

# Determinants of Cross-Border Mergers and Acquisitions in Developed Markets: A Recent Empirical Analysis and its Practical Implications

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## ABSTRACT

Cross-border mergers and acquisitions are contributing to economic growth, welfare, market expansions and competitiveness. Many countries are thriving to attract them and in political discussions it is one of the hot topics how to do so. For policy makers and corporate decision makers it is crucial to know what the real drivers of foreign corporate investments are. For this purpose, this study will analyze cross-border mergers and acquisitions in industrialized countries. The paper is focusing on two key questions:

- What are the key determinants for cross-border mergers and acquisitions?
- Does industry similarity between countries affect the deal frequency?

The paper contains a theoretical and a literature review followed by an empirical investigation which was based on descriptive statistical methods and a regression analysis. The empirical findings revealed a concentration of transactions in certain countries, particularly the US, Canada, UK, Germany, and France. The healthcare and financial industries lead the way as the top sectors, followed by the industrial and technology sector. Some sectors, such as finance, healthcare, and high technology, had a high frequency of intra-industry cross-border transactions. The regression results showed that GDP size as a proxy for the attractiveness of the local market had the biggest impact. Cultural affinity and political stability followed in terms of impact, when the USA was excluded from the dataset. Including the USA in the estimation proved the strong significance of the GDP size again but also revealed the importance of lower corporate taxes, however, to a clearly lesser extent.

## Abbreviation List

|       |  |
|-------|--|
| CBM&A | : Crossborder Merger and Acquisition           |
| OLI   | : Ownership-Location-Internalization framework |
| TCT   | : Transaction Cost Theory                      |
| RBV   | : Resource-based View                          |
| LS    | : Least Squares                                |
| MAD   | : Mean Absolute Deviation                      |

## Introduction

In an increasingly globalized business environment, cross-border mergers and acquisitions (CBM&As) have gained in importance, contributing to economic growth, welfare, market expansions and competitiveness. Many countries are thriving to attract CBM&As and in economic political discussions it is one of the hot topics how to do so. In Germany, for example,

an intensive discussion is going on whether the country is still attractive enough to attract sufficient foreign investments and potential problems such as high labor costs, too much bureaucracy or high energy prices are scrutinized [1]. The Trump administration uses aggressive trade policies and tariffs to “convince” foreign companies to increase their investments into the USA. For policy makers it is therefore crucial to know what the real drivers of foreign corporate investments are. For this purpose, this study will focus on cross-border mergers and acquisitions in industrialized countries and not in Emerging markets as it was the case in many other studies. For corporations this understanding is also of great value. The failure rate of such transactions is significantly higher than the one on the domestic market. The decision-making process behind foreign deals is a more complex and risky procedure, influenced by a range of factors such as legal restrictions, the impact of labor unions, tax issues, trade policies, or specific demands from local clients [2].

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The paper is focusing on two key questions designed to capture the complexity of cross-border mergers and acquisitions in developed countries:

- “What are the key determinants for CBM&As in developed countries?”
- “Does industry similarity between acquirer and target countries affect the frequency of CBM&As?”

The particular contribution of this paper to the body of knowledge in this field lies in its specific features of the statistical analysis based on recent data with a clear focus on western industrialized countries where the mentioned discussion is especially pronounced. In addition, customized indexes had been created to explain the determination of cross-border transactions in a somewhat different way than in previous studies.

The structure of the study is as follows: the potential influencing factors on CBM&As, identified in a theoretical and literature review, serve as the basis for the empirical investigation. In addition, the literature review provides an overview of existing research papers on the considered topic and identifies research gaps. This is followed by a methodological section describing the research approach, data collection and variables. The main empirical findings are presented in the ‘Data analysis and results’ section. It begins with a descriptive statistical analysis and a cross-sectional analysis. Central to the methodology is the creation of country pairs representing the buyer and target countries in each CBM&A transaction. The dataset, covering a ten-year period, is specifically structured to analyze these pairs, with a focus on understanding the characteristics in the target countries. The paper proceeds by resorting to a multiple linear regression analysis to quantify the impact of the determinants on the frequency of target countries' participation in CBM&A. At the end, the findings of this paper will be compared with the ones of the existing literature.

## Overview of Cross-Border Mergers and Acquisitions Concepts

### Cross-Border Mergers and Acquisitions

CBM&As are an important part of global business, allowing companies to expand beyond their national borders. They not only pave the way for growth, but also enable them to compete in new markets by gaining access to additional technology and resources. CBM&As can be defined as acquisitions or mergers of an organization from one country with an organization from another, resulting in the integration of operations and resources across national borders. CBM&As can take the form of asset or share acquisitions. Acquisitions have been differentiated according to the level of foreign ownership. Thus, a ‘full’ acquisition occurs when foreign companies possess 100% of the company's shares, a ‘majority’ acquisition involves foreign ownership between 50% and 99%, a ‘minority’ acquisition implies foreign participation between 10% and 49%, and any foreign stake of less than 10% is considered a ‘portfolio investment’. CBM&As can also be classified as horizontal, vertical, or conglomerate. The difference between them is that horizontal mergers and acquisitions occur between enterprises in the same industry, vertical deals are between enterprises at different stages of the production process, and conglomerate deals involve entities in different industries.

Foreign direct investment (FDI) may take two primary forms: greenfield investments and CBM&As. Greenfield investments refer to establishment of new business operations abroad, such as facilities. CBM&As, on contrary, demands less time and capital, since a company either merges or acquires an already existing foreign company. Therefore, investors gain the target's assets and resources more quickly, compared with greenfield investments, but have less control over the operations. Mergers and acquisitions represent the most dynamic and dominant component of foreign direct investment (FDI) flows and are considered as an important part of international diversification strategies [2]. Investment Monitor's analysis of the 2022 Annual Global FDI Report highlights that the level of CBM&As is growing faster than greenfield investment [2]. According to a long-term analysis of the IMAA Institute the number and the value of these deals have increased significantly between 1985 and 2022. In particular, the early 2000s were characterized by a rapid growth in deal values, culminating in 2007, followed by a sharp decline, associated with the 2008 financial crisis. Subsequent years show a pattern of recovery and growth, with a notable peak in 2015 and fluctuating but considerable activity in subsequent years. The most recent data point in 2023 demonstrated a recovery in deal value growth, signaling a potentially active phase of cross-border M&A activity. In terms of geography, developed countries in the US, Europe, and Asia-Pacific, were the main participants in international transactions [3,4]. Several factors had contributed to the proliferation of M&A transactions such as technological progress, globalization, industry consolidation, privatization, and economic liberalization [2].

Despite their strategic benefits, such as market expansion, risk diversification, new resources, economies of scale or competitive advantages, CBM&A transactions were also associated with numerous challenges and risks as the failure rate was estimated to be between 70 and 90%. Differences in tax laws and regulatory frameworks, political instability and cultural conflicts of people of different countries belonged to the main hurdles for successful CBM&As [4].

### International Versus National Mergers and Acquisitions

The globalization of markets has considerably boosted the role of CBM&A in ensuring the growth and competitiveness of companies. Cross-border transactions increased three times more than domestic transactions over the last two decades [4]. This trend indicated the expansion and diversification of international business transactions. Despite their strong growth dynamic, post-acquisition financial performance showed that domestic M&As generated higher market value compared to cross-border mergers, potentially due to less complexity and risks associated with banking regulations, political environment, and investor size. A study by Carril-Caccia et al. found that the number and value of mergers between firms in the same country are five times higher than between firms in different countries, thus favoring domestic transactions [5].

### Frameworks and Motives for Cross-Border Mergers and Acquisitions

This chapter gives an overview over important theoretical aspects of international M&As such as the transaction cost economics (TCE), the ownership-location-internalization (OLI)

framework, the resource-based view (RBV) and the agency theory. They offer different perspectives on why companies engage in CBM&As and how they can create value in the global marketplace.

The transaction costs theory (TCT) states that the optimal organizational structure is the one that ensures economic efficiency by minimizing transaction costs incurred at each stage of the operational process [6]. In this case firms internalize transaction costs through M&As instead of using market mechanisms. According to the TCT, firms engage in cross-border mergers and acquisitions to reduce transaction costs in international markets of market-based transactions resulting from contractual agreements [5]. These costs have their origin in information asymmetries, cultural differences or regulatory particularities in the addressed countries. Transactions costs that can be avoided through CBM&As are repeated negotiating costs with business partners and contractual enforcement costs. In addition, negotiation and legal risks can be internalized [6]. Another reason for CBM&As refers to assets which are specific and cannot be easily used in an alternative way. In this case, firms tend to internalize the transaction to avoid the risk of post-transaction opportunism [7]. Other aspects of the TCT such as the optimization of M&A structures, integration strategies or governance issues are not directly linked to the topic of this paper.

The OLI framework was first expounded by Dunning and provides insights into the motivations behind cross-border mergers and acquisitions and international business activities [8,9]. According to the OLI framework, cross-border investments seem to be attractive if companies are able to achieve specific Ownership, Location, and Internalization advantages in order to strengthen their competitiveness globally. In international markets, ownership advantages refer to an organization's unique assets, capabilities or resources, which allow companies to compete more effectively. These ownership advantages refer to the access to advanced technologies, intellectual property rights, branding or patents. Location advantages (L) are related to the access to a large and growing market, to natural resources or to a favorable regulatory environment. The advantages of internalization (I) in the context of cross-border mergers and acquisitions imply cost savings by eliminating the need for green-field operations in foreign markets, reduced product risks in terms of quality and market fit and lesser dependence on external unknown suppliers.

RBV states that the main reason for companies to engage in international M&A is to acquire valuable and unique resources that cannot be easily replicated and that help them to achieve sustained competitive advantage. In the context of international transactions, it is strategically important to find companies with resources that complement and enhance existing capabilities, creating synergies, and ensuring long-term competitiveness and profitability in the global marketplace [10-12].

Additional motives for CBM&As that can be of course linked to the mentioned theories but still are worth to be explicitly formulated are the following ones: Market expansion and diversification were considered as major reasons for cross-

border mergers and acquisitions [5]. Through such transactions, companies may gain access to untapped customer base, distribution channels and establish a global presence. This motive is closely related to the discussed OLI framework. One of the main motives for mergers and acquisitions is to achieve synergies. Acquiring companies believe that the value of the combined firms is higher than the value of the individual firms [5]. Synergies can increase the value of the combined firm through industrial diversification, cost reduction, revenue growth, better supply chain, increased operational efficiency and improved financial performance. Thomas & Inkson emphasized that companies that operate in multicultural environments often develop higher cultural intelligence, which plays an integral role in the CBMA expansion process. Thus, the experience of diversified workplace may reduce integration risks and improve cooperation with foreign partners [6]. Some companies engage in CBM&As to benefit from regulatory arbitrage - using more favorable laws in one jurisdiction to circumvent less favorable ones in another jurisdiction to achieve a competitive advantage. Karolyi and Taboada examined how differences in banking regulations affected the flow of cross-border bank acquisitions and concluded that a CBM&A was an effective way for banks to avoid costly regulation [5]. Capron and Halland argued that acquirer and target firms often reallocate marketing resources between firms after horizontal lateral acquisitions, which improves firm performance, and serves as a defense for investment, providing overall stability [6]. On the other hand, CBM&As have to cope with obstacles such as overvaluation or over-payment and the mentioned risks of a CBM&A which creates barriers to pursue such a transaction [5]. Access to cheaper labor forces could be another motive to participate in CBM&As to enhance competitiveness and reduce production costs.

## Literature Review

Having considered the motives for international transactions in the previous chapter, this one analyses the literature review on the factors that influence CBM&A in developed countries. Information obtained in this chapter provides the basis for the derivation of the independent variables used in the subsequent empirical part of this study.

The literature about the determinants of CBM&As suggested that these determinants can be categorized as micro and macro ones. Micro determinants refer to firm size, product variety or previous experience in mergers and acquisitions [8]. However, the focus in this study shall be on the macro determinants referring to economic, political, legal, financial market or sector specific variables. A considerable number of papers in the literature emphasized that the economic performance of a country may attract cross-border mergers and acquisitions. Boateng et al. examined the influence of macroeconomic factors on the CBM&A outflow from the UK over the period between 1987 and 2008. Gross domestic product (GDP) and the real effective exchange rate were found to have a positive relationship with outward mergers and acquisitions. In contrast, higher interest and inflation rates had a negative impact on cross-border M&A activity [6]. In another study, Stefko et al. investigated the impact of economic determinants on the volume of CBM&As in the European Union for the period between

1998 and 2015. Their conclusion was that although GDP was recognized as a significant indicator of the economic state of the country, it did not influence the amount of CBM&As but rather their frequency [6]. With respect to exchange rates, Erel et al. observed that those countries were preferred targets for cross border transactions whose currencies had depreciated against the currencies of acquirers. Their study covered the time range 1990 and 2007 [6]. The market size and growth potential of countries seemed to attract CBM&As and particularly industries with rapid technological advancements or the ones going through a market consolidation were targets for foreign transactions [6]. This finding was supported by Forssbäck and Oxelheim who found that market size, measured either as a percentage of GDP or by population size, was a significant factor. They suggested that the search for larger markets in politically and economically stable countries, along with strategic production planning, were key motivations for European companies pursuing international acquisitions [6]. Di Giovanni stressed the size of financial markets in host countries, measured by the ratio of stock market capitalization to GDP, to have a positive effect on the number of cross-border M&As [7]. Moriadoss proposed that the attractiveness of a country as a target for CBM&As should be measured by a combination of determinants such as market size, financial development, political and economic stability and technological progress [8].

Zámborský et al. argued that transparent and efficient legal systems in developed countries create a favorable environment for CBM&As [6]. A review by Xie et al. suggested that stronger institutional legislation regarding financial markets, taxation and corporate governance in the host country increased the likelihood of CBM&As [6]. On the other hand, governments should also care not to over-regulate business. Busse and Hefeker presented in their paper on developing countries that excessive bureaucracy and restrictive regulation could be perceived as a barrier to foreign investment, potentially preventing international organizations from making financial commitments in such an environment [7]. Other important determinants mentioned in studies were corporate governance, accounting disclosure quality, shareholders' protection, and bilateral trade. According to Rossi and Volpin countries that promote governance through better investor protection or accounting standards experience a significant increase in CBM&A activity [6]. Countries with higher governmental efficiency and better quality of accounting reports had a better chance to become an investment target and profited from a higher benefit through a transaction [7]. Bhagwat et al. observed a significant positive effect on the probability and volume of transactions if bilateral investment treaties between countries of the agents existed [8]. The authors specified that the effect is observed between developed and developing economies, and mainly in countries with medium political risk. Erel et al. additionally identified that CBM&A tends to be more frequent between countries that engage in significant volumes of trade with each other [9]. Political stability was also mentioned as having a significant impact on the number of transnational deals. Cao et al. who were studying cross-border mergers and acquisitions during national elections in 47 countries between 2001 until 2010 found that the year prior to a national election is associated with a higher volume of mergers and acquisitions. The rise in deals might have been driven by anticipation of possible political changes and uncertainties, encouraging

companies to accelerate deals before the election introduces more unpredictability into the business environment [10].

Cultural and geographical factors were identified as impacting the success of CBM&As. Ahern et al. analyzed over 21 thousand cross border transactions from 52 different countries, with top five nations being from developed countries between 1991 and 2008. Using a gravity model, the authors asserted that the volume of cross border mergers and cultural differences, especially in trust, hierarchy, and individualism, had a strong negative correlation. Moreover, differences in cultural values could make the post-merger stage of the transaction more difficult and hence jeopardize constructive collaboration [6]. The geographical proximity to the target market was affecting transaction costs in a positive way and was supportive for CBM&As [6]. Thus, the greater the cultural and geographical distance between two countries was, the less likely CBM&As were taking place.

One of the most cited reasons for CBM&As were lower labor costs in the host country. The paper of Liang et al. showed that firms often preferred M&As in countries with lower labor costs to gain a competitive advantage in production and operational efficiency. Conversely, deals in regions with higher labor costs were often motivated by the aim to attract highly skilled labor forces and gain access to advanced technologies. However, not only labor costs alone but also the quality of the labor force and the flexibility of the labor market were found to influence the decision to engage in CBM&As [7]. Smart employment policies could increase synergies of transactions and reduce labor adjustment costs. In this context, Scandinavian countries were mentioned with so-called "flexicurity" systems. This term refers to strong job protection combined with active labor market policies that allow companies to restructure effectively without large-scale layoffs, making it easier to adjust employment arrangements. However, if such policies increase the complexity of a cross-border transaction, they could also drag them [8].

### Methodology, Data and Research Design

The study included 286 completed international mergers and acquisitions initiated by companies from developed countries and covers the period from 2013 to 2023. To improve the completeness and reliability of the study, all domestic deals originally present in the sample were excluded. The final dataset included data from 33 countries. Among these, 20 countries appeared as targets in M&A transactions, while 30 countries appeared as acquirers. The time horizon of ten years was covered. Data was taken from Thomson Reuters and the World Bank database. Only cross-border transactions between developed countries with a volume of at least three billion euros were included. Deals involving public entities, those in the real estate sector, and uncompleted transactions were excluded. World Bank data was used to construct indices that captured characteristics such as government efficiency, strategic asset seeking and accounting disclosure. These indices had been tested as explanatory variables in the regression analysis.

The analysis was based on descriptive statistics, and a cross-sectional analysis. The descriptive analysis aimed to detect patterns, trends, and anomalies. The variables to explain CBM&As for the cross-sectional analysis had been identified by reviewing existing literature on the topic. An OLS regression



was estimated to explain the number of deals. The dependent variable Y represented the number of deals of a target company's participation in CBM&As. The focus on deal frequency rather than deal value improved the accuracy of the model by avoiding potential distortions due to high deal value outliers. The first explanatory variable X1 stands for the GDP size which approximated the potential size of product and services markets and thereby the importance of a market. GDP was measured in current U.S. dollars for the period 2013–2023 for all the countries in the sample. The second variable X2 represented the level of corporate taxes as lower corporate taxes would increase the profits of investments in a country. The third one X3 was measuring the impact of political stability on CBM&As. Political stability was measured by using the political stability and absence of violence /terrorism index from the World Bank. (n.d.). Political Stability and Absence of Violence/Terrorism: Percentile Rank. Retrieved November 14, 2023, from <https://data.worldbank.org/indicator/PV.PER.RNK> literature list (highlighted) The index ranks from 0, indicating the lowest stability, to 100 for the highest stability. X4 was taking the level of corruption into consideration as corruption could be assessed as a kind of cost factor making transactions in countries with higher corruption levels more costly and less attractive. The degree of corruption is captured by <https://www.transparency.org/en/cpi/2023>

Transparency International e.V. is a German registered association founded in 1993 by former employees of the World Bank.

Added to reference list (and highlighted) The CPI ranks 180 countries by their perceived level of public sector corruption on a scale from 0 (highly corrupt) to 100 (very clean). Higher scores indicate lower levels of corruption. Finally, the last variable X5 was a cultural affinity index, as close cultural links between countries lead to an easier integration of foreign companies or affiliates, increasing the chances of higher and more profitable synergy effects. The cultural affinity index was a self-developed composite measure of cultural proximity between a Maybe to consider using 'acquiring firm' or 'deal initiator' instead of 'canvasser' for clarity in an M&A context / or put into „?“ and a target country in cross-border M&A transactions. It combines three equally weighted components: First, the Hofstede similarity index which includes six Hofstede cultural dimensions (Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Long-Term Orientation, Indulgence Yes, using The Culture Factor website <https://www.theculturefactor.com/country-comparison-tool>.

There I have entered 2 countries (acquiring and target) and summarized separately and manually in the excel Second, the language affinity index – scored as 1.0 if the countries share the same official language, 0.5 if they share a common business language, and 0 otherwise. Third, a religious similarity variable, scored as 1.0 if the countries share the same dominant religion, and 0 otherwise. The combined index ranges from 0 (no cultural similarity) to 1 (high cultural similarity), with higher values indicating closer cultural ties.

Other potential explanatory variables were also tested, such as the host countries' size of the financial market in relation to

GDP as suggested by Globerman and Shapiro [10]. Labor costs were tested as well, as in public discussion high labor costs were often regarded as a major disadvantage for countries to attract CBM&As. It was tested whether geographical distance could have an impact on CBM&As as it is linked with higher transportation costs and could be related to the degree of cultural affinity. 'Strategic asset seeking' was considered in term of the total number of patent registrations for each target nation. It was assumed the particular innovative countries would be attractive investment targets. Government efficiency and accounting disclosure were also tested as they could be supportive for the success and protection of foreign investments. All these variables, however, turned out to be not significant in the multiple regression model while other variables that exhibited multicollinearity were more significant.

## Statistical Results

### Overview of the Sample and Descriptive Statistics

The median deal value was approximately 5.179 billion Euro. At the same time, the mean was around 8.347 billion Euro - significantly higher than the median. This could indicate the presence of high-value deals that were skewing the average upwards. The standard deviation of 10.345 billion Euro was large compared to the mean, highlighting that the deal values were widely dispersed around the mean. As for percentiles, transaction values increased remarkably at the top of the distribution: the 90th percentile (15.839 billion Euro) was almost three times the median, and the maximum transaction value of 92.348 billion Euro was extraordinarily high in comparison, indicating that there were few transactions of extremely large size.

A list of the countries that took the most active part in cross-border mergers and acquisitions is highlighted in the Table 1. The first column represents the target countries that had been the object of the transaction, while the third column is a list of countries where the transaction had been initiated.

**Table 1: Overview of the Top Seven Target and Acquirer Countries**

| Top Target countries | Number of the deals | Top Acquirer countries | Number of the deals |
|----------------------|---------------------|------------------------|---------------------|
| US                   | 134                 | US                     | 54                  |
| UK                   | 37                  | UK                     | 36                  |
| Germany              | 24                  | France                 | 30                  |
| Netherlands          | 16                  | Canada                 | 29                  |
| France               | 14                  | Germany                | 22                  |
| Canada               | 9                   | Japan                  | 18                  |
| Australia            | 8                   | Ireland                | 14                  |

**Source:** Own Representation

The US led in number of deals, both as a target (134) and an acquirer (54), reflecting the central role of this country in global M&A activity. The UK ranked second among target countries with 37 deals and in 36 cases the acquirer was British. Germany was the third most frequent CBM&A target with 24 deals and German acquirers became active in 22 deals. The Netherlands and France were targets in 16 and 14 deals, respectively. On the acquirer side, French companies stood out with 30 deals.

For Canada, nine incoming deals were counted and in 29 cases Canadian companies acted as an acquirer. Japan appeared as a target country in 18 deals, Ireland in 14 deals, and Australia in eight deals.

**Table 2: Overview of the Main Pairs by Frequency and Value of Deals**

| Top 5 Pairs by Frequency of Deals |          |             | Top 5 Pairs by Value of Deals |          |             |
|-----------------------------------|----------|-------------|-------------------------------|----------|-------------|
| Target                            | Acquirer | Deal Number | Target                        | Acquirer | Deal Value  |
| US                                | Canada   | 23          | US                            | Canada   | 193.327.179 |
| US                                | UK       | 19          | US                            | UK       | 174.650.313 |
| UK                                | US       | 17          | US                            | Germany  | 153.376.167 |
| US                                | Germany  | 16          | UK                            | US       | 152.341.947 |
| US                                | Ireland  | 10          | US                            | Ireland  | 114.721.067 |

**Source:** Own Representation

Table 2 is showing the top five country pairs in terms of deal frequency and deal value. The United States was prominent as both target and acquirer in most pairs, proving its dominant role in the global M&A landscape. Canada and the United Kingdom were the leading buyers paired with the US, indicating that these countries had strong bilateral M&A activity. Notably, the pairing of the US and Canada topped both lists, emphasizing the close economic ties such as a trade treaty and possibly synergies between these two countries. The UK appeared to be a significant target for the US, which could prove that cultural and language affinity played an important role in the decision where to buy or to merge a with a foreign company. Germany and Ireland followed as target countries for US investments. The frequency of deals did not always correlate with their value. While the US and Canada had the highest number of deals, deal values were comparative high in the UK and Germany as well.

The main industries involved in M&A transactions, both as targets and as buyers, with their respective frequencies are summarized in Table 3.

**Table 4: Cross-Tabulation of Acquirer and Target Industries**

| Acquirer Industry              | Cons. Products and Services | Cons. Staples | Energy and Power | Financial sector | Health care | Technology | Industrial sector | Material sector | Media and Entertainment | Real Estate | Retail | Tele-communication sector |
|--------------------------------|-----------------------------|---------------|------------------|------------------|-------------|------------|-------------------|-----------------|-------------------------|-------------|--------|---------------------------|
| Consumer Products and Services | 3                           | 1             | 0                | 2                | 1           | 1          | 2                 | 0               | 1                       | 0           | 0      | 0                         |
| Consumer Staples               | 0                           | 16            | 0                | 0                | 1           | 0          | 1                 | 0               | 0                       | 0           | 0      | 0                         |
| Energy and Power               | 0                           | 0             | 14               | 0                | 0           | 0          | 2                 | 0               | 0                       | 0           | 0      | 0                         |
| Financials                     | 5                           | 6             | 15               | 23               | 1           | 10         | 16                | 4               | 8                       | 1           | 6      | 2                         |
| Healthcare                     | 3                           | 0             | 0                | 0                | 37          | 1          | 0                 | 2               | 0                       | 0           | 1      | 0                         |
| Technology                     | 1                           | 0             | 0                | 1                | 0           | 18         | 0                 | 0               | 1                       | 0           | 1      | 0                         |
| Industrials                    | 1                           | 1             | 0                | 1                | 0           | 2          | 18                | 1               | 0                       | 0           | 1      | 0                         |
| Materials                      | 0                           | 0             | 2                | 0                | 2           | 0          | 1                 | 18              | 0                       | 0           | 0      | 0                         |

**Table 3: Overview of the Main Industries Involved in CBM&As**

| Main Target Industries  |              | Main Acquirer Industries |              |
|-------------------------|--------------|--------------------------|--------------|
| Industry                | Deals Number | Industry                 | Deals Number |
| Healthcare              | 42           | Financial sector         | 96           |
| Industrial sector       | 40           | Healthcare               | 44           |
| High Technology         | 38           | Industrial sector        | 25           |
| Energy and Power        | 32           | Materials                | 22           |
| Financial sector        | 29           | High Technology          | 22           |
| Consumer Staples        | 24           | Consumer Staples         | 18           |
| Materials               | 24           | Energy and Power         | 16           |
| Media and Entertainment | 21           | Consumer Goods           | 11           |
| Retail                  | 13           | Media and Entertainment  | 10           |
| Consumer Goods          | 13           | Telecom sector           | 10           |

**Source:** Own Representation

The healthcare and financial sectors were the top sectors in terms of M&A activity. The healthcare sector was the most frequent target, with 42 deals, while the financial services industry dominated the acquisition side with 96 deals. Companies in the industrial and technology sector also featured frequently as targets and acquirers. The energy & power sector showed balanced M&A activity. The retail, consumer goods, media & entertainment, and telecom sector represented a comparatively lower deal frequency.

|                         |   |   |   |   |   |   |   |   |   |   |   |   |
|-------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
| Media and Entertainment | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 9 | 0 | 0 | 1 |
| Real Estate             | 0 | 0 | 0 | 1 | 0 | 2 | 0 | 0 | 1 | 2 | 0 | 1 |
| Retail                  | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 0 |
| Telecommunication       | 0 | 0 | 0 | 1 | 0 | 3 | 1 | 0 | 2 | 0 | 0 | 4 |

Table 4 shows the frequencies of transactions within the same and between different industries. The majority of intersectoral transactions happened in the sectors of finance (23 transactions), healthcare (37 transactions) and technology (18 transactions). This could mean that there was a strong trend of consolidation in these industries or the acquisition of technologies played an important role for these transactions. Cross-industry deals happened, in contrast, to a significantly lower extent. They could be driven by a strategic interest in diversification or the acquisition of new market opportunities or technologies. The same mentioned sectors did not only have a high frequency of intersectoral transactions, but also participated in cross-industry mergers and acquisitions, which could prove a broader strategic initiative for growth or diversification. Thus, to answer the second research question of this paper, industry compliance played an important role in the frequency of international transactions. Companies were more likely to acquire others in the same industry.

### Model Results

The regression estimation based on 286 observations for all regarded countries had to be split in two parts. The reason was that for transactions conducted in the USA, different variables were significant compared to those for other countries, and transactions involving the USA accounted for 47% of all transactions in the dataset. As a consequence, the dataset was split, and two different models were estimated: One including the USA and one without the USA. A split into the US alone was not possible as such a model would have become tautological.

The first model was estimated excluding the deals with the USA as the target country. After a preselection from the pool of potential explanatory variables, three variables remained as significant variables in the final version of the model: The Or log-transformed ? GDP of the target country, the described customized index for political stability and the index for cultural affinity.

$$Y = -339.3\alpha + 11.3 X_1 + 0.44 X_3 + 11.39 X_5 \quad (1)$$

The t-ratios for  $\alpha$  was = -9.93, for  $X_1$  = 10.12, for  $X_3$  = 4.93, and for  $X_5$  = 3.18. Other important statistics were: adjusted  $R^2$  = 0.47,  $F(4,152)$  = 45.55[.000], DW-statistic = 1.78.

The diagnostic tests indicated a moderate distorting serial correlation of residuals as can be seen by the results of the Durbin-Watson test. The Omnibus test with results of 6.45 and a p-value of 0.04 confirmed the significance of the entire model. The Jarque-Bera test for normality, however, provided a value of 6.56 with a p-value of 0.04, so that the null hypothesis of normally distributed error terms was rejected. The normality distortion might have been a result of data outliers. The outlier analysis with respect to cross-border transactions identified

several transactions as outliers - particularly in the Asian region. Excluding these transactions from the dataset would have reduced the representativeness of the results, as the dataset already contained a relatively limited number of transactions in Asia. The identified outliers likely caused the observed non-normality of the residuals and limited the validity of the standard linear regression analysis. Thus, the Robust Linear Regression model, a variant of the standard linear regression model, was used as it is designed to be less sensitive to outliers and violations of the normal distribution assumption of the residuals. It uses the least squares (LS) norm adjusted for mean absolute deviation (MAD). Here, the LS norm minimizes the sum of squared residuals, but instead of treating all residuals equally, it scales them by MAD, a robust measure of the regression coefficients that is not over-influenced by extreme values in the data, resulting in a more accurate and reliable model. Furthermore, the model came up with a high condition number pointing towards potential multicollinearity problems. For this reason, the independent variables had been centered.

The robust estimation with centered independent variables based on 152 observations showed now the following results:

$$Y = 18.85\alpha + 11.29 X_1 + 0.44 X_3 + 4.72 X_5 \quad (2)$$

The z-ratios for  $\alpha$  was = 24.20 (p-value: 0.00), for  $X_1$  = 9.23 (p-value: 0.000), for  $X_3$  = 3.41 (p-value: 0.00), and for  $X_5$  = 2.14 (p-value: 0.02). The significance of the individual explanatory variables remained largely stable and only the variation coefficient for the cultural affinity index changed somewhat in comparison to the OLS estimation. The adjusted  $R^2$  did not change (0.47), while the F-Statistic  $F(4,152)$  increased to 62.49[.000] and remained significant. The Omnibus test with results of 6.45 and a p-value of 0.04 confirmed the significance of the entire model.

The VIF-Tests for multicollinearity remained below critical levels. The Jarque-Bera test continued to show a mild deviation from the normality assumption, which was accepted after the measures taken to tackle this problem, but should be taken into consideration when interpreting the results of the model. As the estimation of the coefficients became much less responsive to outliers, a more unbiased interpretation became possible. Now the first research question of this paper regarding the determinants of CBM&As could be answered. The GDP size as a proxy for the size and attractiveness of the local market had the biggest impact on CBM&As. The other two explanatory variables, political stability and cultural affinity, had a somewhat smaller but also significant impact. This result was not unexpected, as similar findings have been reported in other empirical studies [10]. The outcomes showed that political measures only have a limited effect on attracting CBM&As. GDP size and cultural affinity which are politically difficult to adjust made up a big

portion of whether a country was a target for CBM&As or not. Political stability could be partially influenced by the political decision makers but more as an outcome of long-term political and social developments of a country. Corporate taxes, which often play a prominent role in political discussions when it comes to attracting foreign capital were relevant in pairwise tests but did not survive in the final regression model as a significant variable.

Finally, a ridge regression was estimated as multicollinearity seemed to be a continuous issue through the estimation process. The ridge regression is a modification of the linear regression by adding a penalty term for the size of the estimated coefficients so that they shrink without being eliminated. The ridge regression is well suited to prevent unstable and very large coefficients as a result of multicollinearity. The results of the ridge regression were as follows:

$$Y = 18.58\alpha + 8.79 X_1 + 4.18 X_3 + 2.52 X_5 \quad (3)$$

The cross-validated  $R^2$  based on a chosen  $\lambda$  was 0.48, indicating that the model explained about half of the variance in deal activity whereas economic size had the largest influence, followed by political stability and cultural affinity. Overall, the similarity of the ridge regression results with the other applied estimation techniques underlined the robustness of the findings.

Including the USA as a target country for CBM&As had changed the outcome of results in a significant way. Just two explanatory variables remained in the final version of the OLS model based on 286 observations: log-transformed ? GDP as a proxy for the market size and the level of corporate taxes.

$$Y = -1097.63\alpha + 39.97 X_1 - 1.23 X^2 \quad (4)$$

The t-ratios for  $\alpha$  was = -45.77, for  $X_1 = 49.08$ , and for  $X_2 = 9.20$ . Further important statistics were the adjusted  $R^2 = 0.90$ ,  $F(3,134) = 1092[.000]$ , DW-statistic = 1.99.

The Omnibus test with results of 131.70 and a p-value of 0.00 confirmed the significance of the entire model. The Jarque-Bera test for normality, however, provided a value of 6.56 with a p-value of 0.00 so that the null hypothesis of normally distributed error terms was rejected. In addition, the very high variation coefficients and a very high VIF-Value for the  $\alpha$  coefficient had been again signals that the model could suffer from serious multicollinearity distortions. Therefore, again a robust regression estimation with centered independent variables was estimated:

$$Y = 73.13\alpha + 39.97 X_1 - 1.23 X_2 \quad (5)$$

The z-ratios for  $\alpha$  was = 66.57 (p-value: 0.00), for  $X_1 = 41.84$  (p-value: 0.000), and for  $X_2 = -25.49$  (p-value: 0.00). The significance of the individual explanatory variables remained stable and only the one for the constant changed in comparison to the OLS estimation. The Omnibus test with results of 131.7 and a p-value of 0.00 underlined the validity of the model. The VIF-Tests for multicollinearity showed low levels which were also true for the constant. The Jarque-Bera test continued to show a deviation from the normality assumption which should be taken

into critical consideration when interpreting the results of the model. The GDP size as a proxy for the size and attractiveness of the local market had the biggest impact on CBM&As. Corporate taxes remained in the model so that an indication was found that a lower level of them may attract foreign capital as well. Due to the high variation coefficients and the suspect of potential hidden multicollinearities, again a ridge regression was estimated:

$$Y = 73.13\alpha + 53.92 X_1 - 10.12 X_2 \quad (6)$$

The cross-validated  $R^2$  based on a chosen  $\lambda$  was 0.90 so that 90% of the variance in deal activity. The impact of the GDP size was by far the largest while the one for corporate taxes was moderate but significant. Again, the similarity of the ridge regression results with the other applied estimation techniques underlined the robustness of the findings.

Summing up with respect to the first research question of this paper, one can state that the market size was the most important factor to attract foreign CBM&As followed by political stability and cultural affinity. At least for the USA, it was found that also a relatively low level of corporate taxes may be supportive of becoming a target country for foreign investments.

### Comparison of Findings with the Ones of Existing Literature

The findings of Boateng et al. who examined the influence of macroeconomic factors on the CBM&A outflow from the UK were confirmed in this study that gross domestic product had an impact on outward mergers and acquisitions [11]. Also Forssbäck and Oxelheim had shown in their study that market size and growth potential of countries seemed to attract CBM&As. Their other result that politically and economically stable countries were attracting international acquisitions was also reflected in the statistics of this paper [11]. Similar conclusions had been drawn by Forssbäck and Oxelheim who found that the attractiveness of a country as a target for CBM&As was based upon market size, financial development, political and economic stability and technological progress [11]. The empirical results of this paper were supported by Zámorský et al. as well who stressed in their paper that transparent and efficient legal systems which go along with a stable political environment created a favorable environment for CBM&As [11]. A review by Xie et al. also suggested that stronger institutional legislation with respect to financial markets, taxation, accounting disclosure quality and corporate governance in the host country increased the likelihood of CBM&As [12]. The same was highlighted by Rossi and Volpin [11]. The finding of this paper regarding the impact of corporate taxes on CBM&As was confirmed by Coeurdarcie et al [12], who had a particular focus on CBM&As in the European Union. Other potential determinants that were prominently discussed in the public and analyzed in scientific studies did not make into the final econometric models by using the data of this paper such as labor costs or the size of financial markets [13,14].

### Limitations of the Paper

The study predominantly focuses on target countries, analyzing what makes them an attractive candidate for CBM&As. Such a focus potentially overlooks the bilateral nature of mergers and acquisitions, where the strategic objectives and attributes



of the acquirer also have a significant impact on the merger or acquisition decision-making process. Moreover, despite methodical efforts to improve the regression model and eliminate statistical distortions, they may still persist to some extent. The study also faced a limitation in the form of data availability so that the results might not be entirely representative. Focusing on macroeconomic factors was a deliberate choice, driven by the research objective of understanding the broad economic and regulatory determinants that influence the attractiveness of CBM&A. However, this approach implicitly left out micro-level factors, such as firm size, which can also have a marked impact on the attractiveness of target companies in developed countries. Other potential factors such as exchange rate fluctuations, bilateral trade or language were not found to be significant or only weakly significant in the preliminary analysis. This study addressed only the mergers and acquisitions in advanced economies. This emphasis might limit the applicability of the findings to a broader context where transactions between developed and developing countries are to be relevant.

### Conclusions

Political and economic discussions revolved around the ways of how cross-border mergers and acquisitions could be attracted to benefit the economies in the target countries with respect to employment, technology transfer and economic welfare. This study aimed to shed some light into that discussion by examining cross-border mergers and acquisitions in developed countries in a theoretical and empirical way using descriptive statistics and multiple regression analysis to detect key factors that attract international M&A investments. The empirical findings revealed a concentration of transactions in certain countries, particularly the US, Canada, UK, Germany, and France. The healthcare and financial industries lead the way as the top sectors, followed by industrial and technology sector as targets and acquirers. The energy & power, retail, consumer goods, media & entertainment, and telecom sectors represented lower deal frequency. The data showed that pairs between Canadian acquirers and US target companies were the most frequent, followed by pairs between UK and US acquirers and by pairs between German and US acquirers. Some sectors, such as finance, healthcare, and high technology, had a high frequency of intra-industry transactions and participated in cross-industry mergers and acquisitions. Companies were more likely to acquire others in the same industry. However, a significant number of cross-industry transactions, although less frequent, pointed towards a strategic interest in diversification or the acquisition of new businesses and technologies. The analysis of number of deals across different regions discovered that deal activity varies widely between regions, with English-speaking countries dominating deal volumes, followed by Europe, and Asia remaining behind. These findings suggested that cultural affinity, which includes a common language, might have been a key driver in combination with the market size.

The regression results presented that GDP size as a proxy for the attractiveness of the local market had the biggest impact on CBM&As. Cultural affinity and political stability followed in terms of impact, when the USA was excluded from the dataset. The reason for the exclusion of the USA was its overwhelming impact on the results which covered different patterns in other

countries. Including the USA in the estimation proved the strong significance of the GDP size again but also revealed the importance of lower corporate taxes but to clearly less pronounced extent. Similar findings were also seen in other empirical studies as the literature review had shown.

Several other potential determinants on CBM&As have been tested as well. Labor costs were often regarded in public discussions as a major disadvantage for countries to attract CBM&As. Geographical distance could have an impact on CBM&As as it is linked with higher transportation costs and could be related to the degree of cultural affinity. 'Strategic asset seeking' was considered in term of the total number of patent registrations for each target nation. It was assumed that particular innovative countries would be attractive investment targets. Government efficiency and accounting disclosure were also tested as they could be supportive for the success and protection of foreign investments. All these variables, however, turned out to be not significant in the multiple regression model or other variables, with which a multicollinear relationship existed, were more significant [14-50].

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