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CROSS-BORDER MERGERS & ACQUISITIONS BY EMERGING MARKET FIRMS: A REVIEW AND FUTURE DIRECTION

Min Du[1], Agyenim Boateng[2]

[1,2] Nottingham University Business School, University of Nottingham

Abstract. *The purpose of this paper is to examine how academic research on cross-border mergers and acquisitions (CBM&As) from emerging economy firms (EEFs) have evolved over the past decade (2000-2012). Focusing on articles published in major scholarly journals during the period 2000-2012, the authors develop a framework in respect of the areas where emerging research streams have been concentrated namely, (i) motivation for acquisitions by EEFs; and (ii) the consequences/outcomes. We identified issues which have not been examined and provide recommendations for future research for finance and international business scholars.*

Introduction

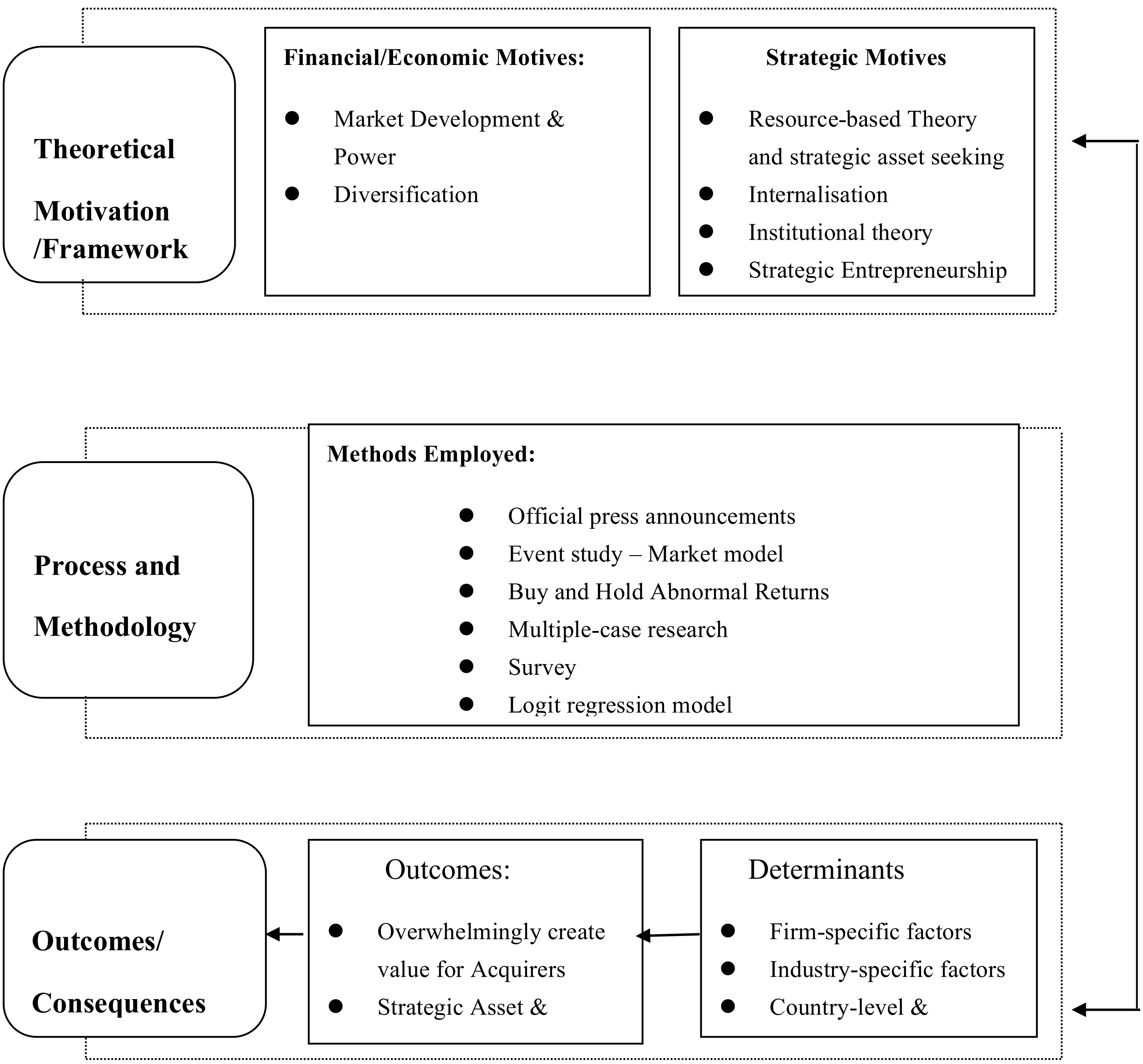
Over the past two decades, cross-border merger and acquisition (CBM&A) activities from countries with emerging economies have paralleled economic reforms in these countries and their integration into the world economy (Aybar and Ficici, 2009). Outward M&As of emerging economy firms (EEFs) from countries such as India, China, Brazil, South Africa and Russia have accelerated. CBM&A by EEFs is in sharp contrast to the past when firms from developed countries dominated the global corporate marketplace and developing countries were merely recipients of international investment. For example, between 1990 and 2003, the average share of CBM&A purchases as a percentage of FDI outflows of developing countries reached 40%. Since then, the pace of CBM&As from developing countries has continued to increase. In 2008, FDI from China alone was 52 billion USD, of which 42 billion was via M&As (UNCTAD, 2010). In a similar vein, the rapid rise of CBM&A activities by EEFs has prompted academic literature on this new phenomenon. While the volume of CBM&A literature is considerable with a diverse range of findings that encompass finance and international business strategy, the overall literature lacks theoretical integration. Theoretical explanations and empirical findings concerning the development of CBM&A activities from emerging economies remain fragmented with virtually no work synthesising prior literature towards a more integrated understanding of CBM&A activities. This lack of research is an important omission, and this review attempts to address this issue. In this paper, we ask the following questions: What are the motives behind the surge in CBM&A activities by EEFs and do the received theories explain the rising trends in CBM&A activities by EEFs. Do CBM&As create value for EEFs? What areas of research should future studies focus on? Answering these questions are important for a number of reasons: (i) Bruton and Lau (2008) and Macpherson and Jones (2010) note that the timely synthesis and consolidation of extant literature provides a basis to build and extend theories in an area of interest. Therefore, given the fragmented nature of acquisitions literature that considers emerging economies, it is imperative that we review and synthesise the existing literature. (ii) We believe that this type of review will reveal the notable contributions of EEFs and further our understanding of the performance of emerging market multinationals' investments. (iii) The identification of the key issues in the extant literature can create a framework for additional research (see Child, 2009).

Methodology Overview

To address the above questions, we followed five steps to manage the scope of our review and ensure comprehensive coverage of relevant studies in the sample. First, we focused on only peer-reviewed, English-language journal articles, excluding books, edited volumes, book chapters, teaching cases, working papers, conference papers and other non-refereed publications. Second, the selected publications discuss CBM&A from emerging markets and were published in finance and management journals. Third, given that the body of acquisition literature in respect of emerging markets are of recent phenomenon, our sample covers all published articles from 2000 to the present. Our fourth step consisted of a search of titles and abstracts from the following search engines: ProQuest/ABI/Inform, Ingenta, JSTOR and Business Source Premier Publications. Our keyword phrases were *mergers by developing countries*, *acquisition by developing countries*, *mergers and acquisitions*, *acquisitions from emerging economies*, and *acquisition by Indian AND Chinese firms.* Using these keywords, we expected that all of the relevant articles in the subject area would be found. Although the search was conducted with the best effort, the possibility of missing articles remains. Ultimately, the search resulted in 102 articles. After a ten-day review of these articles, we excluded 80 articles that did not specifically discuss outward mergers and acquisitions by EEFs, leaving 22 articles in the final sample. After the article search and selection process, we categorized the articles by year of publication, theoretical framework, methodology and key findings.

Further analysis of the sample articles provided us with two current taxonomies that are used to analyse CBM&As from emerging economies: (i) the motivation, i.e., the factors that drive firms to undertake acquisitions abroad, and (ii) the consequences/outcomes, i.e., whether acquisitions by these firms create value for acquiring firms and what factors influence value creation.

Figure 1: Framework for Derived from Content-analysis of the Emerging Economy Literature



Note: The arrows indicate the connections between motivation and outcomes

Consistent with our findings from the content analysis, we structured our paper as follows: The next section presents the theoretical motivations for CBM&As, i.e., what drives emerging economy firms to undertake acquisitions, as identified in the literature. Section three examines the acquiring firms' performance and the factors that influence value creation. The fourth section leverages the current state of acquisition knowledge to propose an agenda for future research.

Motivation: Which Theories?

Understanding the motivation that drives CBM&A activities continues to elicit interest among academics and practicing managers. This interest stems from the various empirical findings that suggest that more than two-thirds of all merger deals are financial failures, when measured in terms of their ability to deliver profitability (Ravenscraft and Scherer, 1987; Hudson and Barnfield, 2001). Previous studies suggest that the ability for mergers and acquisitions to create value for acquiring firms' shareholders is, at best, mixed, with studies reporting both value destruction and abnormal returns (Kang, 1993; Markides and Ittner, 1994; Kiymaz, 2003; Eun, Kolodny and Scheraga, 1996; Datta and Puia, 1995; Aw and Chatterjee, 2004; Erez-Rein et al., 2004 and Careleton, 1997). If studies from advanced market economies are used as the basis for comparison, then emerging countries should not engage in acquisitions at the alarming rate observed over the past two decades. Despite the mixed evidence of M&As meeting the expected goals, we continue to see a rising trend in CBM&A activities by emerging economy firms. It is, therefore, not surprising that numerous studies have devoted significant effort to unravel the motives behind acquisitions by emerging market multinationals. Two prominent motivations identified in the literature are strategic and economic/financial motives. We summarise the motives discussed in the papers in the literature in Table 1.

Authors	**Purpose**	**Theoretical Perspective**	**Methodology**	**Key findings**
Boateng et al. (2008)	Examine the strategic motives and performance of Chinese cross-border M&As	Resource-based View	Event study: CAR Sample of 44 firms during 2000 to 2004 by Chinese firms	The pre-dominant motive for Chinese firms is international expansion and diversification, which is followed by increasing market power and share and acquire strategic resources.
Nayyar (2008)	Examines outward FDI and international acquisitions by Indian firms	Institutional theory	Measures of summary: Frequency distribution tables – trends & sectoral analysis Sample of 10873 deals for 2000-2005, sample of 306 deals for 2000-2006, and sample of 143 deals for 2001-2006 from various sources	The rapid expansion of FDI, especially outward acquisitions of Indian firms is driven by two main factors: the liberalization of the policy regime and the greater access to financial markets.
Rui & Yip (2008)	Use strategic intent perspective (SIP) to analyse Chinese outward acquisitions	Resource-based View	In-depth interview Sample of three Chinese firms: Lenovo, Nanjing Automobile & Huawei Technology	Chinese firms tend to gain strategic capabilities to offset their competitive disadvantage and make use of institutional stimulus while lowering institutional constraints through outward acquisitions.
Deng (2009)	Rationale for Chinese asset-seeking outward M&As	Institutional theory	Multiple-case study Sample of three leading Chinese	Chinese institutional environment affects the asset-seeking outward M&As by Chinese firms.

Authors	**Purpose**	**Theoretical Perspective**	**Methodology**	**Key findings**
			firms: TCL, BOE and Lenovo	
Knoerich (2010)	Examine the reason why firms from developed countries are sold to emerging economies firms	strategic assets seeking	Case study & Interview Sample of five German firms sold to Chinese acquirers from 2004 to 2006	Emerging economy firms' acquisitions in industrialised countries are motivated by geographical and vertical expansion and the desire to enter into previously inaccessible market segments.
Pradhan (2010)	Analyse strategic asset-seeking foreign acquisitions by Indian Pharmaceutical MNES	Resource-based View	Poisson Regression Sample of 139 deals during the period 2000-2009	The role of host market size, intensity of patenting, skill and liberal FDI policy regime are the key determinants of the geographical distributions of Indian pharmaceutical acquisitions. Indian pharmaceutical firms use acquisition as a mixed strategy for accessing foreign markets and strategic assets/resources.
Das & Kapil (2011)	Analyse domestic and cross-border M&As in Technology sector in India and China	Resource-based View	Chi-Square tests	The proportions of deal volume in inbound, outbound and domestic space do vary significantly between these two countries. Deal types of M&A transactions vary for inbound and domestic space but for the outbound deals, the acquirers from both the countries follow similar pattern.
Zhang, Zhou & Ebbers	Examines the completion of Chinese outward	Institutional theory	Logistic Regression Sample of 1324	Chinese firms are likely to succeed in an outward acquisition when the target

Authors	Purpose	Theoretical Perspective	Methodology	Key findings
(2011)	acquisitions		announced Chinese cross-border acquisitions over the 1982-2009 period	country has a better institutional quality; the target industry is not state-owned and not sensitive to national security.
Madhok & Keyhani (2012)	Examine what explains the phenomenon of internalization by emerging economy firms through acquisitions in advanced economies	Asymmetries and strategic entrepreneurship	Review the existing literature and discussion	The argument of internationalisation of emerging economies firms shifts the central focus from advantage to asymmetries as the starting point for internationalization. It highlights the role of learning agility rather than ability as a potential 'asset of emergingness. Conclude that acquisitions as an act and form of entrepreneurship. Researchers need to go beyond mere verification and extension of existing theories and build new theory.

Table 1: Summary of Studies on Motives for cross-border M&As by Emerging Economy Firms

Strategic Motives

Internalisation

An internalisation framework is premised on the contention that firms extract above-normal returns from CBM&A investment by internalising host country imperfections when their firm-specific assets cannot find comparable value elsewhere (Buckley and Casson, 1976; Caves, 1971; 1998; Morck and Yeung, 1991; 1992). The resulting economic rents derived from internalisation are expected to be converted into a higher value for the firm (Aybar and Ficici, 2009). Internalisation perspective, which was developed largely in the context of the advanced market economies of North America and Western Europe, has been used to explain emerging economy firms' acquisitions abroad (Boateng et al., 2008; Aybar and Ficici, 2009; Gubbi et al., 2010; and Kohli and Mann, 2011). This is consistent with the views of researchers such as Lall (1983) and Wells (1983), who first pointed to the limited applicability of internalisation theory in the context of firms from one developing country entering into other developing countries. Lall (1983) and Wells (1983) argued that firms from developing countries primarily expand into similar or less-developed countries using proprietary advantages, such as low input costs, inexpensive labour, managerial skills, and other advantages associated with conglomerate ownership. Gubbi et al. (2010) point out that these advantages helped emerging economy firms to expand predominantly into other, similar emerging economies. The above is in line with the conclusion drawn by Morck and Yeung (1992), who examined both the stock market reaction to the announcement of foreign acquisitions and the possession of intangible assets by acquiring firms. They found that acquisitions yield significant announcement returns when the acquiring firms have intangible assets. In a study of Chinese CBM&As, Boateng et al. (2008) also emphasise the internalisation of the acquiring firm's intangible assets and the target's intangible assets by way of reverse internalisation to avoid misappropriation of intangible assets and reduce transaction costs.

Resource-based Theory

A number of studies examining the reasons that emerging economy firms go abroad have been approached from the perspective of resource-based theory (Boateng et al., 2008; Deng, 2009; Rui and Yip, 2008). These studies argue that EEFs are motivated by the search for strategic assets embodied in other firms and that they increasingly use CBM&A as a foreign entry mode. Makino et al. (2002) noted that Asian firms are most interested in acquiring qualities that are unavailable domestically, such as superior assets and skills, by means of acquisitions in advanced countries. UNCTAD (2006) supports this argument and indicates that it is common among emerging economy firms to use CBM&As to obtain and control strategic assets. A firm's strategic asset is defined as "a set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage" (Amit and Schoemaker, 1993:36). These assets include reputation, tacit knowledge, buyer-supplier relationship, research and development (R&D) capability, brand name, knowledge and proprietary technologies (Teece, Pisano and Shuen, 1997). Wesson (2004), Deng (2009), Rui and Yip (2008), and Boateng et al. (2008) emphasise that emerging economy firms, as latecomers, lack resources and that they actively attempt to reduce the gaps in their technological capabilities by acquiring innovative firms to supply the necessary resources. Rui and Yip (2008), in an attempt to explain Chinese foreign acquisitions, used a strategic intent perspective first employed by Hamel and Prahalad (1989), where Japanese firms relentlessly pursued specific, long-term objectives to become global leaders. Rui and Yip (2008) argue that Chinese firms strategically use CBM&As to achieve specific goals, such as acquiring strategic capabilities to offset their competitive weaknesses and leveraging their unique ownership advantages, while using institutional incentives and minimising institutional constraints. Mainstream international business literature identifies strategic intent as one of the most important motivations for firms to invest abroad. However, this perspective has been discussed in the context of resource-based theory and is, therefore, can be subsumed under this theory. However, studies such as Boateng et al. (2008) and Deng (2007; 2009) have provided unequivocal support for the resource-seeking behaviour of EEFs. For example, in their study of Chinese firms, Boateng et al. (2008) found that one of the main motives for Chinese firms' acquisitions abroad is to acquire strategic assets.

Institutional Theory

Newly emerging body of theoretical work focuses on the institutional-based view of strategy, known as institutional theory (North, 1990; Peng, 2002; Wright et al., 2005; Kornai et al., 2008). A number of researchers suggest that firms need to consider wider influences from sources such as the state and society when crafting and implementing their strategies (DiMaggio & Powell, 1991; Oliver, 1997). These influences are broadly considered part of an institutional framework (North, 1990; Peng, 2002). Oliver (1997), Peng (2003), Tsui et al. (2004), and Scott (2005) argue that the institution framework within an economy exerts a substantial impact on a firm's strategic choice. North (1990) expresses a similar point of view and asserts that it is necessary to understand the institutions in which firms are embedded when examining firms' strategic choices. For example, Hitt et al. (2004) noted that in emerging economies such as that in China, economic reforms have focused on improving firms' innovatory capacity as part of the institutional transition from planned to market economy. Deng (2009), in his multiple case study, showed how Chinese firms undertake strategic asset–seeking M&As to mitigate domestic institutional constraints and respond to the unique institutional characteristics of China, such as complying with the government's "go global" strategy. Using an institutional theory, Zhang, Zhou and Ebbers (2011) examined the institutional influences on the likelihood of Chinese CBM&A deals being completed and found that host and home institutions exert significant influence on completion rates.

Asymmetries and Strategic Entrepreneurship Perspectives

The predominant theoretical view of multinational enterprises (MNEs) is premised on an asset-exploitation perspective. From this perspective, firms make the most of their rent-yielding proprietary resources and knowledge-based capabilities by internalising resources within the firm when expanding into overseas markets (Buckley and Casson, 1976; Hymer, 1976). Subsequent studies by Anand and Delios (2002) and Dunning (1993) have expanded the traditional view to incorporate exploration as an important motivation for the international expansion of MNEs. Yet, Mathews (2006), Luo and Tung (2007) and Li (2007) argue that this extension may not be sufficient, as emerging economy firms' pursuit of internationalisation is not only about learning or asset seeking but also about overcoming the distinctive challenges that face these firms. In this vein, Madhok and Keyhani (2012) conceptualise foreign acquisitions by emerging economy firms as an act and form of entrepreneurship aiming to overcome the "liability of emergingness" incurred by these firms and to serve as a mechanism for competitive catch-up through opportunity seeking and capability transformation activities. Ramamurti and Singh (2009) suggest that emerging economy firms suffer from a number of disadvantages when they enter more competitive global markets because these firms are characterised by underdeveloped markets, unsophisticated customers, weak suppliers, infrastructure bottlenecks, limited exposure to global competition and lower managerial standards. These factors (termed as liabilities of emergingness) collectively create an institutional deficit that erodes competitiveness (Luo and Tung, 2007). Therefore, Madhok and Keyhani (2012) argue that acquisitions in advanced countries by emerging economy firms help these firms to overcome the "liability of emergingness" and access valuable opportunities that build on their asymmetries. Thus, these firms are able to transform their capabilities and consequently obtain entrepreneurial rent. At the heart of the argument put forward by Madhok and Keyhani (2012) is a type of entrepreneurship that moves beyond exploration to a form of discovery entrepreneurship, defined as "pursuing opportunities regardless of resources under control" (Stevenson and Jarillo, 1990: 24). Madhok and Keyhani (2012) argue that acquisitions by EEFs not only enable access to and learning from advanced economy firms but also provide opportunities that build upon the asymmetries of the new relationships and transform EEF capabilities beyond what is known or what can be predicted ex ante.

Economic/Financial Motives

Diversification

Diversification, a well-documented strategy for the expansion of a firm, has been suggested as one of the dominant reasons for CBM&As (Denis, Denis and Yost, 2002; Markides and Ittner, 1994; Seth, 1990; Shleifer and Vishny, 1992). It is argued that international acquisitions provide firms with an opportunity to reduce the costs and risks of entering into new foreign markets (Seth, 1990). Others point out that diversification is a source of value in CBM&As. For example, Manzon, Sharp and Travlos (1994) and Morck and Yeung (1992) note that sources of value unique to CBM&As include exchange rate differences, market power conferred by the international scope and the ability to arbitrage tax regimes. In their examination of the motives for CBM&As acquisitions, Boateng et al. (2008) found diversification to be the most important motive for Chinese firms' acquisitions abroad. In another study on the acquisition activities of firms in eight emerging economies, Bhagat, Malhotra and Zhu (2011) suggest that, if the cash flows of the acquiring firm and the target firm are less than correlated, the combined company's cash flow will have a smaller variance, have a lower cost of debt and, ultimately, capture the benefits of diversification for the acquiring firm.

Market Development and Power

Boateng et al. (1998) found that one of highest ranked motive for CBM&As by Chinese firms is to increase market share and power. Market share and power were first explored in the finance literature in the context of rival firms' stock price reactions to horizontal mergers. However, studies such as Eckbo (1983) and Stillman (1983) found no support for market power. UNCTAD (2000) indicates that CBM&As provide the fastest means to access new markets and expand a firm's market for its current goods. Boateng et al. (2008) reinforces this point by indicating that the search for market share and power is a constant concern for emerging economy firms in an increasingly competitive environment. Firms from emerging economies may use acquisitions in foreign markets to help overcome trade barriers.

Performance

Research on post-acquisition performance has been examined from two main research streams. The first research stream, which is common in the finance literature, examines the issue of shareholder wealth creation. This line of research examines the stock market's reaction to CBM&A announcements. The second stream uses a multiple-case approach and a cross-sectional quantitative approach to analyse one or more factors that may influence post-acquisition performance. We summarise the performance-related papers in Table 2

Authors	**Purpose**	**Theoretical Perspective**	**Methodology**	**Key findings**
Boateng et al. (2008)	Examine the strategic motives and performance of Chinese cross-border M&As	Resource-based view, Diversification, Efficiency theory.	Event study: CAR Sample of 27 cross-border M&As during 2000 to 2004 by Chinese firms	Chinese cross-border M&As create value for acquiring firms. Cumulative abnormal returns (CARs) for the overall sample of acquiring firms averaging 1.32% for a two-day period (0, +1) and the acquiring firms enjoy an overall average positive CAR of 4.4274%.

Authors	**Purpose**	**Theoretical Perspective**	**Methodology**	**Key findings**
Aybar & Ficici (2009)	Examine the firm value of cross-border acquisitions by firms from emerging market	Internalization framework	Event study: CAR and Cross-sectional Regression of 433 acquisitions in 58 emerging-market multinationals (EMM).	On average, EMM acquisitions do not create value but destroy value for more than half of the transactions analysed. Cross-sectional analysis indicates that target size, ownership structure of the target and structure of the bidder positively affect the bidder value. High-tech nature of the bidder and pursuit of targets in related industries negatively affect the bidder value but not international experience and enhanced corporate governance.
Chen & Young (2010)	Examine the performance of Chinese cross-border M&As	Intuitional theory	Event Study: CAR. Government ownership Sample of 39 Chinese cross-border M&A deals from 2000 to 2008	The increased government ownership in the acquiring firms is related with investors viewing cross-border M&As in less favourable terms.
Deng (2010)	Using absorptive capacity to explain performance of Chinese cross-border M&As	Resource-based view	Case study. Firms' absorptive capacity Sample of two high-profile Chinese cross-border M&As: Lenovo and TCL	The performance of Chinese firms' outward M&As is substantially influenced by the acquiring firms' absorptive capacity at multiple dimensions.

Authors	Purpose	Theoretical Perspective	Methodology	Key findings
Gubbi et al. (2010)	Examine the value creation from international acquisitions in India	Resource-based view, Institutional theory	Event Study of 425 Indian firms over 2000-2007 period; OLS Regression	International acquisitions facilitate internalization of tangible and intangible resources that are difficult to access in market transactions. Value creation is higher when the target firms are from advanced economic and institutional environments.
Soongswang (2010)	Examine the value creation of M&A in Thailand	Economies of scale and scope, Diversification	Event Study: CAR & BHAR market-adjusted and market models Sample of 39 acquisitions from 1992 to 2002	Takeovers are wealth-creating for bidding firms' shareholders. Takeovers are good news in the market four and three months prior to the announcement month, resulting in positive abnormal returns of approximately 17% and 10% for the bidders.
Wu & Xie (2010)	Examine the factors influencing Chinese cross-border M&As	Institutional theory	Survey Sample of 165 cross-border acquisitions in the period of 2000-2006	The pre-acquisition performance and proportion of the state shares have a positive impact on performance of acquiring firms.
Bhagat, Malhotra & Zhu (2011)	Examine the characteristics and acquirer returns for emerging country cross-border acquisitions	diversification, operational efficiency and market power	Event study: CAR & BHAR. Sample of 698 acquisitions over 1991-2008 period Cross-sectional regression	Emerging country acquirers experience a positive and a significant market response of 1.09% on the announcement day. Cross-section regression results indicate that acquirer returns are positively correlated with (better) corporate governance measures in the

Authors	**Purpose**	**Theoretical Perspective**	**Methodology**	**Key findings**
				target country.
Kohli & Mann (2011)	Analyse determinants of value creation in Indian domestic and cross-border acquisitions	Internalization theory	Event study: CAR & Regression Sample of 202 cross-border acquisitions and 66 domestic acquisitions by Indian firms	Cross-border acquisitions have created significantly higher wealth gains than domestic ones. Cross-border acquisitions in technology intensive sectors create superior wealth gains.
Malhatra, Sivakumar & Zhu (2011)	Analyse the role of national culture on foreign market acquisitions by US firms and emerging countries firms	Culture distance affects the selection of international markets	Poisson Regression Sample of more than 100,000 cross-border acquisitions from 1976 to 2008	Firms from both the United States and emerging countries target countries that are culturally closer to their home countries. a strong interaction effect occurs between market potential and cultural distance for emerging country firms as the market potential increases. Different cultural dimensions affect the market entry strategies of US firms and firms from emerging countries.
Mann & Kohli (2011)	Examine the target shareholders' wealth gains of Indian	Industrial organizational theory & Bid-specific factors theory	Event Study: CAR & Cross-sectional regression analysis Sample of 63 domestic acquires	Both domestic and cross-border acquisitions have created value for the target company shareholders on the

Authors	Purpose	Theoretical Perspective	Methodology	Key findings
	domestic and cross-border acquisitions		and 43 foreign acquirers during 1997 to March 2008 in India	announcement while the value creation is higher for domestic acquisitions compared to cross-border acquisitions due to the influence of various bid-specific factors. Thus, in India, bid-related variables are the fundamental drivers of the target's announcement wealth gains irrespective of the nationality of the acquirer.
Bertrand & Betschinger (2012)	Investigates long term operating performance of domestic and international acquisitions by Russian firms	Market power and diversification	GMM Sample of 600 domestic firms & 120 Russian foreign acquisitions	Domestic and international acquisitions tend to reduce the performance of acquirers compared to non-acquiring firms. Russian foreign acquisitions suffer from their inability to leverage value due to low M&As experience and capability.
Rahahleh & Wei (2012)	Performance of frequent acquirers from 17 emerging firms		Event study: CAR Sample of 2340 merger deals in 17 emerging markets during 1985 to June 2008	Our primary findings are as follows. Serial acquirers in emerging countries on average experience a declining pattern in returns with subsequent deals, but the pattern is not strong. However, conditional on successful initial deals, the declining pattern is strong for the majority of countries, is large in terms of the magnitude, and is significant in the multivariate regression

Authors	Purpose	Theoretical Perspective	Methodology	Key findings
				analysis.
Sun, et al. (2012)	Develop a new comparative ownership advantage framework to be applied in emerging economies outward M&As	Comparative advantage theory	Preliminary test by basic comparisons Sample of 1526 Chinese and Indian firms	A mature comparative ownership advantage framework characterized by national-industrial factor endowments, dynamic learning, value creation, reconfiguration of value chain and institutional facilitation and constraints is needed to explain emerging country outward M&As.

Table 2: Summary of Studies on Performance of cross-border M&As by Emerging Economy Firms

Value Creation

Acquisitions studies that examine the value creation of acquiring firms from emerging economies have approached the subject using stock market-based performance measures and event study methodologies (see Boateng et al., 2008; Aybar and Ficici, 2009; Kohli and Mann, 2011; Bhagat, Malhotra and Zhu, 2011; Gubbi et al., 2010). The majority of the studies have reported significant positive returns for acquiring firms (Boateng et al., 2008; Wu and Xie, 2010; Bhagat, Malhotra and Zhu, 2011; Kohli and Mann, 2011; Gubbi et al., 2011), and one study, Aybar and Ficici (2009), documents the value destruction. Using a sample of 27 acquiring firms from China, Boateng et al. (2008) found that Chinese firms experience significant, positive wealth gains for shareholders. Similarly Bhagat, Malhotra and Zhu (2011) examined 678 firms from eight emerging countries, namely, Brazil, China, India, Malaysia, Mexico, Philippines, Russia and South Africa, and documented positive and significant returns for acquiring firms. However, a similar study by Aybar and Ficici (2009) of 14 emerging economies, using a sample of 433 acquisitions over the period from 1991 to 2004 reported that, on average, CBM&As of emerging economies do not create value but destroy value for more than half of the transactions analysed over a two- and three-day event window. The study by Gubbi et al. (2011) of Indian firms reported mean cumulative abnormal returns (CARs) of 2.58 per cent over an 11-day event window. It is worth noting that these studies only analysed the acquiring firm's returns, and no study has investigated the target firm's returns; the paucity of research may be due to the difficulty of collecting data on target firms. An important distinction in this review is that, overwhelmingly, EEFs that engage in CBM&As tend to create value, which is in sharp contrast to their counterparts from advanced market economies, where several researchers have documented mixed results for acquiring firms (Markides and Ittner, 1994; Cakici, Hessel and Tandon, 1996; and Kiymaz, 2003; Datta and Puia, 1995; Eun et al., 1996; Corhay and Rad., 2000; Aw and Chatterjee, 2004), specifically, positive and negative abnormal returns for the shareholders of acquiring firms.

Factors influencing Value Creation of Emerging Economy Firms

Regarding the factors influencing the value creation of emerging economy firms, a number of firm and industry-specific factors are prominent. We discuss these factors below.

Firm-specific Factors

The finance and international business literature provides ample evidence of an array of factors that the value creation of acquiring firms. For EEFs, these factors include firm size, leverage, the acquiring firm's international experience, the stake acquired in the target and the acquiring firm's corporate governance, firm relatedness and absorptive capacity.

Firm Size

The finance literature documents that small and large acquiring firms have different characteristics that may influence the value creation of acquiring firms. It is argued that the size of a firm is associated with operating economies, leading to economies of scale in management, marketing, production and distribution. For example, large firms may be able to muster the resources required to undertake the acquisition at a lower cost compared with small firms. On the other hand, Moeller et al. (2004) argue that the agency cost of free cash flows is more severe for large firms than small firms. They found that managers of large firms pay more for acquisitions compared with small acquiring firms. In their study of emerging economy firms, Aybar and Ficici (2009) find that large size positively influences abnormal returns on the announcement of a CBM&A. On the other hand, in the study of Indian CBM&As, Kohli and Mann (2011) find that small and mid-sized acquiring firms tend to create value on the announcement of a CBM&A. These results suggests that the few studies that have investigated CBM&As by EEFs appear inconclusive.

Level of International Experience

International experience is one of the widely discussed factors in both international business and finance literature and is believed to be a source of value creation for acquiring firms. With international experience, the "liability of foreignness" is reduced, and the acquiring firms have a better chance of survival (Delios and

Beamish, 2001; Li and Guisinger, 1991; McCloughan and Stone, 1998; Pan and Chi, 1999) in the foreign market at the post-acquisition stage. Doukas and Travlos (1988) find that the acquisition announcements of firms with an established presence in the target country generate positive and statistically significant abnormal returns. In their examination of the impact of prior experience on the value creation of emerging economy firms, Aybar and Ficici (2009) failed to find a strong correlation between international experience and value creation. They find weak support for the significance of prior presence in one of the two multivariate models at the event window (-5, +5).

Good corporate governance

Good corporate governance practices in the acquiring firm are expected to contribute to the acquiring firm's value (Aybar and Ficici, 2009). This factor is particularly important for emerging economy firms because of the poor corporate governance practices that are prevalent in these markets. Poor governance practices include lax disclosure requirements, a lack of proper monitoring systems, and underdeveloped local equity markets, which tends to increase managerial discretion, with serious implication for value appropriation. Despite the well-documented implications of poor governance on firm value in the extant literature, Aybar and Ficici (2009) find no strong empirical support for the above argument. The results of their univariate analysis suggest negative standard cumulative abnormal returns (SCAR), which indicate value destruction for acquiring firms in enhanced governance. However, on the other hand, their logistic regression results indicate positive coefficients for larger event windows (up to -5,+1) and negative coefficients for narrower event windows.

Public versus Private Target

The nature and form of target firms (public or private) may influence the performance of acquiring firms. Fuller, Netter and Stegemoller (2002) suggest that acquiring firms earn significantly negative returns when buying public targets and earn significantly positive returns when buying private targets. Draper and Paudyal (2006) suggest that managerial motives may be one of the reasons for higher returns of acquiring firms that acquire private targets. For example, public companies may be larger in size and may have better reputations in the market than private firms. Therefore, managers may be willing to pay more for those targets, leaving their shareholders in a vulnerable position. On the other hand, acquisitions of private targets may not enjoy a similar reputation and may not result in overpayment, thereby enhancing the acquiring firm's shareholder wealth. Aybar and Ficici (2009) suggest that, because of the inexperienced nature of EEFs, acquiring firms may pay significantly higher premiums for public targets to reduce the resistance of current shareholders. Aybar and Ficici (2009) find the acquisition of publicly owned targets to be more value destructive than privately owned targets.

Absorptive Capacity

Our literature review suggests that one of the most important motives for CBM&As by EEFs is to acquire strategic assets. Seth et al. (2002) and King et al. (2004) argue that, while the acquisition of strategic assets provides EEFs with the opportunity for significant value creation, it is important to note that high performance and strong competitive positions cannot be automatically assumed. High performance and strong competitive positions depend on the absorptive capacity of the firms. Absorptive capacity emphasises the importance of taking in external knowledge, combining it with internal knowledge and absorbing it for commercial use (Cohen and Levinthal, 1990; Zahra and George, 2002). Lane et al. (2001) and Zahra and George (2002) argue that the ability to diffuse knowledge acquired within the organisation, to integrate it with the organisation's activities, and to generate new knowledge from the absorbed knowledge is crucial. Therefore, Lane et al. (2006) and Zollo and Singh (2004) have demonstrated that analysing an acquiring firm's post-acquisition strategies can help distinguish between potential success and failure. This view is consistent with Amit and Schoemaker (1993) who argue that using M&As for resolving knowledge deficiencies does not necessarily result in superior returns because strategic assets are often tacit, specific and complex. Applying absorptive capacity to Chinese CBM&As, Deng (2010) used a comparative analysis of two CBM&A deals to confirm that the extent to which Chinese firms can achieve superior firm performance is dependent on the level of its absorptive capacity of strategic assets acquired from other firms. Deng (2010: p. 522) concluded that "differences in absorptive capacity may therefore provide an insightful explanation for why acquiring firms facing similar competitive landscape may achieve substantially different outcomes".

Industry-specific Factors

Our review suggests that relatively few industry-specific factors, such as sector of operation, firm relatedness and tax liability, have been examined in comparison with firm-specific factors in the context of emerging economy firms.

Sector of operation

The extant literature suggests that the type of industry has implications for value creation (Markides and Ittner, 1994; Shimizu et al., 2004). Focusing on a high-tech/non high-tech dichotomy by industry type, Aybar and Ficici (2009) examined the impact of industry type on value creation of acquiring firms and found negative market reactions to emerging economy high-tech CBM&As. Further cross-sectional regression analysis confirms the negative impact for acquiring firms in high-tech acquisitions. Aybar and Ficici (2009) attributed the negative reaction and value destruction to information asymmetries associated with the assets acquired, their compatibility and the high premiums often paid for assets in the high-tech industry.

Related and unrelated acquisitions

The M&A literature suggests that the relatedness between the target and acquiring firm may affect the performance of the acquiring firm. Singh and Montgomery (1987) noted that value creation in related acquisitions may arise from economies of scale, economies of scope and market power. Moreover, it is argued that the benefit of market power is more prevalent in the case of related acquisitions, where the size of the firm may be increased through horizontal acquisition to exert pressure on the market and attract economic rent (Seth, 1990; Morck, Shleifer and Vishny, 1990; Walker, 2000). On the other hand, there is evidence in the M&A literature that unrelated acquisitions may also be value creating events. The main sources of value in the case of unrelated acquisitions come from the possibility of a diversification effect. Diversification brings additional advantages, such as a co-insurance effect, where combined cash flows will be less unstable than that of diversified or non-diversified firms of a similar size (Stultz, 1990). Testing the relatedness of emerging firms involved in CBM&As, Aybar and Ficici (2009) and Bhagat, Malhotra and Zhu (2011) find that firms that acquire related targets experienced deeper value destruction than firms that diversified through unrelated targets. The study by Bhagat, Malhotra and Zhu (2011) in EEF context also suggests the value destruction of related acquisitions but the results were not statistically significant.

Host Country Characteristics

Host Country's economic and institutional Advancement

International acquisitions by emerging economy firms provide them with ready access to key strategic resources and downstream assets that may not be available in their home market. These key resources include market-based relational assets, such as relationships with customers and suppliers, and intellectual assets, such as knowledge about the environment and new growth opportunities (Srvastava et al., 1998). These resources are crucial to emerging economy firms, as such firms are known to suffer from "liabilities of foreignness" and "newness" when operating in developed countries. In particular, emerging economy firms are perceived to be of poor quality, making it difficult to compete against the resource-rich local competitors in advanced countries (Aulakh et al., 2000). Cuervo-Cazurra et al. (2007) and Guillen (2002) argue that acquisitions help scale the reputation barrier and overcome the dual liabilities of foreignness and newness in international markets, thereby creating value for the acquiring firms. Uhlenbruck et al. (2006) and Vermeulen and Barkema (2001) similarly note that international acquisition provides emerging economy firms' with access to resources that facilitate a quicker change of status and reputation, thereby leading to enhanced capability and value creation. In an attempt to test the above concept, Gubbi et al. (2010) highlight acquisitions by emerging economy firms as a unique strategic and important lever for value creation. They posit that the extent to which emerging economy firms create value is contingent on the location of the target firm and the level of host country economic and institutional advancements. Using a sample of 425 Indian CBM&As between 2000 and 2007, Gubbi et al. (2010) find that a country's level of economic and institutional advancement correlate with the market's expectations of an acquisition's performance.

Geographic and Cultural Proximity

Hughes and Mester (1998), Berger et al. (2000) and Demsetz and Strahan (1997) suggest that geographically diversified institutions improve the risk-return trade-off. However, Barkema et al. (1996) contend that geographic and cultural proximity drastically reduces information acquisition costs. Ghemawat (2001) argues that technological innovation has not eliminated the very high cost of distance. This is consistent with transaction cost literature that indicates that the greater the cultural differences between the acquiring and target firms, the higher the transaction costs will be. Analysing the geographic and cultural proximity in an emerging economy context, Aybar and Ficici (2009) find that average SCARs for geographically and culturally close-proximity targets are negative and statistically significant. They find higher percentages of positive outcomes for transactions between distant acquiring and target firms (37.8–58.44 per cent) for various event windows. Cultural proximity does not enhance an acquiring firm's prospects of success.

Prior studies of emerging economies have approached M&As from a perspective of antecedents and consequences, and these studies have used event study methodology (see Boateng et al., 2008; Aybar and Ficici, 2009). Given the substantial volume of outward M&A from emerging economies, it is surprising that no systematic review of the CBM&A research has been published in the past decade. Consequently, it is difficult to evaluate the extensiveness of the literature and what the future research should focus on. The present study attempts to fill this gap by reviewing over twenty-two research articles published between 2000 and 2012. In reviewing these articles published in the field of CBM&As, this study attempts to address this important gap.

Future Directions

Our critical review and qualitative content analysis highlights that the finance and international business literature has concentrated on CBM&A by EEFs over the past two decades. In a similar vein, we have identified areas that are currently underdeveloped, providing opportunities for scholars in finance and international business to explore.

Motivation

Our review suggests that internalisation theory, resource-based views, diversification, market development and power, strategic intent, institutions and strategic entrepreneurship drive the theoretical motivation of emerging economy firms to engage in acquisitions. Although numerous prior studies have utilised internalisation theory and resource-based views, the primary motives for CBM&As by emerging economy firms remain unclear. Apart from the study of Boateng et al. (2008), which attempted to rank the motives that drive Chinese firms abroad, other studies (Deng, 2009; Rui and Yip, 2008) have only used case studies to analyse a single motive, such as a resource-based view and strategic intent. However, as noted by Boateng et al. (2008), firms that undertake acquisitions are not motivated by a single reason but a set of motives. We therefore suggest that researchers should conduct further research to uncover the primary motives and their relative importance for EEFs that undertake acquisitions abroad.

We also suggest the need to fully examine the often cited motivation for acquisition by EEFs "to acquire strategic assets". The strategy literature well documents the resource-based view that the need to acquire resources drives emerging economy firms abroad. It will therefore be intriguing to uncover the nature of the strategic assets that these firms acquire, how they integrate and absorb these assets into their operations, spillover effects from CBM&A to the parent companies at home and whether CBM&As, as an entry mode, constitute an effective means to enter a market. Another important issue is the institutional drivers of CBM&As. Scott (1995) argues that firms require legitimacy and economic efficiency to survive and succeed. A number of authors examining the drivers of foreign investments have pointed out the important role of the emerging economy institutions in CBM&As (Deng, 2009; Peng, 2002, 2003; Hitt et al., 2004). DiMaggio and Powell (1983) introduced the typology of coercive, normative and mimetic institutionalisation pressures. The question is as follows: which of these pressures are more likely to drive EEFs' acquisitions abroad? The extant literature does not specifically address this question; however, we see more value in examining specific institutional influences, such as the role of government and market norms, as drivers for acquisitions by EEFs.

Although traditional theories of MNEs, and more recently the research by Anand and Delios (2002) and Dunning (1993), have highlighted asset exploitation and exploration as important motivations for the international expansion of MNEs, the research of Madhok and Keyhani (2012) and Li (2009) indicates that the existing theories do not sufficiently explain the internationalisation of EEFs, and they have called for either the extension of existing theories or the development of new theories to explain this phenomenon. It is argued that the speed, scope and characteristics of EEFs raise serious questions regarding the applicability of extant theories to these firms. For example, the traditional theories of MNEs are premised on exploiting a firm's superior resources abroad (Dunning, 1988; Rugman, 1981); however, EEFs are resource deficient, begin with weak advantages and tend to go abroad to access these resources (Mathews, 2006). In fact, EEFs are laggards and are far behind the value leaders in global competition. Madhok and Keyhani (2012: 37) argue that "such a situation questions some basic tenets of extant theory, such as firm-specific advantage as a precondition for a firm to invest abroad". We argue that there is no doubt that the speed, scope and characteristics of EEF acquisitions challenge the explanatory power of existing theories of MNEs. We therefore suggest that researchers in international business and finance either extend their scope or take a step beyond the extant theories, considering the impact of home country institutions and the "liability of emergingness" of these firms.

Methodology

With regard to the methodology for CBM&As, our review identified a number of issues. First is the predominant use of stock market based performance measurement, i.e. standard event study methodology. Most studies employ market model and calculate the cumulative abnormal returns over short event windows around announcement period of 2- to 5-day in order to measure shareholder wealth changes. For example, Boateng et al., 2008; Aybar and Ficici, 2009; Gubbi et al.,2010; Chen and Young, 2010; Bhagat, Malhotra and Zhu, 2011; Kohli and Mann, 2011 used short-run market based performance measures to analyse performance. While, it is argued that short-run market model represents a direct measure of stock-holder value (Lubatkin and Shrieves, 1986), it is important to point out that, it measures investors' expectations and not realized performance (Montgomery and Wilson, 1986; Schoenberg, 2006). Given the concerns surrounding the short-term perform, a number of researchers such as Lougran and Vijh (1997) or accounting measures (see Agrawal and Jaffe, 2003; Agrawal et al., 1992; Healy et al., 1992). However, to the best of our knowledge, Soongswang (2010) and Bhagat et al., (2011) have used Buy and Hold Abnormal Returns in the context of emerging markets with no study using long-term accounting based performance measures such as cashflows; and return of assets. For example, long-term accounting based measures recognise the synergies obtained in the long-term and are a direct opposite to short-term cumulative abnormal returns (Hitt et al., 1998). Given that the predominant motives for undertaking CBM&As are 'to acquire strategic assets' and 'develop the market' which take time to achieve, the use of long-term performance measures appear to be the most appropriate. Using both long-term accounting, ex post assessment of senior managers after acquisition and stock market based measures to evaluate performance would be very useful in capturing long-term synergies accruing from the acquisitions. Moreover such triangulation is very rare in the finance and strategy literature and the result may lead to more robust results.

Although, relative few studies have investigated CBM&As using subjective assessment of the senior managers. For example, Deng (2009, 2010); Rui and Yip (2008); Knoerich (2010) used multiple case studies while Wu and Xie (2010) and Nayyar (2006) used survey in their studies. The use of survey and multiple cases take into account the fact that M&As have multiple motives which appear more realistic.

To get deeper insights into why emerging economy firms undertake CBM&As, the use senior managers assessment appears a promising line to proceed.

Consequences of Acquisitions

Regarding the performance of EEFs, we observed that, consistent with the reviewed articles (Haleblian et al., 2009; Shimizu et al., 2004), the analysis of the CBM&A activity of emerging economies has concentrated on value creation using event study methodology and economic determinants (i.e., firm and industry-specific factors) of value creation. Our review suggests that the factors used in the studies of CBM&A activity of developed country firms should be used in studies on EEFs. However, it is pertinent to note that emerging economy firms are different from advanced country firms in terms of their motivation to undertake CBM&As. For example, emerging economy firms are motivated predominantly by the need to acquire strategic assets and increase market development. Second, governments in emerging economies exert considerable influence over businesses, as compared with their counterparts in advanced countries. This is consistent with the view of Shimizu et al. (2004), who note that government authority over business in emerging economies is more pervasive and pronounced. Tsui et al. (2004) also note that strategic corporate decisions are, to a greater extent, governed by a mix of political and economic motives. In light of the above findings, we suggest that the performance of EEFs should be based on the extent to which M&A assets have been acquired and absorbed to help overcome the acquiring firm's competitive disadvantage as a latecomer.

Our review suggests that previous literature has largely ignored institutional factors and concentrated on traditional economic factors in analysing the factors that influence performance. We argue that it would be surprising if corporate managers in emerging economies did not respond to changes in institutional rules, with their potential effects on performance. It is important to employ a set of factors peculiar to EEFs, such as cultural distance, government ownership, and the impact of state policies, social capital, the ability to integrate the strategic assets acquired in developed countries and the ability to translate these assets into increased performance, in future analysis.

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