TURNING WATER INTO WINE:
CROSS-BORDER M&As BY DEVELOPING COUNTRY MULTINATIONAL COMPANIES

Abstract

We analyze the relative advantage and disadvantages of developing country multinational companies (DMNCs) versus advanced economy multinational companies (AMNCs) in cross-border mergers and acquisitions (M&As). We build on the resource-based view to propose that the country of origin of the firm induces it to develop particular resources at home that later affect its performance abroad. Specifically, we argue that target firms acquired by DMNCs have lower pre-acquisition performance than target firms acquired by AMNCs because DMNCs have less sophisticated financial capabilities that limit their ability to purchase firms abroad. However, we also propose that target firms acquired by DMNCs have higher post-acquisition performance than target firms purchased by AMNCs because DMNCs have more-sophisticated efficiency capabilities that support restructuring within target firms.

Key words: Cross-border M&As, developing country, multinational companies, competitive advantage, performance, resource-based view

INTRODUCTION

We study the advantages and disadvantages of developing country multinational companies (DMNCs) in comparison to advanced economy multinational companies (AMNCs). Developing-Country Multinational Companies (DMNCs) have gained notoriety and attention in recent times. The ascendancy of DMNCs to the leadership in their industries, like the Mexican cement firm Cemex or the Brazilian airplane manufacturer Embraer, has been widely acknowledged and discussed in newspapers (e.g., Economist, 2008) and analyzed by consulting companies (BCG, 2009) and investment banks (Citigroup, 2005). This has been accompanied by an increase in the academic literature devoted to the topic (e.g. see the special issues in *Journal of International Business Studies* edited by Luo and Tung, 2007, and in *Journal of International Management* edited by Auklak, 2007, and by Gammeltoft, Barnard and Madhok, 2010, and the articles in the books edited by Sauvant, 2008, and Ramamurti and Singh, 2009, and other works like Bonaglia, Goldstein & Mathews, 2008; Cuervo-Cazurra and Genc, 2008; del Sol & Kogan, 2007).

However, despite the interest on DMNCs, it is unclear what the advantages of these firms are in comparison to AMNCs. There is surprisingly little literature comparing these two types of firms, or comparing competition among MNCs coming from different countries in general. Some studies have analyzed differences between firms from various developed countries competing in the same host country, be it the USA (Tallman, 1991) or Brazil (Rangan and Drummond, 2004). Other studies have analyzed the different reaction by DMNCs from developed and developing countries to corruption in the host country (Cuervo-Cazurra, 2006) or to underdeveloped institutions in the least developed countries (Cuervo-Cazurra and Genc, 2008). Nevertheless, these studies provide an incomplete picture of the advantage of DMNCs, advantages that are likely to be more salient as the growth of DMNCs will result in additional competition for AMNCs.

Hemce, in this paper we contribute to this understudied area by focusing on the context of cross-border mergers and acquisitions (M&As) and analyze differences in the pre- and post-acquisition performance of target firms acquired by DMNCs and AMNCs. Narrowing the analysis to cross-border M&As helps facilitate the comparison and identification of particular types of advantages.

to do this extend the resource-based view (RBV) and argue that the country of origin of the firm induces it to develop particular resources in its home country which later affect its performance outside the country. Specifically, we argue that target firms acquired by DMNCs have lower pre-acquisition performance than target firms acquired by AMNCs because DMNCs have less sophisticated financial capabilities that limit their ability to purchase firms abroad. However, we also propose that target firms acquired by DMNCs have higher post-acquisition performance than target firms purchased by AMNCs because DMNCs have more-sophisticated efficiency capabilities that support restructuring within target firms.

We test these arguments on a sample of 139,417 cross-border M&As and find that target firms acquired by DMNCs in developed countries have worse pre-acquisition performance but better post-acquisition performance than target firms acquired by AMNCs. Thus, in effect DMNCs are able to turn water into wine, that is, they are able to transform firms that have low pre-acquisition performance into firms with high post-acquisition performance.

The arguments and findings contribute to the literature in several ways. First, they contribute to the RBV by explaining the link between country of origin and foreign performance.

The RBV has focused mostly on the internal resources of the firm and how these enable the company to compete. Recently, this theory has been complemented by the institution-based view (IBV), which has argued that the conditions of the foreign institutional environment affect the competitive behavior of the multinational firm abroad (Meyer et al, 2009; Peng, Wang and Jiang, 2008). We thus extend the RBV, and establish a better connection to the IBV, by explaining how the conditions of the country of origin affect the development of resources in the firm there, and how these then affect its advantage abroad.

The paper also contributes to the literature comparing DMNCs and AMNCs. It goes beyond previous studies that have focused on advantages and instead we argue that DMNCs have not only advantages but also disadvantages in comparison to AMNCs. We argue that one is likely to overshadow the other depending on the type of performance analyzed and the location of the competition the study is performed. This breaks with the tradition of universalistic recommendations and instead proposes a more nuanced contingent view of competition and advantages.

The rest of the paper is organized as follows. In the next section we discuss the theoretical basis and explain the hypotheses that explain the differences in target performance of cross-border M&As done by DMNCs and AMNCs. We then present the research design and discuss the results of the analysis. We conclude with the contributions to the literature.

COUNTRY OF ORIGIN AND CROSS-BORDER M&A TARGET PERFORMANCE

Country of Origin and Resources

The RBV argues that companies have different bundles of resources which are historically determined by the circumstances of the firm. A company develops a set of resources that it uses in the generation of products that satisfy the needs of customers in competition with the offers from its competitors (Penrose, 1959). The resources a firm develops are the result of a path-dependent process in which demands from customers and competitive pressures induce the company to invest or acquire resources that it can use in its production process (Dierickx and Cool, 1989). Differences in the perceptions of managers and in the interactions with customers and competitors across companies result in firms developing unique sets of resources.

Although highly influential as a theory of the firm, the RBV has been critiqued as being too inward looking and not paying enough attention to the environment (Kogut and Kulatilaka, 2001). Its focus on the development and use of resources within the firm results in the perception that the external environment is merely a location of competition. The theory also assumes that the best method to develop resources is through internal development so that the firm can create a unique bundle of resources that supports its advantage.

In response to this inward looking approach, the competition-based and institution-based views have been presented as complement to the RBV. The competition-based view argues that the firm develops particular resources to be able to compete in an industry (Porter, 1985). The institution-based view argues that firms develop resources to interact with the institutional environment and operate within the institutional norms (Peng, 2002).

We extend these arguments to propose that the firm develops particular resources depending on the conditions of the country of origin as a result of not only the need to interact with the environment, but also of the relative specialization of firm and its environment whereby depending on the availability of particular resources in the environment the firm will have to develop them to be able to operate. Thus, our extension of the RBV to explain the impact of the

environment on the firm is driven by a different mechanism than the competition and institution-based views, specialization rather than interaction.

There are three broad mechanisms by which firms that operate in the same country would have similarities in their resource bundle: imitation, interaction, and specialization. The first two have been discussed previously in the literature; hence, we will briefly review them here and focus on the third one.

The first mechanism is the imitation of the resource bundle of firms operating in the same environment. Neo-institutional explanations of firm behavior argue that companies operating in the same environment will be similar to each other because they imitate each other behavior to achieve legitimacy. Companies operating in the same country and industry face similar regulatory, normative and cognitive pressures (Scott, 1995). Companies need to react to these pressures to achieve legitimacy in the country and thus be able to continue operating. Whereas some firms may innovate as the environment changes and create new resource bundles, other firms would merely imitate the behavior of the innovators to ensure that they are perceived as legitimate. Thus, firms from the same country of origin will end up being similar to the innovators and to each other. However, while this approach explains convergence within a country, it does not explain how firms and outward investment patterns would vary across countries.

The second mechanism is the interaction between the firm and its environment and the subsequent development of resources to enable this interaction. Competition-based and institution-based views of the firm explain that firms develop certain resources to be able to interact with the norms and conditions of the industry in which they compete and institutions in which they operate (Peng, 2002; Porter, 1985). Different from the neo-institutional view, companies many not necessarily imitate each other's behavior to achieve legitimacy, but rather react to similar requirements of the environment by developing similar responses. Thus, a firm facing the same industry structure as another, or having to deal with a similar institution as another, will react in a similar way to be able to interact with the norms and constrains prevailing in its environment.

The third mechanism is the relative specialization of the firm and its environment in the development of resources. The environment of a country provides resources that firms can use as inputs in their production process (Penrose, 1959). These inputs take form as indirect inputs in the value creation process such as advance logistics, raw materials, or components, as well as indirect inputs in the value creation process such as skilled labor, specialized finance or skilled labor. When the country in which the company is operating does not have providers of such inputs, the company has to invest in their development to be able to create value (Fisman and Khanna, 2004). Thus, the specialization of the environment of operation in the provision of particular resources enables the firm to specialize in the development of sophisticated resources that facilitate value creation. When the environment of the firm does not have specialized providers of sophisticated inputs, the company has to expand its resource bundle to develop those resources. This results in firms operating in the environment having similar wide or narrow bundles of resources as a result of the relative specialization of the environment in the provision of sophisticated resources that firms can use as inputs. Thus, firms from the same country of origin would have similarly wide or narrow resource bundles because of the need to develop resources not provided by the environment. We focus the discussion of the paper on this mechanism because the other mechanisms have already been discussed in the literature.

Country of Origin and DMNCs[1]

Despite the growing literature analyzing DMNCs, the classification of a country into advanced or developing is not clear. Different sources (e.g., World Bank, United Nations Development Program, United Nations Conference on Trade and Development, International Monetary Fund) use different criteria when classifying countries, which results in the same countries being classified as advanced by one source and as developing by another. This is an important issue because it jeopardizes the comparison and application of findings from one study to another. The key challenge emerges from the existence of many alternative dimensions that can be used to classify countries by development (e.g., GNI per capita in US$, GNI per capita in power purchasing parity terms, level of human development) and the fact that most of these dimensions are continuous, whereas the classification of countries is based on a bivariate indicator. Hence, rather than talking about AMNCs and DMNCs it would be more appropriate to talk about MNCs coming from countries with different levels of development in particular dimensions.

However, to simplify the analysis we assume, in line with other studies, that we can separate the countries of origin of MNCs into two groups, advanced and developing, and stereotype their relative differences and impact on the behavior of MNCs. Table 1 summarizes the differences and how these result in differing behavior of DMNC at home and abroad. These differences are highly stereotyped differences that do not take into account the large variation within each of the groups, but they reflect implicit assumptions that researchers hold when comparing DMNCs and AMNCs. We group a country's conditions into the four types identified by Ghemawat (2001): Cultural (socio-cultural), administrative (politico-legal), geographic, and economic.

*** Insert Table 1 about here ***

Country of Origin and Cross-Border M&As

There is a vast literature on M&A, which has tended to find that M&A are a complex strategic action that does not always result in the expected outcome (see Tuch and O'Sullivan, 2007, for a review). Within this literature, we focus on the comparison of target firm performance by acquirers coming from advanced and developing countries. Hence, we will not discuss general challenges of M&As, such as bad selection of targets, high premiums paid for the target, and integration difficulties (see Hitt, Ireland and Harrison, 2001, for a review), differences in performance between foreign and domestic acquirers (e.g., Conyon et al., 2002; Danbolt, 2004) or the performance of acquirers from foreign acquisitions (e.g., Markides and Ittner, 1994; Harris and Ravenscraft, 1991). We focus on cross-border M&As to analyze the differences between DMNCs and AMNCs because cross-border M&As are an area in which both types companies are on similar footing regarding their potential success. Both are foreign firms and as a result suffer from a liability of foreignness in comparison to domestic firms (Zaheer, 1995).

Applying the previous theoretical arguments to the case of target performance of cross-border M&As, we propose that target firms acquired by DMNCs will have different performance from target firms acquired by AMNCs because differences in the home country conditions of the firms result in differences in the resources they develop at home, which affect target firm performance. Thus, we propose that DMNCs have a different need as they search for resources to complement their base and would purchase companies that are not performing well but have the needed resources. However, at the same time, DMNCs are better at restructuring than

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[1]   This section draws on Cuervo-Cazurra (2010)

AMNCs because of the higher pressures for cost reduction that exist in their home countries, and thus, they would improve the post-acquisition performance more than AMNCs. This way, DMNCs would end up transforming water into wine, that is, transforming target firms from companies with poor pre-acquisition performance into firms with good post-acquisition performance.

Country of Origin and Target Firm Pre-acquisition Performance in Cross-Border M&As: DMNCs disadvantage in relation to AMNCs. We argue that pre-acquisition performance of targets purchased by DMNCs will be lower than that of target firms acquired by AMNCs because of the lack of funds at home limits the ability of DMNCs of buying high-performing firms. The reason is that DMNCs emerge in countries with less developed capital markets and banking systems (Booth et al, 2001; La Porta et al, 1998). Stock markets tend to be shallower than those of developed countries in terms of the number of companies quoted, the daily turnover, or the liquidity of the stocks. Moreover, much of the stock of firms quoted in developing countries tends to be controlled by individuals and families, with only a minor portion being free floating in the stock market. Moreover, in many cases it is not the firm but a subsidiary of a diversified business group that is quoted in the stock market. Even when the family does not control the majority of the stock of the firm, it can indirectly control the majority through pyramidal ownership schemes (Almeida and Wolfenzon, 2005). This creates additional agency problems in the form of family owners expropriating minority shareholders (Claessens et al, 1999; Morck and Yeung, 2004). The result of these lack of development of the financial markets and agency problems in DMNCs is limitations on their ability to obtain funds to purchase high performing firms in other countries. Investors who funds such acquisitions would worry that the DMNC may not be able to repay the funds lent and thus will limit the amounts of funds at a low cost that DMNCs can use for cross-border acquisitions. The result is that DMNCs may have to focus on purchasing firms that are under distress and hence are cheaper to acquire than companies that are highly profitable and thus valuable. This, for example, was the case of the August 2010 acquisitions of the Swedish car maker Volvo by the Chinese car firm Geely for US$1.5 million. Geely purchased Volvo from the US firm Ford who was looking to unload an unprofitable brand, which it had acquired in 1999 for US$6.45 billion.

Nevertheless, in many cases DMNCs do not need to acquire the leading companies to benefit from a cross-border acquisition. Developing countries have less developed technological systems (Furman, Porter and Stern, 2002). The lack of sophistication of human capital and the lack of protection of intellectual property limit the ability and incentive of companies to develop highly sophisticated technologies. As a result, when they acquire firms in more developed countries, they can obtain technology that although not being at the frontier it is nevertheless superior to their technology and thus help them upgrade their capabilities. This way DMNCs acquisition of firms in developed countries enables them to upgrade their capabilities (Luo and Tung, 2007). This was the case, for example of the acquisition of the PC line of the US firm IBM by the Chinese PC maker Lenovo in 2004. The Chinese firm acquired a line of activity that enabled it to obtain design technology and access to advanced R&D labs in the US and Japan and the use of the IBM brand for 5 years, while IBM sought to focus on higher value services, software and high-end computers and exit a line of business that it considered not core.

These arguments lend support to the following hypothesis:

Hypothesis 1. The pre-acquisition performance of targets purchased by DMNCs is lower than the pre-acquisition performance of targets purchased by AMNCs.

Country of Origin and Target Firm Pre-acquisition Performance in Cross-Border M&As: DMNC advantage over AMNCs. We propose that, in contrast to the previous argument, the post-acquisition performance of targets purchased by DMNCs will be higher than that of target firms acquired by AMNCs because of the superior cost cutting ability of DMNCs. Firms in developing countries tend to compete on the basis of price because the lower level of income of consumers makes them more price sensitive than consumers in developed countries (Prahalad, 2005). Consumers may not require products with the latest technologies but instead demand products that are low cost but have adequate features. Firms that can provide consumers with lower prices and acceptable quality will succeed. Thus, firms in developing countries end up competing primarily on the basis of prices. This price competition induces firms to focus on process improvements that enable them to reduce costs to serve consumers at home. The companies that achieve the higher level of efficiency become not only the market leader at home, but also become multinationals because this efficiency enables them to achieve an advantage in other countries (Green, Hornstein and White, 2009; Hymer, 1976). This results in DMNCs that are low cost producers not only because they operate in countries in which labor is cheaper, but also because they focus on cost reduction as the basis of their competitive advantage. This later ability to reduce costs, rather than the access to cheap labor, helps DMNCs in their foreign operations in which they can transfer such abilities.

Moreover, the higher cost of capital in developing countries induces companies to improve the efficiency of the machinery and process used to save on the relatively costly capital. This can result not only in the use of additional labor for activities than in developed countries are performed by machines, but also to redesign the production processes to achieve higher levels of efficiency in manufacturing.

These abilities to streamline processes and reduce manufacturing costs can help DMNCs when they acquire firms abroad. DMNCs bring to their acquisitions an efficiency drive and cost reduction practices created in their countries of origin. These practicesenable acquired firms to achieve higher post acquisition performance. For example, the Mexican cement producer Cemex undertook a series of acquisitions of firms in developed countries, like Sanson and Valenciana de Cementos in Spain in 1992, in which it managed to improve productivity thanks to the use of information technology practices it had initially developed in Mexico. Cemex had to create its own information technology system to overcome the limitations of the telephone system of Mexico; this information system and later the management practices associated with it enabled Cemex to achieve levels of efficiency in process technology that other competitors in developed countries did not have. Thus, in addition to the traditional improvement that target firms achieve from being acquired by foreign firms because foreign firms tend to have superior resources (e.g. Conyon et al., 2002; Danbolt, 2004), which will apply to targets acquired by DMNCs and AMNCs alike, we argue that targets acquired by DMNCs tend to perform better because DMNCs are better at implementing process efficiency and cost-cutting capabilities in acquired firms.

These ideas support the following hypothesis:

Hypothesis 2. The post-acquisition performance of targets purchased by DMNCs is higher than the post-acquisition performance of targets purchased by AMNCs.

RESEARCH DESIGN

We test these two hypotheses on a sample of 139,417 cross-border M&As in the period

1990-2009 around the world. Data on cross-border M&As come from SDC Platinum Global Mergers. We include all completed M&A deals between January 1, 1990 and December 31, 2009, in which the target firm is located in a different country than the acquiring firm or if the target ultimate parent company is in a different country than the acquirer ultimate parent company. Although SDC records acquisition information involving firms in the United Sates in 1980, for deals with firms in other countries, the data starts in 1990, which we use as starting date of our sample.[2] SDC provides information on deal specifics such as the value of acquisition, the share acquired as well as the financing method. For selected firms, SDC also offers financial accounting information such as operating profit, total sales, revenues, cost of goods sold and property, plant and equipment. These accounting variables are available up to five years prior to the acquisition announcement for a subset of target firms, however, for acquiring firms, they are only available in the year of the acquisition announcement. We match publicly listed target and acquiring firm to their stock price returns in Datastream. Datastream also provides the equity market index for individual countries in our sample. The Appendix describes the variables we use to measure firm performance and deal premium.

We compare and contrast cross-border M&As by DMNCs and AMNCs in several ways. First, we perform simple Wilcoxon-Mann-Whitney sample tests to see whether there are significant differences in the sample of DMNCs acquirer and target firms versus the sample of AMNCs acquirer and target firms. This simple sample test, however, would not account for the fact that it might not be the acquirer firms alone that drive significant results. Therefore, we also control for the target firm location. One way is to run a simple OLS specification with the performance variable on the left hand side and an indicator dummy for whether the acquirer firm is a DMNC or AMNC and adding target firm nation fixed effects to control for target destinations. This approach would uncover differences in target firm performance that depend on the type of acquirer. It would neglect, however, any acquirer-target pairing specific effects. For instance, it could be the case that an developing country acquirer paired with a target in advanced countries performs differently than an developing country acquiring firm with a target in another developing country. To account for these possible pairing effects, we sort the sample into various groups by acquirer origin and target destination. Essentially, there are four combinations of possible acquirer and target firm pairings: 1) developing country and advanced country targets, DC-AC; 2) developing country acquirers and developing country targets, DC-DC; 3) advanced country acquirers and advanced country targets, AC-AC; 4) advanced country and developing country targets, AC-DC. We perform OLS regressions with performance variables on the left hand side and dummy variables indicating the respective pairings. To avoid the dummy trap problem, we leave out one origin-destination combination which acts as the base case for comparison. By alternating the base case and re-rerunning the regression leaving out a different base case each time, we can establish the pattern of pre- and post-acquisition performance among those four possible acquirer-target pairings. Whereas most previous studies have looked only at a subset of those combinations, our approach enables us to establish a ranking in the pre- and post-acquisition successes and failures of acquirer and target firms.

We measure pre- and post-acquisition performance of target and acquiring firms in several ways. For pre-acquisition attributes, we use accounting measures of the target firm one year prior to the acquisition announcement date. For acquiring firms, we assess their pre-acquisition financial attributes based on measures during the year of the acquisition

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[2]   The results are robust when we include observations in the 1980s that are pre-dominantly US domestic acquisitions.

announcement.

For post-acquisition performance, we analyze a simple buy-and-hold return on the target and acquiring firm's stock prices using a period of one week surrounding the acquisition announcement date. Secondly, we also calculate the simple joint buy-and-hold return by weighting the target and acquiring firms' respective returns with their market capitalization rates.

Before we discuss the results, we need to acknowledge some simplifications done in the research design to test the hypotheses. First, we are not actually measuring or observing the specific resources of the firms but instead observe their countries of origin. Second, we are classifying countries into two types instead of analyzing the particularities of each country.

RESULTS

Table 2 provides the number of transactions by acquirer and target firm location. There are four possible combinations of acquirer and target firm pairings. The largest of the four grouping is the number of advanced country acquiring firms conducting M&A in other advanced countries (AC-AC). The second largest is advanced country firm acquirer and developing country target firms (AC-DC), followed by developing country acquirer and developing country targets (DC-DC), and lastly, developing country acquirer purchasing advanced country target firms (DC-AC). In the AC-AC and DC-DC pairings, we only include the observation if the transaction was cross-border, i.e. all domestic deals were excluded. We also leave out target and acquirer destinations that are tax havens such as Bahamas as described by the OECD (2008). The developing country countries with the largest number of outward M&A transactions in advanced countries are Hong Kong, Singapore, and India, and the most popular developing country target destination of advanced country acquirers are Brazil, China and India. On the advanced country side, the countries with the largest number of outbound M&A investments are United States, United Kingdom and Germany, and the most popular destinations of developing country acquirers in advanced countries are United States, Australia, and United Kingdom. Graph 1 describes the time trend of the four types of cross-border M&A over the years 1990 - 2009. The number of cross-border M&A between firms in advanced countries dominates the other three combinations by far.

*** Insert Table 2 about here ***

Table 3 summarizes transaction specific information for all four types of deals. Several facts emerge: deals involving advanced country acquirers are larger in size measured by transaction value than that deals involving developing country acquirers; market capitalization of acquirers going to advanced countries are higher than that of acquirers entering developing countries; median joint buy-and-hold returns for developing country acquirers are higher than those for advanced country acquirers independent of the target destination; the premium paid by advanced country acquirers is higher than that paid by developing country acquirers, and the median premium is higher for advanced country targets than that of developing country targets; lastly, advanced country acquirers pay more in terms of price over target book value than developing country acquirers, and advanced country targets have higher price over book value than developing country targets. In terms of acquirer and target industries are fairly similar across the various types of cross-border M&As.

*** Insert Table 3 about here ***

Table 4 provides an overview of target and acquirer financial characteristics. Whereas SDC provides information of firm financial variables for some targets up to 5 years prior to acquisition, the firm financial information for acquirer firm is only available for the year of the

M&A announcement. For target firms, we provide summary statistic on target firms one year prior to the acquisition, and for acquirer firms, the financial characteristics are based on information during the year of the acquisition announcement. On average, developing country acquirers pick advanced country targets that have a return on asset of -20.58%, where return on asset is measured as EBITDA over total assets. Advanced country acquirers fair even worse when picking developing country targets. On average, their developing country targets have a return on asset of -27.28% in the year prior to the acquisition announcement. Both type of acquirers do better, when picking targets in their respective group. The most research and development (R&D) targets are located in advanced countries, with advanced country acquirers picking on average the targets with the highest R&D expenses out of all groups. Developing country acquirers pick targets with higher levels of long term debt than advanced country acquirers, with target firm debt levels particularly high in advanced countries. On the acquirer side, during the year of acquisition, developing country acquirers are most profitable based on a 30.58% return on asset on average. Acquirer from developing countries also have on average lower debt levels than acquirers from advanced countries.

<div align="center">*** Insert Table 4 about here ***</div>

Table 5 provides basic pairwise correlation coefficients among target financial variables and among acquirer financial variables. Target buy-and-hold returns based on a one-week window around the announcement date is significantly and negatively correlated with the acquirer being from a developing country. The same variable is positively correlated with AC-AC M&A combination. Interestingly, things are the opposite for acquirer buy-and-hold returns. This variable is positively correlated with the acquirer being from an developing country and negatively correlated with AC-AC M&A.

<div align="center">*** Insert Table 5 about here ***</div>

In order to determine whether there are significant differences between developing country acquirer and advanced country acquirers, we perform several statistical tests. First, we use simple sample tests for testing significant differences in the sample means. The simple t-test reported in Table 6 provides results of analyzing pre-acquisition performance in target firms. The conclusions from Table 6: (1) developing country firms purchase relatively low performing targets in developed countries; (2) developing country firms pay a lower premium than advanced country acquirers; (3) developing country firms buy much smaller firms in developed country than advanced country acquirers; (4) developing country acquirers buy targets with lower R&D expenses and lower smaller intangible assets than advanced country acquirers; (5) target returns are higher involving a advanced country acquirer, but acquirer returns are higher for developing country acquirers as well as the joint return. Whereas the t-test is a parametric test assuming that the samples are based on normal distributions, the Wilcox rank test is a non-parametric test. The Wilcox rank test supports the t-test results.

<div align="center">*** Insert Table 6 about here ***</div>

In table 7, we perform regression analysis and control for target country fixed effects and re-run the analysis on various subsamples. In the first panel, we include the entire sample and perform OLS regression on various performance variables on a dummy indicating whether the acquirer is from an developing country, while controlling for target country fixed effects. The results echo those from the sample tests. Results: (1) advanced country acquirers pay a higher price, up to 20% higher, than developing country acquirers; (2) developing country acquirer buy targets with lower R&D expenses, up to 20% lower; (3) acquirers from developing countries pick targets with lower sales over asset and lower capital expenditure. The two bottom panels

provide results when using only one type of target. In the middle panel, we constrain the sample to all cross-border M&A transaction with advanced country targets. The results are mostly consistent with the whole sample analysis, but several additional facts emerge: (1) the joint buy-and-hold return is larger if the acquirer is from a developing country; (2) target return on assets for developing country acquirers are on average lower. In the last panel, we use only the subsample of transactions that involve developing country targets. Only a few of the whole sample results remain, the higher price for advanced country acquirers and the higher capital expenditure. The remaining results from the whole sample disappear. The additional fact that arises, however, is the lower level of target intangible assets when the acquirer is from an developing country.

*** Insert Table 7 about here ***

Lastly, we want to control specifically for acquirer target pairings. In each regression panel in table 8, we include dummies indicating the various acquirer target combinations as explanatory variables. We use a different baseline in each panel and draw the following overall conclusions: (1) advanced country acquirers pay the highest premium and highest price out of any combination; (2) target R&D levels are the highest in AC-AC transactions; (3) joint returns are higher in DC-DC deals than in AC-AC deals; (4) advanced economy acquirers pick advanced economy targets with higher profitability prior to the acquisition.

*** Insert Table 8 about here ***

CONCLUSIONS

We studied differences in performance of targets acquired by DMNCs and AMNCs to identify the advantages of DMNCs over AMNCs. This comparison is important because DMNCs are rapidly becoming leading contenders in world markets, but we know little about their ability to compete with AMNCS because few studies establish such comparisons.

We extended the RBV to argue that the country of origin of the firm affects the type of resources it develops and as a result its ability to perform abroad. This line of argumentation thus extends the RBT to the institution-based view by explaining the mechanisms by which not only institutions but also the conditions of operation in the home country induce companies to develop similar types of resources. Thus, in contrast to the traditional RBV that proposes that all firms have unique bundles of resources, we argue that firms coming from the same country of origin would have some similarities in their resources bundles, similarities that are not the result of direct imitation among companies but the result of reaction to similar environmental stimuli.

From this viewpoint we proposed that target firms acquired by DMNCs have worse pre-acquisition performance but better post-acquisition performance than target firms acquired by AMNCs. We explained this by arguing that the lack of development of capital markets and technological infrastructure in the home country limits the ability of DMNCs to purchase technologically sophisticated and expensive targets and thus DMNCs would end up acquiring poorly performing or distresses target firms. We also explained that the lower income of consumers and higher cost of capital in the home country would induce DMNCs to develop a higher ability to achieve process efficiency which enables them to transform acquired firms and achieve higher post-acquisition performance.

These arguments thus contribute to a better understanding of differences between DMNCs and AMNCs and to the comparison of the performance of target firms. Moreover, we go beyond the traditional comparison of performance of target firms acquired by foreign or

domestic firms, and instead analyze how the type of foreign firm that acquires the target firm affects its performance.

The paper is useful to managers because it explains why M&A are likely to have a differing impact on the performance of the target firm depending on the country of origin of the acquirer. DMNC managers should not be discouraged by what appears to be low initial performance because this can be turned into higher post-acquisition performance. Thus, these managers should counter that the idea from the M&A literature that M&As are not good for the firm, with the argument that this applies to AMNCs but not necessarily to DMNCs because of the differences in conditions of operation of the country of origin. DMNC managers are able to transform poorly performing targets into highly performing ones, thus turning water into wine.

The paper has some limitations that future research can address. First, we stereotyped countries into two types and analyzed their differences. This enabled us to provide a cleaner argument but future research can go deeper into the type of country and analyze variations within each group. Second, we explained the differences between the two groups of firms but did not directly measure the mechanisms proposed. Future research can go deeper and measure resources and capabilities, including their transfer. However, although measuring resources and capabilities is a desirable goal, most studies of the RBV still do not do this but instead measure assets and outcomes. Third, we studied publicly traded firms to be able to compare differences in performance. This is a common limitation in most studies as private firms are reluctant to provide information and thus are little studied. Future studies would benefit from analyzing traded and private firms and analyze their differing performance reactions to acquisition.

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Table 1. Differences between developing and advanced countries and their impact on DMNC behavior

Country dimension	Conditions of developing countries (in relation to advanced)	Impact of the conditions on the behavior of DMNCs at home	Impact of the conditions and behavior at home on the behavior of DMNCs abroad
Socio-cultural	Lower education Lower health Lower income Younger population	DMNCs generate consumer innovation that take into account differing needs (e.g., basic), lack of complementary assets in the country (e.g., finance), and lack of complementary assets in the consumers (e.g., access to electricity) DMNCS generate efficiency innovations that take into account the constraints of the labor pool (e.g., lower education)	DMNC internalize not only in similar developing countries, but also on different developed countries to take advantage of larger markets that pay more for efficiency-enhancing innovations
Politico-legal	Poorer governance/regulation More uncertainty/ volatility Fewer rights and freedoms	DMNCs internalize more transactions (i.e., more diversified) DMNCs are more resilient to the uncertainty and volatility of the political system DMNCS are more accustomed to poorer governance and regulation and develop the skills to deal with these and governments that are more unpredictable	DMNCs can enter into more and different countries using their skills at internalizing transactions and operating in difficult environments
Geographic	Worse infrastructure Poorer communications	DMNCs invest in the development of supporting infrastructure that is missing in the country (e.g., schools, hospitals, roads) DMNCs generate innovations that take into account infrastructure constraints (e.g., packaging, information technology)	DMNCs internationalize based on efficiency-enhancing process innovations developed to deal with the problematic conditions at home
Economic	Fewer and less developed suppliers Less sophisticated technology Underdeveloped capital markets	DMNCs internalize more suppliers of inputs (i.e., more integrated)	DMNCS undertake many cross-border relationships and expansions to obtain advanced inputs (license from foreign firms, alliances in home country with foreign firm, foreign acquisition, quote stock in foreign capital markets)

Note: For the purpose of this stereotyping exercise I consider as developed countries those listed by the International Monetary Fund as advanced economies (IMF, 2009): Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom, United States. Other countries are considered developing.

Table 2.Summary Statistics: Number of Transactions by Acquirer and Target Firm Location

	DC - AC	DC-DC	AC-AC	AC-DC
Sample Description	Developing country acquirer and advanced country targets	Developing country acquirer and developing country Targets	Advanced country acquirer and advanced countryTargets	Advanced country acquirer and developing country targets
Acquirer Nation	Algeria (2) Angola (1) Argentina (45) Bahrain (82) Bangladesh (1) Belarus(5) Bolivia (3) Bosnia (1) Botswana (2) Brazil (98) Brunei (6) Bulgaria (5) Cambodia (4) Chile (25) China (298) Colombia (12) Costa Rica (6) Croatia (8) Cuba (2) Czech Republic (32) Ecuador (4) Egypt (22) Estonia (18) Gabon (5) Gambia (1) Ghana (5) Guatemala (1) Hong Kong (775) Hungary (35) India (639) Indonesia (50) Iran (1) Iraq (1) Israel (416) Ivory Coast (1) Jamaica (11) Jordan (3) Kenya (1) Kuwait (45) Latvia (12) Lebanon (12) Liberia (6) Libya (10) Lithuania (10) Macau (2) Macedonia (1) Malaysia (302) Mexico (179) Mongolia (1) Morocco (8) Namibia (1) Nigeria (4) Oman (14) Pakistan (9) Papua N Guinea (9) Peru (6) Philippines (40) Poland (57) Qatar (30) Romania (11) Russian Fed (226) Saudi Arabia (63) Serbia (1) Singapore (685) Slovak Rep (7) Slovenia (18) South Africa (462) South Korea (247) Sri Lanka (5) Swaziland (2) Taiwan (186) Thailand (56) Tunisia (2) Turkey (50) Tuvalu (1) Uganda (4) Ukraine (20) Uruguay (50) Utd Arab Em (171) Vanuatu (1) Venezuela (18) Vietnam (7) Zambia (1) Zimbabwe (6) **Total (5,642)**	Albania (2) Algeria (4) Angola (6) Argentina (465) Bahrain (54) Bangladesh (9) Belarus (1) Bolivia (16) Bosnia (4) Botswana (15) Brazil (866) Brunei (5) Bulgaria (103) Cambodia (3) Cameroon (1) Chad (2) Chile (311) China (964) Colombia (108) Costa Rica (63) Croatia (63) Cuba (5) Czech Republic (299) Ecuador (22) Egypt (65) El Salvador (10) Estonia (135) Ethiopia (1) Gabon (2) Georgia (4) Ghana (14) Guatemala (19) Haiti (4) Honduras (4) Hong Kong (2,348) Hungary (334) India (715) Indonesia (265) Iran (2) Israel (153) Ivory Coast (13) Jamaica (17) Jordan (29) Kenya (28) Kuwait (99) Latvia (69) Lebanon (26) Lesotho (1) Liberia (3) Libya (9) Lithuania (87) Macau (10) Macedonia (6) Madagascar (1) Malawi (5) Malaysia (1,224) Mexico (349) Moldova (3) Mongolia (2) Montenegro (3) Morocco (35) Mozambique (2) Myanmar (2) Namibia (13) Nepal (4) Nicaragua (5) Nigeria (27) Oman (33) Pakistan (29) Papua N Guinea (25) Paraguay (6) Peru (110) Philippines (220) Poland (374) Qatar (26) Rep of Congo (4) Romania (99) Russian Fed (744) Saudi Arabia (83) Senegal (1) Serbia (21) Serbia & Mont.(8) Sierra Leone (3) Singapore (2,131) Slovak Rep (78) Slovenia (88) South Africa (625) South Korea (404) Sri Lanka (38) Sudan (2) Swaziland (2) Taiwan (250) Tanzania (2) Thailand (331) Tunisia (11) Turkey (152) Uganda (1) Ukraine (81) Uruguay (26) Utd Arab Em (211) Venezuela (88) Vietnam (32) Yemen (2) Yugoslavia (2) Zaire (1) Zambia (12) Zimbabwe (30) **Total (15,879)**	Australia (4,295) Austria (1,135) Belgium (1,861) Canada (7,143) Denmark (1,672) Finland (1,588) France (6,326) Germany (7,873) Greece (244) Ireland-Rep (1,412) Italy (2,400) Japan (2,707) Netherlands (4,223) New Zealand (968) Norway (1,410) Portugal (243) Spain (2,027) Sweden (3,390) Switzerland (2,755) United Kingdom (15,032) United States (27,158) **Total (95,862)**	Australia (786) Austria (599) Belgium (356) Canada (1,284) Denmark (302) Finland (420) France (1,511) Germany (1,604) Greece (225) Ireland-Rep (137) Italy (500) Japan (1,069) Netherlands (1,064) New Zealand (56) Norway (263) Portugal (305) Spain (994) Sweden (581) Switzerland (590) United Kingdom (2,588) United States (6,800) **Total (22,034)**
Target Nation	Australia (903) Austria (63) Belgium (51) Canada (280) Denmark (40) Finland (63) France (181) Germany (380) Greece (20) Ireland-Rep (34) Italy (145) Japan (249) Netherlands (140) New Zealand (128) Norway (51) Spain (121) Sweden (59) Switzerland (108) United Kingdom (811) United States (1,815) **Total (5,642)**	Albania (7) Algeria (7) Angola (5) Argentina (538) Armenia (24) Azerbaijan (17) Bahrain (38) Bangladesh (19) Belarus (26) Bhutan (1) Bolivia (35) Bosnia (38) Botswana (18) Brazil (865) Brunei (16) Bulgaria (126) Burkina Faso (1) Burundi (2) C. African Rep (1) Cambodia (32) Cameroon (6) Chad (1) Chile (245) China (2,076) Colombia (126) Costa Rica (38) Croatia (61) Cuba (2) Cyprus (46) Czech Republic (302) Dem Rep Congo (2) Ecuador (38) Egypt (107) El Salvador (25) Estonia (94) Ethiopia (2) Gabon (4) Georgia (21) Ghana (25) Gibraltar (3) Guatemala (17) Haiti (1) Honduras (9) Hong Kong (1,642) Hungary (285) Iceland (1) India (762) Indonesia (626) Iran (4) Iraq (8) Israel (90) Ivory Coast (15) Jamaica (19) Jordan (57) Kazakhstan (48) Kenya (27) Kuwait (21) Kyrgyzstan (8) Latvia (96) Lebanon (24) Lesotho (3) Liberia (2) Libya (4) Lithuania (127) Macau (46) Macedonia (38) Madagascar (6) Malawi (12) Malaysia (824) Mexico (241) Moldova (20) Mongolia (16) Montenegro (5) Morocco (41) Mozambique (12) Myanmar (18) Namibia (29) Nepal (10) Nicaragua (10) Niger (1) Nigeria (34) North Korea (4) Oman (35) Pakistan (68) Papua N Guinea (37) Paraguay (14) Peru (159) Philippines (356) Poland (327) Portugal (36) Qatar (10) Rep of Congo (4) Romania (174) Russian Fed (497) Rwanda (6) Saudi Arabia (44) Senegal (5) Serbia (27) Serbia & Mont. (41) Sierra Leone (4) Singapore (1,051) Slovak Rep (82) Slovenia (34) South Africa (485 South Korea (267) Sri Lanka (89) Sudan (23) Swaziland (4) Syria (7) Taiwan (227) Tajikistan (2) Tanzania (22) Thailand (554) Tonga (1) Tunisia (21) Turkey (154) Turkmenistan (4) Uganda (31) Ukraine (175) Uruguay (50) Utd Arab Em (91) Uzbekistan (30) Venezuela (93) Vietnam (127) Yemen (8) Yugoslavia (17) Zaire (1) Zambia (37) Zimbabwe (45) **Total (15,879)**	Australia (5,348) Austria (1,285) Belgium (2,022) Canada (7,042) Denmark (1,680) Finland (1,743) France (7,364) Germany (9,761) Greece (301) Ireland-Rep (1,167) Italy (3,669) Japan (1,816) Netherlands (3,462) New Zealand (1,568) Norway (1,630) Spain (3,925) Sweden (3,121) Switzerland (2,295) United Kingdom (13,887) United States (22,776) **Total (95,862)**	Albania (18) Algeria (29) Andorra (5) Angola (24) Argentina (1,001) Armenia (17) Azerbaijan (26) Bahrain (7) Bangladesh (14) Belarus (18) Bhutan (1) Bolivia (64) Bosnia (31) Botswana (13) Brazil (1,502) Brunei (6) Bulgaria (284) Burkina Faso (12) C. African Rep (4) Cambodia (7) Cameroon (8) Chad (4) Chile (491) China (1,479) Colombia (255) Costa Rica (57) Croatia (144) Cuba (8) Cyprus (68) Czech Republic (892) Dem Rep Congo (10) Ecuador (61) Egypt (113) El Salvador (31) Eritrea (2) Estonia (260) Ethiopia (1) Gabon (22) Gambia (2) Georgia (28) Ghana (41) Gibraltar (15) Greenland (6) Guatemala (38) Haiti (4) Honduras (15) Hong Kong (962) Hungary (809) Iceland (35) India (1,338) Indonesia (337) Iran (6) Iraq (2) Israel (520) Ivory Coast (17) Jamaica (34) Jordan (19) Kazakhstan (100) Kenya (20) Kuwait (12) Kyrgyzstan (17) Latvia (126) Lebanon (19) Liberia (4) Libya (5) Lithuania (188) Macau (6) Macedonia (30) Madagascar (13) Malawi (20) Malaysia (338) Mexico (1,154) Moldova (24)Mongolia (17) Montenegro (5) Morocco (88) Mozambique (21) Myanmar (3) Namibia (18) Nepal (1) Nicaragua (25) Niger (2) Nigeria (36) North Korea (5) Oman (16) Pakistan (56) Papua N Guinea (62) Paraguay (18) Peru (264) Philippines (244) Poland (1,238) Portugal (791) Qatar (17) Rep of Congo (16) Romania (396) Russian Fed (945) Rwanda (5) Saudi Arabia (30) Senegal (8) Serbia (44) Serbia & Mont. (45) Sierra Leone (14) Singapore (634) Slovak Rep (192) Slovenia (86) South Africa (748) South Korea (601) Sri Lanka (16) Sudan (2) Surinam (4) Swaziland (7) Syria (3) Taiwan (303) Tajikistan (6) Tanzania (32) Thailand (391) Tonga (4) Tunisia (52) Turkey (446) Turkmenistan (1) Uganda (16) Ukraine (230) Uruguay (51) Utd Arab Em (99) Uzbekistan (20) Venezuela (186) Vietnam (113) Yemen (4) Yugoslavia (21) Zaire (7) Zambia (24) Zimbabwe (28) **Total (22,034)**

Notes: The table summarizes the sample of completed cross-border M&A transactions announced between 1990 and 2009 in which the target firm is located in a different country than the acquiring firm or if the target ultimate parent company is in a different country than the acquirer ultimate parent company. Sample 1 (DC-AC) includes observations with an developing country acquirer and a advanced country target.

Table 3. Summary Statistics: Firm and Transaction Characteristics

	DC-AC	DC-DC	AC-AC	AC-DC
Sample Description	Developing country Acquirer & Advanced country Targets	Developing country Acquirer & Developing country Targets	Advanced country Acquirer & Advanced country Targets	Advanced country Acquirer & Developing country Targets
Firm and Deal Characteristics				
Median Transaction Size ($M)	15.00	10.82	20.00	16.68
Median Acquirer Market Capitalization	169.50	93.25	164.40	122.50
Majority Control (%)	0.72	0.71	0.87	0.70
Private Target (%)	0.39	0.36	0.43	0.45
Private Acquirer (%)	0.28	0.24	0.24	0.23
Median Target Buy-and-Hold Return (%)	0.05	0.03	0.07	0.04
Median Acquirer Buy-and-Hold Return (%)	0.01	0.01	0.01	0.01
Median Joint Buy-and-Hold Return (%)	0.06	0.06	0.02	0.03
Median Premium	15.05	8.11	24.17	17.86
Median Price over Book Value	1.96	1.86	2.48	2.18
Acquirer Industry (%)				
Investment & Commodity Firms, Dealers, Ex	24.76	26.37	16.9	17.33
Business Services	9.48	6.11	11.11	7.65
Electronic and Electrical Equipment	5.76	2.82	3.12	3.34
Prepackaged Software	4.04	1.22	4.02	2.01
Metal and Metal Products	3.92	2.87	2.96	2.55
Mining	3.49	2	1.82	5.59
Food and Kindred Products	2.98	5.35	3.45	6.05
Oil and Gas; Petroleum Refining	2.98	3.78	2.71	4.06
Transportation and Shipping	2.64	2.56	2.59	2.22
Real Estate; Mortgage Bankers and Broke	2.53	3.44	1.5	0.92
Target Industry (%)				
Investment & Commodity Firms, Dealers, Ex	4.63	9.59	4.01	4.73
Business Services	11.36	8.09	13.88	9.58
Electronic and Electrical Equipment	5.44	3.17	3.3	3.22
Prepackaged Software	5.09	1.68	5.12	2.1
Metal and Metal Products	3.4	3.38	3.38	3.2
Mining	6.77	2.97	2.23	6.26
Food and Kindred Products	3.37	6.1	3.63	6.56
Oil and Gas; Petroleum Refining	3.35	4.11	2.89	4.44
Transportation and Shipping	3.24	3.48	3.1	2.87
Real Estate; Mortgage Bankers and Broke	3.37	4.2	3.02	2.06

Notes: The table summarizes the sample of completed cross-border M&A transactions announced between 1990 and 2009. Buy-and-hold returns are estimated using a 3 day event window and using US$-denominated returns. Majority control is a dummy variables that denotes whether the acquirer holds 50% or more of the target firm's equity following the acquisition.

Table 4. Acquirer and Target Firm Financial Characteristics

	DC-AC	DC-DC	AC-AC	AC-DC
Average Target Firm Characteristics in year of acquisition announcement	Developing country Acquirer & Advanced country Targets	Developing country Acquirer & Developing country Targets	Advanced country Acquirer & Advanced country Targets	Advanced country Acquirer & Developing country Targets
Return on Assets (%)	-20.580%	6.076%	0.199%	-27.280%
Total Assets ($M)	13438.330	3508.366	12965.570	2536.102
Revenues ($M)	92641.430	3044.723	18450.240	198615.300
Net Income ($M)	8.950	-15.099	57.160	-14.952
Plant, Property, Equipment ($M)	93.295	2354.602	7030.554	784.489
EBITDA ($M)	14.654	427.932	1231.557	211.735
R&D Expenses ($M)	17.507	8.067	34.667	13.689
Intangible Assets ($M)	68.092	38.046	71.376	54.307
Total Liabilities ($M)	14807.530	2770.698	12339.220	4862.644
Total Long Term Debt ($M)	2803.244	616.507	516.836	478.825
Capital Expenditure ($M)	42.460	40.544	54.695	58.753
Average Acquirer Firm Characteristics in year of acquisition announcement				
Return on Assets (%)	30.575%	7.244%	3.480%	-4.715%
Total Assets ($M)	14239.750	6199.706	39684.410	121998.900
Revenues ($M)	4342.026	579.794	3669.812	9603.269
Net Income ($M)	160.190	81.475	98.440	143.328
Plant, Property, Equipment ($M)	166.516	170.685	179.257	228.089
EBITA ($M)	123.260	106.654	156.434	216.240
Intangible Assets ($M)	78.628	82.663	160.959	208.671
Total Liabilities ($M)	9317.966	4040.636	30520.460	97659.850
Total Long Term Debt ($M)	64.242	83.019	594.619	112.580

Note: The table summarizes the financial characteristics of target firms one year prior to the acquisition announcement year and those of acquirer firms in the year of the acquisition announcement. Return on Assets is calculated as Operating Profit (EBITDA)/Total Assets. All values except for return on assets are in millions of dollars.

Table 5. Correlation Matrix of Firm Characteristics

a) Target Characteristics

	valueoftransaction	ofsharesacq	logtargetnetsales	logt_totasset	logt_ppe	logt_rd	logofferbook	TargROA1YP	TargSOA1YP	TargROS1YP	logTargCapExp	logTargTotLiab	logTargLTDebt	TargIncOverTotAsset	target1weekRetrun	acq1weekReturn	joint1weekReturn	logpremium4week	logTargIntangibleAsset	DEV	Dir1	Dir2	Dir3	Dir4
valueoftransaction	1.000																							
ofsharesacq	0.060	1.000																						
logtargetnetsales	0.353	-0.193	1.000																					
logt_totasset	0.359	-0.257	0.791	1.000																				
logt_ppe	0.322	-0.253	0.665	0.829	1.000																			
logt_rd	0.334	0.054	0.262	0.411	0.348	1.000																		
logofferbook	0.107	0.127	-0.167	-0.310	-0.213	0.031	1.000																	
TargROA1YP	0.019	-0.001	0.045	0.072	0.070	0.053	0.003	1.000																
TargSOA1YP	-0.010	0.025	0.000	-0.084	-0.068	-0.118	0.112	-0.825	1.000															
TargROS1YP	0.016	0.016	0.126	0.028	0.021	-0.005	-0.009	0.008	0.007	1.000														
logTargCapExp	0.373	-0.118	0.647	0.749	0.836	0.487	-0.102	0.061	-0.059	0.019	1.000													
logTargTotLiab	0.358	-0.208	0.806	0.900	0.776	0.402	-0.190	0.027	-0.062	0.036	0.713	1.000												
logTargLTDebt	0.318	-0.162	0.538	0.714	0.682	0.352	-0.109	0.107	-0.061	0.026	0.628	0.794	1.000											
TargIncOverTotAsset	0.018	0.004	0.043	0.119	0.094	0.057	-0.025	0.578	-0.141	0.006	0.049	0.041	0.091	1.000										
target1weekRetrun	0.106	0.354	0.012	0.010	-0.066	0.052	0.065	0.012	-0.006	-0.006	-0.062	-0.038	-0.083	0.010	1.000									
acq1weekReturn	-0.004	0.014	0.021	-0.037	-0.037	-0.009	0.019	0.028	0.009	0.012	-0.018	-0.016	-0.027	0.005	0.101	1.000								
joint1weekReturn	0.055	-0.013	0.072	0.029	-0.026	0.115	-0.030	0.058	-0.027	-0.023	0.111	0.013	0.069	0.031	0.344	0.827	1.000							
logpremium4week	0.048	0.255	-0.046	-0.078	-0.075	0.044	0.069	-0.043	0.037	-0.008	-0.042	-0.059	-0.094	-0.022	0.420	0.021	0.019	1.000						
logTargIntangibleAsset	0.356	-0.111	0.468	0.557	0.461	0.501	-0.041	-0.036	0.015	-0.036	0.518	0.542	0.491	0.015	0.010	-0.015	0.084	0.011	1.000					
DEV	-0.054	-0.162	0.065	0.089	0.060	-0.140	-0.097	-0.001	-0.012	-0.010	-0.072	0.044	0.016	-0.004	-0.083	0.026	0.096	-0.036	-0.049	1.000				
Dir1	-0.010	-0.051	-0.004	-0.013	-0.031	-0.034	-0.045	-0.008	-0.006	-0.028	-0.068	-0.040	-0.004	-0.019	-0.027	0.007	0.124	-0.003	0.006	0.481	1.000			
Dir2	-0.055	-0.152	0.084	0.125	0.100	-0.166	-0.082	0.006	-0.010	0.011	-0.033	0.091	0.023	0.012	-0.080	0.025	0.003	-0.042	-0.068	0.839	-0.074	1.000		
Dir3	0.061	0.281	-0.108	-0.154	-0.155	0.255	0.099	0.011	0.010	0.001	0.008	-0.111	-0.060	0.005	0.117	-0.023	-0.074	0.064	0.059	-0.634	-0.305	-0.532	1.000	
Dir4	-0.021	-0.198	0.078	0.116	0.144	-0.193	-0.023	-0.014	0.000	0.011	0.072	0.108	0.063	-0.002	-0.062	0.006	-0.019	-0.049	-0.026	-0.185	-0.089	-0.155	-0.643	1.0

a) Acquirer Characteristics

	logAcqNetSales	logAcqTotAsset	logAcqTotLiab	logAcqPPE	logAcqIntangibleAsset	AcqROA	AcqNetIncTotAsset
logAcqNetSales	1						
logAcqTotAsset	0.861	1					
logAcqTotLiab	0.8692	0.9693	1				
logAcqPPE	0.7164	0.7983	0.8008	1			
logAcqIntangibleAsset	0.5244	0.5864	0.5833	0.5089	1		
AcqROA	0.0991	0.1117	0.0688	0.1706	0.0593	1	
AcqNetIncTotAsset	0.1326	0.1503	0.0921	0.1936	0.1018	0.7196	1

Notes: The table displays the pairwise correlation coefficients of Latin target and acquirer firms in our sample that were announced between 1990 and 2009. The variable EM is a dummy variable, equaling one if the acquirer is from an developing country. ROA is return on asset, which is operating income/asset. All values except for ROA, Net Income/Asset, and Gross Profit are in logs. Panel A presents the correlation coefficients for target firms and Panel B presents those for acquirer firms.
All coefficients in bold indicate significance level at 1%.

Table 6. Sample Tests

Sample Tests		T-Test		Wilcox Test	
	Difference (AMNC Acquisition - DMNC Acquisition)	t-statistic	p-value	z-statistic	p-value
valueoftransactionmil	20.169	13.306	0.000	23.838	0.000
ofsharesacq	14.603	59.566	0.000	64.671	0.000
logtargetnetsale	-0.384	-9.885	0.000	-11.476	0.000
logt_totassets1yprior	-0.471	-10.786	0.000	-9.753	0.000
logt_ppe1yprior	-0.357	-6.908	0.000	-6.587	0.000
logt_rd1yprior	0.755	7.334	0.000	6.950	0.000
logofferbook	0.345	10.706	0.000	11.411	0.000
TargROA1YP	0.018	0.130	0.897	7.788	0.000
TargSOA1YP	0.785	1.306	0.192	12.107	0.000
TargROS1YP	2.407	1.105	0.269	-0.115	0.909
logTargCapExp	0.438	8.133	0.000	7.929	0.000
logTargTotLiab	-0.256	-5.352	0.000	-5.490	0.000
logTargLTDebt	-0.098	-1.619	0.106	-0.919	0.358
TargIncTotAsset1YP	0.101	0.501	0.617	3.939	0.000
target1weekReturnW	0.036	6.936	0.000	7.115	0.000
acq1weekReturnW	-0.008	-4.543	0.000	-2.503	0.012
joint1weekReturnW	-0.029	-2.226	0.027	-2.509	0.012
logpremium4week	0.098	2.149	0.032	2.520	0.012
logTargintangibleAssets	0.313	4.615	0.000	4.676	0.000

Notes: The table displays sample mean tests where the mean of the first sample is the group of advanced country acquirers and the second sample is the group of developing country acquirers.

Table 7. Regression Analysis

Enitre Sample

	(1) logofferbook	(2) logpremium4week	(3) target1week Return	(4) acq1week Return	(5) joint1wee kReturn	(6) logt_rd1y prior	(7) TargROA1YP	(8) TargSOA1YP	(9) TargROS1YP	(10) logTargCapE xp	(11) logTargTo tLiab	(12) logTargLT Debt	(13) TargIncTo tAsset1YP	(14) logTargint angibleAss ets
EM	-0.202***	-0.067	4.485	-2.102	0.296	-0.199**	0.142	-0.681**	-4.796	-0.305***	0.003	0.008	-0.093	-0.111
	(0.038)	(0.058)	(3.605)	(4.132)	(0.254)	(0.100)	(0.249)	(0.301)	(5.271)	(0.061)	(0.054)	(0.069)	(0.456)	(0.073)
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12126	3659	6997	31304	533	2696	11937	12935	12195	12583	14947	10486	13904	8826
R-squared	0.05	0.054	0.017	0.003	0.086	0.192	0.006	0.005	0.005	0.071	0.117	0.063	0.004	0.072

SUBSAMPLES

Only Targets in DEV

	(1) logofferbook	(3) logpremium4week	(5) target1week Return	(7) acq1week Return	(9) joint1wee kReturn	(11) logt_rd1y prior	(13) TargROA1YP	(15) TargSOA1YP	(17) TargROS1YP	(19) logTargCapE xp	(21) logTargTo tLiab	(23) logTargLT Debt	(25) TargIncTo tAsset1YP	(27) logTargint angibleAss ets
EM	-0.220***	-0.101	-0.07	0.407	0.574**	-0.305**	-0.149+	-0.528+	-8.824	-0.286***	0.024	0.137	-0.553	-0.028
	(0.049)	(0.071)	(0.049)	(0.601)	(0.241)	(0.119)	(0.085)	(0.282)	(9.565)	(0.090)	(0.076)	(0.099)	(0.630)	(0.100)
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	9139	2715	5186	22116	402	2188	9227	9993	9069	8985	11769	7769	10894	6768
R-squared	0.035	0.04	0.002	0.001	0.111	0.121	0.004	0.004	0.005	0.055	0.088	0.043	0.003	0.053

Only Targets in EM

	(2) logofferbook	(4) logpremium4week	(6) target1week Return	(8) acq1week Return	(10) joint1wee kReturn	(12) logt_rd1y prior	(14) TargROA1YP	(16) TargSOA1YP	(18) TargROS1YP	(20) logTargCapE xp	(22) logTargTo tLiab	(24) logTargLT Debt	(26) TargIncTo tAsset1YP	(28) logTargint angibleAss ets
EM	-0.176***	-0.001	12.799	-3.705	-0.438	0.033	0.584	-0.883	0.125	-0.326***	-0.031	-0.149	0.61	-0.220**
	(0.060)	(0.102)	(10.267)	(6.791)	(0.696)	(0.187)	(0.616)	(0.597)	(0.201)	(0.081)	(0.072)	(0.092)	(0.634)	(0.106)
Target Country Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2987	944	1811	9188	131	508	2710	2942	3126	3598	3178	2717	3010	2058
R-squared	0.07	0.072	0.016	0.003	0.087	0.17	0.007	0.014	0.013	0.116	0.142	0.11	0.007	0.125

Robust standard errors in parentheses

+ significant at 10%; ** significant at 5%; *** significant at 1%

Table 8. Regression Controlling for Subsamples

Baseline: Dir4 (DEV-EM)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	logofferbook	logpremium4week	target1weekReturn	acq1weekReturn	joint1weekReturn	logt_rd1yprior	TargROA1YP	TargSOA1YP	TargROS1YP	logTargCapExp	logTargTotLiab	logTargLTDebt	TargIncTotAsset1YP	logTargintangibleAssets
Dir1 (EM-DEV)	-0.127**	0.163+	-5.735	-2.506	0.058	0.771***	0.067	-0.522	-12.043	-0.996***	-1.010***	-0.416***	-0.545	0.207+
	(0.059)	(0.093)	(3.742)	(3.251)	(0.465)	(0.158)	(0.404)	(0.406)	(9.240)	(0.100)	(0.089)	(0.112)	(0.712)	(0.116)
Dir2 (EM-EM)	-0.234***	0.048	11.441	0.024	-0.365	-0.238	0.334	-0.733+	0.016	-0.632***	-0.096	-0.227**	0.373	-0.340***
	(0.054)	(0.088)	(11.127)	(3.676)	(0.409)	(0.177)	(0.399)	(0.406)	(0.238)	(0.079)	(0.069)	(0.089)	(0.428)	(0.100)
Dir3 (DEV-DEV)	0.185***	0.232***	-5.672	-3.059	-0.521	1.283***	0.275	0.159	-2.646***	-0.410***	-0.870***	-0.484***	0.083	0.246***
	(0.041)	(0.070)	(3.742)	(3.195)	(0.394)	(0.112)	(0.402)	(0.521)	(0.792)	(0.060)	(0.055)	(0.068)	(0.429)	(0.072)
Observations	12126	3659	6997	31304	533	2696	11937	12935	12195	12583	14947	10486	13904	8826
R-squared	0.011	0.005	0.002	0	0.028	0.077	0	0	0.001	0.01	0.023	0.005	0	0.006

Baseline: Dir3 (DEV-DEV)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	logofferbook	logpremium4week	target1weekReturn	acq1weekReturn	joint1weekReturn	logt_rd1yprior	TargROA1YP	TargSOA1YP	TargROS1YP	logTargCapExp	logTargTotLiab	logTargLTDebt	TargIncTotAsset1YP	logTargintangibleAssets
Dir1 (EM-DEV)	-0.313***	-0.069	-0.063	0.553	0.579**	-0.512***	-0.208***	-0.681**	-9.397	-0.586***	-0.140+	0.068	-0.628	-0.038
	(0.048)	(0.070)	(0.049)	(0.616)	(0.248)	(0.126)	(0.079)	(0.329)	(9.268)	(0.090)	(0.077)	(0.098)	(0.575)	(0.101)
Dir2 (EM-EM)	-0.420***	-0.184***	17.112	3.083+	0.156	-1.522***	0.059	-0.892***	2.662***	-0.221***	0.775***	0.257***	0.289***	-0.586***
	(0.041)	(0.062)	(10.479)	(1.822)	(0.113)	(0.149)	(0.046)	(0.329)	(0.759)	(0.065)	(0.053)	(0.071)	(0.080)	(0.082)
Dir4 (DEV-EM)	-0.185***	-0.232***	5.672	3.059	0.521	-1.283***	-0.275	-0.159	2.646***	0.410***	0.870***	0.484***	-0.083	-0.246***
	(0.041)	(0.070)	(3.742)	(3.195)	(0.394)	(0.112)	(0.402)	(0.521)	(0.792)	(0.060)	(0.055)	(0.068)	(0.429)	(0.072)
Observations	12126	3659	6997	31304	533	2696	11937	12935	12195	12583	14947	10486	13904	8826
R-squared	0.011	0.005	0.002	0	0.028	0.077	0	0	0.001	0.01	0.023	0.005	0	0.006

Baseline: Dir1 (EM-DEV)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	logofferbook	logpremium4week	target1weekReturn	acq1weekReturn	joint1weekReturn	logt_rd1yprior	TargROA1YP	TargSOA1YP	TargROS1YP	logTargCapExp	logTargTotLiab	logTargLTDebt	TargIncTotAsset1YP	logTargintangibleAssets
Dir3 (DEV-DEV)	0.313***	0.069	0.063	-0.553	-0.579**	0.512***	0.208***	0.681**	9.397	0.586***	0.140+	-0.068	0.628	0.038
	(0.048)	(0.070)	(0.049)	(0.616)	(0.248)	(0.126)	(0.079)	(0.329)	(9.268)	(0.090)	(0.077)	(0.098)	(0.575)	(0.101)
Dir2 (EM-EM)	-0.107+	-0.115	17.175	2.53	-0.423	-1.010***	0.267***	-0.211***	12.059	0.364***	0.914***	0.189+	0.918	-0.547***
	(0.059)	(0.088)	(10.479)	(1.919)	(0.271)	(0.186)	(0.065)	(0.039)	(9.237)	(0.103)	(0.087)	(0.114)	(0.574)	(0.123)
Dir4 (DEV-EM)	0.127**	-0.163+	5.735	2.506	-0.058	-0.771***	-0.067	0.522	12.043	0.996***	1.010***	0.416***	0.545	-0.207+
	(0.059)	(0.093)	(3.742)	(3.251)	(0.465)	(0.158)	(0.404)	(0.406)	(9.240)	(0.100)	(0.089)	(0.112)	(0.712)	(0.116)
Observations	12126	3659	6997	31304	533	2696	11937	12935	12195	12583	14947	10486	13904	8826
R-squared	0.011	0.005	0.002	0	0.028	0.077	0	0	0.001	0.01	0.023	0.005	0	0.006

Robust standard errors in parentheses

+ significant at 10%; ** significant at 5%; *** significant at 1%