LUISS Guido Carli

LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

DEPARTMENT OF BUSINESS AND MANAGEMENT

COURSE OF INTERNATIONAL BUSINESS

"Domestic versus Cross-border Mergers and Acquisitions: the role of target company's proximity"

SUPERVISOR

Prof. Alessandro Marino

CANDIDATE

Valeria Capobianco
Mat. 674691

CO- SUPERVISOR

Prof. Michele Battisti

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Table of Contents

ABSTRACT

Does proximity matter? By comparing domestic and cross-border mergers and acquisitions, the work in object is aimed to verify if the proximity of the target company is a condition that moderates or affect the impact of the acquirer company on the acquired one, in terms of target's sales variation.

According to a sample of 649 transactions, both domestic and cross-border, completed between 2013 and 2016, the impact in terms of sales variations over the target company results higher when the deal takes place within the country of the acquirer. Therefore, if the impact is positive, a domestic transaction will significantly outperform a cross-border one, all things being equal and whether the domestic transaction is not successful, it will be significantly worse than the cross-border one, things being equal. The higher impact is determined by proximity factors as the same economic and legal system, the same culture, less employment friction as well to the risk propensity of the acquirer company, significantly higher in domestic transactions. The downside of the risk attitude determines, indeed, greater revenues and profits if the transaction is successful but huge losses if not.

INTRODUCTION

M&As represent a phenomenon that has kept on growing in intensity and frequency during the years. At first, firms used to engage the most in domestic transactions, characterized by the fact that the M&A took place within the country of the acquirer itself. Suddenly, the increasing globalization has determined the tendency of acquirers to look out of their countries' borders looking for opportunities in foreign markets. Thus, cross-border M&As have become an important reality.

This topic has been analyzed by a huge body of literature and the domestic and international approaches have been studied and compared according to different parameters in order to determine which choice could be the most profitable one for investors. The purpose of the thesis is to give a contribute to the existing literature and focus on the possible reasons that determine the choice of investors.

In fact, by comparing domestic and cross-border mergers and acquisitions, this thesis is aimed to find out if the location where the deal takes place is a relevant factor that has a significant influence on the performance of the target company after the M&A has taken place, making it a successful strategy for investors.

This thesis is divided in four chapters.

The first chapter introduces to the topic of M&As to grant the general understanding of the phenomenon and present the main phases of its development. It will be divided into two main sections: the first one will focus on the description and categorization of mergers and acquisitions firstly according to the relatedness of business activities and then to their strategic purpose. The second section describes the periods characterized by more intense M&As activities. These six periods are denoted as Merger waves and will be presented according to their most relevant features.

The second chapter is divided in two parts. The most important and accepted rationales of M&As such as the potential synergies, the increase in market power, the diversification, the management goals will be presented. Some of them arise from the theory of the industrial organization and refer to the increase of the market power, efficiency gains and preemptive motives. Some others rely on corporate governance theories and refer to motives such as the correction of internal inefficiencies, agency

problems and capital market imperfections.
In this part, also the general challenges of the M&A activity will be explained. Following, there will be a focus on cross-border M&As. In fact, the specific rationales of international transactions with the related challenges will be presented.

The third chapter presents the process of due diligence. This is a process that has grown in importance in recent years. It has, indeed, now become a very crucial step that should anticipate any M&A deal, since it may prevent investors from losses and failure. The different steps composing the process will be explained according to their most relevant features. The last part of the chapter, will focus on the differences in risk attitudes and due diligence approaches between domestic and cross-border deals. Domestic investors, in fact, are less cautious when performing a domestic transaction within their country and therefore, they are more likely to take a certain amount of risk.

The fourth chapter can be considered as the core of the thesis, since it includes the empirical analysis and the different steps that have made possible its realization.
The first part focuses on the motives that have determined the choice to analyze the phenomenon of domestic and cross-border M&As. Following, the presentation of the important steps of data collection and sample construction. The third section of the chapter includes the formulation of the research question and the explanation of the regression model applied in the analysis. To conclude, the explanation of the empirical findings and their implications will be presented.

CHAPTER 1: INTRODUCTION TO M&As

The first chapter is aimed to present and describe the phenomenon of M&As. According to the structure of the chapter, it will be divided in two main sections: the first one will focus on the description and categorization of mergers and acquisitions according to the most used classifications of researchers. In a second moment, the periods characterized by more intense activities will be described and presented according to their most relevant features.

1.1 M&As Overview

It is important to say that a company may decide to undertake different types of strategies for growing. A primary and basic distinction is between the internal growth and the external growth.

In order to realize a strategy of internal growth, a company focuses on the exploitation of its already existing resources and capabilities. The objective is to realize new activities and increase the productive capacity, letting the firm augment its own market share and gain advantages with respect to competitors.

By a juridical point of view, this strategy involves only one subject: the firm itself. On the one hand, this choice can be quite advantageous since the firm can manage on its own how to implement the strategy. On the other hand, making an internal restructuring do also involve a lot of time and therefore, it could be a slow process. Since companies operate in a dynamic and competitive framework, they often look for other solutions, outside of the enterprise.

That is why a very common approach is to implement the external growth strategy, that can be realized through partnerships, deals, joint ventures or, on the other side through mergers and acquisitions.

M&A is a common term used to refer to mergers and acquisition, often considered as a single area of interest. It is a concept involving the consolidation of different companies or assets. A merger means a combination of two companies, while an acquisition involves the purchase of one company by another one. After a merger, the target company ceases to exist and becomes part of the acquiring one. An acquisition occurs when one entity takes ownership of another entity's stock, equity interests and assets.

Merger is a significantly more complex operation than the acquisition. In fact, while an acquisition is characterized by the fact that both the acquiring and the acquired companies keep on existing and operating as two separate juridical entities, in a merger, the acquired company stops being and independent juridical body.

1.2 M&A Types[1]

Analyzing the evolution of the M&As, it is possible to make a distinction between their typologies. This paragraph will present M&As according to the way they are distinguished and classified, at first, because of the relatedness of the Business Activities and then according to the rationales behind it.

1.2.1 M&As classification according to the relatedness of Business Activities

There are five categories of M&As commonly defined according to types of business combinations:

- horizontal M&As
- vertical M&As
- conglomerate M&As
- concentric M&As
- market extension M&As

Horizontal M&As

Horizontal mergers are operations taking place when a company merges with or acquires another company operating in the same industry and production level and therefore, offering and providing the same or similar products and services to the final consumer. Being the merging firms' direct competitors, this kind of merger can be seen as a tool to avoid and eliminate competition and acquire major strength on the market, increase market share, revenues and profits.

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[1] Meritt C., *What Are the Three Different Types of Corporate Mergers & What Is the Rationale for Each Type,* Chron.com
Gehi A., Types of Mergers and Acquisitions,
http://www.mergersandacquisitions.in/types-of-mergers-and-acquisitions.htm

Obviously, this kind of merger has the advantage to develop economies of scale because of the increase in production volumes leading to lower average costs.
Horizontal mergers are very common in industries with few firms and high competition, because an operation like that means a very big advantage in terms of gain in market share.

Vertical M&As

Vertical mergers involve two companies operating in different stages of the same value chain to produce or operate a specific product/service.
The types of vertical M&As differ according to the direction of the integration: backward or forward. In the first case, the integration moves vertically up. This happens when a manufacturer moves up in order to acquire the ownership of the raw materials suppliers. A forward integration happens when the integration moves vertically down the value chain. It happens when a manufacturer wants to be closer to the end customer and integrates with wholesalers or distributors of the products/ services.
This kind of M&As are advantageous because of the synergies that are likely to generate: in fact, they can increase the market share and can be profitable in terms of revenues and profits, they grant the supply of essential goods and avoid the disruption in supply.

Conglomerate M&As

Conglomerate mergers involve firms operating in unrelated business activities. Pure conglomerate mergers take place when completely unrelated businesses merge, while mixed conglomerate mergers involve firms looking for market or product extensions. Besides the common advantages of a simple merger as the increase in market share and the creation of synergies, conglomerate mergers are useful in order to reach a larger target audience. In fact, after the merger, the merged company is able to extend its own target to the sum of the two companies before the merger. Another advantage is related to risk diversification: a company operating in unrelated businesses is less likely to be exposed to failures.

Concentric M&As

Concentric Mergers, also known as product extension mergers involve the consolidation of firms operating in a specific industry, serving the same group of customers, offering products that may be complementary but not the same.

For example, a merger between a company producing DVDs and a company offering DVD players, could be a concentric merger, since the companies are operating in the same industry, offering different products and addressing the same target of customers.

Concentric mergers are useful since it is easier for a company to sell a product that is a complement to its core offer and realize a bundling strategy. Indeed, selling one of the products will encourage the sale of the other one.

Furthermore, these kinds of mergers offer opportunities for businesses to venture into other areas of the industry, reducing risk and providing access to resources and markets previously unavailable.

Market Extension Mergers

This type of M&As involves firms offering the same product, but in different geographical areas and markets. Objective of these mergers is to achieve a larger number of customers, without investing in differentiation or internal restructuring, since the production remains the same.

1.2.2 M&As classification according to their rationales

[2]It is possible to identify five main rationales that can explain the choice of firms to merge or acquire:

- The chance to deal with the overcapacity through consolidation in more mature industries
- Roll-up competitors in geographically fragmented industries

[2] Bowell J.L., March 2001, *Not all M&As are alike and that matters*, Harvard Business Review, Harvard University
Goedhart Marc, Koller Tim, and Wessel David, May 2017, *The six types of successful acquisitions*, McKinsey & company

- Market or Product Extension
- Acquire know-how and knowledge avoiding R&D costs
- Exploit eroding industry boundaries inventing an industry

The Overcapacity M&A

Several M&As take place in industries characterized by overcapacity. In fact, almost 37% of the total number of mergers and acquisitions occur in older and capital intensive sectors and are due to substantial overcapacity in the market.

Industries in this category include automotive, steel, and petrochemical.

By the acquiring company's point of view, the choice to invest and acquire, within or out of the local boundaries can be considered as a strategic choice in such a crowded market.

In fact, the acquirer company can eliminate the less effective processes and managers and rationalize the administrative processes.

The aim of the acquirer will be to gain greater market share, more efficient operations, better managers, obtaining, at the same time, a reduction in the industry density.

The new combined entity is expected to exploit synergies related to the excess capacity by increasing the productivity level and lowering the average manufacturing costs.

The Geographic roll-ups

The geographic roll-ups differ since they typically occur at the first stages of the industry's life cycle. Many industries, in fact, are characterized by the fact that they exist for a long time in a fragmented state: local businesses stay local, and no company becomes dominant regionally or nationally. That is why, companies with successful strategies and business models can decide to merge or acquire other companies in adjacent territories.

Even if the rationales of Roll-ups and overcapacity M&As may seem similar, their strategic rationales differ. In fact, roll-ups are aimed to increase economies of scale and scope and to create bigger companies. On the other hand, the overcapacity acquisition is designed to reduce capacity and duplication.

Geographic roll-ups are made to solve problems and can be very advantageous for both the acquiring and the acquired company.
By the acquired company point of view, in fact, especially if it's small, being acquired involve the chance to have access to capital, national marketing, and modern technology; and to avoid competitive threats from larger rivals.
For the acquirer, the deal solves problems of geographic entry and local management. The large accounting firms were assembled this way. So were the superregional banks, the large chains of funeral homes, many hotel chains, and the emerging, large Internet consulting companies.

Product or Market Extension M&A

The third category is represented by the M&As realized in order to extend a company's product line or international reach. Sometimes these are similar to geographic roll-ups and sometimes they involve deals between big companies. The likelihood of the deal's success is critically affected by the size of both the acquirer and the target: if the merger occurs between equal players it will be more difficult to impose processes, resources and values to a well-established business. By contrast, if a large company purchases a small entity the probability to be successful will increase on the buy side. When a company is considering the strategy to grow through strategic acquisitions made in a foreign market by increasing its international coverage, it is crucial to carefully manage cultural differences in order to avoid future clashes.

The M&As as a substitute for R&D

Acquisitions can also be realized as a substitute for in-house R&D, a very expensive and slow process to implement within a company. An assortment of high-tech and biotech companies use acquisition instead of R&D to build market position quickly in response to shortening product life cycles. Basically, the aim of this type of M&As is to "buy know-how" obtaining very advanced technologies and sophisticated knowledge that would be hard to achieve through internal processes.

Industry Convergence M&A

These types of deals differ substantially from the previous ones, since they imply the emergency of a new industry or business model. They do also imply the invention of a new business area where synergies can be exploited, by pooling different resources together from industries whose boundaries are disappearing.

The biggest challenge with this category of M&As is represented by the fact that positive results depend not only from the deal's structure but from the investor's point of view and vision.

Following, a table[3] summarizing the main features of each category of M&As according to what explained above, with the strategic objectives and major concerns related to the transactions and an example for each of them.

	The Overcapacity M&A	**The Geographic Roll-up M&A**	**The Product or Market Extension M&A**	**The M&A as R&D**	**The Industry Convergence M&A**
Example	Chemical Bank buys Manifacturer Hanover and Chase; Daimler Benz acquires Chrysler	Bank One buys scores of local banks in the 80s	Quaker Oats buys Snapple	Cisco acquires 62 companies	Viacom buys Paramount and Blockbuster
Strategic Objectives	The acquiring company (part of an industry with excess capacity) will eliminate capacity, gain market share and create a more efficient operation	A successful company expands geographically, operating units remain local	Acquisition extends a company's product line or its international coverage	Acquisitions are used in lieu of in-house R&D to build a market position quickly.	A company bets that a new industry is emerging and tries to establish a position by culling resources from existing industries whose boundaries re eroding
Major Concerns	You can't run a merged company until you have rationalized it, so decide what to eliminate quickly. If the acquired company is as large as the acquiring one and its processes and values differ gratly, expect trouble. Nothing will be easy. If it's a merger of equals, expect both companies' management groups to fight for control. These tend to be onetime events, so they're expecially hard to pull off.	Members of the acquired group may welcome your streamlined processes. If they don't, you can afford to ease them slowly. If a strong culture is in place. Introduce new values with extreme care.	Know what you're buying: the farther you get from home, the harder it is to be sure. Expect cultural and governmental differences to interfere with integration. The bigger you are relative to your target company, the better your chances for success. The more practice you have, the better your chances for success.	Build industrial strenght evaluation processes so that you buy first class businesses. This category allows no time for slow assimilation, so cultural due diligence is a must. Put first rate, well connected executives in charge of integration. Make it high-visibility assignment.	Give the acquired company a wide berth. Integration should be driven by specific opportunities to create value, not by a perceived need to create a symmetrical organization. As a top manager, be prepared to make the call about what to integrate and what to leave alone; also, be ready to change that decision.

Figure 1- Features, Strategic Objectives and Major concerns related to different types of M&As; Bowell J.L., March 2001, Not all M&As are alike and that matters, Harvard Business Review, Harvard University Harvard Business Review, Harvard University

[3] Bowell J.L., March 2001, *Not all M&As are alike and that matters*, Harvard Business Review, Harvard University Harvard Business Review, Harvard University

1.3 Merger Waves

[4]Mergers can be defined as a consequence and a notable component of capitalism, having its origin by the evolution of the industrial economy. They have occurred in continuous waves since the second part of the 19th century with interruptions when unavoidable forces and events turned exogenous merger factors negative.

Some periods were characterized by very intense merger activities while others by lesser merger activities, successful and not.

According to the observations realized by M&A specialists and historians, it is possible to identify over the course of the history six major merger waves. Each of these have their own main features. Defining precisely the starting dates of each merger is quite difficult, although the ending dates are more accurate since they ended with specific events as wars or financial disasters.

It is important to stress that the first merger activities began in the US in conjunction with the emergence of Wall Street as the core worldwide financial center and so they mainly refer to the American historical and regulatory framework. However, due to the globalization process they started to spread out all over the world involving Europe and several Asian countries.

First Wave - 1893 to 1904

The first wave had its beginning at the end of the 19th century. It was due to specific factors as the rising stock market and the economic expansion and happened in conjunction with the issue of the Sherman Antitrust act, a federal law passed in 1890 that committed the American government to opposing monopolies. Since this law was not clear at the beginning and did not address specifically the growing phenomenon of merger and acquisition, several firms tried to establish monopolies through horizontal mergers without the legislator

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[4] Lipton M., 2006, *Merger Waves in the 19th, 20th and 21st Centuries*, The Davies Lecture, Osgoode Hall Law School, York University ;
Owen S., 2006, *The History and Mystery of Merger Waves: A UK and US perspective*, School of Banking and Finance, University of New South Wales, Working Paper number 2006-02 ;
An historical analysis of the evolution of merger wave, 2016, The Cleverism; available online on https://www.cleverism.com/historical-analysis-ma-waves-mergers-acquisition/

interference. This represented an issue of concern since it leads to the creation of a few monopolies.

About two thirds of all the mergers that took place during these years was concentrated in industries as petroleum products, mining, metals, steel, manufacturing and transportation and determined the creation of the first giants in the oil, mining and steel industries, among others. The end of the first wave is due to different reasons: first, the Panics of 1904 and 1907, leading to a time of economic recession and numerous [runs on banks]() and [trust companies](). Secondly, a more rigorous enactment of the new antitrust laws, applicable to merger and acquisition and the World War I are also pointed as one of the reason of the end of the first wave.

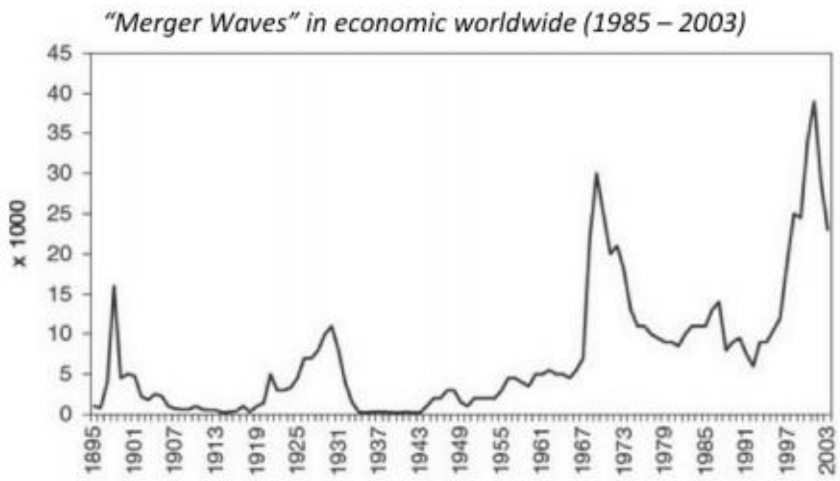

Figure 2- Mergers waves in the global economy by 1985 to 2003;

Second Wave - 1919 to 1929

The Second Merger Wave came right after the First World War during a time of economic recovery and increasing concerns about monopoly power. The Government vigilance that emerged at the end of the first Merger Wave, in fact, endured and increased during the Second one. The Clayton Act (1914) became a crucial tool used by federal authorities to prevent and fight anti-competitive mergers.

In addition, these years saw the consolidation of the industries subject to the first wave and the increase in oligopolies rather than monopolies. Therefore, industries were no longer dominated by one large corporation, but rather by two or more.
In addition, the small companies that survived the first wave became more active on the M&A market. This to gain strength against the powerful monopolists of the previous wave.
The end of the second merger wave was caused by the terrible market crash of 1929 that determined the Great Depression, which led to a world-wide depression in the following years.

Third Wave - 1955 to 1969-73

The third wave emerged after the end of the second world war in conjunction to a period of economic recovery. Mergers involved in the first and second wave were mainly horizontal or vertical ones. However, the third wave gave rise to the concept of diversification. This period, in fact, was characterized by the raise of conglomerates, corporations operating in different businesses and areas not necessarily related. (IT&T, LTV, Litton have been created in this period). The strength of this trend was illustrated by the fact that the number of conglomerate firms increased from 8.3% in 1959 to 18.7% in 1969.
The reason that makes the choice to diversify so appealing is represented by the fact that a diversified corporation will be less vulnerable to shocks in one industry because it generates income in different, maybe unrelated, industries. Consequently, a loss of income in one industry can be offset by positive profits in other industries.
The period of the third wave was interrupted by the slowing down of the economy and by the Oil crisis of 1973-74, which caused a sharp increase in the inflation rate and an international economic downturn.

Fourth Wave - 1980 to 1989

This wave can be referred as the “takeover wave” and it is frequently said to be the period from 1984 to 1989. Due to some changes in the antitrust policy of these years, some of the restrictions on takeovers enacted by the previous laws decreased,

determining the flourish of hostile bids, meaning with no target's management approval.
Another possible reason that could have determined the hostile takeovers in the fourth wave can be found in the return to horizontal mergers as opposite to the diversification strategy followed during the 1960s and to the deregulation that took place in some specific sectors (financial, air transport, broadcasting).
In addition, the fourth merger wave was characterized by a further development in the debt capital market, with the birth of new financial instruments such as the high-yield bonds, also known as junk bonds. Different source of financing characterized this wave: while in previous years M&As were mainly financed through equity, now it is possible to notice a shift toward debt and cash financing. In particular, during these years, the concept of Leverage Buy-Out emerged. In a LBO, the acquisition of a company is realized through a significant (almost total) amount of borrowed capital in order to meet the costs of the transaction. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company. In this way, it is possible for the acquiring company to make acquisitions without having to commit a lot of capital.
After 1989 M&A activity gradually slowed down due to the global economic recession started in the US with the savings and loans crisis of 1989-91.

Fifth Wave - 1993 to 2000

The fifth wave started in a decade of great economic growth: financial markets were booming, globalization was developing and technological innovation was starting to represent a core competence for firms.
During these years, the worldwide volume of mergers raised from $342 billions of deals in 1992 to $3.3 trillion in 2000. The fifth wave was characterized by the strong belief that size mattered and that is why unprecedented sized companies were created during these years. There are different reasons that determined the need of companies to raise in dimension: firstly, a global view of competition, where "being big" represents a higher chance to survive. In order to exploit the global opportunities and participate to the globalization of the economy, firms started to look outside their domestic borders in order to find a target company. This determined the creation of

once-unthinkable mergers such as Citibank and Travelers, Chrysler and Daimler Benz and Exxon and Mobil.

Just as it happened for the previous waves, the fifth one started to collapse because of the economic recession due to the burst of Internet bubble, causing global stock markets to crash and with financing problems of telecoms.

Figure 3- Worldwide M&As from 1995 to 2012

Sixth Wave - 2003 to 2008

Just three years by the end of the fifth wave, a number of favorable conditions determined the perfect environment for another wave to happen. Among the factors that have characterized this new period of growth the most important were the raising globalization, started during the previous decade and set to grow and the government's support to create national and global champions. In addition, the shareholder activism was crucial to influence this wave: in fact, equity holders attempted to influence the Board's decisions in order to realize growth strategies based on strategic acquisitions in order to increase value. Other favorable conditions that supported the emerging of this wave are the rise in commodity prices, the availability of low-interest financing, hedge fund and the tremendous growth of private equity funds.

The end of the most recent wave is due to the financial crisis of 2008 and to the global economic recession. The reduction in credit availability determined by a credit crunch reduced the number of M&As and set the end of the sixth wave.

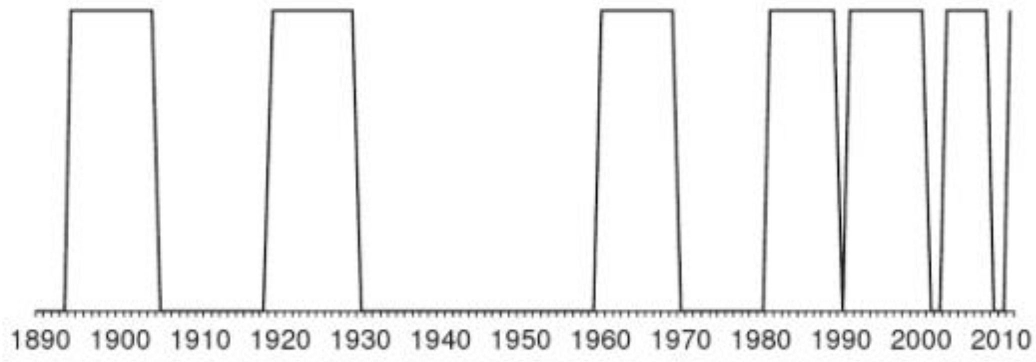

Figure 4- Merger Waves:1890-2011

Seventh wave

[5]After the period characterized by the happening of the sixth wave, the M&A market has slowed down. This was due to the deceleration of the economy and the reduction in credit availability.

Therefore, it is still hard to determine when a seventh wave is going to happen.

Although currently M&A deals keep on being an important reality and 2014, 2015 and 2016 can be considered as good years for M&As, they are not as good as they would be if we would be actually living a wave.

In fact, the economy is living a period of recession, that is usually characterized by money saving and by the choice to retain instead of investing.

However, history tells us that periods like this are followed by a boost and by the choice to invest more.

Moreover, it is true that this era is the most volatile one in terms of market growth and companies are beginning to understand that this volatile world is the new standard.

[5] Cordeiro M.,September 2014, *The seventh merger wave,* camaya.com

Therefore, there will always be wars and countries with difficulty to honor their sovereign debt payments. In such an environment, it may not be possible to rely only on organic growth and cost cutting to deliver consistent financial results. Managers seem to be believing that it is easier to buy growth than build it.

CHAPTER 2: M&As: RATIONALES AND CHALLENGES

During the years, the phenomenon of M&As and the rationales behind it have been explained and analyzed by several different theories. There is indeed, a huge body of literature focusing on this argument and trying to determine which choice could be the most profitable for investors between the M&A with domestic and international orientation.

The structure of this chapter will be divided as follows: in the first paragraph, the most important and accepted rationales of M&As such as the potential synergies, the increase in market power, the diversification, the management goals will be presented and explained. Some of them arise from the theory of the industrial organization and refer to the increase of the market power, efficiency gains and preemptive motives. Some others rely on corporate governance theories and refer to motives such as the correction of internal inefficiencies, agency problems and capital market imperfections.

In the second paragraph, also the general challenges of the M&A activity will be explained.

Following, there will be a focus on cross-border M&A. In fact, the rationales moving specifically international transactions with the related challenges will be presented.

2.1. Motivations behind mergers and acquisitions[6]

In each of the following sub paragraphs, the reasons that may be considered as key rationales determining the choice of the investors will be explained in detail. The rationales and the challenges can be applied both to domestic and cross-border M&As.

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[6] .Whitaker C., 2012, *Merger and Acquisition Integration Handbook,* Wiley & CO Inc; Terjesen S., *Mergers and Acquisitions: Patterns, Motives and Strategic Fit*, QFinance, online available www.financepractitioner.com/mergers-and-acquisitions- best- practice/mergers-and-acquisitions-patterns-motives-and-strategic-fit?page=2

Shareholder Gains

The concept of shareholders' gains refers to the increase in firm's market value determined by the merger. The increase in the value of the firm, indeed, may have positive benefits on its owners and therefore on shareholders.

Efficiency gains

Efficiency gains can be distinguished in technical efficiencies and synergies[7]. In fact, technical efficiencies can be considered as those that can be obtained not only by merging, but also through other possibilities as the internal growth, joint ventures, specialization agreements, licensing...

Technical efficiencies can be defined as changes within the production, jointly realized through the competences of the merging parties. In the short term, they can be realized through the rearrangement of output across the merging units or scale economies. In the longer run, they can be attained by undertaking large scale investments.

On the other hand, synergies are merger-specific since they involve the sharing of assets that cannot be acquired otherwise than mergers and can be defined as efficiencies obtained through the close integration of the merging firms' hard-to-trade resources, and thus are merger-specific since such assets cannot be acquired in ways other than merging.

The efficiency gains arising from technical efficiencies are respectively: economies of scale, economies of scope and economies of vertical integration.

Economies of scale

Economies of scale take place within a firm when its average costs decrease as total output increases. In other words, economies of scale do happen when the higher the

[7] C. Shapiro and J. Farrell, 2001, *Scale Economies and Synergies in Horizontal Merger Analysis*, Antitrust Law Journal
Terjesen S., *Mergers and Acquisitions: Patterns, Motives and Strategic Fit*, QFinance, online available www.financepractitioner.com/mergers-and-acquisitions- best- practice/mergers-and-acquisitions-patterns-motives-and-strategic-fit?page=2

production, the lower the marginal costs. When it happens and physical capital is held fixed, economies of scale determine a reduction in production costs.
Referring to the M&As, the economies of scale may be determined by the coordination of the merging firms' investments in physical capital. In fact, economies of scale may result from mergers because joining two firms allows to avoid double fixed costs as those involving administrative tasks, customer service, billing... That's because the acquirer after the merger will have one single team taking care of these duties instead of two. Short-run economies of scale can also be attained by the reallocation of output across different SBUs of the merged firm. In the long-run, the presence of economies of scale can be verifies is the increase in the total outputs more than doubles the increase in all inputs. This may happen if a larger firm invests in new technologies and know how, increasing its production process and its R&D areas.

Economies of scope

Economies of scope can be considered as a typology of economies of scale that are related to multi-product firms or to firms related by a chain of supply. They are attained when the average cost of producing two products by two different processes, significantly decreases when the products are produced jointly. More technically, economies of scope arise when the higher the production of A the lower the marginal cost of B, given A and B related in some ways within the same firm.

Economies of vertical integration

Economies of vertical integration determine a significant reduction in costs of production. This because the sum of the costs of separately owned stages of production significantly decreases when only one firm performs two or more stages of production in a value chain. These cost savings are probably determined by the relationship between the stages of production or in the market transactions costs.

Synergy gains

Synergies are merger specific efficiencies, related to changes in the production possibilities of the merging firms.
Synergies can be associated to the transfer of know-how between the merging firms, to the integration of assets that would be hard to trade and to a process of learning

taking place among the merging firms. For example, when a small firm develops a new product but misses some assets as the large-scale sales or reputation, merging with a bigger and sound firm will most probably bring it gains that would have not been possible without merging. About the diffusion of know-how, it can be achieved through the exchange of R&D activities, patents, human skills and organizational culture. Being these assets in general non-tradable, firms can benefit from their combination uniquely by merging.

This transfer may take place when the merging firms have different technological capabilities, human capital, organizational cultures, patents, or simply know-how and it turns out that they are complementary to each other; then, by merging them, they will most probably achieve a technological progress, that could take the form of product or process innovation.

Cost Savings

Cost savings is a key advantage referred to M&As and it can be attained in different ways. Costs savings arising from M&As can be related to a reduction of average or marginal costs of production, fixed costs or financial costs. Fixed costs are those that do not depends on variations in the production level and are necessary to the production, as the advertising, the maintenance of property plant and equipment, salaries.

On the other hand, average costs vary with production and are given by the ratio between the total cost and the total production. Marginal costs are those that arise with the increase with one unit of production. Financial costs refer to those costs affecting the distribution of costs within the firm's administration but not the cost of production. Other typologies of cost savings that may be related to M&As are, for example:

Rationalization

Rationalization derives from the better allocation of production lines across the production processes of the merging firms. For example, shifting production from a plant with higher marginal costs to another with lower marginal costs, without increasing the joint technological capabilities, is a way to save costs.

Purchasing power

Cost savings may arise when two firms operating at the downstream level of the value chain, merge in order to improve their bargaining power with respect to the inputs providers, that will be more likely to offer better prices and discounts.

Diversification

Diversification is one of the reasons that could determine the decision to invest in M&As. This ix explained by the portfolio theory. In other words, investing in not correlated instruments and assets will positively affect the market value of a firm since it would decrease its overall risk. The rationale is determined by the fact that when managers decide to assemble a portfolio they do not do it according to the individual high risk return of the securities composing the portfolio itself, but according to the overall risk of the portfolio. This is also aimed to reduce the risk of bankruptcy.

Enhancement or strengthen of market power

Market power is defined as the ability of a firm or group of firms to raise prices above the level that would prevail under competitive conditions. The ability to exclude competitors is also seen because of excessive market power. The scope of enhancement of market power is associated with industry concentration, product differentiation, entry barriers and cost advantages. The market power merger motive in horizontal mergers is the most controversial one.

Managerial Gains

Another important category including some of the different reasons that could determine M&As are originated from the theory of the internal inefficiency of the firm, analyzed by Leibenstein[8]. This theory states that there is a discrepancy between the efficient behavior of firms as stated by the economic theory and what it is observed in practice. That's because firms are organizations characterized by a separation between the manager, maintaining control over the firms and the shareholders. In

[8] H.Leibenstein, 1965,vol. 6, *Aspects of the X-Efficiency Theory of the Firm*, The Bell Journal of Economics

R.Roll, 1986, *The Hubris Hypothesis of Corporate Takeovers*, The Journal of Business these organizations, the decisions influencing the efficiency of the firm are taken by managers who might have objectives that could deviate from the maximization of firm's value. According to the principal agent theory, some conflicts may arise because of the incomplete and asymmetric information between shareholders and managers. The conflicts are due to the fact that shareholders want to maximize the firm's value while, on the other hand, it may happen that managers only want to maximize their wage or their ego.

In other words, these motives state that the manager is looking for gains at the expense of shareholders and they can be classified in empire building reasons, hubris and risk spreading or diversification. The empire reason is related to the manager's desire to increase the size of the organization they want to manage. The hubris motivation is due to the managers' belief to be able to better manage other companies. It means that they are overconfident in their managerial abilities and could end up in overpaying for a target that may not be effectively profitable for the acquirer. As regards the risk spreading reason, according to the portfolio theory, constructing an optimal portfolio could be a good way to optimize returns. However, sometimes managers could try to generate an optimal personal portfolio instead of the optimal portfolio for the firm. Therefore, he may be looking for personal diversification.

2.2 Challenges of mergers and acquisitions

Communication challenges

According to a PWC survey conducted in 2010 about Mergers and Acquisitions, one of the key challenges that may emerge after the transaction is represented by the communication challenge.

In fact, it may be one of the reasons more likely to determine the failure of a M&A.

Mergers and acquisition decisions are often taken leaving the employees aside of the process. This would generate a climate of uncertainty and fear that must be avoided. To do so, it is crucial that the manager constantly provides the necessary information setting a good dialogue and a proper communication in order to make feel the employees empowered and part of the process.

When managing any key activity, especially M&As, answering the questions and concerns of employees would build transparency and trust and make the merger successful.

Employee retention challenges

Another challenge that must be properly evaluated during mergers and acquisitions is represented by the employee retention. In fact, many transactions may present retention issues, resulting from negative attitudes of employees. The employee retention challenge is deeply connected to the communication challenge, since it may arise from feeling of uncertainty, fear about job security, confusion and uncertainty about the future of the organization.

In this context, employees may lose trust in the organization and feel the need to start looking for other job and positions outside the firm. This is a delicate problem since it is berry important to keep employee turnover low because of the high costs that hiring a new employee may represent. Moreover, employee turnover must be avoided because it could also involve the loss of knowledge and customer relationship.

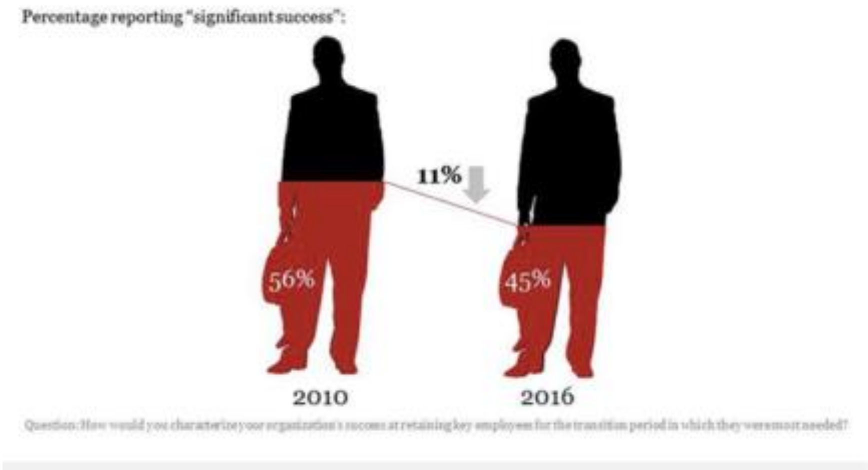

Figure 5- PWC Report, 2017, *PwC's 2017 M&A Integration Survey: How Today's Business Leaders Can Choreograph M&A Success*

Cultural Challenges

Even when the M&A is not cross-border, cultural challenges are likely to arise and to represent a key challenge within firms. In fact, cultural integration must be realized between the merging companies.

Various studies have shown the evidence that a number of M&As fail because of the differences in the organizational cultures of the merging firms.

Culture within a firm represents the way people behave and relate with each other. It is influenced by the shared values and beliefs within an organization.

When a merger takes place, it is difficult for the merged companies to manage the shift in practices and culture and failing in supporting this process may determine disruption and unease.

One key example explaining what may happen if two companies are tried to be merged without making a deep analysis of their cultures is represented by the Google's acquisition of Nest, a transaction worth 3.2 billion.

This M&A was expected to generate a huge amount of profits but it was not the case. Google wanted to acquire Nest, able to produce smartphones at a very high level and use its know how and knowledge to bring the product to the next level.

The problem was represented by differences in culture between the companies: Nest was composed by a very reserved and silent culture where people were not likely to communicate too much. Google tried to push for over communication and it let unavoidably to clash of cultures and problems.

Managerial Issues

Business managers may face several issues in trying to manage the M&A properly. In fact, M&As represent a huge challenge for the business leader that often has not the experience necessary to run the transaction. Moreover, it may be difficult to find time to be devoted to a merger and acquisition while trying to continue managing the ongoing business. In this sense, it is important to verify that the ongoing business is not negatively affected by the M&A activity and ensure that the needs of clients will keep on being satisfied.

2.3 Cross-Border M&As Overview

Cross-border M&As are deals between foreign companies and domestic firms in the target country. To be more specific, it is possible to define cross-border M&As as "those transactions in which different assets of firms located in different countries and areas are combined in order to create a new legal entity."

This phenomenon, counterbalancing the domestic M&As phenomenon, is a direct consequence of globalization, that is changing the international framework and its boundaries and have long been a popular strategy for firms, representing a valuable alternative for strategic expansion.

In recent years, the number of acquisitions made by companies in foreign countries has increased substantially. Such cross-border acquisitions have been motivated by a variety of strategic considerations, which often differ from those that drive purely domestic acquisitions. In fact, the approach to CBAs is not a straightforward extension of the approach to domestic acquisitions. Cross-borders M&As, in fact, are much more complex, owing differences in the political and economic environment, corporate organization, culture, tradition, tax rules, law and accounting rules between the acquirer and the target company. Firms engaging in cross-border M&As, in fact, must face with unique risks related to differences in national culture, customer preferences, business practices, and macroeconomic variables as institutional forces and government regulations.

Despite these difficulties, they have increased dramatically over the last two decades. In fact, the total value of M&As realized from 1998 until 2000, was about 400 billion dollars, whose 40% came from cross-border M&As and, by UNCTAD data, in developed economies their value have risen from 2.265 million of dollars in 1988 to 94.258 million of dollars in 2008.

2.3.1 Motivations behind Cross-border Mergers and Acquisitions

***Theory of Cross-border Mergers and Acquisitions: the OLI paradigm*[9]**

With the emerging globalization, the environment for firms has changed and started to present new and different opportunities that, inevitably, pushed firms to modify the way they worked until that moment.

The eclectic model of Dunning, also known as the OLI paradigm, has been created with the aim to summarize and put together all the previous theories that were trying to motivate the choice of firms to invest abroad.

This model explain the FDI decision process categorizing it in three dimensions: the Ownership, the Location and the Internalization decision (OLI). Since Cross-border M&As are a relevant component of the FDIs, the OLI theory is the best framework to analyze it.

Ownership

The ownership decision consists in the fact that the firm deciding to make a Cross-Border M&A must have a competitive advantage in its home market that can be exploited and transferred to foreign subsidiaries. The advantage is represented by assets that must be firm-specific and hard to copy by competitors. This would let the firm create value through the foreign production decision. In fact, since the creation of these proprietary or ownership advantages are costly to be realized by new in the home country, transferring already existing assets in new countries would be a cheaper solution.

According to FDIs, the ownership decision has two dimensions: asset exploiting and asset augmenting. In the first case, the firm will be seeking to deploy its assets that are considered as its source of advantage in the home country to another country. These sources may be represented by the brand name, reputation, design, production and management capabilities, engineering and technological expertise. In other words, the company wants to exploit its pre-existing assets in new markets.

In the second case, the company may try to augment its resources, taking them from

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[9] A.Marino, 2016, International Business,- Custom Publishing, McGraw Hill
J.H.Dunning, 1977, *Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach,* In Bertil Ohlin, Per-Ove Hesselborn, and Per Magnus Wijkman, eds., The International Allocation of Economic Activity. London: Macmillan.

the target companies. Normally, in the case of Cross-border M&As, these resources are represented by know-hows, technologies and sophisticated knowledge, but can also be represented by natural resources or intermediate goods.

In fact, acquiring companies pursue the goal of gaining access to key and complementary resources, both tangible and intangible, through the M&A activity.

Several studies[10] show the evidence that investors prefer to realize M&As in emerging countries because of the greater availability of material resources at lower costs. What is more, another advantage related to cross-border M&A in emerging markets is represented by the chance to acquire new capabilities and knowledge.

This consideration is in line with the theory developed by Caves, saying that a firm that owns in its own market a good strength and some competitive advantage, will be likely apply the same strategy in foreign market and be successful.

Location

Considerations about the location stress the attention on the features of the target company country. When evaluating a cross-border M&A, the acquiring company must ponder whether the foreign location is superior or not to its own country and whether it is the most appropriate place to exploit the ownership assets of the firm. In fact, the firm should be able, in the foreign country, to use of the features of the market that better support her to exploit and reinforce its competitive advantage in that market.

Cross-border M&As are very useful for firms in order to enter a new market more quickly. In fact, creating and starting a new activity and trying to build up a competitive presence into a foreign country is very expensive, difficult and time consuming, due to the differences in culture, liability of foreignness, different practices and institutional constraints.

Indeed, cross-border M&As allow to access to a local network of suppliers, marketing channels, client and knowledge in a fast way.

[10] J. H. Dunning, 1988, *The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions*, Journal of International Business

Also, cross-border mergers are the fastest means for international expansion in comparison to greenfield investment or joint venture since these approaches must be slower and moderate. Location decision can be considered as a trade-off between the "pull factors" in the host country attracting FDI and the "push factors" in the home country that invites the firm to invest in a cross-border M&A.

Among the pull factors, it is relevant to mention: the size of the market in which the target company is located, the demand for the firm's product, the scale economies in local production or distribution that may be achieved, proximity to resources, availability of complementary assets, host government incentives promoting FDI. The push factors in the home country are represented by the maturity of the home market, the intense level of competition, the poor infrastructure within the country, the situation related to government regulatory, fiscal and other policies, the political and economic uncertainty.

Internalization

The internalization motive is the one that most affect the business model and functioning of the firm since it is related to the "make or buy" decision. In fact, the transaction and coordination costs of internalization versus external relationship are important considerations that must be taken into account while determining whether ownership and organizational control are preferred over looser cooperation arrangements.

2.3.2 Specific Challenges of Cross- Border M&As[11]

Being transactions that may take place in different countries and in completely different part of the world, the do obviously include many challenges, related to cultural differences and to the problem of maintaining the control over the target company located abroad.

Considering these challenges also by their downside, they do also represents the

[11] T. Gee, 2014, *Going global: Strategy and Execution in Cross-border M&As,* Backer &McKenzie
M. Hughes, 2013, *M&A: The Rise of the Cross-border Transaction*, Grant Thornton International Business Report
S.C.Whitaker, 2015, *Cross-border Mergers and Acquisitions,* Wiley Finance Series

strength and key forces of the domestic transactions.
Below, some of the most accepted explanation why a cross-border M&A could be difficult to implement and to run will be explained.

Legal Barriers

Cross-border transactions represent a real complex operation that may, therefore, require the involvement of different legal entities that could have completely different rules and norms with respect to the country of the acquiring company. This may result in a barrier or in the impossibility to grant the success of the transaction.
Some of the legal barriers of cross-border M&As may be represented by the complex legal setup of institutions within the country of the target company, that could determine opaque decision making processes.
Differences in the national reporting schemes, such as the accounting systems could determine the impossibility to have a clear idea about what the financial situation of the acquired company is.
Two countries are also very likely to have different employment legislation that could represent a problem when the acquiring company tries to make changes within the organization or tries to move workers to other mansions.
Another obstacle is represented by the customer protection legislation and the Antitrust rules, that may additionally constrict the operation of the acquiring company itself. This heterogeneity implies the compliants of the standards of the product to these specific rules, as well as the respect of specific customer relationship standards.

Cultural differences

Cultural differences among two merging firms can be found in any transaction, cross-border and not. However, it is obvious that the differences in national cultures involved in cross-border M&As represent increased risks from within and outside the organization and any pre-deal due diligence should take deeply into consideration these cultural risks. Culture can lead, in fact to misaligned expectations and behaviors, differences in performing practices and processes and conflicts regarding the way the internal structure of a firm is expected to be. Moreover, differences in reward schemes can lead to frustration, employee disengagement and eventually loss of key talent.

Culture also involves some challenges outside of the firm. These must be properly considered when considering a cross-border M&A since they include important issues as the disparity in corporate governance, social responsibility, ethics, litigation and intellectual property rights. If not identified, they would determine significant problems further down the line.

Employment and Labor

When performing a M&A, it is crucial to manage properly the integration between the merging organizations in order to look after their people and engage appropriately with both cultures. Human capital risks are, obviously much greater when the M&A is cross-borders and employees will naturally feel anxious and uncertain about their future. It is crucial to understand how to engage, inspire and motivate the newly integrated workforce and create an atmosphere of respect, trust and enthusiasm so that they achieve buy-in from employees on both sides.

Labor and employment issues in cross-border transactions can be quite complex because of the differences in local jurisdiction requirements or customs and practices. The depth of challenges in this area can become compounded by the scale and geographic scope of the deal. Many countries severely restrict the ability to fire employees and local labor laws may also impact or regulate employee work hours and benefits including overtime, vacation and severance. Overlooking these issues can result in an inadequately designed transaction structure, unforeseen liabilities or unsuccessful business integration after transaction closing. Most labor and employment issues are best addressed by early identification and well thought-out strategies.

Political Considerations

It is very important to identify and evaluate the potential political implications in advance of initiating any M&A or strategic investment transaction. This analysis should be as comprehensive as practical and must go beyond more obvious issues such as whether the target company is in a sensitive industry or is owned/financed by a foreign government. It is imperative that the likely concerns of federal, state and local government agencies, employees/unions, customers, suppliers, communities and other interested parties be thoroughly considered and addressed strategically prior to any acquisition or investment proposal becoming known to the public.

Regulatory and Antitrust challenges

Many firms declared that regulator authorities place a relevant additional challenge in the way of cross- border transactions. For example, one in five companies (21%) complains about the uncertainty of regulatory timetables. And almost one in six (16%) say that foreign companies are treated differently to domestic buyers, which is likely to be related to their concern about political interference. Companies should not thing these issues are only involving developing economies: these problems, in fact, are consistent or businesses conducting transactions all around the world. In particular, for firm doing deals in Europe and North America where competition regulators are quite rigid and aggressive, getting antitrust and regulatory approval is one of the biggest concerns.

Corruption

Corruption represents a key issue in international M&As. One in four companies doing deals motivated by industrial assets said the need to get to grips with issues related to bribery and corruption, is a key compliance challenge.

Information Asymmetry

Underperformance may arise in Cross-border M&As because of Information Asymmetry. This lack of available information could make though for the investors to determine the real price of the target company as well as information related to the structure, operation and culture. This may determine significant more challenges in integrating the companies after the deal is done.

CHAPTER 3: DUE DILIGENCE

[12]Due diligence is now becoming a crucial step that must anticipate any M&A deal. It is useful to give an idea of the target company and to verify whether the transaction may be successful or not.

The following chapter will be divided in three parts: in the first one, the due diligence process will be presented in its most important phases. Following, the domestic and international approaches in due diligence and risk attitude will be discussed and finally, a case study showing what a poor diligence process and the underestimation of risk can generate will be presented.

3.1 Due Diligence Process: Overview

As explained in the previous chapter, realizing successful mergers and acquisitions is very hard and probably one of the toughest challenges in business.

The activity of due diligence is crucial and is becoming more and more important as M&As become bigger and more complex. In fact, due diligence must be realized in order to reduce the overall risk and give the deal a chance.

Figure 6- Due Diligence in a holistic M&A process

[12] GE Report, 2013, *Due Diligence: Main steps and success factors;*
.S.Perry, T.J.Herd, 2004, *Mergers and Acquisitions: Reducing M&A risk through improved due diligence,* Strategy and Leadership

Due diligence is a crucial step than cannot be ignored in the evaluation of a possible M&A. In fact, it is a process that helps to assess the financial, legal, regulatory risks as well as the relevant information about the target company, as its structure, human resources, operations, and culture. This process helps to pay the acquisition at the right price and not over evaluate it and to implement changes within the merging companies once the deal is completed.

3.2 Due Diligence Process: The Steps

1. Data collection: The first step of the due diligence process is represented by the collection of all the relevant information about the target company as the products, sales and profitability. In this phase the possible synergies, risks and opportunities of the transaction will be outlined. The scope of a due diligence will be influenced by a variety of factors. It may be more or less broad, depending on the following:

- Whether the target company is strong by the financial point of view
- Whether the financial statements of the target company truly reflect the financial situation of the target
- Whether the target company is likely to provide warranties and indemnities
- Whether the selling entity is credit worth
- Whether the merging assets of the target and the acquiring company are likely to generate profit
- Whether the transaction is an asset purchase with only understood liabilities being assumed
- Whether the target company is exposed to any liability, regulatory or governance risks
- Whether there is the presence of any future costs that could affect the acquisition value

It is also advisable to verify how the management team of the target works and analyze the key strengths and the key employees of the target company in order to retain them after the deal is done, as well as verify the presence of any clashes of corporate culture that may represent a real impediment to the deal's success.

In the eventuality of a cross-border M&A, a deeper analysis will be fundamental in order to verify the presence of the specific cultural, legal, economic, accounting, employment, corruption, or environmental challenges that could arise during the deal.

2. **Due diligence team**: Once the first step is done, it is crucial to form a good due diligence team, composed by experts in financial, legal and business topics. If the acquiring company lacks the needed expertise, it would be advisable to hire someone from outside the firm having the needed competencies. Indeed, a good team is made of skilled people, expert in verifying any aspect of an investment. Usually a good squad may include lawyers, accountants, and investment bankers.
3. **Due diligence check list:** A proper due diligence check list is the one that summarizes and collects all the information raised during the first step. Therefore, it should be meticulous and it should list all the risks associated with the transaction.
4. **Realization of data requests**: Data request is a document containing all the information that were not possible to collect during the first step and are target specific information. This document is crucial to perform a proper due diligence analysis and it could include data related to the target's corporate structure and history, its financials and accounting, main operation, intellectual property, suppliers and distributors, customers, current litigation, tax issues, insurance issues, and regulatory and environmental issues.

   The diligence team should not overwhelm the target with too many requests, since all these data are very confidential and must be keep secret.
5. **Create a data room**: Building a data room is the best way to share private and confidential information. It is an online room whose access must be provided only to the restricted number of people taking care of transaction.
6. **Sign a confidential agreement**: In order to maintain the information secret and to prevent the sharing of information with third parties, a confidential

agreement must be signed by the due diligence team and by all the people involved in the transaction.

7. **Build up due diligence agenda**: It is important for the due diligence team to develop an agenda for the initial meeting with the target team. It could be the chance to ask for more information and must be well prepared. In this document must be provided information about the topics of the meeting as well as who is going to say what. Meetings can be realized by the phone or in person, that is much more preferred.

3.3 Risk Evaluation and Due Diligence Attitude: Cross-Border vs Domestic Deals[13]

With the increasing globalization, cross-border deals have grown in importance, sophistication and frequency.

As it has been explained in the previous chapter, indeed, cross-border M&As imply different advantages that an investor would be very likely to acquire.

On the other hand, they do also imply a considerable amount of risks and challenges. In fact, beside the afore mentioned risks of M&As in general, also the specific risks of cross-border M&As, must be considered.

The overall amount of challenges that this type of transaction presents, makes investor more cautious when it comes to mergers and acquisitions.

According to a 2016 Deloitte survey and several other articles, investors and executives are becoming more competent and skilled regarding cross-borders acquisitions and have now understood the crucial importance of planning, advisory involvement, due diligence. They are, therefore, more skilled in performing and obtaining successful cross-border M&As. At the same time, because of the challenges they would have to deal with, investors prefer to remain cautious especially when they

[13] KPMG Report, 2016, *Disrupting the M&A paradigm*
KPMG, 2017, *Top trends for banking M&A in 2017*
S. A. Lewis, D.McKone, 2016, *So Many M&A deals fail because companies overlook this simple strategy*, Harvard Business Review
Deloitte Journal, 2016, *The risks and rewards of cross-border M&A Survey results: Global executives on investing abroad*

realize that with a cross-border M&A they could tap into economic, legal or political instability.

In fact, in FDIs and international transactions, acquiring companies would have to manage their traditional due diligence process and to adapt it to address the specific challenges characterizing cross-border deals.

The due diligence, in fact, will have to deal with country specific factors as the legal system, the country's political situation, the target company's financial information and the target's respect of the Foreign Corrupt Practices act or any regulation that must be observed within a country.

It must also be pointed out that due diligence may also be problematic because corporate information and transparency of financial statements are often not clear.

When asked about some of their regrets about precedent deals, 33 % of the CEOs interviewed, explained that more researches about the target's potentials, and especially on the target's culture should have been done.

Reasons that make investors more cautious and less prone to risks in performing a cross-border M&As, are quite immediate. Having to deal with increase uncertainty, investors are not likely to assume too much risks because of the uncertainty of the external environment, but also because of the difficulties that controlling a target company located abroad imply.

In order to reduce the overall amount of risk of cross-border M&As, firms have started to adopt different strategies. It is quite common, for example, to find cross-border M&As realized by the help of partnerships to tap the target countries.

In fact, on the one hand, these countries represent a precious source of growth but, on the other hand, they do also represent challenges, as explained above.

"However robust your western business systems and models might be, you don't know the local cultures, and local norms," says KPMG's James Hindle, Partner, Transaction Services.

Strategic partnerships make the transactions less risky and a lot safer. They can avoid some of the impediments related to tapping a new market and get the necessary knowledge about how to operate successfully.

The trend of Cross-border M&As being more cautious and less risky than the domestic ones seems to be a growing one. In fact, 2016 was not a record breaker for deal activity in general, but especially for the global banking and capital markets space. Making cross-border transactions is, indeed, becoming even tougher in the years to come. This is because of the augmenting regulatory pressures, the geopolitical and economic events as the Brexit and the US election, the lower interest rate and the general economic slowdown. All of this is determining a more cautious attitude toward cross-border deals and a minor risk attitude in Cross-border deals with respect to domestic transactions.

In fact, planning a M&A within a country in which it is possible to have easier access to all the needed information about the target company, that has the same political, economic and legal environment of the acquiring one, will make the deal significantly easier to manage. Domestic investors, in fact, are less cautious when performing a domestic transaction within their country and will be more likely to take a certain amount of risk and thus, more risk prone. In fact, they are on average more confident in assuming a certain amount of risk that they would not be likely to take in cross-border transactions. This underestimation of risk, as theory explains, could determine significant more losses in the case of a not successful domestic transactions.

This is the downside of the risk propensity: it may result in greater revenues and profits but also in huge losses.

There are indeed many examples of Domestic M&As that went really bad because of poor due diligence or manager’s rushed evaluation of the overall risk of the transaction or for the overestimation of the target. There are so many acquisitions indeed, that went wrong because expectations were not met. Managers in fact, often underestimate the risk and did not manage properly to match the right candidate to the purpose of the deal.

Therefore, it may happen that acquiring companies pay the wrong price and integrate the acquisition badly. An example of famous domestic M&As disaster will be presented in order to explain what a poor due diligence and underestimation of risk can generate.

3.3.1 Quaker & Snapple

One of the most famous examples[14] of M&A failure, when talking about poor due diligence and corporate hubris, is the Quaker acquisition of Snapple.
In 1994, Quaker Oats, the successful grocery store, decided to acquire the emerging Snapple for a value of 1.7 billion dollars. At that time, Snapple had a significant customer share, being an innovator in the ready-to-drink tea segment. This market area was developing quickly and was a very attractive one. Quaker in fact believed that, after the acquisition, it could have expanded the Snapple brand and establish itself as the leading beverage producer.
At that time, William D. Smithburg was the chairman of the company and he strongly influenced the acquisition of Snapple. Despite warnings of Wall Street, convinced that the price of Snapple was 1 billion too high, Smithburg, persuaded he could replicate Gatorade success, decided to proceed with the acquisition and purchased Snapple for 1.7 billion.
What he wanted to achieve by the acquisition, was the realization of scale economies by unifying the manufacturing and distribution of Snapple and Gatorade.
The problem was determined by the poor due diligence that preceded the deal.
Snapple in fact did not use to operate as expected: it was a small company expected to operate through an owned plant. Actually, it only signed external contracts with manufacturers and signed agreements with independent distributors.
The business model of Snapple, the poor analysis and the unrealistic optimism, made it hard to pursue the expected synergies and scale economies.
In fact, Quaker did not achieve any gain and resulted in operating losses of more than 120 million dollars for the first year.

In 1997, only 29 months after the acquisition took place, Quaker decided to sell the company for 300 million dollars, 1.4 billion less of the price it paid. Doing the math, it is a loss of 1.6 million dollars for each day Quaker owned Snapple.

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[14] Los Angeles times, 1997, *Quaker-Snapple: $1.4 Billion Is Down the Drain*

CHAPTER 4: EMPIRICAL ANALYSIS

Introduction

The fourth chapter represents the core of the thesis since it includes the purpose of the study, the explanation of the several steps through which the empirical analysis has been realized and finally, the finding and results of the analysis with the related implications.

The structure of the chapter is divided as follows: in the first part, there will be a focus on the reasons that lead to the analysis of the phenomenon of domestic and cross-border M&As. Secondly, the presentation of the important steps of data collection and sample construction. Following the core of the study, since it includes the formulation of the research question and the explanation of the regression model applied in the analysis.

Finally, the results and the empirical findings, with the related discussion and implication.

4.1 Motivation and Purpose of the study

In order to grant a full comprehension of the work in object, it is important to introduce the reasons that have driven the empirical analysis of the thesis.

As explained in the first chapter, M&As have become an increasing phenomenon that has kept on growing in intensity and frequency during the years.

The initial period was characterized by a number of transactions that took place in the country of the acquirer itself. Suddenly, due to the increasing globalization, acquirers have started to look out of their own countries searching for opportunities in foreign markets, making cross-border M&As an important reality.

There is a huge body of literature focusing on this argument and trying to determine which choice could be the most profitable for investors. Many empirical analyses have also compared these transactions according to different parameters and factors, aiming to answer the question "Are cross-border M&As more successful and profitable or worse and less performing of domestic ones?"

Having analyzed the possible explanations driving the choices of the acquirer company to perform domestic or cross-border transactions and having compared the literature examining these phenomena, no absolute evidence of which decision could be the best one for the investing company has been found.

The thesis has been driven by the purpose to give a contribution to the existing literature, focusing on the possible reasons that determine the choice of the investor.

In fact, leading on the comparison between domestic and cross-border mergers and acquisitions this work is aimed to find out if the location where the deal takes place is a relevant factor able to significantly influence the performance of the target company after the M&A, making it successful for the acquirer.

4.2 Data Collection

The starting point of a research analysis is represented by the collection of all the relevant data, also considered as the ground on which to build the whole analysis.

Essential data have been collected from the database Zephyr of Bureau van Dijk that provides information about the nature and typology of merger and acquisition, whether they are domestic or cross-border, the countries and firms involved in the transactions and firm specific information.

In order to collect the data necessary to build the samples that would have been object of the analysis, some parameters needed to be applied.

Specifically:

- The time frame object of the research refers to deals that took place from 2013 until 2016. This choice was determined by the purpose to analyze most recent deals with recently updated data.
- The term "domestic" and "cross-border" M&As, refers respectively to the transactions that have taken place within the same country and among two different countries. This specification must be done since the term domestic and cross-border could also be associated to world areas rather than single countries.
- The companies have been selected from all the relevant industries, without focusing on a specific one. The firms included in the sample belong to the primary sector (agriculture, mining, etc.), food, beverages, tobacco, textiles,

wearing apparel, leather, wood, cork, paper, publishing, printing, chemicals, rubber, plastics, non-metallic products, metals and metal products, machinery, equipment, furniture, recycling, gas, water, electricity, construction, wholesale and retail trade, hotels and restaurants, transport, post and telecommunications, other services, public administration and defense, education and health.

The banking and insurance sector was omitted to ease the analysis and the data collection because it can be considered as a "per se" category, with its own rules and accounting standards.

- The acquiring and the acquired firm can belong to different industries. In fact, as it has been analyzed in the first chapter, firms may decide to undertake different investment decisions, involving not only market extension but also diversification strategies and so on.
- The acquiring and the acquired firms have both adopted the International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) to build their financial statements. This was a well-conceived choice since it would have been easier to understand and compare the corporate accounts of companies from different legislations realizing an M&A activity beyond their national boundaries.
- In order to not compromise the study, no countries have been intentionally excluded by the data collection. In other words, the analysis will involve transactions between firms located in different parts of the world, without focusing on a single specific area or zone.

4.3 Sample Description

Once data have been gathered from the database Zephyr, the next step was represented by the creation of a sample containing observations of both domestic mergers and acquisitions, realized by an acquiring and a target companies operating in the same country and cross-border M&As, characterized by the fact that the acquiring and the target companies are operating in different locations.

To do so, two samples have been initially built with the intention to merge them in a second moment.
The first one only contained cross-border M&As meeting the criteria of the search strategy explained in the previous paragraph. It was composed by 25,208 transactions. The second sample was made only of domestic mergers and acquisition and was initially composed by 87,405 transactions. Since the number of observations was too high with respect to the previous sample, they have been randomly sorted in order to select 25,000 of them. By randomly selecting the transactions, the effectiveness of data was not compromised and, at the same time, the samples observations were balanced.
At this point, the two samples have been merged, obtaining only one set composed by 50,208 observations.
This sample has experienced several changes, especially due to the removal of all incomplete observations that missed the information relevant to the analysis.
Therefore, after having creamed off the missing info, the sample has consistently resized to a number of 649 observations, whose 223 are represented by domestic transactions and 426 by cross-border ones.
Besides all the features of the sample that have been described in the data collection, it is important to specify another characteristic of the set. Each observation refers to a single company acquiring another one. There are no companies performing more than one deal per year and if there are, the lack of available data determined the impossibility to add the observations to the analysis. In this way, each observation is independent by the others.
The table below presents the distribution of deals over the time frame considered for this analysis: from 2013 to 2016.

Years	Tot observations	% on Tot
2013	210	32.36%
2014	217	33.44%
2015	151	23.27%
2016	71	10.94%
Tot	649	100.00%

As it is possible to observe, according to the sample, the year in which the majority of M&As took place is represented by 2014.

2015 is characterized by a decrease in the number of transactions and, in fact, the percentage of deals over the total realized in this year is only 23.27%.

This is due to the fact that the M&A market is currently experiencing a period of slowdown. Although M&A deals keep on being an important reality and 2013, 2014 and 2015 can be considered as good years for M&As, they are not as good as they would be if a wave would actually be happened.

In fact, the economy is living a period of recession, that is usually characterized by money saving and by the choice to retain instead of investing.

2016 only represent the 10% of the whole number of transactions in the sample. This is due to the fact that deals completed in 2016 are too recent to allow the collection of a number of available data and information.

However, since the aim of the sample construction was to collect data about the most recent deals, it seemed reasonable to add to the research the available information of 2016.

4.4 Research Question

As explained in the paragraph related to the purpose and motivation of the study, this thesis is aimed to find out if the location where the deal takes place is a significant factor able to influence the performances of the target company after the acquisition and therefore to make the M&A successful.

Specifically, the analysis wants to verify if the proximity of the target company is a condition that moderates or affect the impact of the acquirer company on the acquired one, in terms of target's sales variation.

This question stresses the attention on the relationship among the acquirer and the acquired company. Obviously, a relation and influence among these entities exists and do not need to be verified, but will be taken as true and verified on the basis of the previous literature related to the topic.

The focus of the research is related to the possible existence of any relationship between the impact of the acquirer company on the acquired one and the location of the target with respect to the acquirer.

To be more specific, the hypothesis that needs to be verified is:

Hypothesis: In M&A deals the greater the proximity of the target company, the greater the impact (either positive or negative) of the acquiring company on the target company.

Any hypothesis must identify the presence of two elements: the dependent variable and the independent one.

In this case, the response variable is represented by the impact of the acquirer on the acquired company in terms of sales variation and the independent variable is meant to identify the nature of the transaction: cross-border and domestic.

In order to verify and test the relationship among these variables, the multiple linear regression with fixed effects will be performed with the help of the software STATA.

4.5 Regression Model

In order to realize and perform the analysis of the thesis, the multiple linear regression[15] with fixed effects and standard error has been applied.

Multiple linear regression is a very advanced statistical technique using several explanatory variables to predict the outcome of a response variable. The goal of

[15] J. Cohen and P. Cohen, 2003, *Applied Multiple Regression/Correlation Analysis for the Behavioral Sciences*, 3rd Edition Hillsdale: Erlbaum

multiple linear regression is to model the relationship between the independent and dependent variables.

Given p explanatory variables, the relationship between the dependent variable and the explanatory variables is represented by the following equation:

$Y_i = B_0 + B_1x_{i1} + B_2x_{i2} + ... + B_px_{ip} + E_i$
where i = 1,2, ..., n

B_0 represents the intercept, also defined as the value Y would assume if the independent variables X1, X2, X3, X4 would be equal to 0.

Y_i is the dependent variable, also known as the outcome or response variable. It is the one that will be tested according to the changes of the independent ones.

In this case, Y_i is represented by the impact of the acquirer company on the acquired one after the acquisition has happened.

This impact is measured as the difference between the target company's revenues the year right after the acquisition and the target company's revenues the year before it was acquired.

Impact= ($Revenue_t$ – $Revenue_{t-1}$)

where t is the year after the acquisition has taken place

Since the aim of the research was not to analyze the direction of the impact, but only to study how the impact is actually influenced by the geographical position of the target company, it has been considered in absolute value.

X_1 is the independent variable, represented by the location where the deal occurs. It is a dichotomous variable that assumes value equal to 0 if the M&A is domestic and equal to 1 if the transaction is cross-border. Dichotomous variables in fact, are a type of categorical variables designed to contain only two values.

X_2 is a control variable represented by the M&A deal value. It is a dichotomous variable having value equal to 0 when the deal value is minor or equal to 300 million. For deals with bigger value, the variable assumes value equal to 1. Control variables are kept constant in order to minimize and monitor their effects on the experiment. They represent possible alternative explanations to the ones considered in the current study.

X_3 is a control variable represented by the percentage of acquisition. It is expressed as a dichotomous variable assuming value 1 when the percentage is minor than 50% and otherwise 0. As the previous control variable, this one is kept constant in order to minimize and monitor their effect on the analysis and represents a possible alternative explanations to the ones considered in the current study.

X_4 is a control variable represented by the size of the target company. Size can be identified according to the number of employees working in the target firm. The variable is a dichotomous one assuming value 0 when the number of employees is minor or equal to 2000. Otherwise, it is equal to 1. It is a control variable, kept constant in order to minimize and monitor their effect on the analysis.

X_5 is a control variable represented by the year in which the deals took place. In fact, since different years may be more or less profitable and may be characterized by more or less M&A activities, it was an effect to be taken into account. It is added through the fixed effect model. It is a control variable, kept constant in order to minimize and monitor their effect on the analysis. They represent possible alternative explanations to the ones considered in the current study.

B_1, B_2, B_3, B_4, B_5 are the regression coefficients or slope which are estimated through the OLS technique. They show the amount of variation in the dependent variable that would be predicted by 1 unit variation in the corresponding predictor.

E represents the error term, that must be included in the analysis since it represents how observed data differs from actual population data. Since in any empirical analysis it's not possible to examine the whole population but only a sample of it, the error term is useful to indicate how the examined statistical model differs from reality.

Having specified all the terms composing the regression analysis and substituting them into the model, it is possible to obtain the following equation

Impact= B_0 + B_1 (Cross/Domestic) + B_2 (Deal Value) + B_3 (Acquisition Percentage) + B_4 (Size of target company) + B_5 (Year) + Ei

4.6 Analysis approach and evaluation

The analysis will be performed using the Ordinary Least Square (OLS) method through the use of the software STATA, a very powerful tool often used to perform multiple regressions.

Once the results of the study have been obtained it is important to focus on specific values in order to evaluate the actual relevance and importance of results.

In particular, it will be relevant to analyze:

- The p-value for each term, verifying that the coefficient is not equal to zero. A low p-value, having its value lower than the α- level 0,05 indicates that it is possible to reject the null hypothesis. In other words, a predictor that has a low p-value is likely to be a meaningful addition to the model because changes in the predictor's value are related to changes in the response variable. Conversely, a larger p-value would be insignificant since it would suggest that changes in the predictor are not associated with changes in the response. The choice of an α-level equals to 0,05 follows the approach most used in practice by researchers.

- The value of coefficients. Each coefficient refers to its own variable and measures the amount of variation in the dependent variable that would be predicted by 1 unit variation in the corresponding predictor. The most relevant coefficient in the analysis is represented by B1 since it measures the variation of the response variable that would be generated by the fact that the M&A is cross-border or domestic and therefore, it would inform us about the variation of the impact determined by the geographical location of the target company.

- of multiple determination for multiple regressions that indicates the percentage of the response variable variation explained by this model. When it is equal to 1 it means that the variables contained in the model perfectly predict changes of the response one.

4.7 Empirical results

Number of obs.	649
R-squared	0.1581
Adj. R-squared	0.1489

As shown in the table, according to the results of the multiple linear regression, the R-squared for the entire sample shows a coefficient of 0.1581. This means that there is a 16% of possibility that the variation of the variable impact, expressed in terms of sales variation in the target company is determined by the variables included in the model.

The absence of an R-squared equal to 1 do not compromise the results of the analysis. In fact, it is not necessary to have a 1 R-squared value to draw important conclusions about how changes in the predictors values are associated with changes in the response value.

In fact, a solid reason to justify the absence of a perfect adherence to 1 is the existence of other possible alternative explanations to describe the actual change in a firm's revenues after a merger or acquisition.

Impact	Coeff	P-Value
Cross/Domestic	-4.98E+07	0.008
Acquisition Percentage	-2.30E+07	0.545
Target size	2.48E+08	0.000
Deal size	1.01E+08	0.003
Year		
2013	1.36E+05	0.761
2014	1.77E+07	0.410
2015	-2.33E+07	0.331
2016	4.61E+07	0.131
Cons	5.98E+07	0.145

The variable cross/domestic results significant in determining the variation of the variable impact. In fact, with a p-value of 0,008, it is possible to reject the null hypothesis and consider the variable cross/domestic as responsible for the changes in the response variable.

According to the results, the B1 coefficient (the one related to the variable cross/domestic), assumes the value of -4.98E+07. The variable impact, in terms of sales variation within a company, assumes a value around 40 million dollars on average.

Since the variable impact is considered in its absolute value, the fact that B1 is negative does not mean that cross-border transactions do always perform worse than the domestic ones. On the contrary, this value shows the evidence that when the M&A is cross-border, the impact on the target company is lower than in domestic deals. It means that if an international transaction is not profitable, the domestic one, under equal conditions, will be even worse.

4.8 Implications

By the results of the analysis, it is possible to draw some conclusions.

As the evidence shows, a relationship between the location of the target company and the impact of the acquirer on it, do exists and proximity matters.

The greater the proximity of the target company, the greater the impact.

It means that in the eventuality a merger and acquisition is domestic, the effect of the acquirer company on the target company in terms of sales variation will be significantly higher. Therefore, if it is positive, a domestic transaction will significantly outperform a cross-border one, all things being equal. However, a higher impact also involves that whether the domestic transaction is not successful, it will be significantly worse than the cross-border one, things being equal.

The reasons why a domestic transaction can be more successful than a cross-border one have already been explained and presented in the vast body of literature related to the topic. In fact, proximity do also involve important factors that must be considered in the analysis. These factors are represented by the culture, the information asymmetries, macroeconomic factors as the same economic and legal system, less resistance of employees and the possibility to maintain a higher control over the acquired company.

However, these reasons are only in part useful to motivate the results of the analysis. In fact, these explanations are only capable to explain why a domestic transaction could be more successful than a domestic one and are not sufficient alone to explain the higher impact, positive or negative over the target company and to justify why, when a domestic transaction is unsuccessful it would be significantly low performing with respect to the cross-border one under the same conditions.

This is mainly due to the risk propensity of the acquirer company. In fact, cross-border transactions are characterized by the fact that it is very difficult to maintain control over the acquired company. Therefore, investors tend to be very cautious in performing the deal.

On the contrary, since domestic acquirers feel more confident because of the proximity of the company to be acquired, it is possible for them to underestimate the risk of acquiring it, or, simply, they are confident in assuming a certain amount of risk that they would not be likely to take in cross-border transactions.

Therefore, this underestimation of risk could determine significant more losses in the case of a not successful domestic transactions.

This is the downside of the risk propensity: it may result in greater revenues and profits but also in huge losses.

4.9 Conclusions

According to the implications of the study, performing domestic M&As can be a very advantageous choice for the acquirer company.

In fact, the evidence shows that the impact in terms of sales variations over the target company is higher when the deal takes place within the country of the acquirer.

However, this impact must be considered also in its downside, meaning that it could also lead to huge losses for the investors.

That is why acquirers should never underestimate the risks of performing M&As, even if the target company is in their own country and they count to manage the transaction properly because of the proximity.

In fact, many transactions are unsuccessful not because of the way transactions have been managed but simply because the risk evaluation of the transaction has not been realized properly.

As explained in the chapter related to the risk evaluation of M&As, it could be determined by different reasons. For example, the target company could be loss making at the time of the acquisition and the manager, sure to be able to turn the tables after the acquisition, may influence the board decisions.

4.10 Limitations

Even if there is the presence of some limitations, the empirical analysis that has been realized and discussed in this paper can be considered as deemed acceptable.

One limitation is represented by the way data have been collected, since they have not been randomly sorted with no applied parameters, but they have been chosen according to some conditions.

However, these settings were useful in order to better define the ground on which to build the analysis and to reduce and reorder the huge amount of transactions contained in Zephyr database.

Another limitation is represented by the way the dependent variable Impact has been chosen. In fact, its value Is given by the difference of the revenues of the year right after the deal and the revenues of the year before. Normally, it would have been advisable to take into account longer time frame, usually three years. It was not possible because of the missing data related to firm-specific values. However, the shorter horizon do also gives information about the immediate shock on the target company due to the M&A and therefore, this limitation is not considered as compromising the study.

CONCLUSION

The work in object has been realized with the purpose to make a comparison between two investment choices: the domestic and cross-border mergers and acquisitions, verifying if the location of the target company is a condition that moderates or affect the impact of the acquirer company on the acquired one, in terms of target's sales variation.
Before introducing the empirical analysis, this study also introduces the theoretical background most relevant to the full understanding of the phenomenon.

Indeed, the first chapter provides information about the most renown classifications of the M&A phenomenon and about its evolution phases, each of them with its own features.

The second chapter does also grant an overview of the most accepted rationales and challenges related to the M&A phenomenon in general and respect to the cross-border transactions.

The theoretical background is completed through the explanation of the due diligence process, a very important step that has grown in importance in recent years. Approaches in due diligence are quite different if referred to investors closing domestic deals or international ones. Indeed, it may reflect the risk propensity of the acquirer and then crucially affect the success or failure of the transaction.

The core of the thesis is represented by the fourth chapter, since it includes the core of the entire dissertation. As explained, the analysis of the thesis consists on comparing domestic and cross-border transactions, with the aim to understand to which extent, the location of the target company can influence the success or failure of the M&A. The main research question, in fact, has the purpose to analyze if the proximity of the target company is a condition able to modify the impact, positive or negative, of the acquiring company on the target company, in terms of sales variation of the target.

According to a sample composed of 649 transactions, both domestic and cross-border, completed between 2013 and 2016, the impact in terms of sales variations over the target company is higher when the deal takes place within the country of the acquirer.

It means that, whether the impact on the target is positive, an in-border transaction will outperform a cross-border one, all things being equal. Obviously, it also means that whether the domestic transaction is unsuccessful, it will be significantly worse than the cross-border one, things being equal. The greater impact is due to different elements, represented by factors related to the proximity, as the same economic and legal system, the same culture, less employment friction as well to the risk propensity of the acquirer company, significantly higher in domestic transactions. The higher risk propensity may be a profitable strategy but also a failing one if it results in underestimation of risk or in excessive confidence.

Indeed, at the basis of the portfolio theory, risk attitude is directly proportional to profits and revenues, when the transaction results into a success. On the other hand, if underestimated, higher risk does also imply drastic losses when the deal is unsuccessful.

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SUMMARY

M&As represent a phenomenon that has kept on growing in frequency during the years. Initially, firms used to engage the most in domestic transactions, meaning that the M&A took place within the country of the acquirer itself. Suddenly, the increasing globalization has determined the tendency of acquirers to look out of their countries' borders and to search for opportunities in foreign markets. Thus, cross-border M&As have become an important reality.
This argument has been analyzed by a huge body of literature and the domestic and international approaches have been studied and compared according to different parameters to determine which choice could be the most profitable for investors. The purpose of the thesis is to give a contribution to the existing literature and focus on the possible reasons that determine the choice of investors.
In fact, by comparing domestic and cross-border mergers and acquisitions, this thesis is aimed to find out if the location where the deal takes place is a relevant factor that has a significant influence on the performance of the target company after the M&A has taken place, making it a successful strategy for investors.

This thesis is divided in four chapters.

The first chapter introduces to the topic of M&As to grant the general understanding of the phenomenon and present the main phases of its development. It will be divided into two main sections: the first one will focus on the description and categorization of mergers and acquisitions firstly according to the relatedness of business activities and then to their strategic purpose. The second section describes the periods characterized by more intense M&As activities. These six periods are denoted as Merger waves and will be presented according to their most relevant features.

The second chapter is divided in two parts. The most important and accepted rationales of M&As such as the potential synergies, the increase in market power, the diversification, the management goals will be presented. Some of them arise from the theory of the industrial organization and refer to the increase in the market power, efficiency gains and preemptive motives. Some others rely on corporate governance

theories and refer to motives such as the correction of internal inefficiencies, agency problems and capital market imperfections.
In this part, also the general challenges of the M&A activity will be explained.
Following, there will be a focus on cross-border M&As. In fact, the specific rationales of international transactions with the related challenges will be presented.

The third chapter presents the process of due diligence. This is a process that has grown in importance in recent years. It has, indeed, become a very crucial step that should anticipate any M&A deal, since it may prevent investors from losses and failure. The different steps of the process will be explained according to their most relevant features. The last part of the chapter, will focus on the differences in risk attitudes and due diligence approaches between domestic and cross-border deals. Domestic investors, in fact, are less cautious when performing a domestic transaction within their country and will be more likely to take a certain amount of risk and thus, more risk prone.

The fourth chapter can be considered as the core of the thesis, since it includes the empirical analysis and the different steps that have made possible its realization. The first part focuses on the motives that have determined the choice to analyze the phenomenon of domestic and cross-border M&As. Following, the presentation of the important steps of data collection and sample construction. The third section of the chapter includes the formulation of the research question and the explanation of the regression model applied in the analysis. To conclude, the explanation of the empirical findings and their implications will be presented.

As explained, the analysis of the thesis consists on the comparison of domestic and cross-border transactions and it has the aim to understand to which extent, the location of the target company can influence the success or failure of the M&A. The main research question, in fact, has the purpose to analyze if the proximity of the target company is a condition able to modify the impact, positive or negative, of the acquiring company on the target company, in terms of sales variation of the target. There is a huge body of literature focusing on this argument and trying to determine which choice could be the most profitable for investors. Many empirical analyses have also compared these transactions according to different parameters and factors, aiming to answer the question "Are cross-border M&As more successful and profitable or worse and less performing of domestic ones?"

Having analyzed the possible explanations driving the choices of the acquirer company to perform domestic or cross-border transactions and having compared the literature examining these phenomena, no absolute evidence of which decision could be the best one for the investing company has been found.

The thesis is driven by the purpose to give a contribution to the existing literature, focusing on the possible reasons that determine the choice of the investor.

In fact, leading on the comparison between domestic and cross-border mergers and acquisitions this work is aimed to find out if the location where the deal takes place is a relevant factor able to significantly influence the performance of the target company after the M&A, making it successful for the acquirer.

The process has started with the steps of data collection and sample construction. These are very important steps since they are considered as the ground on which to build the whole analysis. Essential data have been collected from the database Zephyr of Bureau van Dijk that provides information about the nature and typology of mergers and acquisitions, whether they are domestic or cross-border, the countries and firms involved in the transactions and firm specific information.

Some parameters have been applied in order to collect data and properly define the ground of the analysis. Indeed, the time frame of the deals goes from 2013 until 2016. The companies have been selected from all the relevant industries, without focusing on a specific one. The acquiring and the acquired firm can belong to different businesses. In fact, firms may decide to undertake different investment decisions, involving not only market extension but also many more strategies as diversification. The acquiring and the acquired firms have both adopted the International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) to build their financial statements. Furthermore, in order to not compromise the study, no countries have been intentionally excluded by the data collection. In other words,

the analysis will involve transactions between firms located in different parts of the world, without focusing on a single specific area or zone.
Once data have been gathered, it was possible to build a sample made of 649 transactions, containing both domestic and cross-border mergers and acquisitions.
Once the sample has been generated, it was possible to move into the analysis.
According to the research question, previously introduced, the hypothesis to be verified is:

Hypothesis: In M&A deals the greater the proximity of the target company, the greater the impact (either positive or negative) of the acquiring company on the target firm.

In order to realize and perform the analysis, the multiple linear regression with fixed effects and standard error has been applied.
Multiple linear regression is a very advanced statistical technique using several explanatory variables to predict the outcome of a response variable. The goal of multiple linear regression is to model the relationship between the independent and dependent variables.
The regression model applied to the work in object can be expressed in the following way:

Impact= B_0 + B_1 (Cross/Domestic) + B_2 (Deal Value) + B_3 (Acquisition Percentage) + B_4 (Size of target company) + B_5 (Year) + Ei

The impact is the dependent variable, Y_i also known as the outcome or response variable. It is the one that will be tested according to the changes of the independent ones. Y_i is represented by the impact of the acquirer company on the acquired one after the acquisition has happened. This impact is measured as the difference between the target company's revenues the year right after the acquisition and the target company's revenues the year before it was acquired. Since the aim of the research was not to analyze the direction of the impact, but only to study how the impact is actually influenced by the geographical position of the target company, it has been considered in absolute value.

The independent variable is represented by the location where the deal occurs. It is a dichotomous variable that assumes value equal to 0 if the M&A is domestic and equal to 1 if the transaction is cross-border.

Control variables were added into the analysis since they improve the soundness of the model and they may represent possible alternative explanations to the ones considered in the current study and are kept constant in order to minimize and monitor their effects on the experiment.

The first control variable is represented by the M&A deal value. It is a dichotomous variable having value equal to 0 when the deal value is minor or equal to 300 million. For deals with bigger value, the variable assumes value equal to 1. The second one is represented by the percentage of acquisition. It is expressed as a dichotomous variable assuming value 1 when the percentage is minor than 50% and otherwise 0. The fourth one is represented by the size of the target company. Size can be identified according to the number of employees working in the target firm. The variable is a dichotomous one assuming value 0 when the number of employees is minor or equal to 2000. Otherwise, it is equal to 1. The last variable is represented by the year in which the deals took place. In fact, since different years may be more or less profitable and may be characterized by more or less M&A activities, it was an effect to be taken into account. It is added through the fixed effect model.

To perform the analysis, the Ordinary Least Square (OLS) method using the software STATA has been used.

According to the results of the multiple linear regression, the R-squared for the entire sample shows a coefficient of 0.1581. This means that there is a 16% of possibility that the variation of the variable impact, expressed in terms of sales variation in the target company is determined by the variables included in the model.
The absence of an R-squared equal to 1 do not compromise the results of the analysis. In fact, it is not necessary to have a 1 R-squared value to draw important conclusions about how changes in the predictors values are associated with changes in the response value.

In fact, a solid reason to justify the absence of a perfect adherence to 1 is the existence of other possible alternative explanations to describe the actual change in a firm's revenues after a merger or acquisition.

The variable cross/domestic resulted significant in determining the variation of the variable impact. In fact, with a p-value of 0,008, it was possible to reject the null hypothesis and consider the variable cross/domestic as responsible for the changes in the response variable.

The B1 coefficient (the one related to the variable cross/domestic), assumes the value of -4.98E+07. Since the variable impact is considered in its absolute value, the fact that B1 is negative does not mean that cross-border transactions do always perform worse than the domestic ones. On the contrary, this value shows the evidence that when the M&A is cross-border, the impact on the target company is lower than in domestic deals. It means that if an international transaction is not profitable, the domestic one, under equal conditions, will be even worse.

According to the results of the analysis, a relationship between the location of the target company and the impact of the acquirer on it, do exists and therefore, proximity matters.

The greater the proximity of the target company, the greater the impact.

It means that in the eventuality a merger and acquisition is domestic, the effect of the acquirer company on the target company in terms of sales variation will be significantly higher. Therefore, if it is positive, a domestic transaction will significantly outperform a cross-border one, all things being equal. However, a higher impact also involves that whether the domestic transaction is not successful, it will be significantly worse than the cross-border one, things being equal.

The reasons why a domestic transaction can be more successful than a cross-border one have been explained and presented in theoretical chapters presenting the vast body of literature related to the topic. In fact, proximity do also involve important factors that must be considered in the analysis. These factors are represented by the culture, the information asymmetries, macroeconomic factors as the same economic and legal system, less resistance of employees and the possibility to maintain a higher control over the acquired company.

For example, domestic investors would have to deal at a lesser extent, or, if lucky, would not have to deal at all with some of the legal barriers of cross-border M&As, represented by the complex legal setup of institutions within the country of the target company, that could determine opaque decision making processes.

Differences in the national reporting schemes, such as the accounting systems could determine the impossibility to have a clear idea about what the financial situation of the acquired company is.

Two countries are also very likely to have different employment legislation that could represent a problem when the acquiring company tries to make changes within the organization or tries to move workers to other mansions. Other problems may be represented by the deep cultural differences among two merging firms, belonging to two different countries. Bad culture integration management can lead, in fact, to misaligned expectations and behaviors, differences in performing practices and processes and conflicts regarding the way the internal structure of a firm is expected to be. Culture may also involve some challenges outside of the firm. These must be properly considered when considering a cross-border M&A since they include important issues as the disparity in corporate governance, social responsibility, ethics, litigation and intellectual property rights. If not identified, they would determine significant problems further down the line. Also the political background must be considered. Indeed, it is very important to identify and evaluate the potential political implications in advance of initiating any M&A or strategic investment transaction. This analysis should be as comprehensive as practical and must go beyond more obvious issues such as whether the target company is in a sensitive industry or is owned/financed by a foreign government. It is imperative that the likely concerns of federal, state and local government agencies, employees/unions, customers, suppliers, communities and other interested parties be considered and addressed strategically prior to any acquisition or investment proposal becoming known to the public. Also regulatory and antitrust may represent a problem in cross-border transactions. Many firms declared that regulator authorities place a relevant additional challenge in the way of cross- border transactions. In particular, for firm doing deals in Europe and

North America where competition regulators are quite rigid and aggressive, getting antitrust and regulatory approval is one of the biggest concerns.

Corruption may represent a concern as well. One in four companies doing deals motivated by industrial assets said the need to get to grips with issues related to bribery and corruption, is a key compliance challenge. Underperformance may arise in Cross-border M&As also because of Information Asymmetry. This lack of available information could make though for the investors to determine the real price of the target company as well as information related to the structure, operation and culture. This may determine significant more challenges in integrating the companies after the deal is done, resulting in underperformance.

However, all these reasons are only in part useful to motivate the results of the analysis. In fact, these explanations are only capable to explain why a domestic transaction could be more successful than a domestic one and are not sufficient alone to explain the higher impact, positive or negative over the target company and to justify why, when a domestic transaction is unsuccessful it would be significantly low performing with respect to the cross-border one under the same conditions. This is mainly due to the risk propensity of the acquirer company. In fact, cross-border transactions are characterized by the fact that it is very difficult to maintain control over the acquired company. Therefore, investors tend to be very cautious in performing the deal. Reasons that make investors more cautious and less prone to risks in performing a cross-border M&As, are quite immediate. Having to deal with increase uncertainty, investors are not likely to assume too much risks because of the uncertainty of the external environment, but also because of the difficulties that controlling a target company located abroad imply. Making cross-border transactions is, indeed, becoming even tougher in the years to come. This is because of the augmenting regulatory pressures, the geopolitical and economic events as the Brexit and the US election, the lower interest rate and the general economic slowdown. All of this is determining a more cautious attitude toward cross-border deals and a minor risk attitude in Cross-border deals with respect to domestic transactions. Indeed, planning a M&A within a country in which it is possible to have easier access to all the needed information about the target company, that has the same political, economic and legal environment of the acquiring one, will make the deal significantly easier to manage. Domestic investors, in fact, are less cautious when performing a domestic transaction within their country and will be more likely to take a certain amount of risk. In fact, they are on average more confident in assuming a certain amount of risk that they would not be likely to take in cross-border transactions. This underestimation of risk, as theory explains, could determine significant more losses in the case of a not successful domestic transactions.

To conclude, according to the implications of the study, performing domestic M&As can be a very advantageous choice for the acquirer company.
In fact, the evidence shows that the impact in terms of sales variations over the target company is higher when the deal takes place within the country of the acquirer.
However, this impact must be considered also in its downside, meaning that it could also lead to huge losses for the investors.
That is why acquirers should never underestimate the risks of performing M&As, even if the target company is in their own country and they count to manage the transaction properly because of the proximity.
In fact, many transactions are unsuccessful not because of the way transactions have been managed but simply because the risk evaluation of the transaction has not been realized properly.