Defying Gravity:
The Role of Intermediaries for Cross-Border Mergers and Acquisitions

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Cross-border mergers and acquisitions (M&A) are key components of foreign direct investment (FDI). Their share is higher than that of Greenfield investments in developed countries (UNCTAD, 2019). Empirical studies on the determinants of cross-border M&As have shown that M&A flows across countries follow a gravity equation (Ahern et al., 2015; di Giovanni, 2005; Head and Ries, 2008; Hijzen et al., 2008; Huizinga and Voget, 2009; Mariscal, 2021; Wong, 2008). Thus, we use gravity models to empirically examine the role of M&A advisers in cross-border M&As, which has not been the focus of existing research.

To investigate the role of intermediaries, we add the number of M&A advisers involved in actual M&A deals retrieved from the M&A database at the transaction level, controlling for the standard covariates of the gravity model. We find that the number of M&A advisers has a positive impact on M&A inflows and outflows. Additionally, the impact of geographical and economic distances is significantly weak with M&A advisers. These results are consistent with the view that M&A advisers act as information intermediaries to facilitate M&As. They help firms overcome information or language barriers when dealing with remote trading partners.

Further, we investigate the effect of M&A advisers on the intensive margin (i.e., the average value per deal) and the extensive margin (i.e., the number of deals). The positive effect of M&A advisers is particularly noticeable for the intensive margins. Finally, we examine the heterogeneity of the roles of M&A advisers in three dimensions. First, we examine if and how the impacts of advisers differ between domestic and cross-border deals. Second, we study the dependence of their impacts on the level of financial development. Finally, we study the difference in their impacts on inward and outward M&A flows. The effects of M&A advisers are more pronounced for cross-border deals than for domestic deals. Furthermore, we find that the effects of M&A advisers are asymmetric: M&A advisers working for bidder firms substitute for the level of financial development in source countries (i.e., for outward M&A), while those working for target firms complement the level of financial development in destination countries (i.e., for inward M&A).