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Failure to Complete Cross-Border M&As: "To" vs. "From" Emerging Markets

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Abstract
While cross-border mergers and acquisitions (M&As) involving emerging markets have been increasing in recent years, a high percentage collapse before completion. This study investigates how the predictors of cross-border M&A completion involving emerging markets depend upon the *direction* of global expansion, i.e., investment inbound to a developing market or outbound from a developing market. Analysis based on 15 years of data from four emerging economies, Brazil, Russia, India, and China, from 1995 to 2010, reveals fundamental differences in the predictors of inbound vs. outbound M&A completion. Country-level factors reflecting differences in political, trade, and legal environments strongly affect the completion for inbound M&As, but have a much weaker influence on outbound M&As. By contrast, firm-level factors such as past M&A experience have a significantly stronger effect on completion for outbound than for inbound M&As. Most interestingly, two deal-level factors (the percentage of stake sought by the acquirer and whether or not the deal is a cash transaction) increase the likelihood of completion for inbound but decrease it for outbound M&As. These findings have important managerial implications for enhancing the success of global expansions.
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INTRODUCTION
While rapid economic growth has made emerging markets major battlefields for global expansion from developed economies, a growing number of firms from emerging markets are also going overseas. In the last decade, global expansion by emerging economies has almost caught up to the speed of developed economies entering emerging markets. For example, according to the Thomson Securities Data Corporation's (SDC) Mergers and Acquisitions Database, global expansions by firms in emerging economies (e.g., Brazil, Russia, India, and China (BRIC)) have increased by 8% in the last decade, a growth rate that approaches that of expansions by firms in developed economies in the same period. Some well-known expansions by firms in emerging economies include the acquisition of IBM's personal computer business in 2005 by Lenovo (China); the acquisition of Volvo in 2010 by Geely (China); the purchase of Jaguar and Land Rover in

2008 by Tata (India); and the purchase of the UK's Axon Group in 2008 by HCL (India).

This new globalization trend has stimulated a growing number of studies investigating cross-border M&As involving emerging markets (e.g., Luo and Tung, 2007; Cuervo-Cazurra and Genc, 2008; Aybar and Ficici, 2009; Lin, Peng, Yang, & Sun, 2009; Gubbi, Aulakh, Sarkar, & Chittoor, 2010; Hope, Thomas, & Vyas, 2011; Li and Qian, 2013; Lebedev, Peng, Xie, & Stevens, 2015). These investigations have advanced our understanding of the various essential M&A strategic issues related to emerging markets, such as M&A motivations, country/firm selections, and post-M&A integration performance. Researchers have not, however, paid much attention to a critical issue in the process of M&As: the failure to complete an announced M&A deal. Academic attention to this issue is particularly vital because, in practice, a significant percentage of announced M&As involving emerging markets have failed to complete. For example, in our sample of 3,483 cross-border M&As involving BRIC, 32.5 % of the announced deals failed to conclude. This incompletion rate is much higher than the 18% failure rate of announced cross-border M&As between developed countries (Dikova, Sahib, & van Witteloostuijn, 2010), the 18.7% failure rate of domestic M&As in the UK (O'Sullivan and Wong, 1998a), and the 24.9% failure rate of domestic M&As in the US (Cotter, Shivdasani, & Zenner, 1997).

Withdrawing an announced M&A deal can be very costly to acquirers, entailing substantial costs (e.g., penalties) that can be as high as over 6% of the purchase value (Rosenkranz & Weitzel, 2005). In addition to the costs involved in the M&A pre-completion stage (e.g., payments to lawyers and M&A agents as well as resources and time invested) and substantial penalties due to contract breaks, substantial proprietary costs could also be incurred (Luo, 2005). For instance, competitors may figure out a firm's strategic move and long-term deployment based on an M&A's announcement information. Furthermore, the termination of an M&A deal can ruin an acquirer's reputation and credibility (Luo, 2005). Withdrawing an announced M&A deal between a developed and an emerging country can be even more expensive because the significant differences in legal, political, cultural, economic, and trade environments between developed and emerging economies require even more organizational resources in the pre-completion stage.

While the failure of M&A completion has been recognized as an important research topic by scholars in finance, accounting, and strategy, most studies have focused on domestic M&As. Specifically, this literature has investigated various firm-level and deal-level factors that potentially impact domestic M&A completion, including management resistance (e.g., O'Sullivan & Wong, 1998a, b), board composition (Brickley, Coles, & Terry, 1994; Cotter, Shivdasani, & Zenner, 1997; Raad & Ryan, 1995), managerial ownership (e.g., Baron, 1983; Mikkelson & Partch, 1989; Stulz, 1988), bid premium (e.g., Walkling, 1985; Holl & Kyriazis, 1996), stake sought (e.g., Walkling, 1985; Sudarsanam, 1995; Holl and Kyriazis, 1996) and payment method (e.g., Franks et al., 1988; Sudarsanam, 1995). Although several recent studies have extended the research on completion to cross-border M&As, they focus either on deals between developed countries (Dikova et al., 2010) or use a general sample of cross-border deals without considering the specific characteristics of emerging markets (Aguilera & Dencker, 2008; Muehlfeld, Sahib, & van Witteloostuijn, 2007, 2012).

Different from these extant studies, this article investigates M&A completion with a focus on a special class of M&As, i.e., those wherein the acquiring firm and the target firm are from two significantly different economies, one from a developed country and the other from an emerging country. Compared with domestic or cross-border M&As between developed countries, M&As involving both developed and emerging countries face potentially unfamiliar and uncertain environments that increase the chance for acquirers to misunderstand or overlook some important information and fail to recognize such mistakes before announcements are made. It is also more likely for acquirers to encounter unanticipated changes at the post-announcement stage (e.g., unusual regulatory policies by the host country's government). If acquirers discover severe mistakes or run into major unfavorable changes before deals are formally closed, they may have no choice but to abandon the announced deal in order to avoid more severe losses in the future, even at the cost of substantial organizational resources.

The objective of this research is to identify factors that significantly impact the failure rate of M&As involving both developed and emerging markets. We contend that compared with M&As more generally, substantial differences exist in M&As involving two extensively different countries.

Those differences stem from unfamiliarity that investing firms experience when going from one to the other institutional context, heightened uncertainty that investing firms must deal with in completing such deals, and the detrimental effects of both unfamiliarity and uncertainty on completion likelihood. These factors suggest that effective cross-border learning should play a particularly important role in the successful completion of M&As involving both developed and emerging markets. However, acquirers from and to emerging markets may face different challenges in cross-border learning both at external and internal levels. We develop a conceptual framework to capture such differences.

We first classify a cross-border M&A involving both developed and emerging countries into one of two classes based on its deal direction: (a) an *Inbound M&A*, in which a firm from a developed economy acquires a firm in an emerging economy (i.e., global expansions to emerging markets); and (b) an *Outbound M&A*, in which a firm from an emerging economy acquires a firm in a developed economy (i.e., global expansions from emerging markets). Then, we conceptualize key differences in cross-border learning challenges between inbound and outbound M&As in two dimensions: (a) *External Learning Barriers*, and (b) *Internal Learning Barriers*. Specifically, emerging countries often lack well-established, transparent, and stable "rules of the game" (e.g., legislation and regulations for doing business) compared with developed countries, suggesting higher external learning barriers for inbound than for outbound M&As. Compared with those from developed countries, acquirers from emerging countries are relative newcomers in global expansion, suggesting higher internal learning barriers for outbound than for inbound M&As. Given these systematic differences, the influential factors predicting the completion failure are likely to be different for inbound M&As with high external- but low internal-barriers and outbound M&As with low external- but high internal-barriers. Third, we identify such factors at three levels: country-, firm-, and deal-level, some of which strongly affect internal (external) barriers, but not both; others affect both barriers, but in opposite directions. This discussion leads to our hypotheses regarding the moderating effect of M&A *direction*.

We test our hypotheses using a sample of 3,483 cross-border M&As related to the four emerging economies (BRIC) and 23 developed economies from 1995 to 2010. Among them, 2,736 are inbound and 747 are outbound M&As. Our empirical results provide support for our proposed hypotheses and reveal some fundamental differences between inbound and outbound M&As.

First, we find that, in general, the larger the country distance, i.e., the greater difference in law, regulation, and risk level, between the developed and emerging countries, the higher is the M&A completion failure rate. However, such an effect is more damaging for inbound M&As than for outbound M&As. Second, while acquirers' past successful M&A experiences help to enhance completion of both inbound and outbound M&As, this positive effect is stronger for acquirers *from* emerging markets than acquirers *to* emerging markets. Third, acquirers' past failed M&A experiences are generally detrimental rather than beneficial for both types of M&As, but this negative effect is more harmful to the completion rate for acquirers *from* emerging markets than for acquirers *to* emerging markets. Fourth, and most interestingly, we find that two deal-level financial variables, stake sought (i.e., the percentage of the ownership stake in the target firm) and cash payment (i.e., the M&A transaction processed by cash rather than stocks) increase the completion of inbound M&As, but decrease the completion of outbound M&As.

This research makes several contributions. First, our research brings attention to a real-world business problem that causes severe damage to firms but has been unaddressed by academics: that is, a significantly high percentage of cross-border M&As involving emerging markets collapse before completion. Past studies have examined a number of strategic issues important to the front end of the M&A process related to emerging market firms (EMFs), such as EMFs' motivations in cross-border M&As (e.g., Luo & Tung, 2007); EMFs' selection of global expansion strategies, i.e., exploitation vs. exploration (e.g., Rabbiosi, Elia, & Bertoni, 2012); and advantages in cross-border M&As by emerging-market acquirers (e.g., Cuervo-Cazurra & Genc, 2008; Kumar, 2009). Past research has also identified various factors important to the post-completion stage, such as corporate governance structures (e.g., Chari, Ouimet, & Tesar, 2010), institutional environment (e.g., Li & Qian, 2013), cultural distance (Malhotra, Sivakumar, & Zhu, 2011), and organizational networks (e.g., Lin et al., 2009). Our article contributes to this stream of research by investigating an important issue arising in the middle stage of the M&A process: failure to complete deals that have already been announced. We

conceptualize the fundamental differences between the two types of M&As in two dimensions of cross-border learning barriers, external and internal. Accordingly, we identify influential factors that determine the failure rate of M&As with a special attention to the possible moderating effect of the M&A direction, i.e., *to* vs. *from* emerging markets. Our empirical findings on the most influential factors for inbound and outbound M&As provide useful insights both for firms that are interested in entering emerging markets and for EMFs interested in going global.

Second, our research advances the M&A completion literature. While scholars in finance, accounting, and strategy have recognized the failure of M&As as an important research topic, most studies have focused on domestic or cross-border M&As between developed countries. Our research adds to this literature by extending the research to a new setting: M&As involving both a developed and an emerging country. This extension is important because the unique characteristics of our setting allow us to enrich the theoretical development and derive new insights related to M&A completion. Specifically, we propose in this article that the M&A direction is a moderator of completion and we elaborate essential differences between inbound and outbound M&As at the country-, firm-, and deal level. We also offer empirical evidence to demonstrate that the most influential determinants of M&A completion differ for inbound and outbound transactions.

Third, our research also contributes to the literature on the determinants of cross-border M&As. When studying the selection of host country and target company, extant studies in this literature stream have mainly focused on either domestic M&As (i.e., the selection of target company) or cross-border M&As in general without distinguishing the M&A direction related to emerging markets (e.g., Erel, Liao, & Weisbach, 2012; Rossi & Volpin, 2004). Our study provides a unique research setting in which M&A determinant literature can also investigate if and how the M&A direction related to emerging markets affects country selection. Furthermore, while extant studies have examined how country distance affects the selection of host country, we found the opposite effect on M&A completion. Specifically, studies have found that the larger the legal and regulatory differences between the home and host countries, the more likely it is that the host country will be selected by the acquirer if the former can take advantage of the

latter's weaker institutions (e.g., Erel et al., 2012; Rossi & Volpin, 2004). Our finding regarding the negative impact of country distance on deal completion, combined with the positive impact of country distance on country selection, suggests that, while a host country is more likely to be selected if it has larger differences from the acquirer's home country, the acquirer may find it difficult to complete after a public announcement. These two opposing effects of country distance on country selection and deal completion underline the importance of incorporating M&A completion into the selection of target company and host country.

Finally, although our empirical study is based on M&A data, the insights derived from our work may not be limited to M&As. The potential moderator, the *direction* of M&As that our research highlights, i.e., *from* vs. *to* emerging markets, can be applied to any type of cross-border transactions involving emerging countries. More generally, while very few studies have examined how the direction of internationalization affects the performance of globalization (e.g., the financial risk and leverage involved in the post-internationalization stage in Kwok & Reeb, 2000), we hope that our research, together with these earlier studies, will stimulate more interest in further exploring the differences between inbound and outbound cross-border transactions involving emerging countries.

The rest of the article is organized into four sections. We first introduce the general procedure of M&As and then highlight the specific challenges involved in cross-border M&As. In the following sections, we discuss the theoretical background and develop a conceptual framework concerning the successful driving forces of two types of cross-border M&As. We then introduce the empirical model, present our data, and discuss our empirical analyses and findings. We conclude with a discussion of managerial implications and opportunities for future research.

THE M&A PROCEDURE AND DEAL COMPLETION

In this section, we briefly explain the M&A deal procedure in general and cross-border M&As in particular to provide a foundation for the development of our theoretical framework. The existing literature on M&As has suggested that an M&A procedure typically consists of two stages: a pre-completion stage and a post-merger integration

stage (Boone & Mulherin, 2007; Dikova et al., 2010), as shown in Figure 1. The pre-completion stage begins with the "private-takeover process" when an acquiring firm considers a number of potential target companies and asks them to submit a preliminary indication of interest (Muehlfeld et al., 2012) or vice versa (Boone & Mulherin, 2007). After signing a confidentiality agreement, the interested target companies receive private information from the acquiring company and engage in initial negotiations until one target company has been selected (Boone & Mulherin, 2007; Dikova et al., 2010; Muehlfeld et al., 2012).[1] The acquiring company will then perform a detailed analysis (i.e., due diligence) to assess the organizational fit with the selected target, based on a range of criteria such as relative size, type of business, capital structure, organizational strengths, core competencies, and market channels, among others. The private-takeover process ends when the acquiring company reaches a preliminary agreement with the target company and announces it in the financial press, the date of which is referred to as the "date announced" in Figure 1. The M&A procedure then enters the "public-takeover process," the second period in the pre-completion stage. During this period the acquirer will make further objective, independent examinations (i.e., due diligence) of the target, focusing on financial issues, assets and business valuation, foreign government regulations, and risk expropriation, among others. Finally, both parties will decide whether or not to close the deal (i.e., complete or abandon it). If the M&A can be completed, then the second period ends with the completion announcement, the date of which is referred to as the "date effective" in Figure 1. The second period in the pre-completion stage, the public-takeover process, can take several months (Dikova et al., 2010) or may end up in failure.

In addition to this two-stage classification based on the periods before and after a public announcement, extant M&A literature has also classified the M&A procedure into more detailed steps. For example, Sherman (2011) has described the M&A procedure in 12 steps: (1) develop acquisition objectives; (2) analyze the projected economic and financial gains to be achieved by the acquisition; (3) assemble an acquisition team (managers, attorneys, accountants, and investment bankers) and begin the search for the acquisition candidates; (4) due diligence of the primary candidates; (5) initiate negotiations and valuation of the target; (6) identify the sources of financing for the transaction; (7) detailed bidding and negotiations; (8) obtain all shareholder and third-party consents and approvals; (9) phase II confirmatory due diligence; (10) structure the legal documents; (11) prepare for the closing; and (12) hold the closing. Depending on when these steps are implemented, i.e., before or after the public announcement, steps 1–6 are carried out during the private-takeover period, while steps 7–12 are carried out during the public-takeover period.

Compared to these general procedures in domestic M&As, cross-border M&A transactions involve greater complexity and acquirers can encounter a higher level of unfamiliarity and uncertainties. For instance, during the phase II confirmatory due diligence in the public-takeover period, in addition to a thorough evaluation of the value and risks associated with the target, this process also requires special attention to topics such as exchange rates, local taxes, local accounting standards, foreign government potential trade regulations (dividends, fees, royalties), risk of expropriation, and debt/equity ratios that might be imposed by the foreign government (Kissin & Herrera, 1990). In particular, acquirers entering developed markets also have to pay attention to laws that require minimum amounts of capital to be invested and must consider restrictions on acquiring assets in certain types of "national interest" industries (such as defense, telecommunications, or broadcasting) (Rosenbloom, 2002). For acquirers entering emerging markets, tasks related to legal due diligence become even more daunting because of the absence of a uniform commercial code-type procedures in the target's home country (Rosenbloom, 2002).

When examining the completion of cross-border M&As, one might ask: What could cause the termination of an announced M&A, given that a detailed analysis has already been performed during the private-takeover process? The extant literature in finance and law has suggested that the release of new information during the public-takeover period has significantly affected the returns and risks of the announced deal, which may create disputes between
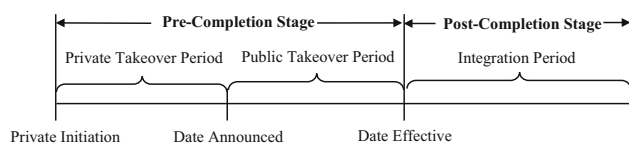

Figure 1 M&A procedure.

the acquirer and the target that could lead to completion failure (Hotchkiss, Qian, & Song, 2005). We argue that withdrawing the announced M&A can be caused by not only (1) a misunderstanding of existing information or overlooking some important information in the private-takeover process, but also (2) unanticipated new information/knowledge made available to firms after entering the public-takeover stage that can be the result of unexpected changes.

For example, the assessment performed during the private- and public-takeover periods have different emphases: The former is based primarily on strategic decisions of organizational fit and strategic compatibility, while the latter focuses on both strategic and administrative activities related to compliance with regulations as well as final negotiations on future strategies and implementation of announcement strategies (Muehlfeld et al., 2012). Hence as the investigation and negotiation processes proceed to administration and implementation issues, the two firms may identify information that has been overlooked in the private-takeover process, or perhaps a misinterpretation / misunderstanding arises regarding each party's strategic goals or financial evaluations. A new understanding and newly identified information may reveal some potential conflicts between two parties and make them reconsider and renegotiate. As a result, the firms may have to abandon the deal if such conflicts cannot be resolved.

Furthermore, a country's business environment might change during the public-takeover process; for example, new regulations and/or new economic policies could be imposed. In response, the two firms (acquirer and target) may have to re-evaluate the announced M&A's risk and returns and renegotiate the deal. Subsequently, one or more of the parties might decide to withdraw if the returns of the intended M&A are adversely affected under the new business conditions. As most unexpected changes are beyond a firm's control, the likelihood of a deal completion can be significantly affected by these changes during the public-takeover process. Hence, effective cross-border learning should play a particularly important role in the successful completion of M&As involving both developed and emerging markets.

THEORY AND HYPOTHESES

In this article we study the completion of cross-border M&As involving emerging markets during the public-takeover process. Although a few recent studies have investigated the completion of cross-border M&As, this article differs from them on the sample of cross-border M&As used and the influential factors studied. For example, Dikova et al. (2010) studied the failure of announced M&As in the context of service industries in developed countries focusing on country-level factors (i.e., institutional environments). Three other studies examined the influence of either industry relatedness or firm- and deal-level factors (e.g., size, experience, stake sought, and payment method), respectively, on completion failure using a general sample of cross-border M&As without considering whether the transactions involved emerging markets (Aguilera & Dencker, 2008; Muehlfeld et al., 2007, 2012). We examine the different influences of three level factors (i.e., country-, firm- and deal-level) on the completion failure of cross-border M&As involving emerging markets.

External and Internal Cross-Border Learning Barriers

What differences exist in the completion of cross-border M&As involving two different economies (i.e., developed and emerging economies)? We propose that the fundamental differences between those M&As involving two profoundly different economies lie in the higher level of unfamiliarity and uncertainty in the process of cross-border M&A completion, which creates challenges in cross-border learning. Specifically, acquirers from two different economies face two learning barriers to successfully completing cross-border M&As: (a) internal learning barriers and (b) external learning barriers. We refer to internal learning barriers as the obstacles within an organization that prevent cross-border learning, such as learning resources and capabilities, while external learning barriers include obstacles that prevent organizational learning of the host country's business environment such as law, regulations, economy, and culture. Compared with developed countries, emerging countries often lack transparent and stable legislation and regulations for doing business and thus have relatively higher external learning barriers. Compared with acquirers from developed countries, acquirers from emerging markets are newcomers in global markets and thus have relatively higher internal learning barriers. These fundamental differences in cross-border learning imply that the factors influencing the failure to complete announced M&As can be different for inbound and outbound M&As. In this article we identify three levels of influential factors

that can either lower or heighten these learning barriers and hence generate different moderating effects of M&A direction on the completion of cross-border M&As.

Country-Level Factors
The differences between home and host country can strongly affect the failure rate of cross-border M&As. Specifically, the larger the differences between the legal and regulatory environments in the home and host countries, the more challenging it is for acquirers to overcome external learning barriers. As a result, it is more likely for acquirers to encounter unexpected changes and/or uncover information misunderstood or overlooked, which increases the chance of failure to complete an announced M&A. Using a general sample of cross-border M&As between developed countries in the service industry, Dikova et al. (2010) have shown that completion is negatively affected by institutional differences, measured as the country-risk distance between home and host countries. In this article we examine the impacts of both *legal and regulatory distance* and *country-risk distance* on the completion failure of cross-border M&As to versus from emerging markets. The former distance measures status quo differences in the legal and regulatory environments between the home and host countries while the latter measures differences between the two countries in the likelihood of dramatic changes that may be caused by political and economic forces in the business environment.

Legal and Regulatory Distance
This factor captures two countries' differences in laws and regulations that are related to business and is also known as the difference in the "rules of the game in a society" (North, 1990). According to institutional theory, institutions that comprise the rules of a society or "humanly devised constraints that shape human interaction" (North, 1990), are nation-specific (Dikova et al., 2010); that is, the rules of the game vary across nations. Some rules may be unique to a jurisdiction or incompatible with other nations. In addition, nearly every jurisdiction has its own stock exchange rules, securities laws, and corporate law statutes (Keegan & Green, 2011). When two countries differ greatly in terms of legal and regulatory environments, firms involved in cross-border M&As may encounter complexities that cannot be fully interpreted (and comprehended) based on their native knowledge and skills (Dikova et al., 2010). As a result, firms

may misjudge the chances of success for an M&A or overlook some important aspects related to the deal. If the parties realize such misjudgments or negligence only after the M&A is announced, they may have to abandon the deal during the public-takeover period. A relatively recent example, the failure of the China National Offshore Oil Corporation (CNOOC)'s effort to acquire the US oil company Unocal, illustrates the underestimation of political risk. Soon after CNOOC made an acquisition bid of $18.5 billion in cash for Unocal on June 23, 2005, there was strong opposition in Washington, which continued to grow and eventually forced the company to withdraw its bid. As expressed by CNOOC in a written statement, "the political environment has made it very difficult for us to accurately assess our chance of success, creating a level of uncertainty that presents an unacceptable risk to our ability to secure this transaction" (*The Washington Post*, August 2005).

Country-Risk Distance
Country risk refers to the risk of investing in a country in which drastic changes may adversely affect profits or the value of assets (e.g., Rothaermel, Kotha, & Steensma, 2006; Johnson & Tellis, 2008). The overall country risk in an international market can come from both man-made (e.g., political and economic risks in business environment) and non-man-made sources (e.g., natural disasters). In the business environment, political risk "is the possibility of a change in a country's political environment or government policy that would adversely affect a company's ability to operate effectively and profitably" (Keegan & Green, 2011, p. 129). Such changes can range from extreme forms such as expropriation, civil disorder, or ethnic conflict, to less extreme forms such as tax increases, exchange-rate control, and imposition of tariffs and restrictions on foreign investment (Keegan & Green, 2011). Similarly, economic risks, including financial risks, refer to "economic forces that may result in drastic changes in the business environment which are detrimental to foreign business" (Rothaermel et al., 2006, p. 59). Some economic risks that foreign businesses often encounter could be in the form of recessions or market downturns, currency crises, or sudden bursts of inflation (Johnson & Tellis, 2008).

Country-risk distance can affect deal completion in three ways. First, the higher the country-risk distance, the more likely that the country with higher risk (either home or host country) may

encounter adverse changes in its political or economic environment during the public-takeover period. Such adverse changes may either reduce the potential of the announced M&A or entail losses to firms involved, which in turn reduces the likelihood of deal completion. Second, even adverse changes may not significantly affect the M&A outcome; such changes could create new information for firms involved in the M&A to comprehend in the short public-takeover period. Due to time pressure after the M&A is announced, misunderstanding and misjudging unexpected possibilities regarding the announced M&A increases the likelihood of a firm abandoning the deal. Third, drastic changes can also create great uncertainty for firms involved in the M&A concerning future market stability and hence can reduce confidence in doing business in such an unstable environment. Overall, as country-risk distance enlarges, the likelihood of adverse changes can significantly increase in the high-risk country, which in turn decreases the likelihood of deal completion.

Inbound vs. Outbound

Considering the inbound and outbound M&As, we expect that the direction of cross-border M&As (i.e., inbound vs. outbound) moderates the impact of country-level factors, that is, legal and regulatory distance and country-risk distance on an announced M&A completion. Specifically, we expect that the negative impacts of the two country-level factors are stronger on the completion of inbound M&As than on outbound M&As.

Earlier, we suggested that, when the distance in two countries' legal and regulatory environment is large, firms involved in cross-border M&As may encounter difficulties in fully understanding the legal and regulatory requirements of the host country based on their native knowledge and skills and, as a result, may misinterpret or neglect some important aspects in completing the deal. Such misinterpretation and/or negligence can severely impede the announced M&A completion during the public-takeover period. Compared with outbound M&As, it is more likely for firms involved in inbound M&As to encounter such misinterpretation and/or negligence and consequently withdraw from the deal. Note that inbound M&As involve acquirers from developed countries merging with or acquiring firms from emerging markets. Unlike developed countries that have established relatively concrete, comprehensive, and transparent legislation and regulations for doing business, emerging

markets often lack such legislation and regulations for doing business (Hitt, Dacin, Levitas, Arregle, & Borza, 2000). In emerging markets, business may be conducted based on the interpretation of individual officials in charge of starting and operating a business (Henisz & Zelner, 2010). In a business environment with murky laws and poorly defined legislation and regulations, acquirers from developed countries often find it hard to fully understand how to do business (The Washington Post, April 2, 2011). This significantly increases the likelihood of misunderstanding and negligence and in turn reduces the chances of success of the announced inbound M&As. In contrast, while acquirers from emerging markets still must exert great effort in understanding the legal and regulatory requirements for their intended M&As in developed countries, it is relatively easier for them to comprehend the process, as the legal and regulatory systems in developed markets are usually transparent and stable. Thus the chance for misunderstanding and negligence is relatively lower for outbound than for inbound M&As, and, as a result, the distance in the legal and regulatory environment between developed and emerging countries negatively impacts the deal completion of the announced outbound M&As to a lesser extent than that of inbound M&As.

Similarly, we expect the negative impact of country-risk distance on deal completion to be higher for inbound than for outbound M&As. In general, the level of country risk is inversely related to a country's stage of economic development (Keegan and Green 2004, p. 156).

Compared with developed economies, emerging markets have a relatively higher level of country risk with a higher probability of change in their political and economic environments. Such changes can be a sudden government regime change due to a history of political strife, tax increases, exchange rate control, or imposition of foreign-investment tariffs and restrictions because of rapid economic reforms (Arnold & Quelch, 1998). As reported in The Washington Post (April 2, 2011), many foreign investors have been frustrated by India's unpredictable tax policies. Vodafone, the global telecommunications giant, for example, was slapped with a $2.5 billion capital gains charge in India for an unprecedented interpretation of the country's tax law. Consequently, the US and British ambassadors, the European Commission, and four other countries wrote to India's finance minister that "the growing unpredictability in India's tax

policies creates unquantifiable risks in investment planning," and they were concerned that "this uncertainty could affect the confidence of those thinking of investing in the Indian market" (*The Washington Post*, April 2, 2011).[2] A World Bank study in 2004 revealed that 15% to 30% of contracts covering $371 billion of private infrastructure investment in the 1990s were subject to government-initiated renegotiations or disputes in emerging markets (Henisz & Zelner, 2010).

As many of these political and economic changes are difficult to foresee in emerging markets, acquirers from developed countries may be subject to changes that prove to be detrimental after the announcement of an inbound M&A deal in the emerging market and, consequently, may be forced to withdraw from the deal. Conversely, in a developed country, the host country in the outbound M&A tends to have more entrepreneur-friendly regulations, better protection of intellectual property rights, less corruption, and more transparent and better-functioning capital markets, all of which makes the outcome easier to forecast. Thus due to the fast-changing and highly uncertain emerging-market environment, the negative impact of country-risk distance on deal completion might be higher for inbound relative to outbound M&As.

However, it is also possible that the negative impact of country-level distances on deal completion is stronger for outbound than for inbound M&As. While the legal and regulatory requirements for M&As in developed countries are much more stable and transparent as compared to those in emerging markets, which makes it easier for emerging market companies to learn, such requirements are sometimes so high and strict that emerging-market companies find adherence difficult when acquiring or merging with a developed-market company. Consider the legal and regulatory requirements regarding foreign M&As in the US. For example, an M&A case may be subject to a number of regulatory approvals from federal, state, and local offices after it is publicly announced. Such approvals may include a national security review, an antitrust review, other reviews by the Committee on Foreign Investment in the United States (CFIUS), labor union reviews, corporate governance and securities regulation considerations, industry-specific approvals, and shareholder approval, among others (Fagan 2009).

These types of regulatory reviews and public scrutiny (e.g., from shareholders and employees) can raise some challenging issues that emerging-market acquirers may find unexpected and hard to address. For example, if national security concerns arise, developed-market governments can block the deal if the emerging-market acquirers are partly or wholly government-owned. As reported in many news outlets, such national security concerns by CFIUS was in fact the reason for the recent failure of the Chinese telecommunications company Huawei Technologies, Ltd. to acquire the cloud computing-related technology of 3leaf Systems, Inc., an insolvent US firm (*Lexology*, April 15, 2011). Although the US Bureau of Industry and Security in the US Department of Commerce had approved the deal, Huawei was surprised that CFIUS did not agree with the Bureau's actions and disapproved the deal (*Lexology*, April 15, 2011). Given the existence of the large number of government-owned and -operated companies in emerging markets (Sheth, 2011), such type of political risk in developed markets can impose a stronger negative impact on deal completion if country-level distances become significantly larger. As both the Huawei and CNOOC examples showed, although the emerging-market companies may have prepared and expected a thorough review from the developed markets, intense opposition can still result in an unexpected outcome (*The Washington Post*, August 2005).

In addition to these regulatory compliance issues, an M&A deal can be assessed by other stakeholders in terms of how their interests are aligned on the transaction. Employee resistance to an announced M&A transaction could push the emerging-market acquirers to withdraw the deal. Apollo Tyre, an Indian acquirer, experienced a failed deal for the US target, Cooper Tire and Rubber Company, reportedly due in part to issues with the US United Steelworkers union (*The New York Times*, 2013). After Apollo announced its $2.5 billion bid for Cooper on June 12, 2013, the union filed grievances with Cooper on August 1, 2013, contending for a renegotiation of its contract with Apollo to represent steelworkers' concerns. Due to the contract renegotiating costs with United Steelworkers, Apollo failed to reach an agreement on a new stock purchase price with Cooper, which then terminated the announced deal at the end of 2013 (*Reuters,* 2013).

Based on the above arguments, we develop two competing hypotheses regarding the moderating effect of cross-border M&A direction on deal completion:

Hypothesis 1: (Country-Level: Distance in Country Law and Regulation):

The relationship between deal completion and distance in country law and regulation is

(a) *more negative* for inbound than for outbound M&As;
(b) *less negative* for inbound than for outbound M&As.

Hypothesis 2: (Country-Level: Distance in Country-Risk):

The relationship between deal completion and distance in country-risk distance is

(a) *more negative* for inbound than for outbound M&As;
(b) *less negative* for inbound than for outbound M&As.

Firm-Level Factors

Compared with country-level factors that are mostly beyond a firm's control and represent main challenges that acquirers encounter in learning about the host country, firm-specific learning resources and capabilities (i.e., financial capability, human resources, and cross-border M&A knowledge) can significantly enhance the success of global entry (Johnson & Tellis, 2008). However, acquirers in the two types of cross-border M&A face internal learning barriers to a different extent and this is reflected in firms' experiential learning. The organizational and economics literature in experiential learning have generally established that experience can create a positive learning effect on firm performance (e.g., Yelle, 1979; Dutton, Thomas, & Butler, 1984; Levitt & March, 1988). Such an experiential learning effect, also referred to as the learning-curve effect, has been found extensively in the context of manufacturing (e.g., Yelle, 1979; Dutton, Thomas, & Butler, 1984; Levitt & March, 1988). In the M&A context, Fowler and Schmidt (1989) and Barkema, Bell, and Pennings (1996) also found a positive impact of past acquisition experience on post-integration performance. In recent decades, some scholars have started to investigate the learning effects from a previous success and/or failure experience on M&A performance (Hayward, 2002; Haleblian, Kim, & Rajagopalan 2006; Muehlfeld, Sahib, & van Witteloostuijn 2012). However, none of these authors have examined the moderating effect of M&A *direction* on experiential learning from past success and failure in

M&A completion. Built on the resource-based-view literature and the organizational learning literature, we expect that two firm-level factors, i.e., success and failure experience regarding cross-border M&As, can affect the completion of M&As *to* vs. *from* emerging markets in different ways.

Experiential Learning from Prior Completion Success

The behavioral theory of the firm suggests that decision makers interpret success experience as evidence that existing organizational knowledge adequately represents the world (Madsen & Desai, 2010) and that success experience leads to persistence in future actions (Haleblian, Kim, & Rajagopalan, 2006). In the context of M&A completion, previous M&A-completion experience enables companies to accumulate important information that should be assessed and anticipated (e.g., what regulatory barriers may exist in the host country) and how they can better negotiate and prepare respective strategies when encountering obstacles during the public-takeover process. Furthermore, because this knowledge of a specific host country has been successfully approved in previous M&As, acquirers may have developed organizational routines on how to repeatedly implement strategies during the takeover process and how to access outside financial, legal, or other resources (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). In turn, such reinforcement can increase the likelihood of completing future M&As.

Experiential Learning from Prior Completion Failure

In contrast to prior M&A success that represents a correct understanding of the M&A procedure required in a host country and promotes persistent behavior, the organizational learning literature suggests that prior failure indicates to decision makers that their existing knowledge is inadequate and strategic changes are needed (Madsen & Desai, 2010). To improve performance, decision makers must detect gaps in existing knowledge or reevaluate current strategies of what went wrong and engage in a problemistic search to find solutions or alternative strategies (Haleblian, Kim, & Rajagopalan, 2006). In the context of completing an announced deal, the failure to complete a past M&A represents flaws in the M&A procedure, an inadequate understanding, or a misunderstanding of the host country's regulations and/or the target's valuation. To enhance the success of subsequent M&As in the host country, the acquirer must identify the correct reasons for the failure and generate superior solutions. However, learning from failure is difficult and returns from

failure experiential learning are much more uncertain (March, 1991). For cross-border M&As, failure experiential learning requires the acquirer to precisely identify what modification is needed, what information has been overlooked and/or misunderstood, what institutional changes should be prepared, and how to implement the modification so as to ensure success. Given the complexity, unfamiliarity, and uncertainty involved in cross-border M&As, this task is extremely difficult, in that the acquirer may pursue a wrong modification or inappropriately implement a modification that may lead to a further failure. Hence learning from failure may create a less positive impact on the completion likelihood of subsequent M&As.

Inbound vs. Outbound

In this article we explicitly compare the learning effects of past M&A success (i.e., the number of prior M&As completed) and failure experience (i.e., the number of prior M&As that failed to complete) on the completion of inbound- and outbound M&As. On the one hand, because emerging-market acquirers are new to global M&As and have limited knowledge of the process, they tend to benefit more from experiential learning than do acquirers from developed countries. This is especially true for experiential learning from prior success. Experiential learning from prior success can be different in developed markets compared with that in emerging markets, because different levels of learning barriers exist. Specifically, because the business environment (i.e., legal and regulatory environment) is relatively stable over time in developed countries but is fast-changing in emerging markets, it can be relatively easier for acquirers from emerging markets to apply their knowledge from past success experience to a new M&A in developed economies. In contrast, learning from prior success for acquirers in emerging markets (i.e., in inbound M&As) requires them to stay alert to environmental changes in such markets and make necessary changes to their M&A routines when applying past success experiences. However, the organizational learning literature has pointed out that repeated behavior can make firms overconfident in their knowledge, which, in turn, can decrease the incentive to search for improvements and changes (Greve, 2003). Experienced acquirers, such as those involved in inbound M&As, may become unresponsive to environmental changes and hence are less likely to make necessary changes when repeating past success, which potentially reduces the completion probability of subsequent

M&As. Thus the learning effect from success experience tends to benefit emerging-market acquirers more in completing cross-border M&As than their counterparts from developed countries.

On the other hand, although developed-market acquirers may encounter higher external-learning barriers and lower internal-learning motivations, as discussed earlier, they may have higher internal-learning resources and capabilities that have been accumulated from their past experience. If they realize minor modifications or incremental changes needed when applying their past success experience to the new M&A, developed-market acquirers may be capable of performing better than their counterparts from emerging markets. This capability can lead to a more positive learning-from-success effect for developed-market acquirers than for emerging-market ones. Given these discussions, we propose two competing hypotheses regarding the experiential learning effects from past success.

> **Hypothesis 3:** (Firm-Level: Past Success Experience):
>
> (a) The relationship between deal completion and past success experience in completion is *more positive* for outbound than for inbound M&As;
> (b) The relationship between deal completion and past success experience in completion is *less positive* for outbound than for inbound M&As.

We now consider experiential learning from failure. Because emerging-market acquirers are less experienced than their developed-market counterparts in completing cross-border M&As, they may be less likely to engage in such a problemistic search. For example, Haleblian and Finkelstein (1999) suggested that novices primarily represent problems with obvious or surface-level information, whereas experts in acquisition can see problems from both surface and underlying levels. Hence emerging-market acquirers are probably less capable than developed-market acquirers of discerning the correct problem in prior failure and finding corresponding solutions. This lack of capability can lead to a less positive learning from past failure for emerging-market acquirers than for their counterparts from developed economies.

However, while emerging-market acquirers are less experienced and may be also less capable of deep reflection, they have a stronger learning

motivation and are more open to making organizational changes (Greve, 2003). Learning from failure very often requires making radical changes and taking greater risks (Muehlfeld et al., 2012) and, thus, if emerging-market acquirers can obtain external resources (e.g., consulting companies) to help them conduct problemistic searches and identify radical solutions for success, they tend to be more willing to implement changes, compared to experienced acquirers who tend to have higher organizational inertia for taking risks and making radical changes. Based on these analyses, we also propose two competing hypotheses regarding experiential learning from past failure.

Hypothesis 4: (Firm-Level: Past Failure Experience):

(a) The relationship between deal completion and past failure experience in completion is *more positive* for outbound than for inbound M&As;
(b) The relationship between deal completion and past failure experience in completion is *less positive* for outbound than for inbound M&As.

Deal-Level Factors

Unlike country distance variables, which can heighten acquirers' external learning barriers, and firm-level variables (i.e., M&A success experience), which can lower acquirers' internal learning barriers, deal-specific financial factors can influence both internal and external learning barriers of the acquirer. Specifically, deal-level factors such as stake sought and cash payment can, on the one hand, lower acquirers' external learning barriers but on the other hand, raise acquirers' internal learning barriers. As a result, the net impact of deal-level variables may depend on the *direction* of cross-border M&As. We specifically investigate the impact of two deal-level factors, stake sought and cash payment, because these two variables represent acquirers' financial commitment to the host country's economy, which can reduce external learning barriers but create high internal learning barriers for acquirers.

Stake Sought

Stake sought refers to the percentage of ownership stake that an acquirer seeks in the target firm (Muehlfeld et al., 2007; Dikova et al., 2010). For M&A transactions with higher percentages of stake

sought, target companies may be more willing to cooperate with acquirers during both the private and public takeover periods if they have a strong need for financial investment. This cooperation can help acquirers reduce their external learning barriers in host countries and target companies. For example, target companies may be more willing to provide detailed company information to acquirers during the private-takeover period. It is also more likely for target companies to make concessions in the face of adverse changes during the public-takeover stage in order to secure the transaction. However, as the stake sought becomes larger, the deal also becomes more complicated and risky (e.g., antitrust laws and other legal requirements might become more sophisticated as higher percentages of ownership are about to be transferred), and the acquirer has to devote more resources to carefully evaluate and negotiate in order to minimize potential misunderstanding of information and/or legal negligence. This situation greatly increases internal learning hurdles, which can adversely affect deal completion.

Method of Payment

Method of payment plays an important role in a deal completion. Typically, an M&A transaction can be processed by cash, stock, debt or any combination thereof (Muehlfeld et al., 2007). Compared to stock payment, deals with cash payments may be more likely to successfully close because cash payment is the most simple payment method with a high-speed settlement and thorough ownership transferral (Shimizu et al., 2004), and the role of buyer and seller is clear-cut. The case of stock payment is much more complex, however. As an offer is negotiated based on the market valuations of both the acquiring and target companies' stock price during the private-takeover period, any market fluctuation after an M&A deal announcement can create incentives for both companies to renegotiate the deal offer, which increases the likelihood of failure if an agreement is not reached. On the other hand, a cash payment can create a strong financial burden to acquirers compared to a stock payment, and can require extreme care in evaluating both the host country and the target company, as well as negotiating with the target. Similarly, this can also create high internal learning challenges during both the private- and public-takeover periods, which may increase the probability for acquirers to withdraw from the announced deal if the acquirer foresees any risks.

Inbound vs. Outbound

The net impact of stake sought and cash payment on deal completion can depend on the financial needs of the target company and target country, which affects the relative strength of external- and internal learning barriers for inbound and outbound M&As. Specifically, for inbound M&As, the benefit of stake sought and cash payment in reducing external barriers may dominate the negative influence in increasing internal learning barriers and, accordingly, the two deal-level variables can create a more positive impact on deal completion of inbound M&As. As the host country in inbound M&A deals, emerging markets are in greater need of capital investment to advance their local economies and improve living standards than are developed markets. Because a higher percentage of stake sought and/or cash payment by acquirers from developed markets signals a higher commitment to the target companies in developing markets and implies larger contributions to the local economy, the targets and local governments can be highly motivated to use all means to secure the completion of an announced M&A deal.

Local governments also have incentives to provide preferential incentives and design various localized favorable policies for foreign acquirers from developed countries during both private- and public-takeover periods. For instance, to attract a large foreign investment, a local government may take such measures as selling land at an extremely low price or even giving it away, or providing tax and fee reductions or exemptions to foreign acquirers (Li, 2007). Zhengning County in China's Gansu province issued a policy that included "zero rental" for qualified projects with 1–5 million RMB and a free land transfer for investments of more than 5 million RMB in order to attract foreign investment from developed countries (Li, 2007). With this type of strong support from local government, it is more likely that the emerging-market targets would be determined to carefully prepare and negotiate with the developed-market acquirer during the private-takeover period and to resolve any dispute that occurs during the public-takeover period. Even if a local government has to modify its laws and regulations when undertaking economic and political reforms during the period after an M&A deal is announced, it is less likely that the policy changes would create any adverse effect on the announced deal given the higher stakes and/or larger cash investment the developed-market acquirers contribute.

However, for emerging-market acquirers in outbound M&As, a larger percentage of stake sought and a full cash payment may indicate both higher internal- and external-learning barriers. As financial needs are relatively lower in developed countries than in emerging markets, emerging-market acquirers may encounter situations in which target companies are less willing to collaborate or even resist collaboration if a larger percentage of stake is sought or a full cash payment is offered by these acquirers. This lack of cooperation can increase the acquirers' internal learning barriers, as they may find it hard to obtain information from or negotiate with the target. At the same time, because a larger percentage of stake sought and/or full cash payment also signal higher acquirer control in the target company (Muehlfeld et al., 2007), they may create management resistance and/or national security concerns from the host country government. As a result, for outbound M&As, a larger stake sought and cash payment cannot help reduce external learning barriers, but rather increases both external- and internal learning barriers. Thus the impact of a larger stake sought and cash payment on deal completion may be negative for outbound M&As. Therefore we propose the following hypotheses regarding the moderating effect of cross-border M&A direction on the impact of deal-level financial variables (Figure 2).

Hypothesis 5: (Deal-Level: Stake Sought)
   The relationship between a deal's percentage of stake sought and completion rate is

(a) positive for inbound M&As;
(b) negative for outbound M&As.

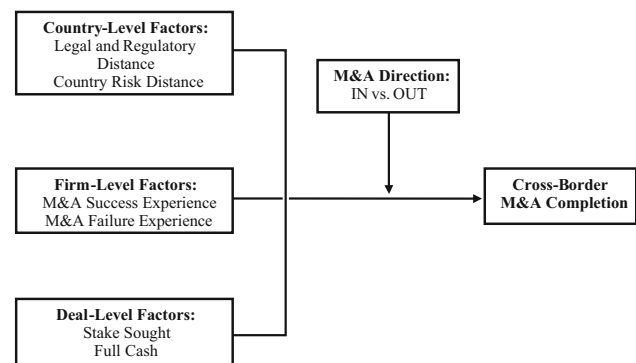**Hypothesis 6:** (Deal-Level: Cash Payment)

Figure 2 Theoretical framework of cross-border M&A completion to vs. from emerging markets.

The relationship between cash (rather than stock) payment and completion rate is

(a) positive for inbound M&As;
(b) negative for outbound M&As.

EMPIRICAL ANALYSIS

Model

We apply a probit model to estimate how the completion likelihood of a cross-border M&A is affected by country-, firm- and deal-level factors (e.g., Muehlfeld et al., 2007, 2012; Dikova et al., 2010). Specifically, the probability of a deal completion is assumed to be a probit function of exploratory variables such as country-, firm-, and deal-level variables, as well as other control variables. That is,

$$\Pr(\text{Completion}_i) = \Phi(X_i\beta), \qquad (1)$$

where X_i is a vector of explanatory variables with coefficient β being a vector of parameter estimates. i is an indicator of M&A deals. Notation Pr denotes the probability of deal completion and Φ denotes the cumulative distribution function of standard normal distribution. The empirical specification for function $X_i\beta$ is given by

$$
\begin{aligned}
X_i\beta = {} & \beta_0 + \beta_1 \text{law\_reg\_dis}_i + \beta_2 \text{country\_risk\_dis}_i \\
& + \beta_3 \text{Exp\_succ}_i + \beta_4 \text{Exp\_fail}_i + \beta_5 \text{Stake}_i \\
& + \beta_6 \text{Cash}_i + \beta_7 \text{Size}_i + \beta_8 \text{law\_reg\_dis}_i \\
& \times \text{out}_i + \beta_9 \text{country\_risk\_dis}_i \times \text{out}_i \\
& + \beta_{10} \text{Exp\_suc}_i \times \text{out}_i + \beta_{11} \text{Exp\_fail}_i \\
& \times \text{out}_i + \beta_{12} \text{Stake}_i \times \text{out}_i + \beta_{13} \text{Cash}_i \\
& \times \text{out}_i + \beta_{14} \text{Size}_i \times \text{out}_i \\
& + \beta_{15} \text{out}_i + \beta_{16-23} \text{control}_i + \varepsilon_i \qquad (2)
\end{aligned}
$$

where law_reg_dis_i and $\text{country\_risk\_dis}_i$ denote the country distance in law and regulation and in country risk between the home and host countries at the time an M&A deal i is announced, respectively. Firm-level variables Exp_succ_i and Exp_fail_i denote the respective acquirer's success and failure experience in completing past M&As. The variable Size_i denotes the acquirer's size, out_i is set to 1 for the outbound M&A i, and 0 for the inbound M&A i. We also incorporate two deal-level financial variables Stake_i and Cash_i, which denote the percentage of stake sought and full cash payment by

the acquiring firm, respectively. The vector $control_i$ includes all other country-, firm- and deal-level variables, which we explain in detail in the following section. Thus the coefficients β_{1-7} capture the main effect of country-, firm- and deal-level variables on the likelihood of deal completion (when $\beta_{8-15} = 0$), while the coefficients of the interaction terms between country- and firm-level variables and variable out_i, β_{8-13}, capture the moderating effects of M&A direction on cross-border M&A completion, which are hypothesized in H_1–H_6. β_{16-23} is a vector of coefficients of control variables.

Data

We collect cross-border M&As related to emerging markets from the SDC Mergers and Acquisitions Database. This database provides comprehensive information on worldwide M&A deals on the date of a cross-border M&A announcement, completion status, acquirer and target information, and deal-specific information. The database has been extensively used in academic research on M&As in management, finance, international business, and marketing (e.g., Dikova et al., 2010; Swaminathan, Murshed, & Hulland, 2008; Beckman & Haunschild, 2002).

To empirically examine and compare the impact of country-, firm-, and deal-level factors on the completion of the two types of cross-border M&As, we construct two samples: inbound M&As and outbound M&As. The inbound sample consists of all publicly disclosed M&As whose acquirers are from developed countries and whose targets are firms in one of four emerging markets, BRIC. The outbound sample consists of all publicly disclosed M&As whose acquirers are firms from one of the BRIC markets and whose targets are firms in developed countries. We focus on the cross-border M&As that expanded to or from these four leading emerging markets, as they have become some of fastest-growing markets in the world economy. These deals have accounted for 80% of total cross-border M&As involving emerging markets in the last decade.[3] Following Burgess and Steenkamp (2006), we use the FTSE Group's classification of "Developed Markets" to classify 24 developed countries in our two samples, including the US, the UK, Canada, Japan, France, Australia, Germany, the Netherlands, Switzerland, Sweden, Italy, Belgium, Finland, Spain, Norway, Denmark, Iceland,

New Zealand, Austria, Luxembourg, Greece, Portugal, Hong Kong, and Singapore.[4]

Cross-border M&As in our two samples span the years from 1995 to 2010, a period that includes the time in the l990s when many of these leading firms started going global. To identify reliable and meaningful data, we further select cross-border M&As in which acquirers are public firms (target firms might be either public or private firms). Focusing on publicly traded acquirers allows us to collect rich financial information regarding acquirers in our samples. Overall, our inbound and outbound samples comprise 2,736 and 747 cross-border M&As, respectively.[5] Table 1 provides the distribution statistics of the cross-border M&As in our two samples by market, time span, and completion status (see other distribution statistics of our sample by industry and by specific countries in Appendix A).

Variables

Deal Completion
The dependent variable in our empirical analysis is the completion status of announced M&As. Following the literature (e.g., Bao & Edmans, 2009; Muehlfeld et al., 2007, 2012; Dikova et al., 2010), we define deal completion to be 1 if the deal is completed and 0 otherwise. As stated earlier, the Thomson SDC's M&A database provides information concerning the announced M&As on the dates of announcement and completion, as well as the completion status (e.g., withdraw or pending). According to the literature, the median number of days to completion is about 62, with 94% of all deals completed within a year (e.g., Muehlfeld et al., 2012). Within our sample related to emerging markets, the mean number of days to completion is 68 for all deals, with 77 days for the inbound sample and 44 days for the outbound sample, respectively. Thus we considered the cross-border M&As that were pending until April of 2013, which is two and half years after 2010, to be withdrawn and coded their completion status as 0.

Legal and Regulatory Distance
Following the management and international-business literature (e.g., Meyer et al., 2009; Gubbi et al., 2010), we use the economic freedom index developed by the Heritage Foundation to construct our variable for country law and regulation distance between home and host countries. This index provides freedom scores measuring the ease of individuals and firms to pursue their business activities in a country in 10 categories graded on a scale of 0–100. As we focus on the freedom of a foreign firm to acquire and merge the home country's partner, we use a country's freedom scores in four categories, business freedom, investment freedom, financial freedom, and fiscal freedom, to derive an average score in the prior 2 years to proxy a country's legal and regulatory environment. We then measure the distance in law and regulation between two countries as the absolute

Table 1 Inbound and outbound M&As distribution

	Inbound M&A ($n = 2736$)		Outbound M&A ($n = 747$)	
	Number	Percentage	Number	Percentage
Emerging markets				
China	1275	46.6	186	24.9
India	561	20.5	443	59.3
Brazil	567	20.7	84	11.2
Russia	333	12.2	34	4.5
Developed countries				
North America	972	35.5	322	43.1
Europe	996	35.4	236	31.6
Asia[a]	768	28.1	189	25.3
Time span				
1995–1999	418	15.3	29	3.9
2000–2004	737	26.9	140	18.7
2005–2010	1581	57.8	578	77.4
Completion status				
Completed	1798	65.7	504	67.5
Uncompleted	938	34.3	243	32.5

Note: [a]Including developed countries in Asia, Australia and New Zealand.

difference of their average freedom scores. Accordingly, the higher the variable value, the larger the distance in law and regulation between the two countries.

Country-Risk Distance
In line with the literature (e.g., Johnson & Tellis, 2008; Dikova et al., 2010), we derive the country-risk distance using the country-risk score from the PRS Group's *International Risk Guide*, which provides a three-dimensional measure for each country on political, financial, and economic risk. Specifically, following Johnson and Tellis (2008), we first develop a composite country-risk measure for each country (see the explanation in the PRS Group's *International Risk Guide* and Johnson and Tellis 2008). We then measure the country-risk distance as the absolute difference between the country-risk score of the host and home country. Thus the higher the variable value, the larger the country risk distance between two countries involved.

Firm Size and M&A Experience
Similar to the previous literature (e.g., Gubbi et al., 2010; Johnson & Tellis, 2008), we measure the size of the acquirer as a natural logarithm of the acquirer's average total assets over 2 years prior to the deal announcement. Total assets are collected from Datastream and Thomson Research. Past M&A success (failure) experience is measured as the total number of completed (uncompleted) cross-border M&A deals by acquirers in the same host country as the focal M&A deal prior to that deal.

Stake Sought and Cash
We measure *Stake Sought* by using the percentage of stake that the acquirer seeks in the target firm when the focal M&A is announced and *Cash* to capture the payment method of the focal M&A deals when they are announced, such that $Cash = 1$ if the deal is paid totally through cash and 0 otherwise.

Control Variables
We adopt Hofstede's four cultural dimensions to measure the cultural distance between the home and host country in the focal cross-border M&A (Geert, 1991). Specifically, we compute the *cultural distance* as $\left[\sqrt{\sum_{i=1}^{4}(S_{A,i} - S_{T,i})^2}\right] \Big/ 4$, where $S_{A,i}$ and $S_{T,i}$ denote the cultural scores of both home and host countries on cultural dimension i. We also incorporate geographic distance, which is measured as the distance between two capital cities of two countries involved in the M&A, following the literature (e.g., Habib & Zurawicki, 2002). Following Aguilera and Dencker (2008), we measure *Industry Relatedness* to be 1 if the two SIC codes of the target and acquirer in the focal cross-border M&A are the same and 0 otherwise. The SIC codes are available from the Thomson M&A Database. We incorporate the target-firm's ownership status, *Target Status*, in our empirical analysis, such as *Target Status* = 1 when the target is a public firm and 0 otherwise. Furthermore, we also control some deal-specific variables as provided in the Thomson M&A Database. Specifically, two dummy variables are incorporated such that *Disclose* = 1 if the transaction value of the deal is reported in the SDC dataset and 0 otherwise, and *Attitude* = 1 if the manager perceived the deal as a friendly M&A and 0 otherwise. To capture market dynamics, we denote that *Competing Bidders* = 1 if a third party launched an offer for the target while this original bid was pending. Finally, we also control for fixed-year effects, fixed acquirer-country and fixed host-country effects, as well as fixed acquirer-industry and fixed target-industry effects on deal completion. The descriptive statistics of all variables are reported in Table 2.

Results
We estimate the model in Eqs. (1) and (2) by using a full sample with both the inbound and outbound samples combined. To show the main effects of the country, firm-, and deal-level factors on deal completion, we first estimate a main-effect model by excluding the interaction terms of these three-level factors with the variable *Out*. We then estimate a full model with both the main effects and interaction terms included. The estimation results are presented in the columns of Model 1 and Model 2 in Table 3, respectively. Because both the Goldfeld–Quandt test ($p < 0.01$) and White's test ($p < 0.01$) indicated that heteroskedasticity might be a potential issue for our data, we use the corrected white co-variance matrix in both probit-regression estimations to correct the heteroskedasticity issue. We also examined the multicollinearity issue. The variance-inflation factors of all our variables, which are within acceptable levels (<10), indicate that the variables are not subject to multicollinearity. Overall, as shown in Table 3, Model 2 (i.e., the full model) fits better than Model 1 (i.e., the main-effect model).

Table 2 Descriptive statistics

	Inbound M&A ($n = 2736$)		Outbound M&A ($n = 747$)	
	Mean	SD	Mean	SD
Legal and regulatory distance	30.534	9.397	33.147	7.491
Country-risk distance	9.799	6.366	9.149	5.739
M&A success experience	0.694	1.526	0.388	0.862
M&A failure experience	0.310	0.785	0.166	0.557
Stake sought	62.968	35.720	75.032	34.265
Cash	0.127	0.333	0.214	0.410
Culture distance	15.176	6.250	14.741	5.162
Acquirer size[a]	6.727	3.698	5.768	2.522
Geographic distance	8.667	0.695	8.787	0.662
Industry relatedness	0.512	0.499	0.551	0.497
Target status	0.183	0.387	0.216	0.412
Disclose	0.505	0.500	0.585	0.493
Attitude	0.895	0.306	0.931	0.252
Competing bidders	0.004	0.060	0.016	0.125

Note: [a]Acquirer size = log(total assets in million dollars). SD denotes standard deviation.

Impacts of Country-Level Factors

As shown in Model 1 of Table 3, the coefficient of country law and regulation distance is significantly negative ($\beta_1 = -0.012$, $p < 0.1$) although the coefficient of country-risk distance is insignificant ($\beta_2 = 0.003$, $p > 0.1$). Similarly, as shown in Model 2 of Table 3, the main effects of country law and regulation distance and country-risk distance remain the same after the moderating effect of M&A direction is incorporated: the coefficient of country law and regulation distance is significantly negative ($\beta_1 = -0.019$, $p < 0.05$) although the coefficient of country-risk distance is insignificant ($\beta_2 = -0.002$, $p > 0.1$).

Most importantly, when the moderating effect of M&A direction is incorporated, as shown in Model 2 of Table 3, the coefficients of the interaction terms between country law and regulation distance and *Out*, and between country-risk distance and *Out*, are significantly positive ($\beta_8 = 0.041$, $p < 0.05$ and $\beta_9 = 0.020$, $p < 0.1$). Note that the marginal interaction effects of *law_reg_dis × out* and *country_risk_dis × out* are not simply captured in β_8 and β_9 (see Ai & Norton, 2003; Norton, Wang, & Ai, 2004). Following the formula in Ai and Norton (2003) and Norton, Wang, and Ai (2004), we derived the marginal interaction effect of law and regulation distance and country-risk distance with M&A direction based on the estimation of Model 2 in Table 3. Specifically, the marginal interaction effects are 0.014 ($p < 0.01$) for *law_reg_dis × out* and 0.007 ($p < 0.10$) for *country_risk_dis × out*, respectively, when using sample means of all other variables. These results suggest that country distance (i.e., in law and regulation and in country risk) decreases the chance for acquirers to conclude an announced M&A, which is consistent with the findings in prior research (Dikova et al., 2010) based on a sample of cross-border M&As between developed countries. However, such a negative impact is stronger for inbound M&As than for outbound. Thus we found empirical evidence supporting $H_1(a)$ and $H_2(a)$, instead of $H_1(b)$ and $H_2(b)$.

Impact of Firm-Level Factors

Contrary to the negative impact of country-level distance, we hypothesize in H_3 and H_4 that acquirers' experience has a generally positive impact on deal completion but to different extents for inbound and outbound M&As. However, as shown in Model 1 of Table 3, while the coefficient of acquirers' past success experience in completing past deals is significantly positive ($\beta_3 = 0.132$, $p < 0.01$), surprisingly, the coefficient of acquirers' past failure experience in completing past deals is significantly negative ($\beta_4 = -0.185$, $p < 0.01$). These results imply that while an acquirer's past success experience in completing M&A deals is beneficial to the completion of subsequent deals, past failure experience is detrimental to the completion of future M&As.

To see the moderating effect of M&A direction on deal completion, as shown in the results of Model 2 in Table 3, we found that the coefficients of the interaction term between acquirers' past experience and *Out* are significantly positive ($\beta_{10} = 0.208$,

Table 3 Impact of three-level factors on cross-border M&A completion

Variables	Model 1	Model 2
Legal and regulatory distance	−0.012*	−0.019**
	(0.008)	(0.009)
Country-risk distance	0.003	−0.002
	(0.008)	(0.009)
M&A success experience	0.132***	0.115***
	(0.024)	(0.025)
M&A failure experience	−0.185***	−0.153***
	(0.034)	(0.037)
Stake sought	0.003***	0.003**
	(0.001)	(0.001)
Cash	0.152**	0.245***
	(0.076)	(0.090)
Acquirer size	0.054***	0.048***
	(0.009)	(0.009)
Legal and regulatory distance*out		0.041**
		(0.018)
Country risk distance*out		0.020*
		(0.015)
M&A success experience*out		0.208***
		(0.078)
M&A failure experience*out		−0.183*
		(0.120)
Stake sought*out		−0.004***
		(0.002)
Cash*out		−0.336**
		(0.153)
Size*out		0.062**
		(0.028)
Out		−1.788**
		(0.800)
Culture distance	0.00	0.008
	(.013)	(0.013)
Geographic distance	0.007	0.026
	(0.083)	(0.084)
Industry relatedness	−0.019	−0.015
	(0.050)	(0.050)
Target status	−0.128*	−0.137**
	(0.078)	(0.077)
Disclose	0.356***	0.358***
	(0.054)	(0.053)
Attitude	0.059	0.059
	(0.082)	(0.082)
Competing bidders	−0.806***	−0.748***
	(0.288)	(0.292)
Fixed-year effect	YES	YES
Fixed-acquire nation effect	YES	YES
Fixed-target nation effect	YES	YES
Fixed-acquire industry effect	YES	YES
Fixed-target industry effect	YES	YES
Log-likelihood	−1955.887	−1940.872
Pseudo R2	0.110	0.117
Sample size	3431	3431

Note: Numbers in parentheses are standard errors. When controlling for the fixed-country effects, the final sample size becomes $N = 3431$ because some data are dropped due to lack of variation.
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, one tail test.

$p < 0.01$) for past success experience but significantly negative for past failure experience ($\beta_{11} = -0.183$, $p < 0.1$). Similarly, we also derived the marginal interaction effects of $Exp\_Suc \times Out$ and $Exp\_Fail \times Out$ using the sample means of all other variables, which are 0.071 ($p < 0.01$) for $Exp\_Suc \times Out$, but -0.056 ($p < 0.1$) for $Exp\_Fail \times Out$, respectively. These results demonstrate empirical evidence supporting our hypotheses H_3(a) and H_4(b), instead of H_3(b) and H_4(a), implying that, while past success experience is more beneficial for emerging-market acquirers in outbound M&As, past failure experiences are more detrimental to these acquirers than to their counterparts in inbound M&As.

Impact of Deal-Level Factors
Our estimation results also reveal interesting impacts of deal-level factors. For example, our results in Model 1 of Table 3 show that the impacts of stake sought and cash payment are significantly positive ($\beta_5 = 0.003$, $p < 0.01$, and $\beta_6 = 0.152$, $p < 0.05$), without incorporating the moderating effect of M&A direction. However, when distinguishing M&A direction, as shown in Model 2 of Table 3, the coefficients of the interaction terms of $Stake\_sought \times Out$ and of $Cash \times Out$ are significantly negative ($\beta_{12} = -0.004$, $p < 0.01$ and $\beta_{13} = -0.336$, $p < 0.05$). Following Ai and Norton (2003) and Norton, Wang, and Ai (2004), we also derive the marginal interaction effects of $Stake \times Out$ and $Cash \times Out$ using the sample means of all other variables, which are significantly negative, -0.001 ($p < 0.01$) for $Stake \times Out$ and -0.112 ($p < 0.05$) for $Cash \times Out$, respectively. To further examine the net impacts of stake sought and cash payment for inbound and outbound M&As, we compute their marginal impacts when $Out = 0$ and $Out = 1$, respectively. Most interestingly, we find that the net impacts of stake sought and cash payment are significantly positive (0.001, $p < 0.01$; and 0.068, $p < 0.01$; respectively) for inbound M&As (i.e., $Out = 0$), but negative (-0.0002, $p > 0.1$; and -0.034, $p < 0.1$, respectively) for outbound M&As (i.e., $Out = 1$). These opposing results imply that, although a larger percentage of stake sought and full cash payments can help increase the probability of completing inbound M&As, doing so may decrease the probability of completing outbound M&As. Hence our empirical results support H_5(a) and H_6(a) regarding the impact of stake sought and cash payment for inbound M&As. For outbound M&As, we found significant empirical evidence supporting our hypothesis concerning the impact of cash payment in H_6(b) but not regarding the impact of stake sought in H_5(b).

Robustness and Validity of Results

To examine the robustness and validity of our results, we perform several additional analyses. We first examine whether or not our results in Table 3 are robust when we use alternative measures of law and regulation distance. In the international business literature some studies have also used country governance indicators, as developed by the World Bank, to measure countries' distance in law and regulation (e.g., Kaufmann, Kraay, & Mastruzzil, 2003, Cuervo-Cazurra & Genc, 2008). Following these studies, we calculate the absolute difference using the score of rule of law, a governance indicator, between the home and host countries of a cross-border M&A. We then re-estimate our Model 2 using this new measure of law and regulation distance and present the estimation results in Model B1 in Appendix B. As shown, our key results still hold when this alternative measure is used.

Second, we also examine the robustness of our results using an alternative measure of acquirer experience in cross-border M&As. In Table 3, we use a measure of acquirer country-specific success experience (i.e., the number of cross-border M&As completed in the same specific host country as the focal M&A in the past) in the estimation of our Model 2. An alternative measure of acquirer experience in cross-border M&As is the acquirer's global success (failure) experience, which can be measured as the total number of cross-border M&As that the acquirer has completed (not completed) in the past, regardless of whether the host country is same as the focal M&A deal. Incorporating the success and failure experience at a global level, as presented in Appendix B under Model B2, reveals that our key estimation results still hold at a more significant level.

Third, we estimate our Model 2 using several subsamples separately.[6] Specifically, we estimate our model by using five subsamples, respectively: (1) inbound and outbound samples, as we previously introduced; (2) China sample only; (3) India sample only; (4) Brazil and India samples combined;[7] and (5) Brazil, India, and Russia samples combined. The estimation results are reported in Appendix C. As shown in the first and second columns of Appendix C, our results in Table 3 still hold when we estimate our model using the inbound and outbound samples separately. As also shown in Appendix C, when we use different country samples in the Model 2 estimation, results remain generally consistent, although the significance level might vary (e.g., the China sample has less significant results).

Finally, we test whether or not our estimation is subject to sample selection bias. A potential country-selection bias might exist because cross-border M&As involve decisions based not only on which target companies to acquire or merge, but also on the choice of country expansion. To address this issue, we applied the Heckman two-stage estimation approach in our estimation of Model 2 by controlling the country-selection decision. Specifically, we estimate a country-selection equation in the first stage and then incorporate a correction term, derived based on the first-stage estimation, in the second-stage estimation of our Model 2 to correct for a potential country-selection bias. To simplify the first-stage estimation of the country-selection decision, we model a dichotomous decision such that the country-selection variable Y is defined as 1 if the announced cross-border M&As were initiated from (1) developed countries and expanded to emerging markets, or (2) from developing countries and expanded to developed markets. Otherwise, Y is defined as zero.[8] We then model this dichotomous decision as a function of culture distance, geographic distance, country risk distance, rule and regulation distance, firm- and deal-level variables, and control variables. The Heckman two-stage estimation demonstrates that the coefficient of Mills' ratio is not significant, suggesting that the country-selection bias is not a severe issue in our estimation (see results in Appendix D). More importantly, as shown in Appendix D, we find consistent results regarding the impacts of the three-level factors and the moderating effects of M&A direction on deal completion when the country-selection decision is controlled.

CONCLUSION

With rapid economic development in recent decades, emerging markets have become not only global centers attracting thousands of foreign-direct investments via cross-border M&As, but also global contenders with many of their companies using M&As as a main globalization strategy for aggressive expansion. Clearly, it is challenging for both multinationals from developed countries to expand into emerging markets and upstart companies from emerging markets to expand into global markets. Processing cross-border M&As and managing post-M&A integration is also difficult. While the extant literature has extensively studied the

factors that impact post-M&A performance and has focused mainly on cross-border M&As related to developed markets, the impact of success in processing a cross-border M&A and how global expansion via cross-border M&As related to emerging markets differ in direction (i.e., *to* vs. *from* emerging markets) has been largely ignored. This article examines an important period in the process of a cross-border M&A, i.e., the public-takeover period (i.e., from when an intended cross-border M&A is announced to the completion of such an announced M&A), and investigates (1) the influential factors affecting the completion of cross-border M&As related to emerging markets; and (2) how the impact of these factors differs in global expansion via cross-border M&As *to* emerging markets (i.e., inbound M&As) and *from* emerging markets (i.e., outbound M&As).

Managerial Implications
Despite vast opportunities, engaging in and completing cross-border M&As related to emerging markets is highly uncertain. Given the substantive costs (i.e., monetary, reputational, and information cost) from a cross-border M&A failure, it is critical for global companies to understand how they can enhance the chance of completion success. To illustrate some specific managerial insights, using the estimated Model 2 based on our BRIC sample, we predict the completion probability of inbound and outbound M&As by varying different values of country-, firm- and deal-level factors. Specifically, given our Model 2 and the estimated parameters in Table 3, we calculate the predicted probability of deal completion for inbound M&As (i.e., when $Out = 0$) and outbound M&As (i.e., when $Out = 1$) by varying different values of one factor at a time from seven influential factors such as country law and regulation distance, country risk distance, acquirer size and experience (i.e., both success and failure experience), stake sought, and cash payment, while keeping all other variables at their mean levels. Accordingly, we depict seven figures of these predicted probabilities in Figure 3a–g. These figures clearly illustrate the differences in how country-, firm- and deal-level factors affect deal completion of cross-border M&As to and from emerging markets and provide specific managerial insights discussed below.

First, as shown in Figure 3a–g, the predicted probability of completing outbound M&As is, in most cases, lower than that of inbound M&As, which illustrates the liability of foreignness of acquirers from emerging markets and disadvantages that they are facing in completing oversea M&As in developed economies. However, as country distance becomes larger, the advantages in completing cross-country M&As by acquirers from developed economies diminish (as shown in Figure 3a and b), reflecting the stronger negative impact of country distance on deal completion for inbound M&As. In particular, when the country's legal and regulatory distance is greater than 40, as shown in Figure 3a, the predicted probability of completing inbound M&As becomes lower than completing outbound M&As. This finding implies that, when engaging in cross-border M&As between two countries with significantly larger distance in their legal and regulatory environment, acquirers from developed markets can have an even lower success rate than their counterparts from emerging markets in completing M&As. These predicted probabilities of completing cross-border M&As suggest that it may be safer for multinationals from developed economies not to expand to countries with significantly larger differences in their institutions or at the very least to pay extremely close attention to the emerging markets' investment environment (i.e., the possibility of adverse changes) during the public-takeover period.

On the contrary, Figure 3a and b also suggest that the success rate is not necessarily lower even if acquirers from emerging markets expand to a developed country with greater differences in legal and regulatory environments. While still important, understanding country-level differences is less of a problem for newcomers from emerging markets, since the relatively reliable and predictable financial, legal, and economic systems in developed nations makes it considerably easier for them to learn and prepare during the very early stage of an M&A. In other words, acquirers from emerging markets should not be discouraged if they consider expanding to a country with significantly greater differences in their legal and regulatory environment.

Second, to improve the success rate of completing a cross-border M&As in developed countries, it is critical for acquirers from emerging markets to expand and gain more experience in cross-border M&As, as shown in Figure 3c and d. In particular, when acquirers from emerging markets grow to be about a size value of 15, which represents about
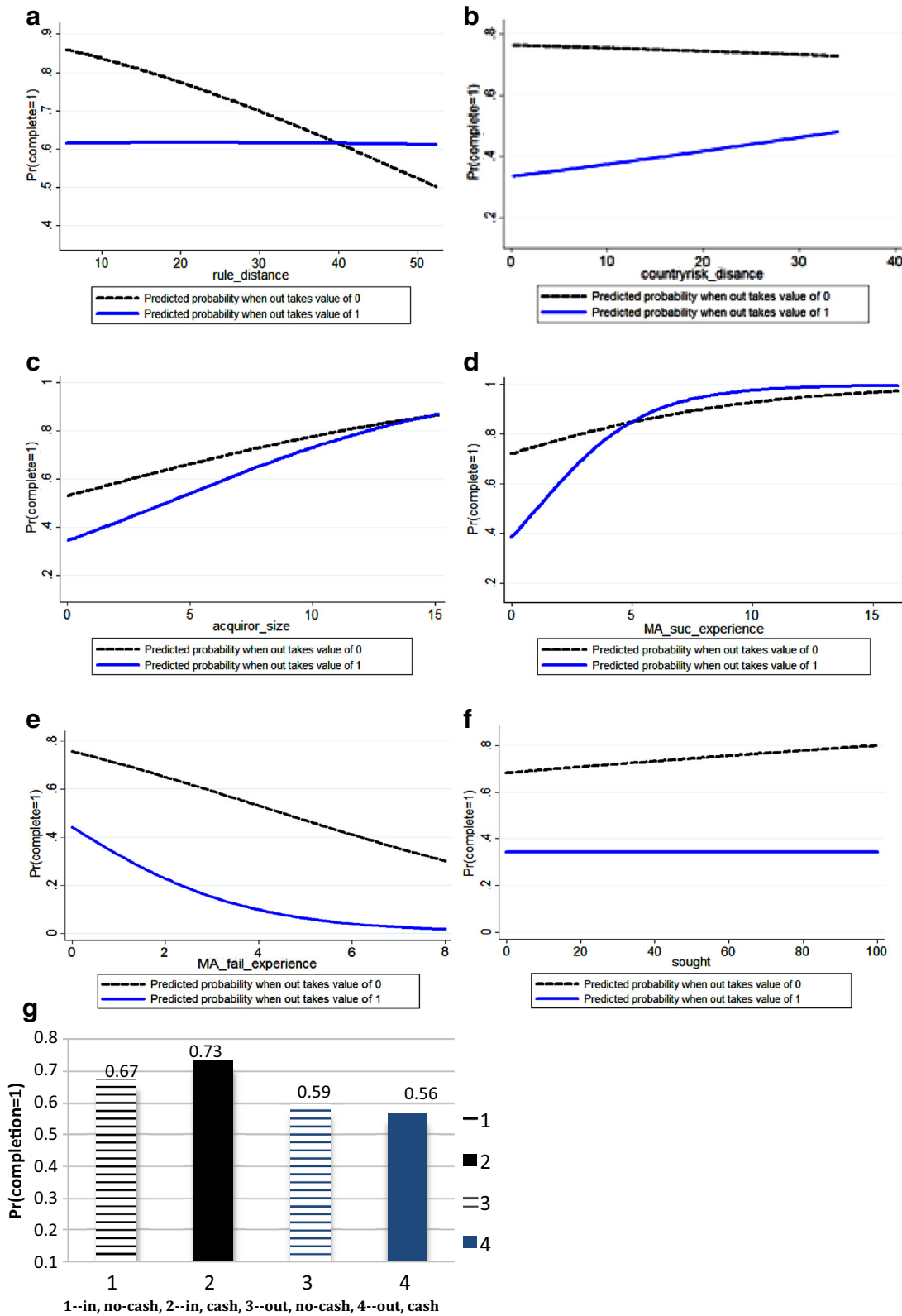
Figure 3 Simulated impacts of three-level factors on cross-border M&A completion.

$2,000 billion in total assets, or gain more than five M&A success experiences in a specific country, they can achieve the same level of success as multinationals from developed economies in completing cross-border M&As. These predicted probabilities in Figure 3a–d suggest that the challenge to emerging-market companies lies in whether or not (1) the newcomers have capital assets and past M&A success experience in selecting the right acquisition target; (2) they can cobble together a network of experienced investment banker and lawyers; and (3) they can manage skeptical regulators, unions, and stakeholders in the developed countries during the deal-renegotiation stage.

Third, our results on the impact of past failure experience raise caution to acquirers from both developed and emerging countries. As shown in Figure 3d and e, past success and failure experience create opposite impacts on the completion probability; that is, although past success experience creates benefits to both types of acquirer, past failure experience can be detrimental. Furthermore, Figure 3e also shows that the negative impact of a past failure experience is stronger for acquirers from emerging markets, indicating an even more detrimental influence on them from past failure experience. These figures not only further demonstrate how hard it is for acquirers to learn from past failure experience given the extremely high level of complexity, unfamiliarity, and uncertainty involved, but they also indicate that acquirers may need to reevaluate and improve their internal management and learning capabilities. To prevent further failure, acquirers may need to consider other relatively easier countries for cross-border M&As. This is especially critical for emerging-market acquirers, because an earlier success can create tremendous learning benefits, whereas an earlier failure can be destructive to future cross-border M&As.

Finally, Figure 3f–g clearly demonstrate the differences in the impact of deal-level factors on the completion of the two types of cross-border M&A. For example, Figure 3f and g show that owning a larger percentage of stakes or paying 100% cash can significantly improve the probability of completing inbound M&As, but these actions can be harmful in outbound M&As. For inbound M&As, a larger percentage of stake sought can help increase the completion rate because the emerging markets, as the host countries in the inbound M&A deals, are in greater need of capital investment. Thus a larger

commitment motivates the target company and possibly the local government to facilitate the deal completion. However, for outbound M&As, while a higher stake sought and a full cash payment can motivate the target company and the local government to collaborate, they can create M&A risk and host country's antitrust and national security concerns, which reduces the completion rate. Therefore Figure 3f and g together imply that, while both a larger stake sought and full cash payments are effective in increasing the completing probability for inbound M&As, they can be damaging for outbound M&As.

Limitations and Further Research
This article is subject to several limitations that provide opportunities for future research. First, as an initial study in examining the completion failure of global expansions, we focus on cross-border M&As related to four fastest-growing emerging markets, BRIC. It would also be interesting to investigate the failure to complete cross-border M&As from other emerging markets. Second, due to lack of data availability, we focus in our study on only public acquirers. Further research can examine the generalizability of our results by including both public and private acquirers when more data on private firms become available. Using such data, future studies might also explore how the completion of global expansion differs in acquirers' public status as well as in the M&A direction (i.e., to and from emerging markets). Finally, it would also be interesting to investigate how the failure to complete a cross-border M&A impacts the acquirer. For example, would the announcement of withdrawal from an announced M&A impact the acquirers in a different (asymmetric) way for outbound and inbound M&As? Future studies could apply the event-study methodology to examine the potentially asymmetric impact of completion vs. withdrawal from a cross-border M&A.

NOTES
[1]In hostile M&As, an acquirer might not go through thorough negotiation with the target company in the pre-completion stage, as the target management refuses the acquirer's M&A proposal. In these cases, the acquirer may simply announce its intention to

acquire a specific target company without reaching any mutual agreement with the target before a public announcement (Muehlfeld et al., 2012).

[2]http://articles.washingtonpost.com/2011-04-02/world/35230664_1_foreign-direct-investment-fdi-kaushik-basu.

[3]According to a recent new classification of emerging and growth-leading economies by BBVA Research, we include cross-border M&As to and from the following ten countries as the total number of cross-border M&As to and from emerging markets: BRIC, South Korea, Indonesia, Mexico, Turkey, Egypt, and Taiwan.

[4]These 24 are classified as developed countries in the following widely used country-classification indices: The United Nation's Human Development Index (HDI), International Monetary Fund (IMF)'s list of Advanced Economies, FTSE Group's classification of developed markets, and the Central Intelligence Agency (CIA)'s list of developed countries.

[5]We also tested our hypotheses by excluding a small sample of confounding takeovers in which (1) the target company became the majority owner of the new company after the merger and was classified as an acquirer in the SDC dataset, and (2) SDC may mistakenly treat the financing closing date as the deal closing date. Our key findings still hold after the sample of confounding cases was excluded. The estimation results are available upon request from the authors.

[6]We also estimated an extended sample by including not only the two types of cross-border M&As in our main analysis (i.e., (1) from developed to emerging markets (D to E), and (2) from emerging to developed markets (E to D)), but also two additional types of M&As (i.e., (3) from developed to developed markets (D to D), and (4) from emerging to emerging markets (E to E). Our key findings still hold when using this extended sample. The estimation results are available upon request from the authors.

[7]There were only 33 and 83 outbound M&As in the Brazil and Russia samples, respectively. These amounts were too small to estimate Model 2 using each separate sample from Brazil and Russia.

[8]We thank the anonymous reviewers for providing us constructive suggestions as to how to test the country selection bias by using a dichotomous country-selection model.

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APPENDIX A

Table A1   Industry distribution of cross-border M&As

Sample description	Inbound M&A (n = 2736)		Outbound M&A (n = 747)	
	Number	Percentage	Number	Percentage
Acquirer industry				
Agr. and cons. product	240	8.8	49	6.6
Manufacturing	1153	42.1	349	46.7
Utilities and transportation	261	9.5	39	5.2
Wholesale and retail trade	158	5.8	11	1.5
Financial services	430	15.7	50	6.7
Tourism and misc. service	494	18.0	249	33.3
Target industry				
Agr. and cons. product	301	11.0	75	10.0
Manufacturing	1117	40.8	246	32.9
Utilities and transportation	274	10.0	49	6.6
Wholesale and retail trade	160	5.8	36	4.8
Financial services	294	10.7	82	10.9
Tourism and misc. service	590	21.6	259	34.7

Table A2   Developed country distribution of cross-border M&As

Inbound M&A (n = 2736)			Outbound M&A (n = 747)		
United States	801	29.3%	United States	270	36.1%
Hong Kong	385	14.1%	Hong Kong	90	12.0%
United Kingdom	212	7.7%	United Kingdom	84	11.2%
France	178	6.5%	Singapore	44	5.9%
Canada	171	6.3%	Canada	43	5.8%
Japan	147	5.4%	Australia	42	5.6%
Singapore	141	5.2%	Germany	38	5.1%
Germany	100	3.7%	Italy	20	2.7%
Australia	89	3.3%	France	15	2.0%
Switzerland	83	3.0%	Belgium	14	1.9%
Sweden	81	3.0%	Netherlands	10	1.3%
Netherlands	80	2.9%	Japan	9	1.2%
Spain	54	2.0%	Finland	9	1.2%

Table A2 continued

Inbound M&A ($n = 2736$)			Outbound M&A ($n = 747$)		
Finland	38	1.4%	Spain	8	1.1%
Italy	35	1.3%	Switzerland	8	1.1%
Belgium	27	1.0%	Portugal	8	1.1%
Portugal	27	1.0%	Luxembourg	8	1.1%
Norway	20	0.7%	Denmark	7	0.9%
Luxembourg	19	0.7%	Norway	5	0.7%
Austria	17	0.6%	Austria	5	0.7%
Denmark	14	0.5%	New Zealand	4	0.5%
New Zealand	6	0.2%	Greece	3	0.4%
Iceland	6	0.2%	Sweden	3	0.4%
Greece	5	0.2%	Iceland	0	0.0%

APPENDIX B

Table B1   Robustness of results

Variables	Model B1 (Alt. measure of legal and regulatory distance)	Model B2 (Global experience used)
Legal and regulatory distance	−0.236 (0.232)	−0.018** (0.009)
Country-risk distance	−0.005 (0.011)	−0.004 (0.009)
M&A success experience	0.112*** (0.025)	0.006** (0.003)
M&A failure experience	−0.130*** (0.037)	−0.031*** (0.012)
Stake sought	0.004*** (0.001)	0.003*** (0.001)
Cash	0.215** (0.094)	0.244*** (0.089)
Acquirer size	0.051*** (0.010)	0.055*** (0.011)
Legal and regulatory Distance*out	1.217*** (0.470)	0.044*** (0.018)
Country risk distance*out	0.014 (0.016)	0.022* (0.015)
M&A success experience*out	0.180** (0.080)	0.088*** (0.039)
M&A failure experience*out	−0.212** (0.120)	−0.192*** (0.054)
Stake sought*out	−0.004** (0.002)	−0.004** (0.002)
Cash*out	−0.268** (0.159)	−0.348*** (0.152)
Size*out	0.063** (0.029)	0.062** (0.029)
Out	−2.298*** (0.876)	−1.897*** (0.804)
Culture distance	0.016 (0.014)	0.010 (0.013)

Table B1   (Continued)

Variables	Model B1 (Alt. measure of legal and regulatory distance)	Model B2 (Global experience used)
Geographic distance	0.0005 (0.088)	−0.003 (0.084)
Industry relatedness	0.024 (0.054)	−0.025 (0.051)
Target status	−0.110* (0.084)	−0.112* (0.078)
Disclose	0.357*** (0.056)	0.353*** (0.054)
Attitude	0.105 (0.089)	0.039 (0.082)
Competing bidders	−0.788*** (0.294)	−0.753*** (0.298)
Fixed-year effect	YES	YES
Fixed-acquirer nation effect	YES	YES
Fixed-target nation effect	YES	YES
Fixed-acquirer industry effect	YES	YES
Fixed-target industry effect	YES	YES
Log-likelihood	−1752.186	−1961.260
Pesudo R2	0.114	0.108
Sample size	3054	3431

Note: Numbers in parentheses are standard errors. We use the alternative measure of legal and regulatory distance by calculating the absolute difference of rule of law, a governance indicator, between the home and host countries of a cross-border M&A. The sample size is smaller in Model B1 due to missing data in the measure of legal and regulatory distance in the year of 1995, 1997, 1999 and 2001 that we derived based on the country governance datasets provided by the World Bank. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (one tail test).

APPENDIX C

Table C1 Estimation results using several subsamples

Variables	By M&A direction		By emerging countries			
	Inbound M&As	Outbound M&As	India only	China only	Brazil and India	Brazil, India and Russia
Legal and regulatory distance	−0.016**	0.014	−0.016	0.0004	−0.023	−0.034***
	(0.009)	(0.021)	(0.027)	(0.018)	(0.018)	(0.014)
Country-risk distance	−0.004	0.030*	−0.034	−0.018	−0.009	0.006
	(0.009)	(0.022)	(0.028)	(0.020)	(0.018)	(0.015)
M&A success experience	0.115***	0.370***	−0.005	0.204***	0.071**	0.067***
	(0.024)	(0.075)	(0.059)	(0.044)	(0.038)	(0.025)
M&A failure experience	−0.150***	−0.290***	−0.236***	−0.168***	−0.213***	−0.132**
	(0.036)	(0.120)	(0.094)	(0.047)	(0.078)	(0.066)
Stake sought	0.003***	0.0003	0.005***	0.005***	0.003**	0.003**
	(0.001)	(0.002)	(0.002)	(0.001)	(0.0015)	(0.001)
Cash	0.270***	−0.205*	0.347**	0.177*	0.422***	0.386***
	(0.091)	(0.150)	(0.187)	(0.130)	(0.149)	(0.135)
Acquirer size	0.049***	0.086***	0.043**	0.052***	0.034**	0.038***
	(0.009)	(0.029)	(0.024)	(0.012)	(0.018)	(0.015)
Legal and regulatory distance*out			0.014	0.051**	0.029	0.048**
			(0.036)	(0.027)	(0.032)	(0.027)
Country risk distance*out			0.036*	−0.091*	0.025*	0.032**
			(0.022)	(0.057)	(0.019)	(0.017)
M&A success experience*out			0.294***	0.130	0.226***	0.256***
			(0.106)	(0.221)	(0.094)	(0.084)
M&A failure experience*out			−0.068	−0.360*	−0.126	−0.180*
			(0.159)	(0.275)	(0.157)	(0.139)
Stake sought*out			−0.006**	−0.004	−0.004**	−0.003*
			(0.003)	(0.003)	(0.003)	(0.002)
Cash*out			−0.657***	−0.163	−0.605***	−0.528***
			(0.252)	(0.281)	(0.222)	(0.201)
Size*out			0.101**	0.017	0.087**	0.081**
			(0.045)	(0.047)	(0.041)	(0.037)
Out			−1.487	−0.006	−1.945*	−2.646**
			(1.436)	(1.195)	(1.302)	(1.165)
Culture distance	0.007	0.006	−1.082*	0.286	−0.057*	−0.025
	(0.014)	(0.031)	(0.791)	(0.231)	(0.035)	(0.021)
Geographic distance	0.027	0.028	−1.493**	−0.017	−0.068	−0.054
	(0.088)	(0.270)	(0.856)	(0.506)	(0.187)	(0.109)
Industry relatedness	0.005	−0.082	−0.103	0.075	−0.179**	−0.108*
	(0.057)	(0.121)	(0.104)	(0.078)	(0.082)	(0.072)
Target status	−0.171**	0.062	−0.099	−0.140	−0.102	−0.121
	(0.087)	(0.177)	(0.147)	(0.148)	(0.116)	(0.101)
Disclose	0.323***	0.559***	0.420***	0.449***	0.304***	0.316***
	(0.060)	(0.123)	(0.105)	(0.080)	(0.085)	(0.075)
Attitude	0.011	0.342*	0.340**	0.027	0.227**	0.108
	(0.090)	(0.219)	(0.166)	(0.121)	(0.137)	(0.120)
Competing bidders	−0.351	−1.230***	−0.691	−1.766***	−0.598*	−0.587**
	(0.417)	(0.424)	(0.539)	(0.651)	(0.394)	(0.352)
Fixed-year effect	YES	YES	YES	YES	YES	YES
Fixed-acquire nation effect	YES	YES	YES	YES	YES	YES
Fixed-target nation effect	YES	YES	YES	YES	YES	YES
Fixed-acquirer industry effect	YES	YES	YES	YES	YES	YES
Fixed-target industry effect	YES	YES	YES	YES	YES	YES

Table C1 (*Continued*)

Variables	By M&A direction		By emerging countries			
	Inbound M&As	Outbound M&As	India only	China only	Brazil and India	Brazil, India and Russia
Log-likelihood	−1523.349	−401.665	−539.119	−873.995	−797.563	−1015.062
Pesudo R2	0.122	0.132	0.124	0.116	0.129	0.116
Sample size	2700	731	962	1438	1560	1969

Note: ***p < .001, **p < 0.05, *p < 0.10 (at one tailed test).

APPENDIX D

Table D1 Heckman two-stage estimation results

Variables	First-stage selection model N = 37806	Main model N = 3431
Legal and regulatory distance	0.071*** (0.022)	−0.027*** (0.010)
Country risk distance	0.133*** (0.019)	−0.009 (0.009)
M&A success experience	−0.0023** (0.0013)	0.122** (0.024)
M&A failure experience	0.032*** (0.013)	−0.158** (0.036)
Stake sought	−0.0013** (0.0008)	0.004*** (0.001)
Cash	−0.423*** (0.095)	0.289*** (0.090)
Acquirer size	−0.067*** (0.006)	0.054*** (0.009)
Legal and regulatory distance*out	0.437*** (0.065)	0.053*** (0.019)
Country risk distance*out	0.053 (0.052)	0.028** (0.016)
M&A success experience*out	−0.060 (0.226)	0.213*** (0.081)
M&A failure experience*out	0.192 (0.513)	−0.150* (0.110)
Sought*out	−0.014** (0.008)	−0.004** (0.002)
Cash*out	3.065*** (0.733)	−0.405*** (0.154)
Size*out	−0.308*** (0.077)	0.045* (0.028)
Out	1.021 (1.431)	−2.255*** (0.828)
Culture distance	0.022 (0.021)	0.006 (0.013)

Table D1 (*Continued*)

Variables	First-stage selection model N = 37806	Main model N = 3431
Culture distance square	−0.0013** (0.0007)	
Geographic distance	0.835*** (0.051)	−0.012 (0.087)
Geographic distance square	−0.597*** (0.053)	
Legal and regulatory distance square	0.002*** (0.0004)	
Country-risk distance square	0.003*** (0.001)	
Industry relatedness	0.159*** (0.055)	0.006 (0.048)
Target status	0.994*** (0.069)	−0.112* (0.080)
Disclose	−0.125** (0.059)	0.329*** (0.054)
Attitude	0.313*** (0.103)	0.005 (0.087)
Competing bidders	−0.719*** (0.319)	−0.721*** (0.301)
Mills' ratio		−0.155 (0.122)
Fixed-year effect	YES	
Fixed acquire-nation effect	YES	
Fixed target-nation effect	YES	
Fixed acquire-industry effect	YES	
Fixed target-industry effect	YES	
Log-likelihood	−3274.759	

Note: ***p < .001, **p < .05, *p < .10 (at one tailed test).

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