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## **Cross-Border Mergers and Acquisitions (M&As) Research on the Emerging Markets in Asia-Pacific Region**

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### **Abstract:**

Extant research on cross-border mergers and acquisitions (CB M&As) undertaken in the emerging markets of the Asia–Pacific region has increased in recent years due to economic potential and growth there. The current chapter undertakes a literature review to analyze academic publications focusing on CB M&As in that context during 2008–2023 time period. Along with brief descriptive findings of reviewed literature, this chapter specifically presents key aspects of prior research thematically concerning motivations, decision factors, performance, and risks associated with CB M&As in Asia–Pacific. Finally, the chapter presents implications aimed at business managers and policymakers, along with future research directions.

**Keywords:** Asia-Pacific, cross-border, emerging markets, literature review, mergers and acquisitions (M&As), motivations, performance and risk.

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## **Cross-Border Mergers and Acquisitions (M&As) Research on the Emerging Markets in Asia-Pacific Region**

### **1. Introduction**

Cross-border mergers and acquisitions (CB M&As) undertaken by investors and multinational enterprises (MNEs) are one of the most researched topics in the management and economics fields (e.g., Ahammad *et al.*, 2017; Arslan *et al.*, 2023). Although CB M&As frequency keeps on changing due to economic and political dynamics linked to target regions or countries, overall, they remain a visible investment tool for growth, especially in emerging economies, including those located in the Asia-Pacific region. In the Asia-Pacific region, in particular, M&A activity has record inflows in 2021 (UNCTAD, 2022). Since the financial crisis of 2008, most of M&A-focused research in the Asia-Pacific context has largely been quantitative and addressed a range of issues, with the most visible focus being on post-M&A performance (Khan *et al.*, 2023; Tiwari & Shukla, 2021; Wang *et al.*, 2024; Zhu & Yang, 2016; Zhang *et al.*, 2018; You-Syun & Yi-Chou, 2022). Despite significant research already done, there is a lack of practice-focused and relatively comprehensive analysis of motivations, decision factors, and risks linked to CB M&As undertaken in the Asia-Pacific region. Hence, the current chapter aims to fill this gap in the literature and undertakes a literature overview of CB M&A research focusing on emerging markets located in this region.

It is vital to stress that current academic research on CB M&A has been studied using a variety of theoretical lenses, including resource-based view theory, transaction cost economics, institutional theory/perspective, organizational learning perspective, upper echelons theory, distance logic (cultural, psychic, administrative, etc.) and corporate governance perspective, among other. However, we do not aim to focus on these theoretical discussions, and our chapter aims to offer a summary of motivation, risks, and performance aspects found critical in prior research. Hence, the current chapter aims to present a focused discussion, which is useful for the practice focused audience

particularly, rather than going through the reviewed studies in detail as is usually done in academic papers. By doing so, the current chapter enriches extant management and international business literature streams, as it is one of the few works to summarize motivation, decision factors, and risks linked to CB M&As undertaken in emerging markets of the Asia–Pacific region. Thereby, our chapter sets sound bases for future academic and practice-focused research on this topic.

The rest of the chapter is organized so that in the next section, we present the literature review and research design followed by the presentation of the findings in an easier-to-follow manner for both academic and practice-focused audiences. After that, study implications are presented. The chapter concludes with a presentation of limitations and future research directions.

## **2. Research Design**

We followed Tranfield *et al.*'s (2003) Systematic Literature Review (SLR) procedure, which is widely used in the social sciences, as a method for systematically collecting, critically evaluating, integrating, and presenting the results of academic studies on a research question or topic of interest. It should be noted that we limited the scope of our literature search to CB M&A research in Asia–Pacific countries (markets). We chose 2008 as the starting year to include research done during and right after the financial crisis in relation to CB M&As undertaken in emerging markets of Asia–Pacific. Also, this period covers the recovery period post-financial crisis, the COVID-19 pandemic, and the early stage of recovery from the pandemic. Our literature review focused on studies on all industries except those specifically analyzing the banking and financial services sector as their peculiar characteristics make them significantly different from others (Feix, 2020; Walter, 2004). We restricted our search to peer-reviewed research papers from English-language accounting, finance, economics and management, law, and international trade journals without limiting the research methodology. It should be noted that our literature review search is limited till 30-4-2023. Also, we did not include papers that exclusively focused on developed markets in the Asia–Pacific region.

However, if developed markets of the Asia–Pacific region were part of a larger sample analyzed in a study where other countries are emerging markets, that has been included in our analysis.

We used the EBSCO and ABI/INFORM databases, the most recognized academic databases for literature research. We start from the EBSCO as step 1. In the first round, we use “abstract” as the search scope commonly used in literature review papers filtering. To ensure the sample’s authority and traceability for multilanguage readers, we use peer-viewed and academic English journals in the 2<sup>nd</sup> round. In the 3<sup>rd</sup> round, we underwent a case-by-case selection process to ensure that each sample met our research objectives. We used the same process with the ABI/INFORM database and excluded literature that repeatedly appeared in the EBSCO database for step 2. In step 3, we added two methodological papers and three industry reports, which helped us better understand the industry’s current state. It is important to stress that we only targeted CB M&A-focused research studies and did not include local M&A-focused papers in our literature search and subsequent analysis.

### **3. Descriptive Findings**

In this section, we present descriptive findings of our literature review before presenting key strategic aspects found critical in prior studies. In total, we found 74 quantitative and 8 qualitative papers, respectively, and 4 papers using mixed research methods, during this time period focusing on CB M&As undertaken in emerging markets of the Asia–Pacific region. We also found 18 academic works other than research papers focusing on this topic including UN reports, books, and policy reports published by influential institutions. Now, moving to more description of our findings, firstly, regarding the publication focus area, our literature review revealed when aggregated, 90.7% of the selected publications were in business administration journals with impact factors, 3.5% were in environmental studies, and 5.8% were in law field.

Regarding research development on CB M&As in emerging markets of the Asia–Pacific region, we found that until 2014, there were few articles dedicated to this topic, and after 2015, the number

of studies started to increase. In particular, the growth is very rapid after 2020, with a maximum of 18 papers, which we believe is related to the increase in CB M&A activity following the pandemic as well as the readjustment of global value chains due to geopolitical tensions in the Asia–Pacific region.

Now, moving on to the country focus of extant literature, large emerging markets in the Asia–Pacific region, i.e., China (42 studies) and India (17 studies), account for the majority of reviewed studies. Other countries of the region have been the focus of a few studies. 10 papers focused on the Asia–Pacific region, while 11 took a more sub-regional approach. Hence, we found a clear gap in the literature where individual country-focused studies, especially in unexplored contexts in the Asia–Pacific region, have a strong potential for theoretical and practical contributions. We also provide this recommendation later in the paper while discussing future research directions.

#### **4. Thematic Findings**

After presenting a brief overview of literature, in this section, we present our review findings thematically. The presentation of thematic findings follows a structured approach, where firstly we explain motivations and decision factors for CB M&As undertaken in emerging markets of Asia–Pacific region. This discussion is followed by a presentation of performance and risks associated with CB M&As as found by prior research on them in Asia–Pacific region.

##### **4.1 Motivations and Decision Factors**

Scholars have stressed different aspects while discussing motivation and decisions in Asia–Pacific markets. For example, Záborský *et al.* (2021) emphasize that the lack of regulatory quality in emerging markets in the Asia–Pacific, compared to mature markets in Europe and the US, may favor MNEs’ “increasing scale.” On the other hand, Sinkovics *et al.* (2015) argue that CB M&As in this region can lead to “marketing synergies” and align “marketing resources” for the investors. Focusing

on a similar topic, Soni *et al.* (2022) suggest that “efficiency-seeking motives” tend to be more prominent for M&As undertaken in this region. Further on, CB M&A motivation has been analyzed in relation to earning manipulation potential (Valiya & Lukose, 2022) and relocation of relatively polluting (carbon-emitting industries) to the region (e.g., Liu *et al.*, 2021a, b; Raghavendra *et al.*, 2022a, b).

While analyzing decision factors, macroeconomic and external factors have been the focus of most studies. Issues such as inconsistencies in regulations, bureaucratic procedures, anti-competitive behavior, heterogeneity across markets, and policy uncertainties (Sun *et al.*, 2022; Zhang *et al.*, 2018), ASEAN countries’ GDP, money supply, and inflation rate (e.g., Ibrahim & Raji, 2018), corporate tax (Tiwari & Shukla, 2021) and currency appreciation of CNY (You-Syun & Yi-Chou, 2022) have also been linked to CB M&A decisions by the investors in this region. Some scholars have gone more in-depth while studying CB M&As in different countries in this region and highlighted the variability of factors across different sectors (Dong *et al.*, 2019; Singla, 2019).

Other widely discussed issues in the macro environment derived from geopolitics, which is widely affecting CB M&As in the Asia–Pacific region, are increasingly becoming a factor of concern for investors and scholars. Tightening security review systems at the national level on national security grounds is undesirable, which has greatly increased the concerns of current and potential investors (Jeffrey & Curtis, 2019). Studies by other researchers have reinforced this conclusion. Good bilateral political relations make acquirers pay lower premiums and benefit long - and short- term performance when doing CB M&As (Lan *et al.*, 2015; Li & Huang, 2018; Zhang & Mauck, 2018; Ding & Huang, 2022). International investors have also been found to be concerned about the communication costs of the local public sector in Asia–Pacific countries. In the case of India, the capriciousness of government officials and the interference of the ruling party can potentially harm CB M&As by placing higher demands on the acquirer in terms of valuation, payment methods, and government

control (Reddy *et al.*, 2016). In addition, assets perceived to be politically sensitive have a higher failure rate (Li & Huang, 2018).

Now, moving to firm-level factors, studies on CB M&As in Asia–Pacific region have stressed that the innovation abilities of investing firms influence their intention to engage in CB M&A in this region, and this aspect is strongly linked with IPR protection (Jiang & Zhu, 2021; Zhang *et al.*, 2018). In this concern, Chidambaran *et al.* (2018) further stressed that there needs to be more empirical evidence that access to new technologies or intellectual property is an essential determinant for undertaking CB M&A.

An interesting aspect of CB M&As in the Asia–Pacific region was observed in some studies where they found that family-owned and state-owned enterprises tended to prefer local M&As compared to CB M&As due to concern about equity dilution (e.g., Fuad *et al.*, 2021). However, considering significant CB M&A activity by family-owned and state-owned enterprises, especially in the last decade, this trend has changed, though more empirical research is needed to establish that. Focusing on regulations, extant studies on CB M&As in Asia–Pacific have found that the performance of acquirers is positive, although it may harm M&A performance in the short term (e.g., Liu *et al.*, 2021b). Some scholars (e.g., Zhou *et al.*, 2016a) stressed that acquirers from emerging economies tend to be at a disadvantage compared to acquirers from developed economies.

In a study of India, introducing a carbon tax and the gradual increase in environmental legislation hurt CB M&A (e.g., Raghavendra *et al.*, 2022b). In a similar version, it was found that Indonesia lacks competitive M&A regulations, making the process complex for foreign investors (Zulheri, 2017). Finally, taking another angle on regulations, Huang and Wang (2022) compared capital-intensive industries in China and the United States and found CB M&As influenced by restrictions and efficacy of regulations more in the Asia–Pacific region.

## 4.2 Performance

The role of social responsibility is a factor that is increasingly visible when analyzing the performance of CB M&As in the Asia–Pacific region (Yang *et al.*, 2022). In this concern, prior studies have referred to CSR issues in technology-driven firms positively influencing the innovation performance of the acquiring company in the Asia–Pacific region (Li & Wu, 2022a). An interesting finding in this context is that acquirers' investment in CSR does not conflict with maximizing shareholder value (Zhou *et al.*, 2016b; Chen *et al.*, 2023) in the long run. Scholars have also stressed the potential of CSR as a reputational element influencing post-M&A performance in Asia–Pacific. For example, Li and Wang (2022) suggest that enhanced investment in CSR makes access to financing easier due to improving performance. It is important to mention that the COVID-19 pandemic and its aftermath significantly increased researchers' interest in CSR and environmental and governance (ESG) influences on performance in CB M&As in this region. Some scholars have linked post-CB M&A performance to issues such as culture/knowledge integration (Lee *et al.*, 2015) and organizational compatibility (e.g., Qi *et al.*, 2021). Other studies highlighted the critical role of communication in this concern to overcome distance (physical, cultural, psychic, etc.), thus contributing to integration and better post-M&A performance (e.g., Ho *et al.*, 2018; Wang *et al.*, 2017).

Moving to firm-level factors, prior experience (learning and vicarious experience) has been found in prior research to influence CB M&As' performance in the Asia–Pacific region positively (Du *et al.*, 2022). Similarly, R&D investment has been linked to strengthening innovation performance (Li & Wu, 2022b). Specifically, focusing on financial performance, scholars have highlighted the positive role of senior management support in the acquired firm (e.g., Hildisch *et al.*, 2015) and board diversity (gender and ethnicity) (Yusnidah *et al.*, 2019). More control in acquired firms (i.e., wholly owned subsidiaries) and receptive public sentiment have also been found to positively influence post-M&A performance in Asia–Pacific (e.g., Yiu *et al.*, 2022).

Regarding payment methods for transactions, the focus of research has been on lowering costs and risk premiums. For instance, the Indian CB M&A experience identifies the best payment instrument through an earnout contract (betting agreement), which hedges the risk of adverse selection in transactions by tying performance and payment premiums together (e.g., Kohli, 2015). On the other hand, some scholars have found that paying for M&A in cash leads to more positive performance outcomes and that paying in stock has less effect (Power *et al.*, 2022).

### 4.3 Risks

Like any other international business decision, risk is a critical aspect studied widely in CB M&As, including the Asia–Pacific region. In simple words, prior research on risks linked to CB M&As in the Asia–Pacific region can be categorized into reflected in the instability caused by political party turnover and concerns about the continuity of economic policies (e.g., Reddy *et al.*, 2016; Zhang & Mauck, 2018). At the same time, politically derived policies such as taxation, “negative list,” security review, and anti-trust reviews reflect the host country’s attitude toward foreign investment. Because of the low predictability of political and environmental risks (Li, 2022), there is often an uncontrollable and significant impact on CB M&A. For Instance, Tiwari and Shukla (2021) reveal that many complex legal systems, including tax laws, pose problems for the CB M&As. Magiera (2011) similarly showed that Indonesia tended to restrict foreign investors’ entry more strictly through relevant decrees and negative lists.

Financial risk tends to be reflected in the deterioration of the parent company’s liquid asset portfolio following the implementation of an M&A. Financial pressure on the company due to increased interest on borrowings or equity dilution because of cash payments, dividend payments, and leveraged payments to finance the CB M&A. Novialdi and Wardhani (2019) found that acquirers carrying out CB M&A in developing markets negatively impact leverage levels. Kim *et al.* (2021)

identified that companies listed through CB M&A have stronger negative effects of uncertainty in countries with unstable economic growth when the target companies are in emerging countries.

Concerns about M&A integration are often reflected in conflicts arising from the organizational structure, culture, values, and original business restructuring. For instance, cultural differences problems have been found to occur during the post-acquisition integration phase (Lee *et al.*, 2015). Dong *et al.* (2019) also believe that cultural differences significantly impact the completion of CB M&A. Due to the significant differences in the two parties' corporate management systems, management styles, and financial operations of the CB M&A between the two entities, the unsuccessful integration can drag on the entire group's performance. For example, there is an interesting finding that managers from a risk-voiding business culture will try to avoid a risk premium, so they exhibit a more conservative management style in post-M&A management (Bremer *et al.*, 2017). In addition, national culture substantially impacts the long-run acquirer's financial performance (Jung *et al.*, 2020). As for operation risks, the difficulty in coordinating the production and operation of the two parties after the merger is typically demonstrated by the speed of the parent company's administrative response to the acquired subsidiary (e.g., Tian & Li, 2023). Sinkovics *et al.* (2015) also expressed a similar view that marketing synergy and marketing resource reorganization contribute significantly to the degree of integration, and the interaction dimension is negatively correlated with response speed based on Malaysia and Indonesia cases.

## **5. Conclusions**

This chapter aimed to summarize key aspects related to motivation, decision factors, performance, and risks that were found critical in prior research on CB M&As in Asia-Pacific. Due to word count limitations as well as practice-audience focus, the current chapter does not discuss all reviewed studies in detail as is done in traditional literature review academic papers. However, the major highlights from the literature review are presented. The study findings offer both practical and policy implications.

For the practice audience i.e., MNE managers and investors interested in undertaking CB M&As in Asia–Pacific, a key takeaway relates to avoiding generalizability. Despite many studies focusing on Asia–Pacific region CB M&As, the samples have been overwhelmingly based on CB M&As undertaken in China and India. Hence, insights into the dynamics and specificities of many Asia–Pacific markets are limited in this concern. In this concern, there is a need to adopt a more qualitative approach and undertake an in-depth analysis of CB M&As in under-explored Asia–Pacific markets such as Bangladesh, Cambodia, Indonesia, Laos, Malaysia, Pakistan, Thailand, and Vietnam, among others. Currently, there is a visible lack of country-specific studies except China and India.

CB M&As in the Asia–Pacific region are an ambitious option for firm (multinational) managers and investors. However, they should also be aware of the differences between Asia–Pacific region and other markets. Before the action plan is made, we recommend that professional managers and international investors consider the differences in superstructure with the host country—the greater the difference, the greater the risk of integration failure. We present the following strategy suggestions for investors and professional managers based on our literature review in order to maximize performance and minimize risks associated with CB M&As in Asia–Pacific region: a) Proactive strategy: When the upper-level macro risks of CB M&A are small, and investing firms’ resources and capabilities can fully support the execution of the plan; MNEs can actively promote the CB M&A plan to achieve the strategic goal. b). Conservative strategy: When investors or MNEs have limited expectations for their long-term and short-term ROI produced by the CB M&A, they should pay attention to potential risks and execute M&A plans cautiously. c). Backward strategy: When macro differences are significant, and the CB M&As are highly likely to bring high risks to the finance and operations of the investor or MNEs, negotiation is needed to reduce the risk or postpone or such deals can also be postponed as well.

For policymakers, we recommend benchmarking best practices from developed Western economies as well as from mature emerging economies in relation to CB M&A regulations so that

the attractiveness of their countries increases in this concern. Keeping in view, the critical link between R&D investments, CB M&As and innovation, appropriate policy tools can help emerging markets to strengthen their technological and innovation base by attracting MNEs to undertake CB M&As aimed to these aspects as well, along with market-seeking CB M&As.

Similar to any other academic work, our chapter has several limitations. First, it is a literature review of CB M&A studies on emerging markets of the Asia–Pacific region, where, despite our best efforts, it is possible that some studies have been missed. Secondly, our chapter focuses solely on motivations, performance, and risks found critical in extant research on CB M&As undertaken in emerging markets of the Asia–Pacific region. Hence, prior research on CB M&As in this region, which focused on M&As as part of entry mode choice, role of organizational functions such as HRM, etc. in CB M&As, and other topical focus linked to CB M&As, are not included in the analysis and discussion. This can be considered a limitation as well, which influences the recommendations presented in our chapter. Despite these limitations, our chapter has highlighted novel aspects of CB M&A research in the Asia–Pacific region and opens several avenues for future scholars to explore. In this concern, the potential to undertake in-depth studies on less explored countries in Asia–Pacific has been referred to earlier. Also, future researchers can undertake comparative studies in the Asia–Pacific region to see how CB M&As play out from the perspective of motivation, performance, and risks across different countries and sectors. In this concern, they can also compare motivations, risks, and performance of CB M&As in emerging markets located in this region compared to developed markets of this region. Such studies will help offer both practitioners and policy-makers tangible sectoral (industry-based), regional, and locational (country-based) insights, which will strengthen the viability of developed policies and strategies by them.

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