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Explaining the Surge in M&A as an Entry Mode: Home Country and Cultural Influences

Abstract

Prior studies examining the effects external factors on international market expansion have focused on host country factors with scant attention being given to home country factors. This study examines the trends, patterns and the impact of cultural and home country macroeconomic influences on Chinese cross-border mergers and acquisitions (CBM&A) as an entry strategy for the period of 1998-2011. Our findings indicate that CBM&A is the preferred mode of market entry by the Chinese emerging market firms. The regression results indicate that home country macroeconomic and cultural variables, including GDP, money supply, interest rates, inflation, acquisitions in resource seeking sectors and cultural distance play an important role in explaining the foreign market expansion of Chinese firms.

Keywords: Mergers and Acquisitions, Culture, Macroeconomic factors, EMEs

1. Introduction

Foreign market entry choice is inherently risky and challenging and has direct impact on the international marketing strategy and performance of a firm (Erramilli, 1988; Sakarya et al., 2007; Malhotra and Sivakumar, 2011). The challenges associated with the foreign market entry decision stem from the varied impact of institutional and environmental factors on firms' market selection decisions (Whitelock and Jobber, 2004). This paper focuses on one form of establishment modes[1] of foreign market entry, namely, cross-border mergers and acquisitions (CBM&A) which has become the predominant mode of market entry by large emerging market multinational enterprises (EMEs) over the past 20 years (Deng, 2010; UNCTAD, 2012; Contractor et al., 2014). Despite the use of CBM&A to

[1] Establishment mode encompasses acquisitions and greenfield

penetrate into foreign markets, prior studies that consider the impact of home country factors on CBM&A as an entry mode are rare and most studies have concentrated on the effects of host country factors, firm- and industry-specific determinants (Ramamurti and Singh, 2009; Brouthers and Dikova, 2010). For example, the relationship between the host country macroeconomic fundamentals and CBM&A in advanced market economies has been examined by studies such as Alguacil, Caudros and Orts (2011); Boateng et al. (2011); and Uddin and Boateng (2011). In contrast, relatively little is known about the relationship between the home country macroeconomic factors and CBM&A outflows (Morschett et al, 2010). However, it is argued that the environmental factors associated with a firm's country of origin provide a crucial means, even if partially, to the development of a firm's competitive advantages by providing the context in which firm choices are made (Tolentino (2010); Hennart, 2009; Kalotay and Sulstarova, 2010). Second, earlier work in marketing and strategy has revealed that specific economic and cultural features of the national environment act as barriers and may impact on the choice between the greenfield investment and acquisitions (Brouthers and Brouthers, 2000; Slangen and Hennart, 2008; Georgopolos and Preusse, 2009; Malhotra and Sivakumar, 2011). Researchers such as Whitelock and Jobber (2004); Hennart (2009); Berry, Guillen and Zhou (2010) also note that the cultural distance between the home and host country markets affects firms' international market entry strategies, outward investment patterns and the market potential of the host country. In this paper, we examine the trends, patterns and the extent to which home country macroeconomic and cultural

factors influence the CBM&A outflow activities of large firms from EMEs. We ask the following questions: (i) what are the trends and patterns of CBM&A as an entry mode choice by EMEs? (ii) to what extent do macroeconomic and cultural factors foster CBM&A as a mode of market entry?

China provides a good case to explore the impact of home country factors on EME international expansion for the following reasons. First, in the last decade, a substantial number of firms from emerging markets, particularly, Brazil, Russia, India and China (BRIC) have entered into international markets (UNCTAD, 2013). Economic liberalisation and reforms in the trade policies of BRIC countries have motivated firms from these countries to invest abroad. China as the largest emerging country among the BRIC countries has been at the forefront of the economic reforms, transforming itself from centrally planned socialist country to a market-oriented market economy. In particular, China has seen some massive changes and improvement in the macroeconomic fundamentals over the past two decades and many developing countries are looking up to China for a guide. Second, Peng (2009); Luo, Xue and Han (2010); Du and Boateng (2015) note that Chinese firms do not have similar ownership advantages and capabilities compared to their counterparts from advanced countries and that Chinese government reforms and improvement in macroeconomic policies and institutions are behind the rise in CBM&A outflows. This point is supported by Hitt et al. (2004) who indicate that the Chinese government's authority over businesses is pervasive and CBM&A decisions of Chinese firms are driven by institutional and other home country factors. China

therefore provides an important setting to explore the impact of home country macroeconomic influences on CBM&A. This study contributes to the existing literature in the following ways. Our results shed lights on how the institutions, strategic asset seeking with government support and economic policies in the home country play important role in shaping international expansion behaviour of emerging market enterprises through CBM&A thereby contributing to the political economy literature and institutional theory. More importantly, the study shows that the level of economic policies and development such as GDP, money supply, interest rates, inflation of the home country are important for EME growth in the international market. The article enriches our understanding of how emerging country government policy i.e., the 'go abroad' for Chinese firms to go abroad and seek strategic resources unavailable in China can leverage support to EMEs in their process of global expansion and competition.

The remainder of this paper is organised along the following lines. The next section summarises the literature and develops the hypotheses of the study. Section 3 presents the data and the modelling framework that accounts for the role of cultural and macroeconomic influences on CBM&A. Section 4 presents the results and discusses the findings of the study. The last section provides a summary of the conclusion and discusses the implications of the study.

2. Literature review

2.1 Why CBM&A as an Entry Mode by EMEs?

UNCTAD (2012) points out that about 70-90 percent of the outward FDI from emerging markets are carried out via acquisitions. The predominant use of CBM&A as a vehicle for internationalisation by EMEs is driven by the need to acquire strategic assets in advanced countries that are unavailable at home (Boateng et al., 2008; Rui and Yip, 2008). The above findings are consistent with the often cited reason for CBM&A in the international marketing literature, namely to improve company's innovativeness and product portfolio (Markovitch, Steckel and Yeung, 2005; Prabhu, Chandy and Ellis, 2005). However, the tacit nature of some types of proprietary and intangible resources and capabilities makes them difficult to purchase through market transactions (Coff, 1999; Gupta and Govindarajan, 2000). Nadolska and Barkema (2007); Capron, Dussauge, and Mitchell (1998) argue that the market for firms may be more efficient than the market for some resources, thus making acquisitions the popular entry mode for gaining and reconfiguring new resources and capabilities. Empirical studies have confirmed that CBM&A is a preferred entry mode choice for firms with less distinct R&D capabilities or competitive advantages (Hennart and Park, 1992; Deng, 2004; Boateng et al. 2008). It is also argued that CBM&A enable faster adaptation to the local environment of the host country (Slangen and Hennart, 2008). Unlike greenfield investments, acquisitions do not involved building businesses from scratch in the host country, are going concerns with an established network, have local market knowledge, locally accepted products and brands (Caves, 1996; Slangen and Hennart, 2008). Therefore, entering the host country via CBM&A can help emerging market firms to overcome transaction cost barriers and improve

their market position in the local market (Demirbag, Tatoglu and Glaister, 2008; Georgopoulos and Preusse, 2009). Moreover, acquisitions are less likely to suffer from a liability of foreignness (Zaheer, 1995). As latecomers in the international market, Chinese firms use CBM&A to overcome costs and risks associated with a liability of newness (Deng, 2009).

2.2 Firm-specific and External Determinants of Entry Mode Choice

Prior research efforts have examined international entry mode choice from a number of theoretical approaches including transaction cost theory (Erramilli and Rao, 1993; Anderson and Gatignon, 1986; Brouthers, 2002); resource based view (Ekeledo and Sivakumar, 2004; Nadolska and Barkema, 2007; Liu and Zou, 2008); eclectic paradigm (Dunning, 1988); strategic intent perspective (Rui and Yip, 2008), communication-based theory (Slangen, 2011); real options theory (Cuypers and Martin, 2010; Slangen, 2013), political economy view (Boddewyn, 1988) and institution-based view of international business strategy (Peng, 2002; Peng and Khoury, 2009; Arslan and Larimo, 2011; Slangen & Dikova 2014). Transaction cost theory posits that firms base their entry mode decisions on the extent to which total transaction and production costs are minimized (Anderson and Gatignon, 1986; Brouthers, 2002). Ownership preference is one major way of protecting a firm's ownership advantages and minimizing the overall costs (Tsang, 2005). In similar vein, eclectic paradigm points out that a firm with ownership advantage such as cutting edge technology, R&D, product innovation capability would prefer to internalize

activities hence the preference for high entry mode strategy (Klein, Frazier and Roth, 1990). The overall thrust of the above theoretical perspectives is that internal factors such as ownership advantages, especially the possession of superior resources are critical for building competitive advantage and drive the choice of foreign entry mode.

While internal factors associated with firms' assets and competencies are central to their competitive advantages and overseas expansion decisions, Hennart (2009) and Dunning (2009) suggest that external factors such as country-specific factors and cultural differences between home and host countries have explanatory power for overseas investment expansion decisions. For example, Dunning (2009) recognises market imperfections and explicitly points out that, the propensity of firms to undertake foreign production is influenced by financial and foreign exchange markets. In various modifications and extensions to OLI, Dunning (2009); Kalotay and Sulstarova (2010) have reinforced the importance of country-specific factors including government economic policies in explaining the international production activity within the OLI paradigm. More specifically, Wan and Hoskisson (2003); Meyer and Nguyen (2005) and Luo, Xue and Han (2010) also emphasise that home country economic policies and institutional environment create macroeconomic stability, minimize distortions, support competitiveness and play a crucial role in private sector development and foreign expansion decisions of emerging firms. In their examination of the outward investment by Chinese firms through the lens of strategic intent, Rui and Yip (2008) argue that Chinese firms use CBM&A as a means

to secure strategic capabilities to offset competitive disadvantages by taking advantage of the government "go abroad policies" and the associated institutional incentives. Similarly, recent studies such as Tihanyi, Griffith and Russell (2005); Efrat and Shoham (2013); Molthotra and Sivakumar (2011); Contractor et al. (2014) suggest that cultural differences between the acquirer and target nations matter in a firm's internationalisation and entry choice decisions. Brouthers and Brouthers (2000; p. 91) note that the "cultural context helps to define profits potential and/or the risks associated with a specific market entry". It is argued that being less familiar with the target country leads to higher uncertainty levels, unpredictable outcomes and increase in unforeseen costs hence a preference for the entry which requires a lower resource commitment (Randoy and Dibrell, 2002; Zhao, Luo and Suh, 2004). This suggests that, opting for greenfield would lock an investor into large and irreversible investments. As a result, firms are more likely to choose acquisitions since they require relatively less resource commitment and do not involve building the business from scratch (Contractor et al., 2014). The above argument is in line with uncertainty avoidance tendency of entry mode choice which is well documented in stage models of internationalisation (Johanson and Vahlne, 1977). Risk aversion is, in this perspective, likely to lead to a careful resource commitment in a foreign market (Kogut and Singh, 1988). In the context of emerging economies, Boateng et al. (2008) note that given the firms from China are latecomers in foreign markets, lack strategic resources and have high investment risk, they tend to choose CBM&A as a fastest way of entering into foreign markets to obtain the resources they do not have at home.

Despite decades of research on entry mode in international management research (see Werner, 2002; Slangen and Hennart, 2007), and the recent provocative question by Shaver (2013) on the need for more entry mode studies, Hennart and Slangen (2015) emphasise the importance of exploring the factors influencing entry mode choice in developed and emerging market context. While recent work is beginning to pay some attention to the effects of cultural distance and home country factors on the patterns and trends of CBM&A as entry mode the results appear inconclusive (Tihanyi, Griffith and Russell, 2005; Morschett et al., 2010). This study contributes to this line of research and shed more light on how home country economic policies and institutional environment affect Chinese firms' expansion abroad.

3. Hypotheses Development

According to political economy theory**,** governments, economic policies in the home country and institutions played an important role in shaping international expansion behaviour and the trajectory of multinational enterprises (Boddewyn, 1988). For example, home country economic policies and institutional environment create macroeconomic stability, minimize distortions, support competitiveness and encourage private sector development and expansion. Drawing on both macroeconomic theory and institutional perspectives, we put forward a number of home country factors that may influence emerging market multinational enterprises to engage in CBM&A.

Gross domestic product (Growth)

Gross domestic product (GDP) has been identified as one of the determinants of international expansion of the firms. Prior studies suggest that the size of home country GDP influence the decision to invest abroad (Uddin and Boateng, 2011; Boateng et al., 2011). For example, Neto et al. (2010) argue that multinational firms located in large markets are more inclined to invest in the international market as the largeness of home economy help them to acquire firm-specific advantages. China is the largest emerging economy and has witnessed an increased prosperity over the last two decades. For example, GDP in China which stood at 8,440.23 billion Chinese Yuan in 1998 has grown at an average of 9.49 percent each year to 47,156.37 billion Chinese Yuan in 2011 (National Bureau of Statistics of China, 2012). Consistent to the conclusions drawn by Vasconcellos and Kish (1996) which indicate that, in times of economic prosperity firms tend to undertake international expansion through M&A. Some studies such as Uddin and Boateng (2011) suggest a negative relationship between GDP and CBM&A outflows because higher GDP levels can encourage local firms to acquire domestic companies rather than invest abroad due to liability of foreignness. We argue that this may not be the case in China because Chinese firms, as latecomers in the foreign market, strategically use CBM&A to acquire strategic capabilities abroad which local firms lack at home to offset their competitive weaknesses (Deng, 2009; Rui and Yip, 2008 for review of latecomer theory). We therefore expect that Chinese acquiring firms will engage in international

expansion due to the growth in GDP. In the light of the argument above, it is hypothesized that:

Hypothesis 1: The growth of GDP is positively related to the outflows of Chinese CBM&A.

Interest Rate (IntRate)

Interest rate is another macroeconomic factor which may influence CBM&A transactions (Tolentino, 2010). It is argued that a lower interest rate in a home country can reduce the cost of financing and increase cash financed acquisition activities (Yagil, 1996). Tolentino (2010); Forssbaeck and Oxelheim (2008); Uddin and Boateng (2011) concur and point out that lower interest rate results in capital abundance in home country which stimulates outward investments across different countries to help local firms diversify, reduce risks and increase the level of profitability. In the context of China, there have been periods of low interest rate ranging from 1.98% to 3.6%. Similarly, there have also been periods where interest rates rocketed to 12.21%. However, the interest rate has been, on the average, around 5.5% over the period of 1998 to 2011 and therefore we expect the low interest rate to have a positive impact on Chinese CBM&A. In light of above discussion, we hypothesise that:

Hypothesis 2: Lower interest rates in China will lead to an increase CBM&A outflows.

Stock Price (SPrice)

Researchers such as Benzing (1991) argue that high share price implies a booming economy and thus leads to more stock-financed CBM&A transactions. One dominant explanation is based on overvaluation hypothesis (see Shleifer and Vishny, 2003; Baker et al., 2009). Shleifer and Vishny (2003) suggest that in the booming stock market, stock prices of some firms are likely to be overvalued. In order to protect shareholder from subsequent share price decrease, managers may use firms' over-valued shares to conduct CBM&A to acquire real assets. Baker et al. (2009) examined the share prices in the context of FDI and render support to this relationship, claiming that overvalued share in the home country may motivate firms to conduct outward FDI. Kish and Vasconcellos (1993) find that high share prices in Japan and lower share prices in the U.S. stimulate Japanese firms to acquire U.S. firms. The above argument leads to the following hypothesis:

Hypothesis 3: Stock price and Chinese CBM&A outflows will be positively related.

Inflation (CPIndex)

Gugler et al. (2012) argue that when firm's return on its capital exceeds cost of capital then Q is greater than one and this leads the firms to acquire more assets either in the form of capital investments or acquisitions of other firms. Inflation in the economy affects both the return on investments and also the cost of capital thereby affecting the acquisition decision of a firm. For example, McKinnon (1973) pointed out that at higher rates of inflation, money becomes more costly to hold and the net return from investment is lower. On the other hand, Fisher equation of nominal

interest rate shows that nominal interest rate which is a measure of cost of capital is always higher than real interest rate in the presence of inflation. The presence of high inflation in the home country discourages domestic acquisitions by negatively affecting the firm's Q thereby reducing return on investments and increasing cost of capital. The alternative available to a firm is to invest abroad where the inflation is lower. Lower inflation in the host country relative to home country will help boost the Q ratio and increase the volume of acquisitions activity. Sayek (2009) also found that changes in inflation rates of the domestic or foreign country tend to alter the net returns and optimal investment decisions of the MNEs. In the presence of inflation, multinational enterprises minimise the negative effects of inflation by changing location of production based on the extent of inflation between home and host country. Although the role of inflation in explaining aggregate CBM&A flow is important, there are few studies in the Chinese context. According to China Country Intelligence Report (2012), China's inflation peaked in 2008 and 2011 around 5.9% and 5.4% respectively. However, in 1998, 1999 and 2002, China recorded a negative inflation ranging from 0.7% to 1.4% suggesting that there have been periods of relatively low and high inflation in China and it will be interesting to see the impact of inflation on outward M&A. In the light of the above, it is hypothesised that:

Hypothesis 4: Inflation rate has a positive impact on the Chinese CBM&A outflows

Liquidity (Money supply)

CBM&A may be motivated by the liquidity position of the economy (Harford, 2005). According to Harford (2005), the liquidity of the economy is positively associated with the aggregate level of M&A transactions. Shleifer and Vishny (1992) pointed out that an increased money supply in the home economy leads to more liquidity which affects the disposable income and the cost of finance. From the theoretical standpoint, an increasing level of liquidity in the home economy leads to lower cost of finance and therefore encourages M&A formation. Consistent with the earlier studies by Shleifer and Vishny (1992) and Uddin and Boateng (2011), the overall liquidity of the economy is used as a proxy for money supply in this paper. Based on the above discussion, it is hypothesised that:

Hypothesis 5: Liquidity (money supply) is positively associated with the Chinese CBM&A outflows.

Culture Distance (CDist)

Conceptual and empirical studies in marketing and international business that examine cultural effects at the country level have yielded many important and interesting insights (Griffith and Yaprak, 2008; Steenkamp, 2001; Slangen & Hennart, 2008; Ahammad, Tarba, Liu and Glaister, 2014). On one hand, David and Singh (1994: p. 251) point out that cultural differences represent a source of "acquisition cultural risk" and a potential obstacle to achieving integration benefits. In similar vein, Chakrabarti et al. (2009); Kogut and Singh (1988) argue that multinational firms entering foreign markets with dissimilar cultures face diverse social routines and

implicit assumptions which are unfamiliar and challenging may necessitate adjustment and adaptation. Thus, Contractor et al. (2014); Datta and Puia (1995) indicate that the greater the culture distance, the higher the perceived uncertainties, costs and risks involved in a firm's internationalisation.

On the other hand, some researchers challenge the view that cultural differences are indicative of cultural clashes and argue that some cultural differences can, in fact, be attractive to acquirers (e.g. Erramilli, 1991; Very et al., 1997). For example, Very et al. (1997) suggest that British acquired firms perceived domestic buyers as particularly incompatible and French acquired firms viewed domestic buyers as less compatible than U.S. buyers. It is thus argued that more culturally distant acquisitions are more attractive because of the cultural differences increase potential synergies between the acquiring and target firms (Morosini et al., 1998; Chakrabarti et al., 2009). Morosini et al. (1998) assert that through acquisitions across borders, organizations may tap into valuable resources which are unavailable in the home markets, and so emphasize the value of a culturally diverse market location. Studies such as Morosini et al. (1998) and Anand et al. (2005) found empirical support for the notion that cultural differences result in opportunities to gain competitive advantage, fresh knowledge, innovative thinking and valuable resources which may outweigh the costs of implementing CBM&A. Morosini et al. (1998); Papadakis (2005) and Shimizu et al. (2004) argued that the greater the cultural differences, the higher the probability that a firm may learn and/or gain value from the acquired strategic assets. Given that Chinese firms are latecomers and are motivated

to go abroad to acquire strategic assets which involve huge capital investments, the use of acquisitions may reduce risks and costs, enhance network opportunities in foreign locations and improve acquirers' confidence to expand abroad (Lin et al., 2009). In the light of the above arguments, we put forward the following hypothesis:

Hypothesis 6: Culture distance exerts a positive impact on Chinese CBM&A outflows.

Strategic-asset seeking (AssetS)

Gubbi et al. (2010) suggest that CBM&A conducted by emerging market enterprises are motivated by the differences in the quality of resources and institutional development in the host country markets. Chen and Young (2010) suggest that Chinese firms tend to pursue strategic resources which china lacks or to gain national pride when they invest abroad. As part of its economic reforms, Chinese government has embarked on the 'go abroad' policy since 1999 to facilitate the acquisition of strategic resources in the international market to augment the competitive advantage of Chinese firms. Using strategic intent perspectives, Rui and Yip (2008) support the contention that Chinese foreign acquisitions are a means to acquire strategic capabilities to offset competitive disadvantages. For example, Chinese government has designated areas like research and development (R&D), technology and scare natural resources as priorities where it provides financial support and other incentives to firms investing in these priority areas. Assuming that managers are organisationally rational and implement strategies that they think will

lead to higher performance (Simon, 1976), we expect that the so-called "helping hand" approach of Chinese government to lead to more CBM&A by Chinese firms: Therefore, we hypothesise that:

Hypothesis 7: The strategic resource seeking by Chinese firms is positively associated with CBM&A outflows by Chinese firms

Home-host Country Foreign-trade Linkage (TraLink)

A number of studies, including Johanson and Vahlne (1977); Buckley et al. (2012) note that the process of firms' internationalization generally starts with export and after that firms tend to conduct further outward investment by directly servicing the market. It is argued that a high frequency of business dealings from trade may facilitate CBM&A activities. High frequency of business dealings between the host country and home country helps the acquiring firms to have better understanding of the foreign market (Dunning, 1980) and thus facilitating the acquisition transactions. Moreover, home country foreign trade with host country helps firms to see the attractiveness of host market which may stimulate further investment decision (Buckley et al., 2012) to switch from export to foreign direct investment such as CBM&A. The above arguments lead to the following hypothesis:

Hypothesis 8: Foreign trade linkage between China and host country is positively related with outward CBM&A by Chinese firms.

4. Data and Methodology

4.1 Sources of Data

The data is derived from the records of Chinese Stock Market and Accounting Research Database (CSMAR) and the United Nations Conference for Trade and Development (UNCTAD). The volume and value of Chinese CBM&A are compiled from (CSAMR) and UNCTAD. The macroeconomic data including GDP, interest rate, stock price, inflation, exchange rate, liquidity, foreign trade linkage, and resource seeking data of this study are taken directly from CSMAR. Culture distance data which is measured by Hofstede's Culture Distance Index is collected from Geert-Hofstede website. Geographical distance data is collected from Geographic Information System (GIS). The sample of the study consists of mainland Chinese listed companies that announced and completed CBM&A during the period 1998-2011. CSMAR provides a reliable and comprehensive source of Chinese CBM&A information and has been used in a number of research works such as Du and Boateng (2015).

4.2 Methodology

In order to estimate the effects of independent variables on the dependent variable, we used three regression models, namely, ordinary least squares (OLS), the random effects and fixed effects to provide a meaningful comparison and improve the robustness of the results. Our model therefore is:

$$CBMA_{it} = \beta_1 + \beta_2 Growth_{2it} + \beta_3 IntRate_{3it} + \beta_4 S\,\mathrm{Pr}ice_{4it} + \beta_5 CPIndex_{5it} + \beta_6 M2_{6it} + \beta_7 CDist_{7it} + \beta_8 AssetS_{8it} + \beta_9 TraLink_{9it} + \varepsilon_{it} \quad (1)$$

where β_1 is the intercept and ε_{it} is the error terms associated with the model.

We adopt panel data and GMM for this research. Hsiao (1985) notes that to use panel data estimation, the data should have at least two dimensions, that is, a cross-sectional dimension and time series dimension. The variables in this paper have data characteristics ranging from cross sectional variables like cultural distance and trade openness to time series data such as interest rates and stock prices. By blending the characteristics of both the cross-section and time series variables, panel data improves the efficiency of econometric estimates by reducing omitted-variable problem (Hsiao, 1985; Antoniou et al., 2008). In addition, panel data provides a greater data points and thus additional degrees of freedom and help generate more accurate predictions (Hsiao, 1985). Panel data can also be used for aggregate data and studies such as Deesomsak et al. (2004); Antoniou et al. (2008) employed panel estimates to model aggregate financial time series data which include share prices, interest rates in conjunction with cross-sectional data. The panel data is deemed appropriate for this paper because of its advantages over conventional cross-sectional or time series data estimations (Hsiao, 1985).

4.3 Variables Measurement

The way in which the dependent and independent variables were measured are provided in Table 1

(Insert Table 1 here please)

5. Analysis of Trends and Patterns of Chinese CBM&A

5. 1 Number of CBM&A by Chinese Firms

The number of deals of CBM&A outflows by Chinese firms during the period 1998-2011 is shown in Table 2. The table indicates that the accumulated outward M&As during the period from 2007 to 2011 accounts for over 80.24 percent of the total acquisition which indicates significant increasing number of CBM&A deals after 2007. During this period, 189 deals took place with the highest being recorded in the year 2009. The results in table 2 confirm CBM&A as a preferred mode of market entry by Chinese firms. The results suggest that Chinese firms are motivated by the need to acquire strategic assets in order to compete successfully in the global stage as pointed by Deng (2004). CBM&A provides a quick way to build a foreign presence by gaining access to new knowledge and skills (Boateng et al., 2008; Nadolska and Barkema, 2007). The findings are in line with the conclusion drawn by Zollo and Singh (2004) that CBM&A tend to help companies overcome barriers to entry, access new knowledge of markets and technologies, promote organisational learning, and achieve competitive advantage.

(Insert Table 2 here please)

5. 2 Value of CBM&A by Chinese Firms

Table 3 shows the yearly deal values of CBM&A by Chinese firms. The value of CBM&As in China stood at $319 million in 1998 and remained relatively low level until 2006 when the value reached $12,090 million. The value of the deals increased dramatically from 2007 ($19,794 million) to the highest level of $37,941 million in 2008. It then fell to $21,490 million in 2009 before rising to $36,554 million in 2011. Although, the rising trends in terms of value appears consistent with the volume of CBM&A suggesting that the institutional reforms have played a pivotal role in CBM&A by Chinese firms. However, another plausible explanation may be the financial crisis which occurred in the late 2007 and 2008 which saw a number of acquisitions being made at cheaper prices in most of the developed countries especially U.S. and countries from the European Union. The results therefore support the valuation hypothesis and economic disturbance theory (Gort, 1969) which posit that M&A waves are caused by economic disturbances which change individual expectations and increase the general level of uncertainty. The table shows that the accumulated CBM&A over the period 2006-2011 accounts for the vast majority of the acquisition. Overall the table suggests that China is becoming increasingly important investor in the global market for corporate control.

(Insert Table 3 here please)

5. 3 Destination of CBM&A by Chinese Firms

Panel A of Table 4 reports the Chinese CBM&A outflows into developed and developing countries with about two-thirds of Chinese investments going into developing countries. Panel B of Table 4 exhibits the target regional distribution of CBM&A by Chinese firms. As we can see from the table, Asia Pacific region constitutes the biggest destination of Chinese CBM&A accounting for 66.63 percent suggesting that geographical and cultural proximity may be important factors as entry mode for Chinese outward investments. Western Europe and North America also appear to be important destinations of Chinese CBM&A, accounting for 11.66 and 9.95 percent of total deals respectively. Boateng et al. (2008); Rui and Yip (2008) point out that Chinese firms as latecomers in the global market tend to acquire strategic resources, such as high-end technology, marketing resources and R&D in developed countries and this may explain the importance of North America and Western Europe as leading destinations for Chinese CBM&A. Latin America is another important destination of Chinese CBM&A, accounting for 8.02 percent. This is followed by and Africa and Mid-East accounting for 2.35 percent. The least popular destination is Eastern Europe which accounts for only 1.39 percent of the total CBM&A by Chinese firms suggesting that Eastern European countries are less attractive as major investment destinations for Chinese firms.

(Insert Table 4 here please)

5.4 Regression Results: Factors Influencing Chinese CBM&A

Table 5 reports descriptive statistics. A number of interesting observations are worthy of discussion. The mean of GDP growth rate is 9.75 percent from 1998 to 2011, suggesting a high economic development in China during this period. The mean of culture distance index is 0.4864 suggesting that the cultural distance between China and the rest of the world is increasingly becoming narrow. The mean of strategic asset seeking and home-target country trade linkage are 3.0488 and 7.2732 respectively, demonstrating that the Chinese firms tend to acquire targets in knowledge-based countries and countries with more international business linkage.

(Insert Table 5 here please)

Table 6 reports correlations of the variables. As we can see from the table, most correlations with the exception of the correlation between inflation and interest rate, home-target trade linkage and knowledge based transactions are fairly low. We check the variance inflation factor scores and they appear to be within the cut-off point of 10 as recommended by Neter et al. (1985). Multicollinearity appears not to be a serious problem in this study.

(Insert Table 6 here please)

Comparison of the Models

In order to test the impact of macroeconomic and institutional factors on the outflows of Chinese M&A, we carried out a regression analysis using OLS, random effect and fixed effect models on the Chinese CBM&A outflows. The Hausman specification test is employed to test the fixed effect model and the random effect models. The null hypothesis is: H_0: The X variables are not correlated with the errors (Random Effects). The alternative hypothesis is: H_1: The X variables are correlated with the errors (Fixed Effects). The test is asymptotically x^2 distributed with seven degrees of freedom. The analysis suggests that the random effects model can be rejected in favour of the fixed effects model at a 1% critical level.

The empirical evidence obtained and reported in Table 7 suggests that the coefficients of interest rates, inflation and money supply are significant for all the regression models with the exception of cultural distance variable which appear to be insignificant for fixed effect model. The results show that the three models offer quite similar findings but slightly different levels of significance. The significant exception is the Adjusted R^2 which suggests that random effect has more explanatory power, followed by OLS and fixed effects with 25%, 20% and 15% respectively. We now discuss the results of the three regression models reported in Table 7.

Home Country Macroeconomic Factors & CBM&A Outflows

Both fixed effect and random effect regression models reported in Table 7 indicate that GDP growth exerts a significant influence on the volume of outward

mergers and acquisitions by Chinese firms. The results suggest that the growth in GDP leads to higher CBM&A by the Chinese acquiring firms. The results imply that economic prosperity as reflected in the country's GDP provides an important means for EMEs to expand into international markets to acquire resources lacking at home through CBM&A. Specifically, the period under consideration has seen a high growth of about 10% increase in China's GDP and this may explain the rising trends of CBM&A activities. This finding is consistent with the conclusion drawn by Vasconcellos and Kish (1996) who find that an improvement in the country's GDP has positive effect on investment outflows. Regarding the effects of interest rate, inflation rate and liquidity, all the three analytical methods, namely OLS, random effect and fixed effect models have coefficients that are highly significant. Interest rates and money supply have positive impact on Chinese CBM&A. The finding that the lower level of interest rates leads to an increase in the Chinese CBM&A renders some support to the hypothesis 2. This finding is expected on the grounds that, the interest rates appear to be relatively low over the 1998-2011 period thereby leading to cheaper sources of finance with which to undertake outward CBM&A. Regarding the liquidity, our hypothesis is supported. The finding suggests that rising levels of liquidity in the home economy lead to lower cost of finance thus encouraging CBM&A formation as pointed out by Shleifer and Vishny (1992) and Uddin and Boateng (2011). Inflation appears to have a negative and significant impact on the CBM&A outflows across all the three analytical models at 1% level. This may be explained by the rising levels of inflation in China. Inflation in China has been rising

in recent years thereby exerting a negative influence on CBM&A. Surprisingly, stock index has positive coefficient in the OLS model while negative coefficients in the random and fixed effects models. However, the effects of stock price on Chinese CBM&A are not statistically significant. The results suggest that home country macroeconomic factors drive CBM&A decisions by the Chinese firms and provide support for the institutional and location theories.

(Insert Table 7 here please)

Cultural Factors and M&A Outflows

We document a significant and positive impact of culture distance on CBM&A in respect of two regression models, namely, OLS and random effect on Chinese CBM&A outflows. Hypothesis 6 is supported suggesting that higher cultural distance between the host and target countries tend to encourage CBM&A outflows from China. This finding is consistent with the view of Very et al. (1996); Morosini et al. (1998); Anand, Capron and Mitchell (2005) and Chakrabarti et al., 2009). The findings indicate that cultural distance provides opportunities for Chinese firms to learn and tap into valuable resources in culturally diverse target organisations thereby enhancing their competitive advantage (Morosini et al., 1998) and capabilities (Papadakis, 2005). The results also support the notion that cultural differences may lead to cultural attraction (Very et al., 1996) and increase in CBM&A outflows in culturally distant countries.

We also find moderate support for the relationship between resource seeking and CBM&A outflows. All the three models appear positive with fixed effect model being significant at 10% level. This finding is interesting because Chinese government through its "go abroad" policy provides financial support and other incentives to firms making acquisitions abroad in the government priority sectors. The finding therefore supports the notion that managers are organisationally rational and would implement strategies such as acquisitions to obtain competitive advantage (Simon, 1976). Regarding the trade link between home and host countries, the finding suggests that trade between home and host countries appears not to exert a significant influence and hence our hypothesis is not supported. The finding is at variance with the conclusion drawn by Buckley et al. (2012) indicating that existing trade linkage stimulates investment outflows. Table 8 provides a summary of the results of our study in comparisons with the past studies on CBM&A which are mainly based on developed countries. The table suggest that home country and institutional factors including interest rates, stock prices, cultural distance and strategic asset seeking have positive effects on CBM&A outflows similar to prior studies in developed countries confirming the importance of home country economic policies and institutions in firm's foreign expansion decisions. However, the results in respect of GDP, inflation, liquidity and home-host country trade linkage produced inconclusive findings.

(Insert Table 8 here please)

Robustness Check: System GMM

We conducted a further analysis using the dynamic model to check the robustness of our conclusions. Table 9 provides the results for the dynamic model using system GMM. In the dynamic model, we include all factors in the regression model. It is important to note that the GMM results after controlling for endogeneity are generally similar to the results in Table 4.

(Insert Table 9 here please)

6. Conclusion

This paper examines the trends, patterns and the impact of cultural and home country macroeconomic policies on CBM&A as an entry mode using three analytical regression models, namely, OLS, random and fixed effects. Our results indicate that Chinese firms use CBM&A as an entry mode to acquire, build a foreign presence and gain access to new knowledge and skills in culturally diverse locations. We also find that home country macroeconomic policies play an important role in explaining the CBM&A outflows by the Chinese firms rendering support to hypotheses 1, 2, 5, 6 and 7. On the influence of national culture, our results suggest cultural distance has a positive bearing on Chinese CBM&A formation – a view consistent with the conclusions drawn by Very et al. (1996), Morosini et al. (1998), Anand et al. (2005) and Chakrabarti et al., 2009). Our regression results suggest that strategic asset

seeking exerts significant influence on CBM&A outflows and the results appear consistent with the Chinese government's "go abroad" policy which encourages Chinese firms to seek strategic resources abroad.

Theoretical Implications

In contrast to prior studies which have focused on host country macroeconomic variables, the current study provides evidence of the effects of the home country macroeconomic, strategic asset seeking and cultural variables on EME international expansion decisions. The results suggest that government support to EMEs to acquire strategic assets and economic policies in the home country play an important role in shaping international expansion behaviour of EMEs through CBM&A. More importantly, the study demonstrates that outward investments of EMEs are partly a function of the level of economic policies and government support at home. This finding also implies that emerging country government policy can leverage support to EMEs in their process of global expansion and competition thereby supporting the political economy view of FDI which suggests that government and home country policy environment matter for a firm's investment strategies. Regarding the effects of culture, this article enriches the institutional perspective and indicates that cultural distance impacts on Chinese international market expansion in the global market.

Managerial and Policy Implications

The policy implication is that home country macroeconomic policies and institutions do not only influence CBM&A outflows but also shape international expansion and market entry strategies of Chinese firms. The results imply that economic policies at home spur the process of internationalisation and growth of EMEs thereby helping policy makers to determine the effectiveness of their economic policies. The results also imply that Chinese government support for firms going abroad to seek resources that China lacks in order to bolster the nation's competitive advantage is in the right direction and lead to an increase in CBM&A outflows. We suggest senior managers charged with the responsibility of making international expansion decisions in an attempt to secure strategic and other marketing resources such as new brands, product development and extension to gain competitive advantage should pay attention to cultural and home country macroeconomic policies.

Although this study focuses on China, the findings have implications for other emerging economies given the significant and similar macroeconomic policies have taken place in most emerging market countries, particularly, BRIC countries. While this study contributes to the growing stream of research on EMEs by testing whether macroeconomic and cultural factors drive international expansion of emerging market enterprises, its limitation should be noticed. The limitation is that most of the Chinese CBM&A transactions in this study took place in Asia/Pacific countries. More studies appear warranted. Further studies should examine whether a cross-section of emerging countries with high growth rates as latecomers in the global market for

corporate control would generate similar results consistent to what we found in our examination of Chinese firms.

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Table 1: Definition of variables and descriptive statistics

	Definition	Data Source
Dependent Variable		
CBM&A	Natural logarithm of volume of Chinese cross-border M&As by target country by year from 1998 to 2011	CSMAR /UNCTAD
Macroeconomic Variables		
Growth	GDP growth of China as measured by the natural logarithm of the annual Gross Domestic Products growth. Data were collected from National Bureau of Statistics of China and CSMAR database.	CSMAR
IntRate	Interest Rate as measured by the natural logarithm of the annual nominal lending rate of China.	CSMAR
SPrice	Stock Return as measured by the natural logarithm of yearly closing minus yearly opening Shanghai (securities) composite index.	CSMAR
CPIndex	Inflation as measured by the natural logarithm of annual CPI.	CSMAR
M2 (Liquidity)	Money supply of China as measured by the natural logarithm of annual M2.	CSMAR
Institutional Factors		
CDist	We use a cultural distance index based on Hofstede's culture dimensions, namely, power distance, individuality, masculinity, uncertainty avoidance and long-term orientation (long-term orientation is excluded from the calculation for lack of data). For each target country in our sample, we divide the value for the selected cultural index category for that year by the corresponding value for China and taking the mean across the four ratios thus obtained as the final value. Values >1 signify greater distance and those <1 reflect cultural proximity (Gubbi et al., 2010).	Greert-Hofstede Index (GIS)
AssetS	Endowment of knowledge-based resources of host country as measured by the natural logarithm of yearly patent registration by residents in host country (Buckley et al., 2007)	World Dev. Indicators
TraLink	Trade linkage as measured by the natural logarithm of annual imports and exports between home country and host country	CSMAR/ World Dev. Indicators

Notes: Chinese Stock Market & Accounting Research Database (CSMAR)

Table 2: Number of Cross-border M&As by Chinese firms 1998-2011

Year	Number	Percentage
1998	24	2.42
1999	23	2.32
2000	24	2.42
2001	19	1.92
2002	34	3.43
2003	31	3.13
2004	44	4.44
2005	45	4.54
2006	42	4.23
2007	113	11.39
2008	168	16.94
2009	189	19.05
2010	183	18.45
2011	143	14.42
Total	100	100%

Sources: Authors' calculation based on CSMAR Database, UNCTAD (2012)

Table 3: Value of Cross-border M&As by Chinese firms 1998-2011

Year	Value of deals (Million US Dollars)	Percentage
1998	319	0.19
1999	202	0.12
2000	361	0.22
2001	1194	0.72
2002	1194	0.72
2003	1590	0.95
2004	917	0.55
2005	3653	2.19
2006	12090	7.24
2007	19794	11.86
2008	37941	22.74
2009	21490	12.88
2010	29578	17.72
2011	36554	21.90
Total	166877	**100%**

Sources: Authors' calculation based on CSMAR Database, UNCTAD (2013)

Table 4: Regional Distribution of CBM&As by Chinese firms 1998-2011

Region	Number of deals	Percentage
Panel A		
Developed Economies	312	33.37
Developing Economies	623	66.63
Total	**935**	**100%**
Panel B		
Africa/Mid.East	22	2.35
Asia/Pacific	623	66.63
Western Europe	109	11.66
North America	93	9.95
Eastern Europe	13	1.39
Latin America	75	8.02
Total	**935**	**100%**

Sources: Authors' calculation based on CSMAR Database

Table 5: Summary Statistics (1998-2011)

Variable	Obs	Mean	Std. Dev.	Min	Max
Growth	154	0.097	0.011	0.076	0.119
IntRate	154	0.432	0.106	0.296	0.717
SPrice	154	0.135	0.605	-0.654	1.298
CPIndex	154	2.756	2.521	-1.400	5.900
M2	154	5.616	0.257	5.019	5.930
CDist	154	0.486	0.149	0.211	0.750
AssetS	154	3.048	1.370	0.301	5.295
Tradelink	154	7.273	1.148	3.588	8.649

Notes: The table contains the characteristics of the macroeconomics variables and institutional factors of the samples used in the study. See Table 1 for the full definition of variables.

Table 6: Pearson's Correlation Matrices

	1	2	3	4	5	6	7	8
1. Growth	1							
2. IntRate	0.446***	1						
3. SPrice	-0.002	-0.211***	1					
4. CPIndex	-0.221***	0.608***	-0.461***	1				
5. M2	-0.377***	0.093	-0.107	0.524***	1			
6. CDist	0.121*	0.003	-0.051	-0.069	-0.161*	1		
7. AssetS	-0.001	-0.080	0.032***	-0.090	-0.108	0.009	1	
8. Tradelink	-0.075	0.005	0.013	0.110	0.193*	-0.211	0.651***	1

Notes: This table contains Pearson's parametric correlation coefficients. ***, ** and * denote correlation is significant at the 1%, 5% and 10% level, respectively. See Table 1 for the full definition of variables.

Table 7: Regression Results

Independent Variable Model	OLS CBM&A (I)	Random Effect CBM&A (II)	Fixed Effect CBM&A (III)
Growth	-	7.178***	8.162***
		(3.57)	(4.08)
IntRate	13.700***	14.680***	16.480***
	(3.36)	(4.25)	(4.72)
SPrice	0.048	-0.007	-0.290
	(0.13)	(-0.02)	(-0.77)
CPIndex	-0.616***	-0.654***	-0.793***
	(-3.62)	(-4.06)	(-4.69)
M2	4.642***	5.135***	6.752***
	(4.88)	(5.63)	(4.19)
CDist	4.813**	4.560*	-
	(3.28)	(2.47)	
AssetS	0.211	0.126	0.767*
	(1.02)	(0.54)	(2.00)
TraLink	0.129	0.223	0.812
	(0.48)	(0.72)	(0.51)
Constant	-13.490*	-17.520**	-25.510***
	(-2.02)	(-2.51)	(-3.88)
Adj R^2	0.20	0.25	0.15
Hausman Test			430.20***
N	154	154	154

The standard errors robust to heteroscedasticity, clustered, are reported in the parentheses. Hausman test compares fixed effects and random effects estimations; the significant *p*-value rejects the null hypothesis that the unobserved entity heterogeneity is uncorrelated with the regressors, hence favoring fixed effect results. (*), (**) and (***) indicates that the coefficients are significant at the 10, 5 and 1 percent level, respectively.

Table 8: Comparison: Our Findings versus Past Studies on CBM&A

Home Country Factors	Findings of the present study	Findings of past studies		
		Positive	Negative	Insignificant
Growth of GDP	Positive relationship between GDP & CBM&A by the Chinese acquiring firms.	Vasconcellos & Kish (1996) (US and Canada).	Uddin and Boateng (2011) UK	
Interest Rate	Positive relationship between interest rates and CBM&A.	Uddin and Boateng (2011) (UK)		
Stock Price	Relationship between stock price & CBM&A insignificant.	Kish and Vasconcellos (1993) (Japanese firms). Shleifer and Vishny (2003) Uddin and Boateng (2011) (UK)		
Inflation	Negative relationship between Inflation and CBM&A.			Uddin and Boateng (2011) (UK)
Liquidity (M2)	Positive relationship between liquidity and CBM&A	Shleifer and Vishny (1992).		Uddin and Boateng (2011) (UK)
Culture distance	Positive relationship between higher cultural distance & CBM&A outflows.	Very et al. (1996) Morosini et al. (1998) Chakrabarti et al. (2009)		
Strategic-asset seeking	Positive relationship between strategic resource seeking and CBM&A outflows	Chen and Young (2010) Rui and Yip (2008)		
Home-host Country Foreign-trade Linkage	Insignificant relationship between trade link and CBM&A outflows	Buckley et al. (2012)		

Table 9: System Generalized Method of Moments (GMM) Results

Independent Variable	CBM&A
Growth	2.136
	(0.04)
IntRate	12.981**
	(2.53)
SPrice	-1.400
	(-1.28)
CPIndex	-1.149***
	(-3.36)
M2	-10.213
	(-1.42)
CDist	6.785**
	(2.15)
AssetS	0.437
	(1.03)
TraLink	-0.001
	(-0.00)
CBM&A (t-1)	0.237
	(1.24)
Constant	0.383
	(0.03)
Wald test	1474.14
AR(1) test (p-value)	2.10 (0.036)
AR(2) test (p-value)	1.24 (0.214)
Hansen J (p-value)	6.14 (0.90)
Diff-in-Hansen tests (p-value)	2.69 (0.61)

Notes: CBM&A is dependent variable. The standard errors robust to heteroscedasticity are reported in the parentheses. Wald statistic tests the joint significance of estimated coefficients; asymptotically distributed as χ^2(df) under the null of no relationship. AR(1) and AR(2) are the first and second order autocorrelation of residuals, respectively; which are asymptotically distributed as N(0,1) under the null of no serial correlation. Hansen J is the test of over identifying restrictions, asymptotically distributed as χ^2(df) under the null of instruments' validity. We tested for the endogeneity of share price using the 'Difference-in-Hansen" statistic, for which the null hypothesis states that lagged differenced instruments used for the equations in levels are exogenous. ***, **, and* denote significance at the 1%, 5%, and 10% levels, respectively. See Table 1 for the full definition of variables.

Volume of

Appendix A: List of Target Countries

United Arab Emirates, Australia, Belgium, Barbados, Bahrain, Canada, Cayman Islands, Cyprus, Czech Republic, Germany, Denmark, Finland, France, Great Britain, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Macao, Mauritius, Malaysia, Netherlands, New Zealand, Panama, Philippines, Poland, Portugal, Russia, Saudi Arabia, Singapore, Sweden, Thailand, United States, British Virgin Islands, Vietnam, Samoa, South Africa.