

The Effect of Corporate Investment Capacity on Cross-Border M&As

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Abstract

This paper examines the role of US acquiring firms' corporate investment capacity in the performance of their cross-border mergers and acquisitions (CBM&As). We document the importance of heterogeneity in acquirers' investment capacity in explaining the variation in CBM&A abnormal returns. Using different measures of acquirer investment capacity, we find the results remain qualitatively unchanged. Acquirers endowed with high corporate investment capacity realize significantly larger shareholder gains than deals carried out by acquirers with low investment capacity, especially in stock-financed deals. Using a qualitative comparative analysis methodology, we further find acquirers with high investment capacity exhibit a strong preference for foreign targets with a high level of intangible assets and low acquisition costs. US acquirers of low investment capacity, however, do not appear to have clear strategies when acquiring foreign targets.

JEL classification: G15; G31; G34

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1. INTRODUCTION

Mergers and acquisitions (M&As) have become an indispensable managerial strategy for both domestic and multinational companies and play an essential role in foreign direct investment (FDI) and financial globalization. The total global volume of M&As has surged from around \$1.4 trillion in 2009 to around \$3.3 trillion in 2018. Meanwhile, of all the M&A deals in 2018, around half are cross-border M&As (CBM&As).

A CBM&A is a vital decision of a series of a company's strategic considerations, including finance, strategic management, accounting, and international marketing. The main motivation of a CBM&A is to create value for the acquiring firm through the acquisition of foreign targets. For example, the acquisition of a foreign firm allows the acquirer to enter a foreign market quickly and gain access to a larger customer base. Thus, the company will benefit from international diversification by differentiating its revenue streams and expanding its multinational network (Frésard, Hege, & Phillips 2017; Kogut, 1983). Besides entry to a new market, CBM&As can help firms to improve production efficiency by accessing advanced technologies and superior human capital skills. Additionally, acquirers can also gain sizable benefits by arbitraging institutional regulations, such as domestic and foreign taxation differences (Huizinga & Voget, 2009). A firm's CBM&A announcement could thus be viewed favorably by investors if it is perceived as a signal that allows for the firm's exploitation of unique international benefits.

However, not all CBM&As turn out to be beneficial, since the acquisition of a foreign firm is associated with much higher risk, compared to domestic M&As. Specifically, CBM&As are bounded by much larger information asymmetries between acquirers and targets due to political, regulatory, accounting, and even cultural differences, making it hard for acquiring companies to obtain accurate and reliable information about targets. This argument is further supported by previous empirical findings, which document no significant excess returns for acquirers' stock around CBM&A announcement days. For instance, Doukas and Travlos (1988) find that acquirers experience significant positive abnormal returns upon the announcement of international expansion through M&As only if they enter the target

country for the first time. Other than that, the overall performance of US acquirers' CBM&As yields nonsignificant abnormal returns. Fatemi (1984) shows no statistical difference in performance between international and domestic M&As, regardless of the market index used to evaluate the performance. Brewer (1981) shows the same pattern. Rostand (1994) shows that the failure rate of cross-border acquisitions is around 45%. In addition, studying 112 CBM&As carried out by US firms from 1978 to 1990, Datta and Puia (1995) find that cross-border acquisitions, on average, do not increase the value of acquiring companies. In sum, the literature does not offer strong evidence in support of the view that CBM&As create shareholder wealth.

Numerous researchers have tried to identify the characteristics that explain the final performance of a firm's decision to enter a foreign market via an M&A. Previous research highlights the role of differences in political and regulatory factors (Alimov, 2015; Bris & Cabolis, 2008; Chari, Ouimet, & Tesar, 2010; Dessaint, Golubov, & Volpin, 2017; Karolyi & Taboada, 2015; Lel & Miller, 2015; Martynova & Renneboog, 2008; Rossi & Volpin, 2004), culture and geographical distance (Ahern, Daminelli, & Fracassi, 2015; Dinc & Erel, 2013), valuation and equity market structure (Di Giovanni, 2005; Erel, Liao, & Weisbach, 2012; Ferreira, Massa, & Matos, 2010), and international tax effects (Huizinga & Voget, 2009). Furthermore, stock excess return differences among CBM&A acquirers can also be explained by the overpricing of the acquiring firm or the underpricing of the target firm (Shleifer & Vishny, 2003). However, in view of all these studies, none of them has taken corporate investment capacity into consideration. This is surprising, given that CBM&As represent one of the most critical investment decisions acquirers make, with profound effects on firm value. Given the prevalence of CBM&As, and their mixed firm outcomes, in this paper we examine the effect of US acquiring firms' corporate investment capacity on the performance of their CBM&As. Our evidence documents that the variation observed in CBM&A abnormal returns is attributed to the heterogeneity of acquirers' managerial investment capacity.

Our conceptual framework on the view of CBM&A decisions is that they can have different effects on shareholder wealth and acquirers' future performance. On the one hand, corporate diversification through CBM&As could reduce firm risk by generating higher and less volatile cash flows; on the other hand, CBM&As could be a waste of scarce corporate resources, resulting in shareholder and firm value losses. In this paper, we conjecture that acquirers with superior corporate investment capacity are more likely to generate higher shareholder value from CBM&As than low-investment capacity acquirers are, for the following major reasons. First, advanced investment skill can help acquiring companies to identify profitable international targets, especially when acquirers and targets share country-level differences, such as cultural, geographic, political, or regulatory ones. In other words, all these factors can influence the outcome of cross-border deals, and, thus, the superior investment capacity of acquiring firms should lead to better merger outcomes by engaging in value-enhancing deals. Second, firms of high investment skill can assess the value of foreign targets more accurately under the massive information asymmetry in accounting and finance, particularly when the target holds a large portion of intangible assets (e.g., patents, trademarks, and copyrights). Last, carrying out an international acquisition requires comprehensive planning, detail-oriented negotiation, and efficient execution processes, which are much more complicated in comparison to domestic M&As. Hence, the bidder's ability, particularly when investing in new projects, should be extremely important in cross-border acquisitions and should play a central role in the outcomes of CBM&A deals.

In sum, the corporate investment capacity of acquiring firms should be a much more prominent factor in determining the outcomes of CBM&As, than in domestic deals, since CBM&As are associated with more frictions that can impede mergers (Erel, Liao, & Weisbach, 2012). Surprisingly, previous studies, when explaining the variation in acquirer abnormal returns, consider acquirers' investment talent to be homogeneous, which is in sharp contrast with recent advances in the corporate finance literature that links corporate outcomes to managerial traits (attributes). That is, unlike the present study, in previous studies, the variation in abnormal acquisition returns is not linked to the heterogeneity of corporate

investment capacity of acquiring firms. On the other hand, the growing body of research in corporate management ability indicates that firms under the helm of top executives with person-specific differences in their abilities (i.e., management styles) exhibit different abilities, which can explain a large amount of variation in firms' financial leverage, investment decisions, operating profitability (Bennedsen, Pérez-González, & Wolfenzon, 2020; Bertrand & Schoar, 2003), and exposure to both idiosyncratic and systematic risk (Bushman, Dai, & Wang, 2010; Schoar, Yeung, & Zuo, 2020). Therefore, firms' heterogeneity in management abilities, especially investment talents, should explain a substantial fraction of the variation in cross-border investment outcomes. The objective of this study is to investigate whether the heterogeneity of acquirers' investment capacity can explain the cross-sectional variation of CBM&A outcomes and, if so, whether acquirers of superior investment capacity attributes create more value for their equity holders through acquisitions across national boundaries.

To address these issues, we estimate a firm's corporate investment capacity using three different measures. First, we use investment efficiency (*INVEFF*) as the major proxy of a firm's investment talent, following Biddle and Hilary (2006), Biddle, Hilary, and Verdi (2009), Cheng, Dhaliwal, and Zhang (2013), and Hubbard (1998), focusing on investments such as capital expenditures and research and development (R&D) expenses. Second, since a company's financial flexibility enables it to undertake valuable investment opportunities in the future, those of high investment skill prefer a conservative leverage policy to maintain their borrowing power in anticipation of future investment opportunities (Marchica & Mura, 2010; Modigliani & Miller, 1963). Therefore, following Marchica and Mura (2010), we identify firms of high financial flexibility based on their estimated negative deviations from their predicted financial leverage for a minimum of three consecutive years, denoted *FinFlex3*, as the second measure of a firm's corporate investment capacity. Similarly, Denis and Sibilkov (2010) argue that companies can achieve financial flexibility by maintaining high levels of cash holdings. Thus, we use a company's industry-adjusted level of cash holdings, denoted *Cash Holdings*, as the last measure of corporate investment capacity.

The purpose of this paper is to investigate whether the variation in CBM&A abnormal returns can be attributed to the heterogeneity in companies' investment talent (capacity), which can be managed and improved, rather than on a number of previously addressed factors related to country-level or governance-based differences between the host and target countries. To conduct this investigation, we focus on CBM&As consummated by US public acquiring companies, while controlling for several firm, industry, and deal characteristics and accounting for industry, year, and target country fixed effects. For the main univariate and multivariate analysis, we end up with 2,391 successfully completed CBM&A events announced by US firms to acquire foreign targets between January 1, 1995 and December 31, 2017, as recorded by Thomson One's Security Data Corporation (SDC).

This research documents a significant positive relation between acquirer firm's corporate investment capacity and acquirer abnormal returns around M&A announcements across all different investment capacity measures used. Specifically, our univariate comparison results show that the average outcome of high-investment capacity US firms' international acquisitions, measured by cumulative abnormal returns (CARs) during the announcement period ($t - 2, t + 2$), is significantly higher than the outcome of low-investment capacity US acquirers. The results in the following ordinary least squares regression analysis reinforce this finding. Furthermore, the regression analysis results indicate that the M&A announcement excess returns of acquirers of exceptional investment capacity are embedded in the method of payment and the acquisition style. Using all three investment capacity measures, we show that, on average, acquirers are associated with negative abnormal returns in stock-financed deals. However, stock-financed CBM&A deals, completed by companies endowed with a high corporate investment capacity, produce significantly higher shareholder gains than the deals of companies of low-investment ability. Moreover, using investment efficiency and financial flexibility measures, we also find that acquirers with high investment talent do significantly better when acquiring foreign targets operating in the same industry (i.e., focused deals). Additionally, the positive association between acquirers' cash holdings and the outcomes of CBM&A deals documented in this research indicates that firms with large

cash holdings can create value through CBM&A deals. This is in contrast with the empirical findings of the previous literature in domestic acquisitions (Harford, 1999), which shows that cash-rich acquiring firms destroy shareholder value.

Last, we employ a qualitative comparative analysis (QCA) methodology to investigate what target characteristics attract skilled and unskilled US acquirers. QCA is a method that bridges qualitative and quantitative analysis, and it has been widely used in the management and international business literature (e.g., Bell, Filatotchev, & Aguilera, 2014; Fiss, 2007; Garcia-Castro & Francoeur, 2014; Greckhamer, Misangyi, Elms, & Lacey, 2008; Misangyi & Acharya, 2014). This method is based on the key assumption that change is often the result of different combinations of factors, rather than any one individual factor, and that different combinations of factors can produce similar changes. In our context, unlike previous studies, the QCA methodology permits us to shed light on the different target attributes acquirers focus on that lead to different post-acquisition firm outcomes for high- and low-investment capacity acquirers.

There are two major advantages to using QCA in this research. First, conventional regression methods explain the variation of a dependent variable based on the combination of all independent variables' linear and net effects, which offers an outcome explanation based on an independent variable (single path), but fails to account for the possibility that multiple distinct paths could lead to the same outcome. On the other hand, QCA tests the consistency and predictability of all possible strategies, which can include only one or several independent variables. In turn, QCA allows us to identify whether the different acquisition outcomes realized by high- and low-investment capacity acquirers are attributed to one or more target characteristics (factors). Inspired by the empirical research of Masulis and Simsir (2018)—who document that target characteristics such as financial constraints, leverage, and operating profitability are important motives in target-initiated deals and significantly affect the outcome of domestic acquisitions—we first involve four major public target characteristics we believe can influence the outcome of CBM&As: operating profitability (measured by the return on equity), financial strength

(measured by Altman's Z-score or the one-year default probability), the liquidity state (measured by the cash ratio or the current ratio), and financial leverage (measured by the target company's equity multiplier prior to the M&A announcement year). Additionally, since one of the major CBM&A motivations is to improve production efficiency by accessing advanced technologies and superior human capital skills, we include the target's level of intangible assets (measured by total intangible assets divided by total assets) as the fifth CBM&A decision-making factor.

Second, QCA methodology is based on both qualitative (i.e., in-depth case study) and quantitative analytic characteristics, which enables us to address important business decisions without requiring considerable sample sizes. This methodology was originally designed to address business issues relying on small and intermediate-size datasets and is thus an ideal research procedure when there are too few cases for conventional regression analysis. This QCA methodological feature fits our CBM&A sample size, which consists of 348 public foreign targets.ⁱ

Our QCA analysis contains two disparate parts that consist of (i) the necessary analysis and (ii) truth table analysis. The necessary analysis is used to determine if any of the five target characteristics are necessary to attract the attention of US acquirers of high and low investment capacity. A consistency score of 0.90 or higher suggests a significant necessary relation between the factor and the outcome (Schneider & Wagemann, 2013). The results demonstrate that high-investment capacity acquirers always consider the liquidity state of foreign targets when considering CBM&As, whereas no target factor is considered necessary in CBM&As completed by low-investment capacity acquirers—although the highest consistency score is also associated with target liquidity, this target factor is not significant. In the truth table analysis, we first convert the qualitative data for each target characteristic in each case into a score that is either zero or one, where one denotes presence and zero absence (also called a crisp-set QCA). Next, we analyze the relation between each target characteristic's presence or absence and the outcomes by setting two outcomes in this analysis: *acquired by high-investment capacity US acquirers* and *acquired by low-investment capacity US acquirers*. The results of the truth table analysis reveal five

different significant target firm characteristic configurations that attract the attention of high–investment capacity US acquirers, but only one that is favored by low–investment capacity US acquirers.

Briefly, the results of the QCA analysis suggest that high–investment capacity US acquirers strongly prefer foreign targets endowed with a high level of intangible assets and/or low acquisition costs. They also consider other target characteristics, such as operating performance, liquidity position, and financial strength, to enhance their bargaining power and decrease the acquisition risk. On the other hand, our results point out that US low–investment capacity acquirers consider foreign firms to be likely targets if they have low operating performance, low intangible assets, low financial strength (high bankruptcy risk), and low financial leverage. This combination of target characteristics leads to acquisitions that destroy shareholder value. However, the solution coverage and solution consistency are very low, indicating that this strategy can only explain a small portion of US low–investment capacity acquirers’ CBM&A activities. This finding suggests that US low–investment capacity acquirers do not have clear or consistent strategies when engaging in foreign target acquisitions.

This paper contributes to the rapidly growing CBM&A literature in several ways. First, unlike previous research in CBM&A activities, which mainly focuses on the influence of country-level, culture-level, and governance-level differences between acquirers and targets on acquiring firm value, we show that CBM&A activity is also affected by the acquirer’s investment capacity. Specifically, the empirical results of our research demonstrate that US acquirers with high corporate investment capacity are associated with significantly higher abnormal returns around CBM&A announcements. This finding is consistent across the use of different measures of corporate investment capacity. Second, employing the QCA method, this paper is the first to pinpoint the different major strategies used by high– and low–corporate investment capacity US acquirers when acquiring foreign targets. Our results demonstrate that high–investment skill US acquirers are attracted to foreign targets with high levels of intangible assets and/or high leverage. This finding is consistent with the work of Alimov and Officer (2017), who find evidence that, during international M&As, acquiring companies are willing to buy foreign targets to gain

ownership of their intellectual property (intangible assets, e.g., trademarks, trade secrets, patentable processes or products).

The remainder of the paper proceeds as follows. Section 2 describes the methodology and data selection. Section 3 presents the results. Section 4 concludes the paper.

2. DATA AND METHODOLOGY

In this section, we first describe the three methods used to measure US acquiring firms' corporate investment capacity and the analysis procedures. Then we explain the data selection process used to collect our CBM&A dataset.

2.1 Corporate Investment Capacity Measures

2.1.1 Investment efficiency (INVEFF). Our first and main measure of acquirer firms' corporate investment capacity is investment efficiency, following Biddle et al. (2009) and Richardson (2006). The focus of this measure is on the firm's investment activities, such as capital expenditures and R&D expenses. To efficiently utilize the firm's resources to generate revenue, a high-investment capacity company's investments should be close to expected levels. Specifically, we first estimate the firm's growth opportunities, Q_i , following a model motivated by the literature on optimal investment (e.g., Biddle & Hilary, 2006; Biddle et al., 2009; Cheng et al., 2013; Hubbard, 1997; McNichols & Stubben, 2008). Then, we calculate the divergence of the firm's actual investment from the expected level, given growth opportunities, using the following equation:

$$INV_{it} = \beta_0 + \beta_1 Q_{i,t-1} + FE + \varepsilon_i \quad ((1))$$

where INV_{it} is the sum of capital expenditures, R&D expenses, and acquisitions, minus the sales of property, plant, and equipment and necessary maintenance for assets in place, scaled by the company's book value of total assets the prior year; Q_i is measured as the book value of total assets minus the book value of equity plus the market value of equity, divided by the book value of total assets the prior year; and FE comprises industry and year fixed effects. Thus, the absolute value of the residual from the above regression (investment inefficiency) captures the divergence of the firm's actual investment from the

expected investment level. We then create the dummy variable, *INVEFF*, to identify acquirers of high and low investment capacity. Specifically, if the acquirer’s investment inefficiency is lower (higher) than the median of all acquirers in the same year, the value of the dummy variable will be set to one (zero), which indicates that the acquirer possesses a high (low) corporate investment capacity.

2.1.2 *Financial flexibility (FinFlex3)*. Financial flexibility is used as the second measure of corporate investment capacity. However, there is no direct way to measure a company’s financial flexibility, which depends mainly on top managers’ expectations of the company’s future operations. Therefore, we follow Marchica and Mura (2010) and use an indirect measure to capture financial flexibility, which is the deviation of a firm’s real leverage from its predicted target leverage.

First, along with the baseline model of Frank and Goyal (2009), we run the following GMM model:

$$Leverage_{it} = \beta_1Leverage_{it-1} + \beta_2Industry\ Leverage_t + \beta_3MB_t + \beta_4Size_t + \beta_5Tangibility_t + \beta_6Expected\ Inflation_t + FE + \varepsilon_{it} \quad (2)$$

where *Leverage_{it}* is the ratio of total debt to total equity of firm *i* in year *t*; *Industry Leverage_{it}* is the industry average debt ratio; *MB_{it}* is the market-to-book ratio of firm *i* in year *t*; *Size_{it}* is the natural logarithm of the firm’s total assets (in millions of US dollars); *Tangibility_{it}* is measured as the ratio of tangible fixed assets to total assets; and *Expected Inflation_t* is estimated using the Treasury bill rate. We also include both company and year fixed effects in the regression.

Next, we calculate the deviation between the actual firm leverage and its predicted leverage from equation (2). If the firm’s real leverage is less than 90% of its predicted value for a minimum of three consecutive years, we classify this firm as a high–financial flexibility firm. As noted by Marchica and Mura (2010), the minimum of three years of a continuous time window ensures that high financial flexibility is indeed the company’s management decision. Last, we create a dummy variable, *FinFlex3*, which equals one if the acquirer is identified as a high–financial flexibility company one year before the CBM&A announcement year, and zero otherwise.

2.1.3 Cash holdings. The last measure of acquirer investment capacity we use is the firm's industry-adjusted cash holdings level. As argued by Denis and Sibilkov (2010), companies can achieve financial flexibility by maintaining a high cash holdings level. A high cash holdings level is a firm's strategy for handling high external financing costs, especially constrained firms, and companies with high cash holdings are more likely to invest. Thus, cash holdings are associated with a firm's investment ability, since they allows firms to undertake value-increasing projects that might otherwise be bypassed because of limited capital resources. We create a dummy variable, *Cash Holdings*, to identify acquirers with a high (low) investment capacity based on the firm's cash holdings level one year before the CBM&A announcement, and it takes the value of one (zero) if the acquirer's cash holdings level is above (below) the median of all firms within the same industry.

2.2 Data Selection

Our initial sample of CBM&As by US public acquirers with a successfully completed deal status between January 1, 1995, and December 31, 2017, is obtained from the Thomson One's SDC. Our sample also satisfies the following requirements: (a) the acquirer must have at least \$1 million in market capitalization prior to the announcement; (b) the target must be from a non-US country, with either a public, private, or subsidiary listing; (c) the deal size is over \$1 million, and the acquirer must own at least 50% of the target firm's share after the acquisition; and (d) the deal's payment method must be available from the SDC database. Additionally, we exclude deals involving either acquirer or target firms belonging to the financial or utility sectors and deals carried out by acquirers announcing other M&A deals within a three-day time window. We then merge the dataset with the Center for Research in Security Prices and Compustat databases to obtain firm-level variables, and we delete observations missing data. Finally, we end up with 2,391 CBM&A events with target companies from 35 non-US countries.

(Table 1 goes about here)

Table 1 present a comparison of our CBM&A sample and all the M&As (domestic and international) conducted by US acquirers year by year, from 1995 to 2017. Our sample includes 18,717

completed M&A deals conducted by US public acquirers, with a total disclosed transaction value of \$9.78 billion. Of these deals, 2,391 are cross-border deals, representing 12.8% of the total number of deals and a total deal value of \$861.63 million. This result is highly consistent with the work of Moeller and Schlingemann (2005), who find 12.12% of their sampled deals involve foreign target firms. Interestingly, our CBM&A sample set presents the same tendency as domestic M&As during the 1993–2000 merger wave, after the dot-com bubble (2001–2003), and during the period of the 2008 financial crisis. Additionally, the average CAR over the five-day window ($t - 2$ to $t + 2$) for all CBM&As is 1.07%, while the average corresponding figure for all domestic deals is 1.41%.

(Table 2 goes about here)

Table 2 reports the annual distribution of CBM&As in our sample according to several deal and firm characteristics. The table also shows the number of cross-border acquisitions based on high–investment capacity acquirers, which are identified by investment efficiency (*INVEFF*), financial flexibility (*FinFlex3*), and cash holdings (*Cash Holdings*) measures, respectively. Specifically, we observe that high–corporate investment capacity acquirers conducted 916 CBM&A deals based on the *INVEFF* measure, 409 deals based on the financial flexibility measure, and 990 deals based on the cash holdings measure. While the first and third measures of corporate investment capacity are quite similar, the cash holdings measure is less than half the other two measures. The reason for this difference is that, as noted in Section 2.1.2, we classify a company as a high–financial flexibility company only if its real leverage is less than 90% of the predicted value for a minimum of three consecutive years, a much longer time window than the other two measures.

3. RESULTS

This section starts with a discussion of the univariate comparison analysis and multivariate regression analysis results involving different measures of corporate investment capacity. Then, we investigate what target characteristics attract skilled US acquirers, using the QCA methodology, which

allows us to identify and discuss the different CBM&A strategies used by high- and low-investment capacity acquirers.

3.1 Univariate Comparison: Corporate Investment Capacity and Acquirer Alpha

We first estimate the CBM&A performance differences between high- and low-investment capacity acquirers to examine whether acquirer investment capacity is associated with value-increasing acquisitions. To do so, we sort all acquirers into high- and low-investment ability groups based on different measures of corporate investment capacity estimated the year before the CBM&A announcement. We then calculate the acquirer's five-day abnormal returns—namely, the CAR for the announcement period ($t - 2, t + 2$)—around the announcement day for each group. The differences between the high- and low-investment capacity groups reveal the market's perception of acquirers' investment skills in response to the CBM&A announcements. Based on our hypothesis, CBM&As carried out by acquirers with a high investment capacity should realize significantly higher abnormal returns than low-skilled acquirers. The statistical difference in abnormal returns between high- and low investment capacity acquirer groups is tested using t -tests for the equality of means. We present the results in Table 3.

(Table 3 goes about here)

The results, based on all three different acquirer investment capacity measures, show that the five-day CARs around the CBM&A announcement day for high-investment capacity acquirers is significantly higher than for low-investment capacity acquirers. Specifically, using the *INVEFF* investment efficiency measure, we find that all CBM&A acquirers realize an average CAR of 0.94% around the CBM&A announcement. The high-investment capacity group of acquirers experiences a CAR of 1.32%, while the low-investment capacity group shows an average gain of 0.49%. The difference between the high- and low-investment capacity acquirers is 0.83%, with a t -value of 1.78. Using financial flexibility and cash holdings as alternative investment capacity measures provides additional evidence in support of our conjecture, showing significant average CAR differences of 0.21% (t -value = 2.34) and 0.98% (t -value = 2.28) between high- and low-investment skill acquirer groups, respectively.

In sum, the univariate comparison analysis demonstrates that acquirers with a high corporate investment capacity engage in value-added CBM&As, as indicated by the positive and significant response of investors to CBM&A acquisition decisions. This pattern of positive (negative) market reactions to CBM&A acquisition decisions carried out by high–investment capacity (low–investment capacity) acquirers is consistent with our hypothesis that corporate investment capacity has a positive (negative) and significant effect on investors’ perception about the future prospects of CBM&A acquisitions.

3.2 Multivariate Analysis: Corporate Investment Capacity and Acquirer Alpha

Next, we use multivariate analysis to investigate the relation between corporate investment capacity and CBM&A abnormal returns, controlling for deal- and firm-level variables and industry, year, and country fixed effects.

3.2.1 Corporate investment capacity estimated with investment efficiency (INVEFF). First, we assess the effect of acquirers’ investment capacity, using the *INVEFF* measure, on abnormal announcement returns. We report the results in Table 4. The results in regression [1], consistent with the univariate comparison results, show a significantly positive relation between acquirer investment ability and CBM&A announcement period abnormal returns, suggesting that investors endorse CBM&As announced by acquirers with high investment skills as value–increasing investments. Additionally, the positive and significant coefficients of the interaction variable *Stock*INVEFF* in regressions [2], [5], and [6] reveal that, even though stock-financed deals have a negative effect on performance, high–investment capacity acquirers realize better abnormal returns in stock-financed acquisitions than low–investment capacity acquirers. Meanwhile, as shown in regressions [4] to [6], the coefficients of the interaction variable *Focused*INVEFF* are positive and significant, indicating that focused deals are viewed by investors as superior deals when carried out by a high– rather than a low–investment capacity acquirer. Overall, the results in Table 4 corroborate our univariate comparison results, that CBM&As announced by skilled acquirers are viewed by the market as significantly more value increasing than those announced by unskilled acquirers.

(Table 4 goes about here)

3.2.2 Corporate investment capacity estimated with financial flexibility (FinFlex3). Next, we use financial flexibility as an alternative measure of corporate investment capacity. We report the results in Table 5. These regression results are highly consistent with the previous results. Overall, this analysis provides additional support for the argument that acquirers of high investment capacity engage in value-added CBM&As, especially in stock-financed and/or focused deals.

(Table 5 goes about here)

3.2.3 Corporate investment capacity estimated with cash holdings. Last, we use the level of cash holdings, *Cash Holdings*, as our third measure of firm corporate investment capacity. We report the results in Table 6. Even though cash holdings are also positively associated with CBM&A abnormal returns (0.01, t -value = 1.76), as shown in regression [1], the relation is less significant in comparison to that with the other two measures of a firm's corporate investment capacity (t -value = 2.14 for the investment efficiency measure and t -value = 3.75 for the financial flexibility measure). The reason is that, along with the benefits of holding more cash, high levels of cash tend to raise agency costs due to conflicts of interest between equity holders and managers (Jensen, 1986; Jensen & Meckling, 1976). Thus, extra cash could be abused by managers (Easterbrook, 1984) to make investments that will not be beneficial to shareholders (Harford, 1999). However, our result shows that, in CBM&A deals, the benefits of holding a high level of cash surpasses the drawbacks of agency costs. In addition, in regressions [2], [5], and [6], the results show the same pattern as the other two measures of corporate investment capacity, where high-investment capacity acquiring firms generate higher profits in stock-financed cross-border acquisitions. On the contrary, using cash holdings as a measure of investment skill, we do not find significant results. The evidence points out that skilled acquirers do better when acquiring foreign firms in the same industry.

(Table 6 goes about here)

3.3 Acquirer Corporate Investment Capacity and Target Characteristics

3.3.1 QCA: corporate investment capacity and target characteristics. The second research question we address in this study is what foreign target characteristics attract high- and low-investment capacity US acquirers. In other words, having documented that a high corporate investment capacity is positively linked with bidders' abnormal announcement gains, we want to examine whether these gains are associated with specific target attributes on which acquirers are likely to focus as part of their CBM&A strategy. Moreover, we are interested in shedding light on whether high- and low-investment capacity acquirers focus on different target attributes that can explain the different acquisition outcomes between the two groups of acquirers. To address these questions, we focus on five major characteristics of foreign targets: operating profitability (measured by the return on equity), financial strength (measured by Altman's Z-score or the one-year default probability), the liquidity situation (measured by the cash ratio or the current ratio), financial leverage (measured by the target company's equity multiplier prior to the M&A announcement year), and the level of intangible assets (measured by total intangible assets divided by total assets). We choose the first four, following the research design of Masulis and Simsir (2018), who document that target characteristics are important motives of target-initiated deals that have been shown to significantly affect the outcomes of domestic acquisitions, which are likely to have a bearing on cross-border acquisitions. On top of these factors, we consider targets' level of intangible assets since cross-border acquisitions are likely to be motivated by the need to improve production efficiency by accessing advanced technologies and superior human capital skills. These firm characteristics allow us to gauge targets' operating performance, financial strength, liquidity, financial leverage, and level of intangible assets. In our CBM&A sample, only 348 M&As have publicly traded foreign targets and a target company identification (ticker or CUSIP). We then manually merge the data with Bloomberg's international equity database, which contains foreign company information, and, finally, perform this analysis based on a subsample of 339 observations. The summary statistics of all the public foreign targets are reported in Table 7.

(Table 7 goes about here)

Next, we employ QCA methodology to investigate what target characteristics or characteristic combinations attract US acquirers with a high or low investment capacity. This analysis can also explain whether the gains generated by skilled US acquirers are associated with specific target attributes that represent the focus of acquirers' CBM&A strategies. The QCA methodology is a data-based technique for determining which logical conclusions a dataset supports, and it has been used prevalently in the management and international business areas (e.g., Bell, Filatotchev, and Aguilera, 2014; Fiss, 2007; Garcia-Castro & Francoeur, 2014; Greckhamer, Misangyi, Elms, & Lacey, 2008; Misangyi and Acharya, 2014) and other social sciences. Unlike conventional methods, such as linear regression-oriented analysis, the QCA methodology allows one to examine multiple conjunctural causalities and tests the consistency and predictability of all possible strategies, which can include either one or several but not all independent variables. In other words, the same business outcome can be the result of different configurations of attributes, and the QCA approach allows us to identify each combination, which cannot be accomplished using regression analysis. Additionally, since the QCA methodology is not purely quantitative, it is an ideal procedure for the analysis of smaller sample sizes.

We then perform the QCA analysis through two separate tests: a necessary analysis and truth table analysis. First, we use the QCA necessary test to examine the necessary characteristics of non-US targets that attract US high- or low-investment capacity acquirers. The necessary condition is tested based on the consistency and coverage for each target characteristic. The higher the consistency value (on a scale of zero to one), the more likely a high-investment capacity acquirer will pick a non-US target with this characteristic. Normally, a consistency score of 0.90 or higher suggests necessity (Schneider & Wagemann, 2013). On the other hand, coverage, like the R^2 value in a regression, measures the variation of the outcome including a target characteristic. The results are presented in Table 8.

(Table 8 goes about here)

The result shows that high–investment capacity acquirers always consider the liquidity state of foreign targets when considering CBM&As (consistency = 0.91, coverage = 0.63). It is necessary to note here that necessity does not indicate a positive or negative association; it only suggests that the target company’s liquidity is considered by US acquirers, no matter which strategy they use. Except for the target’s liquidity state, none of the other factors appears to be necessary to be considered by high–investment capacity acquirers, since their consistency scores are all below 0.90. Additionally, we find no necessary foreign target factors to be associated with US low–investment capacity acquirers—although the highest consistency is also given for a liquidity state (0.88), it is not significant—suggesting that none of the five target characteristics is of great appeal to low–investment capacity acquirers.

In the truth table analysis, we first convert the qualitative data for each target characteristic in each CBM&A case into a score. Specifically, following the crisp-set QCA method, we assign each target firm characteristic with a value either one or zero, where one denotes presence and zero absence. We then analyze the relation between different configurations of the presence or absence of target characteristics and whether the target was acquired by high– or low–investment capacity US acquirers.

In the second step, we perform the truth table analysis by setting up the consistency cutoff at 0.75 (or 75%) and the frequency cutoff at two cases. The consistency cutoff is the minimum percentage required for a configuration (strategy) to lead to the specified outcome (e.g., acquisition by US high–investment capacity acquirers). Generally, the recommended minimum consistency cutoff is 0.75 (Schneider & Wagemann, 2013), which means that, for a strategy to be considered significant, 75% of the cases using this strategy should lead to the desired outcome. The frequency cutoff is the minimum number of cases within each configuration for the configuration to be included in the truth table analysis. Setting the frequency cutoff to two eliminates all configurations that contain only one CBM&A case, which decreases the overall complexity of the analysis and reduces measurement error caused by outliers. The results of the truth table analysis in terms of the target characteristics attracting US high– and low–investment capacity acquirers are reported in Table 9.

(Table 9 goes about here)

The results reveal five different foreign acquisition strategies, [1] to [5], used by US high–investment capacity acquirers and one strategy, [6], used by US low–investment ability acquirers. Along with the hypothesis in previous studies that FDI, especially CBM&As, can be a valuable source of accessing technology (assets) to improve acquirer productivity (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), strategies [1], [2], and [4] indicate that one major motivation behind the CBM&As of US high–investment capacity acquirers is access to intangible assets. While intangible foreign assets are hard to value, they appear to be more attractive to US acquirers with a high investment capacity, because they can boost their potential benefits (future cash flows). When skilled US acquirers aim at a foreign target’s intangible assets (e.g., copyrights, patents, information technology, and trademarks), they can choose different strategies to lower the overall cost and risk associated with intangible assets. First, they can focus on low–operating performance targets along with high financial leverage but a healthy liquidity state, as shown by Strategy [1]. Shareholders of a company with low operating performance are more willing to sell the company at a discount, while foreign targets with high financial leverage might be more voluntarily seeking a buyer to absorb their high exposure to debt, especially under tight market conditions, since they might not be able to meet their debt obligations. Second, as Strategy [2] points out, acquirers could target companies with low operating performance and weak financial strength to enhance their bargaining power and/or buy the companies at a discount. Because this strategy is risky, a US high–investment capacity acquirer would prefer a target with lower financial leverage.

The above two strategies, reported in Table 9, are the most significant, based on raw coverage and unique coverage scores. Last, Strategy [4] indicates that a high–investment capacity acquirer will pick targets with high financial leverage and an inferior liquidity position to lower acquisition costs, and targets with good operating performance and financial strength (low bankruptcy risk) to minimize overall risk. Given that CBM&As are the leading foreign country entry mode of FDI, the fact that these intangible asset–seeking strategies are most likely to be used only by high–investment capacity acquirers

could explain why the empirical evidence shows that FDI does not significantly improve the productivity of firms expanding their operations in foreign countries, especially firms from developed countries (e.g., Abebe, McMillan, & Serafinelli, 2017; Aitken and Harrison, 1999; Bloom, Sadun, & Van Reenen, 2012; Guadalupe, Kuzmina, & Thomas, 2012; Haddad & Harrison 1993; Smarzynska Javorcik, 2004).

On the other hand, Strategies [3] and [5] show that, regardless of the amount of intangible assets, skilled US acquirers could target foreign firms with high financial leverage, since acquirers can buy them at a deep discount, due to their financial status, and thus reduce their burden of debt and avoid bankruptcy. Furthermore, acquirers can obtain an even larger discount if the target has poor operating performance (Strategy [3]) or low amounts of intangible assets (Strategy [4]). However, acquiring a company with high financial leverage is risky, especially when the company is a foreign entity. Thus, high-investment capacity acquirers would normally consider targets with lower overall risk, that is, targets with healthier liquidity and good financial strength (Strategy [3]) or with strong operating performance (Strategy [5]). Additionally, as shown in Strategy [6], targets with high financial leverage are considered valuable options to high-investment capacity acquirers, due to their potential benefits, whereas they are not attractive to low-investment capacity acquirers, as high financial leverage might be viewed as an extra risk factor. The different views between high- and low-investment efficiency acquirers about the financial leverage status of targets could be one of the reasons why acquirers with superior investment capacity attributes create greater shareholder and firm value through their CBM&As than their low-skilled contemporaries. In sum, high-investment capacity US acquirers prefer foreign targets with high levels of intangible assets and/or low acquisition costs. To ensure the successful outcome of foreign deals, they also consider other target characteristics, such as operating performance, liquidity position, and financial strength, to enhance their bargaining power and reduce overall risk.

Acquisition Strategy [6], on the other hand, according to the truth table analysis, is the only strategy that unskilled US acquirers consider in their CBM&A decisions. In this strategy, US low-investment capacity acquirers look for low-performance targets with low intangible assets and high

bankruptcy risk, regardless of the target's liquidity. In contrast to the strategies used by high-investment capacity acquirers, low-investment capacity acquirers avoid targets with high levels of intangible assets or high financial leverage, since these two target characteristics involve greater risk, and they do not possess the skill to create firm value through such CBM&A deals. However, Strategy [6] can explain only a small portion of the CBM&As carried out by low-investment capacity US acquirers, as pointed out by the solution coverage (0.123) and solution consistency (0.778). This finding demonstrates that low-investment capacity US acquirers do not have well thought out strategies when acquiring foreign targets.

4. CONCLUSION

The volume of international capital flows, particularly through CBM&As, has rapidly increased, especially in the past two decades, and it plays an important role in the current world economy. Hence, it is important to understand the factors that influence the outcomes of acquirers' international acquisition decisions. Numerous researchers have tried to identify the characteristics that explain CBM&A performance. However, they have all focused on differences in country-, culture-, or governance-based characteristics. Nevertheless, to date, variations in acquirers' corporate investment capacity have not been considered a possible source of cross-border acquisition outcomes. Given the essential role of corporate investment capacity in shaping corporate decisions and outcomes, in this study we investigate whether corporate investment capacity can explain the cross-sectional variation of CBM&A outcomes and, if so, what strategy or combination of strategies acquirers of superior investment skill use, different from their low-skilled counterparts, to create shareholder value through acquisitions across national boundaries.

We address these issues by employing three different measures of corporate investment capacity: investment efficiency, financial flexibility, and cash holdings. We find evidence supporting that investment capacity heterogeneity across acquiring firms explains the variation in CBM&A abnormal returns, regardless of the measure of company investment talent used. Our results show that the average five-day announcement period CARs of high-investment capacity US acquirers' international acquisitions are significantly higher than those realized by low-investment capacity acquirers.

Furthermore, companies endowed with a high corporate investment capacity produce significantly higher shareholder gains than companies of low investment ability when stocks are the method of payment and when the acquirer and foreign target operate in the same industry.

Next, we use a QCA methodology to study which foreign target characteristics attract the attention of high- and low-investment capacity US acquirers. The QCA results reveal that high-investment capacity US acquirers focus on foreign targets with high levels of intangible assets and /or low acquisition costs. To ensure the successful outcome of foreign deals, high-investment capacity US acquirers also consider other target characteristics, such as operating performance, liquidity, and financial strength, to enhance their bargaining power and reduce overall risk. On the other hand, low-investment capacity acquirers avoid foreign targets with high intangible assets or high financial leverage and consider targets with poor performance and inferior liquidity, which leads to shareholder and firm value losses. The different assessments of the risk-reward characteristics of foreign targets by high- and low-investment efficiency acquirers are used by the former to create more shareholder and firm value through their CBM&As than their low-skilled contemporaries.

ⁱ After we manually merge the data with the Bloomberg database, which contains foreign companies' information, 339 observations are left in the sample.

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Table 1. Annual distribution of M&As by US public acquirers

This table presents the annual distribution of all completed M&A deals, domestic deals, and cross-border deals, announced by U.S. acquirers between January 1, 1995, and December 31, 2017. The data are collected from Thomson One of SDC. *Deal value* refers to the announced transaction value, *N* is the number of observations, and *CAR* refers to the acquirer's (-2,2) CAR around announcement date. The table also shows the percentage of cross-border M&As within the whole sample, based on the number of deals or the total deal value.

Year	All			Domestic			Cross-border		
	<i>Deal Value (M)</i>	<i>N</i>	<i>CAR (%)</i>	<i>Deal Value (M)</i>	<i>N</i>	<i>CAR (%)</i>	<i>Deal Value (M)</i>	<i>N</i>	<i>CAR (%)</i>
1995	210.77	872	1.58	198.44	848	1.51	12.33	24	3.99
1996	284.34	1113	2.39	279.02	1075	2.44	5.32	38	1.14
1997	470.18	1683	1.95	444.28	1543	1.86	25.89	140	2.95
1998	988.00	1664	0.86	952.88	1458	1.01	35.13	206	-0.18
1999	799.13	1326	2.13	753.74	1190	2.26	45.38	136	1.01
2000	894.33	1217	0.76	855.42	1077	0.75	38.92	140	0.85
2001	362.45	849	1.48	304.79	749	1.31	57.66	100	2.72
2002	199.62	789	2.05	188.37	703	2.16	11.25	86	1.20
2003	263.97	764	2.06	235.72	684	2.01	28.25	80	2.51
2004	356.39	898	0.74	325.43	749	0.72	30.96	149	0.88
2005	519.13	910	1.13	484.55	771	1.17	34.58	139	0.89
2006	344.19	888	0.84	324.73	764	0.79	19.46	124	1.15
2007	335.29	800	0.78	273.29	671	0.74	62.00	129	1.01
2008	189.69	551	0.23	168.54	454	0.47	21.15	97	-0.92
2009	396.77	414	1.48	361.76	347	1.78	35.01	67	-0.10
2010	256.14	534	0.87	214.33	423	1.00	41.81	111	0.36
2011	292.99	513	0.72	238.46	399	0.73	54.54	114	0.67
2012	292.07	602	1.27	229.75	482	1.28	62.32	120	1.23
2013	305.87	554	1.17	263.43	452	1.40	42.44	102	0.15
2014	460.22	661	2.52	405.08	540	2.76	55.14	121	1.43
2015	672.93	492	1.30	629.45	402	1.29	43.48	90	1.38
2016	481.39	326	1.17	402.94	277	1.23	78.44	49	0.81
2017	403.07	297	1.53	382.91	268	1.75	20.17	29	-0.51
Average	425.17	813.78	1.35	387.71	709.83	1.41	37.46	103.96	1.07
Total	9778.94	18717	-	8917.31	16326	-	861.63	2391	-

Table 2. Annual distribution of sampled cross-border M&As

This table presents the annual distribution of our cross-border M&As sample. The sample consists of completed M&As of U.S. acquirers acquiring non-US targets from January 1, 1995 to December 31, 2017. The data are collected from Thomson One of SDC. In the table, *Cash* refers to 100% cash-financed deals; *Stock* refers to 100% stock-financed deals, *Public* refers to public non-US target firm M&As, *Private* refers to private non-US target firm M&As, *Focus* refers to focused deals that target and acquirer are in the same industry based on their two-digit Standard Industrial Classification code, *Market Value* refers to the annual average acquirer's market value 20 trading days before the announcement of the M&A, *Deal Value* refers to the transaction value, *Age* refers to the acquirer age, *Liquidity* refers to the ratio of acquirer cash and cash equivalent to total assets, *D/E Ratio* is the ratio of acquirer debt to equity, *Tobin's Q* refers to the acquiring firm's Tobin's Q in previous year. The table also shows the number of M&As with high investment capacity acquirers, which are identified by investment efficiency (*INVEFF*) measure, financial flexibility (*FinFlex3*) measure, and cash holdings (*Cash Holdings*) measure.

Year	All	Cash	Stock	Public	Private	Focus	Market Value	Deal Value	Age	Liquidity	D/E Ratio	Tobin's Q	High Investment Capacity Acquirer Deals		
													<i>INVEFF</i>	<i>FinFlex3</i>	<i>Cash holdings</i>
1995	24	9	8	6	10	18	4.14	0.51	14.67	0.13	0.53	2.68	6	5	9
1996	38	10	12	9	20	23	1.24	0.14	11.71	0.2	0.45	3.55	1	7	15
1997	140	60	35	28	60	105	4.77	0.18	14.72	0.19	0.65	3.4	13	14	52
1998	206	93	41	46	105	158	8.48	0.17	12.48	0.2	1.22	3.37	19	36	78
1999	136	66	35	39	52	101	18.23	0.33	17.87	0.18	0.71	3.72	21	17	52
2000	140	50	46	29	72	102	30.61	0.28	12.11	0.25	0.97	6.96	5	16	74
2001	100	37	22	32	35	71	15.30	0.58	17.03	0.22	0.47	2.78	44	17	35
2002	86	41	11	15	41	56	9.18	0.13	19.22	0.25	0.53	2.63	59	15	42
2003	80	40	14	19	33	56	10.93	0.35	21.41	0.22	0.45	2.44	50	13	32
2004	149	84	10	29	75	108	8.57	0.21	17.68	0.27	0.32	3.21	86	17	67
2005	139	90	7	19	78	98	6.76	0.25	21.88	0.23	0.47	2.6	83	26	61
2006	124	82	5	22	76	82	7.40	0.16	20.43	0.21	0.85	2.7	77	29	53
2007	129	87	6	24	67	82	17.06	0.48	23.5	0.23	0.98	2.58	58	24	51
2008	97	65	3	15	44	70	10.51	0.22	22.57	0.23	0.45	2.27	65	16	40
2009	67	33	11	15	26	46	10.94	0.52	25.82	0.26	-5.77	2.1	41	18	25
2010	111	68	5	22	47	81	13.99	0.38	24.18	0.2	0.68	2.14	74	11	42
2011	114	78	2	16	53	79	12.21	0.48	28.32	0.22	0.94	2.41	24	21	45
2012	120	89	3	21	55	88	10.16	0.52	25.18	0.2	0.77	2.39	83	28	54
2013	102	68	1	14	43	70	11.27	0.42	21.69	0.2	-0.07	2.25	24	16	44
2014	121	88	3	14	50	89	16.25	0.46	25.35	0.2	0.12	2.61	24	27	45
2015	90	56	3	16	36	62	22.70	0.48	23.84	0.18	0.96	2.69	21	14	39
2016	49	23	5	12	15	35	23.04	1.60	26.66	0.16	1.1	2.44	22	11	17
2017	29	14	4	15	7	25	20.70	0.70	26.59	0.24	0.59	2.47	16	11	18
Average	103.96	57.87	12.7	20.74	47.83	74.13	12.80	0.41	20.65	0.21	0.36	2.89	39.83	17.78	43.04
Total	2391	1331	292	477	1100	1705	-	-	-	-	-	-	916	409	990

Table 3. Univariate comparison of acquirer abnormal returns by acquirer investment capacity

This table presents acquirer's 5-day abnormal returns ((t-2, t+2) announcement period CAR) for all M&A deals, high investment capacity acquirer deals, and low investment capacity acquirer deals, respectively. Acquirer companies are sorted into high and low investment capacity groups based on their investment efficiency (*INVEFF measure*), financial flexibility (*FinFlex3 measure*), and cash holdings (*Cash holdings measure*), estimated one year before the M&A announcement year. The statistical significance of differences in abnormal returns between high and low investment capacity acquirers is tested using the t-test for the equality of means. The High-Low column presents the mean difference between high and low investment capacity acquirers based on the two-sample t-value. * and ** denote significance at the 10% and 5% levels, respectively.

	CAR (-2, 2)				
	All	High Investment Capacity	Low Investment Capacity	High-Low	t-value
<i>INVEFF Measure</i>					
	0.94	1.32	0.49	0.83*	1.78
<i>N</i>	1691	916	775		
<i>Std Dev.</i>	0.23	0.29	0.37		
<i>FinFlex3 Measure</i>					
	0.01	0.72	0.51	0.21**	2.34
<i>N</i>	1025	407	618		
<i>Std Dev.</i>	0.33	0.60	0.37		
<i>Cash holdings Measure</i>					
	0.80	1.25	0.27	0.98**	2.28
<i>N</i>	1846	988	858		
<i>Std Dev.</i>	0.22	0.33	0.26		

Table 4. Multivariate analysis of acquirer abnormal returns by acquirer investment capacity measured by investment efficiency

This table presents the regression results of acquirer abnormal returns ((t-2, t+2) announcement period CAR) on acquirer investment capacity, measured by their investment efficiency (*INVEFF*) estimated one year before the M&A announcement. *Stock Dummy* refers to 100% stock-financed deals; *Public Dummy* refers to public non-US target firm M&As; *Focused Dummy* refers to deals in which both merging firms are operating in the same industry, *Log (Market Value)* refers to the log value of acquirer's market capitalization 20 days prior to the deal's announcement, *Log (Deal Value)* refers to the log value of deal size, *Log(Age)* refers to the log value of acquirer age, *Liquidity* refers to the ratio of acquirer cash and cash equivalent to total assets in the most recent quarter obtained from Compustat, *D/E Ratio* is the ratio of acquirer debt to equity in the most recent quarter obtained from Compustat, *Tobin's Q* is the acquiring firm's Tobin's Q in previous year. We control for year fixed effects, industry fixed effects, and country fixed effects. The asterisks *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	CAR (-2, 2)					
	[1]	[2]	[3]	[4]	[5]	[6]
INVEFF	0.02** (2.14)	0.01 (1.19)	0.02** (2.25)	0.00 (0.25)	0.00 (-0.02)	0.00 (-0.30)
Stock Dummy	-0.02** (-2.21)	-0.05*** (-4.98)	-0.02** (-2.22)	-0.02** (-2.18)	-0.05*** (-4.97)	-0.03* (-1.64)
Public Dummy	-0.01 (-1.13)	-0.01 (-1.33)	0.00 (-0.36)	-0.01 (-1.00)	0.00 (-0.07)	-0.00 (-0.32)
Focused Dummy	0.00 (-0.17)	0.00 (-0.26)	0.00 (-0.21)	-0.01 (-1.44)	-0.01 (-1.41)	-0.02 (-1.45)
Stock*INVEFF		0.10*** (5.57)			0.10*** (5.57)	0.16*** (5.19)
Public*INVEFF			-0.01 (-0.68)		-0.01 (-1.19)	-0.01 (-0.56)
Focused*INVEFF				0.02* (1.83)	0.02* (1.64)	0.03* (1.71)
Log (Market Value)	-0.02*** (-4.49)	-0.02*** (-4.50)	-0.02*** (-4.48)	-0.02*** (-4.53)	-0.02*** (-4.52)	-0.01** (-2.33)
Log (Deal Value)	0.01*** (2.79)	0.01*** (2.72)	0.01*** (2.82)	0.01*** (2.78)	0.01*** (2.75)	0.02** (2.37)
Log (Age)	0.00 (-0.67)	0.00 (-0.44)	0.00 (-0.67)	0.00 (-0.66)	0.00 (-0.41)	-0.02* (-1.73)
Liquidity	0.01 (0.86)	0.01 (0.71)	0.01 (0.89)	0.01 (0.85)	0.01 (0.77)	0.02 (0.98)
D/E Ratio	0.00** (-2.50)	0.00*** (-2.56)	0.00** (-2.50)	0.00** (-2.44)	0.00** (-2.51)	0.00 (0.09)
Tobin's Q	0.00 (0.86)	0.00 (1.61)	0.00 (0.87)	0.00 (0.90)	0.00* (1.66)	0.00 (0.05)
Constant	0.07*** (2.73)	0.08*** (3.12)	0.07*** (2.67)	0.08*** (3.00)	0.09*** (3.26)	0.07 (0.78)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	NO
Country FE	NO	NO	NO	NO	NO	YES
Within R-sq:	0.04	0.06	0.04	0.04	0.06	0.11
F-Value	2.14	3.05	2.09	2.18	3.00	2.37
P-Value	0.00	0.00	0.00	0.00	0.00	0.00
Obs.	1641	1641	1641	1641	1641	732

Table 5. Multivariate analysis of acquirer abnormal returns by acquirer investment capacity measured by financial flexibility

This table presents the regression results of acquirer abnormal returns ((t-2, t+2) announcement period CAR) on acquirer investment capacity, measured by their financial flexibility (*FinFlex3*) estimated one year before the M&A announcement. *Stock Dummy* refers to 100% stock-financed deals; *Public Dummy* refers to public non-US target firm M&As; *Focused Dummy* refers to deals in which both merging firms are operating in the same industry, *Log (Market Value)* refers to the log value of acquirer's market capitalization 20 days prior to the deal's announcement, *Log (Deal Value)* refers to the log value of deal size, *Log(Age)* refers to the log value of acquirer age, *Liquidity* refers to the ratio of acquirer cash and cash equivalent to total assets in the most recent quarter obtained from Compustat, *D/E Ratio* is the ratio of acquirer debt to equity in the most recent quarter obtained from Compustat, *Tobin's Q* is the acquiring firm's Tobin's Q in previous year. We control for year fixed effects, industry fixed effects, and country fixed effects. The asterisks *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	CAR (-2, 2)					
	[1]	[2]	[3]	[4]	[5]	[6]
FinFlex3	0.03*** (3.75)	0.01* (1.83)	0.03*** (3.87)	0.00 (0.33)	0.00 (-0.09)	-0.03 (-1.33)
Stock Dummy	-0.02* (-1.86)	-0.08*** (-5.06)	-0.02* (-1.85)	-0.03** (-1.98)	-0.08*** (-5.17)	-0.04 (-1.55)
Public Dummy	-0.01 (-1.30)	-0.01 (-1.09)	0.00 (-0.39)	-0.01 (-1.29)	0.00 (0.11)	-0.00 (-0.31)
Focused Dummy	-0.01 (-0.81)	-0.01 (-0.98)	-0.01 (-0.82)	-0.02* (-1.78)	-0.02* (-1.86)	-0.01 (-1.17)
Stock* FinFlex3		0.13*** (5.72)			0.13*** (5.75)	0.41*** (8.91)
Public* FinFlex3			-0.02 (-1.12)		-0.03 (-1.63)	-0.03 (-1.30)
Focused* FinFlex3				0.03* (1.93)	0.03* (1.78)	0.06*** (2.64)
Log (Market Value)	-0.02*** (-3.08)	-0.01*** (-2.62)	-0.02*** (-3.11)	-0.02*** (-3.05)	-0.01*** (-2.63)	-0.00 (-0.30)
Log (Deal Value)	0.01* (1.89)	0.01* (1.66)	0.01* (1.88)	0.01* (1.91)	0.01* (1.67)	0.01 (0.84)
Log (Age)	0.00 (-0.04)	0.00 (-0.14)	0.00 (-0.06)	0.00 (-0.03)	0.00 (-0.16)	-0.02 (-1.11)
Liquidity	0.01 (0.73)	0.01 (0.68)	0.01 (0.76)	0.01 (0.64)	0.01 (0.62)	0.00 (0.15)
D/E Ratio	0.00 (-1.46)	0.00 (-1.50)	0.00 (-1.38)	0.00 (-1.52)	0.00 (-1.43)	0.00 (-0.07)
Tobin's Q	0.00 (0.74)	0.00 (-0.29)	0.00 (0.75)	0.00 (0.80)	0.00 (-0.24)	-0.01 (-1.01)
Constant	0.02 (0.52)	0.02 (0.43)	0.02 (0.44)	0.04 (0.75)	0.02 (0.53)	0.02 (0.26)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	NO
Country FE	NO	NO	NO	NO	NO	YES
Within R-sq:	0.05	0.09	0.05	0.06	0.09	0.30
F-Value	1.65	2.65	1.64	1.72	2.66	4.66
P-Value	0.01	0.00	0.01	0.01	0.00	0.00
Obs.	986	986	986	986	986	446

Table 6. Multivariate analysis of acquirer abnormal returns by acquirer investment capacity measured by cash holdings

This table presents the regression results of acquirer abnormal returns ((t-2, t+2) announcement period CAR) on acquirer investment capacity, measured by their cash holdings (*Cash holdings*) estimated one year before the M&A announcement. *Stock Dummy* refers to 100% stock-financed deals; *Public Dummy* refers to public non-US target firm M&As; *Focused Dummy* refers to deals in which both merging firms are operating in the same industry, *Log (Market Value)* refers to the log value of acquirer's market capitalization 20 days prior to the deal's announcement, *Log (Deal Value)* refers to the log value of deal size, *Log(Age)* refers to the log value of acquirer age, *Liquidity* refers to the ratio of acquirer cash and cash equivalent to total assets in the most recent quarter obtained from Compustat, *D/E Ratio* is the ratio of acquirer debt to equity in the most recent quarter obtained from Compustat, *Tobin's Q* is the acquiring firm's Tobin's Q in previous year. We control for year fixed effects, industry fixed effects, and country fixed effects. The asterisks *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	CAR (-2, 2)					
	[1]	[2]	[3]	[4]	[5]	[6]
Cash holdings	0.01*	0.01	0.01*	0.02*	0.02*	0.01
	(1.76)	(1.21)	(1.75)	(1.90)	(1.71)	(0.88)
Stock Dummy	-0.02**	-0.05***	-0.02**	-0.02**	-0.05***	0.02
	(-2.50)	(-3.62)	(-2.50)	(-2.55)	(-3.74)	(-1.31)
Public Dummy	-0.01	-0.01	-0.01	-0.01	0.00	0.01
	(-1.30)	(-1.16)	(-0.76)	(-1.23)	(-0.39)	(0.14)
Focused Dummy	0.00	0.00	0.00	0.01	0.01	0.01
	(0.13)	(0.26)	(0.15)	(0.77)	(0.96)	(0.71)
Stock*Cash holdings		0.04***			0.04***	0.03***
		(2.65)			(2.75)	(2.76)
Public*Cash holdings			0.00		-0.01	0.02
			(-0.29)		(-0.60)	(-1.21)
Focused*Cash holdings				-0.01	-0.01	0.01
				(-0.99)	(-1.07)	(-0.71)
Log (Market Value)	-0.02***	-0.02***	-0.02***	-0.02***	-0.02***	0.01**
	(-4.58)	(-4.64)	(-4.58)	(-4.58)	(-4.67)	(-2.04)
Log (Deal Value)	0.01***	0.01***	0.01***	0.01***	0.01***	0.01**
	(2.81)	(2.81)	(2.81)	(2.79)	(2.81)	(2.19)
Log (Age)	0.00	0.00	0.00	0.00	0.00	0.01**
	(0.15)	(0.15)	(0.15)	(0.16)	(0.17)	(-1.98)
Liquidity	-0.01	-0.01	-0.01	-0.01	-0.01	0.02
	(-0.53)	(-0.64)	(-0.53)	(-0.47)	(-0.58)	(0.32)
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.00
	(-1.19)	(-1.18)	(-1.19)	(-1.22)	(-1.22)	(0.06)
Tobin's Q	0.00	0.00	0.00	0.00	0.00	0.00
	(0.71)	(0.42)	(0.71)	(0.73)	(0.42)	(-1.57)
Constant	0.06**	0.06**	0.06**	0.05**	0.05**	0.09
	(2.24)	(2.37)	(2.22)	(2.04)	(2.14)	(0.46)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	NO
Country FE	NO	NO	NO	NO	NO	YES
Within R-sq:	0.03	0.04	0.03	0.03	0.04	0.07
F-Value	1.76	1.93	1.71	1.74	1.86	1.56
P-Value	0.01	0.00	0.01	0.01	0.00	0.00
Obs.	1773	1773	1773	1773	1773	784

Table 7. Annual summary statistics of public foreign targets

This table presents the annual summary statistics of public foreign target companies acquired by US acquirers between January 1, 1995, and December 31, 2017. The data are collected from Bloomberg database. *N* is the number of observations, *ROE* is the return on equity, *Altman's Z* is the target company's Altman's Z Score (Altman, 1968), *IYR Default* is the target company's one year default probability estimated from Bloomberg, *Leverage* is the financial leverage of the target company, and *Intangible* is the percentage of total intangible assets over total assets of the company.

Year	N	ROE (%)	Altman's Z	IYR Default (%)	Current Ratio	Cash Ratio	Leverage	Total Assets	Intangible %	M/B Ratio
1995	4	2.98	.	.	1.60	0.24	2.31	494.74	.	1.29
1996	4	11.09	.	.	1.77	0.09	1.33	356.67	.	1.14
1997	15	-8.60	.	.	5.90	4.17	2.65	600.19	0.17	1.88
1998	28	-12.52	.	.	1.88	0.61	4.93	548.61	0.07	4.67
1999	29	-0.66	.	.	2.33	1.03	2.53	1681.92	0.08	16.26
2000	21	-8.61	.	2.28	2.14	1.02	2.67	4897.64	0.03	2.80
2001	21	-0.44	2.88	0.83	1.45	0.50	2.10	17225.06	0.09	2.61
2002	11	-25.60	22.98	0.55	10.82	9.61	1.50	7131.56	0.14	1.95
2003	17	11.33	4.40	0.41	2.88	1.33	2.37	1289.18	0.17	2.69
2004	20	12.83	6.85	0.48	2.99	1.47	2.36	28397.23	0.11	3.84
2005	10	11.02	3.63	0.24	2.03	0.34	2.32	1652.33	0.19	2.44
2006	15	-24.20	12.41	0.93	5.10	3.74	1.64	1966.17	0.09	2.45
2007	17	14.64	16.71	0.19	5.69	4.74	1.92	738.07	0.22	6.28
2008	10	-14.02	1.92	0.53	3.29	1.48	1.69	905.48	0.20	2.04
2009	11	-6.14	3.55	1.05	2.33	1.21	2.25	3696.50	0.26	1.25
2010	16	12.38	2.20	2.91	4.12	2.63	3.20	10938.28	0.21	1.51
2011	12	-17.39	2.71	0.66	3.29	2.33	1.88	1439.46	0.14	3.04
2012	18	10.21	5.51	0.88	2.41	0.97	3.04	1768.14	0.19	1.59
2013	13	-7.66	4.23	0.07	3.70	2.25	1.56	23444.58	0.19	3.81
2014	11	-5.36	3.23	0.13	3.19	1.65	3.24	169221.73	0.18	2.22
2015	12	24.13	3.60	0.10	1.50	0.53	2.55	1010.15	0.38	1.91
2016	9	-0.26	2.11	5.32	3.48	2.72	1.96	5115.33	0.18	2.15
2017	15	-5.17	8.65	1.28	2.23	1.11	9.20	426.37	0.16	3.49
All	339	-1.18	6.45	0.99	3.15	1.86	2.87	11017.95	0.16	4.23

Table 8. Test for necessary CBM&A target characteristics attracting high or low investment capacity US acquirers

This table examines the necessary characteristics of non-US targets that attracting high or low investment capacity US public acquirers. We focus on five characteristics of the target company: *Operating Profitability*, which is measured by the target company’s return on equity before the M&A announcement year; *Financial Strength*, which is measured by the target company’s Altman's Z Score (Altman, 1968) prior to the M&A announcement year; *Liquidity*, which is measured by the target company’s current ratio one year before the M&A announcement year; *Leverage*, which is measured by the target company’s equity multiplier prior to the M&A announcement year; and *Intangible Assets Level*, which is estimated by dividing the target company’s total intangible assets with its total assets, one year before the M&A announcement year. The necessary condition is tested based on the *consistency* and *coverage* for each characteristic. The higher the *consistency* value (on a scale of 0 to 1), the more likely a high investment capacity US acquirer will pick a non-US target with this characteristic (like F-value in a regression). *Coverage* measures the variation of the outcome including this target characteristic (like R² in a regression).

Outcome: High Investment Capacity Acquirers		
	Consistency	Coverage
Liquidity	0.91	0.63
Financial Strength	0.81	0.63
Operating Profitability	0.73	0.64
Intangible Assets Level	0.57	0.72
Leverage	0.35	0.73
Outcome: Low Investment Capacity Acquirers		
	Consistency	Coverage
Liquidity	0.88	0.37
Financial Strength	0.77	0.37
Operating Profitability	0.67	0.36
Intangible Assets Level	0.37	0.28
Leverage	0.21	0.27

Table 9. Results of truth table analysis for target characteristics attracting high and low investment capacity US acquirers

This table reports the results of the truth table analysis for target characteristics attracting high and low investment capacity US acquirers. The frequency cutoff is 2 (2 cases minimum within each configuration) and the consistency cutoff is 0.75 (the minimum configuration consistency is 0.75). Each strategy is defined by five non-US target company characteristics: *Operating Profitability*, which is measured by the target company’s return on equity before the M&A announcement year; *Financial Strength*, which is measured by the target company’s Altman's Z Score (Altman, 1968) prior to the M&A announcement year; *Liquidity*, which is measured by the target company’s current ratio one year before the M&A announcement year; *Leverage*, which is measured by the target company’s equity multiplier prior to the M&A announcement year; and *Intangible Assets Level*, which is estimated by dividing the target company’s total intangible assets with its total assets, one year before the M&A announcement year. The *raw coverage*, *unique coverage*, and *consistency score* for each strategy are reported. *Raw coverage* indicates how much variation of the outcome is covered by a single path, including overlap with other paths. *Unique coverage* represents the portion of the outcome covered by a path that does not overlap with other paths. *Consistency* is a measure of the reliability of a causal path; the higher a condition’s consistency score, the more consistently a condition leads to a particular outcome. *Solution consistency* and *solution coverage* are used to assess the adequacy of the entire solution of configurations. The higher the *solution consistency* value (on a scale of 0 to 1), the more likely a skilled US acquirer will pick one of the solution strategies presented. *Solution coverage* measures the extent to which the outcome is explained by the set of identified configurations. • indicates a condition’s presence, × indicates its absence, and blank indicates irrelevance.

<i>Frequency Cutoff:</i>		2				
<i>Consistency Cutoff:</i>		0.75				
<i>Outcome: CBM&As</i>	High investment Capacity					Low investment Capacity
	[1]	[2]	[3]	[4]	[5]	[6]
<i>Operating Profitability</i>	×	×	×	●	●	×
<i>Financial Strength</i>		×	●	●		×
<i>Liquidity</i>	●		●	×	●	
<i>Leverage</i>	●	×	●	●	●	×
<i>Intangible Assets Level</i>	●	●		●	×	×
<i>Raw Coverage</i>	0.054	0.043	0.043	0.032	0.118	0.123
<i>Unique Coverage</i>	0.032	0.043	0.022	0.032	0.118	0.123
<i>Consistency</i>	1.000	1.000	1.000	1.000	0.917	0.778
<i>Solution Coverage:</i>			0.269			0.123
<i>Solution Consistency:</i>			0.962			0.778