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Cross-border mergers and acquisitions by emerging market firms: A comparative investigation☆

Ping Deng [a,*], Monica Yang [b,1]

[a] Monte Ahuja College of Business, Cleveland State University, Cleveland, OH 44115, USA
[b] Robert B. Willumstad School of Business, Adelphi University, Garden City, NY 11530, USA

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ABSTRACT

This paper applies and extends resource dependence theory (RDT) to comparatively investigate major factors that determine the level of cross-border mergers and acquisitions (M&As) by emerging market firms (EMFs) in developed and developing markets. We argue that the resource dependence logic of M&As (or simply the M&A logic) provides a unique perspective in better understanding the internationalization of EMFs via cross-border M&As, but the explanation is bounded by institutional environment (i.e., government effectiveness) in a host nation. Our empirical results, based on a large panel data analysis of cross-border M&As by EMFs from nine emerging economies from 2000 to 2012, suggest that the intensity of EMFs to acquire vital resources for constraint absorption increases the likelihood of their cross-border M&As and the positive relationship is negatively moderated by host government effectiveness. On top of that, consistent with the predictions of resource dependence arguments, we found differences in the determinants of cross-border M&As by EMFs in developed and developing countries. Finally, host country factors attracting Chinese M&As are different from those attracting other emerging economies. Thus, generalization of Chinese M&A deals to other EMFs need to be cautious.

1. Introduction

In the last two decades, outward foreign direct investment (OFDI) from emerging economies has grown massively and has become an important engine for the global economic growth. According to the *World Investment Report 2014*, emerging economies accounted for more than one third of global OFDI flows in 2013 and China, the largest source of OFDI among emerging countries, continued to maintain its position as the third largest investor in the world, reaching a new record of $101 billion (UNCTAD, 2014). On top of that, the majority of OFDI from emerging economies is created through cross-border mergers and acquisitions (M&As), a fast track of international growth strategy that is driven by diversified objectives. Through aggressive international acquisitions in a wide range of industries, emerging market firms (EMFs) have achieved important strategic objectives, such as the acquisition of technology, brand names, and natural resources (Deng, 2013; UNCTAD, 2014). As EMFs continue a steady upward trend in OFDI and cross-border M&As in particular, understanding of the driving forces and strategic implications of their international investment deserves more scrutiny and discussion.

In recent years, an increasing number of research has examined location determinants of OFDI by EMFs (e.g., Jain, Hausknecht, & Mukherjee, 2013; Ramasamy, Yeung, & Laforet, 2012). However, there is a research gap in exploring this important topic from a comparative approach. The extant literature on OFDI and particularly cross-border M&As by EMFs is not only under-studied but also has three major limitations. First, among the relatively few comparative studies, researchers have ignored resource dependence theory (RDT), one of the dominant theoretical rationales explaining why firms engage in M&As (Hillman, Withers, & Collins, 2009). This important theoretical omission might well explain why extant comparative literature on locational determinants of cross-border M&As from emerging economies tends to be confusing and inconsistent. Given its focus on firm dependence on external environments to stabilize resource exchanges (Pfeffer & Salancki, 1978, 2003), RDT could provide a pertinent theoretical framework to clarify conflicting results. Second, comparative studies have been suggested as a useful approach to test or generalize Western

☆ The order of authorship is listed alphabetically and both authors contribute equally.

* Corresponding author. Tel.: +1 216 875 9793; fax: +1 216 687 4708.
E-mail addresses: p.deng@csuohio.edu, pdeng8@hotmail.com (P. Deng), yang2@adelphi.edu (M. Yang).
[1] Tel.: +1 516 877 4649; fax: +1 516 877 4607.

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findings and develop theories from emerging economies, but have rarely been attempted in examining cross-border M&As by EMFs in different contexts (Deng, 2013; Kothari, Kotabe, & Murphy, 2013). By distinguishing M&A projects initiated by EMFs in different types of target markets, we could advance mainstream theory (e.g., RDT) by finding which research involving emerging market M&As is context specific, context bound, or context free (Child, 2009; Tsui, 2004; Xu & Meyer, 2013). Third, the samples are based mainly on one single country (e.g., China or India) and the empirical results are mixed. Therefore, it is questionable whether the results of cross-border M&As by companies from one emerging market can be generalized to other EMFs.

In terms of research setting, we scrutinize M&A deals by companies from nine major emerging economies (Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Thailand, and Turkey) in developed and developing countries from 2000 to 2012 (see Table 1). We select these countries since they are ranked highest among all emerging countries in the number of cross-border M&As. In so doing, we contribute to extant literature in three ways. First, beyond the dyadic interdependence between EMFs and host markets, this study also emphasizes a triadic relationship by introducing host government effectiveness, an important but less considered institutional component in the resource dependence literature, as a boundary condition of the resource dependence logic of M&As. By examining the moderating effects of government effectiveness in global settings, we may offer new insights into RDT. Second, equipped with an explicit theoretical framework (i.e., RDT), our study endeavors to provide a first attempt to systematically compare cross-border M&As by EMFs in different contexts. Due to substantial differences between developed and developing countries with regard to economic development, institutional environments, corporate governance, and domestic capital market (Hoskisson, Wright, Filatotchev, & Peng, 2013: Xu & Meyer, 2013), it is critical to investigate the investment motives of EMFs in each host environment, thus having a systematic understanding of the contextual variables behind the M&A motivations by EMFs. Third, given that extant comparative studies were based mainly on samples from one single country (e.g., China) and researchers tend to generalize the results to other EMFs, we contribute by discovering whether our results derived from much broader samples of EMFs could be generable to Chinese firms or vice versa.

The rest of the paper is organized as follows. The next section reviews the resource dependence perspective on location determinants of cross-border M&As by EMFs, followed by the hypotheses of the paper. The third section sets out the research methods and data of the study. The results and findings are reported in the fourth section. Theoretical and practical implications as well as future research directions are provided in the last section.

2. Theoretical background and hypothesis development

Among numerous research themes of cross-border M&As a central research question is: "What attract cross-border M&As from other economies?" As emerging economies are becoming a critical force in reshaping global business landscape, researchers have explored this crucial question particularly involving EMFs (e.g., Antkiewicz & Whalley, 2007; Buckley, Forsans, & Munjal, 2012; Wang, Hong, Kafouros, & Boateng, 2012). However, few empirical studies employ comparative approach to examining the antecedents that attract international acquisitions by EMFs in different types of markets (Jain et al., 2013; Yang, 2012). As shown in Table 2, among the nine articles that adopt a comparative approach, most of them compare the location determinants of OFDI (including cross-border M&As) by EMFs in developed countries as opposed to developing countries; they use samples largely from one single country (e.g., China or India) and the results are inclusive. Some found that the disparity in attracting OFDI exists between developed and developing markets (e.g., Kang & Jiang, 2012), whereas others found no difference (e.g., Duanmu, 2012). Likewise, in the three comparative studies of Chinese and Indian OFDI, the results are equally confusing. Therefore, it is imperative to embrace samples involving much more emerging economies and find out whether the results based on samples from one single country could be generalizable to other EMFs and how those factors attracting cross-border M&As from EMFs in developed markets are the same as (or different from) those in developing markets.

More importantly, extant comparative studies on cross-border M&As by EMFs tend to lack a systematic theoretical perspective (see Table 2). The lack of a clear theoretical framework may explain why the empirical results of existing studies are largely confusing or inconsistent. Given its focus on firm dependence on external

Table 1
List of target countries (developed vs. developing markets) in the sample.

Countries of acquiring firms	Target county (Developed market)	Target country (Developing market)
Brazil	Canada, France, Italy, Netherlands, Portugal, Spain, UK, USA	Argentina, Chile, Columbia, Mexico, Peru, Uruguay
China	Canada, France, Germany, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, UK, USA	Brazil, India, Indonesia, Kazakhstan, Malaysia, Mongolia, Peru, Russia, South Africa, South Korea, Thailand, Vietnam
India	Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Israel, Italy, Netherlands, New Zealand, Norway, Singapore, Spain, Switzerland, UK, USA	Argentina, Brazil, China, Czech Republic, Egypt, Indonesia, Malaysia, Mauritius, Oman, Philippines, Poland, South Africa, Sri Lanka, Thailand, United Arab
Indonesia	Australia, Singapore	China, Malaysia
Mexico	Canada, Spain, USA	Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Peru
Russia	Austria, Belgium, Canada, Finland, France, Germany, Israel, Italy, Luxembourg, Netherlands, Spain, Switzerland, UK, USA	Armenia, Belarus, Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, India, Kazakhstan, Latvia, Lithuania, Moldova, Poland, Serbia, Turkey, Ukraine, Uzbekistan
South Africa	Australia, Canada, France, Germany, Netherlands, UK, USA	Brazil, Ghana, India, Kenya, Mozambique, Namibia, Nigeria, Russia, South Korea, Tanzania, Uganda, Zambia, Zimbabwe
Thailand	Australia, Japan, Singapore, USA	China, India, Indonesia, Malaysia, Philippines, Vietnam,
Turkey	France, Germany, Netherlands, USA	Azerbaijan, Romania, Russia,
Total country-year observations	923	1053

The development of a country is measured with statistical indexes such as GDP per capita, life expectancy, and the rate of literacy. We used multiple lists such as International Monetary Fund's *World Economic Outlook Report* (2012), Dow-Jones list, and MSCI list to identify 23 countries that are commonly recognized as developed markets or economies; they are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom and United States. Those countries other than these 23 countries are treated as developing markets or economies.