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Ownership, institutions, and the agency of M&A completion

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Abstract

Research Summary: In this paper, we study how variations in debt and equity ownership and the institutions that govern interactions between different types of principals and agents affect the completion likelihood of acquisitions. Using a sample of 55,722 acquisitions, our study finds that risk-averse debtholders reduce the completion likelihood of acquisitions. When acquisitions cross borders, the acquiring capital providers become exposed to institutional environments that have evolved to prioritize different ideologies or principals because of the structure and customers of local capital markets. As a result, institutional duality in home and target countries reduces the completion likelihood of acquisitions. Our study integrates varieties of capitalism arguments and firm-level agency conflicts and highlights the theoretical importance of capital markets and their concentration.

Managerial Summary: An acquisition is a highly consequential negotiation process between managers and capital providers of a firm. Based on their evaluation of a potential deal, managers propose acquisitions to capital providers who either accept it or pressure managers into withdrawing from the announced deal. This study considers firms' capital structure and cross-national differences in the governing institutions to

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explain the resistance of capital providers against announced acquisitions. In particular, it points to the fear of capital providers losing control of their firms as a driver of their resistance against cross-border acquisitions. However, when a favorable capital-market structure in the target's home country alleviates the fears of capital providers, their resistance weakens.

KEYWORDS

agency theory, capital concentration, capital structure, mergers and acquisitions, varieties of capitalism

1 | INTRODUCTION

This paper studies how owners (i.e., equity providers) and lenders (i.e., debt providers) counter managers' tendencies to potentially value-destroying acquisitions and how the institutional context affects this agency. Mergers and acquisitions (M&A) are increasingly important corporate strategic decisions that substantially impact firms' long-term performance (Carline et al., 2009). Global M&A activity in 2018 amounted to approximately 2350 deals with a valuation of 4.1 trillion USD (J. P. Morgan, 2019). Until 2021, M&A activity increased and peaked at a new record of 5.9 trillion USD (Toole, 2022). Approximately one-third of M&A deals are cross-border, which entails greater risk and complexity. Consequently, acquisitions have important implications for a firm's strategy, internationalization, and corporate ownership.

Nevertheless, empirical research paints an inconclusive, even skeptical, picture of acquisitions' contribution to corporate performance (Becht et al., 2021; Hu et al., 2020; King et al., 2004; S. Li et al., 2020). For example, Lewis and McKone (2016) estimate that more than every second M&A deal eventually destroys value. Due to higher information asymmetry between acquirers, targets, and capital providers (e.g., Boeh, 2011), such skepticism is particularly prevalent in cross-border acquisitions. Scores of studies in the fields of strategy and finance have addressed the puzzle of the, on the one hand, undisputable prevalence of acquisitions as a strategy for international expansion and the, on the other hand, lack of empirically verified long-term benefits of (cross-border) acquisitions (Campbell et al., 2021; Capron, 1999; King et al., 2004; Makri et al., 2010; Zollo & Singh, 2004). Against this backdrop, our study addresses two theoretical gaps in the literature on owners' role in acquisitions.

First, we recognize debtholders as a secondary principal and an important constraint in the M&A process. Acknowledging potentially diverging interests and information asymmetries between managers (agents) and owners (principals), agency theory (Ang et al., 2000; Fama, 1980; Jensen & Meckling, 1976) offers a valuable perspective on explaining how managers and owners work together—or against each other (Amihud et al., 1990; Denis et al., 1999; Parvinen & Tikkanen, 2007). Although there is extensive research on the disciplining effect of various types of equity owners like family (Ray et al., 2018), institutional investors, or equity blockholders (Boateng et al., 2017; Lane et al., 1998), the role of debtholders has been studied to a lesser extent (Dorobantu & Müllner, 2019; Ivashina et al., 2008). This is surprising since, even though debtholders do not qualify as active or strategist owners, firms must accommodate



debtholders' rights and are restricted in their strategic scope because of their dependence on outside debt. Debtholders face significant default risk and costs if managers destroy firm value (Harris & Raviv, 1990). In bankruptcy, debtholders are prioritized but must bargain for residual claims with equityholders (Daigle & Maloney, 1994). Consequently, debtholders are also interested in protecting firms' value and incur agency costs of debt. Loan covenants, material adverse change clauses, and monitoring rights are legal manifestations of such debt-side agency. Hence, although debtholders play an important and legitimate role in governance (Fama, 1985; James, 1987), there is little to no consideration of their role in the literature on M&As.

Second, we follow Eisenhardt (1988) and acknowledge that agency relationships are embedded in their institutional context. Countries, or different varieties of capitalism, develop institutions to fit the dominant agency in each country. As a result, institutions in a country reflect and prioritize the prevalent ownership and capital market structures (Deeg & Hardie, 2016). Firms investing across borders expose owners and lenders to a different institutional environment and, therefore, institutional duality (Kostova & Roth, 2002). As suggested by Eisenhardt (1988), this institutional duality has implications for the relations among principals and agents and between different types of principals. Thus, our study connects varieties of capitalism frameworks with firm-level agency theory to explain systematic differences in outcomes of acquisitions (Aguilera & Jackson, 2003, 2010; Jackson & Deeg, 2019).

Specifically, we focus on how variations in the equity market structure and customs affect the outcomes of M&A processes. Financial systems determine "the supply-side capacity to provide diverse sources of finance and thereby generate different patterns of control" (Aguilera & Jackson, 2003, p. 453). Consequently, capital providers' roles, relevance, and power in the M&A process vary across countries (Hotho & Pedersen, 2012; Judge et al., 2014; Vitols, 2001). Along with these differences, the institutions that govern the agency differ in priorities, sophistication, and emphasis. Existing literature in this regard analyzes the role of capital providers from an institutional point of view—that is, bank-based compared to market-based capital markets (Čihák et al., 2012; Demirgüç-Kunt et al., 2004, 2013). However, the structure and customs of capital markets also differ in terms of the concentration of capital holdings (Levine, 2002; Lindner et al., 2016). We argue that such differences eventually affect the structure of the institutions that govern these capital markets. Building on Eisenhardt (1988), we propose that differences in capital-market concentration between home and target countries shape agency dynamics in acquisitions.

Investigating the relationships between managers, equityholders, and debtholders in the context of acquisitions, we first propose that the completion of (or the withdrawal from) announced acquisitions depends on the relative power of risk-averse debtholders in a way that completion becomes less likely when debtholders have dominant claims on firms' assets. We then argue that cross-border acquisitions are characterized by costs due to institutional duality (Kostova & Roth, 2002) and consequently have a lower likelihood of completion. Furthermore, we argue that differences in equity market concentration between home and target countries increase the costs of institutional duality, resistance from capital providers, and, ultimately, the probability of managers being forced to withdraw from an announced acquisition. Finally, we argue that such institutional duality matters asymmetrically: when firms announce acquisitions into countries with capital markets with institutions created to support professional investors (e.g., institutional investors, investment funds), the institutional duality is less problematic for equityholders because they are partially compensated by exposure to professional institutions that are better adapted to support equity providers than those in the home capital market.

We test our hypotheses on a dataset of 55,722 acquisitions in 57 countries that were announced between 2000 and 2017 and subsequently either completed or withdrawn. Our sample covers deals announced by acquiring firms from 38 home countries and 80 industries. Results indicate that the completion likelihood of acquisitions differs between varieties of capital markets. This is because not only debtholders as well as equityholders challenge deals that expose them to capital markets that are different from their home markets. This is even more so when institutions in these target markets are less developed. Our findings on M&A outcomes suggest that research needs to consider capital market contexts when investigating bargaining between equity providers, debt providers, and managers (e.g., dividends, capital issues, restructuring).

On the micro level, this paper extends agency literature on M&A activity by extending the constraining role of equityholders in the M&A bargaining process to debtholders. Specifically, our arguments and findings suggest that risk-averse debtholders can function as an ally to equityholders in curbing managers' appetite for completing potentially value-destroying M&As. On the macro level, we contribute to acknowledging institutions in explaining agency relationships. Therein, we offer novel insights into the comparative institutional literature (Djankov et al., 2003; Jackson & Deeg, 2008; La Porta et al., 2000). Our results support the institutional systems logic (Jackson & Deeg, 2008) that countries' competitive advantages and economic activities evolve along tailored configurations, or systems, of institutions (Fainshmidt et al., 2018; Witt & Jackson, 2016). These varieties of capitalism, or more broadly varieties of institutional systems, include dimensions such as the state's role, human capital, social capital, corporate governance institutions, and—most importantly for our study—financial markets. Our empirical results offer insights into how varieties of capital markets affect firm-level outcomes such as acquisitions (Maas et al., 2019). Therein, it contributes to connecting the macro-level institutional varieties literature to a concrete mechanism on the micro level. In essence, the agency conflict between debt and equity in an organization and the related incompatibilities between different varieties of capital markets provide a micro-level explanation for the withdrawal of planned acquisitions. This, in turn, has macro-level implications, contributing to the persistence of institutional varieties over time.

Our findings also have important managerial and policy implications. On the one hand, firms and regulators should consider the implications of cross-border acquisitions on governance structures. In an extreme case, equityholders can actively pursue cross-border acquisitions in target markets with institutions that give them an advantage over debtholders and managers. Consequently, the firm will be (partly) governed by capital-market institutions that do not correspond to governance preferences in the home country. From the perspective of debtholders, such cross-border acquisitions may have consequences similar to partial expropriation by equityholders. On the other hand, management should be selective in announcing deals that potentially violate their agency and, due to ensuing resistance from capital providers, have only a limited probability of completion.

2 | LITERATURE REVIEW

The strategic management literature has applied agency theory successfully to explain many of the most salient corporate strategies and decisions, documenting the tensions between managers as agents and owners of a firm as principals. This literature studies corporate restructuring (Chatterjee et al., 2003), dividends (Driver et al., 2020), alliance formation (Reuer & Ragozzino, 2006), corporate diversification (Dagnino et al., 2019; Kogut et al., 2002), and international expansion (Dutta et al., 2016).



Strategy scholars have also applied agency theory to understand acquisitions and highlight their potential for shareholder value destruction due to empire-building and risk-reduction tendencies of managers (Amihud & Lev, 1981, 1999; Denis et al., 1999; Seth et al., 2002). In this theoretical vein, managers, unconstrained by internal or external oversight, are inclined to announce acquisitions. Consequently, firms tend to overpay for the announced deals and risk achieving lower long-term returns. This is particularly true for highly profitable firms where managers use free cash flow to pursue unrelated acquisitions (Bauguess & Stegemoller, 2008; Jensen, 1986).

2.1 | Goal conflicts between management and capital providers in acquisitions

The literature provides two explanations for why managers announce, on average, value-destroying M&A deals. First, managers may err on the true value of the acquisition because they are overconfident (Andreou et al., 2019; Chikh & Filbien, 2011; Roll, 1986) and consider their evaluation more accurate than that of capital providers (Jennings & Mazzeo, 1991). Assumptions regarding the true value of acquisitions are more likely to diverge when information asymmetry is high and are, therefore, a particular issue in cross-border acquisitions (e.g., Boeh, 2011). Second, managers may be aware of the potentially value-destroying nature of the deal but still complete the deal out of self-interest (Jensen, 1986). Based on their incentive structure, managers may see geographic or product diversification by acquisition as a means of risk reduction to protect their personal employment, income, and wealth (Eisenmann, 2002; Lane et al., 1998; P. Wright et al., 2002). However, incentives such as ownership, the relative level of pay (Seo et al., 2015), and social recognition (Shi et al., 2017) also induce managers to take on extra risk in M&A deals (Steinbach et al., 2017).

Literature has analyzed corporate governance quality and board composition as mechanisms that prevent such managerial value destruction in acquisitions (Goranova et al., 2017; Hilscher & Şişli-Ciamarra, 2013; Kroll et al., 2008; Sanders & Bovie, 2004). However, whether incentives prevent or reinforce agency conflicts depends on managers' relative standing vis-à-vis the firm's capital providers (Chikh & Filbien, 2011).

2.2 | Debtholders' opposition to acquisitions

Even though equity and debt providers stand united in their opposition to value-destroying acquisitions, the literature argues that the incentives and stakes of equityholders and debtholders are not perfectly aligned (De Franco et al., 2014; Tihanyi et al., 2003). As opposed to equityholders, who face a payoff structure similar to a long-call option on corporate profits and gain from increasing corporate risk (at the expense of debtholders), debtholders' payoff structure resembles a short-put option on corporate profits (Goranova et al., 2010; Ivashina et al., 2008). Debtholders are risk-averse because they are not compensated for additional risk from acquisitions and suffer from asset substitution. Although there are fundamental differences in the time horizon of investments, diversification, and the degree of activism, equityholders generally have a more nuanced perspective on acquisitions. This is because they stand to profit from an M&A transaction in which a risk increase is compensated by higher returns. Thus, equityholders' opposition to an acquisition is contingent on the deal context.

Moreover, the ways by which equity- and debtholders can resist an acquisition's completion differ. Although debtholders can only pressure management if they have the option to waive the loans provided to the acquiring company, equityholders can exert direct or indirect pressure through voting.

Diverging interests manifest most prominently during episodes of major strategic and financial change, for example, new capital issues (Myers, 1984, 2000; Myers & Majluf, 1984). In the event of the firm defaulting on its debt, debtholders can “force the firm into liquidation” (Harris & Raviv, 1990, p. 321), which leads “stockholders and creditors [to] bargain over their share of residual claims even though the firm is technically insolvent” (Daigle & Maloney, 1994, p. 190).

Apart from bankruptcy and new equity or debt capital issuance, literature has identified M&A deals as a central source of conflict between equity and debt providers (De Franco et al., 2014). As important debtholders, banks provide private debt to firms, gather information unavailable to outside investors, and play a much more active role in acquisitions than conveyed in the extant strategy literature. In large acquisitions, which alter the risk of assets of the acquiring firm, existing lenders have certain rights of information and opportunities to waive their capital commitments. This potentially creates refinancing needs and conveys a negative signal to the market regarding the debt provider's assessment of the deal. In addition, large acquisitions commonly exceed the internal financing capabilities of acquiring firms. In such cases, firms that want to avoid taking on additional equity rely on debt providers for funding (Myers & Majluf, 1984). For these firms, obtaining loans from debt providers, particularly banks, with existing relationships involves lower information asymmetries, incurs lower costs, requires less time, and avoids a negative signal to the market.

2.3 | Institutions, varieties of capitalism, and capital markets

The predictive validity of agency theory is constrained by the institutional setting that governs the specific agency relations in a firm (Eisenhardt, 1988). Institutions as regulative, normative, and cultural-cognitive systems (Scott, 1995) provide the foundation for all business transactions. They evolve to govern economic activity within a country and between countries. Therein, institutions specialize in common and typical agency conflicts. They prioritize dominant principals while leaving gray areas for less salient agency issues. The growing body of research on comparative institutionalism (Aguilera & Grøgaard, 2019; Jackson & Deeg, 2008) highlights the importance of institutional differences in ownership to explain patterns of corporate behavior, in our case acquisitions (Burkart et al., 1997; Chen et al., 2007; Djankov et al., 2003; Jara-Bertin et al., 2012; La Porta et al., 1999, 2000). Within comparative institutionalism, three strands of literature dominate the theoretical discourse. The varieties of capitalism literature (Aguilera & Jackson, 2003; Fainshmidt et al., 2018; Hotho & Pedersen, 2012; Judge et al., 2014; Vitols, 2001; Witt & Jackson, 2016) have initiated the idea that countries' institutional environments are unique configurations built to support economic activity and competitive advantage. Acknowledging the specialized purposes of liberal and coordinated market economies (Hall & Soskice, 2001), the varieties of capitalism literature explain general differences in countries' institutional configurations concerning labor, management, and capital.

The degree to which a country's institutional envelope contributes to its comparative advantage is contingent on whether the configuration of the individual institutions creates complementarity and compatibility (Deeg, 2007; Witt & Jackson, 2016). The national business systems approach (Whitley, 1999) extends the institutional scope of the varieties of capitalism



perspective with country-specific institutions related to state and social capital (e.g., family structures, state ownership). Most recently, Fainshmidt et al. (2018) added further dimensions of institutions to the varieties of institutional systems framework to make the national business systems approach more inclusive regarding developing and least-developed countries.

Throughout the development of these streams of literature, the central role of financial markets, as well as the importance of ownership concentration and governance as a means of mediation between these parties, has been recognized as a central element of institutional systems (Fainshmidt et al., 2018). However, the mechanisms through which differences in equity and debt markets (and their concentration) affect firms' economic activity have not been theorized or studied systematically.

3 | INSTITUTIONAL DUALITY AND THE AGENCY OF ACQUISITIONS

Our theoretical model investigates the reaction of capital providers to acquisitions proposed by management while acknowledging a potential institutional duality. Our first argument is that debt providers generally oppose acquisitions because only equityholders can benefit from the ensuing increase in firm risk. Although equity providers participate in the risky returns of acquisitions, they share debtholders' skepticism because of expected agency problems in cross-border acquisitions. We argue that equity providers likely side with risk-averse debtholders and force agents to withdraw from a proposed transaction depending on the fit and quality of the institutional contexts involved (Eisenhardt, 1988).

Countries develop institutional systems to manage and resolve common agency problems (principal-agent and principal-principal) through their characteristic capital market structures. Our second argument is that varieties in financial market institutions determine the roles, privileges, and power balance between managers and different types of principals in the bargaining process for firm-level strategy (Shleifer & Vishny, 1997). When an acquisition is cross-border, this creates institutional duality (Kostova & Roth, 2002), not only for the company but also for those invested in the company. However, some types of institutional differences benefit certain principals, and these benefits may outweigh the costs of institutional duality (e.g., Ahworegba, 2018). When a cross-border acquisition crosses into a country with a more developed capital market, equity providers are less likely to oppose a transaction because the costs of institutional duality are outweighed by the benefits of entering an institutional environment more favorable to their interests.¹

3.1 | Principals' opposition to acquisitions

Acquisitions are salient events that lead to conflicts between principals and agents and potentially between principals providing different types of capital (e.g., debt and equity). Principals

¹The case of the Brazilian company Aracruz Celulose illustrates the potential consequences of institutional duality (Zeidan & Rodrigues, 2012). In 2008, Aracruz's management engaged in substantial "clandestine and speculative" derivatives trading. However, due to ill-equipped institutions, legal action against Aracruz's management proved difficult in Brazil. Aracruz's listing of American Depositary Receipts in New York enabled foreign investors to successfully file class action lawsuits in the United States (Stanford Law School, 2023). In the case of Aracruz, institutional duality worked in favor of principals.

tend to oppose empire-building by agents through acquisitions because acquisitions, on average, are value-neutral (Datta & Iskandar-Datta, 1995). In addition, acquisitions increase risk because integrating business activities (particularly when they occur in different countries) is a substantial challenge (Lindner et al., 2018).

Although the strategy and management literature generally consider debtholders as passive actors in firms' strategic decisions, finance research has long taken a different stance, acknowledging the active role of debtholders in monitoring, facilitating, and financing firms' strategic investments, particularly acquisitions (Brickley et al., 1988; Fama, 1985; James, 1987). Debt providers are particularly risk-averse since acquisitions typically change the risk profile of a firm without appropriate compensation, which leads to a redistribution of wealth from debtholders to equityholders if risk increases (Billett et al., 2004; Datta & Iskandar-Datta, 1995; Jensen & Meckling, 1976). Consequently, debt investors are even less supportive of risk-increasing investments that potentially endanger the repayment of the debt provided (Panicker et al., 2019). In the event of bankruptcy, debtholders must bargain with equityholders for the residual claims of the firm while commonly "accepting a share of the financial misfortune" (Daigle & Maloney, 1994, p. 163).

We, therefore, propose that debtholders have greater incentives to resist acquisitions than equityholders. Still, their ability to influence equity principals (and agents) depends on their relative power and the pressure instruments at their disposal (e.g., loan waivers, legal claims, refinancing threats). Hence, a greater debt-to-assets ratio indicates greater power of debt principals vis-à-vis equity principals and managers and, eventually, greater withdrawal rates of announced acquisitions.

Hypothesis 1. The greater the acquirer's debt-to-assets ratio, the lower the completion likelihood of acquisitions.

3.2 | Cross-border M&A and institutional duality

Following Eisenhardt (1988), an agency relationship can only be theorized considering the institutional environment(s) that govern it. Along these lines, extant literature (e.g., Engelen & van Essen, 2010; Schnyder et al., 2022) documents that (perceived) institutional quality affects uncertainty for firms and, therefore, investment decisions. Moreover, exposure to new institutions affects the arrangements devised by equity and debt providers to align their risk preferences and conflict resolution. However, the literature on cross-border investments has inadequately treated the international component in discussing acquisitions.

Although domestic acquisitions take place within the shared institutional habitat of both types of principals (i.e., debt and equity) that have evolved to govern existing relationships and contractual arrangements, cross-border acquisitions potentially create exposure to a different variety of capitalism with a potentially different institutional system (Jiang & Peng, 2011; Sauerwald & Peng, 2013). This is because when a firm acquires a target abroad, it is insufficient to comply with the institutional frameworks in the target country in terms of how a firm markets its products and services. Rather, firms must also accustom to local capital market customs and norms (Fainshmidt et al., 2018). This creates a situation where equity and debt providers face institutional duality (Kostova & Roth, 2002).

As a rule, under institutional duality, equity, and debt providers both face additional pressures of internal and external legitimacy (Kostova & Zaheer, 1999). When a firm becomes exposed to a foreign capital market that differs from its home country in structure and customs,



equityholders and debtholders experience greater uncertainty about formal and informal institutions that govern the alignment of their risk preferences. In the context of financial markets, this involves costs due to complying with and adapting to institutional practices in both environments (external) and coordinating differences with local market participants (internal).

Seeking internal and external legitimacy in two institutional systems with different customs, priorities, and structures creates additional costs and uncertainty. Consequently, when a firm becomes exposed to a new set of institutions through cross-border acquisitions and thus faces institutional duality, the interests of equity and debt providers align in opposition to the acquisition. Therefore, the willingness of both types of principals (i.e., equity *and* debt) to follow through with announced acquisitions will be even lower than for regular, domestic acquisitions.

Hypothesis 2. Cross-border acquisitions have a lower completion likelihood than domestic acquisitions.

3.3 | Extent and direction of institutional duality

Costs from institutional duality increase with cross-national institutional distance (Berry et al., 2010; Kostova, 1999; Nell et al., 2015). Institutional systems vary in their efficiency, power structures, and customs. Consequently, contingent on their institutions, target markets expose equity providers to different costs of institutional duality and levels of uncertainty (Demirgüç-Kunt & Maksimovic, 1998; Love, 2003). We propose that differences in structure and customs between the home and target capital markets influence equity providers' resistance to announced acquisitions and, consequently, the likelihood of their withdrawal.

Even if an acquiring firm does not list in the foreign capital market, the broad rules and norms characterizing it still influence the firm and its owners through the target firm's relationships in the respective foreign capital market. In addition, spillovers from product-market exposure and signaling effects (Blass & Yafeh, 2001) mean that even when there is no direct exposure to the foreign capital market, the equity providers must consider the respective capital market's structure and customs. These peculiarities will question the arrangements among capital providers that govern their interactions as before the acquisition. As a result, greater differences in institutional characteristics will lead to lower willingness from equity providers to support proposed acquisitions and a higher probability that equity providers will side with risk-averse debtholders in opposing a cross-border acquisition. Following these arguments, we hypothesize that differences in the institutional environment governing the equity markets in home and target countries increase resistance by equity providers and eventually result in a lower completion likelihood of acquisitions.

Hypothesis 3. The more different the institutional environment governing equity markets in the target and home capital markets, the lower the completion likelihood of acquisitions.

Although we argue that differences in structure and customs between the home and target capital markets create costs of institutional duality, we concede that institutional duality and a presence in multiple institutional systems may also benefit equity providers (Lumineau et al., 2021). Institutional duality acknowledges potentially *favorable* exposure to foreign institutional environments (Kostova & Roth, 2002). This is particularly true if the transaction targets a firm in a

capital market that has developed extensive institutions to govern similar principal–agent and principal–principal conflicts. In other words, the direction of the difference is relevant, and a difference may not be symmetric (Dow & Karunaratna, 2006; Hernández et al., 2018; Kwok & Reeb, 2000). We argue that the acquisition of foreign targets is an example where the direction of differences is particularly salient. This is because institutions that govern capital markets vary in terms of efficiency and development (Kim & Song, 2017), and it matters whether a firm announces an acquisition in a capital market that is more developed than the home capital market. The above example of Aracruz shows that the firm's exposure to US capital markets strengthened the case of equityholders against their managers. In this case, the costs of institutional duality for equity providers are outweighed because “the institutional profile is favorable for the particular practice” (Kostova & Roth, 2002, p. 218).²

In light of the varieties of capitalism perspective, capital providers can benefit from exposure to governance systems that are more sensitive to their needs and typical conflicts (Aggarwal et al., 2011). Along these lines, equityholders might consider institutional duality less problematic if a target market's institutions for conflict resolution among capital providers are designed to support equityholders' interests. When professional equity providers (e.g., institutional investors, investment funds) dominate the target capital market, the acquiring firm's equityholders take less issue with institutional duality. This is because, although equityholders face a capital market in the target country that differs in structure and customs, they expect to deal with professional institutions better adapted to support them than those in the home capital market. As a result, the institutional channels through which equityholders can influence the alignment of risk preferences and resolve conflicts with debtholders are stronger in highly professionalized equity markets. This does not mean that the extra costs and risks caused by institutional duality go away. However, since equityholders believe that their position vis-à-vis other capital providers stands to improve with additional investment in a capital market dominated by highly professional equity providers, they are less concerned with the costs and risks of institutional duality.

Along these lines, we suggest that in situations where the acquisition target is in a country with a higher equity market concentration, equityholders weigh the cost of duality less than the benefits of duality.³ As a result, equityholders are less reluctant to back cross-border acquisitions when acquisition targets are located in countries with more professional equity markets than at home (i.e., professional investors play a more dominant role). Conversely, equityholders are particularly reluctant to support acquisitions in countries with less professional equity markets (i.e., professional equity investors play a minor role).

²Our argument is in line with the extensive literature on asymmetric distance in global strategy (Dow & Karunaratna, 2006; Hernández et al., 2018). Although much of the discussion of asymmetric distance focuses on perceived differences in psychic distance, we build particularly on a stream of research based in capital market effects of distance based in agency theory. Kwok and Reeb (2000) suggest that the effects of international expansion on firm risk depend on the direction in which the institutional quality differs between home and host countries. Furthermore, Renneboog et al. (2017) find that bondholders of bidding firms respond more positively if the proposed deal exposes them to a more creditor-favorable jurisdiction. Most relatedly, Zhou et al. (2016) study differences in M&A completion rates between upstream and downstream M&A and find that predictors of M&A completion vary depending on the direction of the transaction.

³Again, we are aware that there may not be a direct involvement of the local capital market in the transaction beyond the sale of shares. Still, we agree with prior literature that the structure and customs of the capital market will spill over into the relationship between a local firm and its foreign owners after the acquisition (Krause et al., 2016).



Hypothesis 4. The more professional the equity market in the target country, the weaker the negative effect of a difference in equity market structure on the completion likelihood of acquisitions.

4 | SAMPLE DESCRIPTION AND MEASURES

To test our hypotheses, we gather data on acquisitions that firms announced between 2000 and 2017 from the Orbis Zephyr database (Bollaert & Delanghe, 2015). Next, we merge this deal-level data with firm-level variables obtained from Thompson Reuters Eikon and country-level data from the World Bank. After merging the data and removing all acquisitions with missing information, we obtain a dataset of 79,221 announced acquisitions. As majority deals constitute large strategic decisions that are more likely to trigger an agency conflict between management and capital providers (Dutta et al., 2016), we exclude minority acquisitions (23,499). This leaves us with a sample of 55,722 announced acquisitions, of which 50,804 were subsequently completed. Our sample covers deals announced by 15,147 acquiring firms from 38 home countries. Most of these acquirers are from the United States (21.8%), the United Kingdom (13.8%), and China (10.3%). The acquiring firms are from 80 different industries, with the largest share in manufacturing (40.1%), information and communication (13.8%), and finance and insurance (10.9%). We analyze acquisitions with targets in 57 countries, with the United States (18.9%), China (10.3%), and the United Kingdom (9.9%) accounting for the largest share. About one-quarter (24.2%) of the announced deals are cross-border investments, with the acquirer and the target in different countries.

4.1 | Dependent and independent variables

4.1.1 | Probability of completion

The acquiring firm's management reacts to pressure from capital providers and chooses either to complete the announced acquisition or to withdraw from it. In our analysis, we, therefore, use the management's decision and estimate the likelihood of acquisition completion (completed = 1) versus acquisition withdrawal (completed = 0) (Kau et al., 2008).

4.1.2 | Debt-to-assets ratio

In our hypotheses, we argue that debtholders have a different payoff structure than equityholders and, as a result, a more risk-averse attitude toward acquisitions (Jensen & Meckling, 1976). Accordingly, we propose that acquisitions announced by firms that rely heavily on debt funding face strong opposition from debtholders. We use the acquiring firm's capital structure to operationalize the relative power of debtholders to pressure the management into withdrawing an announced deal (Uysal, 2011). We obtain data from Thompson Reuters Eikon and measure the relative power of debtholders as the acquiring firm's debt-to-asset ratio.

4.1.3 | Cross-border deal

Compared with domestic acquisitions, cross-border acquisitions are characterized by additional complexities, information asymmetry, and liabilities of foreignness (Kang & Kim, 2010; Malhotra et al., 2018). We, therefore, include a dummy variable in our models that takes 1 if the acquiring firm is registered in a different country than the acquisition target and takes 0 otherwise. For the analysis of SMS Hypotheses 3 and 4, we use a subsample that includes only cross-border acquisitions.

4.1.4 | Equity concentration (institutional duality)

We argue that the extent to which firms face institutional duality in cross-border acquisitions increases with greater differences in the concentration of equity markets in the home and target countries. For our measure of concentration in equity markets, we adapt established measures for the importance of stock markets as sources of capital (Demirgüç-Kunt et al., 2004, 2013). We use the World Bank's Global Financial Development Database (Čihák et al., 2012) to approximate the importance of concentrated equity providers. As a measure of equity market concentration, we consider the assets of investment funds relative to the stock market size. As the size of investment funds compared with the stock market increases, the concentration of equity in the market grows. For cross-border deals, we take the absolute difference in the concentration between equity markets in the acquirer and target home countries. To study the directional effects of institutional duality on the completion likelihood of acquisitions, we follow the upstream-downstream hypothesis (Kwok & Reeb, 2000) and include a dummy variable in our models that indicates whether concentration in the target market is greater than in the home market (= 1) or lower (= 0).

4.2 | Control variables

We control for several factors that might affect the management's decision to complete or withdraw an announced acquisition beyond our model variables. We separate these control variables into variables at the acquirer level, deal level, and home or target country level.

4.2.1 | Acquirer level

Superior performance by the acquiring firm before the announced deal results in more profitable acquisitions (Morck et al., 1990). At the same time, cash availability thanks to pre-acquisition performance has been shown to increase empire-building by unconstrained managers (Attah-Boakye et al., 2021; Dutta et al., 2016; Gao & Mohamed, 2018; Harford, 1999; Yang et al., 2019). To control for pre-acquisition performance, we include the acquiring firm's return on assets, computed as the ratio of earnings before interest, tax, depreciation, and amortization to total assets (Rabier, 2017). We obtain data from Thompson Reuters Eikon. Extant research (Attah-Boakye et al., 2021; Bhaumik & Selarka, 2012; Chatterjee et al., 2003; Kau et al., 2008) observes differences in the ability of acquiring firms to complete acquisition deals for acquirers of different sizes. To control for this effect from acquirer firm size, we add the log-transformation of the book value of the acquirer's total assets to our models. We obtain data from Thompson Reuters Eikon.



4.2.2 | Deal level

Once management announces an acquisition, equityholders might react by post-announcement activism to protest an announced acquisition. Thus, we use cumulative abnormal returns (CAR) at the announcement as one channel of equityholder activism concerning the acquisition proposed by management (Kau et al., 2008; Luo, 2005). We use Event Study by WRDS (Pfarrer et al., 2010) to measure CAR at announcement within a 21-day (−10, +10) window, using a market-adjusted model with 100 days of training data and a 50-day gap between training and event window. To account for cross-country differences among national stock markets, we estimate CARs for each acquirer home country separately, using the respective equity markets for comparison. In our robustness checks, we also use CAR measured within 3-day (−1, +1) and 7-day (−3, +3) windows. The success of an acquisition deal and whether the acquirer completes the deal also depend on the target's size and the deal's value (Attah-Boakye et al., 2021; Jacobsen, 2014; Kau et al., 2008). We, therefore, include the log transformation of the proposed deal's value in our model. We obtain data from Orbis Zephyr. In addition, studies (Bauer & Matzler, 2014; Seth et al., 2002) argue that the success of acquisition deals is contingent on the strategic fit and the relatedness between the acquirer and target. We, therefore, control for industry relatedness between the two firms and include the target's proportion of NACE industry classifications that it shares with the acquirer. We obtain data from Orbis Bureau van Dijk (acquirer classification) and Orbis Zephyr (target classification).

4.2.3 | Country level

The threat of ex post legal investor activism makes managers in firms operating in legal frameworks with strong minority-investor protection ex ante less aggressive in pursuing personal objectives. Thus, minority-investor protection as a substantial channel for post-announcement investor activism constrains managers and encourages them to withdraw from controversial deals (Abdallah & Abdallah, 2017). Our measure for minority-investor protection is based on the acquirer home country's "Protecting Minority Shareholders" score compiled by the World Bank as part of its Ease of Doing Business ranking. Along the same lines, extant research underlines the importance of creditor rights as a determinant of access to external finance (La Porta et al., 1999) and risk-taking (Acharya et al., 2011). Thus, in our models, we include creditor rights in the acquirer home country to control for their effect on the acquisition deal's completion probability. We use data from Djankov et al. (2007) for measurement. To account for risks in the target country's institutional environment, we include a measure of political hazards in our models. We measure political hazards—or rather their absence—based on the political constraints (POLCON) index (Henisz, 2000). In our models, we include Kogut and Singh's (1988) cultural distance based on Hofstede's cultural dimensions to measure the effect of risk and complexity in cross-border acquisitions. In addition, as a robustness check, we use cultural distance as an alternative measure to investigate differences between domestic and cross-border acquisitions. Since data on these country-level control variables were not available for all home country-year/target country-year combinations, we imputed missing values with data from the last available year or regional averages.

In our regression analysis, we also include acquirer home country and industry random intercepts to control for idiosyncrasies of the acquirer's home market and effects related to its

TABLE 1 Variables and measurements.

Variables	Measurements
<i>Completed</i>	Dummy variable indicating whether an acquisition has been completed (= 1) or withdrawn by the firm's management (= 0). <i>Source:</i> Orbis Zephyr.
<i>Return on assets</i>	Acquiring firm's return on assets, computed as the ratio of EBITDA to total assets. <i>Source:</i> Thompson Reuters Eikon.
<i>Total assets (log)</i>	Natural log of acquiring firm's total assets. <i>Source:</i> Thompson Reuters Eikon.
<i>CAR at announcement</i>	Acquiring firm's cumulative abnormal returns at announcement, measured within a 21-day (-10, +10) window, using a market-adjusted model with 100 days of training data and a 50-day gap between training and event window. <i>Source:</i> WRDS.
<i>Deal value</i>	Natural log of value of proposed acquisition. <i>Source:</i> Orbis Zephyr.
<i>Deal relatedness</i>	Share of NACE industry codes that are shared between the acquiring firm and the acquisition target. <i>Source:</i> Orbis Zephyr, Orbis Bureau van Dijk.
<i>Minority-investor protection</i>	Acquirer home country's "Protecting Minority Shareholders" score from the Ease of Doing Business ranking. <i>Source:</i> World Bank.
<i>Creditor rights</i>	Acquirer home country's "Creditor Rights" score. <i>Source:</i> Djankov et al. (2007).
<i>POLCON (target)</i>	Target home country's political constraints score. <i>Source:</i> Henisz (2000).
<i>Cross-border deal</i>	Dummy variable indicating whether the acquisition is a cross-border deal (= 1) or a domestic deal (= 0). The classification depends on the acquirer's and target's home countries. <i>Source:</i> Orbis Zephyr
<i>Cultural distance</i>	Cultural distance between the acquirer home and the target country measured as Kogut and Singh's cultural distance based on Hofstede's cultural dimensions. <i>Source:</i> Hofstede Insights.
<i>Debt-to-assets ratio</i>	Acquiring firm's total liabilities divided by total assets. <i>Source:</i> Thompson Reuters Eikon.
<i>Equity concentration difference</i>	Absolute difference in the equity market concentration between the acquirer home and target country. We measure equity market concentration as the ratio of assets controlled by investment funds to the size of the home country's stock market. <i>Source:</i> World Bank.
<i>Equity concentration upstream</i>	Dummy variable indicating whether the equity market concentration in the target country is greater (= 1) or less (= 0) than the acquirer home country. We measure equity market concentration as the ratio of assets controlled by investment funds to the size of the home country's stock market. <i>Source:</i> World Bank.

Abbreviations: CAR, cumulative abnormal returns; EBITDA, earnings before interest, tax, depreciation, and amortization.

core industry (Col & Errunza, 2015). Table 1 summarizes the model variables and their measurements.

5 | ESTIMATION STRATEGY AND RESULTS

5.1 | Estimation strategy

We first test our Hypotheses 1 and 2 that propose that the decision by the management of acquirer i to complete an announced deal j is contingent on the deal's cross-border



characteristics and the acquiring firm's capital structure (k indicates the acquiring firm's industry segment, and l indicates the home country):

$$\text{completed}_{i,j} = \beta_1 \text{cross-border deal}_j + \beta_2 \text{debt-to-assets ratio}_i + \beta_3 \text{control variables}_{i,j} + u_k + u_l + \varepsilon_{ijkl}.$$

In the next step, we test Hypotheses 3 and 4 that consider differences in the concentration of equity markets between the home and target countries. Since these differences do not apply to domestic deals, for this analysis, we limit our sample to cross-border deals. For these deals, we analyze how differences in equity concentration affect the likelihood of completion:

$$\begin{aligned} \text{completed}_{i,j} = & \beta_1 \text{equity concentration difference}_j + \beta_2 \text{equity concentration upstream}_j \\ & + \beta_3 \text{equity concentration difference}_j \times \text{upstream}_j + \beta_4 \text{control variables}_{i,j} + u_k + u_l \\ & + \varepsilon_{ijkl}. \end{aligned}$$

In our analysis, we use logit mixed-effects models for estimation. We include acquirer home country and industry random intercepts in all models. These random intercepts eliminate bias from potentially unobserved home country and industry variables. To analyze the cross-border sample, we assume that the acquirer's home country shapes the impact of differences in the concentration of equity markets. Therefore, we add random slopes for these variables to our models. We allow the effect of equity concentration difference, upstream difference, and their interaction to vary between acquirer home countries, following the logic of Alcácer et al. (2018). To reaffirm the validity of our results, we conduct a series of robustness checks for our hypothesis tests. For regression analysis, we z-standardize all variables.

5.2 | Descriptive statistics

Table 2 shows descriptive statistics on the sample for the variables in our dataset. We find that most acquisitions (91.2%) announced by management were completed and that stock markets, on average, react positively to announced deals ($\text{CAR} = 2.5\%$). The correlation coefficients in Table 3 indicate only a low level of association between the model variables—below 0.4 for most variables in our sample. We find correlations greater than .4 only for minority shareholder protection and creditor rights, as well as cultural distance and equity/debt concentration difference. Given the weak pairwise correlations, we do not further manipulate the variables in our empirical models (Lindner et al., 2020).

5.3 | Hypothesis tests

We test our hypotheses in Models 1–6, presented in Table 4. In these models, we use the completion (= 1) or withdrawal (= 0) from an announced acquisition by management as the dependent variable. In Models 1–3, we consider domestic and cross-border deals and add the hypothesized effects stepwise. In Models 4–6, we proceed with our analysis of cross-border deals.

Model 1 is the baseline model, including the control variables and acquirer-country and industry random intercepts. Overall, the observed effects are in line with extant research. The

TABLE 2 Descriptive statistics.

Variable	# deals	Mean	Median	SD	Min.	Max.
<i>Completed = 1</i>	55,722	0.912	1	0.284	0	1
<i>Return on assets</i>	55,722	0.071	0.092	1.002	-181.235	33.803
<i>Total assets (log)</i>	55,722	14.589	14.382	3.044	2.192	26.638
<i>CAR at announcement</i>	55,722	0.025	0.01	0.165	-2.357	8.45
<i>Deal value (log)</i>	55,722	9.783	9.761	2.481	-4.605	19.137
<i>Deal relatedness</i>	55,722	0.38	0	0.485	0	1
<i>Min. shareholder protection</i>	55,722	63.747	64.67	11.294	30	96.67
<i>Creditor rights</i>	55,722	2.072	2	1.068	0	4
<i>POLCON (target)</i>	55,722	0.378	0.405	0.157	0	0.726
<i>Cross-border deal</i>	55,722	0.242	0	0.429	0	1
<i>Cultural distance</i>	55,722	0.43	0	1.113	0	13.412
<i>Debt-to-asset ratio</i>	55,722	0.22	0.19	0.257	0	19.958
<i>Eq. conc. difference</i>	55,722	26.447	0	74.133	0	922.981
<i>Eq. conc. upstream</i>	55,722	0.1	0	0.3	0	1

greater the acquirer's assets ($p = .003$) and the more positive the stock market's reaction to the deal announcement in terms of abnormal returns ($p = .000$), the greater the probability of completion. Greater deal value ($p = .000$) and higher minority shareholder protection ($p = .001$), however, reduce the probability of completion. Only in the case of POLCON, as an indicator of constraints on political decision-makers, we observe a surprising result: greater political constraints reduce completion probability ($p = .000$). In Model 2, we add the acquiring firm's debt-to-assets ratio. The negative effect ($p = .013$) on completion probability indicates that deals by acquirers with a greater debt-to-assets ratio have a lower probability of completion. We consider this finding as support for Hypothesis 1. In Model 3, we test whether cross-border deals have a lower probability of completion. In line with Hypothesis 2, we observe a negative effect on deal completion for the cross-border deal dummy ($p = .000$) that we included in Model 3.

Next, for a test of Hypotheses 3 and 4, we use a subsample of our data that includes only cross-border deals. For these cross-border deals, we test the impact of differences in the concentration of equity markets in the home and target country (Models 4–6). To allow the effect of model variables to vary between acquirer home countries, we estimate random slopes for the effect of debt-to-asset ratio, equity concentration difference, upstream difference, and their interaction (Alcácer et al., 2018). In addition, we include the acquiring firm's debt-to-asset ratio and cultural distance between home and target country as additional control variables.

Model 4 is our base model for this subsample and includes only control variables. We observe that the acquiring firm's size in terms of total assets ($p = .006$), deal value ($p = .000$), and minority shareholder rights in the home country ($p = .017$) reduce the probability that the management completes an announced cross-border deal. Moreover, greater cultural distance between the acquirer and target decreases the deal's completion



TABLE 3 Bivariate correlation coefficients.

Variable	1	2	3	4	5	6	7	8	9	10	11
1 Return on assets	1										
2 Total assets (log)	.072	1									
3 CAR at announcement	-.031	-.117	1								
4 Deal value (log)	.020	.375	-.015	1							
5 Deal relatedness	.021	.086	-.023	.135	1						
6 Min. shareholder protection	.011	-.228	-.009	-.124	-.049	1					
7 Creditor rights	-.014	-.189	.030	-.238	-.099	.453	1				
8 POLCON (target)	.009	.008	-.005	.118	.046	.092	-.024	1			
9 Cultural distance	.002	.137	-.027	.083	.040	-.014	.002	.110	1		
10 Debt-to-asset ratio	-.241	.119	.032	.065	-.001	-.024	-.019	-.019	.005	1	
11 Eq. conc. difference	-.004	.038	-.022	.036	.015	.119	.024	.032	.566	.007	1

TABLE 4 Hypotheses tests.

	<i>Completed = 1, Withdrawn = 0</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Return on assets</i>	0.018 (0.013)	0.008 (0.010)	0.006 (0.010)	0.104** (0.038)	0.051 (0.034)	0.105** (0.039)
<i>Total assets (log)</i>	0.078** (0.026)	0.081** (0.026)	0.108*** (0.026)	-0.130** (0.046)	-0.105* (0.046)	-0.095* (0.048)
<i>CAR at announcement</i>	0.076*** (0.018)	0.078*** (0.018)	0.079*** (0.018)	0.043 (0.043)	0.042 (0.043)	0.046 (0.043)
<i>Deal value (log)</i>	-0.959*** (0.022)	-0.958*** (0.022)	-0.957*** (0.022)	-0.926*** (0.039)	-0.949*** (0.040)	-0.985*** (0.041)
<i>Deal relatedness</i>	0.036 (0.034)	0.034 (0.034)	0.038 (0.034)	-0.072 (0.061)	-0.064 (0.061)	-0.043 (0.061)
<i>Min. shareholder protection</i>	-0.174*** (0.050)	-0.173*** (0.050)	-0.177*** (0.050)	-0.150* (0.065)	-0.136* (0.065)	-0.198** (0.069)
<i>Creditor rights</i>	0.105 (0.095)	0.105 (0.095)	0.104 (0.099)	0.102 (0.100)	0.072 (0.098)	0.085 (0.102)
<i>POLCON (target)</i>	-0.219*** (0.024)	-0.219*** (0.024)	-0.209*** (0.024)	-0.067 (0.036)	-0.077* (0.036)	-0.076* (0.036)
H1: Debt-to-asset ratio		-0.033* (0.013)	-0.032* (0.013)	-0.076 (0.055)	-0.027 (0.026)	-0.090 (0.053)
H2: Cross-border deal			-0.268*** (0.039)			
<i>Cultural distance</i>				-0.074*** (0.022)	-0.049* (0.023)	-0.047 (0.024)
H3: Eq. conc. difference					-0.029 (0.041)	-0.230** (0.072)
<i>Eq. conc. upstream</i>						0.125 (0.109)
H4: Eq. conc. difference × upstream						0.227* (0.088)
Constant	2.469*** (0.098)	2.474*** (0.098)	2.569*** (0.103)	2.621*** (0.117)	2.617*** (0.137)	2.586*** (0.138)
Country random intercepts	Included	Included	Included	Included	Included	Included
Country random slopes	No	No	No	Included	Included	Included
# Country groups	38	38	38	37	37	37
Industry random intercepts	Included	Included	Included	Included	Included	Included
# Industry groups	80	80	80	78	78	78
# Deals	55,722	55,722	55,722	13,507	13,507	13,507
AIC	29,428	29,424	29,379	8508	8493	8477

TABLE 4 (Continued)

	<i>Completed</i> = 1, <i>Withdrawn</i> = 0					
	(1)	(2)	(3)	(4)	(5)	(6)
BIC	29,526	29,531	29,495	8620	8613	8702

Note: The sample used for Models 1–3 includes domestic and cross-border acquisition deals; The sample used for Models 4–6 includes only cross-border acquisition deals; Models estimated as logit mixed effects models with home country and acquirer industry random intercepts; Models 4–6 include home country random slopes for the effects of *Eq. conc. difference*, *Eq. conc. upstream*, and *Eq. conc. difference × upstream*. Reported information includes Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC).

* $p < .05$; ** $p < .01$; *** $p < .001$.

probability ($p = .001$). Except for the acquiring firm's size, these effects resemble those observed in the full sample. For a test of Hypothesis 3, we add the absolute difference in equity concentration between the home and target country as an indicator of the extent of institutional duality resulting from the acquisition. In Model 5, we find no statistically significant direct effect of equity market concentration difference on completion probability ($p = .469$). In the next step, we test Hypothesis 4, which suggests directionality as a contingency factor for the effect of institutional duality. To this end, in Model 6, we add the equity concentration upstream dummy that takes 1 if the concentration in the target's equity market is greater than in the acquirer's market. We also add the interaction between equity market concentration and the upstream dummy to the model. In line with Hypothesis 4, we find a negative effect of the difference in equity concentration ($p = .001$) and observe that this effect is lower for upstream than for downstream differences ($p = .012$). The marginal effect plot in Figure 1 shows that while the size of the concentration difference hardly impacts the completion probability for upstream differences, the impact of differences in concentration is clearly negative for downstream differences. Although the average effect of differences in the concentration of equity capital seems close to zero, this effect becomes substantial for transactions in lower-concentration countries. We consider these effects as support for our Hypotheses 3 and 4. Differences in the equity market concentration between home and target country increase costs of institutional duality and reduce the completion probability of acquisition deals. However, this effect must be considered in the context of the differences' directionality. Although we find a negative effect for downstream differences, this effect diminishes for upstream differences where the target country's equity market is characterized by greater concentration than the home country's equity market.

From a practical point of view, our results indicate that cross-border deals have a lower likelihood of completion. For these deals, differences in the concentration of the home and target countries' equity markets affect the completion likelihood of acquisitions. Although we observe average odds for completion of 0.922 for domestic deals in our sample, our results show that the odds of completion for cross-border deals drop to 0.705. However, we also observe that institutional duality in terms of differences in the concentration of equity markets in home and target countries partly explains the lower completion probability of cross-border deals. For the average cross-border acquisition, this means a reduction in completion odds to 0.702 due to institutional duality. In addition, we show that this effect depends on the directionality of institutional duality. For deals where institutional differences are upstream, that is, concentration in the target's equity market is greater than in the acquirer's market, we observe an increase in completion

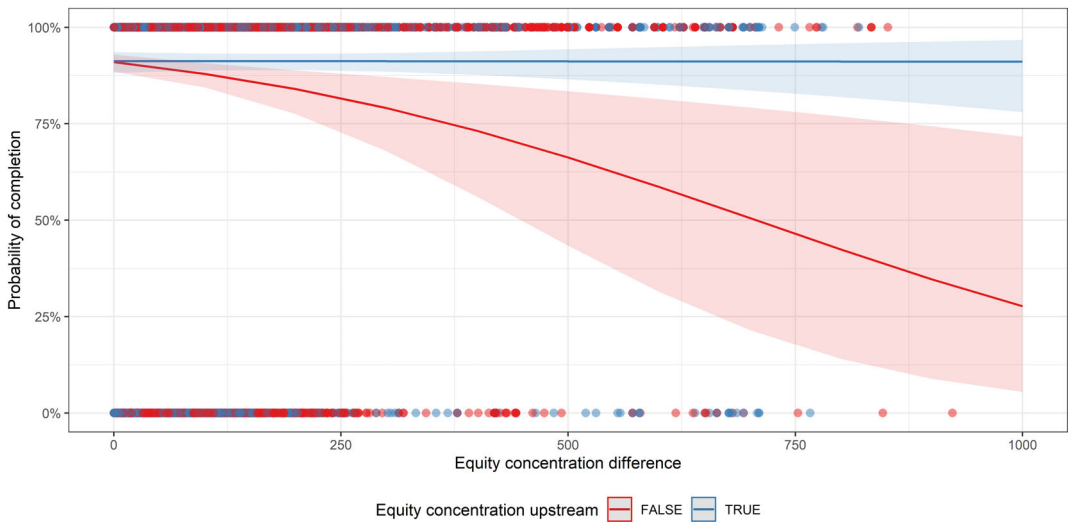


FIGURE 1 Marginal effect of *Equity concentration difference* × *upstream* on acquisition completion.

probability. At average levels, an upstream concentration difference between the home and target country would increase the odds of completion of the acquisition to 1.035.

5.4 | Robustness checks

The robustness checks presented in Table 5 allow us to reaffirm the results from our hypothesis tests in Models 1–6. We separate these robustness checks into three groups: other measures for cross-border complexity and post-announcement activism by equityholders, alternative sample selection, and different model structures. In Table 5, Model 7, we substitute the cross-border deal dummy by cultural distance and replicate Model 3 from Table 4. We observe that cultural distance, like our dummy variable before, leads to a lower completion probability of acquisitions. The negative effect of the debt-to-asset ratio remains robust. In Models 9 and 10, we replace the 21-day CAR with 3-day and 7-day CAR specifications, respectively. In Models 8 and 9, the hypothesized effects for differences in equity concentration remain robust. Next, we test the robustness of our results on a different subsample of our data. In Model 10, we add 8536 minority acquisitions, which we had initially excluded from the dataset. Our results remain robust also for this extended subsample. In this model, we even observe the hypothesized negative effect of a greater debt-to-asset ratio in the international sample. The results from Model 10 also show that majority deals have a lower probability of completion ($p = .000$) than minority deals. We specify Model 11 as a logit generalized linear model and—in support of our hypotheses—replicate our earlier results.

5.5 | Post hoc analysis

We complement our analysis with two additional post hoc tests (see online Appendix for detailed results). First, we consider the observed effects of differences in equity market



TABLE 5 Capital market models and robustness checks.

	Completed = 1, Withdrawn = 0				
	(7)	(8)	(9)	(10)	(11)
<i>Return on assets</i>	0.006 (0.010)	0.098** (0.038)	0.103* (0.040)	0.093** (0.031)	0.055 (0.037)
<i>Total assets (log)</i>	0.101*** (0.026)	-0.103* (0.048)	-0.113* (0.048)	0.005 (0.049)	-0.095 (0.051)
<i>CAR at announcement (-1/+1)</i>		0.070 (0.047)			
<i>CAR at announcement (-3/+3)</i>			0.096* (0.045)		
<i>CAR at announcement (-10/+10)</i>	0.078*** (0.018)			0.014 (0.036)	0.036 (0.043)
<i>Deal value (log)</i>	-0.957*** (0.022)	-0.973*** (0.042)	-0.958*** (0.041)	-1.031*** (0.035)	-0.959*** (0.041)
<i>Deal relatedness</i>	0.038 (0.034)	-0.054 (0.063)	-0.048 (0.062)	-0.144* (0.056)	-0.054 (0.063)
<i>Majority deal</i>				-0.527*** (0.077)	
<i>Min. shareholder protection</i>	-0.181*** (0.050)	-0.162* (0.075)	-0.147* (0.073)	-0.087 (0.068)	-0.365*** (0.085)
<i>Creditor rights</i>	0.110 (0.098)	0.157 (0.111)	0.146 (0.114)	0.134 (0.136)	-0.391* (0.162)
<i>POLCON (target)</i>	-0.206*** (0.024)	-0.073 (0.037)	-0.069 (0.037)	-0.119*** (0.031)	-0.083* (0.036)
<i>Cultural distance</i>	-0.112*** (0.015)	-0.045 (0.024)	-0.039 (0.023)	-0.015 (0.022)	-0.038 (0.023)
H1: Debt-to-asset ratio	-0.032* (0.013)	-0.050 (0.055)	-0.050 (0.049)	-0.108* (0.043)	-0.028 (0.027)
H3: Eq. conc. difference		-0.175*** (0.041)	-0.181*** (0.041)	-0.201*** (0.038)	-0.208*** (0.040)
<i>Eq. conc. upstream</i>		0.209* (0.083)	0.223** (0.082)	0.428*** (0.073)	0.202* (0.082)
H4: Eq. conc. difference × upstream		0.142** (0.052)	0.150** (0.051)	0.181*** (0.049)	0.207*** (0.051)
Constant	2.498*** (0.100)	2.629*** (0.139)	2.599*** (0.138)	3.136*** (0.163)	2.777*** (0.250)
Country random intercepts	Included	Included	Included	Included	Included
Country random slopes	No	Included	Included	Included	No
# Country groups	38	37	37	37	37

(Continues)

TABLE 5 (Continued)

	<i>Completed = 1, Withdrawn = 0</i>				
	(7)	(8)	(9)	(10)	(11)
Industry random intercepts	Included	Included	Included	Included	Included
# Industry groups	80	78	78	78	78
# Deals	55,722	12,816	13,139	22,043	13,507
AIC	29,374	8016	8237	10,892	8445
BIC	29,490	8240	8461	11,140	

Note: The sample used for Model 7 includes domestic and cross-border acquisition deals; The sample used for Models 8–11 includes only cross-border acquisition deals; The sample used for Model 10 includes majority as well as minority deals—the other models include only majority deals; Models 7–10 estimated as logit mixed effects models with home country and acquirer industry random intercepts; Models 8–10 include home country random slopes for the effects of *Eq. conc. difference*, *Eq. conc. upstream*, and *Eq. conc. difference × upstream*; Model 11 estimated as logit GLM with home country and acquirer industry fixed effects; Reported information includes Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC).

* $p < .05$; ** $p < .01$; *** $p < .001$.

concentration contingent on the acquirer's home country. In line with the literature on varieties of capitalism (Hotho & Pedersen, 2012; Judge et al., 2014; Vitols, 2001; M. Wright et al., 2021), we find substantial variation in the impact of equity market concentration differences on completion probability between home countries. These findings underline the importance of home-country institutions and cross-national differences for the success of acquisitions. Second, we analyze the long-term performance implications of acquisitions. We find that, on average, completed acquisitions enhance long-term performance. However, we also observe that cross-border acquisitions trail domestic deals in performance, substantiating the resistance of capital providers against cross-border deals. In addition, we find that the withdrawal of an announced acquisition leads to stagnation in performance. Consequently, managers should consider capital providers' reactions before announcing acquisitions rather than backtracking on announcements in the face of investor resistance. We show detailed results on post hoc tests in the online [Appendix](#).

6 | DISCUSSION

Our study is based on agency literature that considers governance mechanisms through which conflicts between agents (i.e., managers) and principals (i.e., equity and debt providers) in acquisitions can be avoided and resolved (Amihud & Lev, 1981, 1999; Denis et al., 1999; Seth et al., 2002). Specifically, our paper studies how equityholders and debtholders prevent firms' managers from completing potentially value-destroying acquisitions and how their efforts (and outcomes) vary when a deal involves targets in potentially different and/or less favorable capital markets. Although there is ample research on the role of equity investors in M&As (Boateng et al., 2017; Carline et al., 2009; Denis et al., 1999; Kau et al., 2008; Lane et al., 1998), and though research has previously identified a disciplining effect of debt (Jensen, 1986), there remains little recognition of capital structure and debtholders' agency in the M&A process.



Even though lenders commonly do not intervene in day-to-day corporate strategy, they have considerable leverage over managers' decisions because of creditor rights and firms' dependence on external funding. Therefore, firms pursuing acquisitions must accommodate debtholders' agency and rights. Our study, theoretically and empirically acknowledges this important but underresearched role of debtholders in the M&A process. Specifically, we theorize and show that a larger share of debt funding reduces the completion likelihood of acquisitions as risk-averse debtholders become more empowered in and less supportive of the acquiring firms' efforts.

In addition, we acknowledge that equityholders and debtholders are embedded in the institutional environment of the respective capital market (Eisenhardt, 1988). Financial systems evolve and develop an ecosystem of supporting institutions for capital providers. These rules, norms, and beliefs (North, 1990) reinforce existing power structures within a financial system. Exposure to a different financial system through acquisitions involves information asymmetry, uncertainty, adaptation costs, and, more generally, institutional duality for capital providers. Therefore, we move beyond merely recognizing capital market concentration. We theorize that differences between capital markets involved in cross-border acquisitions alter equity providers' stance on the proposed acquisition and align them with otherwise more risk-averse debtholders. When a proposed acquisition exposes equityholders to a foreign capital market, they will face costs from institutional duality, increasing their resistance to the deal. However, we show that institutional duality benefits equity providers when the target country's equity market is characterized by more professional institutions than those in the home country. In this case, equity providers are still concerned about the costs of institutional duality. However, since they see an upside potential in institutional duality, they will consider its costs of less concern.

6.1 | Contributions

Our paper makes at least two contributions to the literature on ownership and M&A. On the micro level, our arguments extend agency literature on M&A activity by going beyond equity ownership's constraining role towards acknowledging debtholders' important role (Acharya et al., 2011; Fama, 1985; James, 1987). Debtholders with a substantial share of firms' capital have little upside potential in risky acquisitions. However, since they have the means to leverage their position against managerial empire-building, larger debt shares reduce the completion likelihood of acquisitions. Though risk-averse debtholders are strictly not owners in the firm, they are interested in pressuring managers into withdrawal, and by providing a substantial share of capital, they also have the means to do so. In a setting of value-destroying acquisitions, thus, the interests of equity- and debtholders are aligned, and debtholders can serve as allies to equity providers in their resistance against these acquisitions.

On the macro level, we contribute to the growing literature on comparative institutionalism (Jackson & Deeg, 2008) and varieties of capitalism (Hotho & Pedersen, 2012; Judge et al., 2014; Vitols, 2001). More generally, we argue that countries have developed different varieties of capital markets that create institutional duality in cross-border acquisitions. Our theoretical framework, therefore, explains home bias in M&A and points towards a mechanism through which varieties of institutional systems shape the outcomes of cross-border investment decisions. In these bargaining episodes, managers are constrained by debt and equity markets, which have partially opposing views about acquisitions. However, these views align when equity providers fear costs due to institutional duality. The historically evolved institutions described in the

varieties of capitalism literature determine the power balance between debt and equity principals and their incentives to influence/reverse managers' decisions. Our agency of acquisitions framework highlights an additional mechanism by which macro-level varieties of capital markets affect firm decisions. Institutional varieties, on the one hand, cause institutional duality for firms rooted in different institutional envelopes but, on the other hand, also shape principal–principal–agent bargaining processes that result from this institutional duality. Thus, institutional duality affects how varieties of institutions transact with each other and whether these institutional varieties converge because of these transactions.

We propose that agency theory provides a valuable link to connect two of three central dimensions of the varieties of capitalism literature: capital and management. If one accepts this proposition, this suggests further avenues for theory development and testing. First, the varieties of capitalism literature tends to treat debt and equity as substitutable sources of capital and disregards the different governance functions and risk preferences of debt and equity (Williamson, 1988). Therein, it omits theoretically valuable and practically relevant conflicts between debt providers and equity. Our framework and empirical results suggest that a more systematic distinction between debt and equity could extend varieties of capitalism literature. Capitalisms not only develop institutions to govern the relationship between principals and agents. Equally, these institutions mediate the interests of different principals (debtholders and equityholders). The resulting power balance, in turn, affects how firms are financed and how managers and principals form a firm's strategy.

Second, the concentration of economic activity has only received limited attention in varieties of capitalism literature. So far, the literature focused exclusively on the concentration and dominant types of firm ownership (Fainshmidt et al., 2018). Although the literature acknowledges capital markets as a central institution and as a core dimension of the varieties of capitalism framework, theorizing on capital markets as institutions has, with some exceptions (Witt & Jackson, 2016), been rather unidimensional. The literature has largely limited itself to the role of capital markets as institutions and whether their role in an institutional system might be substituted by banks, the state, or powerful family clans (Benito et al., 2016; Cuervo-Cazurra et al., 2014; Feldman et al., 2019). However, the structure and customs of capital markets as essential characteristics of these institutions have not been considered so far in the context of varieties of capitalism. We show that the concentration of capital markets, like the institutional setting in general and the specific roles of institutions, profoundly impacts firm-level economic activity. Our framework helps to reconcile the role of capital markets as institutions with their structure. By focusing on market concentration, we account for institutional change in capital markets that might result from banks/states/families actively participating in capital markets rather than substituting them. Thus, we add towards developing theory on varieties of capitalism beyond the market vs. banks/state/family dichotomy.

6.2 | Managerial implications

Given the importance of M&As in corporate strategy, our results provide several managerial and policy implications. When managers in multinational firms announce acquisitions as part of their internationalization strategy, they often face vocal resistance from capital providers. Our study highlights that managers should anticipate potential resistance from equity and debt providers, especially in acquisitions that expose them to different or less favorable capital markets. Based on this observation, we propose that managers coordinate their acquisition plans with the firm's major equity and debt providers, such as investment funds and banks. Thereby,

managers can respond to these investors' concerns and ease their resistance to acquisitions ex-ante. Otherwise, if managers step into open conflict over the announcement of acquisitions, resistance by equity and debt providers substantially endangers the multinational firm's international expansion through acquisitions and could harm its long-term prospects for growth. On a policy level, our results suggest that firms and regulators should consider the implications of cross-border acquisitions on governance structures. In an extreme case, favorable institutions in the target market will induce equityholders to support cross-border acquisitions against resistance from debtholders. Since the firm will be (partly) governed by capital-market institutions that do not correspond to governance preferences in the home country and favor equityholders over debtholders, this could lead to a de facto expropriation of debtholders by equityholders.

6.3 | Limitations and future research

Our study has some limitations that point to potential avenues for future research. First, and in line with comparative institutionalism (Aguilera & Grøgaard, 2019; Jackson & Deeg, 2008), our arguments for and measures of capital concentration are based on country-level capital market data. Although post hoc analysis supports our choice of measures, it is possible and plausible that considerable variation exists in corporate financing strategies within countries. A firm-specific measure would allow future researchers to study capital-based governance in M&As on the firm level.

Second, our results assume homogeneity of interests among equity and debt providers and managers. Future research could move deeper into the M&A bargaining process, acknowledging differences within these groups. Equityholders take on a central role in our paper since the outcome of an M&A transaction depends on the likelihood that equity providers join debtholders in their opposition to a proposed acquisition. In our hypothesis development and empirical testing, we do not account for differences between equity investors such as family owners, institutional investors, and state owners. Unveiling how differences in incentives, investment motives, and investment horizons determine equityholders' and debtholders' resistance to M&As would add more nuance.

Third, our study focuses on differences in the concentration of equity as a trigger for capital providers' resistance to acquisitions. How differences in other capital market dimensions affect the M&A bargaining process remains to be answered. We do not capture variation in the type of (concentrated) capital providers in the target country. Future research may investigate how family or state ownership conditions the effect of equity concentration in target capital markets that we introduce in Hypothesis 4. Finally, our study empirically utilizes the M&A market to study complex agency processes. Further research should extend our contributions (agency of debtholders and comparative institutionalism) to other strategic decisions triggering agency bargaining processes in, for example, leveraged buyouts, greenfield investment, refinancing, and bankruptcy.

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Additional supporting information can be found online in the Supporting Information section at the end of this article.

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