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Home country macroeconomic factors on outward cross-border mergers and acquisitions: Evidence from the UK

Agyenim Boateng[a,*], Xiuping Hua[b], Moshfique Uddin[c], Min Du[d]

[a] Nottingham University Business School, PR China
[b] Nottingham University Business School, China Campus, PR China
[c] Management School, University of York, UK
[d] Nottingham University Business School, UK Campus, UK

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ABSTRACT

In this paper, we examine the dynamic effects of key macroeconomic factors on the UK crossborder mergers and acquisitions (CBM&A) outflows over the period 1987–2008. Using a seven variable vector autoregressive/vector error correction models (VAR/VECM), the study finds that a number of home country macroeconomic variables, including GDP, broad money supply, stock prices and real effective exchange rate exert a positive and significant influence in explaining the CBM&A outflows by the UK firms. However, inflation rates and interest rates tend to have a negative impact on the volume of CBM&A. The findings support the notion that home country macroeconomic factors can create advantages to improve the outward Cross-border M&A activities.

1. Introduction

The increasing significance of macroeconomic factors in explaining the location of international production activity in the 1990s in the host country has been highlighted in the literature (see Dunning, 2009; Vasconcellos and Kish, 1998; Uddin and Boateng, 2011). In comparison, studies looking at the

* Corresponding author at: University of Nottingham, Nottingham University Business School, 199 Taikang East Road, University Park, Ningbo 315100, PR China. Tel.: +86 0574 8818 0111; fax: +86 0574 8818 0125.
E-mail addresses: A.Boateng@Hud.ac.uk, Agyenim5@gmail.com (A. Boateng).

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Table 1
The Share of UK CBM&As activities, 1990–2008 (As percentage of EU CBM&As activities).

Year	EU CBM&A		UK CBM&A		UK CBM&A as % of France & Germany	UK CBM&A as % of EU CBM&A	
	No. of deals	Value	No. of deals	Value	Deals	No. of deals	Value
1990	894	55,691	300	5593	108.30	29.90	10.04
1991	692	9295	203	2031	90.22	21.43	35.50
1992	810	24,379	172	421	53.42	27.21	17.57
1993	751	21,544	212	10,899	88.33	49.12	25.17
1994	977	47,642	282	22,384	88.68	41.77	21.36
1995	1429	57,500	389	10,701	87.22	36.41	48.43
1996	1335	59,693	362	15,966	88.94	37.35	38.18
1997	1565	82,807	489	23,308	136.21	41.08	34.65
1998	1946	206,690	526	54,417	99.06	33.44	48.49
1999	2728	416,301	614	164,103	60.43	41.40	37.09
2000	3245	605,193	688	321,784	117.41	47.70	30.69
2001	2275	221,031	527	36,655	142.82	34.15	31.19
2002	1363	143,452	330	36,664	154.93	32.37	27.31
2003	1005	47,417	279	36,565	124.0	47.64	25.74
2004	1170	69,917	446	32,769	93.11	28.73	32.50
2005	1828	210,111	544	50,170	110.12	23.41	40.00
2006	2216	260,680	681	19,900	101.95	21.50	35.00
2007	2782	537,890	814	222,984	122.04	29.26	41.45
2008	2548	306,734	600	54,653	155.04	23.55	17.81

Source: Authors' own calculation based on data available from UNCTAD FDI database. Values are in million U.S. Dollars.

relationship between home country macroeconomic factors and aggregate mergers and acquisitions (M&As) remain sparse (Neto et al., 2010; Tolentino, 2010). The emphasis of host country macroeconomic influences on the inwards M&As appears reasonable in that, macroeconomic factors constitute a major component of location attractiveness of the host country in question (Dunning, 2009). Green and Meyer (1997); Oxelheim et al. (2001) argue that the host country macroeconomic policy environment may increase or decrease the cost of doing business in the host country. This is consistent to the theoretical prediction that, capital should flow into countries which offer favourable environment in terms of macroeconomic attractiveness. In contrast, the relationship between outward M&As and home country factors appears unclear and controversial. In this study, we argue that the environmental factors associated with a firm's country of origin provide a crucial, even if partially, to the development of a firm's competitive advantages by providing the context in which firm choices are made. Our question therefore is: do shocks to home country macroeconomic factors have explanatory power for CBM&A outflows? This paper uses co-integration tests and the associated vector autoregressive and error correction models (VAR/VECM), combined with quarterly data, to examine the dynamic relationship between CBM&A outflows and macroeconomic factors. The use of VAR/VECM enables us to treat simultaneous set of variables equally, with each endogenous variable being regressed on its own lags and lags of other variables to analyse the dynamic response of CBM&A outflows to macroeconomic shocks. Macroeconomic factors examined in this study include gross domestic product (GDP), inflation rate, exchange rate, broad money supply, stock market index and interest rate.

The choice of the United Kingdom is driven by two reasons: first, UK provides a unique setting and dataset as a leading European country in the international market for corporate control for the analysis of macroeconomic factors as evidenced in Table 1. The Table indicates that the UK holds the top position of CBM&As among the European Union countries. Despite the rise and fall in trends in outward M&A activities, the Table indicates that the UK is ahead of other leading countries in the EU such as Germany and France in terms of volume of CBM&As.

Second, as a non-member of the European Single Currency, the UK sets it own interest rates and other macroeconomic policies and that allow us to see the full and clear impact of the role of macroeconomic influences on outward M&A outside the European single currency zone.

The results show the important role played by home country macroeconomic factors and support the notion that home country macroeconomic factors create competitive advantages on which