ABSTRACT

Since the 1990s, cross-border M&As have become increasingly important as an entry strategy for foreign direct investment and it is likely that this trend will continue along with the growing importance of emerging markets. This whitepaper discusses four distinct factors influencing the success of cross-border M&As. The factors include cultural distance, relatedness of the acquired company, the role of private equity firms, and international management experience. Analysis of the recent merger wave, as well as the exchange rate, can result in higher wealth creation for the acquiring firm. In summary, the majority of studies argue that a lack of cultural fit between the acquiring and the acquired company has a negative effect on shareholder value creation.

4 FACTORS INFLUENCING SUCCESSFUL CROSS BORDER MERGERS & ACQUISITIONS

1. CULTURAL DISTANCE

A lack of cultural fit between the acquiring and the acquired company has a negative effect on shareholder value creation. According to Datta & Puia (1995), cultural differences associated with integration difficulties and increased future uncertainty influence the success of the acquisition in a positive way. Hofstede, Hofstede & Minkov (2010) also argue that cultural differences have a significant influence on firm performance. This indicates a significant role of cultural differences.

2. RELATEDNESS OF THE ACQUIRED COMPANY

The relatedness of the acquired company to the acquiring firm positively affects the wealth created from the acquisition. Zaheer (1995) postulated that it is easier to integrate similar companies due to the shared industry and market knowledge.

3. INTERNATIONAL MANAGEMENT EXPERIENCE

International experience influences the success of the acquisition in a positive way and is more familiar with the specific hurdles associated with cross-border M&As and thus, better equipped to manage the process. According to Kongut & Singh (1998), due to the sequential nature of international expansion, the order in which companies decide to enter international markets is important.

4. SIZE

The exchange rate influences cross-border M&A. Bidders benefit from a strong currency at the time of the transaction. However, at the time of the repatriation of dividends and cash flows, a strong currency in the acquirer’s home market compared to the target currency. A large size in terms of GDP is related to its market size meaning the larger the FDI inflow, the larger the wealth creation for the acquiring firm. Furthermore, studies show that firms do not only expand internationally for asset transactions, but also for a strategical enhancement of its competitive advantages, the realization of assets, a strategical enhancement of its competitive advantages, and a strategical enhancement of its competitive advantages.

In summary, the majority of studies argue that a lack of cultural fit between the acquiring and the acquired company has a negative effect on shareholder value creation. Hofstede, Hofstede & Minkov (2010) argue that cultural differences have a significant influence on firm performance. This indicates a significant role of cultural differences.

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