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Determinants of Deal Structure in Swedish M&As: The Role of Regulatory Differences and Cross-Border Activity

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Abstract

In Sweden´s highly internationalized economy, M&As have become a common strategy for corporate growth. However, there is limited research on differences between domestic and cross-border mergers and acquisitions (M&As) involving Swedish firms. This study examines variations in deal value and payment method between domestic and cross-border M&As in Sweden, with a particular focus on the role of regulatory differences. Using a dataset of 207 M&A transactions from 2019 to 2023, two different ordinary least squares (OLS) regression models and two probit regression models are applied to assess the impact of total assets, return on equity, cross-border status and compliance with the Non-Financial Reporting Directive (NFRD). The results show that cross-border M&As are consistently linked to higher deal values, likely due to greater strategic benefits and market access. NFRD compliance initially correlates with higher deal values, but the effect becomes negative when controlling for firm size and profitability. NFRD also increases the likelihood of cash-financed deals. The findings are discussed in relation to the Efficient Market Hypothesis (EMH) and Agency theory, and compared with previous research. Overall, the study highlights how regulatory frameworks firm-specific characteristics shape M&As in Sweden. The results reject the hypothesis that cross-border deals are smaller and more often cash-financed, suggesting that regulatory differences reduce deal value and increase the likelihood of cash payments. These insights have implications for corporate decision-makers, investors and policymakers engaged in M&A strategy and regulation.

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1. Introduction

1.1 Background

Mergers and acquisitions (M&As) have long served as a key strategic tool for firms pursuing growth, market expansion and competitive advantage (Shimizu, K et.al, 2004). Historically, M&As have played a pivotal role in shaping corporate structure, with periods of heightened activity often mirroring broader economic and institutional developments. In recent years, M&A activity in Sweden has been notably dynamic, driven by macroeconomic trends, regulatory changes and global market forces (Erel, Liao & Weisbach, 2012).

Erel, Liao & Weisbach (2012) state that cross-border and domestic M&As present distinct sets of challenges and opportunities. Cross-border transactions involve firms from different countries, which can introduce complexities related to regulatory environments, operational integrations and cultural differences. These transactions are often influenced by factors such as disparities in investor protection, legal systems and the strength of financial institutions (Erel, Liao & Weisbach, 2012). In contrast, domestic M&As, where both firms are based in the same country, tend to involve lower investment cost and may offer higher returns compared to cross-border deals (Yuan, Jiang & Chen, 2023). While economic considerations play a role in all M&A activity, cross-border deals are particularly shaped by institutional and regulatory differences between countries (Erel, Liao & Weisbach, 2012).

Additionally, Erel, Liao & Weisbach (2012) emphasize that variations in legal and regulatory environments play a crucial role in shaping the structure, feasibility and outcome of cross-border acquisitions. Differences in investor protection, corporate governance standards and compliance requirements can influence not only a firm's willingness to pursue international transactions but also the post-merger performance of the combined entity (Erel, Liao & Weisbach, 2012). For acquiring firms, navigating foreign regulatory systems may introduce delays, elevated transaction costs, or even affect the selection of target markets. In contrast, domestic acquisitions are generally less constrained by such institutional frictions, often resulting in smoother negotiations and more streamlined integration processes (Martynova & Renneboog, 2008).

Given the strategic importance of merger and acquisitions and the complexities introduced by regulatory divergence, particularly cross-border contexts, a nuanced understanding of how these factors influence transaction patterns is essential. In a dynamic market like Sweden, where both domestic and international M&A activity has significantly contributed to corporate restructuring over the past years, this understanding becomes even more relevant. For corporate executives, investors and policymakers, analyzing the financial and strategic implications of these transactions provides valuable insight into how firms navigate differing institutional environments and utilize M&As as tools for sustainable growth and long-term value creation.

1.2 Problem description

In Sweden, a country with a highly internationalized economy and strong integration into global markets, M&As have been a common strategic tool for corporate expansion and restructuring in recent years. Despite this trend, there is a lack of in-depth research specifically examining differences in regulatory differences between Swedish firms involved in domestic versus cross-border M&As. This gap is notable given the growing value of such transactions and the strategic role they play in enhancing firm competitiveness and growth.

A key factor, according to Erel, Liao & Weisbach (2012), that may help explain these differences is the regulatory environment in which M&A transactions take place. Cross-border M&As often require firms to navigate unfamiliar legal systems, varying levels of investor protection, corporate governance standards and disclosure requirements. Such institutional disparities can complicate the transaction process, increase costs and create integration challenges that may negatively affect short-term financial performance (Erel, Liao & Weisbach, 2012).

Although previous studies, such as those by Erel, Liao & Weisbach (2012), have acknowledged these institutional and regulatory challenges in cross-border deals, limited research has been conducted that quantitatively compares how these factors affect M&As for Swedish acquiring firms. Moreover, few studies have investigated the extent to which regulatory divergence specifically contributes to performance differences between domestic

and cross-border M&As in Sweden. This lack of context-specific analysis represents a clear gap in the literature (Erel, Liao & Weisbach, 2012).

The present study aims to address this gap by analyzing the influence of regulatory differences and how their impact varies between domestic and cross-border M&As. In addition, it seeks to examine the role of financial performance as a contributing factor to these regulatory outcomes. By doing so, the study provides valuable insight for policymakers, investors and corporate decision-makers involved in M&A activities in the Swedish market.

1.3 Purpose of the study

The purpose of the study is to examine the differences in performance between domestic and cross-border M&As in Sweden from the period 2019-2023, with a specific focus on Swedish acquiring firms. Additionally, the study aims to explore the underlying factors that may account for these differences, with particular emphasis on the role of regulatory divergence.

One of the most significant barriers to value creation in cross-border M&As is the existence of regulatory differences between the acquiring and target countries. These may include variations in investor protection laws, corporate governance standards, antitrust regulations and financial disclosure requirements, all of which can increase the complexity, duration and cost of the acquisition process (Erel, Liao & Weisbach, 2012). As a result, firms may experience short-term declines in financial performance following a cross-border acquisition. However, firms that successfully navigate these institutional differences often secure strategic advantages in the long term (Shimizu, K et.al, 2004).

By conducting this analysis, the study aims to address a gap in the existing literature. Through a comparative examination of how regulatory divergens influence domestic and cross-border M&As, along with an investigation of the associated financial outcomes, this research seeks to provide valuable insight for investors, policymakers and corporate leaders engaged in M&A activities in Sweden. The study seeks to answer the question “To what extent do regulatory differences and cross-border dynamics explain variations in payment method and deal value in Swedish M&A transactions?”

2. Literature Review

The financial performance of acquiring firms post-M&A has been widely studied, yet the empirical findings remain mixed. Rau and Vermaelen (1998) examine how the market-to-book ratio influences long-term post-M&A returns. Their study is motivated by the question of whether certain types of acquiring firms are more likely to engage in value-enhancing acquisitions. Analyzing a sample of 3763 U.S. M&A transactions from 1980 to 1991, the authors find that glamour acquirers (firms with high market-to-book ratio) underperform significantly compared to value acquirers (firms with low market-to-book ratio) during the three years following an acquisition. Specifically, glamour acquirers experience long-term negative abnormal returns, whereas value acquirers achieve neutral or positive abnormal returns. These results are consistent with earlier research such as Agrawal, Jaffe and Mandelker (1992), who report that firms engaging in M&As tend to generate abnormal returns over the five years following the transaction.

Rau and Vermaelen (1998) also investigate the influence of payment method on M&A performance. Their findings indicate that stock-financed acquisitions underperform relative to those financed with cash, a conclusion supported by Loughran and Vijh (1997). In their study, Loughran and Vijh explore the relationship between post-M&A returns, the mode of acquisition and the form of payment. Their findings identified the method of payment in M&A transactions as a significant factor that influences the post-M&A performance. They find that stock mergers generate negative excess returns of -25 percent, while cash tender offers yield positive excess returns of 61.7 percent over a five-year period following the deal. According to their interpretation, stock mergers may result in underperformance due to the potential overvaluation of the acquirer´s stock at the time of the deal. Using overvalued equity to finance an acquisition can lead to long-term value destruction for shareholders. In contrast, cash payments may impose greater financial discipline and signal stronger confidence in the value of the target.

Hansen (1987) also contributes to this discussion by highlighting the role of asymmetric information in determining the choice of payment method. The author argues that when the target firm has better information about its value than the acquiring firm has, the acquirer is more likely to offer stock rather than cash to share the risk that arises due to asymmetric information.

Mergers and acquisitions have become a significant part of global corporate activity, especially cross-border M&A that accounts for one-third of all deals globally (Erel, Liao & Weisbach, 2012). Although extensive research exists on M&As, limited studies have examined the distinct outcomes of domestic versus cross-border transactions, particularly outside the U.S context (Bertrand & Zuniga, 2006).

A research made by Danbolt and Maciver (2012) offers an empirical assessment of 290 UK M&A transactions between 1990 and 2005, focusing on differences in returns between domestic and cross-border acquisitions. Their findings suggest that cross-border M&As tend to outperform domestic ones. However, other studies present contrasting results. For instance, Bertrand and Zuniga (2006) and Eckbo and Thorburn (2000) report that cross-border deals are associated with greater uncertainty, higher costs, and lower returns, and therefore tend to perform worse than domestic M&As.

Yuan, Jiang and Chen (2023) also present a counterpoint to Danbolt and Maciver´s (2012) findings. Their analysis of 1616 M&A deals involving Chinese listed firms, using a Propensity Score Matching-Difference in Differences (PSM-DID) methodology, reveals that domestic M&As are associated with higher market value creation than cross-border M&As. The authors observe that cumulative abnormal returns are more negatively affected by cross-border deals, which investors may perceive as riskier due to institutional distance and information gaps. The study further suggests that cross-border acquisitions are more likely to involve uncertainty, incomplete information and higher transaction costs, which is explained to be reasons for underperformance in cross-border deals.

Huang, Yang and Yang (2024) examined the impact of cross-border M&As on corporate organizational resilience and long-term performance. The authors highlight that cross-border M&As tend to be more complex, uncertain and costly compared to domestic deals, often resulting in short-term financial volatility. However, these initial challenges are viewed as a necessary part of the strategic process for firms seeking long-term growth and expansion. They argue that this could be explained by the fact that cross-border deals allow firms to enter new markets. By entering new markets, firms gain opportunities to diversify revenue streams, mitigate operational risk and access new knowledge and resources. This means that even though cross-border M&As may introduce greater difficulties in the short term, they

have the potential to generate significant long-term value and strengthen the acquiring firm's strategic position.

Regulatory differences also play a critical role in shaping M&A outcomes. Ince (2024) examines how variations in legal and compliance frameworks influence M&A decisions. The study finds that higher regulatory costs are associated with a decreased likelihood of firms engaging in M&As, suggesting that firms are sensitive to institutional environments when planning cross-border transactions. Supporting this view, Rossi and Volpin (2004) demonstrate that countries with more efficient legal systems and stronger investor protections tend to experience higher volumes of cross-border M&A.

Christensen, Hail and Leuz (2021) contribute to the literature by investigating the economic effects of mandatory corporate social responsibility (CSR) and sustainability reporting. The authors argue that non-financial reporting plays a crucial role in improving the information environment by enhancing transparency and reducing information asymmetry between firms and stakeholders. Improved disclosure facilitates more efficient capital allocation, reduces uncertainty around firm performance and can lower the cost of capital. Furthermore, the study notes that sustainability reporting may yield broader benefits, such as improved corporate governance.

Lastly, Acharya, Amihud and Litov (2011) examine how regulatory differences may lead to variations in M&A integration and outcomes. They find that acquirers from more strictly regulated environments may face difficulties when acquiring targets from a country with less strict regulations, potentially leading to integration challenges and weaker post- M&A performance.

Considering the literature, this study proposes two hypotheses:
H_1: Cross-border M&As are more likely to involve cash payment methods and a decreased deal value compared to domestic M&As in Sweden.
H_2: Regulatory differences negatively affect the deal value and increase the likelihood to involve cash payment methods in M&As.

3. Theoretical Framework

3.1 Efficient Market Hypothesis

The efficient market hypothesis (EMH) is a financial theory, originally developed by Fama (1970), which posits that markets are informationally efficient, meaning that asset prices fully reflect all available information at any given time. As a result, it should be extremely difficult for investors to consistently achieve above-average returns through market timing or stock selection. The foundation of EMH lies in the idea that market participants continuously analyze and act on new information, causing prices to adjust rapidly and accurately. Consequently, the market price of a security should always represent its true intrinsic value based on the information available (Fama, 1970).

EMH is commonly divided into three forms, each reflecting a different level of market efficiency based on the type of information incorporated into asset prices (Fama, 1970). The first form, “weak form” of EMH, asserts that all historical market data, such as past prices, trading volumes and returns, are already reflected in current stock prices. Therefore, it argues that technical analysis and identifying price trends are ineffective, as past patterns cannot reliably predict future price movements. The second form is “semi-strong form” which assumes that prices reflect all publicly available information. Not only is past data already incorporated into prices, but any new information that becomes publicly available is also immediately reflected. This means that conducting fundamental analysis will not yield any consistent benefits. The third form, “strong form”, implies that prices reflect all information, both public and private. Like the weak and semi-strong forms, it includes historical data and publicly available information, but also incorporates insider information. This reinforces the idea that no individual or strategy can consistently achieve above-average returns over time (Fama, 1970).

According to Fama (1991), supporters of EMH argue that financial markets efficiently process information, and that asset prices reflect all available data at any given time. Their reasoning is based on the core principle of EMH, that in modern financial markets, millions of investors and analysts are constantly analyzing information and executing trades based on it. As a result, new information is rapidly incorporated into stock prices. Consequently, it

should be extremely difficult for any individual to consistently identify undervalued stocks or predict future price movements more accurately than the market itself.

While EMH suggests that markets consistently process information efficiently, Lo (2004) challenges this view by introducing the Adaptive Market Hypothesis. According to this framework, market efficiency is not a fixed condition but evolves over time as investors adapt to changing environments. This implies that markets may be efficient during certain periods and inefficient during others. According to Titan (2015), testing market efficiency is challenging, and due to evolving market and economic conditions, there is a strong case for developing new theoretical models that accounts for these changes.

3.2 Agency Theory

According to Mitnick (1975), Agency theory can be defined as a contractual relationship in which one party, the principal, engages another, the agent, to perform a service on their behalf. Problems may arise in this relationship when the interests of the principal and the agent are not aligned, particularly in contexts where it is difficult or costly for the principal to observe or monitor the agent's actions. This misalignment gives rise to what are known as agency costs.

Jensen and Meckling (1976) explains that agency costs consist of three main components. The first one is monitoring expenditures, which refers to the expenditures by the principal to influence or observe the behavior and actions of the agent. The second one is bonding expenditures, which are the costs incurred by the agent to assure that they will act in alignment with the principal's interests. The third component is residual loss, which represents the cost that arises when the agent acts contrary to the best interests of the principal (Jensen & Meckling, 1976).

Jensen and Meckling (1976) further argue that the ownership structure of a firm has a direct impact on the agency costs. When agents, such as managers, hold a greater financial stake in the firm, their incentives will more likely become more aligned with the incentives of the principal. This could potentially lead to more value-enhancing decisions and a reduced likelihood of engaging in deals driven by managerial self-interest. However, beyond a certain

point, increasing managerial ownership may lead to risk aversion or the pursuit of personal benefits at the expense of the firm value. In this situation, agents may pursue acquisitions and other deals to fulfill personal motives and not to maximize shareholder value.

According to Panda and Leepsa (2017), agency theory has evolved to incorporate not only financial considerations but also behavioural and institutional factors. This broader perspective of agency theory helps explain managerial decisions in complex contexts, where motivations may extend beyond simple profit maximization.

Agency theory provides a valuable framework for understanding why firms differ in their ownership and financing structures. The framework is a cornerstone of organizational economics and corporate finance, and gives an insight and explanation for firm structure, managerial behavior and internal governance mechanisms (Panda & Leepsa, 2017).

4. Method

4.1 Data collection & the sample

The data used in this study has been collected from LSEG workspace (Refinitiv Eikon). After applying the search criteria outlined in Table 1, LSEG workspace generated a dataset consisting of 207 M&As transactions.

The dataset consists exclusively of M&A transactions conducted by publicly listed Swedish firms. To ensure the availability of all required variables, M&As made by private firms were excluded due to incomplete financial data. By focusing exclusively on Swedish acquiring firms, the study addresses a gap in previous studies, which has often taken a broader international approach. The narrower geographical scope allows for a more in-depth and context-specific analysis, particularly with regard to national regulatory frameworks.

The selected time period, 2019-2023, was chosen to ensure the study reflects recent M&A activity and remains relevant. This time frame provides a clearer understanding of current

M&A activity and the factors that influence it in today's environment. The year 2024 was excluded due to all financial data needed not being available yet.

Table 1: Search Criterias in LSEG Workspace

Search Criterias	Description
Date Announced	01 January 2019- 31 December 2023
Public Status	Public Firm
Deal Status	Completed
Acquiror Nation	Sweden
Return on Equity	Acquiror Return on Equity 12 months post the deal
Deal Value	Total value of the deal (USD, Millions)
Return on Assets	Acquiror Return on Assets 12 months post the deal
Total Assets	Acquiror Total Assets 12 months post the deal
EBITDA Margin	Acquiror EBITDA 12 months post the deal
Consideration Structure	Payment method (cash, stock or combination)

The financial data that has been gathered on these 207 M&As is return on equity (ROE), return on assets (ROA), earnings before interest, taxes, depreciation and amortization (EBITDA), total assets and deal value for the acquiring firms. In addition, data on payment method, industry classification and whether it is a domestic or cross-border M&As has been collected from LSEG workspace. Lastly, data on the number of employees, used to construct a dummy variable for NFRD applicability, was retrieved from Bolagsfakta.

Before conducting the regression analysis, the dataset was assessed for the presence of outliers, which are observations that deviate significantly from the overall distribution of the data. If not addressed, outliers can lead to biased or misleading results. In a regression

analysis, outliers can distort coefficient estimates, inflate standard errors and compromise the overall validity of the analysis. Therefore, properly handling outliers is essential to ensure the robustness and reliability of the results. In this study, outliers were addressed through winsorization at the 5th and 95th percentiles. This technique involves replacing values below the 5th percentile and above the 95th percentile with the values of the 5th respective 95th percentile. Winsorization was chosen instead of removing outliers entirely, as it allows the dataset to retain its structure and variability while reducing the influence of extreme values that could distort the analysis.

4.2 Variables

Deal value refers to the overall value of a deal, encompassing not only the monetary components but also additional factors that contribute to the overall value of the deal. These may include strategic importance, market impact, long-term value creation and customer acquisition potential (Breakcold, n.d). In this study, deal value is used as a dependent variable in two of the models, allowing for an analysis of how various factors such as regulatory frameworks and firm-specific characteristics affect the size and scope of M&A transactions. Deal value can give indications on the acquiring firm's strategic ambitions, financial capacity and growth expectations, making it a key indicator in empirical research on M&As.

The payment method describes how the acquiring firm finances the purchase of the target company. There are three common forms of payment: cash, stock or a combination of both (CFI, n.d). The method chosen by the acquiring firm reflects a range of strategic, informational and financial considerations, all of which can influence the outcome of the M&A transaction. Including payment method in the analysis is particularly relevant because it can signal the acquiring firm´s expectations regarding the deal. A cash payment often indicates greater confidence in the value of the target. In contrast, the use of stock may suggest valuation uncertainty. Additionally, stock-based deals can lead to changes in ownership structure or control, which could affect the M&A performance (Yuan, Ye & Ma, 2016). In this study payment method is used as a dependent variable in two of the models, as it represents a central strategic decision in M&A transactions and can be influenced by both firm-specific and external factors. In the remaining two models, it is included as an independent variable to test whether the choice of payment method has a significant effect on

deal value. The variable is constructed as a dummy variable, where 1 indicates that the deal was financed with cash, and 0 represents stock or mixed payment methods.

One of the independent variables is the cross-border dummy, which is used to distinguish between domestic and cross-border M&As. This binary variable takes the value 1 if the transaction is cross-border, meaning the acquiring and target firms are based in different countries, and 0 if the transaction is domestic. The inclusion of the cross-border dummy is supported by previous research showing that cross-border M&As differ significantly from domestic ones in terms of transaction characteristics and regulatory environments (Rossi & Volpin, 2004). Including this variable allows for an analysis of how various factors influence the likelihood and characteristics of cross-border M&As compared to the domestic deals.

To measure regulatory differences, a dummy was created based on the Non-Financial Reporting Directive (NFRD). NFRD is an EU regulation that requires public-interest entities with 500 or more employees to disclose non-financial information related to environmental matters, social and employee-related issues, human rights, anti-corruption, and diversity (Finansinspektionen, n.d). In the dataset, 103 M&A transactions involve acquiring firms that are subject to the NFRD. By including this variable in the regression model, the aim is to assess whether this regulatory requirement influences M&As. The dummy variable takes the value 1 if the acquiring firm is subjected to the NFRD, and 0 if the firm is not obligated to NFRD. In 2024, the NRFD directive was replaced by a new directive, Corporate Sustainability Reporting Directive (CSRD), aimed at enhancing the transparency and comparability of sustainability-related information (FAR, n.d). However, since the CSRD was implemented in 2024, this study is based on the previous directive, NFRD, as it was the applicable framework during the period from which the data was collected, 2019-2023.

According to CFI (n.d), return on equity (ROE), net income divided by equity, is a key financial metric used to assess a firm's profitability in relation to its equity. Because it is relative to equity rather than total assets or revenue, ROE enables meaningful performance comparisons across firms of different sizes. Additionally, it is a logical indicator for evaluating whether M&A transactions generate value for shareholders, as such deals are often justified on the basis of expected value creation. Post-M&A strategies often involve changes in a firm's financial structure, since ROE is influenced by leverage, it can capture changes in financing and risk after an acquisition (CFI, 2024). The regression was also tested using an

alternative measure of the firm's financial performance, return on assets (ROA). ROA assesses how efficiently a company utilizes its assets to generate earnings, with a higher ratio indicating greater operational efficiency (Hargrave, 2025). However, the results showed that ROE yielded a more significant relationship with the dependent variable. As a result, ROA was excluded from the final model.

The acquiring firm's total asset is included in this study as a control variable. Including total assets in the regression model helps to isolate the effect of other explanatory variables by controlling for firm size, ensuring that the results are not distorted by differences in scale. Larger firms often benefit from lower costs per unit due to economies of scale, which can enhance profitability. They also typically possess greater financial resources, better access to capital markets and more experienced M&A teams, all of which can contribute to improved performance in a M&A transaction. Additionally, larger firms may have stronger bargaining power, enabling them to negotiate more favorable M&A terms or operate more efficiently post the acquisition. By accounting for firm size, the model controls for the possibility that performance differences are driven by firm size rather than by variables of interest (Istiqomah, Ichwanudin & Suryani, 2023). The regression was also tested using Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as an alternative to total assets for measuring firm size and financial capacity. EBITDA is commonly used to evaluate a firm's profitability and operational performance (Hayes, 2024). However, the regression results showed that total assets exhibit a stronger and more significant relationship with the dependent variable. Consequently, EBITDA was excluded from the final model.

In this study, industry refers to the sector in which the acquiring firm operates and is included as a fixed effect. Since some industries are inherently more profitable than others, controlling for industry effects helps isolate the true impact of M&As activity (Atinc & Simmering, 2021). Industries also differ significantly in their use of debt and equity, which can influence financial ratios such as ROE. Without accounting for these differences, comparison across firms in different sectors could lead to misleading conclusions. Additionally, some industries are more cyclical and volatile, while others are more stable, including industry as a control mitigate the influence of such performance volatility. In regression models, this is typically done by including industry dummy variables to account for sector-specific effects (Atinc & Simmering, 2021).

Table 2: List of Variables

Variabels		Definition	References
Dependent Variable	**Deal Value**	The overall value the deal brings	LSEG Workspace
Dependent Variable/ Independent Variable	**Payment Method**	Dummy variable: 1= financed with cash only 0 = all the other methods	LSEG Workspace
Independent Variable	**Cross-border vs. Domestic**	Dummy variable: 1= Cross-border 0 = Domestic	LSEG Workspace
Independent Variable	**NFRD**	Dummy variable: 1 = The firm is obligated to NFRD 0 = The firm is not obligated to NFRD	LSEG Workspace
Control Variable	**ROE**	Ratio between net profit and total equity	LSEG Workspace
Control Variable	**Total Assets**	Acquiror total assets	LSEG Workspace
Fixed Effects	**Industry**	The industry the companies operates in	LSEG Workspace

Table 3 provides descriptive statistics for the continuous variables included in the analysis: Return on equity, the natural logarithm of deal value and the natural logarithm of total assets. The average ROE across the firms in the dataset is 41.28 percent, indicating that, on average, firms generate a return of 41.28 percent on shareholder equity. This is relatively high and may reflect the strong profitability among the sampled firms. The standard deviation and variance is also relatively large, suggesting substantial variation in ROE across firms. The distribution of ROE is moderately positively skewed, 0.87, meaning that while most firms have ROE values clustered around or below the mean, a smaller number of firms exhibit exceptionally high ROE, which pulls the average upward. The range of ROE values spans from 2.33 to 124.31, highlighting that while some firms are only marginally profitable, others achieve very high returns on equity.

The average of the natural logarithmic of deal value is 2.54, which corresponds to an approximate deal value of $e^{2.54}$, or around 12.7 million USD. The data shows moderate variation in the deal value, indicating that the sample includes both small and large transactions. The logarithmic transformation helps to reduce the influence of outliers and stabilize variance, thereby enhancing the robustness of the regression model. The distribution of deal value is slightly positively skewed, suggesting that while most deals are relatively small, a few larger transactions increase the overall mean. The range of log-transformed deal values spans from -0.53 to 6.31. A minimum value of -0.53 implies that the original deal value was between 0 and 1 million USD, likely representing a small acquisition or partial ownership stake.

For the natural logarithm of total assets, the mean is 5.02, indicating that the average firm size corresponds to $e^{5.02}$, approximately 151.6 million USD. The standard deviation and variance suggest a moderate level of dispersion in firm sizes across the sample. The skewness value of 0.31 indicates that the distribution is slightly positively skewed. This shows that the values are fairly symmetrically distributed around the mean, with only a slight tendency toward larger firms. The range of logged total assets spans from 1.16 to 9.59, which translates to a range of approximately 3.2 million USD to 14 700 million USD in total assets. This wide range reflects a diverse sample that includes both relatively small and large acquiring firms.

Table 3: Descriptive statistics

	Mean	Standard Deviation	Variance	Skewness	Min	Max	Count
ROE	41.28	34.35	1180.19	0.87	2.33	124.31	207
ln_DealValue	2.54	1.97	3.88	0.38	-0.53	6.31	207
ln_TotalAssets	5.02	2.35	5.53	0.31	1.16	9.59	207

4.3 Empirical Identification

In this study, an Ordinary Least Square (OLS) and a Probit regression is employed. OLS, also known as linear regression, is a statistical method used to estimate the coefficients of a linear equation that models the relationship between a dependent variable and one or more independent variables (XLSTAT, n.d). OLS regression is used because two of the models have a continuous dependent variable, ln_DealValue, making OLS a standard and appropriate estimation method. For the models where the dependent variable is PaymentMethod, which is a dummy, Probit regression, also known as Probit model, is employed. Probit regression is a statistical technique used for analyzing binary outcome variables. It estimates the probability of a particular outcome by applying the inverse of the standard normal cumulative distribution function to a linear combination of the independent variables (OARC Stats, n.d). Employing OLS and Probit regression allows us to estimate how deal value and payment method are associated with the independent variables, while accounting for the influence of additional control variables.

To assess the severity of multicollinearity, a Variance Inflation Factor (VIF) test was conducted. According to CFI (n.d), the VIF measures the extent to which the variance of a regression coefficient is inflated due to collinearity among the independent variables. The test was applied to the OLS regressions, where multicollinearity may arise if several independent variables exhibit a linear relationship with one another. As a general guideline, VIF value above 4 or below 0.25 may indicate the presence of multicollinearity, while values exceeding 10 or falling below 0.1 are typically considered signs of severe multicollinearity.

Table 4: Variance Inflation Factor (VIF)

Variable	VIF	1/VIF
NFRD	1.48	0.6773
Cross-Border	1.21	0.8261
ln_TotalAssets	1.50	0.6656
ROE	1.11	0.9020

The results from the VIF analysis presented in Table 4 indicate that none of the independent variables in the OLS-regression is highly correlated with one another. Since all VIF values fall well below the commonly accepted value of 4 and above the value of 0.25, this confirms that multicollinearity is not a concern in the model. Consequently, the regression is considered statistically robust in terms of multicollinearity. This enhances the reliability of the coefficient estimates and strengthens the validity of the OLS- regression results.

The error term included in the OLS-regression model represents the difference between the observed values and the values predicted by the model. It captures all factors influencing the dependent variable that are not explicitly accounted for, whether due to data limitations, omitted variables or other unobservable influences. As such, the error term is a necessary component of the regression model, ensuring a more realistic and accurate representation of the underlying relationships (Quickonomics, 2024).

$$ln_DealValue = \beta 0 + \beta 1(Dummy_NFRD) + \beta 2(Dummy_CrossBorder) + \beta 3(ln_TotalAssets) + \beta 4(ROE) + \beta 5(Dummy_PaymentMethod) + \varepsilon \quad (1)$$

$$Dummy_PaymentMethod = \gamma 0 + \gamma 1(Dummy_NFRD) + \gamma 2(Dummy_CrossBorder) + \gamma 3(IndustryFE + \varepsilon \quad (2)$$

5. Analysis

5.1 Results

In the models, the dependent variables are the natural logarithm of deal value (ln_DealValue) and payment method. Deal value has been transformed using their natural logarithm, while payment method variable is a dummy indicator that equals 1 if the transaction was financed with cash. The independent variables are two dummy variables, one indicating whether the acquiring firm is subject to NFRD and the other distinguishing between cross-border and domestic deal. Control variables include the natural logarithm of total assets (ln_TotalAssets), return on equity and payment method. The logarithmic transformation of total assets allows the result to be interpreted as the percentage change in ln_DealValue resulting from a one percent change in firm size. For the payment method model, the result indicates the change in the probability of using cash financing associated with a one-units change in the respective independent variables. In one of the models, industry fixed effects are included to control for sector-specific characteristics. The adjusted R-squared is a modified version of the R-squared statistic that accounts for the number of predictors included in the model. Since the models in this study include varying numbers of variables, the adjusted R-square is more appropriate for evaluating model fit than the regular R-squared. For the probit regressions, the pseudo R-squared is reported instead of the adjusted R-squared. This measure indicates how much better the model fits the data compared to a null model that includes no predictors.

Each model is discussed individually, beginning with an interpretation of the results and identification of statistically significant relationships, followed by a discussion of how the findings relate to relevant theories and previous research.

Table 5: Ordinary Least Square- Regression Results

VARIABLES	(1) Deal Value	(2) Deal Value
NFRD	0.729**	-0.659***
	(2.477)	(-2.761)
Cross-Border	0.942***	0.637***
	(3.001)	(2.770)
Total Assets		0.616***
		(12.273)
ROE		-0.007**
		(-2.366)
Payment Method		-0.304
		(-1.521)
Industry FE	No	No
CV	No	Yes
Constant	2.015	-0.063
	(11.93)	(-0.22)
Observations	207	207
Adjusted R-squared	0.099	0.530

Note: This table shows regression results with Ln Deal Value as the dependent variable, which represent the logarithmic value of the deal. Column 1 includes two dummy variables, NFRD and crossborder. Column 2 expands this by adding control variables, logarithmic total assets and return on equity, and dummy variable on payment method.
****p<.01, **p<.05, *p<.1*

The first model, presented in Column 1, examines the effect of NFRD compliance and cross-border status on deal value. The variable representing NFRD is statistically significant at a 5 percent level. The results indicate that if the acquiring firm is subject to the NFRD, the natural logarithm of deal value increases compared to when the firm is not obligated to NFRD. The cross-border dummy variable is statistically significant at the 1 percent level, with a coefficient of 0.942. This suggests that, all else equal, cross-border transactions are associated with an increase in the log-transformed deal value compared to domestic

transactions. The adjusted R-square value indicated that this model explains approximately 10.8 percent of the variations in the dependent variable.

In Column 2, the model extends the first by also including the control variables, total assets and return on equity, to account for potential confounding effects. Specifically, this model examines how ln_TotalAssets, return on equity and whether it is a cash financed deal or not, influence the ln_DealValue, in addition to the NFRD and cross-border variables. The variables for NFRD, cross-border M&A and ln_TotalAssets are all statistically significant at the 1 percent level. The results show that if the acquiring firm is subject to NFRD, ln_DealValue decreases, compared to if the firm is not subject to NFRD. Conversely, cross-border transactions are associated with an increase in ln_DealValue, compared to domestic transactions. Furthermore, an increase in the natural logarithm of total assets corresponds to an increase in ln_DealValue. The return on equity variable is statistically significant at the 5 percent level, with coefficient of -0.007, indicating that an increase in return on equity is associated with a decrease in ln_DealValue. The payment method variable, however, is not statistically significant at either 1, 5 or 10 percent level. The adjusted R-square for this model is 54.10 percent, making it the strongest among the two models presented, as it explains over half of the variation in the dependent variable.

Table 6: Probit- Regression Results

VARIABLES	(1) Payment Method	(2) Payment Method
NFRD	0.577***	0.587***
	(2.880)	(2.560)
Cross-Border	0.178	0.271
	(0.830)	(1.160)
Industry FE	No	Yes
CV	No	No
Constant	-0.284	-0.063
	(-2.480)	(-0.22)
Observations	207	207
Pseudo R-squared	0.044	0.077

Note: This table shows regression results with payment method as dependent variable, which represents a dummy variable that takes value 1 if cash and 0 if other. Column 1 includes two dummy variables, NFRD and crossborder. Column 2 expands this by including industry fixed effects. The z-values are presented in the parentheses.
****p<.01, **p<.05, *p<.1*

The third model, presented in Column 1, analyzes how NFRD compliance and the cross-border dummy influence the payment method, that is the likelihood that a transaction is financed with cash. The NFRD variable is statistically significant at the 1 percent level, indicating that if a firm is subject to NRFD, the probability of the deal being financed with cash increases, relative to when the firm is not subject to NFRD. In contrast, the cross-border dummy is not statistically significant in this model. In the regression analysis, the control variables return on equity and the natural logarithm of total assets are excluded, as the purpose is to isolate and examine the effect of regulatory differences and whether the deal is cross-border or domestic. The pseudo R-square for this model is 4.4 percent, indicating that the model performs 4.4 percent better compared to a null model with no predictors.

The fourth model, presented in Column 2, builds on the third by including industry fixed effects. The NFRD variable remains statistically significant at the 1 percent level, while the cross-border variable continues to show no statistical significance. The coefficient for NFRD is 0.587, indicating that if a firm is subject to NRFD, the probability of the deal being financed with cash increases, relative to firms not subject to the regulation. The model

includes 13 industry categories, of which only one is statistically significant. The industry Financials is significant at the 10 percent level. The coefficient for this industry is 0.563, indicating that if the acquiring firm operates in the financial sector, the probability of using cash as the payment method increases. This suggests a meaningful influence of the financial industry on payment method choice, while the other twelve industries do not exhibit a statistically significant effect. In the sample, 32 out of 207 M&A deals involved firms from the financial industry. As in model three, the control variables return on equity and ln_TotalAssets are excluded to isolate the effects of regulatory differences, cross-border status and to control for industry fixed effects. The pseudo R-square for this model is 7.7 percent, indicating that this model performs 7.7 percent better compared with a null model with no predictors.

5.2 Discussion

The findings of this study indicates that cross-border M&As are associated with higher deal values, compared to domestic transactions. This result aligns with previous research, such as Danbolt and Maciver (2012), whose study on differences in returns found that cross-border deals tend to outperform domestic ones. While their research and this study examines different financial metrics, the overarching conclusions are consistent in suggesting a strategic advantage in cross-border M&A activity. However, these findings contrast with other studies such as Bertrand and Zuniga (2006), who argue that cross-border deals are often characterized by greater uncertainty, higher transaction costs, and lower returns, leading to weaker performance compared to domestic M&As. Our study suggests that cross-border M&As may have higher deal value, this does not necessarily translate into more successful or value-generating outcomes. Therefore, studies that focus more on the long term performance can be in contrast with these results. For example, Yuan, Jiang and Chen (2023) found that domestic M&As tend to yield better short-term performance, measured through cumulative abnormal returns. They attribute this to the reduced uncertainty, more complete information and lower acquisition costs typically associated with domestic transactions. On the other hand, cross-border deals may offer greater long-term strategic value through access to new markets and opportunities for international expansion. Despite the higher short-term costs and risk, these deals can lead to significant value creation over time, as argued by Huang, Yang and Yang (2024). This perspective helps contextualize our findings that cross-border

transactions are associated with higher deal values; they may reflect the broader scope and strategic ambition of such deals, rather than immediate financial efficiency.

The findings of this study also reveal that return on equity has a significant negative effect on the deal value. This result is partially consistent with the findings of Rau and Vermaelen (1998), who show that acquiring firms with a high market-to-book ratio significantly underperform in the long run compared to those with a low market-to-book ratio. ROE and market-to-book ratio often move in the same direction, where a higher market-to-book ratio is generally associated with a higher ROE (Investopedia, 2024), consequently their results can be applied to this study's variable ROE as well. However, it is important to note that Rau and Vermaelen (1998) focus on long-term performance, this study examines deal value, which is not a direct indicator of long-term outcomes. As a result, the findings can be considered only partially consistent.

The regression analysis shows that regulatory differences, as captured by the NFRD variable, have a significantly positive effect on deal value when control variables are not included. However, once the control variables, total assets and return on equity, are added to the model, the results show that regulatory differences have a significant negative effect on the deal value. Acharya, Amihud and Litov (2011) examined the impact of regulatory differences on M&A activity and found that acquiring firms from countries with stricter regulatory environments face greater challenges when acquiring targets in countries with more lenient regulations. The NFRD, is a regulatory framework that applies within the European Union. When a Swedish acquiring firm, subject to the requirements of NFRD, acquires a target outside the European Union, it may encounter difficulties related to integration and poor financial performance. These challenges may help explain the negative effect of regulatory differences on deal value observed after the inclusion of control variables, reflecting the hidden costs and complications associated with regulatory divergence.

NFRD is also found to have a significant effect on the choice of payment method. The results indicate that firms subject to NFRD are more likely to finance M&A transactions with cash. A research made by Christensen, Hail and Leuz (2021) argue that an increased level of non-financial reporting enhances the quality and availability of public information, and thereby reducing investment risk. Hansen (1987) highlights that asymmetric information influences the choice of payment method, when the acquiring firm faces greater information

asymmetry, it tends to prefer stock financing to avoid undervaluation. Since NFRD promotes greater transparency, it helps reduce asymmetric information, which in turn increases the likelihood that cash will be used as the payment method in M&A deals.

In this study, NFRD is also found to be associated with higher deal values in M&A transactions. While NFRD itself may not directly cause an increase in deal value, the directive applies to firms with 500 or more employees, typical large companies. Since larger firms are subjected to the NFRD, it is reasonable to assume that they are involved in larger transactions, which may help explain the observed increase in deal value. However, when control variables such as firm size are included in the model, the effect of NFRD on deal value becomes negative. This shift suggests that the initial positive effect may have been driven by firm size rather than the directive itself.

These findings can further be partially explained by Efficient Market Hypothesis (EMH). According to EMH, all public information influences market decisions. Since, firms subjected to the NFRD are required to report non-financial information, their level of transparency increases. The results show that NFRD-firms are involved in larger M&A transactions, which may be attributed to this increased transparency. With more publicly available information, these firms are perceived as more credible by the market, an effect aligned with the semi-strong form of EMH, which assumes that all publicly available information is already incorporated into asset valuation.

The increased transparency associated with NFRD compliance can also be linked to the Agency Theory. Under this framework, greater disclosure and regulatory oversight reduce information asymmetry and help mitigate conflicts of interest between managers and shareholders. Being subject to NFRD obliges firms to demonstrate greater accountability and responsibility, which may strengthen justification for engaging in larger, value-creating transactions. Additionally, the higher regulations standards applied to NFRD-firms mean they are subject to increased monitoring, which limits the agents ability to act in self-interest and therefore decreases the likelihood of the agent engaging in acquisitions and other deals to fulfill personal motives and not to maximize shareholder value. This supports the empirical findings that NFRD-firms tend to engage deals with higher value. However, when control variables, particulate firm size, are included in the regression, the effect of NFRD on deal value becomes significantly negative. This outcome is not directly consistent with either

EMH or Agency Theory and suggests that the initial positive relationship may have been driven by firm size rather than regulatory effects alone.

The findings show that cross-border has a significant positive effect on deal value, both with and without the inclusion of the control variables, return on equity and firm size. This can be interpreted through the lens of EHM. If the market perceives cross-border M&As as strategically valuable, such as through access to new markets, then higher deal value can be rationally justified. The greater deal value that comes with cross-border deals can be motivated by greater growth opportunities and synergies, which can be expected by the market. This rationale also helps explain why total assets have a significant positive impact on deal value. M&As carried out by large firms, as measured by total assets, are likely viewed by the market as more strategic, credible and aligned with long-term value creation. As a result, higher deal values in such cases may be seen as more rational and expected by market participants.

Based on the conducted analysis, the research question of this study can now be addressed. The findings indicate that both regulatory differences and cross-border dynamics play a role in explaining variations in payment method and deal value in M&A transactions involving Swedish acquiring firms, though the magnitude and direction of their effects differ. Among the two, cross-border dynamics emerges as the most influential variable affecting deal value, suggesting that whether a transaction is domestic or cross-border is a key determinant in how large the transaction becomes.

At the same time, regulatory differences also demonstrate a significant impact on deal value. Interestingly, the results differ between the two regression models testing for deal value. In model 1, where firm size and return on equity is not controlled for, regulatory differences show a significant positive relationship with deal value. This initially suggests that deals involving regulatory differences may result in larger transactions. However, when total assets, used as a proxy for firm size, and return on equity are introduced in model 2, the effect of regulatory differences on deal value becomes significantly negative. This shift implies that when controlling for firm size, greater regulatory complexity tends to reduce the deal value. Thus, although the direction of the effect changes depending on the model specification, it can still be concluded that regulatory differences significantly can explain variations in deal value.

Additionally, the results also show that firm-specific financial variables can explain variations in deal value. In particular, total assets have a strong significant positive effect. This indicates that larger firms tend to engage in M&As with higher deal value. Return on equity also shows a significant impact, however not as strong as total assets, meaning that it is less influential than firm size in determining the deal value.

In addition, the results show that regulatory differences are a significant determinant that can explain variations in the payment method. However, cross-border dynamics do not appear to contribute meaningfully to explaining variation in payment method. The variable capturing cross-border status is not statistically significant in the models for payment method, indicating that whether a deal is cross-border does not significantly influence whether it is financed with cash. Regulatory differences show a statistically significant relationship with the payment method and can therefore explain variations in that variable, both in models that include industry fixed effects and in the one that do not. While the magnitude of the effect increases slightly when industry controls are introduced, the change is minor, and the variable remains significant. The inclusion of industry fixed effects also reveals that the industry the firm operates in appears to have a stronger influence on payment method than if the transaction is cross-border. This implies that industry can explain the variations in payment method, and may therefore be more important to examine than the cross-border dynamics in this case.

The first hypothesis of this study stated: “Cross-border M&As are more likely to involve cash payment methods and a decreased deal value compared to domestic M&As in Sweden.” However, the empirical results do not support this proposition. The results reveal that cross-border M&As are not more likely to be financed through cash, and in fact, they are associated with a higher deal value compared to domestic M&As. The coefficient for cross-border is not statistically significant in relation to payment method, and contrary to the hypothesis, the relationship with deal value is positive and significant. Consequently, the first hypothesis of this study can be rejected based on the empirical findings.

The second hypothesis is “Regulatory differences negatively affect the deal value and increase the likelihood to involve cash payment methods in M&As.” The results from the regressions support this hypothesis. When controlling for firm size, regulatory differences

show a significant negative effect on deal value. Furthermore, regulatory differences are positively and significantly associated with involving cash payment methods. Both relationships are statistically significant. Therefore, the second hypothesis of this study is not to be rejected due to it being significant at the 5 percent level and being supported by the empirical findings of this study.

5.3 Contribution

The results of this study are relevant for policymakers, investors and corporate decision-makers. It finds that firms subject to NFRD tend to engage in M&As with lower deal values compared to firms not subjected to the directive. Additionally, these firms are more likely to finance the deal with cash rather than stock.

The NFRD, an initiative by the European Union aimed at increasing transparency and corporate responsibility, appears to influence more than just reporting practice. Its impact on strategic financial decisions highlights the broader implications of such regulations. This is particularly important for policymakers, as it shows that increased public disclosure requirements can also affect firms operational and financial behaviour. These findings provide stronger justification for expanding and reinforcing such regulatory frameworks.

The study also reveals that firm size and profitability significantly affect deal structure, which is especially relevant to investors. Larger deals initiated by companies with lower return on equity may be perceived as riskier and potentially less valuable. Conversely, cash-financed M&As may indicate strong internal governance. As such, these insights can help investors better assess the risk associated with specific deals.

For corporate decision-makers, understanding the various factors that influence M&As is crucial. M&As are strategic choices, where the selection of the target firm, deal size and payment method all significantly impact outcomes and firm performance. The finding that return on equity has a negative relationship with deal value suggests that decision-makers should be cautious. Awareness of this dynamic can help prevent decisions that may lead to agency conflicts or diminish investor confidence.

5.4 Limitations

Although this study provides valuable insight, several limitations should be acknowledged. The analysis focuses on M&A deals conducted by Swedish publicly listed acquiring firms between 2019 and 2023. As a result, the findings may not be generalizable to other geographic markets, time periods or privately held firms.

Additionally, the sample is limited to deals for which complete information, such as payment method, return on equity and total assets, was publicly available. Consequently, some observations had to be excluded and it is possible that the omitted cases differ systematically from those included in the analysis, potentially introducing bias into the results.

The NFRD variable is construed as a dummy variable, which simplifies the complexity of regulatory compliance in practice. Firms subject to the NFRD may vary significantly in the quality and depth of their reporting, which is not captured in this simplified measure. Similarly, the payment method is treated as a dummy variable that distinguishes only between cash-only deals and all other forms of payment. This limits the analysis by excluding a more nuanced examination of deals financed with stock or a combination of cash and stock.

The limitations in this study opens up for several interesting avenues for future studies. One potential direction is to analyze post-M&A performance, such as return on equity or abnormal returns, to determine whether certain types of deals are more value-creating than others. This would also offer a more long-term perspective on the outcomes of M&A transactions. In 2024, the Non-Financial Reporting Directive (NFRD) was replaced by the Corporate Sustainability Reporting Directive (CSRD). Since the implementation and interpretation of CSRD vary across industries, future research could examine how this directive affects specific sectors and what influence it has on M&A activity. Additionally, as both NFRD and CSRD are European Union directives, it could be valuable to broaden the geographic scope beyond Sweden and conduct a comparative analysis across multiple European Union-member states.

6. Conclusion

This study examines the differences in deal value and payment method between domestic and cross-border mergers and acquisitions in Sweden, with a particular focus on the role of regulatory differences.

The main findings reveal that cross-border M&As are consistently associated with higher deal values, both with and without the control variables, total assets and return on equity. This is likely due to access to new markets, greater strategic opportunities and expected synergies. Regulatory differences, NFRD, is initially associated with higher deal value, however this effect becomes significantly negative when controlling for firm size and financial performance. This indicates that greater regulatory complexity may reduce deal value when firm-level factors are accounted for. In addition, NFRD increases the likelihood of using cash as payment method, supporting the idea that higher transparency and reduced information asymmetry encourage cash financing.

Overall, the study contributes to a deeper understanding of how regulatory frameworks and deal characteristics influence M&As in Sweden. The findings lead to a rejection of the first hypothesis, as cross- border M&As are not more likely to involve cash and are associated with higher deal value. The second hypothesis is supported, as the results show that regulatory differences negatively affect deal value and increase the likelihood of financing the transaction with cash.

These insights are valuable for corporate decision-makers, investors and policymakers aiming to understand how institutional and firm-specific factors shape M&A behavior in an open economy like Sweden.

For future research, it would be valuable to examine post-M&A performance and the factors that influence it. Additionally, as the NFRD has been replaced with CSRD, future studies could explore how this regulatory shift has impacted M&A activity. Lastly, since industry appears to influence payment methods more than cross-border status, further studies could investigate this relationship in greater depth.

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Appendix A. Ethical Considerations

During the writing process of this thesis, artificial intelligence (AI) has been used exclusively to improve the language and clarity of text originally written by the authors. No content, analysis or interpretations have been generated by AI, meaning that all data collection, statistical analysis and conclusions are entirely the result of our own work. The purpose of using AI has been to ensure that the study meets a high standard of academic writing, especially in terms of grammar, structure and coherence. This approach is consistent with the principles of academic integrity, as the AI tool has functioned similarly to traditional language editing support, without compromising the originality or authenticity of the study.