

Mergers and acquisitions in and out of emerging economies[☆]



Sergey Lebedev^a, Mike W. Peng^a, En Xie^{b,*}, Charles E. Stevens^c

^a University of Texas at Dallas, Jindal School of Management, 800 West Campbell, SM 43, Richardson, TX 75080, USA

^b Xi'an Jiaotong University, School of Management, 28 West Xianning Road, Xi'an, Shaanxi 710049, China

^c Lehigh University, Department of Management, 621 Taylor Street, Bethlehem, PA 18015, USA

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ABSTRACT

Although numerous studies analyze mergers and acquisitions (M&As) in and out of developed economies (DE), a much smaller number of studies focus on M&As in and out of emerging economies (EE). Since there are significant differences in institutional environments, corporate governance practices, and markets between DE and EE, existing knowledge on acquisitions can be extended by examining M&As in and out of EE. This paper addresses this gap and identifies the main findings of studies on acquisitions in and out of EE. The review deals with EE M&A antecedents and performance outcomes, with a focus on what new insights can be gained and what new research directions are revealed. This paper also develops propositions regarding EE M&A antecedents and performance.

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1. Introduction

Although numerous studies analyze mergers and acquisitions (M&As) in and out of developed economies (DE), a much smaller number of studies focus on M&As in and out of emerging economies (EE). M&As in and out of EE have been receiving increasing attention from scholars (Peng, 2012; Young, Tsai, Wang, Liu, & Ahlstrom, 2014). Firms based in EE have not only been undertaking M&As within these rapidly developing economies, but have also been increasingly active in undertaking M&As outside of their domestic markets (Meyer & Thajongrak, 2013). In 2013, the value of cross-border acquisitions made by firms based in EE reached \$129 billion—about 37% of the world's total value of cross-border M&As (UNCTAD, 2014). Given the significant contributions of EE to global GDP, global M&A market, and global foreign direct investment (FDI) in general (Hoskisson, Wright, Filatotchev, & Peng, 2013), it seems timely and relevant to synthesize the emerging literature on M&As in and out of EE, outline new insights

provided by such burgeoning research, and propose future directions.

The main research streams on acquisitions within the existing literature are *antecedents* (motivation) and *outcomes* (M&A performance and factors affecting performance, such as deal type, payment type, or previous acquisition experience) (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). Given the rise of acquisitions in and out of EE, the following question arises: What new insights on acquisitions' antecedents and outcomes can be gained by analyzing acquisitions in and out of EE? Identifying this gap in our knowledge, this paper endeavors to contribute to the literature by taking a step towards answering this important but underexplored question. To the best of our knowledge, this is the first review of research on M&As in and out of EE.

2. Review methodology

We comprehensively searched for papers in management, economics, finance, accounting, and sociology journals. Since the number of articles focusing on acquisitions in and out of EE is not nearly as large as that for DE, no restrictions on journals and years of publication were applied. Our search was performed using the keywords (in titles and abstracts) *acquisition*, *acquire*, *merger*, *merge*, *mergers and acquisitions*, *takeover*, and/or *M&A*, in combination with the keywords *EE*, *emerging markets*, and/or *developing countries*. Overall, 51 studies were identified (Table 1).

Although the number of studies on M&As in and out of EE are limited, we identified the articles on both domestic and cross-

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* Corresponding author.

E-mail addresses: sergey.lebedev@utdallas.edu (S. Lebedev), mikepeng@utdallas.edu (M.W. Peng), xieen@mail.xjtu.edu.cn (E. Xie), ces213@lehigh.edu (C.E. Stevens).

URL: <http://www.mikepeng.com>

border acquisitions' motivation and performance outcomes from both acquiring and target firms' angles. Fig. 1 illustrates different types of acquisitions depending on a country of origin of acquiring and target firms. The majority of studies on M&As focus on Cell A (acquisitions within or between DE). In this paper, we propose a review of studies focusing on Cells B–D. Table 2 shows how each group of studies corresponds to a cell in Fig. 1. Specifically, the studies examine (from the perspective of EE): (1) domestic acquisitions; (2) acquisitions of domestic firms by foreign firms (from both DE and EE); (3) acquisitions of foreign firms (from both DE and EE) by domestic firms (see Table 2).

3. Antecedents

What are the driving forces behind acquisitions? The literature provides a variety of possible explanations. Some researchers have found that acquisitions may increase market power (Kim & Singal, 1993), improve efficiency (McGuckin & Nguyen, 1995), reduce operating costs (King, Slotegraaf, & Kesner, 2008) and transaction costs (Williamson, 1985), and/or enhance the management of resource dependency (Casciaro & Piskorski, 2005; Pfeffer, 1972). Others argue that M&As are driven primarily by management self-interest (Agrawal & Walkling, 1994; Sanders, 2001). Another stream of research focuses on firm characteristics as determinants of acquisition behavior, such as acquisition experience (Haleblian, Kim, & Rajagopalan, 2006) and network embeddedness (Yang, Lin, & Peng, 2011). In this section, we review the key findings on acquisition antecedents in and out of EE.

3.1. Mode of entry

Cross-border acquisitions are a primary mode of investment for many emerging multinational enterprises (MNEs) entering DE (Yamakawa, Khavul, Peng, & Deeds, 2013). Faster market entry and an opportunity to acquire strategic resources, such as brands or specific technologies, are noted (Buckley, Forsans, & Munjal, 2012; Deng, 2009; Luo & Tung, 2007; Peng, 2012). Luo and Tung (2007: 481) present a springboard perspective. They argue that emerging MNEs undertake acquisitions to access “strategic resources and reduce their institutional and market constraints at home” and “overcome their latecomer disadvantage in the global stage.”

Some researchers apply a strategic intent perspective. In particular, Rui and Yip (2008) examine foreign acquisitions made by three major Chinese firms (Lenovo, Nanjing, and Huawei). The authors argue that the cross-border M&As were made to achieve

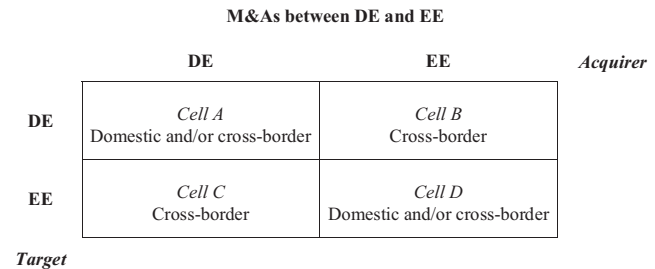


Fig. 1. M&As between DE and EE.

concrete goals, to compensate for these Chinese firms' home market disadvantages, and to leverage their competitive advantages. Lenovo acquired IBM's PC business to overcome increasing competition in Lenovo's home market of middle- and low-end PC, which was threatened by growing market shares of Dell and HP in China. At the same time, Lenovo gained access to IBM's brands, research and development (R&D) capabilities, and distribution channels in DE. Another example is a car manufacturer Nanjing, which acquired MG Rover, despite the financial difficulties (and subsequent bankruptcy) of the target firm. With this acquisition, Nanjing procured MG Rover's technology and brands, and also entered European markets. Finally, Huawei purchased Marconi (again, despite the poor financial condition of the target) for its world class technology and position in European markets (Rui & Yip, 2008). Other examples of such acquisitions include Tata Motors' purchase of Jaguar and Land Rover and Geely's acquisition of Volvo.

Scholars have also explored cross-border M&As as a preferred entry mode in EE from the perspective of firms based in DE (Meyer, Estrin, Bhaumik, & Peng, 2009). Graham, Martey, and Yawson (2008) examine UK acquirers in EE. Their findings indicate that firm size, market-to-book ratio, stock price performance, and liquidity are all positively associated with the likelihood of undertaking acquisitions in EE. In addition, better judiciary systems in host countries have been found to facilitate M&As.

An interesting new theoretical concept related to the mode of entry choice in EE is “brownfield” acquisitions. These are defined as cross-border acquisitions where “resources and capabilities are primarily provided by the investor, replacing most resources and capabilities of the acquired firm” (Meyer & Estrin, 2001: 577). The lack of financial and managerial resources and multiple market failures lead to situations when foreign acquirers entirely transform and restructure the purchased local firm. “This

Table 1
Studies by country.

Country (group of countries)	Studies
China	Chen and Young (2010), Chi et al. (2011), Deng (2009), Knoerich (2010), Li and Qian (2013), Lin et al. (2009), Peng (2006, 2012), Rui and Yip (2008), Wu and Xie (2010), Xu et al. (2010), Yang and Hyland (2012), Yang, Lin, et al. (2011), Yang, Sun, et al. (2011)
India	Agarwal and Bhattacharjee (2006), Buckley et al. (2012), Bhaumik and Selarka (2012), Elango and Pattnaik (2011), Gubbi et al. (2010)
Poland	Roberts et al. (2008)
Russia	Bertrand and Betschinger (2012)
<i>Multiple countries</i>	
Brazil, Russia, India, and China (BRIC)	Sethi (2009), Rabbiosi et al. (2012)
Central and Eastern Europe	Bednarczyk et al. (2010), Brouthers and Dikova (2010), Lanine and Vennet (2007), Meyer (2002), Poghosyan and de Haan (2010), Uhlenbruck and De Castro (2000)
China and India	De Beule and Duanmu (2012), Sun et al. (2012), Nicholson and Salaber (2013)
Multiple (no specified group)	Aybar and Ficici (2009), Bhagat et al. (2011), Chari et al. (2012, 2010), Chen (2011), Dailami et al. (2012), Estrin and Meyer (2011), Feito-Ruiz and Menendez-Requejo (2011), Goddard et al. (2012), Graham et al. (2008), Hope et al. (2011), Liao and Williams (2008), Kim and Lu (2013), Malhotra et al. (2011), Meyer and Estrin (2001), Meyer et al. (2009), Rahahleh and Wei (2012), Uhlenbruck and De Castro (1998), Zhu et al. (2011)

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