

Impact of Financial Statement Comparability on Cross-Border M&A: A Conceptual Framework Based on Institutional and Policy Environments

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Abstract—Cross-border Mergers and Acquisitions (M&A) have become a dominant form of foreign direct investment, yet they are characterized by high uncertainty and significant failure rates. This study develops a comprehensive conceptual framework to examine how financial statement comparability influences cross-border M&A outcomes under varying institutional and policy environments. Drawing on prior literature and policy-based insights, this paper identifies three core mechanisms: the information environment mechanism, the risk mitigation mechanism, and the institutional moderation mechanism. Furthermore, the study proposes testable hypotheses linking comparability to decision quality and post-merger outcomes. By integrating accounting information characteristics with institutional theory, this study contributes to bridging accounting and international business literature and provides a structured theoretical foundation for future empirical research on cross-border M&A under heterogeneous institutional environments.

Keywords—financial statement comparability, cross-border Mergers and Acquisitions (M&A), institutional environment, information asymmetry, policy framework

I. INTRODUCTION

Cross-border Mergers and Acquisitions (M&A) have become a central mechanism through which firms pursue international expansion. Firms engage in cross-border M&A to acquire strategic resources, access new markets, and enhance technological capabilities. Prior research suggests that such activities also reflect broader national strategies and economic interdependence (Dunning, 1977; Buckley & Casson, 1976).

Despite their strategic importance, cross-border M&A transactions are associated with substantial uncertainty and high failure rates. A key factor underlying these outcomes is information asymmetry between acquiring and target firms. This problem is particularly severe in cross-border contexts due to differences in accounting standards, regulatory systems, and institutional environments.

Recent global developments have further increased the complexity of cross-border M&A. Rising geopolitical tensions, economic security concerns, and stricter regulatory frameworks have reshaped global investment activities. Governments have intensified their involvement in outward investment through regulatory screening, financial support, and risk control policies. These changes have significantly altered firms' information environments and decision-making processes. In this context, financial statement comparability plays a critical role. Comparability enhances the usefulness of accounting information by enabling firms to evaluate financial performance across

different entities. While prior studies have examined comparability in domestic contexts, its role in cross-border M&A under varying institutional environments remains underexplored.

This study addresses the following research questions:

1. How does financial statement comparability influence cross-border M&A outcomes?
2. Through what mechanisms does comparability affect decision-making?
3. How do institutional and policy environments shape this relationship?

By integrating insights from institutional theory (North, 1990; Scott, 2001) with accounting research, this study develops a comprehensive conceptual framework.

II. LITERATURE REVIEW

A. Cross-Border M&A and Information Asymmetry

Cross-border M&A involves complex transactions influenced by cultural, legal, and institutional differences. Information asymmetry has long been identified as a central challenge in such transactions. Acquiring firms often face difficulties in obtaining reliable information about target firms, leading to valuation errors and inefficient decision-making.

Prior research suggests that institutional differences amplify information asymmetry. Differences in disclosure standards, accounting practices, and regulatory enforcement create barriers to information interpretation. As noted in earlier studies (De Franco *et al.*, 2011; Chen *et al.*, 2018), firms engaging in cross-border M&A often face difficulties in obtaining reliable and comprehensive information about foreign targets.

Moreover, information asymmetry can result in adverse selection and moral hazard problems. Acquiring firms may overestimate target firm value or underestimate risks, leading to post-merger underperformance.

B. Financial Statement Comparability

Recent studies further extend the role of financial statement comparability in capital markets. Prior research shows that comparability enhances analyst forecast accuracy, improves information transfer, and reduces information acquisition costs. In addition, comparability has been associated with higher investment efficiency and improved corporate governance mechanisms.

In the context of M&A, these benefits are particularly relevant. Acquiring firms must process large amounts of information under uncertainty, and comparability provides a

standardized framework for interpreting financial statements. This suggests that comparability not only reduces information asymmetry but also enhances the efficiency and reliability of acquisition decisions.

Financial statement comparability refers to the extent to which financial information is prepared consistently across firms. According to accounting theory, comparability enhances the decision usefulness of financial information by enabling users to identify similarities and differences in economic performance.

A growing body of research highlights the role of financial statement comparability in M&A contexts. Recent studies by Wu (2024, 2025a, 2025b) provide systematic evidence on this issue from multiple perspectives.

Specifically, Wu (2025a) demonstrates that financial statement comparability reduces information asymmetry and improves the efficiency of M&A decision-making. Complementing this finding, Wu (2024) provides empirical evidence that higher comparability between acquiring and target firms contributes to improved post-merger performance, suggesting that accounting similarity facilitates more effective integration. In addition, Wu (2025b) offers a comprehensive review of the literature on accounting information characteristics and M&A outcomes, identifying comparability as a key factor influencing acquisition success and highlighting important directions for future research.

Taken together, these studies suggest that financial statement comparability plays a central role across different stages of the M&A process, including decision-making, execution, and post-merger performance. However, existing research has primarily focused on firm-level effects and has not fully incorporated the role of institutional and policy environments.

In addition to prior findings, financial statement comparability has been widely examined in capital market settings. De Franco, Kothari, and Verdi (2011) show that comparability enhances the ability of investors to interpret financial statements by reducing differences in accounting systems. This improvement in interpretability leads to better information transfer and reduces information acquisition costs.

Subsequent studies further suggest that higher comparability is associated with improved analyst forecast accuracy (Bradshaw *et al.*, 2013), enhanced investment efficiency (Chen *et al.*, 2018), and reduced information asymmetry in financial markets. These findings indicate that comparability plays a fundamental role in improving the overall information environment.

In the context of cross-border M&A, these benefits become even more critical. Acquiring firms must evaluate foreign targets under different accounting regimes, and comparability provides a common benchmark for interpreting financial information. This suggests that comparability not only reduces information asymmetry but also facilitates more efficient capital allocation in international investment decisions.

C. Institutional and Policy Environments

Institutional theory emphasizes that firm behavior is embedded within broader regulatory, legal, and social frameworks that shape economic activities. According to

Douglass North (1990), institutions consist of formal rules and informal constraints that structure interactions, while W. Richard Scott (2001) further categorizes institutions into regulative, normative, and cognitive pillars. These frameworks provide the foundation for understanding how external environments influence firm behavior in cross-border M&A.

In the context of international business, institutional differences across countries have been identified as a key source of institutional uncertainty and transaction costs. Prior research highlights that firms engaging in cross-border activities face a “liability of foreignness” (Zaheer, 1995), which arises from unfamiliarity with foreign regulatory systems, cultural differences, and information barriers. Such institutional distance increases information asymmetry and complicates M&A decision-making processes.

Governments play a particularly important role in shaping cross-border M&A through policy interventions. Building on the international business literature (e.g., John H. Dunning, 1977; Peter J. Buckley & Casson, 1976), firms’ international expansion decisions are influenced not only by firm-specific advantages but also by location-specific institutional conditions. Policy frameworks, including regulatory systems, financial support mechanisms, and risk protection arrangements, affect firms’ access to resources and information.

Consistent with prior policy-based analyses, these institutional influences can be broadly categorized into three dimensions: regulatory policies, promotion policies, and protection policies. These policy instruments shape firms’ information environments by influencing disclosure requirements, financing conditions, and risk exposure.

For example, prior policy-based analyses comparing major Asian economies have documented substantial differences in regulatory frameworks, financial support mechanisms, and information services. These institutional differences imply that firms operate under heterogeneous information environments, which may influence how accounting information—particularly financial statement comparability—is utilized in cross-border M&A decision-making.

Overall, institutional and policy environments not only determine the constraints and incentives faced by firms but also shape the effectiveness of accounting information in reducing information asymmetry. This perspective provides an important foundation for analyzing the role of financial statement comparability in cross-border M&A.

III. CONCEPTUAL DEVELOPMENT AND HYPOTHESES

A. Information Environment Mechanism

Financial statement comparability enhances transparency and improves the interpretability of financial information. In cross-border M&A, this is particularly important due to differences in accounting systems.

Comparability reduces information asymmetry by allowing acquiring firms to better evaluate target firms. This leads to more accurate valuation and improved decision-making.

Hypothesis 1: Financial statement comparability improves decision quality in cross-border M&A by reducing

information asymmetry.

From an information processing perspective, comparability reduces cognitive and analytical costs for decision-makers. In cross-border M&A, acquiring firms must distinguish between differences arising from economic performance and those stemming from accounting practices. Comparability aligns reporting structures and reduces such noise, enabling more accurate evaluation of target firms.

Furthermore, improved comparability enhances the credibility of financial information, which is particularly important in environments with weak information infrastructures. As a result, comparability serves as a critical mechanism that improves both the efficiency and reliability of decision-making processes.

Institutional differences provide further support for the role of financial statement comparability in cross-border M&A. In some economies, firms rely heavily on their own efforts to collect information about foreign targets, which increases information asymmetry and decision uncertainty. In contrast, other economies have developed more comprehensive information support systems, including government-led data platforms and institutional intermediaries.

These differences suggest that the availability of information and the quality of the information environment vary significantly across countries, which may influence the effectiveness of financial statement comparability in reducing information asymmetry.

B. Risk Mitigation Mechanism

Cross-border M&A involves significant uncertainty related to valuation, integration, and institutional differences. Comparability reduces uncertainty by providing consistent and reliable financial information.

By improving the accuracy of financial evaluation, comparability reduces the likelihood of overpayment and post-merger failure.

Hypothesis 2: Higher financial statement comparability reduces the likelihood of unfavorable M&A outcomes.

The risk mitigation role of comparability can also be explained through uncertainty reduction. Cross-border M&A involves risks related to valuation, post-merger integration, and institutional differences. By improving the consistency of financial information, comparability reduces ambiguity in performance assessment and lowers the probability of overvaluation.

In addition, comparability facilitates monitoring by external stakeholders, including investors and regulators. This enhanced monitoring reduces agency problems and further contributes to more stable post-merger outcomes.

Policy frameworks also influence the level of risk associated with cross-border M&A. In environments where financial support and low-cost financing are available, firms are more capable of conducting large-scale acquisitions and managing associated risks. Conversely, in environments with limited policy support, firms face higher financial and operational risks.

These differences imply that the role of financial statement comparability in mitigating risk may depend on the broader policy environment.

C. Institutional Moderation Mechanism

The effectiveness of comparability depends on institutional environments. Government policies influence information disclosure, regulatory transparency, and market conditions.

In environments with strong regulatory frameworks and policy support, comparability is more effective in reducing information asymmetry. In contrast, in uncertain environments, its effectiveness may be weakened.

Hypothesis 3: The relationship between financial statement comparability and M&A outcomes is moderated by institutional and policy environments.

Comparative policy observations further highlight the importance of institutional environments. Differences in regulatory systems, financial support, and information services across countries suggest that policy frameworks can significantly shape firms' information environments. As a result, the effectiveness of financial statement comparability in cross-border M&A is likely to vary across institutional contexts.

IV. CONCEPTUAL FRAMEWORK

This study develops a conceptual framework to explain how financial statement comparability influences cross-border M&A outcomes within different institutional and policy environments. The framework positions comparability as a key mechanism linking external policy conditions to firm-level decision-making.

Financial statement comparability enhances the quality of the information environment by improving the interpretability of financial data across firms operating under different accounting systems. In cross-border M&A, this reduces information asymmetry and facilitates more accurate evaluation of target firms, thereby improving decision quality, consistent with Hypothesis 1.

In addition, comparability functions as a risk mitigation mechanism. By providing consistent and reliable financial information, it reduces uncertainty related to valuation and post-merger performance, lowering the likelihood of unfavorable outcomes, in line with Hypothesis 2.

Importantly, the effectiveness of comparability depends on institutional and policy environments. Government policies influence information disclosure, regulatory transparency, and access to financial resources, thereby shaping firms' information environments. For example, prior policy-based analyses comparing major Asian economies have documented substantial differences in regulatory frameworks, financial support mechanisms, and information services. These differences suggest that institutional environments may significantly influence the effectiveness of financial statement comparability in cross-border M&A decision-making, supporting Hypothesis 3.

Overall, the framework suggests a sequential relationship in which policy environments shape information environments, which in turn affect financial statement comparability and ultimately influence M&A outcomes. At the same time, institutional conditions moderate the strength of these relationships.

The proposed conceptual framework can be further elaborated by considering the dynamic interactions between

accounting information and institutional environments. While financial statement comparability enhances the interpretability of financial data, its effectiveness is not static but evolves with changes in regulatory systems and market conditions.

First, comparability may interact with the degree of accounting standard convergence across countries. In environments where accounting standards are highly harmonized, such as those adopting IFRS, the marginal benefit of comparability may be lower because baseline comparability is already relatively high. In contrast, in environments with divergent accounting standards, comparability plays a more critical role in bridging information gaps. This suggests that the impact of comparability is conditional on the level of institutional alignment.

Second, comparability may influence not only pre-acquisition decision-making but also post-merger integration processes. During integration, firms must align accounting systems, reporting practices, and performance evaluation metrics. Higher comparability prior to acquisition can reduce integration costs and facilitate smoother organizational alignment. This highlights the role of comparability as a factor influencing both ex-ante evaluation and ex-post integration outcomes.

Third, the interaction between comparability and information intermediaries deserves attention. Analysts, auditors, and financial institutions play important roles in interpreting and disseminating financial information. In environments with strong intermediary presence, the benefits of comparability may be amplified, as intermediaries can more effectively process comparable information. Conversely, in environments with weak intermediary structures, firms may rely more heavily on internal information processing, increasing the importance of comparability at the firm level.

Finally, technological developments, such as digital disclosure platforms and big data analytics, may further enhance the role of comparability. As access to financial information becomes more widespread and processing capabilities improve, comparability may become an even more critical factor in enabling efficient decision-making in cross-border M&A.

Taken together, these considerations suggest that financial statement comparability operates within a broader ecosystem of institutional, organizational, and technological factors. Understanding these interactions provides a more nuanced perspective on how comparability influences cross-border M&A outcomes and offers valuable directions for future empirical research.

V. DISCUSSION

This study makes several important contributions to the existing literature. First, it extends research on financial statement comparability by applying it to cross-border M&A contexts. While prior studies have largely focused on domestic settings, this study highlights that comparability plays a more critical role when firms operate under heterogeneous institutional environments.

Second, this study integrates accounting information theory with institutional theory. By doing so, it moves

beyond firm-level explanations and emphasizes the importance of external environments in shaping the effectiveness of accounting information. This interdisciplinary approach contributes to bridging accounting and international business research.

Third, the study identifies multiple mechanisms through which comparability affects M&A outcomes. Specifically, comparability improves the information environment, reduces uncertainty, and interacts with institutional conditions. This multi-dimensional perspective provides a more comprehensive understanding of cross-border M&A performance.

From a practical perspective, the findings suggest that managers should prioritize financial statement comparability when evaluating acquisition targets. Firms may improve comparability by adopting international accounting standards or enhancing disclosure quality. For policymakers, improving regulatory transparency and information infrastructures can strengthen the effectiveness of accounting information.

Moreover, differences in accounting regimes, such as IFRS and domestic GAAP, may significantly influence comparability. These differences highlight the importance of harmonization in accounting standards for facilitating cross-border investment.

Finally, this study identifies several directions for future research. Empirical studies can test the proposed framework using international datasets. Future research may also explore how institutional differences interact with firm characteristics to influence M&A outcomes.

Despite its contributions, this study has several limitations. First, the analysis is conceptual and does not provide direct empirical evidence. Second, institutional environments are simplified into broad categories, which may not fully capture country-specific complexities. Future research should address these limitations by conducting empirical tests and incorporating more detailed institutional measures.

VI. CONCLUSION

This study develops a conceptual framework to examine the impact of financial statement comparability on cross-border M&A outcomes under different institutional and policy environments. By integrating insights from accounting and institutional theory, the study identifies three key mechanisms: the information environment mechanism, the risk mitigation mechanism, and the institutional moderation mechanism.

The findings suggest that financial statement comparability reduces information asymmetry, enhances decision quality, and mitigates risks associated with cross-border M&A. At the same time, institutional and policy environments play a crucial role in shaping the effectiveness of comparability.

This study contributes to the literature by bridging accounting research and international business studies, and by providing a theoretical foundation for future empirical analysis. Future research may further extend this framework by conducting cross-country empirical analyses and examining how differences in accounting standards and institutional environments jointly shape M&A outcomes.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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