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The motives and performance of cross-border acquirers from emerging economies: Comparison between Chinese and Indian firms

Rekha Rao Nicholson [1], Julie Salaber [*]

University of Bath, School of Management, Bath BA2 7AY, United Kingdom

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ABSTRACT

During the recent decade, the world has witnessed the rapid growth of MNEs from emerging economies. Their increasing participation in cross-border mergers and acquisitions has raised great attention in the extant literature. This study evaluates the value creation from these cross-border transactions from two representative emerging countries, namely China and India, and determines factors that result in the different performance of these international acquisition activities. Cross-border acquisitions conducted by these countries' companies indeed lead to significant shareholder wealth creation. Furthermore, Indian shareholders are more likely to benefit from deals in small cultural distance countries, while Chinese investors gain from the cross-border expansion of manufacturing companies. Location also affects the performance of cross-border acquisitions, with acquisitions into developed countries generating higher returns to shareholders. Our sample consists of 203 Indian and 63 Chinese cross-border deals over the period 2000–2010 and our results hold after controlling for various deal-level and firm-level characteristics.

1. Introduction

Historically, in their efforts to internationalize, emerging-market (EM) firms have used strategies ranging from exports to equity investment (Guillen, 2000) and joint ventures (Khanna & Palepu, 2000). The recent decades have witnessed the dramatic rise of firms from emerging economies, especially those from China and India, adopting cross-border mergers and acquisitions (M&As) as the main approach to realize internationalization (Athreye & Kapur, 2009; Aulakh, Kotabe, & Teegen, 2000; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; UNCTAD, 2011). According to the World Investment Report 2010, the outward foreign direct investment (FDI) from emerging economies has increased to a record high of 25% of the global total (UNCTAD, 2010). The increasing number of cross-border acquisitions by EM firms provides the impetus for growing outward investment (UNCTAD, 2010). Outbound cross-border acquisitions by EM firms have increased from $37 billion in 2004 to $182 billion in 2008 – a staggering rise of 392%; and the $182 billion (for 2008) makes up 66% of the total FDI outflows from emerging countries (UNCTAD, 2009). During the first decade of 21st century, Chinese firms completed 450 outbound acquisitions, whereas Indian firms acquired 812 foreign companies (UNCTAD, 2010). Fig. 1 shows that in China the number of completed cross-border M&As increased from 36 in 2000 to 135 in 2010 and the value of deals jumped to over US$32

[*] Corresponding author. Tel.: +44 1225 384297; fax: +44 1225 386473.
E-mail addresses: R.Rao@bath.ac.uk (R.R. Nicholson), J.Salaber@bath.ac.uk (J. Salaber).
[1] Tel.: +44 1225 383821; fax: +44 1225 386473.

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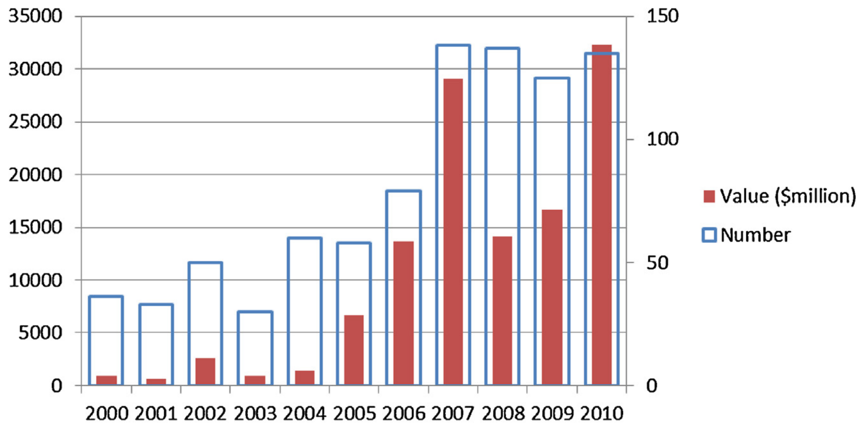
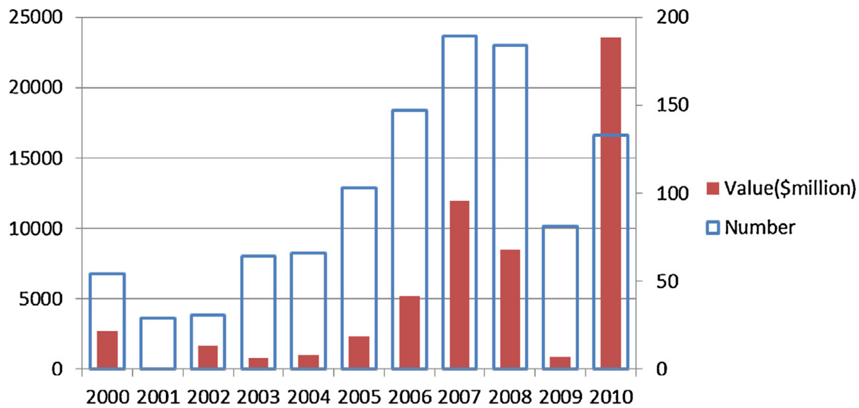


Source: Thomson One

Fig. 1. Completed cross-border deals by Chinese firms from 2000 to 2010.



Source: Thomson One

Fig. 2. Completed cross-border deals by Indian firms from 2000 to 2010.

billion in 2010. Meanwhile in India (Fig. 2), the number of deals has also increased from 54 in 2000 to 133 in 2010 and the value of deals exceeds US$23 billion.

So far however, despite this booming trend, researchers fail to address whether the extant hypothesized internationalization theories (Dunning, 2001; von Eije & Wiegerinck, 2010) are applicable to acquirers from developing economies since many differences exist between developed and developing markets. Also, the issues whether overseas M&As by EM firms can create value for the bidders and which factors play an important role in the M&A performance are worth paying attention to. Accordingly, this paper mainly uses event study metrics to investigate and compare the short-term performance of cross-border acquirers in China and India and puts forward the possible explanations for the differences. We had borrowed from two strands of theories to frame our arguments, namely the resource-based view (Accenture, 2006; Barney, 1991; Deng, 2007; Wang & Boateng, 2007) which talks about strategic resource seeking, and Dunning's seminal work (Dunning, 2001) which relates to market seeking activities linked to fast entry into foreign markets (Buckley et al., 2007).

The proposed contribution of this paper is threefold. First, the existing literature lacks comparative studies on cross-border M&A performance in emerging markets (Aybar & Ficici, 2009; Bhagat, Malhotra, & Zhu, 2011) though several of these countries have been studied singularly (Gubbi et al., 2010; Wang & Boateng, 2007; Zhang, Zhou, & Ebbers, 2011). Second, this paper invokes the major motives for cross-border M&As undertaken by EM firms (Deng, 2007, 2009; Li, 2007; Luo & Tung, 2007; Sun, Peng, Ren, & Yan, 2012; Wang & Boateng, 2007). These factors help us understand the underlying reasons that have led to cross-border acquisitions by Chinese and Indian companies and identify "the conditions under which acquisitions make sense as a path to superior performance" (King, Dalton, Daily, & Covin, 2004). Third, our analysis mainly uses regression metrics to do the comparative work, which is rare in the international business literature. We firstly conduct an event study to compare the short-term performance of international acquisitions between Chinese and Indian markets. Then we use cross-sectional regressions to test the different patterns of cross-border acquisitions in both countries, and find the determinants that have an influential effect on their short-term performance.