The determinant of performance of cross-border M&As in China:

A comparative study between overseas Sino and Anglo firms

Ki Hyun Ryu, Jae Eun Lee

(Yonsei Business Research Institute, Yonsei University, Seoul 120749, Korea)

Abstract: This study examines the factors that affect the performance of foreign acquiring firms in Chinese M&As (mergers and acquisitions) market. Comparing between overseas Sino-Group and Anglo-Group, this study found that familiarity and location were the most important factors influencing performance of M&A transactions in China. It also found that unrelated M&A deals should be merged with familiarity for gaining positive acquisition performance. The total sample used in this study was 3,442 cases from October 1980 to March 2005. Because this period included all deals of M&As after the opening of Chinese market in China. The authors' finding provided a more universal explanation in the cross-border M&As in China.

Key words: cross-border M&As; acquisition performance; familiarity; location

1. Introduction

Cross-border merger and acquisition (M&A) has become a major strategic tool for the growth of multinational corporations (Cartwright & Cooper, 1993). According to WIR (World Investment Report, 2004) regarding the global trends of foreign direct investment (FDI), cross-border M&As take the lead in entry patterns. Also, multinational enterprises (MNEs) in all industries already use cross-border M&As as a speedy and practical mode of foreign entry. In the case of the Asia-Pacific region, by the same token, cross-border M&As have gradually increased, and China exists in the heart of the deals (Chen & Findley, 2002). M&A activities in China grew 55 percent in the first quarter of 2004 comparing with the same period in 2003, ranking 4th in the world. Furthermore, the portion of M&As in China is continuously increasing in aspect of size (UNCTAD, 2004). In addition, the economic liberalization of China has generated a lot of competitions in economic activities among foreign firms, and it is required to know more comprehensive factors that affect the firms' performances (Yadong, 2003). For these reasons, research about M&As in China is an important means in Asia-pacific region.

On the other hand, China is considered to be the most attractive location for cross-border M&As in Asia-pacific region because of its growing economic power stemming from huge manufacturing and market potential (Frank & Hsiao, 2004). However, as for M&A activities, there are a lot of regulatory issues that foreign firms have to negotiate with the government of China. These regulatory issues are fatal problems in the Chinese M&A market because of its potential to stop cross-border M&A deals (Chen, 2001). Generally, in emerging markets, the host country government plays a key role in cross-border M&As, because there can be conflicts of interest between foreign firms and the host country (Yigang & Peter, 1999). Consequently, acquiring firms have to

maintain a friendly relationship with the government of the host country for holding a prominent position which can be organized through some kind of network. The authors predict this primary network to be ethnic homogeneity, because ethnic heterogeneity reduces social capital formation (Charles & Kline, 2002).

In a research on cross-border M&As in China, it is important to recognize how ethnic networks could affect a firm's performance in M&A activities, because most of the acquiring firms are Asian firms which are linked to ethnic networks such as Hong Kong, Taiwan and Singapore (Thomson Financial, 2005). Gao (2003) found that Chinese ethnic networks play major roles in the Chinese market. Through formal and informal contacts, ethnic Chinese networks facilitate sharing information, helping to match buyers and sellers in the international market. Also, ethnic Chinese groups can help to deter opportunistic behavior such as a contract violation through enforcement of community sanctions (Rauch & Trindade, 2002). If these Chinese networks have really played an important role in Chinese cross-border M&As, ethnic Chinese groups involved in M&A activities may have various advantages. In spite of having no advantages, the reason that foreign firms continue to participate in the Chinese M&A market is treated as a special issue (Wu & Choi, 2004).

In perspective, the authors are going to focus on the networks in cross-border M&As in China. Throughout this study, the authors focus on the ethnic networks that affect the performance within the context of the cross-border and cross-cultural M&As. Overall, using the acquired Chinese firms as an empirical setting, this study shows how Chinese networks can contribute to the acquisition of both acquiring and acquired firms.

In next section, the authors will introduce previous literatures regarding the study and develop relevant hypotheses. Then, the authors will present the research design and provide empirical results of the model. Finally, the authors will show the findings and conclusions to further discuss implications and limitations.

2. Literature review and hypotheses

2.1 The role of social capital and familiarity in Chinese market

Social capital is quickly becoming a core concept in business, political science and sociology (Ronald, 2000). After Jacobs introduced it into social science research in 1961, Coleman's (1988) study placed it at the center of research in sociology. Coleman (1990) defined social capital as:

"…social organization constitutes social capital, facilitating the achievement of goals that could not be achieved in its absence or could be achieved only at a higher cost…"

Because a firm is a social entity in contemporary society, it isn't anything by itself. So, each firm develops its own social capital through coordination and communication mechanisms (Kogut & Zander, 1993; Kogut & Zander 1996; Yli-Renko, Autio & Sapienza, 2001). With activities between firms, cross-border M&As imply that assets and operations of two firms from two different countries are combined to establish a new social entity. Also, cross-border M&As are not simple transactions between firms but a process of social interaction between different culture of nations. To the cross-border M&As, it has been recognized that the process of integration combined with cultural difference is the main factor that affect M&A performance (Cartwrighr & Cooper, 1993; Morosini, Shane & Singh, 1998). Because the primary reason for unsuccessful M&As derives from failure in the acquisition process (Markes & Mirvis, 1992; Weber, 1996), the acquisition process in overcoming cultural difference between firms of different nationalities should be managed as a principal issue in cross-border M&As, especially through social network (Easterly & Levine, 1997). Meanwhile, because social interaction depends on network structure (Joel, 2002), dense networks make the enforcement of group cooperative behavior more effective (Coleman,

1988). Consequently, the networks between countries have very important meaning in the study of cross-border M&As and a number of studies have found a significant correlation between networks as social capital and rates of economic growth (Knack & Keefer, 1997; Whiteley, 1997).

In this regard, Granovetter (1985) explained that strong networks between firms helped to enhance their business performance through the development of trust, information flow and the provision of solutions against various problems. According to the study on social networks, the strongest network is ethnic homogeneity (Easterly & Levine, 1997), while ethnic heterogeneity is believed to reduce social capital formation for some fairings (Charles & Kline, 2002). Therefore, it is possible to think that familiarity through strong ethnic ties may have an advantage, facilitating the acquisition process.

Compared to other nations, ethnic networks in China have a more powerful influence on M&As. As it is generally well known, a variety of difficulties in process of integration can intervene in the performance of cross-border M&As in China. More specifically, the Chinese still need to get comfortable with the notion of selling their business and worried about their firms being acquired by foreigners. Fortunately, ethnic homogeneity can be helpful to overcome this anxiety.

Objective data argued above is true. According to a study of Yeung and Olds (2000), there are approximately 55 million ethnic Chinese living outside mainland China. The ethnic population share of Chinese is very high in Taiwan (99%), Hong Kong and Macau (98%), and Singapore (76%). These Chinese families are distributed with approximately 50 percent of M&A activities from total cross-border M&As into China (Thomson Financial Data, 2005). In this perspective, it seems reasonable to assume that familiarity may play a key role in cross-border M&As into China. Therefore, it is possible to hypothesize the following:

Hypothesis 1: The greater degree of the familiarity between acquiring and acquired firms is the greater performance M&As will obtain in China.

2.2 Unrelated M&As with familiarity

According to the definition in the *World Investment Report* (2000), cross-border M&As can be functionally classified as horizontal (among competing firms in the same industry), vertical (among firms in client-supplier or buyer-seller relationships) and conglomerate (among firms in unrelated activities). In this paper, the authors will focus on the third type of M&As, conglomerate or unrelated M&As.

Previous research has shown that unrelated acquisitions have significant worse performance than other types of acquisitions (Chatterjee, 1992; Seth, 1990). Because buying a company is expensive and risky (Bergh, 1997), unrelated acquisitions need strategic fits for acquiring firms. However, although strategic fits can create some synergies that enhance the performance of the combined firms for getting operating synergy which can guarantee long term profit, it is highly probable that related mergers are the best way of cross-border M&As (Flanagan, 1996). In this regard, Lubatkin (1987) addressed that if all things are equal, some product and market relatedness is better than none.

Nevertheless, the lack of well-developed markets coupled with under-developed laws and regulations and inconsistent enforcement of contracts suggest that conglomerated or unrelated acquisitions may be advantageous for firms in emerging economies (Khanna & Palepu, 1997). Khanna and Palepu's (1997) study implies that even unrelated M&As can lead to high performance, if acquiring firms fully understand the variety of deal contexts in the emerging market. It is important for acquiring firms to understand the emerging market contexts such as the deficiency of market condition, behavior uncertainty and laws and regulations (Mingfang & Wong, 2003). To understand the Chinese market conditions, acquiring firms should be necessarily associated with firms with

Chinese ethnic networks. Therefore, another hypothesis is possible as following:

Hypothesis 1a: The greater degree of familiarity between acquiring and acquired firms is, the greater performance unrelated M&As will obtain in China.

2.3 Location factor of China

Although some restrictions for cross-border M&As are gradually becoming lenient with China's entry into the World Trade Organization (UNCTAD, 2000), a lot of problems still remain including the limitation on foreign ownership in certain industries, bureaucratic factors and processing problems. There also persists a higher level of government participation in M&A transactions. Central government agencies such as the Ministry of Commerce and the State Development and Reform Commission play important roles in the Chinese M&A transactions, making government approval a distinctive feature of M&As. Accordingly, it is highly probable that no location advantage for M&As in China might exist. If this environmental context is a barrier for the entry into the Chinese M&A market, more adaptive modes might be partially-owned forms of entry such as licensing, using outside sales distributions and joint venture (Peter, Ashay & Francis, 2000). Besides, in the perspectives of the institutional theory, Fladmoe and Jaque (1995) argued that a higher level of uncertainty including contextual environment in the host country is difficult to control using wholly owned modes of entry and a high switching cost occurs in host country conditions (Kobrin, 1982).

Nonetheless, why do many MNEs go into China through M&A activities? And what is the main factor to do this? (to succeed in doing so?) We guess this reason depends on the fundamental characteristic of investment environment and cross-border M&As .

For the case of general MNEs' activities, firms benefit from the location advantages, because they have access to locational specific resources such as: educated labors (Saxenian, 1994), technological infrastructures (Nelson, 1993), developed markets (Booth, 2001; La Porta, 1997) and network between firms (Gulati, Nohria & Zaheer, 2000). Generally, with an effort to attract foreign investment, many developing countries have progressed in special areas (Rondinelli, 1987). For example, since China initiated the reform and opening policy in the past two decades, rapid growth of economy has come in the eastern regions (China Statistical Yearbook, 2004). Many firms in developed countries have set aside eastern areas as a result of various incentives to attract foreign investments. In terms of the real input of foreign investment in 2002, the top 15 largest investors in the eastern region account for 92.82 percent of the region's total amount, 33.97 percentage points higher than their cumulative share by the end of 2002 (China Foreign Investment Report, 2003). These areas offer better infrastructure, energy supply and various economic concessions.

On the other hand, the government of China wants to restructure many unprofitable state-owned enterprises and the state is seeking to reduce the level of its equity holding. In foreign acquiring firms' point of view, the match between this intent of China and attractive regions for economic activities may be a chance of rapidly entering the Chinese market. The motivation of cross-border M&As is the fastest means of reaching the desired goals and access to proprietary assets such as distribution networks, marketing know-how, and understanding law and regulation (WIR, 2000). Therefore, it remains to be seen that if Chinese acquired firms are located in the special economic zone, foreign acquiring firms have to participate in M&As and expect a higher level of profitability than located elsewhere in China (Yigang & Peter, 1999). Accordingly, it is possible to hypothesize the following:

Hypothesis 2: The closer geographical location to Eastern regions is in China, the greater performance M&As will obtain in China.

Hypotheses concerning the factors affecting M&A performance are presented in Fig. 1.
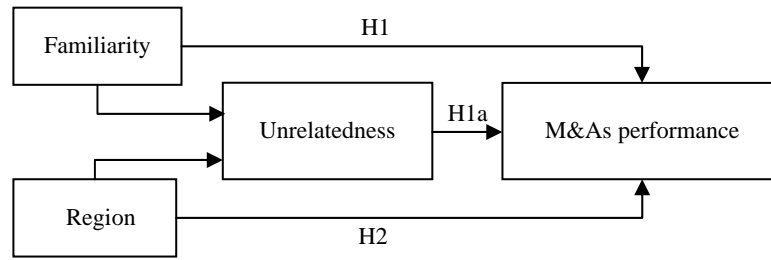
Fig. 1   Research model

3. Research method

3.1 Data source

The authors used the secondary data for this study. The data came from the SDC database in Thomson Financial. The total sample used in this study is 3,442 cases from October 1980 to March 2005. All cases involved M&A activities of Chinese acquired firms and foreign acquiring firms, which were classified at the cross-border M&As with category of Thomson Financial criteria. This period included all deals of M&As after the opening of Chinese market in China (see Table 1).

Table 1   Industry between acquisition and target

	Acquisition		Target	
	Pan China	Anglo	Pan China	Anglo
Agriculture, forestry, fishing	6	2	11	4
Mining	5	10	25	24
Construction	37	6	28	8
Manufacturing	435	386	627	442
Transportation, public utility	192	56	235	76
Wholesale trade	64	15	42	31
Retail trade	33	18	43	21
Finance, insurance, real estate	716	202	326	106
Service	156	116	287	116
Public administration	1	1	13	0
Total	1645	812	1637	828

3.2 Measurement

3.2.1 Dependent variable

Performance. In this study, the authors use return on investment (ROI) of acquiring firms as the dependent variable. ROI is annual income divided by invested capital (Bruton, Oviatt & White, 1994).

3.2.2 Control variables

Transaction value. The value of an acquisition influences post-acquisition performance (Kusewitt, 1985). It is expected that the large value of acquisitions increases the variance of profit outcomes, not only because of their "weight" in the combined firm, but also due to greater uncertainties about the quality and fungibility of assets purchased in large bundles (Lee & Caves, 1998). The authors then used transaction value as the control variable and this data was classified by the SDC data base (a unit—U.S. mil $).

Acquiring firm's size. The size of a firm is an important factor within the context of cross-border M&As (Gaba, Pan & Ungson, 2002). Therefore, the authors also controlled for the acquiring firm's size in this study. The

authors measured the acquiring firm's size using the firm's assets which include property, plants and equipments with estimated data from the SDC data base.

Year. Controlling the specific year of the acquisition in the Chinese market was necessary, because national and international economic conditions varied year by year and had a clear impact on the performance of all acquisitions (Morosini, Shane & Singh, 1998). In this study, the authors considered important political, economic and institutional changes that took place in China in specific years, particularly 1997 (return of Hong Kong and Macau) and 2001 (entry into WTO). The next years following 1997 and 2001 might influence M&As activities in China. The authors then used dummy variables for the years of 1998 and 2002.

3.2.3 Independent variables

Familiarity. The degree of low social capital between individuals in a business group was associated with the lack of economic success and community heterogeneity (Alesina & La Ferrara, 2002). Social capital measures help to predict economic growth (Knack & Keeper, 1997). The authors employed familiarity as an independent variable under ethnic background. As can be seen above, the ethnic population share of Chinese is very high in Taiwan (99%), Hong Kong & Macau (98%) and Singapore (76%). The authors divided the countries containing different firms into the pan-China and the Anglo group. Pan-China was made up of Taiwan, Hong Kong, Macau and Singapore and the Anglo consisted of EU and the U.S..

Region. With respect to locations, the authors identified the provinces and cities where M&A activities took place. A dummy variable was then used for dividing regions (eastern area or not). This criteria was applied by *China Foreign Investment Report 2002*, which was published by Chinese Ministry of Commerce.

Relatedness. Relatedness was defined according to the industries of the acquiring and acquired firms (Morosini, et al., 1998). Recent research has found SIC (Standard Industrial Classification)—based on the measures of business relatedness closely associated (Flanagan, 1996). All four-digit SIC codes between acquiring and acquired firms in this data were classified into 10 categories by the criteria in *The World Wide Business Directory* (SICCODE. com). Related M&As were identified as deals where the acquiring firm operated in the same SIC code group with acquired firms in 10 categories before the M&As. Unrelated M&As were the opposite case (see Table 2).

Table 2   Descriptive statistics and correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
transaction value	60.57	831.22	1									
firm size	2648.83	7483.54	0.092*	1								
year 1998	N/A	N/A	-0.005	0.060*	1							
year 2002	N/A	N/A	0.010	-0.053	-0.089**	1						
regions	1.18	0.53	-0.046	0.020	0.031	0.007	1					
familiarity	1.33	0.47	-0.007	0.144**	-0.068**	-0.017	0.008	1				
relatedness	1.50	0.50	0.044	0.210**	-0.010	-0.003	-0.061*	0.124**	1			
region * related	1.78	0.97	0.015	0.180**	0.006	-0.005	0.750**	0.115**	0.556**	1		
family * related	2.06	1.07	0.023	0.280**	-0.040*	-0.029	-0.041	0.764**	0.698**	0.434**	1	
performance	-0.8264	10.87	0.007	0.267**	0.029	0.043	-0.139**	-0.135**	0.070*	-0.032	-0.030	1

Notes: * $p < 0.05$, ** $p < 0.01$ (Transaction value, Firm size, Performance-mil $).

4. Results

The results of the multiple regression analysis support the hypotheses. Before examining the hypotheses of the study, the authors performed a correlation analysis of variables.

Firstly, the control variables were partially significant. Whereas the size of acquiring firms and the year 2002 were significant, transaction value and the year 1998 were not significant in model 1. Specifically, it was an important issue for foreign investors that China joined the WTO in 2002. However, according to the entered explanatory variables, the effect of the year 2002 was seen as not significant.

Table 3   Multiple regression results for the determinants of M&As performance

		M&As performance			
		Model 1	Model 2	Model 3	Model 4
Control variables	Transaction value	-0.016	-0.021	-0.031	-0.033
	Firm size	0.239***	0.291***	0.357***	0.339***
	1998 year	0.020	0.018	0.004	-0.002
	2002 year	0.078**	0.045	-0.002	0.002
Independent variables	Regions		-0.147**	-0.147**	
	Familiarity		-0.143*		-0.137*
	Relatedness		-0.058		
	Region * Relatedness				-0.127
	Familiarity * Relatedness			-0.183**	
R^2		0.062	0.132	0.136	0.123
Adjusted R^2		0.056	0.093	0.103	0.090
F		10.563 ***	3.386***	4.103***	3.684***

Notes: *** 0.01 level; ** 0.05 level; * 0.1 level (2-tailed).

Table 3 shows that region and familiarity are related with performance of cross-border M&As in China. Because the authors did coding as a dummy of 1 and 2 for eastern and other areas, a negative coefficient implies that the closer geographical location to eastern regions is in China, the greater performance M&As will obtain and the greater familiarity (1=pan-China, 2=Anglo), with ethnic Chinese background. However for relatedness, we could not find any significant relationship. On the other hand, interaction between familiarity and relatedness significantly raises the explanatory power for performance variable. This implies that the M&As of combining ethnic pan-Chinese group and unrelated industry between interceptor and target can improve financial performance in China but not in the ethnic Anglo group. Also, even though M&A activities are located in the eastern area, if the industry between interceptor and target are unrelated, there was no significant effect on performance.

5. Discussion

The results of all statistical tests support the hypotheses. The authors found that regions and familiarity were important factors that influenced the M&A performance in China. In this study, we know that if the acquiring firms have familiarity with acquired firms in China, it was positively related with the performance in not only related M&As but also unrelated M&As. Although the case did not include simple cross-border M&As, other researches showed that the U.S. firms were more profitable compared to firms from Hong Kong (Yigang & Peter, 1999). Compared with Yigang and Peter's study, the authors' findings show different results from theirs. The authors predict the reasons as follows. Firstly, it is necessary to understand the troubles that arise from cross-border M&As, because M&As have more difficulties than alliances due to the problem of interaction from different cultural environments (Hennart & Park, 1993). Additionally, it is necessary for Chinese firms to feel

comfortable with the notion of selling their business and being acquired by foreign firms. Consequently, easing the mental burden caused by M&As for Chinese is necessary and ethnic networks would be eligible to undertake this role. Secondly, the research view would be differentiated by the strategic characteristic of M&As. Cross-border M&As can be even more valuable for acquiring firms when they prevent potentially strategic assets from being liquidated (Chen & Findley, 2002). Familiarity in this study is a potentially strategic asset in China, because familiarity, noted earlier, is the strongest network and the acquiring firm can overcome the barrier to be successful M&As in China through this network. On the other hand, acquiring firms who have different ethnic backgrounds from China (not except other Asian countries) should have regional advantage as a strategic asset to gain higher performance from the deal. Considering national boundaries, Dunning's OLI (ownership, location, internalization advantage) paradigm is a very useful tool for analyzing cross-border M&As. Dunning (2003) suggested that the location theory was an entirely separated branch from the economic theory and firms should consider its location choice for coordinating function. Indeed, strategic behavior containing M&As with respect to location choice becomes an important determinant for the firm's performance (Shaver & Fredrick, 2000). However, because the OLI may be linked with each other as a three-legged stool, with each advantage being supportive of the other, the OLI is only functional if the three advantages are evenly balanced (Dunning, 1998). In case of the Chinese market, we believe the foreign firms should have "L" advantage and "O" advantage, because the special economic zone in China is a quest for not only strategic assets such as distribution networks and marketing know-how but also easiness for economic activities. In this perspective, we found how heterogeneity of ethnic backgrounds among firms can lead to benefit for cross-border M&As in China. Thirdly, narrow research area using limited data set such as specific industry, periods and participants could not explain the wide phenomena. Using the huge data set including all industries, M&A activities and participants in M&As, the authors estimated the key determinants of M&A performance in China. Thus, these findings provided a more universal explanation in the M&A market of China.

Although the managerial studies have a long history of cross-border M&As and emerging markets in China, there is still practically scanty experience about cross-border M&As. Consequently, it is necessary for researchers who want to study about cross-border M&As within context of China to know the key characteristics affecting the deal. We believe that it is practical to analyze the cross-border M&As in China.

References:

Alesina, A. & La Ferrara, E.. (2002). Who trust others? *Journal of Public Economics, 85*(2), 207-234.

Bruton, G. D., Oviatt, B. & White, M. A.. (1994). Performance of acquisitions of distressed firms. *Academy of Management Journal, 37*(4), 972-989.

Burt, R. S.. (2000). The network structure of social capital. *Organizational Behavior,* 22, 2-83.

Cartwright, S. & Cooper, C. L.. (1993). The role of cultural compatibility in successful organizational marriage. *Academy of Management Executive, 7*(2), 57-70.

Charles, K. & Kline, P.. (2002). *Relation cost and the production of social capital*. NBER Working paper, no. 9041.

Chatterjee, S.. (1992). Source of values in take over: Synergy or restructuring implications for target and bidder firms. *Strategic Management Journal, 13*(4), 267-286.

Chen, C. & Findley, C.. (2002). A review of cross-border M&As in APEC. *Asian-Pacific Economic Literature, 17*(2), 14-38.

Chen, C.. (2001, January). Cross-border M&A and its characteristics in China. *World Bank and MOFTEC,* 10-11.

Coleman, J.. (1988). Social capital in the creation of human capital. *American Journal of Sociology,* 94, 95-121.

Coleman, J.. (1990). *The foundation of social theory*. Cambridge: Harvard university press.

David, J. Flanagan. (1996). Announcements of purely related and purely unrelated mergers and shareholder returns: Reconciling the relatedness paradox. *Journal of Management, 22*(6), 823-835.

Davis, P. S., Desai, A. B. & Francis, J. D.. (2000). Mode of international entry: An isomorphism perspective. *Journal of International Business Studies, 31*(2), 239-258.

Dunning, J. H.. (2003). Some antecedents of internalization theory. *Journal of International Business Studies, 34*(2), 108-115.

Dunning, J. H.. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review, 9*(2), 163-190.

Easterly, W. & Levine, R.. (1997). Africa's growth tragedy: Politics and ethnic divisions. *Quarterly Journal of Economic, 112*(4), 1203-1250.

Fladmoe-Lindquist, K. & Jaque, L.. (1995). Control modes in international service operations: The propensity to franchise. *Management Science, 41*(7), 1238.

Frank, H. & Mei-chu, H.. (2004). The chaotic attracter of foreign direct investment—why China? *Journal of Asian Economics, 15*(4), 641-670.

Gaba, V., Pan, Y. & Ungson, G. R.. (2002). Timing of entry in international market: An empirical study of U.S. fortune 500 firms in China. *Journal of International Business Studies, 33*(1), 39-55.

Gao, T.. (2003). Ethnic Chinese networks and international investment: Evidence from inward FDI in China. *Journal of Asian Economics, 14*(4), 611-629.

Granovetter, M.. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology, 91*(3), 481-510.

Gulati, R., Nohria, N. & Zaheer, A.. (2000). Strategic network. *Strategic Management Journal, 21*(3), 203-215.

Hennart, J. F. & Park, Y-R.. (1993). Greenfield vs. acquisition: The strategy of Japanese investors in U.S.. *Management Science, 39*(9), 1054-1070.

Jacobs, J.. (1961). *The death and life of great American cities*. New York: Random House.

Khanna, T. & Palepu, K.. (1997). Why focused strategies may be wrong for emerging market? *Harvard Business Review, 75*(4), 41-51.

Knack, S. & Keefer, P.. (1997). Does social capital have an economic payoff? A cross country investigation. *Quarterly Journal of Economics, 112*(4), 1251-1288.

Kobrin, S. J.. (1982). *Managing political risk assessment*. Berkeley, CA: University of California Press.

Kogut, B. and Zander, U.. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies, 24*(4), 625-645.

Kogut, B. & Zander, U.. (1996). What do firms do? Coordination, identity and learning. *Organization Science, 7*(5), 502-518.

Kusewitt, J. R.. (1985). An exploratory study of strategic acquisition factors relating to performance. *Strategic Management Journal, 6*(2), 151-169.

La porta, R., Florencio, L. & Andrei, S.. (1997). Legal determinant of external finance. *Journal of Finance, 52*(3), 1131-1150.

Luary, G.. (1977). *A dynamic theory of racial income differences in woman minorities and employment discrimination*. Massachusetts: D.C. Heath and Company, Lexington Book Division.

Mingfang, L. & Wong, Y. U.. (2003). Diversification and economic performance: An empirical assessment of Chinese firms. *Asia-Pacific Journal of Management, 20*(2), 243-265.

Nelson, R.. (1993). *National innovation system: A comparative analysis*. New York: Oxford University Press.

Piero, M., Scott, S. & Singh, H.. (1998). National cultural distance and cross-border acquisition performance. *Journal of International Business Studies, 29*(1), 137-158.

Rauch, J. & Trindade, V.. (2002). Ethnic Chinese networks and trade. *Review of Economics and Statistics, 84*(1), 116-130.

Rondinelli, D. A.. (1987). Export processing zones and economic development in Asia. *American Journal of Economics and Sociology, 46*(1), 89-105.

Saxnian, A.. (1994). *Regional advantage, culture and competition in silicon valley and route 128*. Cambridge, MA: Harvard University Press.

Seth, A.. (1990). Value creation in acquisitions: A reexamination of performance issues. *Strategic Management Journal, 11*(2), 99-115.

Shaver, J. M. & Fredrick, F.. (2000). Agglomeration economies, firm heterogeneity and foreign direct investment in United States. *Strategic Management Journal, 21*(12), 1175-1193.

Tung-Jean, L. & Caves, R. E.. (1998). Uncertain outcomes of foreign investment: Determinants of the dispersion of profits after large acquisitions. *Journal of International Business Studies, 29*(3), 563-582.

UNCTAD-DITE. (2004). *Global Investments Prospects Assessment (GIPA)*.

Whiteley, P.. (1997). *Economic growth and social capital*. Sheffeild.

Wu, W. P. & Choi, W. L.. (2004). Transaction cost, social capital and firms' synergy creation in Chinese business network: An integrative approach. *Asia Pacific Journal of Management, 21*(3), 325-343.

Yeung, H. & Olds, K.. (2000). *Globalizing Chinese business firms: Where are they coming from, where are they heading? In Globalization of Chinese business firm*. New York: St. Martin's Press.

Yigang, P & Peter, S. K.. (1999). Financial performance and survival of multinational corporations in China. *Strategic Management Journal, 20*(44), 359-374.

Yli-Renko, H., Autio, E. & Sapienza, H. J.. (2001). Social capital, knowledge acquisition and knowledge exploitation in young technology-based firms. *Strategic Management Journal, 22*(6-7), 587-613.

(Edited by Emma and Chris)