



# Mergers and acquisitions in and out of emerging economies<sup>☆</sup>



Sergey Lebedev<sup>a</sup>, Mike W. Peng<sup>a</sup>, En Xie<sup>b,\*</sup>, Charles E. Stevens<sup>c</sup>

<sup>a</sup> University of Texas at Dallas, Jindal School of Management, 800 West Campbell, SM 43, Richardson, TX 75080, USA

<sup>b</sup> Xi'an Jiaotong University, School of Management, 28 West Xianning Road, Xi'an, Shaanxi 710049, China

<sup>c</sup> 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](mailto:sergey.lebedev@utdallas.edu) (S. Lebedev), [mikepeng@utdallas.edu](mailto:mikepeng@utdallas.edu) (M.W. Peng), [xieen@mail.xjtu.edu.cn](mailto:xieen@mail.xjtu.edu.cn) (E. Xie), [ces213@lehigh.edu](mailto: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

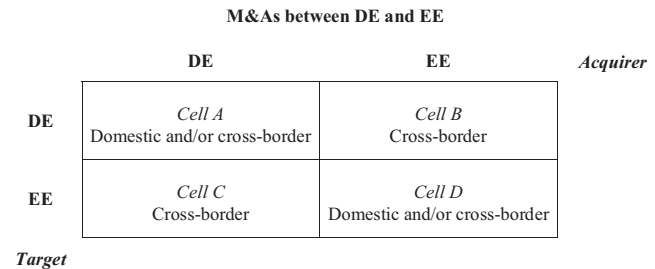


Fig. 1. M&As between DE and EE.

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)
Multiple countries	
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)

**Table 2**  
Studies by M&A type between DE and EE.

M&A type	Studies
Domestic in EE ( <i>Cell D</i> )	Agarwal and Bhattacharjya (2006), Bhaumik and Selarka (2012); Chi et al. (2011), Li and Qian (2013), Lin et al. (2009), Rahahleh and Wei (2012), Xu et al. (2010), Yang, Lin, et al. (2011), Yang, Sun, et al. (2011)
Cross-border (from DE to EE) ( <i>Cell C</i> )	Bednarczyk et al. (2010), Brouthers and Dikova (2010), Chari et al. (2010), Estrin and Meyer (2011), Graham et al. (2008), Lanine and Vennet (2007), Liao and Williams (2008), Meyer and Estrin (2001), Meyer et al. (2009), Poghosyan and de Haan (2010), Rabbiosi et al. (2012)
Cross-border (from EE to DE) ( <i>Cell B</i> )	Chari et al. (2012), Chen (2011), Knoerich (2010), Peng (2006, 2012), Rui and Yip (2008)
Cross-border (from EE to both DE and EE) ( <i>Cells B and D</i> )	Aybar and Fici (2009), Bhagat et al. (2011), Buckley et al. (2012), Chen and Young (2010), Dailami et al. (2012), De Beule and Duanmu (2012), Deng (2009), Elango and Pattnaik (2011), Gubbi et al. (2010), Hope et al. (2011), Malhotra et al. (2011), Nicholson and Salaber (2013), Sethi (2009), Sun et al. (2012), Wu and Xie (2010), Yang and Hyland (2012)
Cross-border (between DE and EE, between EEs) ( <i>Cells B, C, and D</i> )	Feito-Ruiz and Menendez-Requejo (2011), Goddard et al. (2012), Kim and Lu (2013)
Domestic in EE and cross-border from EE ( <i>Cells B and D</i> )	Bertrand and Betschinger (2012)
Domestic and cross-border M&As in EE ( <i>Cells C and D</i> )	Meyer (2002), Roberts et al. (2008), Uhlenbruck and De Castro (1998), Uhlenbruck and De Castro (2000), Zhu et al. (2011)

restructuring is so extensive that the new operation resembles a greenfield investment” (Meyer & Estrin, 2001: 575). Brownfield acquisitions are likely to be a preferred mode of entry when there is a need for local, firm-specific resources (such as political ties, networks, or brands), but the local firm’s technological and managerial capabilities are weak (Estrin & Meyer, 2011). Embedding in the local networks and getting access to political ties may give the acquirer a competitive advantage by creating political barriers to entry against larger domestic and foreign competitors. Estrin and Meyer (2011) find that (based on the survey conducted in six EE) bigger relative size of the subsidiary, stronger institutions, and lower perceived quality of local firms facilitate brownfield acquisitions.

The choice between greenfield investments and acquisitions as entry modes in EE has also been explored from the real options perspective. Brouthers and Dikova (2010) examine a sample of Western European firms entering Eastern European markets. They report that under conditions of demand uncertainty, firms are less likely to undertake acquisitions and prefer greenfield ventures (which can be used as growth options providing an opportunity to defer further investment and wait for new information on a highly uncertain market). However, if a firm possesses a certain degree of strategic flexibility (measured by prior acquisition experience), the propensity to use M&As increases.

In summary, cross-border acquisitions can be a preferred mode of entry for many EE firms (given their latecomer disadvantage in technological and managerial capabilities). However, EE firms may also expand via acquisitions to both EE and DE if they seek to gain more scale-based advantages, such as horizontal integration or gaining a foothold in a foreign market (for example, Indian Bharti Airtel’s expansion in Africa). Finally, DE firms acquiring targets in EE may often use quite different target choice criteria and post-acquisition restructuring strategies, as compared to acquisitions in DE.

### 3.2. Market power

There is evidence that acquisitions of firms in EE may also be motivated by market power. Agarwal and Bhattacharjya (2006) report an increase in M&A activity in India after changes in antitrust legislation. Lanine and Vennet (2007), investigating cross-border M&As between Western and Eastern European banks, find that Western European banks tend to acquire mostly large and established local banks to gain market power. The efficiency of the local banks, however, did not improve after the acquisitions. Complementing this research, Poghosyan and de Haan (2010), analyzing cross-border bank M&As in transition economies, report

that when Western banks enter transition economies with relatively weak institutions, they tend to acquire larger and more efficient banks. In transition economies with relatively developed market institutions, Western banks tend to acquire less efficient banks. This supports the “efficiency” motivation for acquisitions (Poghosyan & de Haan, 2010).

The market power motivation may also be seen in transition economies undergoing the process of privatization. For example, Roberts, Thompson, and Mikolajczyk (2008) analyze cross-border acquisitions made by foreign firms in Poland during privatization. Their findings suggest that foreign acquirers mostly pursue horizontal expansion, not vertical integration or cost minimization. It is also important to note, however, that potential market power advantages of acquisitions in transition economies may be overcome by institutional voids, as well as the acquirers’ lack of knowledge about local informal norms (for example, such lack of knowledge led to Home Depot’s failure to establish its presence in China).

### 3.3. Prior acquisition experience

Some scholars have explored learning and experience as an acquisition determinant (Meyer & Thajjongrak, 2013). In general, it has been found that previous M&A experience increases the likelihood of subsequent acquisitions (Haleblian et al., 2006). As far as EE are concerned, the particularly interesting context can be observed for emerging MNEs’ acquisitions of targets in DE, where they typically do not have prior experience. Specifically, Rabbiosi, Elia, and Bertoni (2012) examined “South-North acquisitions” (i.e., M&As undertaken in DE by firms from EE) and applied an organizational learning perspective. Such firms enter DE markets incrementally, and their accumulated experience helps them to overcome the liability of foreignness. Firms from EE also face a choice whether to pursue a product related or unrelated acquisition (exploitation versus exploration move), which is influenced by their learning and experience. Another important factor affecting acquisition behavior is emerging market firms’ home country environment characteristics, such as GDP per capita, skilled labor force, patents, R&D, and FDI inflows (Rabbiosi et al., 2012).

In their analysis of 808 acquisitions made by firms from Brazil, Russia, India and China (BRIC) in Europe, North America, and Japan, Rabbiosi et al. (2012) find that M&A experience in DE makes it more likely for firms based in EE to use the exploitation mode (related acquisition), while M&A experience in EE does not have any effect. Higher market development and more extensive knowledge base in a home country, however, increase the

likelihood of exploratory (unrelated) M&As. Among other studies, [Elango and Pattnaik \(2011\)](#) show that firms from EE undertake serial acquisitions, increasing the value of the deals sequentially to learn and develop new capabilities.

### 3.4. Real options perspective

Some studies apply a real options approach on M&As. [Brouthers and Dikova \(2010\)](#) examine how firms choose between greenfield investments (as real options) and acquisitions when entering emerging markets. [Xu, Zhou, and Phan \(2010\)](#) investigate domestic acquisitions in China. Their data suggest that acquisitions tend to be undertaken in a sequential manner (i.e., completed in several purchases, rather than as a single transaction) if an acquirer is at an information disadvantage. [Xu et al. \(2010\)](#) examine two sources of such disadvantages—if an acquirer is not a state-owned firm (which is a disadvantage in China) and if it diversifies into a new business area. Their results show that under these conditions, acquisitions are more likely to be undertaken sequentially, rather than in a single transaction.

Overall, the findings regarding sequential acquisitions and a greenfield entry mode as a real option alternative to M&A suggest that acquisitions in and out of EE may often be the final result of the prior process of learning about the relevant organizational environment (that may include less risky transactions such as licensing, strategic alliances, or smaller equity stakes purchases).

### 3.5. Country characteristics

Another interesting perspective on driving forces behind cross-border acquisitions by EE MNEs is presented by [Sun, Peng, Ren, and Yan \(2012\)](#). The authors propose a comparative ownership advantage framework to explain M&A strategies by Chinese and Indian MNEs. These emerging MNEs combine country-specific advantages (CSA) and firm-specific advantages (FSA) to achieve a comparative ownership advantage. They create value by internalizing resources from different countries given their domestic factor endowments and firms' capabilities ([Rugman, 2005](#)). For instance, China has a comparative advantage in manufacturing, and India in services. Therefore, Chinese firms have more cross-border acquisitions in manufacturing, and Indian firms in services. Further, Chinese MNEs are likely to acquire firms in Asia because of the comparative advantage in the globally oriented manufacturing industries and linkages to customers and suppliers in these countries. The integration with manufacturing firms in Asia affords Chinese MNEs dynamic learning opportunities. Indian MNEs have a comparative advantage in such industries as software development and pharmaceuticals. Acquisitions in developed Western countries will be more beneficial for them. Thus, the comparative ownership advantage framework helps to explain emerging multinationals' cross-border acquisitions strategies, motivations, and location choices ([Sun et al., 2012](#)).

Similar to [Sun et al. \(2012\)](#), [De Beule and Duanmu \(2012\)](#) also compare Chinese and Indian M&As. De Beule and Duanmu find that Chinese and Indian MNEs may have different acquisition preferences. In particular, (1) Indian firms undertake acquisitions more frequently than Chinese MNEs, and (2) Chinese MNEs target mostly DE, while Indian MNEs target both DE and EE. [De Beule and Duanmu \(2012\)](#) also report that industry explains certain location choices (e.g., acquisitions in mining industry tend to be undertaken in resource-rich, but politically unstable countries with weak control of corruption and poor rule of law).

[Dailami, Kurlat, and Lim \(2012\)](#) identify additional host country characteristics in their analysis of cross-border M&As undertaken by firms from EE. Specifically, the authors report that when entering EE, firms seek lower cost locations (as reflected by lower

GDP per capita). When entering DE, they look for opportunities to overcome trade barriers (e.g., tariffs, quotas). Trade openness has also been identified by [De Beule and Duanmu \(2012\)](#) as an important determinant of the location choice for both Chinese and Indian MNEs. Finally, geographic proximity has been found to be an important factor, since cross-border M&As by emerging MNEs are primarily made in their home region ([Sethi, 2009](#)).

Overall, CSA complementing FSA of acquirers from both DE and EE can help to explain M&As in and out of EE. CSA of the host country may give valuable industry-specific advantages for foreign acquirers that can help to develop valuable firm capabilities (for example, recent acquisitions undertaken by Huawei in the EU are likely aimed to further contribute to the development of its R&D capabilities).

### 3.6. Institutional factors

Institutions are especially salient as determinants of cross-border M&As undertaken between firms in DE and EE as well as between firms in different EE ([Hoskisson et al., 2013](#); [Luo & Tung, 2007](#); [Meyer et al., 2009](#); [Meyer & Peng, 2005](#); [Meyer & Thajongrak, 2013](#); [Peng & Parente, 2012](#); [Sun, Peng, Lee, & Tan, 2015](#)). Specifically, acquisition entry strongly depends on the quality of financial markets (especially markets for corporate control), which are shaped by the institutional environment. EE may exhibit a greater degree of uncertainty, as well as a lack of transparency and contract enforcement. For this reason, transaction costs of M&As—such as due diligence, negotiations, and post-acquisition integration—are generally higher in EE than those in DE ([Sun et al., 2012](#)).

Stronger institutions are a positive driver of cross-border acquisitions undertaken in EE ([Meyer et al., 2009](#)). [Meyer et al. \(2009\)](#), in a cross-country study (which includes Egypt, India, South Africa, and Vietnam), find that stronger market-supporting institutions in an EE make it more likely for a foreign firm to choose an acquisition or greenfield entry mode over a joint venture (JV). [Meyer et al. \(2009\)](#) also report that greater demand for local intangible resources (such as brands or patents) facilitates the JV entry rather than M&As. Recently, [Kim and Lu \(2013\)](#) have shown that institutional changes—in particular, corporate governance reforms—affect M&A decisions. Specifically, corporate governance reforms (undertaken by either an acquirer's or a target's country) can widen or, conversely, narrow the gap in corporate governance quality between the countries. This, in turn, either weakens or enhances the tendency of acquirers (from countries with stronger corporate governance and investor protection) to select better performing targets in countries with weaker corporate governance (so-called "cherry-picking").

[Li and Qian \(2013\)](#) argue that the higher level of institutional development provides better protection of shareholders' rights. This mitigates principal-principal conflicts between the controlling and minority shareholders that are identified by [Young, Peng, Ahlstrom, Bruton, and Jiang \(2008\)](#). Controlling shareholders have fewer opportunities to expropriate minority shareholders, and hence controlling shareholders' resistance to acquisitions will be lower. [Li and Qian's \(2013\)](#) empirical analysis supports this hypothesis: The level of provincial institutional development positively moderates the negative influence of the degree of control (equity share) of the largest shareholder on the probability of an acquisition. In addition, the analysis shows that CEOs with political connections weaken the resistance of the controlling shareholders to the acquisition ([Li & Qian, 2013](#)).

Among other institutional factors associated with cross-border acquisitions, scholars have identified mimetic isomorphism (imitating behavior) ([Yang & Hyland, 2012](#)) and cultural proximity ([Malhotra, Sivakumar, & Zhu, 2011](#)). [Yang and Hyland \(2012\)](#)

analyze the influence of mimetic isomorphism on cross-border M&As undertaken by Chinese firms. They find that firms exhibit imitating behavior when making decisions about the product relatedness and the location of the target firm. In addition, the degree of mimetic isomorphism is shown to be strengthened by a more unstable environment and weakened by a firm's M&A experience.

Malhotra et al. (2011) suggest that the influence of cultural distance on the cross-border M&A activity is contingent on the market potential of a host country. Comparing the United States with a group of EE, the authors find that, while firms based in both the United States and EE tend to undertake acquisitions in culturally close countries, firms based in EE will overlook cultural distance if the market potential of the target country is great. The market potential (measured as a country's GDP) significantly moderates the influence of the cultural distance on cross-border M&A activity. At the same time, no such statistically significant effect occurs for the U.S. firms.

### 3.7. Network characteristics

Some researchers have argued that firms in EE use different strategies compared to their Western counterparts (Peng & Heath, 1996; Young et al., 2014). Specifically, due to high levels of uncertainty and the absence of established institutions, firms in these countries have to rely more on networking and managerial ties with other firms and with government officials (Peng & Luo, 2000). Research suggests that networking factors behind acquisitions are affected by the level of institutional development. For example, Lin, Peng, Yang, and Sun (2009) and Yang, Sun, Lin, and Peng (2011) consider M&As in the context of firms' network embeddedness and alliance learning experience in two distinct institutional environments: the United States and China. Both studies find that the same network characteristics (structural holes—i.e., network brokerage positions connecting firms that are not connected otherwise [Burt, 1992]) and strategic alliance strategies (exploitation alliances rather than exploration alliances) have significant, but *opposite* effects on firms' M&A activity in the United States and China.

Lin et al. (2009), Yang, Lin, and Peng (2011), and Yang, Sun, et al. (2011) report that structural hole positions in the alliance network of a firm have a *positive* influence on the acquisition activity in the United States (consistent with the predictions made from standard network theory [Burt, 1992]), but a negative influence in China—a puzzle in the literature. Also the ratio of exploitation alliances (as opposed to exploration) is *negatively* associated with the acquisition activity in the United States, but *positively* in China. Lin et al. (2009) speculate that in the stable and highly developed institutional environment of the United States, firms are able to derive benefits from the position of high centrality without acquiring alliance partners. But in China, less stable and less predictable institutional environment entails that these benefits are likely to be very short-lived, forcing centrally positioned firms to acquire alliance partners. Thus, there is evidence that firms' M&A behavior differs systematically between the two countries because of the different institutional environments (Lin et al., 2009; Yang, Sun, et al., 2011).

Foreign acquirers in EE often seek to improve their network position and/or political ties in the local market. The advantages gained from the network characteristics of the target firm may, however, also depend on the institutional environment where this target firm operates. Centrality is likely to give access to economic advantages such as suppliers, customers, and distributors (which is more valuable in more developed institutional environments with better formal protection mechanisms), while structural holes can

give access to relational benefits such as specific, non-redundant local knowledge (which is more valuable when institutions are underdeveloped). Foreign acquirers may thus prefer to choose targets in brokerage positions in less developed institutional environments, and choose more central targets in more developed environments (Shi, Sun, & Peng, 2012). Target firms, in turn, may also seek to compensate for certain deficiencies in their own network ties by integrating with the foreign acquirer. M&A in EE may be a way to improve network positions for both the acquirer and the target.

### 3.8. Other antecedents

Zhu, Jog, and Otchere (2011) suggest a possible difference in motivation between domestic and cross-border acquisitions in EE. They look at partial acquisitions (when an acquirer invests in an equity stake in a target firm, but does not obtain full ownership) and analyze two main motives—corporate control (poorly performing firms tend to be targets in a competitive market for corporate takeovers) and strategic market entry (the acquisition is used to get access to the market). The results indicate that there may be a distinction in motivation between domestic and cross-border M&As in EE. Domestic firms are more likely to acquire poorly performing targets and restructure them afterwards—this finding supports the corporate control hypothesis. In contrast, foreign acquirers tend to invest in better performing firms, which supports the strategic market entry hypothesis. As noted above, this may apply even more to foreign acquirers from other EE because of the latecomer disadvantage discussed above. These acquiring firms often use acquisitions for quick access to brands, technologies, and markets, rather than seek corporate control.

Hope, Thomas, and Vyas (2011) propose an interesting new perspective on cross-border acquisitions made by firms from EE in DE. They suggest that national pride may drive higher acquisition premiums (a difference between the ultimate price paid for a target firm and its market value before an acquisition announcement). Hope et al. (2011) indeed find (1) that firms from EE bid higher on average for targets in DE than acquirers from DE, and (2) that deals exhibiting characteristics of national pride (such as “nationalistic sentiments, national/social/political implications beyond the obvious business of the firms, political interference/influence” [Hope et al., 2011: 132]) result in higher premiums. Overall, these findings suggest a high level of managerial hubris and significant principal–principal problems (Young et al., 2008).

In summary, research on the determinants of acquisitions in and out of EE reveals some new findings and suggests important extensions to the established M&A antecedents. Fig. 2 illustrates the M&A antecedents. Along with the known motives for acquisitions (which are, by all means, relevant for EE), the literature suggests additional new factors influencing M&A activity (highlighted in *bold ovals*): national pride, institutions, and latecomer disadvantage.

Emerging multinationals often prefer cross-border acquisitions as a mode of entry in foreign (especially developed) markets. Acquisitions are often a strategy of choice for firms from EE—these firms need to overcome their latecomer disadvantage, build competitive capabilities, and access strategic resources (such as brands and technology) and global markets. Emerging MNEs venture abroad to exploit firm-specific resources and capabilities and circumvent market imperfections in their home countries (Luo, Zhao, Wang, & Xi, 2011). The findings also show the importance of institutions for such M&As. Highly developed, market-supporting institutions have been taken for granted in DE. But this assumption is not necessarily

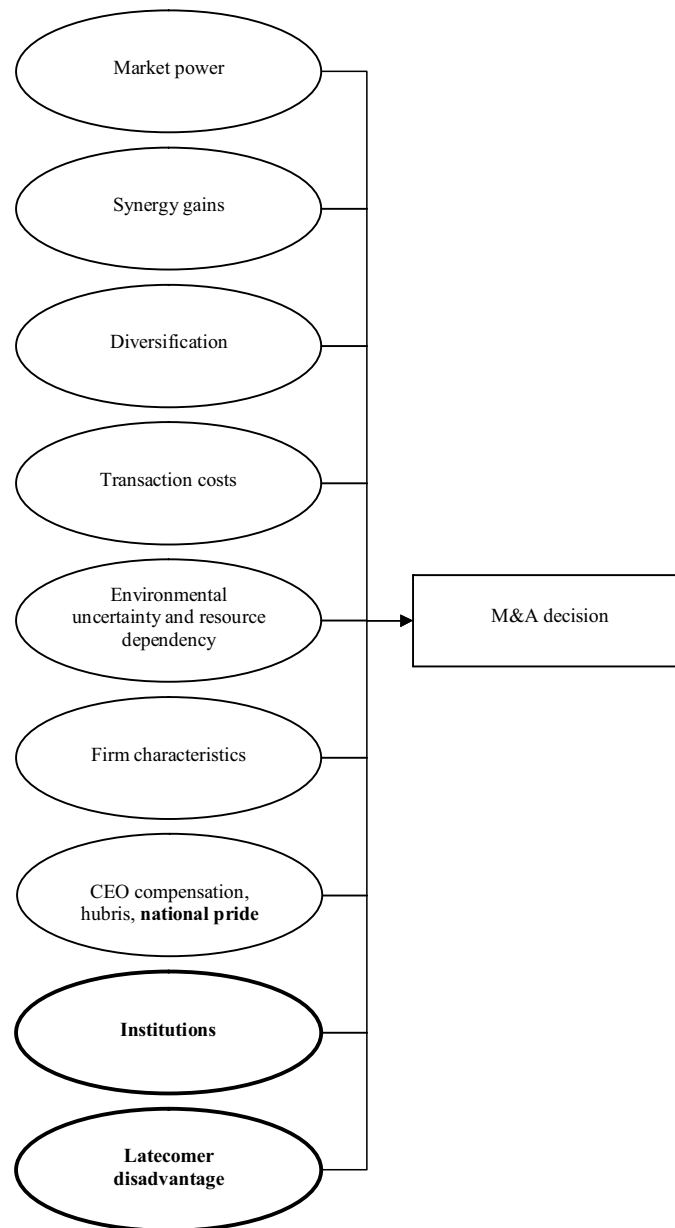


Fig. 2. Antecedents resulting in M&As (bold type face = uniqueness to EE).

valid in EE (Peng & Heath, 1996). How institutions directly and indirectly affect M&As taking place in EE and between acquirers in EE and targets in DE thus remains to be seen (Peng & Su, 2014).

#### 4. Performance

Do acquisitions create value? Prior to the emergence of the new literature on M&As in and out of EE, the larger literature has been inconclusive in addressing this question. On the one hand, many studies find that M&As decrease shareholder value of the acquiring firm (Seth, Song, & Pettit, 2002), both in the short term and the long term. On the other hand, some researchers show that target shareholders typically gain from the acquisition because of the premium paid by the acquirer (Datta, Pinches, & Narayanan, 1992; Hansen & Lott, 1996). In terms of combined returns, acquisitions are likely to produce marginally positive combined returns,

typically with positive returns for the seller and negative or neutral returns for the buyer (Carow, Heron, & Saxton, 2004).

What factors affect M&A performance? In DE, scholars have examined payment type (King, Dalton, Daily, & Covin, 2004), deal type (Loughran & Vijh, 1997), ownership structure (Wright, Kroll, Lado, & van Ness, 2002), management characteristics (Krishnan, Miller, & Judge, 1997), previous performance (Heron & Lie, 2002), firm size (Moeller, Schlingemann, & Stulz, 2004), prior acquisition experience (Haleblian & Finkelstein, 1999), and environmental factors such as merger waves (McNamara, Haleblian, & Dykes, 2008). In EE, some of them have been extended and a few new factors have emerged.

##### 4.1. Acquiring firms' performance

For M&As in and out of EE, the findings on both performance and its determinants appear to be mixed. Studies show that returns for acquirers from both DE and EE can be either positive or

negative. No consistent pattern can be identified (especially given the limited number of studies). Among the studies addressing the question of returns of an acquirer investing in or out of EE, six papers report positive returns, two papers document negative returns, and one paper shows neither positive nor negative returns for acquirers (see Table 3).

Aybar and Ficici (2009) examine cumulative abnormal returns (CARs) of cross-border acquisitions by emerging multinationals.<sup>1</sup> Their analysis of 433 acquisition announcements in 1991–2004 shows that cross-border M&As by emerging multinationals on average result in negative CARs. The relative size of the target, private ownership of the target, and diversification bids are found to be positively associated with abnormal returns. Acquirers from high-tech industries and bids in related industries lead to value destruction. Additionally, the institutional development of a country where a target is located was found to positively and significantly influence acquisition returns. This provides further evidence of the importance of institutional development in the context of M&As in and out of EE (Aybar & Ficici, 2009). Similarly, Feito-Ruiz and Menendez-Requejo (2011) also report that stronger institutional environment in an acquirer's country (as compared to a target's country) positively affects returns for the acquiring firm.

Along the similar lines of research, Gubbi, Aulakh, Ray, Sarkar, and Chittoor (2010) analyze performance of cross-border acquisitions made by Indian firms between 2000 and 2007. In support of the resource acquisition motivation for M&As, the authors argue that through cross-border acquisitions, firms based in EE can obtain critical resources and capabilities, integrate them with the firms' unique local capabilities, as well as gain access to more developed institutional environments, thus creating value. Gubbi et al. (2010) indeed find support for the hypothesis that cross-border acquisitions by Indian firms create shareholder value. In addition, the M&A performance is positively associated with the host country's institutional development relative to the home country (institutional distance). This finding once again emphasizes the importance of institutions for analyzing acquisitions in and out of EE (Lin et al., 2009).

Bhagat, Malhotra, and Zhu (2011) also report positive CARs for cross-border acquirers from EE. The majority of target firms are from DE. In addition, acquisition performance is found to be positively correlated with the quality of corporate governance in a host country. Bhagat et al. (2011) argue that these results support the "bootstrapping" hypothesis (Khanna & Palepu, 2004; Martynova & Renneboog, 2008), when the acquirer improves its corporate governance quality to match the higher corporate governance standards of the target. Among other studies, Chi, Sun, and Young (2011) and Nicholson and Salaber (2013) also report positive returns for acquirers from EE.

There is further evidence of positive M&A returns for Western acquirers in EE. Chari, Ouimet, and Tesar (2010), analyzing a sample of cross-border M&A deals from 1986 to 2006, report positive and significant CARs for DE' firms acquiring targets in EE. Moreover, for targets of the same acquiring firms located in DE, CARs are not significantly positive (i.e., positive returns for the acquirer appear to be unique for acquisitions in EE).

Analyzing profitability instead of CARs yields different results. In their analysis of domestic and cross-border acquisitions made by Russian firms, Bertrand and Betschinger (2012) show that, in accordance with the established trends, M&As reduce the performance of acquiring firms. An additional interesting finding is that industry concentration positively moderates profitability

**Table 3**  
Performance of M&As in and out of EE.

Study	Acquirer's country of origin: DE or EE	Acquirer's performance
Aybar and Ficici (2009)	EE	Negative
Bertrand and Betschinger (2012)	EE	Negative
Bhagat et al. (2011)	EE	Positive
Bhaumik and Selarka (2012)	EE	Positive for group affiliated firms (with more concentrated ownership)
Chari et al. (2010)	DE	Positive
Chi et al. (2011)	EE	Positive
Gubbi et al. (2010)	EE	Positive
Nicholson and Salaber (2013)	EE	Positive
Liao and Williams (2008)	DE	Neither positive nor negative

effects of acquisitions, thus providing partial support for the market power motivation.

#### 4.2. Target firms' performance

As for M&A returns for target firms, the findings for EE appear to be consistent with the general notion of positive returns on acquisitions for target firms (Chari, Chen, & Dominguez, 2012; Goddard, Molyneux, & Zhou, 2012; Liao & Williams, 2008). However, Chen (2011) shows that performance consequences for target firms in cross-border M&A deals may be contingent on the country of origin of the acquirer. Examining M&As of publicly listed U.S. target firms between 1979 and 2006, Chen (2011) finds that acquirers from DE lead to a higher increase in labor productivity compared to domestic acquiring firms or, even more so, firms from EE. Acquirers from both DE and EE also lead to an increase in profits of target firms, more so than domestic acquirers. Finally, acquirers from DE tend to increase their targets' employment and sales, while acquirers from EE lead to a decrease in the targets' employment and sales. All these findings indicate that the differences in post-acquisition restructuring strategies between domestic acquiring firms, foreign acquirers from DE, and foreign acquirers from EE may be present (Chen, 2011).

Examining Western firms acquiring targets in EE, some researchers have found different influence of factors affecting target firms' performance. Bednarczyk, Schiereck, and Walter (2010), in their analysis of cross-border M&As in the Central and Eastern Europe energy market (with Western firms acquiring local targets) for the period of 1995–2005, show that short-term returns of targets are positively affected by related bids, and negatively by diversification bids. In addition, they observe that premiums paid by Western firms for major stakes in local energy firms (in the Czech Republic, Hungary, Poland, and Slovakia) tended to be very low, which may also negatively influence target firms' returns (Bednarczyk et al., 2010).

#### 4.3. Privatization context

It is important to point out that the processes of transition and privatization in certain EE (especially transition economies) provide a rather unique institutional context for M&As (Meyer, 2002; Uhlenbruck & De Castro, 1998, 2000). Uhlenbruck and De Castro (1998, 2000) propose that for three reasons, acquisitions of state-owned enterprises (SOEs) during privatization in transition economies work quite differently in comparison with acquisitions in developed Western markets. First, SOEs in the former socialist economies have had fundamentally different management, control, and incentive practices (Peng & Heath, 1996; Stan, Peng,

<sup>1</sup> CARs represent the difference between a predicted (market) return on a firm's stock and an actual return for a certain time period aimed to capture the effect of a particular event (such as an acquisition). This measure is widely used in the literature to assess acquisition performance.

& Bruton, 2014). Second, the overall efficiency of these firms is often very low, and therefore, they may require large-scale post-acquisition restructuring and leadership transformation. Finally, government intervention in the deal can be extensive. Governments in transition economies can have their own political goals that may not necessarily be aligned with the acquirers' interests. On the one hand, the government may keep a partial ownership of the privatized SOE or impose additional restrictions on the acquiring firm, such as retaining a certain level of employment (Uhlenbruck & De Castro, 2000). On the other hand, the government may actually directly support the acquisition and grant the foreign investor a certain degree of preferential treatment, such as tax breaks. Thus, the conditions specified by the government are a crucial part of the acquisition deal (Uhlenbruck & De Castro, 1998).

In transition economies, Western acquirers of recently privatized local firms facilitate transformation processes and can significantly improve performance of the acquired firms (Estrin, Hanousek, Kocenda, & Svejnar, 2009). In addition, there is evidence that foreign acquirers have much bigger effect on performance of privatized firms than domestic acquirers (Estrin et al., 2009). Uhlenbruck and De Castro (2000) show that performance of target privatized firms is positively influenced by industry relatedness and the amount of investment made into the target after the acquisition. However, the positive effects of privatization may be eliminated by poor institutional development, since the proper governance structures are needed for the long-term improvement in post-privatization performance (Meyer & Peng, 2005).

#### 4.4. Ownership structure

Ownership in firms based in EE tends to be more concentrated (often in a way of family ownership, business group affiliation, or state ownership) than in developed (especially common law) countries such as the United States (Chen, Li, Shapiro, & Zhang, 2014; Fan, Wei, & Xu, 2011; Filatochev, Jackson, & Nakajima, 2013; Globberman, Peng, & Shapiro, 2011; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Lu, Au, Peng, & Xu, 2013). There is evidence that acquisition performance in EE is affected by an acquirer's ownership structure and concentration (Pattnaik, Chang, & Shin, 2013). Extending this line of research, Bhaumik and Selarka (2012) consider domestic acquisitions made by Indian firms between 1995 and 2004. The main hypothesis is that more concentrated ownership may mitigate the agency problem and managerial hubris. Their findings indicate that larger ownership concentration in the hands of an acquirer's management and large foreign ownership increase post-acquisition performance.

The related problem of the influence of state ownership on M&As in and out of EE has been also addressed in the literature. Chen and Young (2010), analyzing cross-border M&As by Chinese firms in 2000–2008, propose that greater government ownership in the acquiring firm will be negatively associated with M&A returns. Their results indeed indicate that the capital market reacts negatively to the large state ownership in Chinese firms involved in cross-border acquisitions.<sup>2</sup> Thus, Chen and Young (2010) find that the hypothesis of concentrated ownership as a positive factor of acquisition performance should be considered with caution. The institutional context and the type of ownership (Bhaumik & Selarka, 2012) need to be considered. The negative effects of state ownership on an acquirer's performance (profitability) are also indicated by Bertrand and Betschinger (2012) for Russian firms. In contrast, Wu and Xie (2010) find a positive correlation between

state ownership and cross-border M&A performance (for acquiring firms) in China.

#### 4.5. Prior acquisition experience

Prior acquisition experience can be a driver behind a firm's subsequent M&A activity. Although prior acquisition experience can also affect acquisitions' performance, no consistent trend has been identified (Haleblian & Finkelstein, 1999). For acquirers based in EE, some studies indicate positive effects of the prior M&A experience (Bertrand & Betschinger, 2012). On the other hand, there is evidence of declining returns for firms undertaking frequent acquisitions in EE (Rahahleh & Wei, 2012).

In summary, the findings on acquisition performance in and out of EE are mixed. Unlike in DE, there is no widely accepted notion that M&As destroy shareholder value for an acquiring firm. For EE, some studies report positive returns for the acquirer. Among factors affecting acquisition performance, scholars have identified institutional development, ownership structure (in particular, state ownership), quality of corporate governance, prior acquisition experience, and government involvement. However, these factors seem to affect acquisition performance differently in different settings, suggesting that more complex relationships may be present.

Fig. 3 illustrates the main factors affecting M&A performance. Along with the factors known from the research in DE, we highlight three additional factors derived from the literature on EE in *bold ovals*: institutional development, quality of corporate governance, and government involvement (which can play a very important role in acquisitions of state-owned enterprises).

## 5. Integration and propositions

### 5.1. Antecedents

Our review suggests that institutional development is a significant factor affecting EE firms' M&As and their performance. Overall, higher institutional development in a target firm's environment—typically also related to better corporate governance quality (e.g., protection of minority shareholders' rights)—facilitates both domestic and cross-border EE acquisitions. Another important factor is the latecomer disadvantage of EE firms in different areas—such as consumer base, brand recognition, and innovation (Luo & Tung, 2007)—which prompts EE MNEs to prefer cross-border acquisitions over other entry modes. Therefore:

**Proposition 1.** *Institutional development and corporate governance quality in a target firm's environment are positively related to the likelihood of acquisitions undertaken by EE firms.*

**Proposition 2.** *The later EE firms expand overseas, the more likely they are to use acquisitions as an entry mode.*

### 5.2. Performance

Findings of the reviewed studies also suggest that institutional development and corporate governance quality positively affect EE acquisitions performance. This pattern has been identified mostly for cross-border M&As in and out of EE. Another factor (which is especially salient for acquisitions in a privatization context) is government involvement. Depending on the nature of this involvement, it may positively or negatively affect M&A performance. Our review suggests that, overall, government influence may have stronger effects on acquisitions involving target firms in EE than in DE. Thus:

<sup>2</sup> Government ownership in the acquiring firm may bring with it additional compliance and regulatory requirements that may undermine the target firm's valuable capabilities, which may negatively affect M&A performance.



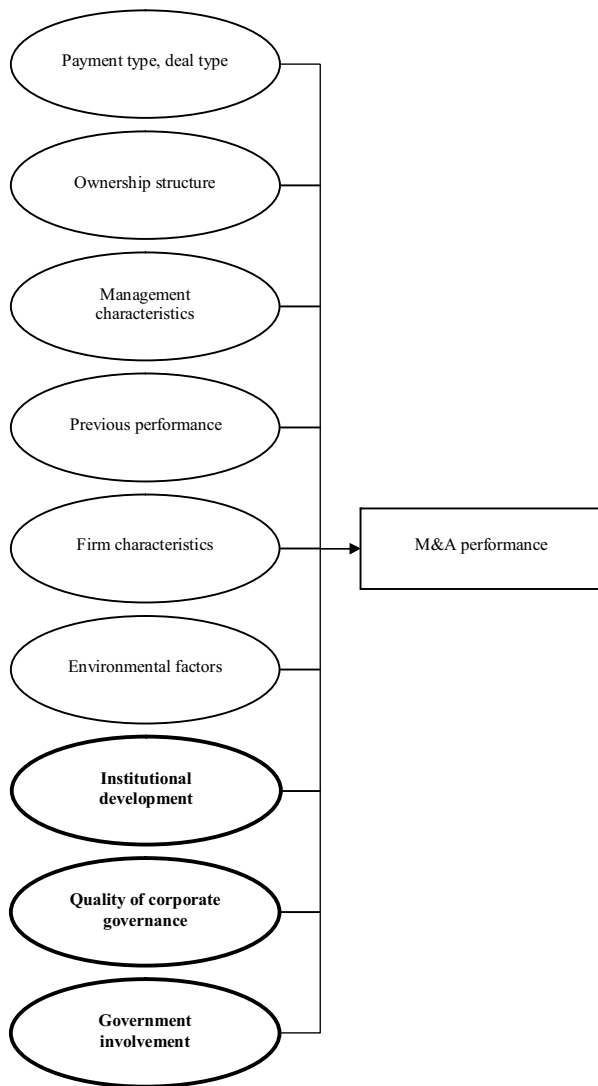


Fig. 3. Performance drivers of M&As (bold type face = uniqueness to EE).

**Proposition 3.** *Institutional development and corporate governance quality in a target's environment are positively associated with the performance of acquisitions in and out of EE.*

**Proposition 4.** *The effect of government involvement on acquisition performance will be stronger in target firms in EE than in target firms in DE.*

The reviewed studies also indicate that institutional development can not only have a direct effect, but also interact with other factors affecting the likelihood of acquisitions in and out of EE and their performance. While speculating about the direction of this moderating influence is beyond the scope of this paper, the findings suggest that the influence of certain factors (motives) may be indeed affected by institutional development. For example, as the results of Lin et al. (2009), Yang, Lin, et al. (2011), and Yang, Sun, et al. (2011) indicate, network variables have different effects on acquisitions in two different institutional environments—more developed (United States) and less developed (China). The larger literature on networks also suggests that network effects are context-dependent (Xiao & Tsui, 2007). Another example is brownfield acquisitions, when foreign acquirers pick target firms and undertake their post-acquisition restructuring in a way which is more or less unique to EE with less developed institutions

(Meyer & Estrin, 2001). Research also suggests that the influence of factors affecting EE acquisitions performance may be moderated by the institutional development—for instance, in a privatization context (Meyer, 2002; Uhlenbruck & De Castro, 1998, 2000). To the best of our knowledge, only the interaction between institutional development and network effects in the context of EE M&As has received some empirical support (Lin et al., 2009; Yang, Lin, et al., 2011; Yang, Sun, et al., 2011). Therefore:

**Proposition 5.** *Institutional development in a target's and an acquirer's environment will moderate the influence of network variables on the likelihood of acquisitions in and out of EE and their performance.*

## 6. Future research directions

In addition to these factors suggested by the current literature on M&A in and out of EE, at least five new distinct future research directions emerge. These directions stem not only from our review, but also from the larger literature on M&As and EE. Each deserves significant new research attention.

### 6.1. More refined classification of EE

The obvious heterogeneity of the group of countries that we call “EE” and the limitations of using one label to cover them all have led Hoskisson et al. (2013) to argue for a newer, more detailed, and more insightful typology of EE. This call applies to M&A research as well: As our review suggests, there may be differences between EE influencing acquisition strategies of firms. Specifically, domestic M&As and cross-border M&As within new DE (such as South Korea and Taiwan) are likely to differ from those within mid-range EE (such as BRIC). Likewise, cross-border M&As undertaken by new MNEs from new DE may differ from those from mid-range EE (Hoskisson et al., 2013). Consequently, recognizing and accounting for these differences may be beneficial for future research.

### 6.2. Domestic M&As in EE

Most studies in our review consider cross-border M&As (see Table 2). The puzzles are numerous. For example, M&A behaviors reported by Lin et al. (2009) are opposite from the predictions made from Burt's (1992) standard network theory. As noted by Peng (2012: 102), part of the reason for these puzzles is that “we have not done much research on domestic M&As in China and other EE either.” In other words, our inadequate understanding of domestic M&As in EE has resulted in an inadequate foundation, without which further knowledge on cross-border M&As in and out of EE will be difficult to build. Domestic M&As within EE are likely affected by local institutional and market imperfections to the greatest extent (Li & Qian, 2013). Given the importance of institutions in this context, future research may look into domestic acquisitions in EE and explore the most salient features of these M&As' motivation and performance.

### 6.3. Managerial self-interest and hubris

There are no studies that specifically address the question of managerial self-interest motivation in the context of M&As in and out of EE. At the same time, CEO compensation and hubris M&A motivations may be even more present for firms based in EE than for firms based in DE (Peng, Sun, & Markoczy, 2014). For instance, Peng (2012) suggests that Chinese MNE managers may be especially prone to “empire building,” since their compensation is much less than what executives from DE receive. M&As are well

known to be the fastest firm growth strategy. Since CEOs' compensation is significantly determined by the size of the firm, they have a strong incentive to make their firms bigger (Markoczy, Sun, Peng, Shi, & Ren, 2013). This seems a plausible hypothesis given the generally low quality of corporate governance in EE (Filatochev et al., 2013; Globerman et al., 2011). Determining the degree of influence and particular characteristics of agency problem, managerialism, and "empire building" specifically in the context of M&As in and out of EE will be a promising area for future research. As for hubris, for emerging MNEs bidding for targets in developed countries, hubris may be exacerbated by national pride (Hope et al., 2011), which is also an interesting direction for future research.

#### 6.4. Performance measures

As noted by Haleblan et al. (2009), the measure of CARs, which is used as the most common indicator of M&A performance, has a number of limitations. In particular, the event study methodology considers the value of the decision to acquire, but not the value of the acquisition's implementation (Haleblan et al., 2009). Although this call for a broader choice of M&A performance measures applies to the research on acquisitions in general, it is especially relevant for EE. Since emerging MNEs may overlook financial performance of the target in order to gain access to strategic resources and technology (Rui & Yip, 2008), it is important to look not only into the short-term change in shareholder value, but also into the longer term measures and goals to fully estimate success or failure of the acquisition (Peng & Beamish, 2014; Song, 2014).

#### 6.5. Acquisitions undertaken by state-owned enterprises (SOEs)

According to UNCTAD (2014), SOEs account for almost 12 per cent of the global FDI flows, as of 2013. In EE such as China, Russia, and Brazil, SOEs constitute a considerable share of the economy and have a growing multinational presence. For example, as of June 2011, SOEs accounted for about 80% of the stock market value in China, 62% in Russia, and 38% in Brazil. For all EE, SOEs made up about one third of the outward FDI between 2003 and 2010 (Wooldridge, 2012). Since SOEs, compared to other firms (private or public), have different ownership structure, resource constraints, governance mechanisms, and goals, all these differences need to be explored in the context of M&As in and out of EE (and DE).

### 7. Managerial implications

An enhanced understanding of M&As in and out of EE will have significant implications for managers (1) in acquiring firms based in EE and (2) in target firms based in and out of EE. For managers in acquiring firms, being aware of the existence of national pride that may be underpinned by hubris will be valuable (Hope et al., 2011). It will be helpful to avoid a bidding war or be courageous enough to walk away from a deal (Peng, 2012: 104). For managers without significant M&A experience, a series of sequential but smaller-scale acquisitions may be more helpful than larger-scale, higher-profile, but inherently more risky deals (Xu et al., 2010). They also need to master the "rules of the game," especially in DE where firms from EE are not necessarily welcome as acquirers (Peng, 2012: 104).

**Table 4**  
Findings on mergers and acquisitions from DE and EE.

Research question	Main findings from DE	Additional new findings from EE
Antecedents	<ul style="list-style-type: none"> <li>• Market (monopoly) power</li> <li>• Synergy gains (e.g., economies of scale)</li> <li>• Diversification</li> <li>• Reduce transaction costs</li> <li>• Reduce environmental uncertainty and resource dependency</li> <li>• Firm characteristics (e.g., M&amp;A experience, network ties)</li> <li>• CEO compensation ("empire building")</li> <li>• Managerial hubris</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-border acquisitions as a preferred mode of entry <ul style="list-style-type: none"> <li>– Access to brands, technologies, and resources which help to overcome the "latecomer disadvantage"</li> <li>– Access to more developed institutions and corporate governance practices (from EE to DE)</li> <li>– Brownfield acquisitions (from DE to EE)</li> <li>– EE MNEs will try to leverage their home countries' comparative advantages in resources, as well as their firm-specific capabilities, by cross-border acquisitions</li> <li>– National pride (from EE to DE)</li> </ul> </li> <li>• The quality of institutions is an especially important determinant of acquisitions in and out of EE <ul style="list-style-type: none"> <li>– Institutional development in a host country facilitates acquisitions</li> <li>– Institutions often determine the choice of entry mode</li> <li>– Institutions providing higher level of protection of minority shareholders' rights are likely to facilitate M&amp;As (by lowering the resistance of controlling shareholders)</li> </ul> </li> <li>• Firm characteristics <ul style="list-style-type: none"> <li>– For EE MNEs, prior M&amp;A experience in DE tends to have stronger influence than prior M&amp;A experience in EE</li> <li>– Network ties have different influence on acquisition behavior in EE compared to DE</li> </ul> </li> </ul>
Performance	<ul style="list-style-type: none"> <li>• Acquisitions typically destroy shareholder value for the acquirer</li> <li>• Target firms typically gain value from M&amp;As</li> </ul>	<ul style="list-style-type: none"> <li>• There is no established trend for the acquirer's gain – acquisitions in and out of EE may create or destroy shareholder value for the acquirer</li> </ul>
Factors affecting performance	<ul style="list-style-type: none"> <li>• Deal type</li> <li>• Payment type</li> <li>• Ownership structure (e.g., managerial ownership)</li> <li>• Management characteristics (e.g., experience)</li> <li>• Previous performance</li> <li>• Firm size</li> <li>• Prior acquisition experience</li> <li>• Environmental factors (e.g., merger waves)</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional development (in both host and home countries) was found to improve cross-border M&amp;A performance</li> <li>• Quality of corporate governance in a host country facilitates acquisition performance ("bootstrapping")</li> <li>• Privatization context <ul style="list-style-type: none"> <li>– Strong government involvement</li> <li>– Target firms' managerial capabilities and overall efficiency are often quite low</li> <li>– Lower premiums</li> <li>– The amount of post-privatization investment was found to facilitate post-acquisition performance of the privatized target</li> </ul> </li> <li>• Higher ownership concentration of the acquirer may positively affect post-acquisition performance (however, larger state ownership tends to provoke negative reaction of the market)</li> <li>• For cross-border M&amp;As, the acquirer's country of origin (DE versus EE) has been shown to affect the different measures of the target's performance (possible differences in post-acquisition restructuring strategies)</li> </ul>

Managers in target firms in DE need to expect more incoming bids from firms based in EE. These bids may be from firms that are currently outside the “radar screen” of incumbents in DE. For example, few managers at IBM or Volvo would have heard of Lenovo and Geely, respectively, prior to the acquisition announcements. Unlike an earlier generation of multinationals from Japan and Korea that tend to take a more evolutionary process and be cautious about (or simply shy away from) acquisitions, a new generation of MNEs from EE (especially BRIC) seem to be “less patient” and very eager to launch acquisitions (Sun et al., 2012). As a result, such acquirers often do not have enough internationally experienced and M&A savvy expats. Unlike Japanese and Korean MNEs, emerging multinationals from BRIC are more likely to appoint host country nationals, especially target firm managers, to executive posts. The upshot is: more managerial jobs for locals. These jobs are not necessarily limited to those inside the acquired subsidiaries (former targets), and may also include consulting, financial, legal, training, and real estate jobs outside these firms in host economies. But local managers need to better prepare themselves to take on such jobs, such as picking up some language lessons in Chinese, Hindi, Portuguese, and Russian, or—failing that—at least being sensitive to the cultural taboos and being less ethnocentric when dealing with colleagues from these emerging multinationals.

## 8. Conclusion

This paper contributes to the literature in at least two ways. First, as the first attempt in the literature, we comprehensively review studies on acquisitions in and out of EE and summarize the key findings. Second, we identify how these findings extend the larger literature on acquisitions’ antecedents and performance (based primarily on research in and out of DE), integrate the findings to develop propositions, and also suggest directions for future research. Table 4 summarizes the main findings of the reviewed studies and compares them to the established findings derived mainly from research in DE.

Studies indeed indicate that M&A antecedents and outcomes may differ between DE and EE. However, we do not assert that these new findings are not applicable to acquisitions in DE. Our purpose here is to (1) distinguish what can be especially crucial for firms based in EE undertaking M&As, as well as for firms based in DE entering EE via M&As, and (2) show how the established findings on acquisitions can be extended by considering a new institutional context (EE). In conclusion, as EE grow more weight in the global economy, it is imperative that research on M&As in and out of EE grow more scale, scope, and sophistication among research on all M&As worldwide.

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