Enhancing performance of cross-border mergers and acquisitions in developed markets: The role of business ties and technological innovation capability

Cong Cheng\textsuperscript{a}, Monica Yang\textsuperscript{b,⁎}

\textsuperscript{a} China Institute for SMEs, Zhejiang University of Technology, Liuhe road 288, Xihu district, Hangzhou 310023, China
\textsuperscript{b} Willumstad School of Business, Adelphi University, Hagedorn Hall of Enterprise 329, 1 South Ave, Garden City, NY 11530, United States

A R T I C L E   I N F O

Keywords:
Business ties
Technological innovation capability
Environmental turbulence
Cultural distance
Performance of cross-border M & As

A B S T R A C T

This study examines the determinants of performance of cross-border mergers and acquisitions (cross-border M & As) in developed markets initiated by firms from emerging markets. Drawing on social network theory and organizational innovation literature, we hypothesize that business ties of the acquiring firm increase performance of cross-border M & As via enhancing the acquiring firm's technological innovation capability and that environmental turbulence strengthens this mediating model. Moreover, the interplay of cultural distance and technological innovation capability would decrease performance of cross-border M & As. To test the model, we collected data from 186 Chinese firms initiating cross-border M & As in developed markets. As predicted, we found that (1) technological innovation capability of the acquiring firm positively mediates the relationship between business ties and performance of cross-border M & As; (2) environmental turbulence positively moderates the relationship between business ties and technological innovation capability; and (3) cultural distance negatively moderates the relationship between technological innovation capability and performance of cross-border M & As.

1. Introduction

When firms find themselves lacking needed resources in their home markets, they might consider acquiring resources overseas to remedy their resource scarcity. Recently, firms from emerging markets have been actively engaging in cross-border mergers and acquisitions (cross-border M & As) and one major motive behind these cross-border M & As is to seek strategic assets such as technologies, brands, distribution networks, R & D facilities and managerial competencies (Buckley et al., 2007; Deng, 2012; Kumar, Mudambi, & Gray, 2013). For example, Lenovo acquired IBM's personal computing division to obtain leading PC technologies, and Geely acquired Volvo to reach global markets beyond China. For acquiring firms from emerging markets, it is imperative to effectively transfer or integrate strategic assets from target firms and manage knowledge and innovation after completing these cross-border M & A deals. Nevertheless, some firms have enjoyed positive returns from cross-border M & As (e.g., Lenovo's acquisition of IBM's PC division or Geely's acquisition of Volvo) but some have failed (e.g., Shanghai Automotive Industry Corporation's acquisition of Scangyong Motor, Ping An Insurance of China's acquisition of Fortis Investment). It is still not clear what affects the success of cross-border M & As aiming to acquire strategic assets of target firms in developed markets.

Social network theory argues that business ties are beneficial to firm performance (Burt, 1992; Granovetter, 1973; McFadyen, Semadeni, & Cannella, 2009; Zaheer & Bell, 2005). Business ties, defined as firms' networking activities with other firms, may help firms acquire both tangible resources such as raw materials or financial capital, and intangible resources such as knowledge and management practices (Athreye & Kapur, 2009; Cui & Jiang, 2010; Luo & Tung, 2007). Yet, it is not clear whether business ties of firms from emerging markets play such a role in contributing to the success of choosing and managing target firms located in developed markets. Moreover, business ties will not necessarily increase firm performance because it depends on how firms appropriately absorb and adapt external resources that business ties provide (Gao, Xu, & Yang, 2008; Wang, Jiang, Yuan, & Yi, 2013). For instance, previous studies in the network and organizational innovation literature (Ensign, Lin, Chreim, & Perneaud, 2014; Li, Poppo, & Zhou, 2008; Peng & Luo, 2000) have acknowledged that the positive effect of business ties on firm innovation relies on other factors such as knowledge acquisition (Park & Choi, 2014).
latecomers to global competition, firms from emerging markets such as China are lagging behind having the largest number of innovative firms (Shu et al., 2012; Wang et al., 2013). Finally, the Yangtze River Delta Area initiating cross-border M & As provides a variety of advantages for firms such as obtaining assets and resources. We illustrate that technological innovation capability is a key mediator in the relationship between business ties and technological innovation capability. Given that cross-border M & A activities involve cross-cultural issues, which would increase costs in communication and risks associated with liability of foreignness (Xu & Shenkar, 2002), we argue that the interplay of cultural distance and technological innovation capability would decrease performance of cross-border M & As.

To test the proposed model, we collected the data from 186 Chinese firms in the Yangtze River Delta Area initiating cross-border M & As in developed markets. The reasons why China was chosen are as follows. First, China is an active player in cross-border M & As, especially in acquiring strategic assets in developed markets (Chen & Young, 2010; Economist, 2013; Li, Li, & Shapiro, 2012). Second, Chinese culture values business ties and considers them as critical social capital, therefore, the social environment of China is appropriate to address our research question. A great deal of research has already demonstrated the importance of business ties to organizational growth and performance, especially in emerging economies such as China (Peng & Luo, 2000; Shu, Page, Gao, & Jiang, 2012; Wang et al., 2013). Finally, the Yangtze River Delta Area has been recognized as the center of China economy having the largest number of innovative firms active in outward foreign investment and acquisition, thus satisfying the requirements of our study.

This study contributes to the extant literature of social networks, organizational innovation and cross-border M & As in three important ways. First, by focusing on a cross-border setting, this study cultivates the understanding of how, and to what extent, business ties affect firm performance. Specifically, we present a key mediator, technological innovation capability of acquiring firms, to augment the ties-performance model. Secondly, this study extends the organizational innovation literature to a cross-border setting that acquiring firms from emerging markets play a critical role in facilitating business ties and affecting performance of cross-border M & As. Finally, this study contributes to the literature of cross-border M & As by identifying critical determinants for the success of cross-border M & As in developed markets by firms from emerging markets. Specifically, business ties and technological innovation capability of acquiring firms significantly increase performance of cross-border M & As, however, the strength of relationships of these three variables varies when environmental turbulence or cultural distance changes.

The rest of the paper is organized as follows. In the next section, we review the literature of business ties and cross-border M & A performance, followed by the hypotheses of the mediating and moderating relationships. In Section 3, we describe the data sources, variables and methodology used in this study. In Sections 4 and 5, we discuss results and future research directions. The final section concludes the paper.

2. Theoretical framework and hypotheses development

2.1. Business ties and performance of cross-border M & As

Business ties are defined as the extent of relational closeness between a firm and other relevant firms like suppliers, customers, and competitors in industry networks (Shu et al., 2012; Zhang & Li, 2008). Serving as a critical substitute for incomplete formal institutions, business ties provide a variety of advantages for firms such as obtaining customers (Peng & Luo, 2000), utilizing market opportunities and countering market threats (Carroll & Teo, 1996), building trust (Hoskisson, Eden, Lau, & Wright, 2000), obtaining business partners’ support and overcoming institutional barriers (Rotabe, Jiang, & Murray, 2011; Li et al., 2008). In other words, building ties with business actors offers opportunities for accessing valuable knowledge and resources from these partners (Chen, Chang, & Lee, 2015). When a firm possesses more business ties, it receives more and various information from different firms. Moreover, “close” business ties facilitate information exchange, generate mutual trust and potentially provide information about competitors’ actions (Cording, Christmann, & King, 2008). Thus, with strong business ties will have a better chance to improve their competitiveness and generate more new ideas/innovation (Pérez-Nordtvedt, Babakus, & Kedia, 2010; Uzzi, 1996). Those companies who possess strong business ties have often developed long and stable business relationships in supplying and marketing channels for products and services (Liu & Buck, 2007), resulting in increasing the speed of adapting to new changes. Nevertheless, the positive relationship between business ties and firm performance may not necessarily hold

![Fig. 1. The theoretical model of this paper.](image-url)
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات