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

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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.

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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 & 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

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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 generalizable 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.

Table 2
Comparative empirical studies of OFDI by emerging market firms.

Author(s)	Sample & comparative nature	Theoretical perspective	Dependent variable	Independent variables	Control variables	Major results
Brienen, Burger, and van Oort (2010)	Chinese & Indian greenfield FDI in Europe in 1997–2008 Chinese vs. Indian firms	No theoretical framework; theoretical rational based on OLI paradigm	Number of greenfield investments	GDP, transport infrastructure, the presence of Chinese or Indian community, labor and capital costs		No differences in FDI determinants; their FDI is more horizontal than vertical in character. Their greenfield investments in Europe are predominantly market seeking, with partially for asset-seeking motivations.
Buckley et al. (2007)	Chinese OFDI 1984–2001 OECD vs. Non-OECD countries	OLI paradigm and institutional theory	Approved annual outflows of Chinese FDI	Market size, growth, natural resource, political risk, cultural proximity, and policy liberation	Exchange rate, inflation rate, exports, imports, distance, and open to FDI	Chinese OFDI is associated with high political risk, market size, cultural proximity, geographic proximity and natural resources. Export is significant in both markets, whereas import is significant in non-OECD.
Cheung and Qian (2009)	China's OFDI in different markets Developed vs. Developing countries	No theoretical framework; economic explanation	China's OFDI stock in a specific country	GDP, GDP per capita, real income growth rate of host country, wage, raw resource, risk	Country distance, geography, and culture resemblances	China's investment in developed and developing countries are driven by different sets of factors.
De Beule and Duanmu (2012)	Acquisitions by Chinese and Indian firms from 2000 to 2008 Chinese vs. Indian firms	Lack of a clear theoretical framework; based on institutional variables	The likelihood of entry into a country	Market size, openness, institutional quality	Geographical distance, deal size, acquirer's size and experience	Better rule of law, regulatory quality and control of corruption are found to be important for India's acquisitions, not for China's acquisitions. Political stability is a negative estimator for both countries.
Duanmu (2012)	Chinese OFDI: 194 location choices in 32 countries from 1999–2008 Developed vs. Developing countries	Lack of a clear theoretical framework; based on ownership and strategic intent	Country chosen (the choice of the country = 1, 0 otherwise)	Political risk; GDP, GDP per capita, economic risk, exchange rate. State-owned vs. private; strategic intent	Corporate tax, unemployment rate, physical distance	GDP and GDP per capita attain most significant results. Strategic intent affects location choice. Less risky political environment attracts more Chinese FDI, while economic risk and freedom not relevant. No structural substitution between developed and developing markets.
Hur, Parinduri & Riyanto (2011)	M&A outflows to different markets Developed vs. Developing countries	No theoretical framework; rational based on quality of institutions	log of CBMA inflows to host countries	Quality of institutions and composite index	Economic size, trade, technology, financial development	The disparity can be attributed to the difference in the quality of institutions between developed and developing countries.
Hurst (2011)	China's SOEs' FDI in OECD and non-OECD countries 2003–2008 Developed vs. Developing countries	No theoretical framework; investment motives based on OLI paradigm	Chinese FDI outflows to the host country	GDP, trade openness, property freedom index, natural resource, labor freedom index	Distance, cultural proximity, government spending index	The OLI paradigm provides an excellent framework for the determinants of Chinese SOE investment in developed countries, but needs refinement for developing countries.

Author(s)	Sample & comparative nature	Theoretical	Dependent variable	Control variables	Major results
Kang and Jiang (2012)	OFDI to eight economies in East and Southeast Asia 1995–2007 Developed vs. Developing countries	Theoretical rational based on traditional economic factors and institutional	FDI stock	GDP, market openness, labor, patent, economic political influence, FDI restriction, cultural distance, trade, inflation	Institutional factors have a higher level of significance. Unit labor cost is significant (negative). FDI from firms followed different location patterns. For the developed group, openness and unit labor cost were significant, whereas for the developing, openness and resource were significant.
Kolstad and Wiig (2012)	OFDI in different markets 2003–2006 OECD vs. Non-OECD countries	No theoretical framework; econometric	Actual amount of FDI outflows	Union of institutions & resources, GDP, trade, inflation, institutions, natural resources	investment is more attracted to a country with natural resources, the worse the institutional environment of that country. OECD and non-OECD are different: GDP per capita, natural resource (+sig) and institution (sig) only in non-OECD.

environments to stabilize resources exchanges, RDT could provide a pertinent theoretical framework in vigorously testing conflicting findings. In essence, RDT has been recognized as one of the dominant theoretical rationales for identifying the antecedents of acquisitions (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Hillman et al., 2009) and EMFs are increasingly using cross-border M&As as a central option to obtain their needed vital resources so as to minimize environmental dependence (Peng, 2012; Rabbiosi, Stefano, & Bertoni, 2012). Surprisingly, there is no study that adopts RDT in examining locational determinants of cross-border M&As from emerging economies (Deng, 2013). We intend to fill this research by applying and extending the resource dependence perspective and analyze how EMF-host country interdependences influence the extent to which EMFs engage in international acquisitions in different markets.

2.1. Resource dependence logics of M&As

The central argument of RDT is that firms depending on the environment can and do enact multiple strategies to combat their external constraints and procure critical resources (Pfeffer & Salancik, 1978, 2003). Central to these actions is the concept of power, which is the control over vital resources (Oliver, 1990; Pfeffer, 1987). M&As is one of the most important options that firms can enact to manage and minimize environmental uncertainty (Davis & Cobb, 2010; Hillman et al., 2009). Unlike joint ventures (JVs) and other interorganizational options, M&As represents a full constraint absorption and enables firms to acquire those firms that control their needed resources or needed by other firms, thereby enhancing their power relative to that of others (Casciaro & Piskorski, 2005). By offering an externally focused perspective for understanding organizational environmental relations and resource enhancing effects (Pfeffer, 1987), RDT seems well positioned to enhance the market and resource discourse, thus becoming one of the most widely applied theoretical lenses to explain why firms engage in M&As (Davis & Cobb, 2010; Hillman et al., 2009). A notable shortcoming in the resource dependence literature is that little attention has been paid to cross-border M&As by EMFs (Deng, 2013). As a consequence, whether the resource dependence perspective consistently explains the antecedents of M&As under conditions of different country systems remains unknown.

Extending the resource dependence logic of M&As (or simply the M&A logic), we contend that facing external constraints a firm may invest overseas in order to increase its power by acquiring alternative sources of resources. For our research purpose, we define the M&A logic as that a firm acquires and controls resources and thereby alleviates resource dependences on the external environment in which it is embedded (Davis & Cobb, 2010; Dress & Heugens, 2013). The M&A logic suggests that EMF dependence on host countries is determined by the extent to which potential acquired firms control important resources or markets that are needed by EMFs. That is, the magnitude of resource dependency on host nations predicts the likelihood and formation of cross-border M&As by EMFs, which in turn strengthen focal organizational autonomy and legitimacy (Pant & Ramachandran, 2012; Sherer & Lee, 2002).

Although RDT appears to be well established in terms of the general relationships between firms, their environments, and the actions firms take to reduce these dependences (Casciaro & Piskorski, 2005; Sherer & Lee, 2002), the M&A logic has not been rigorously tested in global settings. In addition, most RDT studies on constraint absorption activities were mainly at the industry or firm level of analysis, virtually ignoring the country level (Casciaro & Piskorski, 2005; Xia, Ma, Lu, & Liu, 2013). Given that RDT is about firms' dependence on their environments, organizational activities

should also be studied at the country level (Davis & Cobb, 2010). By focusing on the country level of analysis, we intend to fill the gap, furthering our understanding of the M&A logic in global settings. In so doing, our study takes a step further to complement those studies in the FDI literature which contend that EMFs acquire internationally is motivated for distinct reasons: (1) firms may invest overseas for the abundant natural resources or new markets in different host economies; (2) cross-border M&As allow firms to acquire intangible or strategic resources which are either costly or unavailable in the home country but could be obtained overseas; and (3) firms may expand internationally due to a limited domestic market that may be insufficient to reduce their environmental uncertainty (e.g., Buckley et al., 2014; Deng, 2009; Luo & Tung, 2007; Witt & Lewin, 2007).

2.2. Motivation to seek markets in the M&A logic

From the resource dependence perspective, markets are not only channels of resources but also mechanisms to actually implement firms' strategies, representing the firms' ability to monitor and manipulate the flow of resources between countries (Davis & Cobb, 2010). In an era of global interdependence, EMFs depend not only on other firms in the home country but also increasingly on other firms in foreign countries for raw materials, intermediate products, or downstream markets (Bhagata, Malhotrab, & Zhu, 2011; Luo & Wang, 2012). As the sources of some critical supplies or markets are not readily available domestically, the M&A logic suggests that one way for EMFs to respond to such home constraint pressures is to expand into foreign markets by acquisition (Finkelstein, 1997; Xia et al., 2013). The rationale is as follows: A firm can expand into new geographic locations to reduce the constraints associated with dependence on present markets or actors, thereby altering the unfavorable power imbalance. To this end, M&As may allow EMFs to gain more power and control over markets because acquisition can ensure continued flow of resources (Pfeffer & Salancik, 2003). For example, acquiring and affiliations with prestigious local firms have been argued to help EMFs in undertaking marketing endeavors and overcome liabilities of market newness by conveying signals of legitimacy to consumers (Peng, 2012; Pollock, Chen, Jackson, & Hambrick, 2010). As local firms usually possess resources such as customers, channel controls, key supply sources, and relationships with regulators that cannot easily be replicated in the short term, EMFs can be motivated, to some extent, to stabilize and control the flow of such resources. On top of that, in an effort to exclude rivals, EMFs acquiring local firms who control limited but critical resources can gain more market power through the erection of entry barriers to block or restrict the entry of competitors (Gaffney, Kedia, & Clampit, 2013; Shimizu, Hitt, Vaidyanath, & Pisano, 2004). In addition, due to intense domestic competition and market dominance by some powerful players, EMFs are often unable to obtain sufficient market shares at home. Consequently, EMFs may escape by investing abroad to avoid the market constraints at home (Heeley, King, & Covin, 2006; Witt & Lewin, 2007). Such avoidance strategy is further rationalized when there are sufficient markets and distribution channels ready for acquisition overseas (Deng, 2009). This is in line with OLI paradigm, which contends that firms will decide in which country to undertake FDI according to the endowments of location-specific advantages of the host country (Dunning, 1995, 2009).

It is expected that large markets are capable of attracting M&As due to economies of scale in production and distribution for goods and services sold in the host countries (Kyrkilis & Pantelidis, 2003; Tolentino, 2010). On top of that, large markets are also associated with agglomeration economies that can reduce the costs for all producers in that market (Dunning, 2009). From a resource

dependence lens, the market represents a pool of resources that EMFs can leverage to engage in M&As, through asset, information, and legitimacy flows, thereby increasing the possibility of M&A deals (Gaffney et al., 2013; Karney, 2012). As the financial wealth of the country is positively associated with the ability of EMFs to create firm-specific advantages, which have been identified as necessary to international acquisitions (Dunning, 1995; Kyrkilis & Pantelidis, 2003; Sun, Peng, Ren, & Yan, 2012), there are increasingly studies that have included financial market size as an important determinant of cross-border M&As from emerging economies. Empirically, scholars (e.g., Di Giovanni, 2005; Nicholson & Salaber, 2013) found that the size of host country's financial market, measured by the ratio of stock market capitalization to GDP, has a strong positive correlation to overseas M&A activities. Similarly, Duanmu (2012) found that financial market size measured as host country's market capitalization is an important attraction for Chinese OFDI. Following the predictions of prior studies, we expect that the size of financial market in a host nation will positively affect the number of cross-border M&As initiated by EMFs in both developed and developing countries. In essence, a large financial market contributes to some more demands in the input and output markets that created more purchasing potential for investors to identify opportunities and possess the resources to exploit those opportunities (Globerman & Shapiro, 2005). Therefore:

H1. The size of host financial market is positively associated with the number of cross-border M&As by emerging market firms in each host country.

2.3. Motivation to seek resources in the M&A logic

From a resource dependence lens, it is important to consider the resource aspect that drives M&As, as firms rely on resource availability for future actions. To cope with environmental uncertainty, firms often resort to M&As as part of their resource absorptive processes (Pfeffer & Salancik, 1978, 2003). In particular, resources that firms get from different economies may affect their decisions toward acquisitions (Finkelstein, 1997). While some studies have incorporated the elements of resource acquisition in understanding driving forces behind cross-border M&As, they have typically focused on the transaction role of acquisitions instead of control of resources, which may have different effects (Cheung & Qian, 2009; Kang & Jiang, 2012). In the following, we concentrate on the impact of resource (both natural resources and strategic assets) dependence in host countries on the subsequent M&As by EMFs. Fundamentally, M&As need to match the resources provided by the target firm with the need of the acquiring firm, and "resource-rich" countries should be the focus of international acquisitions by EMFs (Haleblian et al., 2009; Nicholson & Salaber, 2013).

Acquiring and securing a continual supply of natural resources is one of the major motives for EMFs to engage in international acquisitions (Gaur, Kumar, & Singh, 2014; Stucchi, 2012). Take China as example: the Chinese government has used OFDI to ensure the supply of domestically scarce factor inputs as the Chinese economy rapidly grows (Kang & Jiang, 2012). Key natural resource sectors for Chinese firms to seek include minerals, petroleum, timber, fishery and agricultural products (Morck, Yeung, & Zhao, 2008). This motive to seek natural resources has also been highlighted by a number of recent high-profile acquisitions by EMFs, including Brazil-based Cia Vale do Rio Doce's \$18.2 billion acquisition of Canada's Inco, Mexico-based Cemex's \$15.1 billion acquisition of Australia's Rinker Group, and India-based Tata Steel's \$12.5 billion acquisition of the U.K.-based Corus Group (Jullens, 2013; UNCTAD, 2014). Accordingly, we

propose that EMFs will increase the number of cross-border M&As in both developing and developed countries that have rich natural resources. Natural resource is another important factor characterizing host market that attracts cross-border M&As by EMFs. Based on the M&A logic, we propose the following hypothesis:

H2. The natural resources of a host country are positively associated with the number of cross-border M&As by emerging market firms in each host country.

In addition to the natural resource, firms from emerging economies are motivated to obtain intangible resources and innovation-based knowledge through M&As (Child and Rodriguez, 2005; Luo & Tung, 2007). It has been argued that strategic assets such as superior marketing expertise, product differentiation, patent-protected technology, and managerial know-how constitute a major set of strategic motivations for EMFs to engage in international acquisitions particularly in advanced countries (Jullens, 2013; Rabbiosi et al., 2013). Empirical studies also verify that many of EMFs investing in advanced countries have gained access to established brand names, novel product technology, and extensive networks of distributors, typically via aggressive acquisitions of developed market firms in host countries (Nicholson & Salaber, 2013; Su, 2013). An example here is the Lenovo's acquisition of IBM's PC group in 2005. This acquisition makes Lenovo immediately become the third largest PC supplier in the world. In the same vein, EMFs are looking at developed countries to gain access to high quality research and development (R&D) institutions and workforces not found at home (Abrami, Kirby, & McFarlan, 2014; Chen, Li, & Shapiro, 2012). For instance, many Indian software firms with ownership advantages had moved abroad to acquire innovation-based skills as well as proprietary technology that were not available domestically (Gaur et al., 2014).

When entering foreign markets to seek strategic assets, EMFs are more likely to internalize the business through acquisitions rather than other alternative options such as alliance and JVs. This is because M&As is more likely to decrease the opportunity costs for the EMFs to absorb critical resources, such as advanced technologies or managerial skills (Chen et al., 2012; Williamson, 1991). On top of that, M&As may help the EMFs to control some important sources of resources, thus not only streamlining operations but also enhancing their bargaining power relative to local firms, thus mitigating dependence uncertainties (Gaffney et al., 2013; Haleblan et al., 2009). Given that cross-border M&As is increasingly becoming an important strategic response for EMFs to acquire advanced technology and know-how for constraint absorption in host countries, we have the following hypothesis:

H3. The strategic asset of a host country is positively associated with the number of cross-border M&As by emerging market firms in each host country.

2.4. Government effectiveness as a boundary condition

So far, we have looked at the independent effects of resource dependencies on the intensity of cross-border M&As by EMFs without worrying about the moderating effects. We further argue that the M&A logic is bounded by the level of host government effectiveness, an important institutional variable which has been ignored in RDT literature. Government effectiveness is an integral part of institutional systems which represents a host nation's institutional governance and reflects perceptions of the quality of public services and the quality of policy formulation and implementation (Kaufmann, Kraay, & Mastruzzi, 2010). The ability of host governments to design and implement effective and sound economic and regulative policies is an essential prerequisite for

foreign investors to engage in international acquisition activities (Lin, Peng, Yang, & Sun, 2009). Without such efficient and effective policies, the development of economic opportunities will be curtailed, making them less attractive to foreign investors (Kamaly, 2007; Peng, Wang, & Jiang, 2008). The literature on multinationals-host government interactions suggests that host governments often have substantial bargaining power over foreign investors (Hillman, Kein, & Schuler, 2004). As Boddewyn and Brewer (1994) observed that once a foreign firm invests in a host country, its bargaining power over local government declines.

For our research purpose, we focus on host government effectiveness as temporal conditions on RDT applications so as to offer further insights into how the M&A logic is more predictive of EMFs in their cross-border M&A endeavors. Resource dependence scholars have focused on how to enhance the power of acquiring firms through M&As so as to reduce competition (Santos & Eisenhardt, 2005). By absorbing an important competitor, however, EMFs inevitably are closely monitored by the host government (Matsusaka, 1996; Peng et al., 2008). In essence, since RDT's managerial prescriptions frequently stand in tense relationship to prevailing anti-trust rules, the theory's explanatory power is impacted by competition laws which are more likely to be enforced in the host countries where their government effectiveness is high. In explaining why host government effectiveness may negatively moderate the M&A logic that applies to cross-border M&As by EMFs, we focus on three dominant mechanisms.

First, high government effectiveness in a host nation arguably leads to strong institutions in the area of anti-trust laws (Matsusaka, 1996). While RDT regards M&As as important instruments for mitigating resource dependencies, antitrust authorities (legislation) have long looked upon them with suspicion (Peng et al., 2008). In particular, host governments see M&As as having the potential to reduce direct competition by enhancing the market power of the acquirers and by lessening the competitive pressure like quality-based differentiation (Santos & Eisenhardt, 2005). The possible consequences of such anti-competitive behaviors are that consumers are presented with deadweight losses due to monopolistic pricing and with slowing product innovation (Shapiro, 2010). National governments like that of the U.S. and supranational institutions like the European Union have therefore long been keen to prevent corporate market dominance by regulating the formation of M&As through antitrust legislation (Finkelstein, 1997). For example, in highly regulated industries, there tend to have a lower proportion of M&As (Hillman et al., 2004). Based on the meta-analysis of 157 resource dependence studies (1999–2009), Dress et al. (2013: 1690) conclude “the tenability of RDT is dependent on the stringency of the anticompetitive regime in a certain context or time period; the more stringent the regime, the weaker the potential of RDT to predict organizational behavior.”

Second, as antitrust law is predominantly focused on M&As, stricter antitrust legislation might create substitution effects with other less regulated interorganizational options (Bower, 2001; Haleblan et al., 2009). This is because when firms are abandoning M&As as their primary vehicle for collusion and anticompetitive action, they seem to be turning toward alternative options like alliance and JV relationships as a means for tacit coordination (Finkelstein, 1997). Empirical findings verify that the passing of stricter anti-merger legislation causes organizations to seek refuge in other, less regulated types of options (Dress & Heugens, 2013). In essence, while all corporate arrangements can in principle be used as vehicle for collusion, antitrust legislation is primarily intended to prevent the formation of positions of market dominance through M&As.

Third, with high government effectiveness, a focal firm may find it more efficient to leverage its strategic position through alliance

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