

The Impact of Cross-Border Legal Systems on M&A Risk Mitigation-An Empirical Study

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Abstract

We contend that the payment method employed in cross-border mergers and acquisitions (M&As) can help mitigate governance risks at the country level for the acquiring company. Our research reveals a higher inclination to use stocks as the payment method in cross-border transactions involving targets from countries with substantial governance risks compared to the acquirer's home country. This increased reliance on stocks in riskier cross-border deals reflects the acquirer's strategic response to prevent overpayment. However, it's noteworthy that using stocks instead of cash in cross-border deals is linked to a reduced likelihood of deal completion, as our study indicates.

Moreover, in more recent periods, specifically after 2000, we observe a significant rise in the use of stocks and a corresponding decline in the use of cash in cross-border deals. This trend has led to a convergence with the payment methods employed in domestic deals.

Keywords: Cross-Border; Legal Systems; M&A; Risk Mitigation; Empirical Study; Governance Risk; Payment Methods; Deal Completion; Convergence; Acquirer Strategies; International Business; Corporate Finance.

Introduction

The selection of payment methods in mergers and acquisitions (M&As) holds significant implications for both the acquiring and target companies. These implications include the resulting ownership structure after the takeover, the risk profile, and how the gains from the transaction are allocated [1,2]. In M&A transactions, the acquirer can choose to pay the target shareholders in cash, acquirer stock (with a specified exchange ratio for converting target shares), or a combination of both (mixed deals) [1].

Existing research indicates that in U.S.-domestic M&A deals, cash payments are the most common option, followed by payments in acquirer stock and mixed deals [3]. However, in cross-border deals—where the bidding and target companies are based in different countries—the choice of payment method involves additional considerations not typically encountered by domestic-focused acquirers. Although some recent studies have explored the determinants and wealth effects of cross-border M&As [4-8], the specific focus on the selection of payment methods has been relatively limited, making it the central focus of this study.

Our research focuses on the influence of transparency, corporate governance, and institutional quality in a target country on the method of payment in cross-border deals. We hypothesize that when a target company is in a country with weak corporate governance, inadequate shareholder protection, or low transparency, the deal becomes riskier for the acquiring company, a concept we term governance risk. This risk arises from the limited information available to the acquirer due to the target's institutional environment, potentially leading to overpayment for the target firm. In such scenarios, using the acquirer's stock as payment becomes advantageous, as it helps mitigate the risk of overpayment when dealing with a less transparent or opaque target company from a foreign country [9].

However, employing stock as a payment method comes with its own challenges. The uncertainty associated with stock swaps, especially when the acquirer's shares are traded on overseas exchanges, often makes target shareholders prefer all-cash offers from foreign bidders. Thus, foreign acquirers face a dilemma: using acquirer stock reduces the risk of overpayment with opaque targets but might decrease the likelihood of the deal

being finalized due to target shareholders' preference for cash offers [10,11].

Our study analyzed 47,481 domestic and cross-border M&A deals across 46 countries between 1990 and 2010. We examined various country-level risk factors, such as shareholder protection, corporate governance, financial reporting quality, transparency, and stock market performance, to understand their impact on the choice of payment method in cross-border deals. Our findings support our hypothesis, indicating that differences in governance measures between the acquirer and target countries significantly influence the use of stock (and decrease the use of cash) in cross-border M&A deals [12].

Additionally, we observed that stock deals are more likely when the acquirer's home country stock market has higher recent returns relative to the target market and when the bidder has a stock listing in the target country. This suggests that target shareholders are more willing to accept acquirer stock when they have confidence in its value and ease of tradability.

Furthermore, our analysis revealed a noteworthy trend: there has been a convergence in payment methods for domestic and cross-border mergers over time. Cash remained the preferred method for all deals, but there was a decline in cash-only cross-border transactions post-2000. This shift could be attributed to the increase in relative governance risk for acquirers in cross-border deals, possibly influenced by advancements in technology.

In summary, our study demonstrates that governance risk significantly impacts the choice of payment method in cross-border M&A deals. Acquirers are inclined to use their stock as a method of payment to mitigate overpayment risks associated with opaque targets. However, this trend must be balanced with target shareholders' preference for cash offers, leading to a complex decision-making process for foreign acquirers.

Related Literature

Corporate Governance and M&A: Numerous studies have highlighted the significance of corporate governance structures in M&A transactions. Firms with stronger governance mechanisms are often more attractive to potential acquirers due to increased transparency, better shareholder protection, and reduced agency costs [13,14].

Transparency and Information Asymmetry: Transparency and information disclosure play a crucial role in M&A negotiations. Firms operating in environments with high transparency are generally perceived as less risky, reducing information asymmetry between acquirers and targets.

Institutional Quality: Institutional factors, including the overall quality of a country's legal and regulatory framework, influence the attractiveness of cross-border deals. Countries with robust institutions tend to offer a more stable and secure environment

for foreign investments.

Payment Methods in M&A: Prior research has explored the trade-offs between cash and stock payments. Cash offers provide immediate liquidity to target shareholders but might signal undervaluation by the acquirer. Stock offers, on the other hand, allow acquirers to use their equity as a means of payment, enabling them to preserve cash and share the risks and rewards of the merger with target shareholders.

Hypothesis Development

Governance Risk and Payment Methods: We hypothesize that in cross-border M&A deals, higher governance risk in the target country leads to an increased likelihood of acquirers opting for stock-based payment methods. This is based on the rationale that using stock mitigates the risks associated with opaque targets, as acquirers and target shareholders share the post-takeover risks in stock transactions.

Information Asymmetry and Payment Choice: Additionally, we expect that acquirers facing higher information asymmetry due to weaker transparency and governance in the target country are more likely to use stock swaps. Stock transactions allow acquirers to offset the lack of information by sharing the risks, making this method more attractive when information about the target is limited.

Institutional Quality and Payment Methods: We anticipate that in countries with higher institutional quality, acquirers might be more inclined to use cash payments due to the reduced perception of risk. Strong institutions provide a conducive environment for transparent transactions, making cash offers a viable option for acquirers in such settings.

Variable Definitions and Econometric Models

1. Dependent Variables:

Payment Method (PM): A binary variable indicating the payment method used in the M&A deal (1 for stock payment, 0 for cash payment).

Deal Completion (DC): A binary variable indicating whether the M&A deal was successfully completed (1 for completed, 0 for not completed).

2. Independent Variables:

Governance Risk (GR): A composite measure capturing the governance risk in the target country, derived from indicators such as shareholder protection, corporate governance practices, financial transparency, and legal framework.

Information Asymmetry (IA): A measure indicating the level of information asymmetry between the acquirer and the target, often derived from financial statement data, analyst reports, and market indicators.

Institutional Quality (IQ): A variable representing the overall quality of institutions in the target country, encompassing legal and regulatory frameworks, political stability, and government effectiveness.

Stock Market Performance (SMP): A measure of recent returns in the acquirer's home-country stock market relative to the target market, reflecting investor confidence in the acquirer's stock.

Cross-Listing (CL): A binary variable indicating whether the acquirer is cross-listed on the stock exchange of the target country (1 for cross-listed, 0 for not cross-listed).

Time Period (TP): A variable representing the year of the M&A deal, accounting for potential time-related trends and changes in market conditions.

Econometric Models

Payment Method Choice Model:

Logic: $PM_i = \beta_0 + \beta_1 \times GRI + \beta_2 \times IA_i + \beta_3 \times IQ_i + \beta_4 \times SMP_i + \beta_5 \times CL_i + \beta_6 \times TP_i + \epsilon_i$

Where PM_i is the payment method for deal i , and ϵ_i represents the error term. The coefficients β_1 to β_6 indicate the impact of governance risk, information asymmetry, institutional quality, stock market performance, cross-listing status, and time on the likelihood of choosing a stock payment method.

Deal Completion Model:

Logic: $DC_i = \gamma_0 + \gamma_1 \times PM_i + \gamma_2 \times GRI + \gamma_3 \times IA_i + \gamma_4 \times IQ_i + \gamma_5 \times SMP_i + \gamma_6 \times CL_i + \gamma_7 \times TP_i + \eta_i$

Where DC_i is the completion status of deal i , and η_i represents the error term. The coefficients γ_1 to γ_7 indicate the impact of payment method, governance risk, information asymmetry, institutional quality, stock market performance, cross-listing status, and time on the likelihood of deal completion.

Data and Summary Statistics

In our dataset, we focus on M&A deals where a publicly traded

bidder aims to acquire a controlling stake (N50%) in the target's voting stock. The data, spanning from 1990 to 2010, is sourced from Thomson's SDC Platinum Mergers and Acquisitions database. To maintain consistency with existing research, certain deal types are excluded, such as exchange offers, LBOs, privatizations, and others specified in the literature. Additionally, deals involving government agencies, financial or utilities industries, or those with identical DataStream codes are omitted due to potential bias arising from distinct regulations.

Bidder accounting information is derived from WorldScope, while country-level risk measures (RADI, ICRG, Common law, Transparency index, and CGRI), gravity measures (distance and language), and relative stock market returns are obtained from various sources outlined in the appendix. Initially, our dataset comprises 84,084 M&A deals from 46 countries seeking controlling interest, of which 27% (22,994) are cross-border and 73% (61,090) are domestic. After applying the specified criteria, including firm-level data, the final sample consists of 47,481 deals, comprising 27% (12,982) cross-border and 73% (34,499) domestic transactions [15].

Summary Statistics

Table 1: This table presents summary statistics on payment method choice for the full deal-level sample (Panel A) and the country-level sample (Panel B). Across both samples, cash-only transactions are the prevalent choice for both domestic and cross-border deals. Significantly, cash is more common in cross-border transactions, with differences ranging from 12% to 16% when compared to domestic deals. Mixed and stock-only deals are less frequent in cross-border transactions, although the differences are smaller compared to cash.

Online Appendix (Table A1): Acquirer-country level statistics on payment methods reveal that a significant portion of the sample (75%) is concentrated in five countries (United States, United Kingdom, Canada, Australia, and Japan). Nevertheless, the payment method differences hold when aggregated at the country level, minimizing sample imbalances. Notably, cash-only

Table 1: Sample Composition and Differences in Method of Payment.

	Sample size	All cash	Mixed	All stock
<i>Panel A: Full sample</i>				
Cross-border	22,994	0.725	0.162	0.112
Domestic Difference	61,090	0.567*	0.225**	0.207
		0.158***	-0.063***	-0.095***
<i>Panel B: Country-level</i>				
Cross-border	46	0.827	0.100	0.073
Domestic Difference	46	0.705	0.117	0.178
		0.122***	-0.017	-0.105***

*** Differences in means between domestic and cross-border are statistically significant at the 1% level.

** Differences in means between domestic and cross-border are statistically significant at the 5% level.

* Differences in means between domestic and cross-border are statistically significant at the 10% level.

deals are more common in cross-border M&As in 40 out of 46 countries, while stock-only payments are slightly more frequent in only five countries, although most differences are not statistically significant. Overall, these statistics suggest a consistent global pattern in payment method choices.

Time Series (Table 2): Table 2 provides similar statistics, focusing on the time series analysis over the sample period. Although not explicitly emphasized, differences in payment methods between cross-border and domestic deals are both economically and statistically significant throughout the years. Specifically, cash-only deals are consistently more prevalent in cross-border transactions, while stock-only deals are more common in domestic deals.

Surprisingly, the proportion of cross-border deals conducted entirely in cash consistently decreased over our study period, dropping from 88% in 1990 to 69% in 2010. Conversely, the percentage of cross-border deals involving at least some stock (mixed or stock-only) rises. Comparing the periods before and after 2000, it becomes evident that the surge in mixed payment methods drives this transformation. Mixed deals increased from 14% to 17%, while the proportion of all-stock deals remained relatively stable between these decades (10.8% vs. 11.4%).

Specifically, the percentage of cross-border deals employing mixed payment methods rose from 8% in 1990 to 20% in 2010. This trend mirrors the evolution observed in domestic U.S. M&A deals [16]. Their findings indicate a shift from approximately 10% mixed deals in the early 1990s to over 30% by the end of the 2000s, aligning with our study period. Interestingly, the use of cash as the primary payment method increased over this period,

a pattern also visible in domestic deals in Table 2 (last two rows of the table).

Table 2 suggests a substantial alteration in the method of payment for cross-border deals between 1990 and 2010. Towards the end of our study period, an increasing number of cross-border transactions incorporate acquirer stock as part of the payment method, defying conventional expectations. This intriguing shift, where shareholders of foreign targets seem more receptive to acquiring stock in recent times, is a phenomenon we will explore further in this paper.

The changing payment methods are graphically depicted, illustrating the differences in average payment methods between cross-border and domestic deals over time. A relatively stable gap between cash-only and stock-only deals in domestic and cross-border M&As. The use of mixed payment methods in cross-border and domestic deals appears to converge. Remarkably, the disparity between cross-border and domestic deals approached zero by the end of our study period.

Table 3 presents summary statistics for the variables utilized in our empirical models. It includes mean (median) values for all firms, differences between cross-border and domestic deals, and distinctions between the pre-2000 and post-2000 periods. Key observations from Panel A reveal that bidders engaging in cross-border deals are notably larger in size, exhibit higher annual returns (especially after 2000), and carry lower leverage. Country-level variables (Panel B) indicate that targets in cross-border deals generally originate from countries with slower growth rates (GDP per capita). Significantly, in our context, cross-border deals involve bidders from countries with stronger bargaining

Table 2: Time Series of Payment Method Choice (1990-2010).

Year	Cross-border				Domestic			
	#	All cash	Mixed	All stock	#	All cash	Mixed	All stock
1990	474	0.876	0.083	0.041	986	0.666	0.170	0.164
1991	371	0.797	0.108	0.095	1138	0.588	0.208	0.203
1992	385	0.743	0.121	0.136	1493	0.559	0.216	0.226
1993	488	0.773	0.116	0.110	1788	0.548	0.239	0.214
1994	652	0.751	0.146	0.103	2387	0.520	0.255	0.225
1995	767	0.768	0.112	0.120	2493	0.525	0.227	0.248
1996	875	0.716	0.177	0.107	3131	0.520	0.241	0.239
1997	1152	0.716	0.149	0.136	3705	0.515	0.253	0.232
1998	1331	0.721	0.159	0.120	3796	0.556	0.243	0.201
1999	1399	0.732	0.148	0.120	3597	0.500	0.232	0.268
2000	1755	0.627	0.210	0.162	4004	0.430	0.263	0.308
2001	1159	0.682	0.185	0.133	2991	0.507	0.245	0.247
2002	909	0.740	0.142	0.117	2716	0.569	0.211	0.220
2003	931	0.781	0.110	0.109	2481	0.633	0.192	0.175
2004	1203	0.747	0.151	0.102	3352	0.619	0.205	0.177
2005	1386	0.737	0.156	0.107	3437	0.631	0.207	0.162
2006	1669	0.723	0.180	0.097	3829	0.640	0.205	0.155
2007	1938	0.729	0.188	0.083	4356	0.631	0.226	0.142
2008	1615	0.748	0.155	0.096	3398	0.655	0.185	0.161
2009	1112	0.681	0.187	0.133	2913	0.558	0.219	0.223
2010	1423	0.693	0.200	0.107	3099	0.606	0.230	0.164
b2000	7894	0.746	0.140	0.114	24,514	0.536	0.236	0.228
N = 2000	15,100	0.724	0.168	0.108	36,576	0.586	0.209	0.204

power, transparency, and minority rights compared to the target countries. The final panel of Table 3 outlines deal characteristics, highlighting that cross-border deals are, on average, smaller (in relative size) and are more likely to involve subsidiary targets. Notably, the relative size of cross-border deals has shown an upward trend over time [17].

Regression Results

Method of Payment Choice

In Table 4, the regression models are presented. Equation (1) is estimated using probit regressions, where the dependent variable equals one for cash-only deals and zero otherwise

Table 3: Summary statistics are presented for 47,481 M&A deals, encompassing the entire sample period from 1990 to 2010. The data is divided into cross-border (CB) and domestic deals, with mean and median values reported for both groups.

Variables	1990–2010			Pre-2000			Post-2000			Post-2000– pre-2000
	CB	Domestic	Diff	CB	Domestic	Diff	CB	Domestic	Diff	
<i>Panel A: Firm-level variables</i>										
Ln Assets	12.60 (12.72)	11.81 (11.87)	0.80*** (0.85)	13.00 (12.89)	12.06 (11.97)	0.95*** (0.92)	12.35 (12.58)	11.64 (11.79)	0.72*** (0.79)	–0.23 (–0.13)
Asset tangibility	0.27 (0.22)	0.28 (0.21)	–0.01*** (0.01)	0.29 (0.26)	0.30 (0.23)	0.00 (0.03)	0.25 (0.18)	0.27 (0.18)	–0.02*** (–0.01)	–0.02 (–0.03)
Leverage	0.21 (0.18)	0.23 (0.17)	–0.02*** (0.01)	0.22 (0.20)	0.23 (0.19)	–0.01*** (0.01)	0.21 (0.16)	0.24 (0.16)	–0.03*** (0.00)	–0.02 (–0.01)
Annual stock return	0.23 (0.18)	0.21 (0.17)	0.01* (0.01)	0.27 (0.20)	0.28 (0.21)	–0.02* (–0.01)	0.20 (0.16)	0.16 (0.14)	0.03*** (0.02)	0.05 (0.03)
<i>Panel B: Country-level variables</i>										
Acquirer GDP per capita	10.19 (10.32)	10.18 (10.34)	0.00 (–0.02)	10.04 (10.12)	10.09 (10.19)	–0.05*** (–0.07)	10.30 (10.54)	10.27 (10.54)	0.04*** (0.00)	0.09 (0.07)
Acquirer capitalization/GDP	4.64 (4.76)	4.68 (4.80)	–0.04*** (–0.03)	4.62 (4.71)	4.69 (4.75)	–0.07*** (–0.04)	4.66 (4.84)	4.68 (4.84)	–0.02*** (0.00)	0.05 (0.04)
Acquirer market return	9.47 (13.60)	10.32 (13.60)	–0.85*** (0.00)	10.63 (14.50)	12.85 (19.20)	–2.22*** (–4.70)	8.56 (13.30)	7.99 (8.99)	0.57* (4.31)	2.79 (9.01)
Acquirer transparency	1.59 (1.74)	1.69 (1.81)	–0.10*** (–0.07)	1.66 (1.74)	1.83 (2.03)	–0.17*** (–0.29)	1.54 (1.74)	1.57 (1.74)	–0.03*** (0.00)	0.14 (0.29)
Acquirer RADI	3.87 (4.00)	3.64 (3.00)	0.23*** (1.00)	3.87 (4.00)	3.57 (3.00)	0.30*** (1.00)	3.87 (4.00)	3.71 (4.00)	0.16*** (0.00)	–0.14 (–1.00)
Acquirer creditor rights	2.03 (1.00)	1.78 (1.00)	0.26*** (0.00)	2.09 (1.00)	1.71 (1.00)	0.38*** (0.00)	1.99 (1.00)	1.84 (1.00)	0.15*** (0.00)	–0.23 (0.00)
Target GDP growth	3.20 (3.10)	3.06 (3.08)	0.14*** (0.02)	3.47 (3.84)	3.68 (4.11)	–0.21*** (–0.27)	2.98 (2.67)	2.48 (2.61)	0.50*** (0.06)	0.71 (0.33)
Target GDP per capita	9.86 (10.18)	10.18 (10.34)	–0.32*** (–0.16)	9.81 (10.07)	10.09 (10.19)	–0.28*** (–0.12)	9.90 (10.47)	10.27 (10.54)	–0.36*** (–0.08)	–0.08 (0.04)
Target capitalization/GDP	4.37 (4.54)	4.68 (4.80)	–0.31*** (–0.26)	4.30 (4.44)	4.69 (4.75)	–0.39*** (–0.31)	4.42 (4.64)	4.68 (4.84)	–0.26*** (–0.19)	0.13 (0.12)
Target market return	10.80 (12.70)	10.32 (13.60)	0.48** (–0.90)	10.50 (12.70)	12.85 (19.20)	–2.35*** (–6.50)	11.04 (12.80)	7.99 (8.99)	3.05*** (3.81)	5.40 (10.31)
Target transparency	1.38 (1.67)	1.69 (1.81)	–0.32*** (–0.14)	1.50 (1.72)	1.83 (2.03)	–0.33*** (–0.31)	1.28 (1.55)	1.57 (1.74)	–0.29*** (–0.19)	0.05 (0.12)
Target RADI	3.56 (3.50)	3.64 (3.00)	–0.08*** (0.50)	3.63 (3.50)	3.56 (3.00)	0.07*** (0.50)	3.51 (3.50)	3.71 (4.00)	–0.20*** (–0.50)	–0.27 (–1.00)
Target creditor rights	1.88 (1.00)	1.78 (1.00)	0.10*** (0.00)	1.94 (1.00)	1.71 (1.00)	0.23*** (0.00)	1.83 (1.00)	1.84 (1.00)	–0.01 (0.00)	–0.23 (0.00)
<i>Panel C: Deal-level variables</i>										
Relative size	0.16 (0.05)	0.18 (0.08)	–0.02*** (–0.03)	0.13 (0.05)	0.18 (0.09)	–0.06*** (–0.05)	0.17 (0.06)	0.18 (0.07)	0.00 (–0.01)	0.05 (0.04)
Public target indicator	0.11	0.13	–0.02***	0.13	0.14	–0.02***	0.09	0.11	–0.02***	0.00
Private target indicator	0.51	0.55	–0.04***	0.50	0.56	–0.05***	0.52	0.55	–0.04***	0.02
Subsidiary target indicator	0.38	0.32	0.06***	0.37	0.30	0.07***	0.39	0.34	0.05***	–0.02
Intra-industry indicator	0.59	0.58	0.01***	0.55	0.56	–0.01**	0.62	0.59	0.03***	0.04
High-tech deal indicator	0.29	0.28	0.01***	0.26	0.25	0.01**	0.31	0.30	0.01**	0.00
Hostile deal indicator	0.00	0.01	0.00	0.01	0.01	0.00**	0.00	0.00	0.00**	0.00
Completed deal indicator	0.78	0.78	0.00	0.83	0.83	0.01	0.74	0.75	0.01	0.00

*** Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

(i.e., any stock). Eight model specifications are estimated for five relative risk measures separately (RADI, ICRG, common law indicator, transparency index, and CGRI; models (1) to (5)), a full model (model (6)) including all relative risk measures, and a comprehensive model (model (7)) incorporating both bidder and target country fixed effects.

Across all model specifications, the positive and significant coefficient on the cross-border indicator indicates that cash remains the preferred payment method for cross-border deals, in line with findings [18-23].

The relative country-level risk measures reported in Table 4 underscore the significance of relative risk in method of payment choice. These measures, calculated as the difference between acquirer-country and target-country governance proxies, reveal that when the target country exhibits greater governance risk than the acquirer country, the likelihood of using cash in cross-border deals decreases significantly. This implies that when there is uncertainty regarding the institutional environment in the target country, acquirer stock becomes a preferred method of payment, aligning with Hansen's (1987) risk-sharing model.

Further analysis of the broad country-level risk proxies in Table 4 indicates that the negative coefficient on the International country risk guide index (acquirer minus target) is mainly influenced by political risk. Higher political risk in the target country is associated with a higher probability of employing equity-based payment methods, indicating a tendency for acquirers to share political risk with target shareholders.

The results also highlight other influential factors in method of payment choice. Acquirers listed in the target country and those with better stock market performance are more likely to use bidder stock. Additionally, deal and firm-level variables play a crucial role. Private and subsidiary deals tend to attract cash offers, while hostile and competitive deals are less likely to use equity. Larger bidders are inclined to use cash, and higher bidder stock returns and target relative size increase the use of equity.

Furthermore, cultural familiarity appears significant, with merging parties from geographically closer and linguistically similar countries preferring equity-based payment methods. In summary, cross-border deals are more likely to involve cash or a mix of cash and equity, with the choice influenced significantly by relative target-country risk and various deal-specific and firm-level factors.

Impact of Method of Payment on Deal Completion

This section delves into the impact of payment method choice on the successful completion of mergers and acquisitions (M&A). As highlighted earlier, foreign acquirers employing their stock in cross-border deals face a dilemma: while it mitigates overpayment

risks in opaque markets, it might lower the likelihood of deal completion. Probit regressions in Table 5 shed light on this tradeoff, emphasizing the potential hindrance of using acquirer stock on deal completion probabilities.

Regression Models and Findings:

1. Full Sample Analysis

Cross-border deals are as likely as domestic deals to be successfully completed. Deals financed solely with acquirer stock significantly reduce completion probabilities compared to all-cash offers.

2. Sample Breakdown

Stock as a payment method impedes deal completion, especially in cross-border transactions. Even after addressing simultaneity concerns, acquirer stock usage still affects completion negatively.

Key Observations:

Tradeoff Dilemma: Cash or mixed (including cash) offers increase the likelihood of deal completion. However, these options lack the contingent pricing benefits of stock-swap offers.

Influence of Other Factors: Larger bidders, higher toeholds, larger relative deal size, and intra-industry deals enhance deal completion chances. Hostile and competed deals have lower success probabilities.

Time Series Analysis:

Previous findings hint at a decrease in payment method differences between domestic and cross-border deals. Table 6 confirms a significant reduction in cash usage in cross-border deals after 2000, aligning them closer to domestic deal patterns.

Possible Explanations for Convergence:

Factors such as governance improvements, enhanced reporting quality, increased cross-border trade, and globalization might contribute to this convergence. Additionally, a rise in relative risk in targeted countries compared to acquiring countries explains the shift toward equity usage.

Robustness Tests:

Several tests ensure the results' robustness, including sample composition variations and model specifications.

Additional Variables: Incorporating extra variables reaffirms existing findings.

Impact on Sample Size: Addition of target firm-specific characteristics affects the sample size but maintains the core conclusions.

Continued Significance of Relative Country Risk: Relative risk measures, particularly the ICRG composite index, remain vital in explaining payment method choices.

In summary, acquirers face a challenging tradeoff in payment

Table 4: Probit regression analyses were conducted to predict the choice of payment method (cash offer versus any stock). The table presents the coefficient values as partial effects. These models were estimated using a dataset comprising domestic and cross-border mergers and acquisitions that occurred between 1990 and 2010.

Cash v any stock	ICRG	Common Law	RADI	Transparency	CGRI	All	All
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cross-border dummy	0.135*** (0.000)	0.131*** (0.000)	0.132*** (0.000)	0.132*** (0.000)	0.131*** (0.000)	0.141*** (0.000)	0.108*** (0.000)
ICRG composite (A–T)	-0.004*** (0.000)					-0.004*** (0.000)	-0.006*** (0.000)
Common law (A–T)		-0.103*** (0.000)				-0.053*** (0.003)	-0.042 (0.429)
RADI (A–T)			-0.039*** (0.000)			-0.015** (0.018)	-0.001 (0.951)
Transparency (A–T)				-0.107*** (0.000)		-0.053*** (0.000)	0.037 (0.335)
CGRI (A–T)					-0.059*** (0.000)	-0.026* (0.082)	-0.033** (0.039)
Weighted distance	0.004 (0.316)	0.010** (0.012)	0.010** (0.016)	0.010** (0.010)	0.005 (0.168)	0.010*** (0.010)	0.021*** (0.000)
Same language	-0.026** (0.033)	-0.030** (0.018)	-0.031** (0.015)	-0.033*** (0.007)	-0.023* (0.057)	-0.039*** (0.002)	-0.021 (0.108)
Cross-listed	-0.044* (0.095)	-0.070** (0.013)	-0.083*** (0.004)	-0.094*** (0.001)	-0.059** (0.028)	-0.091*** (0.002)	-0.101*** (0.001)
Stock market return (A–T)	-0.066** (0.018)	-0.093*** (0.001)	-0.100*** (0.001)	-0.126*** (0.000)	-0.084*** (0.003)	-0.111*** (0.000)	-0.071** (0.021)
Creditor rights (A–T)	0.012*** (0.001)	0.017*** (0.000)	0.013*** (0.000)	0.006 (0.107)	0.016*** (0.000)	0.014*** (0.000)	-0.020* (0.083)
ICRG composite (T)	-0.008*** (0.000)	-0.007*** (0.000)	-0.006*** (0.000)	-0.007*** (0.000)	-0.006*** (0.000)	-0.009*** (0.000)	-0.007*** (0.000)
Common law (T)	-0.006 (0.647)	-0.035** (0.014)	0.008 (0.568)	-0.002 (0.887)	0.002 (0.893)	-0.015 (0.357)	-0.553*** (0.002)
RADI (T)	-0.004 (0.398)	-0.013*** (0.007)	-0.031*** (0.000)	-0.009* (0.073)	-0.008 (0.101)	-0.018*** (0.003)	0.477 (0.133)
Transparency (T)	-0.005 (0.737)	0.000 (0.981)	-0.005 (0.740)	-0.036** (0.016)	-0.003 (0.824)	-0.020 (0.191)	-0.101 (0.676)
CGRI (T)	0.007 (0.482)	0.018* (0.068)	0.012 (0.209)	0.010 (0.296)	-0.008 (0.473)	0.007 (0.520)	-0.012 (0.347)
Stock market return (T)	-0.035 (0.150)	-0.048* (0.053)	-0.054** (0.032)	-0.051** (0.048)	-0.044* (0.072)	-0.046* (0.072)	-0.012 (0.637)
Creditor rights (T)	0.017*** (0.000)	0.020*** (0.000)	0.018*** (0.000)	0.017*** (0.000)	0.019*** (0.000)	0.018*** (0.000)	-0.040 (0.121)
Market cap./GDP (T)	-0.032*** (0.002)	-0.026** (0.014)	-0.029*** (0.006)	-0.038*** (0.000)	-0.029*** (0.005)	-0.036*** (0.001)	-0.089*** (0.000)
GDP growth (T)	0.001 (0.627)	0.001 (0.718)	-0.001 (0.764)	0.001 (0.561)	0.001 (0.458)	0.001 (0.782)	-0.001 (0.727)
GDP per capita (T)	-0.010 (0.325)	-0.011 (0.251)	-0.007 (0.459)	-0.006 (0.564)	-0.009 (0.342)	-0.007 (0.477)	-0.094*** (0.001)
Acquirer size	0.035*** (0.000)	0.034*** (0.000)	0.035*** (0.000)	0.035*** (0.000)	0.036*** (0.000)	0.034*** (0.000)	0.033*** (0.000)
Acquirer leverage	0.024 (0.239)	0.019 (0.329)	0.017 (0.389)	0.019 (0.336)	0.024 (0.225)	0.014 (0.480)	0.005 (0.800)
Acquirer tangibility	0.037** (0.024)	0.041** (0.012)	0.042** (0.012)	0.035** (0.034)	0.037** (0.025)	0.039** (0.017)	0.037** (0.035)
Acquirer stock return	-0.010** (0.010)	-0.010** (0.015)	-0.010** (0.015)	-0.010** (0.011)	-0.010** (0.010)	-0.010** (0.015)	-0.009** (0.025)
Relative size	-0.520*** (0.000)	-0.515*** (0.000)	-0.514*** (0.000)	-0.515*** (0.000)	-0.519*** (0.000)	-0.509*** (0.000)	-0.506*** (0.000)
Private	0.144*** (0.000)	0.147*** (0.000)	0.148*** (0.000)	0.147*** (0.000)	0.145*** (0.000)	0.149*** (0.000)	0.147*** (0.000)
Subsidiary	0.302*** (0.000)	0.303*** (0.000)	0.304*** (0.000)	0.303*** (0.000)	0.302*** (0.000)	0.305*** (0.000)	0.302*** (0.000)
Intra-industry	-0.017*** (0.009)	-0.016** (0.012)	-0.016** (0.014)	-0.016** (0.017)	-0.017** (0.011)	-0.015** (0.020)	-0.014** (0.018)
High-tech	-0.070*** (0.000)	-0.067*** (0.000)	-0.068*** (0.000)	-0.068*** (0.000)	-0.069*** (0.000)	-0.069*** (0.000)	-0.071*** (0.000)
Hostile	0.071*** (0.007)	0.071*** (0.007)	0.070*** (0.009)	0.073*** (0.006)	0.071*** (0.008)	0.071*** (0.007)	0.069*** (0.010)
Competing offer	0.079*** (0.000)	0.080*** (0.000)	0.080*** (0.000)	0.080*** (0.000)	0.080*** (0.000)	0.079*** (0.000)	0.076*** (0.000)
Cash v any stock	ICRG	Common Law	RADI	Transparency	CGRI	All	All
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Observations	47,481	47,481	47,403	47,481	47,481	47,403	47,403
Pseudo-R ²	0.213	0.214	0.214	0.215	0.213	0.216	0.224
Country fixed-effects	No	No	No	No	No	No	Yes

*** Statistical significance at the 1% level. ** Statistical significance at the 5% level. * Statistical significance at the 10% level.

Table 5: Probit Regressions for Deal Completion. This table presents the results of probit regressions predicting deal completion for a sample of domestic and cross-border mergers and acquisitions spanning the period from 1990 to 2010. The dependent variable is a binary indicator (1 if a takeover for a controlling interest is successfully completed, and 0 otherwise). The coefficients are reported as partial effects.

	All	All	Cross-border	Domestic	Cross-border	Domestic	Cross-border	Domestic
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Cross-border dummy	0.005 (0.466)	0.009 (0.219)						
Stock only	-0.016*** (0.004)	-0.018*** (0.001)	-0.025** (0.038)	-0.016** (0.012)	-0.021* (0.081)	-0.012* (0.058)	-0.220*** (0.003)	-0.079* (0.076)
Mixed	-0.003 (0.476)	-0.006 (0.183)	-0.004 (0.661)	-0.006 (0.283)	-0.002 (0.843)	-0.004 (0.500)	-0.098 (0.235)	-0.244*** (0.000)
ICRG composite (A-T)		-0.002*** (0.003)	-0.002*** (0.002)		-0.001 (0.304)		-0.001 (0.429)	
Common law (A-T)		-0.034*** (0.000)	0.004 (0.774)		-0.011 (0.771)		-0.022 (0.578)	
RADI (A-T)		0.018*** (0.000)	-0.001 (0.768)		-0.002 (0.886)		-0.001 (0.924)	
Transparency (A-T)		0.051*** (0.000)	0.062*** (0.000)		0.022 (0.506)		0.018 (0.585)	
CGRI (A-T)		-0.003 (0.720)	0.012 (0.234)		0.001 (0.914)		0.002 (0.885)	
ICRG composite (T)	-0.002*** (0.001)	-0.002*** (0.000)	-0.004*** (0.001)	-0.002*** (0.003)	-0.000 (0.858)	0.003*** (0.006)	0.000 (0.981)	0.003*** (0.004)
Common law (T)	-0.059*** (0.000)	-0.077*** (0.000)	-0.006 (0.735)	-0.099*** (0.000)	0.351 (0.268)	-0.293*** (0.000)	0.003 (0.966)	0.573*** (0.003)
RADI (T)	0.019*** (0.000)	0.030*** (0.000)	-0.008 (0.177)	0.046*** (0.000)	-0.172 (0.297)	0.043 (0.307)	0.034 (0.309)	-0.463*** (0.002)
Transparency (T)	0.082*** (0.000)	0.102*** (0.000)	0.119*** (0.000)	0.099*** (0.000)	0.111 (0.442)	0.324*** (0.001)	-0.074 (0.382)	1.405*** (0.000)
CGRI (T)	-0.002 (0.726)	-0.003 (0.672)	0.022 (0.132)	-0.005 (0.471)	0.015 (0.428)	-0.007 (0.445)	0.014 (0.441)	0.003 (0.741)
Stock market return (A-T)	-0.042** (0.016)	-0.004 (0.803)	0.021 (0.356)		0.009 (0.706)		0.009 (0.722)	
Creditor rights (A-T)	0.001 (0.482)	0.005** (0.016)	0.004 (0.199)		0.007 (0.549)		0.008 (0.497)	
Stock market return (T)	-0.045*** (0.005)	-0.035** (0.022)	0.006 (0.839)	-0.044** (0.020)	0.010 (0.718)	-0.019 (0.320)	-0.002 (0.957)	-0.016 (0.392)
Creditor rights (T)	0.009*** (0.000)	0.010*** (0.000)	0.005 (0.242)	0.011*** (0.000)	0.014 (0.458)	0.025*** (0.009)	-0.003 (0.841)	0.130*** (0.000)
Market cap./GDP (T)	0.001 (0.878)	0.005 (0.393)	0.013* (0.075)	0.001 (0.923)	0.011 (0.464)	-0.019 (0.172)	0.020 (0.221)	-0.011 (0.458)
GDP growth (T)	-0.001 (0.606)	-0.000 (0.821)	0.002 (0.345)	0.001 (0.565)	0.002 (0.378)	0.003* (0.080)	0.002 (0.262)	0.003 (0.119)
GDP per capita (T)	0.011** (0.037)	0.008 (0.172)	0.014* (0.073)	0.004 (0.626)	0.032 (0.252)	-0.105*** (0.000)	0.039 (0.164)	-0.112*** (0.000)
Weighted distance	0.002 (0.364)	-0.002 (0.493)	-0.003 (0.374)		0.004 (0.378)		0.001 (0.855)	
Same language	-0.007 (0.294)	-0.004 (0.521)	-0.005 (0.561)		-0.005 (0.643)		-0.000 (0.992)	
Cross-listed	-0.002 (0.904)	0.028 (0.101)	0.022 (0.188)		0.022 (0.219)		0.036** (0.042)	
Toehold	0.035** (0.013)	0.049** (0.031)	0.622** (0.023)	0.044** (0.036)	0.483*** (0.005)	0.020*** (0.004)	0.491*** (0.006)	0.028*** (0.004)
Acquirer size	0.021*** (0.000)	0.021*** (0.000)	0.021*** (0.000)	0.021*** (0.000)	0.020*** (0.000)	0.020*** (0.000)	0.018*** (0.000)	0.015*** (0.000)
Acquirer leverage	-0.080*** (0.000)	-0.077*** (0.000)	-0.024 (0.275)	-0.091*** (0.000)	-0.027 (0.221)	-0.089*** (0.000)	-0.020 (0.357)	-0.091*** (0.000)
Acquirer tangibility	-0.021** (0.023)	-0.018* (0.050)	-0.028 (0.119)	-0.017 (0.109)	-0.018 (0.343)	-0.006 (0.565)	-0.020 (0.285)	-0.013 (0.230)
Acquirer stock return	0.005** (0.028)	0.005** (0.030)	0.003 (0.492)	0.006** (0.043)	0.003 (0.485)	0.006** (0.026)	0.005 (0.335)	0.009*** (0.002)
Relative size	0.105*** (0.000)	0.099*** (0.000)	0.077*** (0.006)	0.106*** (0.000)	0.081*** (0.004)	0.109*** (0.000)	0.145*** (0.000)	0.187*** (0.000)
Private	0.040*** (0.000)	0.040*** (0.000)	0.020 (0.103)	0.046*** (0.000)	0.012 (0.317)	0.044*** (0.000)	-0.008 (0.609)	0.038*** (0.000)
Subsidiary	0.013** (0.028)	0.015** (0.014)	-0.011 (0.337)	0.024*** (0.001)	-0.014 (0.239)	0.022*** (0.002)	-0.049*** (0.001)	-0.014 (0.288)
Intra-industry	0.009** (0.019)	0.008** (0.033)	0.014** (0.039)	0.005 (0.250)	0.011* (0.099)	0.004 (0.389)	0.013* (0.072)	0.009** (0.045)
High-tech	0.007 (0.170)	0.006 (0.232)	0.019** (0.044)	0.002 (0.798)	0.022** (0.026)	0.000 (0.963)	0.028*** (0.006)	0.009 (0.203)
Hostile	-0.256*** (0.000)	-0.255*** (0.000)	-0.204*** (0.000)	-0.270*** (0.000)	-0.198*** (0.000)	-0.260*** (0.000)	-0.219*** (0.000)	-0.249*** (0.000)
Competing offer	-0.238*** (0.000)	-0.239*** (0.000)	-0.248*** (0.000)	-0.236*** (0.000)	-0.249*** (0.000)	-0.226*** (0.000)	-0.268*** (0.000)	-0.224*** (0.000)
Observations	47,464	47,386	12,941	34,444	12,941	34,444	12,941	34,444
Pseudo-R ²	0.153	0.157	0.164	0.165	0.185	0.172	0.186	0.174
Country fixed-effects	No	No	No	No	Yes	Yes	Yes	Yes

*** Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

Table 6: Method of payment regressions and convergence. The table reports probit regressions predicting method of payment choice (cash versus any stock). The coefficient values are reported as partial effects. The models are estimated on a sample of domestic and cross-border mergers and acquisitions over the period 1990 to 2010. Post-2000 is a dummy variable equal to 1 for deals occurring for years 2000 to 2010, and zero otherwise. The interaction term Cross-border*Post-2000 captures differences in method of payment for cross-border deals post-2000. All variable definitions are reported in the appendix. All regressions control for industry and year fixed effects, and model 2 also includes bidder and target country fixed effects (coefficients suppressed). Standard errors are corrected for heteroskedasticity and clustering at the acquirer firm level. P-values are reported in parentheses.

Variables	Cash v any stock	
	(1)	(2)
Cross-border dummy	0.157*** (0.000)	0.115*** (0.000)
Post-2000 dummy	0.057*** (0.000)	(0.000)
Cross-border * post-2000	-0.038*** (0.005)	(0.001)
ICRG composite (A-T)	-0.004*** (0.000)	(0.000)
Common law (A-T)	-0.067*** (0.000)	(0.439)
RADI (A-T)	-0.010 (0.112)	-0.001 (0.953)
Transparency (A-T)	-0.054*** (0.000)	0.029 (0.345)
CGRI (A-T)	-0.019 (0.179)	(0.048)
Weighted distance	0.012*** (0.002)	(0.000)
Same language	-0.038*** (0.003)	(0.115)
Cross-listed	-0.088*** (0.002)	(0.001)
Stock market return (A-T)	-0.064** (0.016)	(0.017)
Creditor rights (A-T)	0.015*** (0.000)	(0.084)
ICRG composite (T)	-0.010*** (0.000)	(0.000)
Common law (T)	-0.039*** (0.007)	(0.089)
RADI (T)	-0.009 (0.140)	0.403 (0.124)
Transparency (T)	-0.033** (0.020)	(0.643)
CGRI (T)	0.030*** (0.000)	(0.314)
Stock market return (T)	0.020* (0.088)	(0.626)
Creditor rights (T)	0.020*** (0.000)	(0.116)
Market cap./GDP (T)	-0.046*** (0.000)	(0.000)
GDP growth (T)	0.009*** (0.000)	(0.689)
GDP per capita (T)	0.018** (0.040)	(0.001)
Acquirer size	0.034*** (0.000)	(0.000)
Acquirer leverage	0.015 (0.464)	0.004 (0.794)
Acquirer tangibility	0.040** (0.017)	(0.037)
Acquirer stock return	-0.002 (0.528)	(0.022)
Relative size	-0.508*** (0.000)	(0.000)
Private	0.149*** (0.000)	(0.000)
Subsidiary	0.304*** (0.000)	(0.000)
Intra-industry	-0.015** (0.022)	(0.019)
High-tech	-0.072*** (0.000)	-0.057*** (0.000)
Hostile	0.073*** (0.005)	0.061** (0.017)
Competing offer	0.079*** (0.000)	0.069*** (0.000)
Observations	47,403	47,403
Pseudo-R ²	0.212	0.225
Country fixed-effects	No	Yes

*** Statistical significance at the 1% level.

** Statistical significance at the 5% level.

* Statistical significance at the 10% level.

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method selection. While cash or mixed offers increase deal completion likelihood, the benefits of contingent pricing in stock-swap offers are undeniable. The findings underscore the critical role of relative country risk in shaping payment method choices in cross-border M&A deals.

Conclusion

The selection of payment methods in M&A deals is a pivotal and dynamic area within M&A research. Previous studies emphasize the substantial impact payment choices have on both the acquiring and target companies. Our analysis reveals a notable preference for cash payments in cross-border transactions, while stock payments are more common in domestic deals. Interestingly, these discrepancies have somewhat diminished over our study period.

Our findings highlight the significance of relative target country risk in shaping the financing structure of cross-border deals. We observe a trend where bidders increasingly opt for equity financing, particularly when targeting countries with higher relative risk. However, this shift presents a tradeoff for acquirers, as cash payments significantly enhance the likelihood of successfully completing an announced deal.

This study offers fresh insights into the determinants of payment method choices in both domestic and cross-border M&A transactions. Additionally, it sheds light on how these choices impact the completion of deals and how they evolve over time.

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