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

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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 OFDI 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, & Lafont, 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 & Salancik, 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