Top Management Team Age, Host Country Characteristic and Ownership Decision of Chinese OFDI

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Abstract

This paper empirically examines the effect of the Top Management Team Age and Host Country Characteristic on ownership decision of Chinese OFDI, with the sample of 227 cases of cross-border acquisition undertaken by 164 China's listed A-share companies from 2001 to 2015. We find that: The greater of the average age of the TMT, Chinese enterprises in cross-border M&A are more tend to joint venture acquisition of the target enterprises stake. Chinese enterprises in cross-border M&A are more tend to joint venture acquisition of the target enterprises stake in developed countries.

Keywords: Top Management Team, Cross-Border M&A, Country Characteristic

1. Introduction

In the tendency of global mobility, how enterprises can expand the international market while mastering the domestic market, which become a core problem for many entrepreneurs and governments. Cross-border M&A as one of the important way to implement internationalization strategy for enterprise, can make the enterprises entering overseas markets rapidly, acquiring more critical assets such as enterprise brand, market, technology and management skills, improving international competitiveness and a more positive influence on the innovation of the future. Therefore, cross-border M&A more and more get the favor of the enterprise (Yang & Hyland, 2012).

In 2000, the Chinese government put forward "Go out" policy according to the new situation about international development of economics, actively participate in international competition through foreign direct investment and other way, realize the modernization of Chinese economy sustainable development strategy. Since "go out" policy as the national strategy, China's foreign direct investment (OFDI) has been developing rapidly(Zhu & Zhu, 2016). According to "the China's foreign investment statistics bulletin" of the ministry of commerce showed that in 2015, the deal amount of Chinese enterprises invests in foreign countries is 579, involving 62 countries and regions. The actual transaction amount is \$54.44 billion, \$37.28 billion of direct investment, accounting for 68.5%. Foreign finance of \$17.16 billion, accounting for 31.5%, covers 18 sectors, including manufacturing, information transmission, software and information technology services, mining, culture, sports and entertainment.

The entry mode of foreign markets is an important part of multinational corporations' internationalization strategy and has been extensively studied in the field of international business (Yang, 2015). Ownership decision is an important issue in the M&A process, because the reasonable choice of ownership can make the enterprise get huge economic benefits through the integration and asset synergy after the acquisition. And the unreasonable choice may lead to the mismatch between the resource investment and the risk, and less than the expected value of rent grants and so on. The tactical design and application of ownership decision, will have a significant long-lasting impact.

The various natural attributes of top management team will have impact on manager's decision. Therefore, it is of great practical significance to study the relationship between the characteristics of top management team and the ownership decision of cross-border M&A. In addition, the level of economic development in the host country also affects the ownership decision. Based on this, this article, combined with Upper Echelons Theory, explored the effect of the age of top management team and the host country characteristics on ownership decision of Chinese OFDI.

2. Literature Review

An important research topic in international business is how to make decisions when an enterprise expands internationally (Nielsen & Nielsen, 2011). The existing researches examine the influencing factors of the ownership decision, mainly from the aspects of political risk, institutional distance, host country's corruption level, cultural distance and international experience. For example, La Porta et al. (1999) (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999) examined the impact of the legal institutional environment on the ownership structure of firms in various countries. The study found that in countries with low investor protection, firms rely more on majority ownership control to make up for low investor protection and low contract protection and other deficiencies. CUI Jiang and JIANG Fuming (2010) Study the influential factors of the ownership decision of China's outward FDI for the study of resource fundamentals and institutional basis theory. The research shows that in terms of institution, Chinese enterprises will adjust their entry strategies to achieve normative host countries. At the same time, they also need to comply with the rules set by the Chinese government, which provide incentives and restrictions for Chinese enterprises to make foreign direct investment decisions.

Since Hambrick and Mason proposed the "upper echelon theory" in 1984 (Hambrick & Mason, 1984), a large number of studies have been conducted to explain the impact of top management team (TMT) on business strategy based on the upper echelon theory from different perspectives. Upper echelon theory emphasizes the influence of top managers' values and cognitive on decision-making, while the demographic characteristics (such as age, gender, etc.) and psychological characteristics (such as values) of top management team play a decisive role. The education background and age characteristics of management can restrain the overinvestment behavior of enterprises; Li Yan, Qin Yihu and Zhang Xiaofei (2011) find that the age and tenure of TMT in state-owned enterprises has a negative impact on the amount of investment and the TMT age of private enterprises have negative impact on the amount of corporate investment, besides TMT’s experience in financial and economic work helps to increase the amount of corporate investment. Huang Xu (2013) studies the impact of top management team characteristics of Chinese listed companies on M&A behavior and finds that there is a significant positive effect between the size of management team and the probability of M&A behavior(Zhu & Zhu, 2016).

3. Hypotheses

Most of the previous studies on ownership strategies are based on the macroeconomic analysis of countries and industries, and lack of attention to the role of top management. Upper echelon theory (Hambrick & Mason, 1984)argues that demographic characteristics (such as academic qualifications, age, etc.) that represent manager’s values and perceptions affect manager’s decision-making, affecting many of their investment decisions. In cross-border mergers and acquisitions, faced with many complicated situations and uncertainties, managers are accustomed to operating companies based on their own past experiences and practices (Johansson & Vahlne, 1977; Jiang Wang, 2014).

The age of TMT represents their experience and risk preference, as well as their ability to process and analyze information, thereby affecting their choice of ownership(Yao Zhang, 2015). Young top manager are more willing to take risks, tend to be overconfident in business decisions, tend to adopt a fully controlled entry mode, and older managers tend to rely more on industry standards and historical experience in decision-making. With age growing, more inclined to choose conservative policy. Older executives tend to avoid dangerous behaviors that could undermine their security posture by choosing a joint venture. Therefore, this article has the following research hypotheses:

H 1: The higher the average ages of the top management team, the greater the likelihood that the firm chooses to take a joint venture.

According to the Institutional-Based View, the process of internationalization of enterprises is influenced by various formal or informal institutions. Some of this institution plays a catalytic role and some of them serve as obstacles. Such a institution includes not only the host country institution and the home country institution, but also the institutional gap between the two countries and the level of economic development. A large number of studies based on developed countries show that enterprises are more inclined to invest in countries with greater institutional distances than their home countries because property rights there are sound and can effectively protect their investment from being infringed upon.

For developing countries, Jiang Guanhong et al. (Jiang Guanhong & Jiang Dianchun, 2012) found that there is a big difference between the two countries in seeking market and resources motivation. The larger the scale of investment, the more inclined to choose a wholly owned entry mode (Agarwal & Ramaswami, 1992; Herrmann & Datta, 2006). If the host country is a developed country, corporate ownership arrangements are more likely to be joint ventures, which may be related to the host country's share of ownership interests in protecting its own interests and restricting foreign investment. Countries with different levels of development affect the management costs of enterprises and the evaluation of the uncertainty of target markets (Athukorala, 2014; Kogut & Singh, 1988), thus affecting the choice of ownership of enterprises. For developed and developing countries, Chinese enterprises often have different investment tendencies.

Therefore, this article has the following research hypotheses:

H 2a: In developed countries, firms are more likely to choose share-control entry mode.
H 2b: In developed countries, firms are more likely to choose wholly-control entry mode.

4. Research design

4.1 Samples

The cross-border M&A data for this article are sourced from the Zephyr Global M&A Transaction Analysis Database, which includes all M&A events that took place globally between 2001 and 2015, including information on mergers and acquisitions of listed and unlisted companies. This article mainly screens cross-border mergers and acquisitions based on the following three points: (1) The transaction buyer is a Shanghai-Shenzhen A-share listed company; (2) The target company is a company outside China mainland excluding Hong Kong, Macao, Bermuda, British Virgin Islands, Cayman Islands such as tax havens, and natural person acquisitions); (3) M&A transactions have been completed.

Top management team age data mainly from the CSMAR database. The top management team members include the chairman, vice chairman, general manager, deputy general manager, chief financial officer, secretary of the board of directors and other senior managers .The two databases are matched according to the listed company code. Finally, the paper identifies 227 cross-border mergers and acquisitions deals involving 167 A-share listed companies from 2001 to 2015.

4.2 Variables

4.2.1 Dependent variables

Ownership. Refers to the tactics of ownership adopted by enterprises in cross-border M&A: wholly-control ownership or share-control ownership. Based on previous research on decision-making and entry mode choice for cross-border mergers and acquisitions (He, Zhang, & Wang, 2014; Hennart & Larimo, 1998; Makino & Neupert, 2000; Guo Jianquan & Xie Xinxin, 2015), we use a 95% shareholding as a demarcation. If an enterprise holds more than 95% of the shares, the ownership value is 1, and if less than 95%, it is the share-control ownership strategy, the value is 0.

Table 1 the Main Variables of Descriptive Statistics

	Obs	Mean	Std.Dev.	Min	Max
CG	167	0.1317	0.3392	0	1
NR	167	14.838	14.479	2.3019	67.776
HT	167	17.527	8.6800	1.8781	58.071
GDP	167	5.0500e+12	6.2300e+12	9.3000e+10	1.7000e+13
PS	167	0.5539	0.6354	-1.7900	1.4500
Ggen	167	0.04192	0.2010	0	1
Gtenu	167	37.346	21.424	2.7700	97.750
Gsize	167	9.0659	4.9077	3	24
CpnyC	167	0.3653	0.4830	0	1
CtryC	167	0.9401	0.2380	0	1
Gage	167	46.182	3.6991	37	55.170

4.2.2 Independent and moderator variables

TMT age (Gage). Refers to the average age of all members of the top management team.

Host Country characteristic (CtryC). China's OFDI not only enters the developed countries but also flows into developing countries, as the major capital providers for developing countries. China's investment in countries of different characteristics is driven by different strategic factors (Buckley, Cross, Tan, Xin, & Voss, 2008; Cui & Jiang, 2012). This paper takes a dumb variable for the characteristics of the country, 1 for developed countries and 0 for developing countries.

4.2.3 Control variables

In addition to the above independent variables, this article adds the following control variables, these control variables are mainly divided into national aspect, enterprise aspect, TMT aspect.

(1) National aspect

Geographic distance (CG). Geographical distance will increase the information asymmetry of both M&A parties, thus affecting the before and after negotiation between the two parties (Ragozzino, 2009; Guo Jianquan & Jiang Huiting, 2015). Dummy variables, Asian countries to take 1, non-Asian countries to take 0.

Social Stability (PS). Represent the host country's political risk, the larger the index value, the more stable the community. The data come from the political stability index published by the World Bank, which lags behind the year of mergers and acquisitions.

Host Country Market Size (GDP). The larger market size of the host country is more attractive to mergers and acquisitions. This paper uses the GDP of the host country to indicate its market size. The data for the host country's GDP come from the World Bank, which lags behind the year of mergers and acquisitions.
In this paper, we measure the level of international trade level by taking the proportion of the metal exports to the goods export(NR) and the proportion of high-tech exports to goods exports (HT). Data from the World Bank, compared with the merger year to take a lag value.

Table 2 Correlation Matrix of the Main Variables

	CG	NR	HT	GDP	PS	Ggen	Gtenu	Gsize	CpnyC	CtryC	Gage
CG	1										
NR	-0.1699	1									
HT	0.3284	-0.08820	1								
GDP	-0.2793	-0.09830	0.09130	1							
PS	-0.5196	0.1317	0.2235	0.06770	1						
Ggen	-0.0826	-0.00490	0.05080	0.1543	0.04020	1					
Gtenu	-0.1444	-0.02230	-0.1758	0.2096	0.01850	0.1196	1				
Gsize	0.07080	-0.00920	-0.0371	-0.0190	-0.0837	-0.2319	-0.187	1			
CpnyC	0.1059	0.02460	0.2065	-0.2233	0.02990	-0.0989	-0.176	0.06140	1		
CtryC	-0.2740	-0.1748	0.2085	0.1707	0.3461	0.05350	0.1969	-0.0666	-0.121	1	
Gage	0.03420	-0.1566	0.02730	-0.0178	-0.0362	-0.0627	0.3073	0.1051	0.3455	-0.13	1

(2) Enterprise aspect

Company characteristic (CpnyC). From the perspective of ownership of enterprises, Chinese listed companies can be divided into two main types of state-controlled and private-controlled enterprises [25]. Ownership of enterprises has a significant impact on strategic decisions of enterprises, especially in emerging markets. As one of the emerging markets with the decisive role played by the government, whether China has government support will directly affect how much the firm acquires the stake of the target company in its M&A deals(Ma, Sun, Waisman, & Zhu, 2016). With reference to the existing research, the ownership type of an enterprise is determined by the type of the actual controller of the enterprise (Xu & Zhang, 2008). In this paper, dummy variable is used to measure the characteristics of the enterprise, while in the case of a state-controlled enterprise, it is recorded as 1, otherwise, denoted as 0.

(3) TMT aspect

Gender of Top Management Team (Ggen), taking into account differences in thinking between men and women caused by differences in the paper to take a dummy variable, the team has a female value of 1, no female value of 0. Gtenu represents the average tenure of all members of the top management team; Gsize represents the total number of top management staff.
Table 1 shows the descriptive statistics of the major variables.

Table 3 The Result of Regression

	Model 1	Model 2	Model 3	Model 4
CG	-3.3898***	-3.2988***	-3.6120***	-3.4689***
	(-3.48)	(-3.53)	(-3.63)	(-3.73)
NR	-0.0214	-0.0301**	-0.0290**	-0.0435***
	(-1.64)	(-2.05)	(-2.19)	(-2.83)
HT	0.0975***	0.0984***	0.1070***	0.1102***
	(3.23)	(3.42)	(3.39)	(3.69)
GDP	-0.0000	-0.0000	-0.0000	-0.0000
	(-0.39)	(-0.18)	(-0.48)	(-0.19)
PS	-0.8494**	-0.3608	-0.8935**	-0.2025
	(-2.07)	(-0.75)	(-2.14)	(-0.42)
Ggen	-0.7715	-0.7589	-0.9678	-0.9927
	(-0.92)	(-0.91)	(-1.13)	(-1.16)
Gtenu	0.0058	0.0091	0.0180*	0.0263**
	(0.69)	(1.05)	(1.83)	(2.49)
Gsize	0.0099	0.0118	0.0268	0.0352
	(0.28)	(0.32)	(0.73)	(0.92)
CpnyC	-0.2392	-0.3048	0.2380	0.2613
	(-0.64)	(-0.80)	(0.56)	(0.60)
CtryC		-2.0861*		-3.1801***
		(-1.83)		(-2.60)
Gage			-0.1685***	-0.2164***
			(-2.78)	(-3.29)
_cons	-0.7365	0.8971	6.3013**	10.8297***
	(-1.04)	(0.80)	(2.41)	(3.33)
N	165	165	165	165
pseudoR^2	0.107	0.123	0.143	0.176
Log lik.	-102.0561	-100.2120	-97.9091	-94.1642
Chi-squared	24.3293	28.0175	32.6232	40.1131

t statistics in parentheses
* p<0.1, ** p<0.05, *** p<0.01

5. Results and Discussions

Table 2 is the correlation matrix of the main variables, the maximum of the correlation between the independent variables is 0.35, indicating that there is no serious multicollinearity in this paper. Table 3 shows the regression results of the Logit model. Model 1 is the regression between ownership chocice and the control variables in this article. Among them, the regression coefficient of geographical distance and social stability is significantly negative, which shows that the farther the distance between geography and culture, the more stable politics, the more inclined Chinese enterprises choose share-control ownership. The regression coefficient of the host country's high-tech exports in the share of merchandise exports was significantly positive, indicating that Chinese enterprises prefer to adopt wholly-owned M&A strategies for host countries with high-tech development. Other control variables are not significant.

Based on Model 1, Model 2 added national characteristics to test the influence of the host country's nationality on the transnational M&A ownership choice. The result of Model 2 shows that the regression coefficient of the host country's national nature is -2.0861 and it passes the significance test of 10% level. It shows that if the host country is a developed country, Chinese enterprises are more inclined to joint ventures in cross-border mergers and acquisitions. Hypothesis 2a is confirmed. Model 3 adds the TMT age to test the impact on corporate ownership arrangements for cross-border M&A. The result of Model 3 shows that the regression coefficient of top management team age is -0.1685, and passed the significance test of 1% level, which shows that the older the top management team, the more inclined the Chinese enterprises are to joint ventures when transnational mergers and acquisitions. Hypothesis 1 is confirmed.

Based on Model 1, Model 4 includes both the TMT age and country characteristics. The results show that the influence of TMT age and national characteristics on the transnational M&A ownership arrangements does not change, and the significance of the national characteristics of the host country has been raised. Once again prove the hypothesis 1,2a established.

6. Conclusion

This paper empirically examines the effect of the Top Management Team Age and Host Country Characteristic on ownership decision of Chinese OFDI, with the sample of 227 cases of cross-border acquisition undertaken by 164 China's listed A-share companies from 2001 to 2015.The greater of the average age of the TMT, Chinese enterprises in cross-border M&A are more tend to joint venture acquisition of the target enterprises stake. Chinese enterprises in cross-border M&A are more tend to joint venture acquisition of the target enterprises stake in developed countries. The ownership decision in the beginning of the process of cross-border M&A, which kind of ownership the enterprises choose, is very important to the enterprise (Porter, 1989; Woodcock, Beamish, & Makino, 1994). TMT tend to choose a risk-averse model of joint ventures for their own financial and occupational safety considerations (Herrmann & Datta, 2006). If the host country is a developed country, corporate ownership arrangements are more likely to be joint ventures, which may be related to the host country's share of ownership interests in protecting its own interests and restricting foreign investment.

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