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## Article

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## Article

# Post-Acquisition Operating Performance of Acquiring Firms following Cross-Border Mergers and Acquisitions

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**Abstract:** This study investigates the firms' performance following cross-border mergers and acquisitions (M&As) from 2000 to 2022, employing the generalized method of moments (GMM) technique within the French context. Grounded in the theories of organizational learning and the institutional-based view, the empirical findings reveal that acquiring firms exhibit an improved long-term performance after engaging in cross-border M&A deals. Additionally, acquisition experience and industry relatedness significantly enhance the firms' performance. Institutional quality and cultural similarity are also found to positively moderate the impact of cross-border M&As on firms' performance.

**Keywords:** mergers and acquisitions (M&As); acquisition experience; industry relatedness; institutional quality; cultural similarity; GMM

**JEL Classification:** F23; G34



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## 1. Introduction

Cross-border mergers and acquisitions (M&As) are a widely used strategy to enter a foreign market to achieve business expansion (Haleblian et al. 2009). However, according to Shenkar (2012), outside M&A deals are complex due to institutional and cultural differences among the world markets. These complexities become more severe when mergers involve firms from different contexts and backgrounds. According to Slangen and van Tulder (2009), when the target and acquirer are from diverse cultural and institutional contexts, the merger should be limited in scope as the limited integration will help to enhance post-acquisition performance. Under such circumstances, both the employees of the target and the acquiring firms will need to work more closely to transfer both explicit and implicit knowledge (Fang et al. 2010) following a merger deal. To be successful, firms need to develop a proper mechanism to engage their employees with the firm's acquired peers following the deal.

According to Danbolt and Maciver (2012), cross-border M&A is a corporate strategy for business expansion, firm growth, and gaining a competitive advantage over domestic competitors. Despite numerous studies examining the post-merger effectiveness, the results remain inconsistent. We contribute to the ongoing debate by studying how the acquisition experience, industry relatedness, institutional quality, and cultural similarity affect the post-acquisition performance of acquiring firms using a sample of 287 cross-border M&A deals by French acquiring firms. This study is based on the theory of organizational learning and uses an institutional-based view. Cross-border M&As are important because they facilitate the organizational learning process, which is essential in gaining a competitive edge over competitors in the domestic market and expanding a business across national borders (Deng 2010). Furthermore, institutions play a key role in the success and failure of M&A deals across borders. If the host country's institutional quality is better, it will ultimately facilitate the M&A deal and make it a success. Good institutional quality also

facilitates the organizational learning process; hence, both theories are interconnected in this case. Organizational learning theory examines the internal factors linked with M&A deals. The institutional-based view helps to investigate the outside factors that may have a possible influence. The purpose of this study is to examine the impact of cross-border M&A deals on the post-acquisition performance of acquiring firms in the French context.

The rest of the paper is organized as follows: Section 2 reviews the relevant empirical and theoretical literature. Section 3 outlines the proposed hypotheses. Section 4 describes the data and methodology. Section 5 discusses the empirical results. Finally, the conclusion is given in Section 7, while the study limitations and future research directions are given in Section 8.

## 2. Literature Review

Existing studies provide mixed results regarding the acquiring firms' performance following outside M&A deals.

### 2.1. Positive Impact of Cross-Border M&As on Performance

Many studies find that M&As increase a firm's profitability and improve its financial performance. [Loughran and Vijh \(1997\)](#) studied the performance of merged firms over five years from the date of the acquisition. They found that acquisitions entirely financed with cash offer larger returns compared to those financed using stock. [Linn and Switzer \(2001\)](#) show that firms perform better in the long run when they pay in cash rather than in stock. They investigated 413 deals by U.S. acquiring firms taking place between 1967 and 1987. [Helpman et al. \(2004\)](#), examined the effects of trade frictions, economies of scale, and firm size on exports versus FDI sales using data from 38 countries and 52 industries. They came to the conclusion that firms that undertake FDI have a significant competitive advantage over their domestic peers ([Deng 2007](#)). [Abdul Rahman and Limmack \(2004\)](#) found that, in the long run, firms perform better in the post-merger period. The study examined 207 Malaysian firms over the period 1988–1992. [Kumar and Bansal \(2008\)](#) investigated the performance of merger and acquisition deals in India between 2000 and 2006. The financial performance was proxied with five ratio measures. The results indicate synergy in terms of increased cash flows, business expansion and diversity ([Luo and Tung 2007](#)), and successful cost-cutting, improving firm performance in the long run. [Powell and Stark \(2005\)](#) reported that (i) M&As result in performance improvement and (ii) industry relatedness positively impacts post-merger performance.

Similarly, [Mantravadi and Reddy \(2008\)](#) reported that M&A deals across borders lead to performance improvements in the Indian market. According to [Carline et al. \(2009\)](#), firms witnessed a positive long-run performance following M&A deals. This study investigated 81 firms over the period 1995–1996, employing the generalized moment (GMM) technique. [Nicholson and Salaber \(2013\)](#) argued that Indian and Chinese firms have different motivations to engage in M&A deals. They found that cross-border acquisitions conducted by China and India positively impact the profitability, and increase the value of the acquiring firms. [Barteková and Ziesemer \(2019\)](#) reported on the positive performance of European firms following successful M&A deals. The study was carried out in 27 European countries from 2003 to 2013. [Haiyue and Manzoor \(2019\)](#) investigated the post-merger performance of Chinese firms merging with 'Belt and Road' countries from 2004 to 2015. The authors concluded that OFDI by Chinese firms boosts the firms' performance. They argued that those firms perform better in developing economies than in developed ones. Recently, [Kim et al. \(2021\)](#) found that environmental, social, and corporate governance factors positively affect the business performance of a cross-border M&A in the Korean stock market.

[Liu et al. \(2021\)](#) argued that appropriate talent management plays a key role in reducing the complexity of cross-culture M&As and increasing the likelihood of cross-culture M&A success. [Khan et al. \(2021\)](#) developed a conceptual model suggesting that a distributed leadership enhances the likelihood of MNEs' cross-border success through the

mediating role of social integration. Furthermore, they identified the degree of autonomy given to the acquired firms. They argued that this model has a potential to be used for creating strategies to ensure the success of cross-border M&As for MNEs in developed and emerging economies. Ethical behavior and profitability is not contradictory under the modern stakeholders theory (Caiazza et al. 2021). Further, they argued that sustainability factors are significantly correlated with the long-term performance of cross-border M&As. The authors analyzed 6500 initial deals based on event studies and pooled regression. Bhasin and Garg (2020) observed the role of institutional mechanisms in influencing the inward FDI. They employed panel data regression to examine the impact of institutional factors on FDI inflow from 2005 to 2016 in emerging markets. They observed that one of the main motivations for MNEs to make foreign investments in emerging markets is the ability to take advantage of the weak laws and regulations, norms, and value in those markets.

## 2.2. Negative/No Impact of Cross-Border M&As on Performance

Martynova et al. (2007) investigated the phenomenon in the context of European countries. They demonstrated that the profitability of firms significantly decreases following an M&A. They used four different profitability measures to overcome several statistical and measurement issues. Using a sample of 2000 mergers effected between 1973 and 1998, Andrade et al. (2001) identified an improvement in operating performance following acquisition deals. Likewise, Heron and Lie (2007) investigated the phenomenon for 859 US acquiring firms. They examined the impact of the payment method, industry relatedness, and acquisition experience on the post-merger performance of firms. They reported that industry-relatedness and acquisition experience do not affect the firm's performance. In addition, they found no evidence of a performance improvement depending on the method of payment. Boateng et al. (2008), studied the association between cultural distance and value creation (Eden and Miller 2004). They used a sample of 209 firms over the period 1998–2012. They found out that cultural distance exerts a negative impact on value creation.

Furthermore, Ghosh (2001) found no evidence of performance-related improvements for acquiring firms. In addition, they argued that the cash method is better in M&A deals than using stock as a payment method. The phenomenon was investigated for 135 US acquiring firms from 1981 to 1995. Moeller and Schlingemann (2006) reported that U.S. acquiring firms witnessed a decline in performance. Clark and Ofek (2006) also reported a deterioration in the post-merger performance of firms. Likewise, Hogarty (2002) also reported a negative post-acquisition performance.

Similarly, according to Yeh and Hoshino (2002), Japanese firms witnessed a performance decline. They investigated the operating performance of 86 firms in the period 1970–1974. This study illustrates that, instead of a performance improvement, the acquiring firms experienced a performance deterioration in the long run. Kruse et al. (2007) examined the post-acquisition performance of 46 Japanese firms between 1962 and 1992. They reported a significant number of cases of favorable post-performance following M&A deals. They argued that the deal size had no direct impact on a firm's performance. However, Sharma and Ho (2002) reported insignificant results for 36 Australian firms. They investigated the effect of deal size, industry relatedness, and payment method on post-acquisition performance and found no performance improvement. Humphery-Jenner and Powell (2011) examined the profitability of 1900 acquisitions deals. The authors argued that large acquirers were less inclined to overpay and were more profitable than small acquirers. Mishra and Chandra (2010) also examined the impact of OFDI in the Indian pharmaceutical industry. They reported that OFDI fails to improve the firm's performance in the long run.

There are several reasons behind the inconsistent findings from the research stream. The most important reason is that these studies focused only on the direct impact of the deal size, leverage, payment method, etc., without considering the institutional factors. The inconsistent findings of the existing studies and the limited body of available research on cross-border M&As increases the importance of this study.

### 3. Hypothesis Development

#### 3.1. Acquisition Experience

Prior acquisition experience is a significant asset in cross-border M&A. Hence, the organizational learning theory provides an excellent theoretical background to investigate the impact of acquisition experience on the post-merger performance of firms. According to Collins et al. (2009), organizational learning teaches that acquisition experience has an important effect on the future acquisition behavior of firms. Haleblan et al. (2006) also argued that organizational learning is critical for the long-run performance of acquiring firms. According to Hayward (2002) and Muehlfeld et al. (2012), organizational learning improves firms' performance in the long run. Finally, Zollo and Singh (2004) argued that the strategic assets are implicit and complex.

According to Suh et al. (2013), (Lane and Lubatkin 2002) and Zhu and Qian (2015), serial acquirers have a better "absorptive capability". They can quickly identify the new knowledge available in target firms, know how to collaborate and work with the target firm's foreign employees, and understand the tactics of operating in a new international market. Hence, prior acquisition experience creates a competitive edge. Haleblan et al. (2006) argue that previous experience enhances the acquiring firm's managerial capabilities, ultimately influencing the firm's operating performance. According to Filatotchev et al. (2009), knowledge learned in the past is vital for successful internationalization (Child and Rodrigues 2005). Serial acquirers avoid repeating past mistakes, while first-time acquirers obviously lack such experience. Second, serial acquirers have a better risk management ability as a result of prior exposure to external risk across borders. French firms face low internal risks and challenges, including political and industry risks. Hence, they will be exposed to high risk across the borders. According to Beamish (1988), serial acquirers better predict external challenges. Therefore, we propose:

**Hypothesis 1.** *Serial acquirers perform better than first-time acquirers in the long run.*

#### 3.2. Industry Relatedness

In the internationalization process, access to external knowledge is the first step in gaining a competitive edge. However, firms often fail to integrate the new knowledge with their existing knowledge. Having the same knowledge base helps firms to integrate new knowledge successfully. Therefore, industry relatedness affects the process of knowledge integration. According to Eesley and Roberts (2006), it is easy for firms to identify new knowledge and integrate it with their existing practices when it is generated in a related industry. Darr and Kurtzberg (2000) obtained the same results. Zollo and Singh (2004) reported that knowledge heterogeneity is a barrier to the integration of firms and synergy creation. The existing knowledge could be more easily combined with the acquired knowledge through acquisitions in the same industry. Firms from emerging economies engage in OFDI to explore the relevant expertise to boost their domestic market. In contrast, firms from developed countries invest in the international market to distribute their products in the target countries using their knowledge. These are called knowledge-seeking merger and acquisitions (Boateng et al. 2008).

'Reverse internationalization' is a newly developed entrepreneurial phenomenon. In 'reverse internationalization', firms use the acquired knowledge to compete in the domestic market (Grizy and Shoham 2014). Market expansion through reverse internationalization is widespread and is mainly witnessed through cross-border M&As. For example, after the acquisition of MG Motors by Volvo, both firms reported record sales in 2015. The increase in sales was reported in the domestic market, not in the countries from which the targets were acquired. Hence, we hypothesize:

**Hypothesis 2.** *Horizontal acquisition has a more positive impact on the performance of acquiring firms.*

### 3.3. Moderating Effect of Institutional Quality

According to [Gonzalez and Chakraborty \(2014\)](#), OFDI deals mainly depend on knowledge transfer. According to [Deng \(2009\)](#) and [Rui and Yip \(2008\)](#), outside M&As become essential when it is not possible to bridge the gap in deficit resources through domestic resources and acquisitions. Firms seek growth and expansion through internationalization. International M&A deals are considered an important tool to acquire resources that are impossible to obtain from the local market ([Nicholson and Salaber 2013](#)). According to [Petersen et al. \(2008\)](#), there are limited opportunities for knowledge exploration in less institutionally developed countries. The fastest way to gain access to valuable knowledge is to acquire a firm from an institutionally developed country. This new knowledge could pertain to new technology, innovation, and advanced processes. Thus, buying a target from institutionally developed countries helps the firm to achieve a better post-acquisition performance in the long run.

Furthermore, a good institutional environment facilitates the integration of firms and hence creates synergy. The serial acquirers who acquire the target from institutionally developed countries help develop firms' ability to identify the worth of the new knowledge available in the target firms. It also enhances the ability to acquire firms that can work together with the foreign employees of the target firms and partners and operate in a new market. It also helps to assimilate the new knowledge gained from target countries with the firm's existing ability to create synergy. Hence, serial cross-border M&As help to obtain a combined competitive advantage from institutionally developed countries. Thus, the proposed hypothesis is as follows:

**Hypothesis 3(A).** *Institutional quality positively impacts the relationship between serial acquisitions and a firm's performance.*

An excellent institutional environment impacts the relationship between acquisition experience and the long-run performance of acquiring firms and moderates the relationship between horizontal mergers and M&A deals and post-merger performance. Horizontal M&A deals facilitate knowledge transfer ([Chang et al. 2012](#)) and the integration of the acquiring and the target firms. However, knowledge transfer is exposed to external risk and uncertainty. According to [Wang et al. \(2012\)](#), underdeveloped host country institutions may provide a risky institutional environment. Hence, low institutional quality affects the organizational learning process, which negatively impacts the post-merger performance. On the other hand, a better institutional environment facilitates the transfer of knowledge and the integration of resources. The newly acquired knowledge is transferred more quickly if the target operates in a related industry within an advanced institutional environment. Hence, the proposed hypothesis is as follows:

**Hypothesis 3(B).** *Institutional quality positively impacts the relationship between horizontal acquisitions and a firm's performance.*

### 3.4. Moderating Effect of Cultural Similarity

Organizational learning plays a crucial role in synergy creation. Effective communication between the acquiring and the acquired overseas firm is essential. This facilitates effective knowledge acquisition, which in turn creates value. [Schweiger and Denisi \(2018\)](#), and ([Schoenberg 2008](#)) argued that effective communication plays a crucial role in performance improvement. This argument is based on psychological and organizational behaviors. [Henderson \(2005\)](#) reported that, for a successful knowledge transfer, effective communication is essential. According to [Dunning and Lundan \(2008\)](#), language is associated with knowledge transfer. In a cross-border M&A, cultural dissimilarities create misunderstandings, confusion, and frustration. Hence, communication becomes ineffective, delaying the learning process ([Buckley et al. 2018](#)). Prior studies by, e.g., [Barner-Rasmussen and Björkman \(2018\)](#), and [Harzing et al. \(2011\)](#), reported that language dissimilarity is a key

barrier to effective communication. It slows down the learning process, and the operating performance of firms deteriorates. The researchers argued that it is essential for MNEs to find an appropriate solution to deal with the language barrier when going international and encountering language dissimilarity.

The language barrier is a serious issue in communication and organizational learning. According to [Joia and Lemos \(2010\)](#), a common language is crucial for tacit knowledge transfer. Therefore, if the deals occur in English-speaking territories, the use of the same language will facilitate the organizational learning process between the acquirer and the target. This significantly reduces the cost and time involved in language training and document translation. Furthermore, effective communication enables serial acquiring firms to learn from mistakes in the organizational learning process, and thus makes future M&A deals more successful. Additionally, by eliminating the language barrier, the post-acquisition integration of firms will create synergy.

**Hypothesis 4(A).** *Cultural similarity positively impacts the relationship between acquisition experience and post-acquisition performance.*

According to [Dunning and Lundan \(2008\)](#), language is essential to obtain a competitive edge. Language dissimilarity increases ambiguity, ultimately leading to a poor performance from MNEs. This, in turn, makes knowledge sharing and information exchange difficult ([Buckley et al. 2014](#)). In horizontal acquisitions, integrating and combining new knowledge with the existing expertise becomes challenging in cases of language dissimilarities. However, if horizontal M&A deals take place in the same language territory, organizational learning and post-acquisition performance are enhanced ([Tihanyi et al. 2005](#)). Another important aspect is that language similarity helps in understanding the company's documents, such as financial reports and product manuals, whereas when there is a language dissimilarity, managerial and technical documents must be translated, which costs money and time. Therefore, a common language facilitates knowledge transfer and resource development, improving the firm's performance. Hence, the proposed hypothesis is as follows:

**Hypothesis 4(B).** *Cultural similarity positively impacts the relationship between horizontal M&A deals and the post-merger performance of acquiring firms.*

## 4. Data and Methodology

### 4.1. Data

Data for acquiring firms in cross-border M&As were derived from the Thomson One Banker database, while the financial data come from the Bloomberg professional database. The Thomson One Banker's database developed by the Thomson Financial Corporation provides comprehensive data on M&A deals worldwide, including detailed information on the date a merger or acquisition deal was announced, the names of both the acquirers and the target firms, etc.

To be included in our analysis, M&A deals should fulfill the following criteria: (1) they must be listed as a completed transaction; (2) financial data must be available for the firms involved in the M&A; (3) the M&A deal announcement date should fall within the study period; (4) the target companies should be based outside mainland French territory. The study period ran from January 2000 until December 2022. The sample consisted of 287 cross-border M&A deals by French acquiring firms over the proposed study period.

### 4.2. Methodology

To examine the performance of firms following cross-border M&A deals, a dynamic panel model was used. A panel design was selected to capture the time-varying influence on performance. The panel data provide a significant degree of freedom. According to [Smith and Hsiao \(2006\)](#), a panel design improves the efficiency of the econometric estimates.

According to [Rothschild and Mueller \(1991\)](#), the regress and and variable should be at least partially determined over time. Hence, a lag in the dependent variable is incorporated in the model. The model is as follows:

$$Y_{it} = \beta_0 + \beta_1 Y_{i,t-1} + \beta_2 X_{it} + \beta_3 (X_{it} * I_{it}) + \beta_4 C_{it} + \varepsilon_{it} \quad (1)$$

where  $Y_{it}$  indicates the post-acquisition performance of firm  $i$  at time  $t$ . The dependent variable is return on assets (ROA). To account for the dynamic effect in performance, we introduced a lag of dependent variable in the model denoted by  $Y_{i,t-1}$ .  $X_{it}$  indicates a vector of explanatory variables, while  $I_{it}$  represents the moderating variables. The term  $\beta_3 (X_{it} * I_{it})$  represents a vector of moderating terms. The term  $C_{it}$  represents a vector of control variables including the firm size, the firm's revenue, the debt-to-equity ratio, the cash holding, and a dummy for the global financial crises of 2008–2009. The term  $\varepsilon_{it}$  indicates the error term.

To estimate the model, a two-step system GMM (generalized method of moments) technique is employed. GMM is the most common and widely used estimation technique to estimate a dynamic panel model. It is superior to the OLS technique and fixed effects model. OLS fails to solve endogeneity, while the fixed effect model is a static panel model estimation technique that fails to capture the dynamic nature of variables. [Arellano and Bover \(1995\)](#) introduced the GMM technique, which is superior and robust, by making the instruments exogenous through differencing. For model validity, two standard tests were applied, i.e., an Arellano and Bond test for second-order autocorrelation and a Sargan test for instrument validity. The failure to reject the null hypotheses supports the model.

## 5. Empirical Results

The results are reported in Tables 1 and 2. The respective tables also report the results of the Sargan test of the instruments' validity and the *A.R.* test for second-order autocorrelation (description of the variable, provided in Appendix A). The results of the Sargan test provide evidence of the instruments' validity, i.e., we failed to reject the null hypothesis. Similarly, the test for second-order autocorrelation also provides support to the model.

**Table 1.** Results of system GMM.

Variables	Model 1	Model 2	Model 3	Model 4
ROA <sub>t-1</sub>	0.213 *** (0.007)	0.213 *** (0.007)	0.214 *** (0.007)	0.234 *** (0.007)
Financial Crisis	−0.012 *** (0.006)	−0.014 *** (0.006)	−0.011 *** (0.007)	−0.019 *** (0.007)
Firm Size	0.073 * (0.065)	0.057 * (0.065)	0.173 * (0.075)	0.330 * (0.066)
Firm Revenue	0.134 *** (0.009)	0.137 *** (0.009)	0.140 *** (0.009)	0.195 ** (0.012)
Cash Holding	0.322 ** (0.020)	0.316 ** (0.020)	0.336 ** (0.021)	0.227 ** (0.029)
D/E Ratio	−0.378 ** (0.040)	−0.374 ** (0.042)	−0.412 ** (0.041)	−0.359 ** (0.047)
Acquisition Experience		0.1411 ** (0.037)		0.148 ** (0.045)
Industry Relatedness			0.256 ** (0.048)	0.245 ** (0.057)
Constant	0.111 ** (0.019)	0.107 ** (0.010)	0.094 ** (0.020)	0.024 ** (0.022)

Table 1. Cont.

Variables	Model 1	Model 2	Model 3	Model 4
First-Order Autocorrelation—AR (1)	0.0003	0.0003	0.0003	0.0012
Second-Order Autocorrelation—AR (2) <sup>a</sup>	0.1315	0.1323	0.1323	0.4978
Sargan Test Statistics <sup>b</sup>	0.1982	0.1751	0.2174	0.2080

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ; Note: The dependent variable is a profitability measure, return on assets (ROA). The reported results were obtained using the two-way system generalized method of moments (GMM) technique. The data period was from 2000 to 2022. Standard errors are reported in parentheses. <sup>a</sup> The null hypothesis is that there is no second-order serial correlation. <sup>b</sup> The null hypothesis is that the instruments used are valid. Note: Language is used as a proxy for cultural similarity.

Table 2. Results of system GMM: moderating effect.

Variables	Model 5	Model 6	Model 7	Model 8
ROA <sub>t-1</sub>	0.219 *** (0.009)	0.309 *** (0.001)	0.315 ** (0.010)	0.311 *** (0.001)
Financial Crisis	−0.015 *** (0.009)	−0.016 *** (0.003)	−0.007 * (0.094)	−0.011 *** (0.003)
Firm Size	0.172 * (0.068)	0.091 ** (0.016)	0.122 ** (0.020)	0.140 ** (0.032)
Firm Revenue	0.210 ** (0.014)	0.058 *** (0.004)	0.071 *** (0.004)	0.079 *** (0.005)
Cash Holding	0.307 ** (0.030)	0.118 ** (0.017)	0.262 ** (0.023)	0.270 ** (0.027)
D/E Ratio	−0.364 ** (0.044)	−0.073 ** (0.011)	−0.039 ** (0.011)	−0.056 *** (0.009)
Acquisition Experience	0.237 ** (0.075)	0.359 ** (0.020)	0.234 ** (0.041)	0.218 ** (0.042)
Industry Relatedness	0.185 * (0.062)	0.050 ** (0.025)	0.024 ** (0.022)	0.027 ** (0.032)
Institutional Quality	−0.110 (0.107)	−0.165 (0.128)	−0.196 (0.119)	−0.167 (0.194)
Cultural Similarity	−0.142 (0.147)	0.157 (0.121)	0.079 (0.126)	0.036 (0.132)
Institutional Quality × Acquisition Experience			0.095 ** (0.021)	0.096 *** (0.001)
Institutional Quality × Industry Relatedness		0.130 ** (0.034)		0.152 ** (0.013)
Cultural Similarity × Acquisition Experience			0.271 ** (0.031)	0.317 *** (0.002)
Cultural Similarity × Industry Relatedness		0.058 *** (0.002)		0.065 *** (0.001)
First-Order Autocorrelation—AR (1)	0.0016	0.0000	0.0000	0.0001
Second-Order Autocorrelation—AR (2) <sup>a</sup>	0.4629	0.0970	0.1080	0.1111
Sargan Test Statistics <sup>b</sup>	0.4411	0.2820	0.7140	0.3030

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ ; Note: The dependent variable is a profitability measure, return on assets (ROA). The reported results were obtained using the two-way system generalized method of moments (GMM) technique. The data period was from 2000 to 2022. Standard errors are reported in parentheses. <sup>a</sup> The null hypothesis is that there is no second-order serial correlation. <sup>b</sup> The null hypothesis is that the instruments used are valid.

In the first step, four models were estimated. As shown in Table 1, model 1 only reports results for the control variables used in this study, while in models 2, 3, and 4,

the results for hypotheses 1 and 2 are reported. The results reported in models 2 and 4 in Table 1 show that the impact of acquisition experience is positive and significant. The reported betas in models 2 and 4 for acquisition experience are  $\beta = 0.141$  and  $\beta = 0.148$ , with  $p < 0.05$ . Hence, the results support hypothesis 1. Similarly, industry relatedness also has a significant positive impact. This means that a firm that acquires targets in the same industry performs better in the long run than one which acquires firms from a different industry. The coefficients reported in models 3 and 4, which are  $\beta = 0.256$  and  $\beta = 0.245$ , respectively, with  $p < 0.05$ , support hypothesis 2, according to which firms perform better in the long run when acquiring firms from the same industry. This is mainly because knowledge sharing is challenging in an unrelated industry.

In Table 2, model 5 shows the direct impact of institutional quality and cultural similarity on a firm's performance. The result shows that the direct impact of the institutional quality and cultural similarity is insignificant. The reported coefficients are  $\beta = -0.110$  and  $\beta = -0.142$ , with  $p > 0.10$ . This indicates that the institutional quality and culture have no direct impact. Models 6 and 7 and 8 show the moderating effect of institutional quality and cultural similarity. The reported coefficient values in models 6 and 8 for the interaction terms of industry relatedness and institutional quality are  $\beta = 0.130$  and  $\beta = 0.152$ , with  $p < 0.05$ , which is positive and highly significant. Similarly, the reported coefficient values for the interaction between acquisition experience and institutional quality in models 7 and 8 are  $\beta = 0.095$  and  $\beta = 0.096$ , with  $p < 0.05$  and  $p$ -value  $< 0.01$ , respectively, which are again positive and highly significant. This indicates that the host country's institutional environment positively impacts the hypothesized relationship. Hence, Hypotheses 3(A) and 3(B) are supported.

Similarly, in Table 3, the results support Hypotheses 4(A) and 4(B). Models 6, 7, and 8 in Table 2 show a positive significant relationship between the interaction term "cultural similarity and acquisition experience" and the post-merger performance, with coefficient values  $\beta = 0.271$  and  $\beta = 0.317$ , with a  $p$ -value  $< 0.05$  and  $p$ -value  $< 0.01$ , respectively. Likewise, there is a statistically significant positive relationship between the moderating term "cultural similarity and industry relatedness" and the post-acquisition performance of the French acquiring firms. The reported coefficient values are  $\beta = 0.058$  and  $\beta = 0.065$ , with a  $p$ -value  $< 0.01$ , which is highly significant in both models. Hence, the results support Hypothesis 4(A) that the positive effect of acquisition is stronger for acquisitions in the same cultural territory. Hypothesis 4(B) states that the cultural similarity positively moderates the relationship between industry relatedness and the post-merger performance of acquiring firms in the French context, which is also supported by the results.

**Table 3.** Signs that the hypotheses are fulfilled.

Hypotheses	Expected Sign	Supported/Not Supported
H1: Acquisition Experience	+ve	Supported
H2: Industry Relatedness	+ve	Supported
H3(A): Institutional Quality $\times$ Acquisition Experience	+ve	Supported
H3(B): Institutional Quality $\times$ Industry Relatedness	+ve	Supported
H4(A): Cultural Similarity $\times$ Acquisition Experience	+ve	Supported
H4(B): Cultural Similarity $\times$ Industry Relatedness	+ve	Supported

## 6. Discussion

This study investigates the impact of cross-border M&As on the performance of acquiring firms in the long run. The findings indicate that, following cross-border M&A deals, serial acquirers perform better in the long run i.e., the acquisition experience tends to improve the operating performance of acquiring firms. The positive impact of acquisition experience is based on organizational learning theory. Hence, it is evident that the experience and knowledge gained from prior acquisition experience are important in dealing with the risks and threats associated with cross-border M&A deals, which improves the post-acquisition performance of firms. Similarly, we examined the influence of industry on

a firm's performance following M&A deals. The result shows that horizontal deals have a significant positive impact on the post-merger performance of firms. We also examined the moderating effect of institution quality and cultural similarity on firms' performance, which was also found to be positive and significant.

## 7. Conclusions

This study analyzed the post-acquisition performance of 287 French acquiring firms over the period from January 2000 to December 2022. The theoretical framework of the study is based on organizational learning theory and an institutional-based view. A GMM technique was used to examine the phenomenon. After GMM, two validity tests were used: the Sargan test to test the instruments' validity and the Arellano and Bond test for second-order autocorrelation. The results of the Sargan test provide no evidence of instruments' invalidity, i.e., we failed to reject the null hypothesis that the instruments are not valid. Additionally, the test statistics for second-order autocorrelation provided no evidence of second-order autocorrelation in the model. The findings indicate that both acquisition experience and industry relatedness have a positive impact on firms' performance following OFDI deals. Therefore, Hypotheses 1 and 2 are both supported. Acquisition experience is significant as firms learn and avoid mistakes made in the past. Similarly, the results also support Hypotheses 3(A), 3(B) and Hypotheses 4(A), 4(B).

The results of this study are well aligned with other studies, e.g., (Cui and Leung 2020; Haiyue and Manzoor 2019; Carline et al. 2009; Powell and Stark 2005). Cui and Leung (2020) reported that the positive impact of M&As on a firm's performance is more pronounced when acquirers and target firms operate in the same industry. Haiyue and Manzoor (2019) reported that outward direct foreign investment boosts the firm's performance. Similarly, Carline et al. (2009) argued that the host country's institutional quality plays a key role in determining the firm's performance. Powell and Stark (2005) also reported that cross-border M&As result in a performance improvement and industry relatedness has a positive impact on the post-merger performance of firms.

## 8. Study Limitations and Future Research Directions

This study has some limitations, which provide future research directions. The first drawback is that the study only focuses on French acquiring firms. Hence, the findings may only be directly applied to the French context. Future studies should extend this data set to other countries, including countries from the EU and emerging markets to make the results more universal. The second drawback is that only listed firms were studied due to the unavailability of data. To obtain more precise and accurate insights, future research should consider non-listed acquiring firms along with listed firms. Further, this study investigated the impact of some important country- and industry-level factors; however, other factors, like the shareholder's characteristics, management practices, exchange rates, and the economic conditions of the home and host country, also affect the performance of firms following M&A deals. Similarly, investigating the impact of cross-border M&As on CSR activities and the impact of board characteristics on a firm's performance following cross-border M&As is also important. This presents a helpful insight and options for future research.

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## Appendix A

**Table A1.** Description of variables.

Variable Name	Description/Definition
Return-on-Assets (ROA)	Earnings before interest and taxes (EBIT) divided by the amount of total firm assets.
Acquisition Experience (AE)	Dummy variable, coded as 1 for firms with more than one acquisitions in the past five years and 0 otherwise.
Industry Relatedness (IR)	Dummy variable, coded as 1 for an MA in the same industry and 0 otherwise.
Institutional Quality (IQ)	Compiled by Kaufman et al. 2010. Values range from $-2.5$ to $+2.5$ . High values indicate higher institutional quality.
Language (L)	A dummy variable will be created, coded as 1 for MAs taking place in the same language territory and 0 otherwise.
Financial Crises (FC)	A dummy for the global financial crises of 2008–2009.
Firm size (FS)	Firm size is used as a proxy of the firm's resources and capabilities, measured by the natural logarithm of the total firm assets.
Debt-to-Equity Ratio (DE)	A measure used for firm financial health, indicating the relative proportion of equity and debt used to finance a company asset.
Cash Holding (CH)	The ratio of a company's total cash or cash equivalents to its current liabilities.
Firm Revenue (FR)	The percent increase or decrease in a company's revenue over a period.

**Table A2.** Description of statistics.

Variable	Mean	Standard Deviation	Minimum	Maximum
ROA	2.968	12.853	$-78.661$	80.301
Firm Size	82.540	116.525	0.001	901.552
Firm Revenue	10.982	43.922	$-99.752$	615.453
Cash Holding	0.802	2.054	0.002	36.878
Debt-to-Equity Ratio	82.5399	116.525	0.001	901.5515

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