

**THE LOCATION CHOICE OF CROSS-BORDER
MERGERS & ACQUISITIONS: THE CASE OF CHINESE FIRMS**

Guohua Jiang¹, Feng Zhang² and Pooja Thakur³

- 1. Management Department
Hebei University of Economics and Business
Hebei, China
Jiatony@gmail.com**

- 2. Department of Management and Global Business
Rutgers Business School,
The State University of New Jersey, Rutgers
NJ, USA
fengz@pegasus.rutgers.edu**

- 3. Department of Management and Global Business
Rutgers Business School,
The State University of New Jersey, Rutgers
NJ, USA
thakur@pegasus.rutgers.edu**

Paper accepted by European International Business Academy Conference 2007

Track 6: Corporate R&D and Knowledge Transfer

Abstract

This paper examines the location decision on cross-border mergers and acquisitions (M&As) of developing-country multinational corporations (MNCs). By looking at motivations that may influence Chinese firms to merge/acquire a developing-country firm or a developed-country firm, we find that strategic asset-seeking, in particular technology-seeking, is the major reason for Chinese firms that seek to expand internationally to merge or acquire firms from developed countries. A further examination suggests that technology-seeking M&As might be motivated not only by an objective to learn from developed country firms but also by a desire to prevent the competing firms from getting ahead in the technology race, especially competing firms from other developing countries. This study also has some important implications on the catch-up of developing-country firms, and bridges the literatures of M&As and those of foreign direct investment (FDI).

Key Words: *Location Choice, Technology-Seeking, Learning, Cross-Border M&As, Developing Country*

The Location Choice of Cross-Border Mergers & Acquisitions:

The Case of Chinese Firms

1. Introduction

The last few decades of the twentieth century witnessed a wave in strategic alliances and cross-border mergers and acquisitions (M&As). Unlike the earlier waves, for instance the ones during the inter-war period which were motivated by market seeking activities and cartelization, the current increase in inter-firm alliances and restructuring of the firms through mergers and acquisitions can be attributed to the increase in strategic asset seeking activities by the multinational firms. As suggested by Hagedoorn (1993), the goals of most strategic alliances have been to gain access to new and complementary technologies, to speed up innovatory or learning processes and to upgrade the efficiency of particular activities, e.g. research and development (R&D), marketing and distribution, manufacturing methods, etc. The reasons for the growth of such alliances are essentially technological advances and the globalization of the market economy (Dunning, 1995).

While M&As form one of the most popular strategies for company growth and diversification, cross-border M&As accounted for a quarter of mergers in 1998, and more are expected as firms go global (Economist, 1999; Mattsson, 2000; Havila and Salmi, 2002). However, many studies have investigated cross-border M&As from the perspective of multinational corporations (MNCs) in developed countries, for instance, comparing the strategic or organizational arrangements of acquiring and target firms (Chatterjee, 1992; Datta, 1991), knowledge transfer between acquiring and target firms (Contractor and Ra, 2002), the processes of M&As (Hunt, 1990), the network context of acquisitions (Forsgren, 1989, Havila and Salmi, 2002), and so on. The cross-border

M&As research in developing countries has been given little attentions. Even if developing-country firms were included, researches mainly treated them as passive partners (Li and Shenkar, 1996, 1997).

According to UN World Investment Report (2006), the developing countries share of cross border M&A rose from 5% to 17% during 1987-2005 in terms of the number of deals completed; China ranked first in Asia countries with the most number of growing transnational firms. One of the famous cases would be the acquisition of IBM's PC group by Chinese firm Lenovo in 2005, and this deal attracted the attention around the world. In other words, developing-country firms have started to assume more active role in cross-border M&As. However, as we argued above, the prior literature has given scant attention to developing-country firms. This study fills this gap by seeking to answer the question – how strategic motives impact the location decision of developing-country firm's cross-border M&As. We examine 166 cross-border M&A deals carried out by Chinese firms from 2004 to 2006, and find that strategic asset-seeking, in particular technology-seeking, is the major motivation of Chinese firms to invest in a developed country, whereas most M&As of other developing-country firms are attributed to the resource-seeking activities. A further examination suggests that technology-seeking M&As might be motivated not only by an objective to learn from developed country firms but also by a desire to prevent the competing firms from getting ahead in the technology race. Moreover, the propensity of Chinese firms to merge/acquire a developed-country firm is insensitive to industries, which suggests a general catch-up of Chinese firms. This study contributes to our understanding of the strategic considerations of developing country firms during their internationalization process, and has some

important implications on the catch-up of developing-country firms. Finally, it bridges the literatures of M&As and those of foreign direct investment (FDI).

The rest of the paper is organized as follows. The next section reviews the literature relating to strategic motives of cross-border M&As, and develops the hypotheses of the study. The third section sets out the research methods of the study. The results and findings are in the fourth section. A summary and discussions are provided in the last section.

2. Literature Review and Hypotheses Development

2.1 Literature Review

The literature on the locational preferences of foreign direct investments (FDI) has long acknowledged that these will not depend on the types of activities in which they are engaged, but on the motives for the investment and whether it is a new or a sequential one, i.e. different kinds of investment incentives are needed to attract inbound MNC activity of a natural-resource-seeking, c.f. that of a market-, efficiency-, or strategic asset-seeking, kind (Dunning, 1998).

Early explanations of M&As include Hymer (1976)'s market share motive and resource-based market entry motive. In the former case, firms seek to form a dominant presence in well established product market by acquiring other firms through horizontal mergers or by forming strategic market sharing alliances (similar to the inter-war cartel arrangements); or firms may simply use M&As as a means of growing in size. The latter - market entry motive - was especially important in the 1970s and 1980s when many of the developing countries were opening up their markets. In this case, the main strategic

motives for firms include faster entry into the host market (Beamish, 1993), conforming to the host government policy (Teagarden and Glinow, 1991), and so on.

The potential low cost sourcing (Child et al., 1990) is also an important motivation for international expansions. A relevant incentive encouraging cross-border M&As is the static economies of scale that arise from pooling of economic activities such as raw material supply, manufacturing, and marketing (Inkpen, 2001). However, a newly emerged motive is recognized recently - learning motive, for which alliances and M&As provide a platform by giving firms access to knowledge of their partners, and the learning can take place through mutual interdependence, problem solving, observation of alliance activities and outcomes (Inkpen, 2001). The learning motive for alliances and M&A has become increasingly important from the mid 1990s due to the technological interrelatedness and globalization, which Dunning (1995) referred as *Alliance Capitalism*.

Moreover, transaction costs literatures explain the motives of inter-firm relationships by showing that the transaction costs involved in arms length transactions are high, and therefore firms would gain by internalizing their transactions (Buckley and Casson, 1976). Other theories that explain M&As include efficiency theory, i.e. financial motives of the merging firms through financial synergies, operational synergies, and etc; valuation theory, empire-building theory or agent theory, and so on (Trautwein, 1990).

Due to the increasing globalization of economic activities, firms are forced to become more dynamically competitive. On one hand, developing-country firms are facing more fierce competition in their home country and must join international competition at an earlier stage of development (Lall, 2002). On the other hand,

globalization also provides opportunities for developing countries (Doz, 1987; Dunning, 1995; and Athreye and Cantwell, 2007). Athreye and Cantwell (2007) have argued that in the context of globalization and the fragmentation of value-added chain developing countries could grow their own expertise by specializing in a few technological fields to accelerate, rather than deter, the catch-up. It has been argued that technology transfer, learning managerial skills and access to international markets constitute a major set of strategic motivations for developing-country firms to engage in international alliances and cross-border M&As (Beamish, 1987; Datta, 1988). The following sections of this paper are dedicated to empirically test the effects of different motivations on the location decision of cross-border M&As carried out by developing-country firms.

2.2 Hypotheses Development

In developing hypotheses, we focus on four key motivations for cross-border M&As carried out by developing-country firms: market, efficiency, resources, and strategic assets (Dunning, 1993).

Early literatures of FDIs between developed countries suggested that firms go abroad either to secure their market position or to take the preemptive opportunities, especially in those strategic important markets, like the US. As Dunning (1993) argued, market factors include not only market size and growth potential but also include the ability to maintain market share and the promotion of trade. Along with the economic opening of many developing countries in 1980s, a huge market opportunity was presented in front of developed-country firms. However, most developing-country governments still more or less impose barriers on inward foreign investments to promote the capability building of their domestic firms. In this context, faster entry into the host

market (Beamish, 1993) and conforming to the host government policy (Teagarden and Glinow, 1991) become the major motives for developed-country firms to form alliances or to carry out M&As with developing-country firms. Since the restrictions on inward investments are largely hold for both developed-country investors and developing-country investors, we argue that cross-border M&As between developing-country firms are also driven by the market-seeking considerations. Of course, the less severe market competition in most of the developing countries would be another possible reason for developing-country firms to go to another developing country, rather than a developed country, for market-seeking purposes. The case of Lenovo has showed that developing-country firms might try to enter the market of a developed country through M&As too. However, such M&As are normally more strategic asset-seeking than market-seeking in nature even though they involve market entry considerations. More importantly, such deals are still quite rare among developing country acquirers.

Hypothesis 1: Other things equal, developing country investors are more likely to carry out a cross-border M&A in developing countries than in developed countries for market-seeking purposes.

Dunning (1993) pointed out that factors influencing the costs of production, such as labor, energy, and supporting industry, are important attributes affecting the location decision of MNC's investments, which Behrman (1984) and Dunning (1993) defined as efficiency-seeking investments. Developing countries obviously have the advantages of low costs. Manea and Pearce (2006) showed that efficiency-seeking is the second major imperative for foreign MNCs to invest in Central and Eastern Europe, while market-seeking ranks the first. However, the fast economic development of some developing

countries, such as China, India, and Brazil, makes these countries less competitive in terms of costs compared to other developing countries. In this context, we argue that some developing firms might go to other developing countries to seek lower cost factors through cross-border M&As.

Hypothesis 2: Other things equal, developing country investors are more likely to carry out a cross-border M&A in developing countries than in developed countries for efficiency-seeking purposes.

The natural and created resource endowment has been historical important in location decision of MNCs. For instance, early investments in the US from European countries are largely resource seeking kind (e.g. the British plantations in the US). However, most resource seeking activities have been moved to developing countries that possess rich natural resources in the last century. China has rich natural resource endowment, but the per capita consumption is relatively low due to the huge population while the demand is rather high due to the fast economic growth. Therefore, we hypothesize that Chinese firms might go to natural resources rich countries for resource-seeking purposes. While developed countries generally have strict control and regulations on natural resource exploitation, especially for foreign-owned firms, the possible and easier access to natural resources would be the investments in other developing countries. Of course, some restrictions are applied in developing countries too, so we argue that cross-border M&As of existing firms in other developing countries would be a optimum way for resource-seeking purposes.

Hypothesis 3: Other things equal, developing country investors are more likely to carry out a cross-border M&A in developing countries than in developed countries for resource-seeking purposes.

The resource-based view of the firm suggests that there is a technological gap between firms from emerging markets and firms from developed markets, with the former seeking access to multiple forms of technological capabilities from the latter (Hitt et al., 2000). In the same vein, the previously reported important selection criteria for selecting foreign partners by Chinese firms in international alliances include technological capability, managerial skills, and international marketing expertise (Luo, 2002; Dong and Glaister, 2006). Lall (2002) further listed several knowledge related benefits that may result from cross-border M&As between developed-country acquirers and developing-country targets, viz. technology transfer, technology upgrading, technology generation, technology diffusion, and employment and skills. However, most of the literatures are limited to the question – how developing-country firms benefit from inward investment of foreign MNCs from developed countries. Recent FDI studies suggested that a growing, yet small, number of firms from less-developed country and newly industrialized country have engaged in strategic asset-seeking outward FDI (Kumar, 1998; Chen and Chen, 1998; van Hoesel, 1999; Makino, Lau, and Yeh, 2002). Research also suggests that many of the newly industrialized country firms investing in developed country have gained access to established brand names, novel product technology, and extensive networks of distributors, typically via aggressive acquisitions of developed-country firms in host countries (Kumar 1998; van Hoesel, 1999). This again reminds us the case of Lenovo acquiring IBM's PC group. Therefore, we argue that

instead of passively receiving knowledge spillovers at home, developing-country firms might actively go abroad to learn modern technologies and to gain the access to high quality research and development (R&D) institutions and workforces, and other strategic important assets, through cross-border M&As.

Hypothesis 4a: Other things equal, developing country investors increasingly tend to merge or acquire developed country firms.

Hypothesis 4b: Other things equal, developing country investors are more likely to carry out a cross-border M&A in developed countries than in developing countries for strategic asset--seeking purposes.

3. Data and Model

3.1 Sample

A sample used in the present study is based on the Bureau Van Dijk's Zephyr database (Zephyr) which is a comprehensive record of the corporate 'deal' (i.e. corporate M&As, initial public offerings, and venture capital deals). Deals information includes the name and the origin of the acquiring and target companies, industry, date, deal structure, deal type, deal status, and several financial criteria. Other data sources include 'The Global Competitiveness Report' (2003, 2004, and 2005) (GCR) and the database of World Bank (devdata.worldbank.org/data-query). Since we use one year lag in this study, and given that Zephyr's global coverage begins in 2003 and some indexes are only available in GCR since 2003, we limited our study to the period between 2004 and 2006. Therefore, 166 M&A deals carried out by Chinese firms are extracted from Zephyr.

3.2 Variables

We construct the dependent variable (DC) as an indicator of whether target firm is a developed-country firm. In other words, DC equals one if the target is a firm from developed countries; and zero, otherwise. The measurement is based on World Bank's Country Classification.

For the explanatory variables, we mainly focus upon the four motivations identified above. For market-seeking motivation, we use the market size of a host country as a proxy to measure the propensity of a firm to enter that market. Two distinct measures of market size are employed, and the baseline measure is the simplest, the host country population in 2003, 2004, and 2005 (M1). We converted it into logarithmic term. According to Campbell and Hopenhayn (2005), the value of industry sales could be a proxy of market size. Therefore, our second measure of market size is the share of value-added industry in GDP (M2) from World Bank database. Value added is defined as the net output of a sector after adding up all outputs and subtracting intermediate inputs.

To proxy the cost condition of a host country, two measures are utilized. The first is the pay and productivity index (C1) from GCR. It's using a continuous scale from 1 to 7, in which 1 represents 'not related to worker productivity', and 7 represents 'strongly related to worker productivity'. The second measure of efficiency is the tax burden index (C2) from GCR, which represents the overall tax burden on enterprises, including all associated costs (tax rates plus administrative and time costs, penalties, etc). C2 equals 1 if the cost burden is low, while C2 equals 7 if the cost burden is high in a country.

We follow Makino and et al (2002) and use technology-seeking as a proxy of strategic asset-seeking motivation, since investment in R&D facilities requires a different kind of human and physical infrastructure than investment in assembling or marketing

activities, and so on (Dunning, 1998). To measure technological capacity of a host country, we use innovation index (INO) from GCR. Innovation index is constructed by following sub-indexes: technological readiness index that measures a country's position in technology relative to world leaders; firm-level technology absorption index that represents the absorptive capacity of firms in a country; company spending on R&D index; university/industry research collaboration index; US utility patents granted per million population; and gross tertiary enrollment rate. The innovation index is again using a continuous scale from 1 to 7, in which 1 represents the lowest technological capacity, and 7 represent the highest technological capacity.

Natural resource based seeker will most obviously be attracted by the availability and quality of the primary products required. The last independent variable – natural resource variable (R) – is, therefore, measured by the proportion of exports accounted for by primary products (follow Dunning and Zhang, 2007) from Word Bank database.

Since Zephyr provides the industrial classification for acquirers, two dummy variables are used to control industrial effects - a manufacturing industry dummy (IN1) and a high-tech industry dummy (IN2). The former is determined by the 2-digit Standard Industrial Classification Codes, and the latter is based on the high-tech acquisition classification of Baldwin and Gorecki (1991) and Green and Meyer (1997). Finally, to capture the possible changes over time, we include a variable that measures the years.

3.3 Model

As DC is a dichotomous variable that takes values of 1 and 0, we employ a logistic regression model. The model may be expressed formally as:

$$Y = f(X, C)$$

where Y is the probability of merging or acquiring a developed-country firm, viz. the probability of DC equaling one; X is a vector of independent variables, and C is a vector of control variables.

4. Result

4.1 Descriptive Statistics

Table 1 gives out the breakdown of M&A deals in our sample. Since we are interested in the location choice of developing country acquirers, Table 2 further lists the locational distribution of M&A deals over time. From the tables we can see that most M&As carried out by Chinese firms are concentrated in developed countries, and that the relative share between developed country locations and developing country locations are stable over time. Table 3 is a correlation matrix of all the variables in this study. No outstanding correlated relationship is identified.

*** INSERT TABLE 1 ***

*** INSERT TABLE 2 ***

*** INSERT TABLE 3 ***

4.2 Econometric Results

Table 4 reports the Logistic Regression coefficients for variables predicting the M&A location choice of developing-country firms. A stepwise entry is utilized in Models 1 to 4. The model Log Likelihood is significantly improved with each addition. Explanatory variables enter the model in following sequence, i.e. market size, costs, resources, and innovation capacity. We test several possible entry sequences, and the best fit models are reported. The coefficient of market size (M1) is consistently negative and insignificant in all models, neither the model Log Likelihood. This, therefore, rejects our *Hypothesis 1*

that developing-country acquirers are more likely to carry out a cross-border M&A in developing countries than in developed countries for market-seeking purposes. The results suggest that market size does not make much influence on the location choice of Chinese firm's cross-border M&As. We further test this argument in the full model (see below). In Model 2, the coefficient of pay and productivity (C1) is positive and significant, which suggests that efficiency considerations are important when Chinese firms merge or acquire a developed-country firm, and which is contradictory with our *Hypothesis 2*. This result might be because the pay and production index does not best reflect the cost conditions in a country. It's quite possible for a developed country to achieve a high score in this index because of its higher productivity from technological innovation in spite of its high cost, and vice versa. To verify the results, we tested Models 1 and 2 by using the second measurements of market size and costs, i.e. the share of value-added industry in GDP and tax burden in a country, respectively. The results are consistent with above findings.

Model 3 adds the resources (R) variable, which is consistently negative and significant from Models 3 to 5. Therefore, our *Hypothesis 3* is confirmed that resource-seeking motivated M&As are more likely to be attracted to developing countries. Model 4 is our full model for this study, and Model 5 further includes several control variables. The coefficients of explanatory variables are consistent with those in Model 4, and the model Log Likelihood is significantly improved. Innovation capacity (INO) is highly positive and significant, which confirms our *Hypotheses 4b* that developing country acquirers are more likely to carry out a cross-border M&A in developed countries than in developing countries for strategic asset-seeking purposes. Along with the entry of

innovation capacity (INO) variable, the coefficient of C1 becomes negative, which confirms our argument above that high score in pay and productivity index (C1) might be due to the efficiency improvements from technological innovations in developed countries. Control variables are not significant at all. For industry dummy, we tested both manufacturing industry dummy (IN1) and high-tech industry dummy (IN2); the results are consistent. Moreover, our *Hypothesis 4a* is rejected, since Year (Y) is insignificant. There is no evidence that Chinese firms are increasingly tending to merge or acquire a developed-country firm. This might be due to the short period covered in our sample. However, due to the limitation of the data, we couldn't further test the trend over time.

***** INSERT TABLE 4 *****

Since market size (M1) is consistently insignificant through all the models, we tried to drop M1 in Model 5. However, model Log Likelihood significantly decreases by 4.7173 from 112.6541 to 99.1142. In other words, market size at least partly explains the location decision of Chinese firm's cross-border M&As. FDI literatures has showed that export-oriented FDI is likely to be less influenced by the size of local markets than is import-substituting FDI (Dunning, 1993). Combining the evidences and given the fact that China herself is one of the biggest markets in the world, we argue that Chinese firms might be largely export-oriented after merging or acquiring a foreign company, especially a developing-country company.

5. Conclusions and Discussions

By studying the location choice of Chinese firm's cross-border M&As, we find that developing country acquirers are more likely to carry out a cross-border M&A in developed countries for strategic asset-seeking purposes, but in developing countries for

resource-seeking purposes. The findings are largely consistent with the literatures on M&As and FDI. However, since most of previous literatures are based on researches on developed countries, there are some interesting implications from our study.

We find that technology-seeking is the major motivation for Chinese firms to merge or acquire a developed-country firm. However, it has been argued that the closer the profiles of technological capabilities of firms (Dunning, 1995) and the absorptive capability of firms (Contractor and Ra, 2002), the greater the number of strategic alliances between firms for the purpose of learning from each other. In the same vein, according to Kooko (1994) there will be greater knowledge flows among those firms which have lower technology gap. Although the technological capability of Chinese firms has been upgraded rapidly in the last few decades, it's still relative low compared with that of developed-country firms in general. One possible explanation is that firms may merge/acquire or form alliances in order to cope with competition. On one hand, Chinese firms that have accumulated basic absorptive capability or even advanced technological capability might want to maintain and upgrade their competitiveness by learning from developed-country firms, and/or by accessing high quality R&D institutions and R&D personnel in developed countries. As Almeida (1996) found, early investments of European and Korean firms in the US aimed to access the high quality technologic bases, e.g. public R&D institutes, universities, personnel, and etc. On the other hand, the investment of Chinese firms in developed countries might be due to the desire to prevent the competing firms from getting ahead in the technology race, especially competing firms from other developing countries or fast growing economies, like India.

While the major motivation of Chinese firms to invest in developed countries is the technological capacity, it's reasonable to assume that the coefficient of high-tech industries should be positive and significant. However, we found that the propensity of Chinese firms to merge/acquire a developed-country firm is insensitive to industries. Again, this finding has two folders. Firstly, the industrial structure of capable Chinese firms is evenly distributed across 18 industries covered in our sample (Appendix A – upon request). It seems that Chinese firms did not follow Athreye and Cantwell's (2007) suggestion that developing countries could grow their own expertise by specializing in a few technological fields to benefit the catch-up. However, given the size of Chinese industry, our rough industrial classification (2-digit), and the characteristics of our sample, we could confirm that at least some Chinese firms in these 18 industries are catching up. Secondly, it has been argued that innovation and hence innovative advantages are differentiated and relative concepts, not indicative of some notional technology frontier; in other words, developing-country MNCs that invest in developed countries probably do not possess frontier technological capabilities, but they could still have ownership advantages (Dunning, 2001; Cantwell and Narula, 2001). Our finding supports this argument by showing that high-tech industry dummy is not significant in determining the location choice of Chinese firms in cross-border M&As.

This paper is still in the preliminary stages and has some limitations in terms of the data we have collected. For instance, our sample size is small, which prevents us from including more variables and presenting the trend of cross-border M&As carried out by Chinese firms; we couldn't examine the influences of firm-level characteristics; the proxy of cost conditions in a country is relatively inadequate. Therefore, in next stage, we plan

to collect more data and revise some of the measures above. In addition, we understand that the representativeness of Chinese firms as developing-country firms might be controversial; however, we believe our study contributes significantly to our understanding of developing-country firm's outward investment by bridging the literatures of M&As and those of FDI in spite of the preliminary stages of this paper. Finally, future research should explicitly compare the differences between the M&A behavior of developed country and developing country firms, and include more developing country firms. It would be interesting to further test whether, if so how, the investment of developing-country firms in developed countries is due to the desire to prevent the competing firms from getting ahead in the technology race, especially competing firms from other developing countries.

Table 1. List of Countries and the Number of M&As

Host Country	Frequency	Cumulative Frequency
AR	2	2
AU	4	6
BE	1	7
CA	4	11
CL	5	16
CO	1	17
CY	1	18
DE	11	29
FR	8	37
GB	4	41
GY	1	42
HK	37	79
ID	3	82
IN	3	85
IT	1	86
JP	5	91
KR	3	94
KZ	2	96
LK	1	97
MN	2	99
MO	1	100
MY	1	101
NL	2	103
PE	2	105
PH	1	106
RU	2	108
SE	1	109
SG	8	117
TH	1	118
TW	2	120
US	22	142
VG	23	165
ZW	1	166

Table 2. Distribution between Developed Countries and Developing Countries

DC	Year	Frequency	Percent	Cumulative Frequency	Cumulative Percent
0	2004	11	6.63	11	6.63
0	2005	6	3.61	17	10.24
0	2006	12	7.23	29	17.47
1	2004	47	28.31	76	45.78
1	2005	43	25.9	119	71.69
1	2006	47	28.31	166	100

Table 3. Correlation Matrix of Variables

Variables	N	Mean	Std Dev	DC	M1	M2	C1	C2	INO	R	IN1	IN2	Y
DC	166	0.8253	0.3809	1.0000									
M1	140	17.2935	1.5758	-0.0953 0.2629	1.0000								
M2	111	3.1154	0.4921	-0.5212 <.0001	0.3918 <.0001	1.0000							
C1	138	4.0036	1.0614	0.1190 0.1644	0.4295 <.0001	0.0846 0.3840	1.0000						
C2	138	5.1301	0.9303	0.4343 <.0001	-0.4428 <.0001	-0.5796 <.0001	-0.1180 0.1681	1.0000					
INO	137	4.6666	1.4223	0.5656 <.0001	0.2520 0.0032	-0.2300 0.0172	0.3607 <.0001	0.5546 <.0001	1.0000				
R	140	2.5735	0.9280	-0.6350 <.0001	0.2231 0.0081	0.7115 <.0001	-0.4338 <.0001	0.1345 0.1185	-0.1898 0.0275	1.0000			
IN1	166	0.3494	0.4782	0.1042 0.1814	0.0901 0.2900	0.1962 0.0390	-0.1480 0.0833	0.0291 0.7345	-0.0097 0.9104	-0.1388 0.1019	1.0000		
IN2	166	0.1265	0.3334	-0.1113 0.1535	0.0355 0.6769	0.0308 0.7480	-0.1422 0.0962	0.0122 0.8869	-0.2263 0.0078	0.0929 0.2749	0.5193 <.0001	1.0000	
Y	166	2005	0.8421	-0.0156 0.8419	0.0983 0.2478	0.3345 0.0003	-0.2901 0.0006	-0.5731 <.0001	-0.3847 <.0001	0.0403 0.6361	0.0549 0.4820	-0.0243 0.7558	1.0000

Table 4. Logistic Regression Coefficients for Variables Predicting Developed Country M&A Targets

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Explanatory Variables					
Market Size (M1)	-0.1508	-0.0670	-0.3604	-0.9019	-3.0974
Pay and Productivity (C1)		1.2447***	1.4607***	-0.6073	-0.6376
Resources (R)			-2.4969***	-3.0745***	-3.6801***
Innovation Capacity (INO)				3.6991***	6.9644**
Control					
Industry (IN1)					3.5363
Year (Y)					5.2991
Log Likelihood	1.2637	25.3759	68.4780	100.5529	112.6541

Reference

- Almeida, Paul. (1996). Knowledge Sourcing by Foreign Multinationals, Patent Citation Analysis in the U.S. Semiconductor Industry. *Strategic Management Journal*, 17, 155-165.
- Athreye, S. and Cantwell, J.A. (2007). Creating Competition? Globalisation and the Emergence of New Technology Producers. *Research Policy*, 36(3), 209-226.
- Baldwin, J. R., and Gorecki, P. K. (1991). Foreign High-technology Acquisitions in Canada's Manufacturing Sector, in D. McFetridge (eds.) *Foreign Investment, Technology and Economic Growth*. Calgary, University of Calgary Press. pp.173-214.
- Beamish, P. W. (1987). Joint Ventures in LDCs, Partner Selection and Performance. *Management International Review*, 27, 23-37.
- Beamish, P. W. (1993). The Characteristics of Joint Ventures in the People's Republic of China. *Journal of International Marketing*, 1(2), 29-48.
- Behrman, J. N. (1984). *Industrial Policies, International Restructuring and Transnationals*. Lexington, Mass, Lexington Books.
- Buckley, P. J. and Casson, M. (1976). *The Future of the Multinational Enterprise*. London, Macmillan.
- Cantwell, J.A. and Narula, R. (2001), "The eclectic paradigm in the global economy", *International Journal of the Economics of Business*, 8(2), 155-172.
- Chatterjee, S. (1992). Sources of Value in Takeovers, Synergy or Restructuring – Implications for target and bidder firms. *Strategic Management Journal*. 13, 267-286.
- Chen, H. and Chen, T. J. (1998). Network Linkage and Location Choice in Foreign Direct Investment. *Journal of International Business Studies*, 29(3), 445-467.
- Compbell, J. R. and Hopenhayn, H. A. (2005). Market Size Matters. *The Journal of Industrial Economics*. 53(1),1-25.
- Contractor, F. and Ra, W. (2002). How Knowledge Attributes Influence Alliance Governance Choices, A Theory Development Note. *Journal of International Management*. 8(1), 11-27.
- Datta, D. K. (1988). International Joint Ventures, A Framework for Analysis. *Journal of General Management*, 14(2), 78-91.
- Datta, D. K. (1991). Organizational Fit and Acquisition Performance, Effects of Post-acquisition Integration. *Strategic Management Journal*. 12, 281-297.
- Dong, L. and Glaister, K. W. (2006). Motives and Partner Selection Criteria in International Strategic Alliances, Perspectives of Chinese Firms. *International Business Review*, 15, 577-600.
- Doz, Y. (1987). International industries, Fragmentation versus globalization. In B.R. Guile and H. Brooks (eds). *Technology and Global Industry*. National Academy Press, Washington, DC, 97-118.

- Dunning, J. H. (1993). Re-evaluating the Benefits of Foreign Direct Investment. *Transnational Corporations*, 3, 23-52.
- Dunning, J. H. (1995). Repraising the eclectic paradigm in an age of alliance capitalism. *Journal of International Business Studies*, 26(3), 461- 491.
- Dunning, J. H. (1998). Location and the Multinational Enterprise, A Neglected Factor?. *Journal of International Business Studies*, 29 (1), 45-66.
- Dunning, J. H. (2001), "The eclectic (OLI) paradigm of international production, past, present and future", *International Journal of the Economics of Business*, 8(2), 173-190.
- Dunning, J. H. and Zhang, F. (2007). Foreign Direct Investment and the Locational Competitiveness of Countries. Paper presented at *the UNTCAD conference*, Geneva, March.
- Economist* (1999). How to merge. After the deal, January, 19-21.
- Forsgren, M. (1989). Foreign Acquisitions, Internationalization or Network Interdependency? *Advances in International Marketing*. 3, 141-159.
- Green, M. B., and Meyer, S. P. (1997). International Acquisitions, Host and Home Country Explanatory Characteristics. *Geografiska Annaler*, 79, 97-111.
- Hagedoorn, J. (1993). Understanding the rationale of strategic technology partnering, Interorganizational modes of cooperation and sectoral differences. *Strategic Management Journal*, 14, 371-85.
- Havila, V. and Salmi, A. (2002). Network perspective on international mergers and acquisitions, what more do we see? Chapter 19 in V. Havila, M. Forsgren, and H. Hakanson (eds.), *Critical Perspectives on Internationalisation*, New York, Pergamon.
- Hitt, M. A., Dacin, M. T., Levitas, E., and Borza, A. (2000). Partner Selection in Emerging and Developed Market Contexts, Resource-based and Organizational Learning Perspectives. *Academy of Management Journal*, 43(2), 449-467.
- Hunt, J. W. (1990). Changing Pattern of Acquisition Behaviour in Takeovers and the Consequences for Acquisition Processes. *Strategic Management Journal*. 11, 69-77.
- Hymer S. (1976). The International Operations of National Firms, A Study of Direct Foreign Investment. *MIT Press*, Cambridge, MA.
- Inkpen, A.C. (2001). Strategic Alliances. Chapter 15 in A.M. Rugman and T. L. Brewer (eds.), *The Oxford Handbook of International Business*, New York, Oxford University Press.
- Kokko, A. (1994). Technology, market characteristics, and spillovers. *Journal of Development Economics*, 43(2), 279-293.
- Kuman, N. (1998). *Globalization, Foreign Direct Investment and Technology Transfers, Impacts on and Prospects for Developing Countries*. New York, Routledge.
- Lall, S. (2002). Implications of Cross-Border Mergers and Acquisitions by TNCs in Developing Countries, A Beginner's Guide. *QEH Working Paper Series*, No.88.

- Li, J. T., and Shenkar, O. (1996). In Search of Complementary Assets. in Child, J. and Lu, Y. (eds.), *Management Issues in China, International Enterprises*. London, Routledge, 52-65.
- Li, J. T., and Shenkar, O. (1997). The Perspectives Of Local Partners, Strategic Objectives And Structure Preferences Of International Cooperative Ventures In China. in P. W. Beamish and J. P. Killing (eds.), *Cooperative Strategies*, Asian Pacific Perspectives. San Francisco, New Lexington Press, 300-322.
- Luo, Y. D. (2002). Partnering with Foreign Business, Perspectives from Chinese Firms. *Journal of Business Research*, 55, 481-493.
- Makino, S., Lau, C. M., and Yeh, R. S. (2002). Asset-Exploitation versus Asset-Seeking, Implications for Location Choice of Foreign Direct Investment from Newly Industrialized Economies. *Journal of International Business Studies*, 33(3), 403-421.
- Manea, J. and Pearce, R. D. (2006). MNE's Strategic in Central and Eastern Europe, Key Elements of Subsidiary Behaviour. *Management International Review*, 46, 235-255.
- Mattsson, L. G. (2000). Merger Waves and Contemporary Internationalization of Firms and Markets. Paper presented at the 16th IMP conference, Bath, UK, September.
- Trautwein, F. (1990). Merger Motives and Merger Prescriptions. *Strategic Management Journal*, 11, 283-295.
- Teagarden, M. B., and Glinow, M. A. V. (1991). Sino-Foreign Strategic Alliance Types and Related Operating Characteristics. in O. Shenkar, (eds.), *Organization and Management in China, 1979– 1990*. London, Shape.
- The Global Competitiveness Report (2003). *World Economic Forum*, Geneva, Switzerland. New York: Palgrave/Macmillan.
- The Global Competitiveness Report (2004). *World Economic Forum*, Geneva, Switzerland. New York: Palgrave/Macmillan.
- The Global Competitiveness Report (2005). *World Economic Forum*, Geneva, Switzerland. New York: Palgrave/Macmillan.
- van Hoesel, R. (1999). *New Multinational Enterprises from Korea and Taiwan, Beyond Export-led Growth*. New York, Routledge
- Work Bank Database. Retrieved June 14th, 2007, from www.worldbank.org.
- United Nations. (2006). *World Investment Report*. Retrieved June 18th, 2007, from www.unctad.org/en/docs/wir2006_en.pdf.