

Why Different Acquirers Generate Different Firm Value From Cross-Border M&As: Evidence From Chinese Multinationals

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Multinationals from emerging markets have attracted worldwide attention with their prominent cross-border mergers and acquisitions (M&As). However, little is known about why emerging-market acquirers experience positive value creation through foreign M&A activity while many advanced country acquirers suffer value destruction. This study draws on institutional theory, the springboard perspective, and the asset exploitation and exploration perspectives to examine the critical determinants of firm value creation for Chinese acquirers. Analysis of data from a sample of Chinese firms over the period 2002–2019 shows unique outward M&A advantages held by Chinese multinationals. These companies benefit from tangible and intangible assets acquired from outward M&As in advanced and institutionally divergent economies. The findings suggest Chinese firms that use M&As to capture strategic assets create higher firm value than firms that are driven by traditional FDI motives.

Keywords: cross-border M&A advantages, Chinese multinationals, firm value creation, institutional theory, strategic asset-seeking M&As, springboard perspective

INTRODUCTION

Trade tensions between the United States and China, the world's largest economies, reflect Western countries' underlying concerns that this emerging-market giant might eventually surpass the West in technology development and global leadership. Chinese and other emerging-market companies have used strategic cross-border M&As to accelerate their own and their home country's technological advancement. These firms pursue foreign acquisitions because they lack the "ownership advantages" of more mature multinational enterprises (MNEs) in the triad regions (Gammeltoft et al., 2010). Outward M&As, therefore, enable rapid acquisition of valuable technologies, managerial resources, and know-how. The focus of much of their M&A activity is in advanced economies (UNCTAD, 2014). High profile examples include Tata Motors' \$2.3 billion acquisition of Britain's Jaguar Land Rover in 2008, Geely's \$1.5 billion purchase of Sweden's Volvo Cars in 2010, Haier's \$5.6 billion takeover of GE Appliances in 2016, and Wanda Group's \$3.5 billion acquisition of Hollywood production company Legendary Entertainment in 2016.

Previous research findings on the value-creating effect of international M&A activities are mixed. Several studies have found evidence that M&As launched by developed economy MNEs lead to null adjusted returns (Bruner, 2002; Campa & Hernando, 2004; Goergen & Renneboog, 2004). Other studies

have found emerging-market firms create positive value through M&A transactions (Bhagat et al., 2011; Li et al., 2016; Tao et al., 2017). More recently, McCarthy et al. (2016) analyzed mergers that took place from 2003 to 2008 across 60 countries and found Chinese acquirers outperformed Anglo-Saxon, Continental European, and other Asian peers. They pointed out the importance of understanding “the enigma of Chinese performance.” Overall, these findings suggest foreign acquisitions by firms from developed and developing economies have different outcomes on firm value. Research is needed to ascertain the determinants of these performance differences.

Chinese firms’ outward M&As show a pattern that aligns with China’s economic transformation. The first wave of international takeovers included the D’Long Group’s acquisition of the U.S.-based Murray Inc., TCL’s takeover of France’s Thomson Electronics, and SAIC’s purchase of South Korea’s SsangYong Motor Company. Many first-wave transactions subsequently failed, leading Chinese firms and the Chinese government to adjust their strategies and policies toward overseas M&As. Major changes included targeting companies with valuable tangible assets such as up-to-date technologies and offshore R&D facilities and focusing on growth and competitiveness in the home market (Williamson & Raman, 2011). Whether Chinese firms’ pattern of acquisitive growth is unique compared with firms from more advanced countries remains a critical issue in the IB field (Peng et al., 2018).

Our study applies institutional theory, the springboard perspective, and exploitation and exploration perspectives of FDI to investigate the relationship between country-level and firm-level factors of Chinese firms’ international M&A activity and firm value creation during the period 2002-2019. We ask a central question, why are the outcomes of emerging-market firms’ cross-border M&A activities in institutionally distant countries contrary to expectations in the IB discipline? We argue that the institutional distance between two countries has dissimilar implications for emerging-economy MNEs, especially those from the big emerging markets (BEMs), and Western MNEs. For acquirers from emerging markets, advanced economies have greater information transparency and legal protections, which reduce investment risks and managerial uncertainty and enhance learning capabilities. Emerging-market MNEs (EMNEs) use overseas expansion as a springboard to acquire the critical resources and capabilities that are used to catch up with powerful global rivals. These firms benefit from favorable host market institutions (Luo & Tung, 2007, 2018).

In addition to examining country-level factors, it is important to look at the underlying motives for Chinese firms’ outward M&As and the impact these activities have on the parent firm’s value. Even prior to the escalation and broadening of the U.S.–China trade war, authorities in many developed countries were imposing restrictions on inward investments by Chinese firms. As host countries increasingly questioned the motives for inward Chinese investments, several high profile M&A were withdrawn in strategically important industries, such as high-tech manufacturing, financial services, digital mapping services, security services, and telecommunications (UNCTAD, 2018). In the U.S. alone, the volume of Chinese-led deals dropped from 170 deals worth \$62.8 billion in 2016 to 81 deals worth \$12 billion in 2018 (Bray, 2019). Germany, a favorite target for Chinese firms, has imposed new measures allowing the government to review or block foreign firms from making equity purchases of as little as 10% (down from 25%) in “security-relevant” companies (DEUEN, 2018). Target countries have also shown concern over national security and foreign ownership of physical assets like land and natural resources. These tensions are reflected in new investment regulations. In general, industrialized powers are anxious about the motives behind China’s outbound M&As. Therefore, it is vital to examine the relationship between Chinese acquirers’ motives and their firms’ value creation.

Conventional explanations for MNEs’ foreign M&As adopt an exploitation perspective; however, this perspective fails to explain how EMNEs learn and develop innovation capabilities via international expansion (Hedlund & Ridderstrale, 1997). Chinese outward M&A activities in developed economies are more like exploration activities that aim to capture critical resources and capabilities (Makino et al., 2002), which facilitates rapid learning for these latecomer firms. However, evidence of the outcome of China’s strategic asset-seeking M&As is limited, with just a few studies (e.g., Nicholson & Salaber, 2013; Yang et al., 2013) and case studies (e.g., Deng, 2010; Zheng et al., 2016) examining the issue. Meyer (2015) stressed that the evaluation of FDI projects should reflect the underlying motives, which are needed to broaden the

knowledge of FDI activities by MNEs. Our current research aims to fill this gap by analyzing a sample of Chinese outward M&As.

Our research makes several important contributions to the literature. First, we apply the springboard perspective to complement the institution-based view in addressing the value-creating effects of Chinese cross-border M&As while avoiding overstating these effects. Second, we thoroughly analyze the three pillars of the institutional environment (Scott, 1995) using a more refined method that extends the wealth-effect literature. Third, firms that expand abroad normally face liabilities of foreignness (Eden & Miller, 2004; Salomon & Wu, 2012), but we show that Chinese acquirers benefit from outward M&As in institutionally distant economies, leading us to propose the notion of outward M&A advantages for EMNEs. Fourth, by contrasting the asset exploitation and asset exploration perspectives, the current research sheds light on how motives affect M&A outcomes. These contributions enrich understanding of emerging-market firms' FDI activities.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Firm Value Creation From Cross-Border M&As

Existing research on cross-border M&As has primarily looked at acquisitions by firms in developed countries. Overall, the shareholder wealth-effect literature shows international M&A activities have inconclusive effects on value creation. For instance, some studies show M&As create positive value for the acquirers (Markides & Ittner, 1994; Morck & Yeung, 1992), but more recent evidence points to the absence of value creation for the acquirers' shareholders (e.g., Campa & Hernando, 2004; Goergen & Renneboog, 2004; Williams & Liao, 2008). Drawing upon a sample of M&As in the European Union between 1998 and 2000, Campa and Hernando (2004) found a statistically significant cumulative abnormal return (CAR) of 9% in the target firm's stock price. However, CAR was null in a one-month window. Similarly, Goergen and Renneboog (2004) showed that the announcements of large intra-European acquisitions had a significant positive effect of only 0.7% for the acquirers, whereas the target firms generated abnormal returns of 9%.

However, outward M&As by developing-country multinationals seem to create positive returns. In a sample of 698 cross-border M&As by eight emerging economies between 1991 and 2008, Bhagat et al. (2011) found announcements of M&A deals resulted in a positive and significant stock market response of 1.09% for emerging country acquirers. Gubbi et al. (2010) found a similar value generation effect from Indian outbound acquisitions over the period 2000–2007. Using merger data from the first decade of the 2000s, McCarthy et al. (2016) found Chinese acquirers generated positive firm value whereas mergers by Western companies destroyed value. Similar positive market reactions for Chinese acquirers of overseas targets have been found in a number of studies (e.g., Du & Boateng, 2015; Li et al., 2016; Tao et al., 2017).

EMNEs' Outward M&A Advantages in Advanced Economies

The springboard view explains how emerging-economy firms enhance their overall competitiveness through aggressive strategic asset- and opportunity-seeking FDI around the globe (Luo & Tung, 2007, 2018). Following the springboard logic, EMNEs internationalize to compensate for weaknesses in their capabilities (global branding, core technologies, and innovativeness), which contrasts with MNEs from advanced economies (Luo & Tung, 2018). Many EMNEs possess certain unconventional ownership advantages (e.g., unique combinative capabilities) that enable creative leveraging and integration of the firm's available resources to serve cost-sensitive customers in the mass market (Luo & Child, 2015). Aggressive expansion through outward M&As enables these firms to skip multiple generations of technological development without the heavy R&D investments that would normally absorb so many resources in developed MNEs (Luo & Tung, 2018).

We contend there are outward M&A advantages for emerging-market enterprises, especially EMNEs from large economies. Outward M&As benefit Chinese firms in two interrelated ways. First, developed economies are characterized by greater information transparency and a higher level of legal protection, reducing foreign acquirers' investment risks and managerial uncertainty. Developed country firms

operating in institutionally underdeveloped countries are subject to unpredictable consequences that result from the lack of information about legitimate business practices in the host country. In comparison, performance outcomes are more predictable in well-developed markets because institutions curb unscrupulous business actions (Chan et al., 2008).

Secondly, Chinese firms can further establish their competitive advantages through tangible and intangible assets (resources, know-how, and capabilities) obtained from international M&As within institutionally distant countries. Outbound acquisitions facilitate deconstruction and reconfiguration of the firm's value chain, which enables the firm to move rapidly along the value curve and enhance its value chain position (Sun et al., 2012). Chinese multinationals were once considered to have strong capabilities in the middle of the value chain (i.e., manufacturing) but possess weak back-end and front-end activities (R&D in the former and marketing in the latter case). Overseas acquisitions of advanced country firms have enabled Chinese firms to create synergistic gains when they redeployed the combined tangible and intangible assets toward higher value uses. Moreover, evidence shows the "reverse internalization" notion exists where foreign buyers benefit from the target firms' R&D capabilities (Eun et al., 1996).

Overall, Chinese firms conducting M&As in developed economies integrate their existing home resources with their newly acquired firms to accelerate technology upgrading and business transformation. Hence, we advance the following hypothesis:

Hypothesis 1: Chinese firms' cross-border M&As in developed economies create positive firm value for the acquirer.

Formal Institutional Distance and Firm Value Creation

Institutional theory is concerned with the interaction and relationship between environments and organizations. Well-defined and enforceable rules, laws, and property rights closely intertwine with political, regulatory, and economic institutions (Salomon & Wu, 2012). The formal structure of rights is defined by a hierarchy of rules including constitutional law, statute law, common law, and bylaws (North, 1990). Regulatory distance refers to the differences between the home and the host country laws, rules, constitutions, and property rights (Chao & Kumar, 2010).

Advanced economy MNEs that operate in developing countries are concerned about institutional differences because idiosyncratic regulatory environments may impede business operations (Henisz, 2003). Generally speaking, developing countries possess relatively ineffective formal regulations with poor protection of intellectual property rights and weak enforcement of laws and regulations. According to conventional wisdom, as regulatory distance increases, greater obstacles appear that inhibit foreign investors' ability to transfer organizational routines and obtain legitimacy in the host country.

The outcomes of recent outward M&As from emerging markets challenge these widely accepted conclusions. Evidence from India demonstrates a positive relationship between institutional differences and shareholder value creation for the acquiring firms (Gubbi et al., 2010). Similarly, Du and Boateng (2015) found Chinese acquirers obtain positive M&A value by entering institutionally developed countries. Unlike the first wave of FDI activities by EMNEs, where firms primarily built proprietary advantage by entering other developing economies, the motivation to learn and acquire vital strategic assets were the predominant concerns in the second wave of EMNEs' international expansion (Gubbi et al., 2010; Makino et al., 2002). The quality of the target firms' resources and experiences in the host country are key to greater firm value creation in EMNEs' cross-border M&As.

While global multinationals commonly use cross-border M&As to make up for deficiencies in accessing tacit knowledge (Gupta & Govindarajan 2000), institutional distance actually has different influences on EMNEs. By entering relatively more developed institutional contexts, EMNEs can obtain valuable learning experiences, picking up key routines from the target companies that help the acquirer compete in liberal markets and take a customer-oriented approach (Gubbi et al., 2010).

The springboard perspective emphasizes the unique role of EMNEs' home–host links, home base for manufacturing, market share, and growth (Luo & Tung, 2007, 2018). We postulate the effect of home market exploitation and global competitiveness catchup (Luo & Tung, 2018) is even more significant for

Chinese firms. Chinese firms can use their enormous home base to conduct market experiments with their acquired foreign resources, leading to effective capability upgrading and transformation into competent global rivals (Luo & Tung, 2018).

Chinese firms have combined their acquired foreign resources and capabilities with their low-cost capabilities and applied them to China's large domestic market. The quality of strategic assets desired and available for subsequent consolidation is positively related to the level of economic development. Hence, Chinese MNEs' expansion into institutionally distant countries via acquisitions can create higher market valuations (Ghemawat, 2001; Gubbi et al., 2010). This unique complementarity not only enhances Chinese acquirers' international competitiveness but also strengthens their home market position. Learning from the target firm and integrating the obtained knowledge resources with the home country's location advantages can produce rapid growth in the firm's domestic market. Successful examples include Geely's acquisition of Sweden's Volvo and China National Chemical Corporation's takeover of France's Adisseo (Williamson & Raman, 2011). In this sense, formal institutional distance serves as a complement rather than a hindrance to firm value creation. Therefore, we formulate the following hypothesis:

Hypothesis 2: The formal institutional distance between the home country and the target country is positively associated with firm value creation for Chinese cross-border M&As.

Informal Institutional Distance and Firm Value Creation

Informal institutions refer to the normative and cognitive dimensions of the institutional context (Scott, 1995). The normative pillar reflects the norms, values, beliefs, individual behaviors, and assumptions about human nature (Kostova & Roth, 2002). The cognitive dimension refers to the widely held social knowledge and embedded cognitive categories, such as schemata and stereotypes (Markus & Zajonc, 1985). The outcomes of international M&As are closely associated with informal constraints (e.g., standards of conduct, social conventions, and reputation) as these complex contracts are generally written with what North (1990) refers to as the enforcement characteristics of exchange in mind. Hence, cross-border M&As can be interpreted differently because of the different assumptions and value systems in the home and host countries.

Cultural differences intertwine with the normative and cognitive institutional dimensions. Whitley (1999) argued informal institutions incorporate cultural dimensions, capturing patterns of behavior regarding trust, identity, collaboration, and subordination. By definition, culture is "the collective mental programming of the people in an environment...that is different from that of other groups...or nations" (Hofstede, 1980: 43). This definition has both normative and cognitive aspects (Eden & Miller, 2004). As a consequence, cultural distance has been widely considered a proxy for informal institutional distance (see Dikova et al., 2009; Salomon & Wu, 2012).

Previous research has found conflicting results about the relationship between national informal institutional differences and M&A performance. One body of research highlights the negative side, showing acquirers have a difficult time attaining local legitimacy when the informal institutional distance between the source and the target country increases (Cui & Jiang, 2012). Other studies have found significant cultural distance harms the acquirer's market value because the firm is unfamiliar with the foreign market and may overpay for the target firm (Datta & Puia, 1995). Buono et al. (1985) also suggested a large cultural distance between two merging firms brings greater challenges and difficulties during the integration phase.

Even though the negative impact of informal institutional differences is well established in the literature, cultural differences can also have positive effects. Drawing on approximately 800 international acquisitions between 1991 and 2004 in various countries, Chakrabarti et al. (2009) found cultural distance positively and significantly affected the stock market performance of the bidding firms in the long term. Multinational firms operating across national boundaries need diverse and valuable repertoires of routines (e.g., innovation and development processes) to compete successfully in uncertain environments. Through effective learning and specialization, the acquisition of critical routines that are embedded in the target firm's national culture contributes to better performance of the combined entity (Morosini et al., 1998).

Recently, Li et al. (2020) also found a positive relationship between cultural distance and the Chinese acquirer's abnormal returns.

These inconsistent results suggest the effects of informal institutions on international M&A outcomes are context-specific (Dauber, 2012). Learning is a multidimensional process, so learning should not be definitionally constrained as a firm's prior acquisition experience (Lin et al., 2009). The initial internationalization of many Chinese and Indian MNEs has been characterized by unique "inward-outward linkages" in which they first played the role of local partners to foreign firms (Meyer & Thaijongrak, 2013). Chinese firms generated cumulative benefits from these various modes of inward investment (e.g., OEM, ODM, OBM, strategic alliances, and joint ventures) prior to their own outward FDI activities (Luo & Tung, 2007). For EMNEs from big economies like China, possession of unique advantages (e.g., learning from foreign companies' inward FDI) can mitigate the potential negative effects of expansion into culturally distant countries. Therefore, using the conventional rationale to assess the influence of informal institutional differences on Chinese cross-border M&As may cause misleading conclusions.

In many ways, Chinese MNEs do not resemble their Western counterparts. They first learned through business networks and prior alliance relations before their outbound internationalization. According to recent case studies, Chinese firms are well aware of cultural influences. For instance, the firms embraced the "light-touch integration" approach (i.e., a relatively passive integration mode that leaves the target firm with a high degree of autonomy) when acquiring German companies (Liu & Woywode, 2013). Moreover, Chinese firms confronted by institutional dissimilarities are actually more inclined to comply with local isomorphism pressures to obtain legitimacy in the host country (Cui & Jiang, 2012).

These studies echo the argument that some successful EMNEs have the unique strength of "ambidexterity," being able to comply with and influence simultaneously the institutional forces in the host market (Luo & Rui, 2009). We believe these methods help Chinese acquirers bypass certain cultural barriers during the integration phase and may provide signals of realized synergies to the stock market. Hence, we form the following hypothesis:

Hypothesis 3: The informal institutional distance between the home country and the target country is positively associated with firm value creation for Chinese cross-border M&As.

M&A Motivation and Firm Value Creation

The four categories of FDI motives widely adopted in research are market-seeking, resource-seeking, efficiency-seeking, and strategic asset-seeking (Dunning, 1993, 2000). The conventional exploitation perspective of FDI is in line with the first three motives as it captures the overseas activities of MNEs with firm-specific advantages that seek markets, natural resources (including low-cost labor), and enhanced efficiency (Yang et al., 2014). The exploration perspective explains strategic asset-seeking FDI, where firms lacking proprietary assets seek to acquire them (e.g., technology and brands) to gain competitive advantage (Child & Rodrigues, 2005; Deng, 2004).

Emerging-market firms engage in asset-seeking FDI to gain mature MNEs' strategic resources, such as advanced technology, know-how, R&D facilities, brands, and managerial capabilities (Luo & Tung, 2007). Research has found that inward FDI in developed countries is predominantly from strategic asset-seeking firms. For instance, foreign firms entering the U.S. have used local technological knowledge for innovation more than their host country counterparts to offset their home country technological weaknesses (Almeida, 1996). Similarly, while the relational linkages to local firms and customers facilitate Taiwanese SMEs' outward FDI in other emerging markets, strategic asset linkages (e.g., accessing local technology networks, sourcing new technologies, and strategic resources) are the most important motives behind their outbound investments in the United States (Chen & Chen, 1998).

In recent years, Chinese FDI has been directed toward sourcing international managerial capabilities, upstream proprietary technology, and immobile strategic assets under home government support via greenfield investments and overseas acquisitions (Buckley et al., 2007). Cross-border M&As are considered the fastest way for Chinese firms to facilitate international expansion, increase market power, and access desirable strategic resources and technology (Boateng et al., 2008). Prior to recent trade tensions over forced

technology transfers and intellectual property disputes, Chinese outward M&A growth relied on the willingness of developed-country firms to share or sell their strategic assets (Luo & Tung, 2007). Abundant intellectual capital, management expertise, and advanced knowledge-based assets (Dunning, 1998) have led most Chinese strategic asset-seeking M&As to target firms from industrialized countries. Ramasamy et al. (2012) also found that Chinese firms are more inclined to undertake technology and strategic asset-seeking FDI in low-risk countries where innovation and technological development are more secure because of political stability.

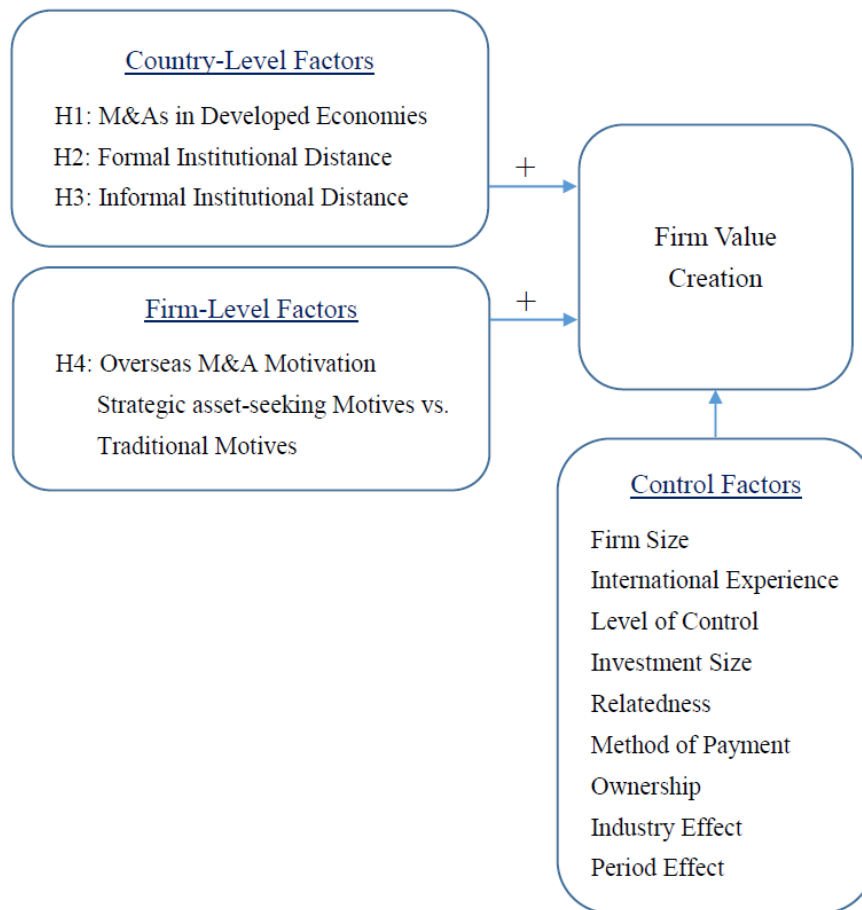
Despite the rapid growth in Chinese outbound strategic asset-seeking M&As over the last decade, empirical evidence regarding the effects of these cross-border transactions is scarce. Kolstad and Wiig (2012) argued that the need for natural resources and poor institutions determine Chinese outward FDI, but this neglects the role of knowledge-seeking FDI. Sutherland (2009) classified the FDI motives of Chinese MNEs by sector; FDI in the manufacturing sector was seen as a proxy for strategic asset-seeking FDI. However, Chinese overseas investments have targeted a wide range of manufacturing and services industries, so this categorization method may result in misleading conclusions. Using a sample of firms from the period 2001–2009, Yang et al. (2013) indicated Chinese firms conducting traditional FDI in developing countries generate more value than traditional and strategic asset-seeking FDI in developed economies. Nicholson and Salaber (2013) suggested Chinese outward M&As pursuing strategic resources (mainly natural resources) generated higher abnormal returns over the period 2000–2010. A country's stage of development may determine the acquirer's M&A motivations and merger outcomes (Young, 2016), so these results may reflect China's stage of development during the sampling period. In light of the rapid growth of Chinese outward strategic asset-seeking M&As, it is critical to incorporate more recent deals to examine this vital issue.

Strategic asset-seeking FDI augments existing ownership advantages rather than exploits these advantages (Dunning, 1998). In essence, the resource-augmentation rationale underlies strategic asset-seeking M&As in which the acquirers capture valuable assets to strengthen their technological, managerial, and innovation capabilities (Meyer, 2015). We suggest Chinese firms' overseas M&As that are motivated by strategic asset-seeking creates higher firm value compared with traditional M&A motives because the market expects future technology upgrades for the acquirer. Building on these earlier findings, we form the following hypothesis:

Hypothesis 4: Chinese firms' cross-border M&As that are motivated by strategic asset-seeking create higher firm value for the acquirer than transactions that are driven by traditional motives (i.e., market-seeking, resource-seeking, and efficiency-seeking).

The conceptual framework for this study is shown in Figure 1.

FIGURE 1
THE DETERMINANTS OF FIRM VALUE CREATION ON CHINESE FIRMS' OUTWARD MERGERS & ACQUISITIONS



METHODOLOGY

Data and Sample Selection

A sample of cross-border M&A transactions made by publicly listed Chinese firms was collected from the Thomson SDC Platinum database. This database provides a comprehensive set of global M&As with detailed information on each transaction. The initial sampling frame was from 1990 to 2019. The sample period began in 1990 because during the early 1990s many developing countries liberalized their economies, leading to the rise of MNEs from emerging markets (Bhagat et al., 2011). Many Chinese firms strove to increase their degree of internationalization and improve their global competitiveness in response to the Chinese authorities’ “Go Global” policy in 1999 (Luo & Tung, 2007). Hence, there are very few cross-border M&As from emerging-market enterprises in the SDC database before 1991.

Corporate financial information was collected from the Datastream database and the sample companies’ annual reports. Important details regarding the M&A transactions in the Thomson SDC Platinum database were cross-checked with related information in consultant reports, business magazines, and news reports from various media sources.

The following criteria were used in the sample selection process:

- (1) Both the target firm and its ultimate parent firm are not from China.
- (2) The acquirers are publicly traded companies on the Shanghai or Shenzhen Stock Exchange.

- (3) All acquisitions for which either the target or the acquirer has operations in the financial sectors (SIC codes 6000-6999) are excluded from the sample.
- (4) Transactions are completed.
- (5) The percentage of target shares acquired is above 50%.
- (6) The value of the transaction is disclosed and over US\$20 million.
- (7) To prevent inclusion of potential shell companies, M&A events where investments flow into the British Virgin Islands, the Cayman Islands, Bermuda, and other noted tax havens are excluded.

After removing firms that did not meet these conditions and data points with incomplete information, the final sample comprised 119 cross-border M&A transactions carried out by Chinese firms between 2002 and 2019.

Event Study Approach

This research adopted the event study methodology to examine the announcement effect of Chinese outward M&As. It is a highly effective approach to evaluate the stock price reaction to a specific M&A event. We employed the market model, which is the most common approach in the event study methodology (Fama, 1976). The market model measures the normal or expected return, which is the firm's historical return if the event did not occur. The abnormal return captures the difference between the actual return related to a particular event and the normal return to determine the impact of a given event. Based on Brown and Warner's (1985) procedure, the abnormal return is calculated as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (1)$$

where R_{it} is the actual return for firm i on day t , R_{mt} is the return on a market index (the Shanghai Stock Exchange and the Shenzhen Composite Index, in this case) on day t , and $(\alpha_i + \beta_i R_{mt})$ is the firm's normal (historical) return. A predetermined estimation period before the announcement date is used in the equation.

The event study approach usually aggregates the abnormal return around given periods, namely the event window, as the impact of the event may not be fully detected in a single day. In this study, the event window was the period from 3 days before the M&A announcement date to 3 days after that event. The estimation period was from 300 days to 4 days preceding the event.

The CAR is defined as the difference between the actual return and the expected return over the estimation period. The CAR for firm i over the event window (T_1, T_2) is calculated as below:

$$CAR_{i-EW} = \sum_{t=T_1}^{T_2} AR_{it} \quad (2)$$

The estimated CAR allows researchers to inspect the statistical significance of the impact that the observed event has on firm value (McWilliams & Siegel, 1997). We further employed multivariate regression analysis to examine the determinants of the cross-sectional variations on M&A value creation. The CAR, obtained from the event study methodology, is regressed on the independent and control variables.

Dependent Variable

Firm Value Creation was measured by the acquirer's CAR over the event window (-3, +3). The event study approach allows researchers to define the event window to be wider than the period of interest that is usually expanded to multiple days surrounding the event (MacKinlay, 1997). Many management studies have employed long event windows, which can be problematic as the power of the test statistic is seriously reduced, which increases the difficulty of excluding confounding effects (McWilliams & Siegel, 1997). In this study, we used a moderate event window of seven days to capture the significance of the M&A event more accurately and avoid false inferences.

Independent Variables

Formal Institutional Distance captures the differences in regulative constructs between two countries. We developed the measures based on information in *The Global Competitiveness Report*, published annually by the World Economic Forum, Geneva. *The Global Competitiveness Report* uses statistical data from internationally recognized agencies and the Executive Opinion Survey to document country differences with over 100 items. The items are categorized into 12 dimensions: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

We selected 11 indicators based on Scott's (1995) interpretation of regulative processes and operationalized following Xu et al. (2004). The result of the factor analysis confirmed a one-factor solution. The factor loadings of all items were above 0.760, Cronbach's alpha was 0.975. The simple numerical average of these 11 indices for each country was taken as the country score on its regulative dimension for the given year. Considering the direction of national institutional distance, we followed Gubbi et al. (2010) to obtain the final value (*Regulative Distance*) by dividing the country score for each target nation by the corresponding value for China for that year. Thus, a value > 1 indicates the host country has a higher level of formal institutional development relative to China, and value < 1 implies a lower level of formal institutional development.

Developed-Country M&A was operationalized as a dummy variable, taking the value of 1 if the target firm came from a developed country, and 0 if the target firm was from an emerging economy. Relevant information on defining the developed and developing countries was adopted from the World Bank, the International Monetary Fund (IMF), and the Organization for Economic Co-operation and Development (OECD).

Informal Institutional Distance refers to difference between the home and host country in terms of ideology and culture. We used two proxies to measure informal institutional distance. First, based on the normative institutional concept proposed by Scott (1995), we selected eight items associated with managerial norms and attitudes from *The Global Competitiveness Report*. The result of the factor analysis pointed to a one-factor solution. The factor loadings of all items were greater than 0.828, Cronbach's alpha was 0.968. The simple numerical average of these eight indices for each country was taken as the country score for its normative dimension. The measurement of the *Normative Distance* between China and a given host country was identical to the calculation of the regulative distance. Second, as the concept of cultural difference captures the characteristics of the cognitive pillar (Kostova, 1999; Whitley, 1999), we followed Kogut and Singh's (1988) approach to measure national cultural distance (*CD*) between China and each host country. Based on Hofstede's (2003, 2011) work on national culture, the distances were calculated from the numerical values of all six dimensions: power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity, long/short-term orientation, and indulgence/restraint.

M&A Motive was categorized into two groups: strategic asset-seeking motives and traditional motives (i.e., market-seeking, resource-seeking, and efficiency-seeking). We searched various information sources including the publicly listed enterprises' official statements, press releases, and other secondary sources collected from the Dow Jones Factiva database. Firms sometimes have multiple motives for a single FDI activity. Therefore, we classified motive according to the acquirer's primary incentive to engage in the M&A transaction. *Motive* was operationalized as a dummy variable, coded as 1 if the chief reason for investment was strategic asset-seeking, and 0 if the deal was driven by a traditional motive.

Control Variables

Relatedness was operationalized as a dummy variable using SIC-based measures. The sample M&A deals were categorized as related or unrelated deals. An event is defined as a related M&A transaction (coded as 1) if the acquirer firm and the target company operate in the same industrial group within a two-digit SIC industry. An unrelated transaction (coded as 0) identifies a transaction in which the acquirer and the target company operate in different industrial groups within a two-digit SIC industry.

Firm Size of the acquirer was measured as the natural log of the firm's total assets before the M&A transaction. *Investment Size* was the value of the M&A transaction (in millions of U.S. dollars). *Level of Control* was the percentage of the target firm's shares acquired in the transaction.

Ownership controlled for the characteristics of the acquirer. The acquirer was categorized into central state-owned enterprises (SOEs) and local SOEs (coded as 1), or privately-owned enterprises (coded as 0). Lists of SOEs provided by China's State-owned Assets Supervision and Administration Commission of the State Council (SASAC) were used to crosscheck the categorization.

Payment was coded as 1 if the transaction was cash payment, and 0 if it was a stock purchase. *Experience* was coded as 1 if the acquirer had cross-border M&A experience prior to the event, and 0 otherwise.

Major changes in international economic and financial conditions were controlled with a set of dummy variables. The outbreak of the 2008 global financial crisis caused a surge of Chinese outward M&As, targeting firms that were ailing and willing to sell their strategic business units or other assets. The US-China trade war outbreak at the beginning of 2018 has led authorities in different nations to screen inward investments by Chinese firms more strictly and cautiously. Accordingly, three timeframes were constructed as follows: *Period 1* (transactions announced during 2002-2008, treated as the base group), *Period 2* (2009-2017) and *Period 3* (2018-2019).

Acquirer's industry was controlled by introducing a set of dummy variables. *Industry 1* (coded 1 if the acquirer was in the manufacturing industry group), *Industry 2* (coded 1 if the acquirer's industry group was natural resources) and *Industry 3* (other, treated as the base group).

RESULTS

Table 1 contains descriptive statistics of all variables. The mean CAR over the 7-day event window was positive at the 1.63% level, reflecting the overall positive market evaluation of Chinese firms' outward M&A activities. The average firm size measured by total assets was 167.26 billion RMB, and the mean Investment size was \$422.47 million, showing that the size of the Chinese acquirers and the values of the transactions were quite large. More than 60% of the firms were central or local SOEs. The average percentage of shares acquired was 85.89%, and over half of the deals involved 100% control of the target firms. Australia and the U.S. were the top two investment destinations among the sample transactions. Targeted firms were in a variety of industries, ranging from manufacturing to services.

TABLE 1
SUMMARIZED STATISTIC

| Variables | Mean | S.D. | Minimum | Maximum |
|------------------|-------------|-------------|----------------|----------------|
| CAR | 1.63 | 5.18 | -12.14 | 17.36 |
| Firm Size | 167.26 | 1.91 | 13.47 | 21.59 |
| Investment Size | 422.47 | 730.15 | 20.00 | 3501.00 |
| Level of Control | 85.89 | 18.89 | 50.00 | 100.00 |
| Relatedness | 0.74 | 0.44 | 0.00 | 1.00 |
| Payment | 0.99 | 0.09 | 0.00 | 1.00 |
| Ownership | 0.61 | 0.49 | 0.00 | 1.00 |
| Experience | 0.42 | 0.50 | 0.00 | 1.00 |
| Period 2 | 0.63 | 0.49 | 0.00 | 1.00 |
| Period 3 | 0.15 | 0.36 | 0.00 | 1.00 |
| Industry 1 | 0.57 | 0.50 | 0.00 | 1.00 |
| Industry 2 | 0.24 | 0.43 | 0.00 | 1.00 |

| Variables | Mean | S.D. | Minimum | Maximum |
|---------------------|------|------|---------|---------|
| Regulative Distance | 1.13 | 0.19 | 0.66 | 1.40 |
| DC M&A | 0.71 | 0.45 | 0.00 | 1.00 |
| Normative Distance | 1.14 | 0.15 | 0.77 | 1.36 |
| Cultural Distance | 3.24 | 1.40 | 0.36 | 5.16 |
| Motive | 0.34 | 0.48 | 0.00 | 1.00 |

Note: $N = 119$; CAR: cumulative abnormal returns (-3,+3); DC M&A: Developed Country M&A; Firm size in billions of RMB; Investment size in millions of USD.

Table 2 reports the correlations between variables. Most of the correlations were fairly low. As expected, there was a relatively high correlation between the *Developed-Country M&A* variable, *Regulative Distance*, and *Normative Distance*. To eliminate multicollinearity concerns and avoid generating misleading results, we examined the three variables separately in different regression models rather than testing these measures simultaneously in the same model. Additionally, we investigated the variance inflation factor (VIF) for all the variables used in each model and the scores ranged from 1.09 to 2.10. Since the threshold of 10 (VIF value) is the rule of thumb for researchers (Neter et al., 1989), multicollinearity was not a problem.

The cross-sectional regression results are presented in Table 3. Model 1 includes the control variables used in the full model. The coefficient of *Ownership* was positive and significant ($p < .10$), illustrating SOEs possessed certain advantages (e.g., abundant resources, less financial constraints) over privately-owned enterprises. The coefficient of *Payment* was positive and significant ($p < .01$), showing the stock market preferred cash payment over stock purchases. The coefficient of *Relatedness* was positive and significant ($p < .01$), demonstrating Chinese outward M&As with a focused strategy (i.e., undertaking related M&As) generated higher abnormal returns. To justify the contention that Chinese acquirers possess outward M&A advantages, we expanded Model 1 to introduce the *Developed-Country M&A* variable in Model 2. The F -value of Model 2 was statistically significant at the 1% level ($p = .000$). The coefficient of *Developed-Country M&A* was positive and significant ($p = .000$), confirming the sample firm's M&As in advanced economies created positive firm value for the acquirer. Therefore, Hypothesis 1 is supported. Hypothesis 2 further predicts the influence of formal institutional distance on M&A value creation. In Model 3, the F -value was statistically significant ($p = .004$), and the coefficient of *Regulative Distance* was positive and significant ($p = .024$), showing the acquirer's value creation from cross-border M&As was greater as formal institutional distance between China and the host country increased. This provides support for Hypothesis 2 and is evidence of institutional arbitrage and the springboard effect.

Hypothesis 3 predicts national informal institutional distance is positively associated with firm value. The F -value of Model 4 was statistically significant at the 1% level ($p = .002$). Model 4 reveals that the coefficient of *Normative Distance* ($p = .012$) was positive and significant at the 5% level. In Model 5, the F -value was statistically significant ($p = .007$), and the coefficient of *CD* ($p = .070$) was also positive and significant. The results of these two models support Hypothesis 3. Larger informal institutional distance sends positive signals to the market that the acquisition provides a pool of diverse routines and enhanced learning experiences.

TABLE 2
CORRELATION MATRIX

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|-------|------|
| <i>CARs</i> | 1.00 | | | | | | | | | | | | | | | | |
| <i>(-3, +3)</i> | | | | | | | | | | | | | | | | | |
| <i>FirmSize</i> | -0.01 | 1.00 | | | | | | | | | | | | | | | |
| <i>InvestSize</i> | -0.07 | 0.45 | 1.00 | | | | | | | | | | | | | | |
| <i>Control</i> | -0.12 | -0.04 | 0.11 | 1.00 | | | | | | | | | | | | | |
| <i>Relatedness</i> | 0.16 | 0.16 | 0.09 | 0.09 | 1.00 | | | | | | | | | | | | |
| <i>Payment</i> | 0.23 | 0.03 | -0.16 | 0.12 | -0.06 | 1.00 | | | | | | | | | | | |
| <i>Ownership</i> | 0.08 | 0.48 | 0.31 | -0.24 | -0.05 | -0.07 | 1.00 | | | | | | | | | | |
| <i>Experience</i> | 0.12 | 0.47 | 0.33 | -0.04 | 0.00 | 0.08 | 0.34 | 1.00 | | | | | | | | | |
| <i>Period 2</i> | 0.01 | 0.13 | 0.04 | -0.20 | 0.10 | -0.07 | 0.06 | 0.09 | 1.00 | | | | | | | | |
| <i>Period 3</i> | 0.07 | -0.17 | -0.13 | 0.24 | -0.07 | 0.04 | -0.38 | -0.12 | -0.55 | 1.00 | | | | | | | |
| <i>Industry 1</i> | 0.06 | -0.27 | -0.35 | 0.11 | -0.05 | -0.08 | -0.25 | -0.26 | 0.11 | 0.13 | 1.00 | | | | | | |
| <i>Industry 2</i> | -0.07 | 0.38 | 0.37 | -0.05 | 0.25 | 0.05 | 0.26 | 0.23 | -0.05 | -0.13 | -0.66 | 1.00 | | | | | |
| <i>RegDist</i> | 0.25 | -0.16 | -0.18 | 0.02 | 0.04 | 0.13 | -0.12 | -0.07 | 0.03 | 0.08 | -0.03 | -0.10 | 1.00 | | | | |
| <i>DC M&A</i> | 0.32 | -0.19 | -0.20 | -0.03 | -0.04 | 0.15 | -0.13 | 0.01 | 0.09 | 0.11 | 0.02 | -0.12 | 0.66 | 1.00 | | | |
| <i>NorDist</i> | 0.27 | -0.14 | -0.17 | 0.04 | 0.01 | 0.19 | -0.16 | -0.04 | 0.05 | 0.12 | -0.05 | -0.09 | 0.70 | 0.72 | 1.00 | | |
| <i>CD</i> | 0.18 | 0.04 | -0.01 | -0.06 | 0.05 | 0.03 | 0.01 | 0.06 | 0.02 | -0.05 | -0.26 | 0.17 | 0.01 | 0.40 | 0.24 | 1.00 | |
| <i>Motive</i> | 0.19 | -0.36 | -0.24 | 0.12 | -0.09 | 0.07 | -0.39 | -0.15 | 0.15 | 0.09 | 0.41 | -0.33 | 0.23 | 0.42 | 0.38 | -0.12 | 1.00 |

Notes: Correlations > 0.18 in magnitude are significant at $p < .05$ based on two-tailed tests. *CARs:* cumulative abnormal returns (-3, +3); *InvestSize:* investment size; *RegDist:* regulative distance; *DC M&A:* Developed Country M&A; *NorDist:* Normative distance; *CD:* Cultural Distance

In the subsequent model, we examined the effect of Chinese outward M&As driven by strategic asset-seeking motives versus traditional motives on the acquirer's value. The *F*-value of Model 6 was statistically significant at the 1% level ($p = .008$). The coefficient of *Motive* was positive and significant ($p < .10$), demonstrating Chinese cross-border M&As motivated by strategic asset-seeking generated greater firm value than deals driven by traditional market-seeking, resource-seeking, and efficiency-seeking motives. Accordingly, Hypothesis 4 is also supported.

We investigated the changes of the four motives in different regions and periods. Strategic asset-seeking M&As accounted for 47.1% of all deals in developed countries, whereas resource-seeking (50%) and market-seeking (41.2%) were the leading motives in developing economies. The difference among the M&A motives in different regions was significant, $\chi^2 (3, N = 119) = 27.28, p = .000$. Chinese acquirers primarily engaged in resource-seeking M&As (57.7%) before 2009. After the financial crisis, strategic asset-seeking (40.9%) became the leading motive. The difference among the four motive groups in the different periods was also significant, $\chi^2 (3, N = 119) = 13.29, p = .004$. Among all four motive groups, strategic asset-seeking M&As generated the greatest firm value (mean CAR = 2.54%), followed by market-seeking (mean = 1.56%), and efficiency-seeking (mean = 1.42%) motives. Resource-seeking acquisitions only created positive returns of 0.79% on average. The difference between strategic asset-seeking and resource-seeking motives was close to the marginal significance level at 1%.

To rule out alternative explanations caused by firm-level factors, we included additional control variables *Internationalization Degree* of the acquirer (the ratio of foreign revenues/total revenues before the event), *Number of Prior M&As* (operationalized as a count variable), and *Local Presence* (coded as 1 if the acquirer had local operations via M&As before the event, and 0 otherwise) into the analyses. The results of these models were consistent with the previous findings. Moreover, we adopted *Acquirer Hitech* (coded as 1 if the acquirer belonged to the hi-tech industry, and 0 otherwise) and a dichotomous variable (manufacturing/other) respectively in the analyses as a replacement of the original industry dummies. No significant quantitative differences were observed.

TABLE 3
CROSS-SECTIONAL DETERMINANTS OF ACQUIRER'S CUMULATIVE
ABNORMAL RETURNS

| Variables | <i>Model 1</i> | <i>Model 2</i> | <i>Model 3</i> | <i>Model 4</i> | <i>Model 5</i> | <i>Model 6</i> |
|------------------|--------------------|---------------------|----------------------|----------------------|--------------------|--------------------|
| Constant | -8.941 (6.923) | -12.111* (6.389) | -15.058** (7.295) | -16.833** (7.431) | -11.352 (6.973) | -10.186 (6.903) |
| Firm Size | -0.404 (0.325) | -0.181 (0.304) | -0.343 (0.320) | -0.350 (0.318) | -0.408 (0.322) | -0.295 (0.329) |
| Ownership | 2.314* (1.206) | 2.593** (1.114) | 2.282* (1.183) | 2.371** (1.176) | 2.391** (1.194) | 2.750** (1.223) |
| Investment Size | 0.000 (0.001) | 0.000 (0.001) | 0.000 (0.001) | 0.000 (0.001) | 0.000 (0.001) | 0.000 (0.001) |
| Level of Control | -0.044* (0.025) | -0.047** (0.023) | -0.045* (0.024) | -0.046* (0.024) | -0.044* (0.025) | -0.047* (0.025) |

| Variables | <i>Model 1</i> | <i>Model 2</i> | <i>Model 3</i> | <i>Model 4</i> | <i>Model 5</i> | <i>Model 6</i> |
|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Payment | 16.047*** (5.236) | 14.032*** (4.846) | 14.833*** (5.162) | 13.906*** (5.175) | 16.216*** (5.180) | 15.289*** (5.210) |
| Experience | 1.485 (1.094) | 1.096 (1.061) | 1.463 (1.073) | 1.430 (1.067) | 1.403 (1.083) | 1.326 (1.089) |
| Relatedness | 3.193*** (1.097) | 3.157*** (1.015) | 2.949*** (1.081) | 3.026*** (1.072) | 3.123*** (1.086) | 3.363*** (1.092) |
| Period 2 | 0.723* (1.197) | -0.042 (1.180) | 0.444 (1.180) | 0.217 (1.184) | 0.629* (1.185) | 0.364* (1.206) |
| Period 3 | 3.029 (1.688) | 2.425 (1.579) | 2.665 (1.663) | 2.387 (1.666) | 3.024 (1.670) | 2.977 (1.674) |
| Industry 1 | 0.407 (1.265) | 0.457 (1.174) | 0.891 (1.259) | 1.018 (1.257) | 0.927 (1.283) | -0.171 (1.300) |
| Industry 2 | -1.692 (1.502) | -1.403 (1.377) | -1.269 (1.484) | -1.240 (1.475) | -1.706 (1.485) | -1.755 (1.489) |
| DC M&A | | 3.235*** (0.992) | | | | |
| Regulative Distance | | | 5.611** (2.447) | | | |
| Normative Distance | | | | 8.121** (3.192) | | |
| Cultural Distance | | | | | 0.624* (0.340) | |
| Motive | | | | | | 1.924* (1.137) |
| R ² | 0.193 | 0.286 | 0.232 | 0.240 | 0.218 | 0.215 |
| Adjusted R ² | 0.111 | 0.203 | 0.145 | 0.154 | 0.130 | 0.126 |
| F-value | 2.333** | 3.464*** | 2.662*** | 2.787*** | 2.466*** | 2.414*** |

Notes: $N = 119$, * $p < .10$, ** $p < .05$, *** $P < .01$ significance levels based on two-tailed tests. Standard errors are in parentheses.

DC M&A: Developed Country M&A

DISCUSSION AND CONCLUSION

Drawing on institutional theory, the springboard perspective, and the exploitation and exploration perspectives, our study shows that formal and informal institutional differences between nations and the acquirers' underlying motives affect value created by outward M&As. Application of the springboard perspective in combination with institutional theory shows Chinese firms possess outward M&A advantages. This finding extends the traditional wealth-effect literature. Moreover, our research contributes

to the emerging-economy literature by contrasting asset exploitation with asset exploration perspectives of FDI to assess the acquirer's M&A motivations and value-creating consequences.

Theoretical Implications

Several theoretical implications emerge from these findings. First, our results reveal Chinese acquirers create value for their shareholders by undertaking cross-border M&As, clarifying previous inconclusive findings about the short-term value creation of MNEs in international M&A activities. This finding is consistent with the conclusions in several previous studies that examined outbound M&As from India, China, and other emerging economies (Bhagat et al., 2011; Du & Boateng, 2015; Gubbi et al., 2010; Nicholson & Salaber, 2013; Tao et al., 2017).

Second, the combination of institutional theory and the springboard perspective shows the presence of unique outward M&A advantages for Chinese multinationals. Our study adds to the growing body of research that shows the value-creating effects of emerging-market firms' cross-border M&As. This counters long-held views about the negative impact of institutional distance in the IB discipline.

Third, the current findings show that compared to advanced economy firms, Chinese firms are able to create more value by acquiring physical and intangible assets from firms in institutionally distant countries. The heterogeneity of formal institutions provides Chinese firms with valuable resources and capabilities, which can be combined with their low-cost capabilities and large home market. Chinese acquirers' unique complementarity contributes to their competitive catchup and the strengthening of their home market positions.

Fourth, the greater information transparency and legal protections in more developed countries reduce investment risks and managerial uncertainty for Chinese acquirers. Moreover, a lower degree of information asymmetry and tacit knowledge facilitate the learning processes of Chinese multinationals, enabling them to learn advanced technologies and organizational practices from the target firms more thoroughly.

Finally, our results provide evidence that Chinese firms' outward strategic asset-seeking M&As create higher firm value. This finding contrasts with prior research (Nicholson & Salaber, 2013; Yang et al., 2013). One possible explanation for the difference is that the event dates of our sample firms spanned China's 10th to 13th Five-Year Plans, which have witnessed major transformations of the nation's policies, such as innovation-driven development, shifting to high-value-added manufacturing and encouraging outward M&As in certain knowledge-intensive industries. Considering the rapid evolution of China's outward FDI strategy, we suggest future research to further probe this issue and examine whether structural changes in the outcome of Chinese cross-border M&As are initiated by different motives.

Managerial Implications

The current study also has important implications for practitioners. First, while there are outward M&A advantages for emerging-market firms to invest in more advanced economies, practitioners should be cautious when evaluating potential targets in the pre-acquisition phase. In the past, Chinese multinationals made some serious blunders, such as skipping important steps in the M&A process, targeting firms that had hard to integrate assets (i.e., brands, people, culture, and systems), and undertaking M&As without having the necessary managerial capabilities to deal with tricky integration issues (Williamson & Raman, 2011). As a result, several M&A transactions have led to huge losses, including TCL's acquisition of France's Thomson and D'Long Group's purchase of America's Murray Inc.

In order to exploit outward M&A advantages effectively within developed economies, emerging-market acquirers should deliberately assess the complementarity of valuable assets and resources. Synergy can be realized by acquiring critical physical assets like natural resources as well as leading technologies and R&D facilities. Moreover, while pursuing global market expansion, a successful M&A strategy can also strengthen the acquirer's competing position in the domestic market. The key is the acquirer's ability to determine how to exploit the purchased assets back home. For example, Geely had a clear plan to apply Volvo's technologies and design competencies to its three new production bases in China before its acquisition, resulting in desired sales growth.

Limitations and Future Research

Several limitations should be kept in mind when considering the generalizability of the results. First, the sample size was relatively small. In the sample selection process, we included only publicly disclosed M&A events above US\$20 million in value. There have been many Chinese cross-border M&A transactions involving smaller values. Incorporating those events into the research sample may bias the country-level analysis. Also, many Chinese firms have not disclosed the transaction values of their outward M&As, which limited the amount of useable data. The sample size was further restricted because the event study approach essentially examines the firm value of publicly listed companies under several strict criteria regarding share price data. Another limitation is the short history of Chinese firms' outward M&As. The dramatic growth in these activities has only occurred in recent years, especially transactions associated with strategic asset-seeking. As a result, assessing long-term M&A performance is not currently feasible.

After considering the current findings and the existing IB literature, we identify several areas for future research. One interesting path is to use an organizational learning lens to probe how emerging-market acquirers learn and benefit from the target firm's diverse and valuable routines in outward M&As. These include the innovation and invention processes to achieve technological upgrading. Another future research path is to extend the springboard perspective to examine post-M&A integration and knowledge transfer between the target and acquirer.

Finally, the current turbulent global business environment suits interdisciplinary research methods. As Chinese firms' outward FDI and technology development strategies evolve, developed countries have developed a degree of anxiety. Yet, empirical evidence about the effects of FDI motivations is scarce and unclear. We suggest scholars combine political science perspectives with the theoretical perspectives from IB, economics, innovation literature, and strategic management to broaden and deepen understanding of EMNEs' FDI activities.

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