared to studies that solely focus on domestic mergers.

Keywords: mergers and acquisitions, merger motives, cross-border mergers, merger waves, Fire-Sale Theory

INTRODUCTION

This study reviews the literature on the motivations underlying the M&A decisions (i.e., the forces that drive merger waves) and additional complexities to be taken into account on cross-border mergers. The extant literature on motivations for M&As can be classified under three main theories: value generation, market misvaluation and agency conflicts. We summarize the leading studies of each theory in sections 2.1, 2.2 and 2.3 respectively. In addition to these main theories, some studies emphasize the behavioral aspects of mergers. In particular, these studies, as summarized in section 2.4, claim that the overconfidence of managers might drive merger activity (Ferris, Jayaraman & Sabherwal, 2013; Roll, 1986). Finally, some recent studies

develop mixed models that incorporate ideas from different theories on merger motivation (Cornett, Tanyeri & Tehranian, 2011; Gorton, Kahl & Rosen, 2009).

More recently, the rise of global competition led M&As to become increasingly international. The international perspective of M&A activity started to constitute a popular area among M&A researchers. The cross-border M&A studies recognize that country-specific factors may affect cross-border mergers and considering these additional factors enable these studies to present the greater picture better compared to studies that solely focus on domestic mergers. Many merger articles use a multi-country setting and their samples cover both domestic and cross-border deals. In section 2.4 we present the findings of selected cross-border M&A studies in order to identify the additional complexities of working with international data.

LITERATURE REVIEW ON MERGER MOTIVES

Value Generation (Synergy)

The first group of studies focuses on operating, financial or managerial synergies as the main motivation for a merger decision. Damodaran (2005) defines synergy as the additional value generated by combining two firms. This synergy creates opportunities that would not been available to these firms operating independently. Damodaran (2005) argues, “Operating synergies affect the operations of the combined firm and include economies of scale; increasing pricing power and higher growth potential.” And “financial synergies are more focused and include tax benefits, diversification, a higher debt capacity and uses for excess cash.” Operating synergy increases the productivity of the combined entity (Jovanovich and Rousseau, 2002). Financial synergy enables the combined entity to invest in projects, which are not available to them as stand-alone firms (Fluck and Lynch, 1999). Managerial synergy is possible if the combined entity is better at solving strategic, organizational and operational problems compared to individual target and bidder firms.

According to this group, companies should pursue an M&A activity only if it creates value. The empirical literature on the value generation effects of M&A deals mainly examines the abnormal returns to shareholders in the period surrounding the announcement (Andrade, Mitchell, & Stafford, 2001; Cheng & Leung, 2004; Eckbo & Thorburn, 2000; Loughran & Vijh, 1997; Scherer, 1988; Smith & Kim, 1994; Tse and Soufani, 2001). Merger studies which use different samples conclude that the target firm’s shareholders enjoy significant and positive returns and M&A deals deliver a premium return to target firm’s shareholders. For the acquiring firm’s shareholders, the findings are less conclusive. Studies that investigate target and bidder cumulative abnormal returns overwhelmingly focus on merger activity in US (Fuller, Netter, & Stegemoller, 2002; Alexandridis, Mavrovitis, & Travlos, 2012; Alexandridis, Fuller, & Terhaar,

2013; Andrade et al., 2001; Bradley & Sundaram, 2006; Moeller, Schlingemann, & Stulz, 2004, 2005). A group of studies focus on deals in a specific country/region (Craninckx & Huyghebaert, 2011; Goergen & Renneboog, 2004; Ma, Pagan, & Chu, 2009; Martynova & Renneboog, 2011) while some others focus on cross-border deals (Dutta, Saadi, & Zhu, 2013; Chari, Ouimet, & Tesar, 2010; Erel, Liao, & Weisbach, 2012).

The above cited studies and many others, which analyze value generation effects of M&A deals, use event-study methodology. These event studies employ financial market data to measure the impact of the merger announcements on the value of target and bidder firms. Methodologically, event studies in the merger literature estimate the 'expected stock returns' of the target and bidder firms at the announcement date and several days before and after the announcement date (also called as the event window) based on an estimation window prior to the announcement date. Expected return determination in different studies is based on different specifications. The most widely used model is the 'market model'. Market model uses an estimation window prior to the event date and derives the typical relationship between the firm's stock and a reference index through a regression analysis. Then, the expected returns are estimated using the regression coefficients. Some studies use Capital Asset Pricing Model (CAPM) and mean adjusted returns instead of market model. Then, the method calculates 'abnormal returns' as the difference between 'expected returns' and the 'actual returns'. In an efficient market, the effects will be reflected immediately on stock prices, following a merger announcement. Hence, most of M&A studies use short horizon (from 1-month before to 1-month after the event) event windows. The most common event windows are 3-days, 5 days and 10 days surrounding announcement.

Table 1 presents a summary of findings in this literature on 3-day target and bidder CARs and CARs for hypothetically combined bidder and target firms surrounding announcements. We summarize 16 studies for US deals, 5 for European deals, 6 for emerging countries and 2 for developed emerging country paired deals. In US studies 12 out of 16 report negative bidder returns and all report positive target returns ranging from 13 percent to 23 percent. There are 9 studies that report combined 3-day CARs and all document positive CARs ranging from 0.7 percent to 3.5 percent. In Europe studies, target CARs range from 3 to 13 percent and bidder CARs range from -0.9 to 0.8 percent. Combined 3-day CARs in Europe are around 1 percent. For emerging markets, Ma et al. (2009) reports 1.28 percent bidder CAR for 10 emerging markets, Akben-Selcuk and Kıymaz (2015) report significant (0.89 percent) bidder returns in Turkey. Hekimoglu and Tanyeri (2011) and Arslan and Şimşir (2016) report Turkish target CARs as 4.88 and 2.5 percent, respectively. Yilmaz and Tanyeri (2016) report significant target and bidder CARs (6.86 percent for targets and 1.35 percent for bidders) for a global

sample of 263,461 deals in 47 countries. They also show that bidder and target CARs in developed countries are higher compared to emerging-market countries.

Table 1: M&A Literature on Value Creation (3-Day CARs)

Study	Country	Sample Size & Selection Criteria	Sample Period	Bidder CAR (%)	Target CAR (%)	Combined CAR (%)
Alexandridis et al. (2012)	USA	N=3,206 bidders & 2,509 targets Control Changing, Completed, Deal size>\$1mil	1993-2007	-1.5***	19.47***	1.12***
Mulherin & Boone (2000)	USA	N=281 bidders & targets Completed, Control Changing	1990-1999	-0,37	20.2***	3.56***
Bauguess et al. (2009)	USA	N= 1,182 bidders & 1,668 targets Control Changing, Completed	1996-2005	-1.75	21.66	0.69
Andrade et al. (2001)	USA	N=3,688 bidders & targets Control Changing, Completed	1973–1998	-0.7	16.0**	1.8 **
Moeller et al. (2004 & 2005)	USA	N=12,023 bidders & 1967 Combined Control Changing, Completed, Deal size>\$1mil	1980–2001	1.10***	NA	1.35***
Netter et al. (2011)	USA	N=67,256 bidders & 4,047 targets Control Changing, Completed	1992-2009	1.1***	20.4***	NA
Alexandridis et al. (2013)	USA	N=3,035 bidders Control Changing, Completed, Deal size>\$1mil	1990-2007	-1.51***	NA	NA
Cai, Song, & Walkling (2011)	USA	N=6,930 bidders Control Changing, Deal size>\$10mil	1985-2009	0.71***	NA	NA
Jacobsen (2014)	USA	N= 516 bidders. Withdrawn, Control Changing, Deal value >=\$10 mil.	1990-2007	-0.6***	NA	NA
Hackbarth & Morellec (2008)	USA	N=1,086 bidders & targets	1985-2002	-2.26***	18.21***	NA
Harford, Jenter, & Li (2011)	USA	N=3,540 Control Changing, Completed	1984-2006	-1.3	19.4	1.9
Ahern (2012)	USA	N=4,102 Control Changing	1980-2008	-1.27	19.8	NA
Becher et al. (2012)	USA	N=234 targets&337 bidders Control Changing	1980-2004	-0.8***	13***	2.3***
Akbulut (2013)	USA	N=2,778 Control Changing	1993-2009	NA	NA	1.42***
Li (2013)	USA	N=1,430 bidders & targets Control Changing, Completed	1981-2002	-0.2	23.3	
Ishii & Xuan (2014)	USA	N=539 bidders & 519 targets Completed	199-2007	-1.97***	20.06***	1.04***

Craninckx & Huyghebaert (2011)	Europe	N=267 with public targets & 336 with private targets (Bidder & target are non-financial EU firms) Completed, Control changing	1997-2006	0.16 (public targets) 0.78*** (private target)	7.56***	1.1***
Campa & Hernando (2004)	Europe	N=262 targets & bidders (listed EU firms) Completed	1998-2000	0.44	3.93**	1.04**
Campa & Hernando (2006)	Europe	N=172 targets & bidders (public EU financial institutions) /Control Changing	1998-2002	-0.87**	3.24**	
Goergen & Renneboog (2004)	Europe	N=142 bidders, 136 targets Deal size >=\$100 mil	1993-2000	0.70***	9.01***	NA
Martynova & Renneboog (2011)	Europe	N=2,109 bidders & 760 targets Non-financial firms, control changing	1993-2001	0.72***	12.47***	NA
Sehgal, Banerjee, & Deisting (2012)	BRICS Countries	N=214 bidders (percent acquired >15%) Completed M&As of BRICS countries	2005-2009	1.95	NA	NA
Hekimoğlu & Tanyeri (2011)	Turkey	N=125 Turkish non-financial targets	1991-2009	NA	4.88***	NA
Arslan & Şimşir (2016)	Turkey	N=105 Turkish targets, Completed	2005-2011	NA	2.5***	NA
Akben Selcuk & Kıymaz (2015)	Turkey	N=98 Turkish bidders, Completed	2000-2011	0.89*	NA	NA
Ma et al. (2009)	10 emerging Asian markets	N=1,477 bidders Bidder & target from 10 emerging Asian markets Control Changing, Completed	2000-2005	1.28	NA	NA
Bhagat Malhotra & Zhu (2011)	8 emerging countries	N=698 bidders. Cross border, Control Changing bidder is from 8 emerging countries	1991-2008	1.72***		
Chari et al. (2010)	9 developed & 42 emerging countries	N=348 Control Changing (CC) & 246 Not CC Completed, Deal size >\$10 mil, developed bidder & emerging target (DM-EM)	1986-2006	1.16*** (CC) -0.02*** (Not CC)		
Yilmaz & Tanyeri (2016)	25 developed & 22 emerging countries	N=217,781 deals for target CARs, 67439 deals for Bidder CARs, 18430 deals for Combined CARs No filters on status (completed vs not completed) and deal size	1992-2011	1.35*** (full sample) 1.43*** (developed) 0.86*** (emerging)	6.86*** (full sample) 8.13*** (developed) 2.84*** (emerging)	1.73*** (full sample)

Note: Summary of findings of M&A papers that compute 3-day CARs around announcement date, in different samples. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Some studies try to identify the value effects of M&A deals by examining changes in cash flow returns (Healy, Palepu, & Ruback, 1992; Ramaswamy & Waagelein, 2003), changes in market share (Mueller, 1985) and changes in financial ratios like return on assets (ROA) and return on equity (ROE) (Mantravadi & Reddy, 2008).

Starting with Gort (1969) and expanded by Mitchell and Mulherin (1996), a group of studies on merger waves support the idea that firms merge as a response to regime shifts. Harford (2005) presents additional evidence that merger waves are driven by economic, regulatory and technological shocks.

Gort (1969) is the first to claim that discrepancies in valuation can determine variations in merger rates among industries and over time. He proposes that the valuation differentials are triggered by economic disturbances. He identifies rapid changes in technology and movements in security prices as main shocks. Other factors affecting merger rate in his model are barriers to entry by new firms (expects higher merger frequency when barriers are high) and growth in demand. He documents a positive relationship between merger rate and growth using a sample taken from manufacturing industries during 1951-1959 period from FTC (Federal Trade Commission) records.

Mitchell and Mulherin (1996) broaden the idea of Gort (1969) by introducing a model where M&A's are least cost means for industry structure to respond to economic shocks (deregulation, changes in input costs, innovations in financing technology). They test their hypothesis based on a sample of 1,064 firms from 51 Industries during 1982-1989 period and find that variation in takeover activity in each industry is significant compared to the entire sample. They also document that the takeovers in a given industry tend to cluster in a subsample of years compared to the entire distribution. Finally, they also show that sales shocks and employment shocks are positively related to takeover activity.

Harford (2005) also finds evidence that merger waves are driven by economic, regulatory and technological shocks. However he states that shocks can only generate merger waves if there is sufficient capital liquidity to be used in the transactions. He admits that market timing can be effective for managers while taking the merging decision but also states that such mergers do not cause merger waves. His findings are obtained from a sample of merger or tender offer bids from 1981-2000 period in which he has identified 35 waves from 28 industries.

Fluck and Lynch (1999) develop an alternative theory of mergers and divestitures, which is only applicable if one of the firms is a financially distressed firm with agency problems. They claim that the inability of individual firms to finance marginally profitable and possibly short horizon projects is the motivation for mergers. Since the merger is only a tool to invest in the

project, the financing synergy ends as profitability improves which in turn leads the acquirer to divest assets. Their study does not involve any empirical evidence.

As an extension of neoclassical theory of mergers, Jovanovic and Rousseau (2002) present a broader version of “Q-theory of investment” to the mergers (q is defined as market value of existing shares divided by replacement cost of physical assets and additional investment makes sense when $q > 1$). They treat mergers as used capital trade since merger is re-allocative. In other words, high productivity firms acquire low productivity firms so as to make their assets more profitable. In their model, the gap between the q s of potential acquiring and target firms can create a merger wave.

Market Misvaluation (Mispricing)

Some researchers focus on market imperfections as the main merger motivation. Myers and Majluf (1984) show that managers with insider information may alter their investment decisions accordingly if their firms' shares are mispriced. The information asymmetry between managers and investors puts managers at an advantageous position in merger decisions. Overvalued stocks may motivate managers to engage in mergers as bidders and pay with stock. Cornett, Tanyeri and Tehranian (2011) argue that managers may utilize their information advantage to serve shareholders or to protect opportunistic benefits.

Shleifer and Vishny (2003) claim that stock market misvaluations of the combining firms may lead to merger activity. In their model, some firms are valued incorrectly and the managers of bidding firms are rational players so they take advantage of these inefficiencies in their merger decisions. According to misvaluation theory, wave-like clustering can be result of aggregate overvaluation. Rhodes-Kroft and Viswanathan (2004) also develop a model where rational managers without perfect information overestimate synergies during valuation waves and this misvaluation creates merger waves. Rhodes-Kroft, Robinson and Viswanathan (2005) provide empirical evidence for the misvaluation theory by decomposing the M/B ratio into three components that are firm-level, sector level and a component for long-run growth opportunities. Based on a sample from 1978-2001, they confirm that higher M/B firms tend to acquire lower M/B firms in the short run. However, the long-run behavior is just the reverse and they also document larger market to book differences between bidder and target compared to completed deals.

Agency Conflicts

A group of researchers emphasize the agency problems as the main driver of mergers. The agency theory states that managers look after their own self-interest instead of shareholders.

(Goel & Thakor, 2010; Jensen & Meckling, 1976; Jensen, 2005) The M&A decisions of these managers may reflect their desire to build empires even if little or no value is associated with the deal. Managers may also use M&As to accomplish their growth and earnings targets, without paying attention to the effects on shareholder value.

Goel and Thakor (2010) develop a formal model where envy among CEOs of bidder firms can generate merger waves even when the first firm in the wave only has idiosyncratic shock. They also empirically test some of the predictions of their model based on a sample of acquisitions realized by US-listed firms where the acquirer obtains at least 50% of target shares during a merger wave for 1979 to 2006 period. In particular they verify that earlier mergers in a merger wave involve smaller targets, create higher abnormal returns for bidders and result in larger compensation for top management compared to later mergers in the wave.

Behavioral Models

Roll (1986) introduced the concept of managerial 'hubris', which means that the managers are likely to be overconfident in their ability to negotiate a good deal for their shareholders and then run the combined entity. This overconfidence leads these managers to overpay for their acquisitions. Ferris, Jayaraman and Sabherwal (2013) present evidence that overconfidence of Chief Executive Officers (CEO) influences the number of offers made, the frequencies of non-diversifying and diversifying acquisitions, and the use of cash rather than equity as the primary financing vehicle. They also argue that overconfidence of managers play role in explaining international M&As. The degree of overconfidence in different countries is shaped by their cultures. In particular, as the degree of individualism increase in a given country, the degree of overconfidence increases. Their empirical results are based on a sample drawn from mergers during 2000 to 2006 executed by 500 largest non-financial companies ranked by Fortune magazine. The overconfidence data is constructed using Factiva database.

Mixed Studies

Recently some studies presented models acknowledging that merger decision is a combination of different factors. The study of Gorton, Kahl and Rosen (2009) introduced as "eat or be eaten theory" is based on the idea that "the desire not to be acquired is an important managerial motive". In their model, managers can reduce the chance of being acquired by increasing the size of their firm through acquiring another firm (even by unprofitable defensive actions). They claim that anticipation of merger opportunities can lead to defensive (which is defined as value reducing merger for shareholders but provides the managers of acquiring firms to retain their jobs) or "positioning" acquisitions and the industry structure matters in the decisions. They

empirically test their hypothesis based on a sample of US firms that are in both the CRSP and Compustat databases during 1982-1999 period and they detect two things: “First, the profitability of acquisitions increases in the ratio of the size of the largest firm in the acquirer’s industry to the size of other firms in its industry, all else equal. Second, the quantity of mergers increases in the proportion of medium-size firms in an industry, all else equal.”

Cornett, Tanyeri and Tehranian (2011) develop a model of investor anticipations of both bidder and target firm candidacy by incorporating multiple merger motives (generate shareholder value and generate opportunistic benefits for managers) using a two-stage framework. They investigate if investors can anticipate bidder and target merger candidacy. They also examine if investor anticipations about candidacy affect the stock price responses to merger announcements and hence distribution of value between bidder and target firm shareholders. They use a sample of non-financial US merging and non-merging firms for 26 years from 1979 to 2004. Mergers used in the study are completed deals that transfer control rights from the target to the bidder firm in which at least one of the two firms are publicly traded. A firm is identified as a bidder (target) in a given year if it proposes (solicits) at least one bid in the next year. Their final sample is 98,554 firm years (4,964 firm years for bidder subsample; 2,830 firm years for target subsample and 90,760 firm years for non-merging subsample). In their model investors cannot directly observe managerial motives. Instead, they observe merger announcements. They find that investors predict bidder firms more accurately than target firms. This asymmetry in investor anticipations about merger candidacy causes disparity in bidder and target firm announcement period abnormal returns. The difference in merger anticipation may account for documented higher magnitude of target firm CARs than bidder CARs.

LITERATURE REVIEW ON CROSS-BORDER MERGERS

Cross-border merger studies use a comprehensive dataset involving both domestic and international mergers. Thus, it is essential to understand if domestic and cross-border mergers have any structural differences and account for these differences in the analysis part, if any. The main variables identified so far in literature that may affect international merger activity are physical and cultural distance between target and bidder nations and corporate governance structures, exchange rate movements, and legal and political environments of target and bidder nations.

Physical and cultural distance between target and bidder nations:

Erel et al. (2012) argue that geography matters in cross-border mergers. It is more likely to have acquisitions between the two countries, as physical distance between these countries gets

shorter. Weitzel and Berns (2006) state that as geographic distance get smaller cross-border competition for the acquisition of local targets would increase which in turn leads to higher premiums.

Erel et al. (2012) also state that mergers are likely to occur between firms of countries with a common cultural background. Weitzel and Berns (2006) argue that as the cultural distance between target and bidder is greater, it is more likely that the potential bidder prefers green-field investments (building new production facilities in the home country) to mergers. Thus there is less potential competition and lower premiums if target and bidder are culturally distant.

Corporate governance structures of target and bidder nations

Rossi and Volpin (2004) document higher premium in countries with higher shareholder protection. Weitzel and Berns (2006) find that the premium paid is negatively associated with target country corruption after controlling for differences in political stability, legal systems, and financial disclosure standards.

Bris and Cabolis (2008) show that higher shareholder protection and accounting standards in a bidder's country leads to higher target premium relative to premiums in matching domestic acquisitions.

Exchange rate movements

When the acquirer country's currency appreciates, the target becomes cheaper in terms of acquirer country currency. Then, acquirer may become more willing to pay a higher premium in order to avoid potential competition for the target shares (Weitzel & Berns, 2006). Weitzel and Berns (2006) use the (lagged) change in the average annual exchange rates between the home/host countries as the measure of exchange rate movements in their analysis.

Legal and political environments of target and bidder nations

Dinc and Erel (2013) argue that economic nationalism and different forms of regulations as well as political environment may affect the volume of cross-border M&A deals. Political interventions and regulations may tend to work in favor of domestic bidders especially for big sales in a target country. They use hand-collected data for large corporate merger attempts in 15 European Union countries during the period from 1997 to 2006. In particular, they argue that the current global crisis led to an increase in the importance of economic nationalism. There may be foreign potential bidders for the financially distressed firms. However, calls for political intervention to the economy in general and for protectionism in particular seems to be an increasing trend during the period analyzed in the study. Moreover, they argue that such

nationalist government reactions also have indirect economic impacts on mergers as well, since foreign bidders deter potential future deals of the nationalist country in the future.

In a comprehensive study, Erel et al. (2012) analyze how international factors such as cultural differences, geographic differences, country-level governance differences, and international tax effects influence the decision for cross-border M&As using a sample of 56,978 cross-border mergers occurring between 1990 and 2007. Differences in valuation, which can vary substantially over time for any pair of countries through fluctuations in exchange rates, stock market movements, and macroeconomic changes, are considered. They utilize mergers and acquisitions data rather than all FDI due to data quality as a basis for their empirical work. They conclude that geography, the quality of accounting disclosure, and bilateral trade are important determinants for analyzing the likelihood of mergers between two countries. Valuation is also found to play a role in motivating mergers such that the “firms in countries whose stock market has increased in value, whose currency has recently appreciated, and that have a relatively high market-to-book value tend to be purchasers, while firms from weaker-performing economies tend to be targets”. Findings of Erel et al. (2012) contradicts to that of Makaew (2012) who documents that most cross-border mergers occur when both the acquirer and the target are in booming economies based on M&A transactions data in emerging economies over the period from 1988 to 2008.

Market timing and financial crises in target country

A strand of literature focuses on the financial status of target firms and timing of merger activity. Krugman (2000) is the first to introduce the “Fire Sale Theory”, which states that the firms in crisis countries are credit-constrained and are forced to sell their firms below their “true” value. This theory predicts an increase in cross-border mergers where the firms from crisis-hit countries are targets and firms from non-crisis countries are acquirers during crisis times.

The empirical evidence on the validity of ‘fire-sale FDI’ theory in explaining merger activity during times of financial crises is inconclusive. On one hand, Aguiar and Gopinath (2005) and Acharya et al. (2011) document large foreign purchases of East Asian firms during the 1997-1998 East Asian Financial Crisis, their findings support the idea that firms from developed countries tend to buy firms in countries where the effects of the crisis is severe and lower prices compared to fundamental values. On the other hand, Makaew (2012) argues the opposite and states that cross-border mergers come in waves that are highly correlated with business cycles and most cross-border mergers occur when both the acquirer and the target are in booming economies (even after eliminating the effects of global booms), based on M&A transactions data in emerging economies over the period 1988 to 2008. He concludes that “fire

sale" mergers, in which acquirers from developed countries may take advantage of liquidity-constrained targets, can happen under a specific circumstance; however, most mergers do not follow this pattern. Thus, he advocates the theory that "firms invest in other countries to gain access to new markets and new investment opportunities and that it is better to enter the target countries when the demand is strong, the productivity is high, and the business environment is good". Alquist, Mukherjee and Tesar (2016) document that crisis time foreign acquisitions of emerging market targets are not fundamentally different from non-crisis time acquisitions in terms of their industry composition (same industry versus different industry), average size of stakes acquired, likelihood of subsequent divestiture during market recovery and probability of being resold to a domestic buyer. These findings are contrary to expectations of Fire-Sale theory.

CONCLUSION AND THE WAY FORWARD

We presented a review of the literature on the motivations underlying the M&A decisions and additional complexities to be taken into account on cross-border mergers. None of the three main theories on merger motives (value generation, misvaluation and agency conflicts) has the ability to explain global merger activity. We emphasize the importance of the international perspective of M&A activity, which started to constitute a popular area among M&A researchers recently. The findings of selected cross-border M&A studies would help researchers to deal with additional complexities of working with international data.

Our review suggests that the cross-border M&A activity is still understudied compared to the enormous literature on M&As and there is room for further research. New research might concentrate on subsamples of cross-border mergers in order to investigate whether the additional considerations summarized in this study have different implications in these subsamples. Empirical studies on cross-border merger activity within the group of developing countries and emerging market countries as well as studies that explore developed country bidders and emerging country targets versus emerging country bidders and developed country targets would improve our understanding of the underlying motivations, dynamics and outcomes of cross-border mergers.

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