International Business Review xxx (2015) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance

Nolan Gaffney [a,1], Rusty Karst [b,2,*], Jack Clampit [c,3]

[a] Department of Management, University of North Texas, 1155 Union Circle #311160, Denton, TX, 76203, USA
[b] Department of Management, Marketing and Information Systems, Texas A&M University at Kingsville. 120 BUSA, Kingsville, TX, 78363, USA
[c] Culverhouse College of Commerce, University of Alabama, 133 Alston Hall, 361 Stadium Dr., Tuscaloosa, AL, 35404, USA

ARTICLE INFO

Article history:
Received 12 May 2014
Received in revised form 26 April 2015
Accepted 10 May 2015
Available online xxx

Keywords:
Cross-border acquisitions
Emerging market multinationals
Equity participation
Institutional distance

ABSTRACT

We theorize that in an attempt to facilitate the transfer of tacit assets during cross-border acquisitions, Emerging Market Multinationals (EMNEs) pursue higher levels of equity participation when targets are based in locations that are institutionally distant in terms of knowledge protection and economic development. Furthermore, we propose that these direct relationships are stronger for EMNEs than they are for MNEs. We test these propositions by comparing the cross-border acquisition activity of firms based in BRIC countries versus the U.K. While we do find a positive linear relationship between knowledge distance and equity participation, the link with economic distance is curvilinear. We also find that both dimensions of distance have greater positive effects on equity participation for EMNEs in comparison. The key implications are that institutional distance may be a positive for EMNEs and that their behavior does seem significantly different than traditional MNEs. This offers support for EMNE-specific internationalization theories.

1. Introduction

Cross-border acquisitions have increased in frequency and value over the last 20 years, leading to an increase in research on the antecedents, moderators, and consequences of these decisions (Barkema & Schijven, 2008; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Shimizu, Hitt, Vaidyanath, & Pisano, 2004). The growth of cross-border acquisitions has been fueled by industry consolidation, privatization, and the liberalization of economies around the world (Shimizu et al., 2004). A vast majority of this research has focused on cross-border acquisitions by firms based in developed countries. While this research is warranted and beneficial, the last two decades have also seen an increasing number of cross-border acquisitions initiated by Emerging Market Multinationals (EMNEs). In fact, emerging markets such as Brazil, Russia, India, and China have been a major source of cross-border acquisitions during the recent global recession and account for approximately 75% of all emerging market foreign direct investment (FDI) outflows (UNCTAD, 2013). As EMNE acquisition behavior becomes more prominent, it is important that we gain a fuller understanding of how the unique context of emerging markets spurs this type of internationalization, as well as to determine if and how EMNE acquisition behavior differs from more traditional developed country MNEs.

Acquisitions often fail to achieve value for acquirers, with implementation and integration difficulties often singled out for blame. Cross-border acquisitions are even more troublesome as institutional distance (i.e., the relative difference between institutional frameworks of the home and host country) reduces the compatibility of heterogeneous operating environments (Kostova, 1996, 1999; Kostova & Zaheer, 1999; Shimizu et al., 2004; Xu & Shenkar, 2002). Larger relative differences between two environments hinder a firm's ability to transfer strategic orientations and organizational practices from parent to subsidiary, thus decreasing the chance of successful integration (Kostova, 1999). Xu and Shenkar (2002) point to institutionally dissimilar contexts that make conflicting demands for external legitimacy (or local responsiveness) in the host country and internal consistency (or global integration) within the MNE system. Based on this logic, it is assumed that institutional distance is a deterrent when it

* Corresponding author. Tel.: +1 2105579510..
E-mail addresses: Nolan.Gaffney@unt.edu (N. Gaffney), Rusty.Karst@tamuk.edu (R. Karst), JClampit@culverhouse.ua.edu (J. Clampit).
[1] University of North Texas
[2] Texas A&M University at Kingsville
[3] University of Alabama

http://dx.doi.org/10.1016/j.ibusrev.2015.05.005
0969-5931/

comes to choosing acquisition targets. However, it has been suggested that institutional factors influence EMNE internationalization behavior differently (Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008; Redding, 2005).

Recent scholarship suggests that institutional distance affects the level of equity taken in cross-border acquisitions (Malhotra, Sivakumar, & Zhu, 2011; Morschett, Schramm-Klein, & Swoboda, 2010; Richards, 2000). This equity level, often referred to as equity participation, reflects the size of ownership stake pursued in a given cross-border acquisition. While the entry mode literature has generally treated acquisitions dichotomously, i.e., as either full or partial, with the latter treated as a form of joint venture (Barkema & Vermeulen, 1998; Brouthers & Hennart, 2007; Das & Teng, 2000; Hennart, 1991; Inkpen, 2001), the actual share of equity acquired in cross-border acquisitions varies widely. As the degree of ownership taken in an acquisition impacts many aspects of a firm's strategy – such as control over the venture, ability to transfer tacit assets, and risk exposure (Chari & Chang, 2009; Das & Teng, 2000; Pisano, 1989) – perhaps a more nuanced approach is warranted.

This may be especially true when studying EMNEs, who many suggest are more aggressive, proactive, and risk-taking versus traditional MNEs when pursuing globally competitive strategic assets and capabilities via internationalization activity (Chen, 2011; Hope, Thomas, & Vyas, 2011; Luo & Tung, 2007; Mathews, 2002, 2006). We suggest that EMNEs are more likely to pursue higher equity participation with targets based in locations that are more economically developed and more protective of knowledge assets. They do this in order to gain greater control over the target and their assets. This is especially important with respect to the acquisition of intangible assets that often serve as the key motivation for acquisition, as greater control has been found to facilitate the transfer of tacit assets (Chari & Chang, 2009; Das & Teng, 2000).

In support of this assertion, we find that EMNEs do generally seek larger equity shares when acquiring targets in distant locations with higher levels of economic development and knowledge protection (e.g. intellectual property). When EMNE behavior is compared to a sample of cross-border acquisitions by MNEs based in the UK, knowledge distance is found to have a larger effect on EMNE equity share. With respect to economic distance, however, there is an inflection point. The relationship takes the form of an inverted U, with equity share sought increasing from low to moderate levels of economic distance, but then decreasing sharply as the level of economic distance becomes too large. Furthermore, economic distance has a significantly different effect on EMNE behavior than the UK MNEs.

These findings contribute to the limited existing research on EMNE cross-border acquisitions (Aybar & Ficici, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010; Hope et al., 2011) by furthering our understanding of this phenomenon, and in so doing extend research on EMNE internationalization behavior in general. Furthermore, it offers evidence of how these firms differ from more traditional MNEs, such as those based in the UK. Specifically, that for EMNEs the effect of "distance" may actually be positive in some cases, contrary to what is generally found for more traditional MNEs from the developed world (Shimizu et al., 2004).

In the coming sections we first highlight the relevant literatures on EMNE cross-border acquisitions, institutional distance, and equity participation. Through this discussion we build to the argument that greater economic and knowledge distance increases equity participation in EMNE cross-border acquisitions and why the effect of these variables may be different than for more traditional MNEs. We then discuss our methodology, findings, implications for theory and practice, and future directions for research.

2. EMNE cross-border acquisitions, institutional distance, and equity participation

Roughly 30% of all acquisitions are considered cross-border, and are growing in both the number of deals and value (UNCTAD, 2013). Emerging markets have been an increasing source of acquisitions, reflecting a broader internationalization behavior that is more aggressive relatively and defiant of traditional internationalization theory (Aybar & Ficici, 2009; Gubbi et al., 2010; Hope et al., 2011; Luo & Tung, 2007).

2.1. EMNE cross-border acquisition behavior

EMNEs are theoretically different from traditional MNEs in that their comparative advantage is based on their latecomer status (e.g., as a low cost partner, not seen as a legitimate threat by established MNEs, lack of legacy costs, organizational flexibility) and the idiosyncratic nature of their home country (e.g., preferential access to low-cost labor, capital, or government policy), as opposed to the firm-specific advantages on which traditional MNEs rely (Mathews, 2002, 2006; Ramamurti, 2009; Rugman, 2009). Furthermore, EMNEs use these comparative advantages in order to acquire the targeted knowledge and capabilities strategically necessary to develop the firm-specific advantages that will help them become and remain globally competitive (Kedia, Gaffney, & Clampit, 2012).

Luo and Tung (2007) propose that EMNEs will systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against rivals (both at home and abroad), and to avoid institutional and market constraints (at home). EMNE internationalization behavior is systematic in that steps are deliberately designed to facilitate firm growth and to ultimately establish a competitive position in the global marketplace. It is recursive in that activities are recurrent (e.g., one foreign acquisition may improve an EMNE's disadvantage in managerial expertise, while a later acquisition might aim to improve logistics networks in the host country) and revolving (i.e. outward activities are strongly integrated with activities back home). EMNEs will also try to overcome their latecomer disadvantage through aggressive, proactive, and risk-taking acquisitions. Furthermore, EMNEs are motivated to internationalize because they seek both strategic assets (e.g. technology, R&D operations, operational know-how, and managerial expertise) and the opportunity to bolster economic and social development at home, and in so doing recompense for firm level competitive disadvantages globally (Gaffney, Kedia, & Clampit, 2013).

In recent years, an increasing portion of cross-border acquisitions are being initiated by EMNEs. In fact, in 2007 EMNE's share of cross-border acquisitions by value and number of deals has grown to 13% and 17% of total global acquisitions, respectively, up from roughly 4% and 5%, respectively in the late 1980s (Hope et al., 2011). This trajectory continues, as cross-border mergers and acquisitions grew 120.8% in emerging markets from 2012 to 2013 (UNCTAD, 2013). This is an interesting phenomenon in light of the fact that EMNE acquisitions have been shown to be even less successful than the cross border acquisitions of their traditional counterpart MNEs (Aybar & Ficici, 2009). Although there is limited research to explain this, a few notable exceptions exist; Hope et al. (2011) found, on average, EMNEs (compared with developed country MNEs) bid higher to acquire assets in developed countries when national pride is a motivation. However, Gubbi et al. (2010) found that in the case of Indian firms, cross-border acquisitions actually created value, especially when investments were made in developed countries.

Building on these and similar extant research, there is still a need to further explore whether EMNE cross-border acquisitions are truly more aggressive and have other behavioral differences

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

than typical cross-border acquisitions (i.e., by MNEs from the developed world). An important predictor of cross-border acquisition behavior (and internationalization behavior in general) is the concept of institutional distance (Kostova, 1996). Traditionally, institutional differences between the acquirer's home country and that of the target company often complicate the acquisition process and make acquirers risk adverse. Furthermore, the EMNE internationalization literature (e.g., Luo & Tung, 2007; Mathews, 2002, 2006) is largely based on the premise that EMNEs are different from traditional MNEs; thus there is a need for a direct comparison of these two MNE classifications in different contexts to determine if this demarcation is justified.

2.2. Institutional distance and equity participation

Equity participation (i.e. the size of ownership stake pursued in a cross-border acquisition) has gained increased attention in the literature as an important outcome in cross-border acquisitions, with variations of equity share sought in acquisitions being driven by differing strategies (Chari & Chang, 2009; Chen & Hennart, 2004; Malhotra, Sivakumar, & Zhu, 2011). The level of ownership taken in an acquisition impacts many aspects of a firm's strategy (Chari & Chang, 2009; Das & Teng, 2000; Pisano, 1989). Furthermore, it is not clear that partial cross-border acquisitions should be treated the same as joint ventures. Entry through partial acquisition is not a greenfield venture like traditional JVs (Brouthers & Hennart, 2007; Chen & Hennart, 2004).

Firms pursue differing levels of equity participation in cross-border acquisitions as a result of perceived outcomes from cost-benefit analysis of increased control commensurate with higher levels of ownership versus the potential for reduced risk exposure inherent in lesser ownership stakes (Inkpen, 2001). Opportunity costs are thus weighed and balanced based on firm specific internationalization strategy. Shared ownership may increase the costs of partner opportunism, reduce the firm's ability to fully integrate the operations of the venture, and increase the difficulty of transferring tacit assets (e.g. tacit knowledge) (Anderson & Gatignon, 1986; Hennart, 1991; Kogut & Zander, 1993).

Furthermore, Malhotra et al. (2011) found that cultural distance had a curvilinear relationship (U shaped) with equity participation. Chen (2011) found that firms were more likely to opt for a larger equity share in acquisitions when they are trying to acquire complementary capabilities. Interestingly, Chun (2009) found that when intellectual property protection was low, firms sought higher equity shares in acquisitions so as to protect their intellectual property. Thus, it is important to examine how dimensions of the broader construct of institutional distance affect this important outcome in cross-border acquisitions.

2.3. Distance and EMNE cross-border acquisition equity participation

Differences between the institutional frameworks of the home and host country (i.e., institutional distance) have been shown to decrease the ability of MNEs to successfully complete acquisitions and will increase the time it takes to complete announced deals (Dikova, Sahib, & Witteloostuijn, 2010). Institutional distance has also been shown to decrease the aggressiveness and equity level taken during cross-border acquisitions by more traditional MNEs (Pan & Tse, 2000), though this may not hold true for EMNEs (Aybar & Ficici, 2009).

EMNE specific internationalization perspectives would seem to suggest that the effects of institutional distance may be less negative, and in some cases positive in effect, than what is found in developed world MNE cross-border acquisitions (Mathews, 2002, 2006; Luo & Rui, 2009; Luo & Tung, 2007). Specifically, it would seem that certain dimensions of distance, in particular those that would help compensate for the institutional voids said to be present in emerging markets (Khanna & Palepu, 2006), such as knowledge asset protection and economic stability, may increase acquisition aggressiveness. Furthermore, as EMNEs look to acquire strategic assets abroad, they may be prone to more aggressive acquisitions, though in institutionally distant locations (Aybar & Ficici, 2009).

As multinational enterprises internationalize, they encounter a host of country level differences that contribute to specific forms of distance, such as cultural, administrative and economic distance (Ghemawat, 2001). One of the most common proxies of institutional distance is more accurately described as cultural distance. The results of studies examining the effects of cultural differences, points to the larger proposition behind institutional distance, that distance has negative effects on MNE behavior and outcomes (Barkema, Bell, & Pennings, 1996; Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Datta & Puia, 1995; Li & Guisinger, 1991). Cultural distance has been shown to encourage entry through wholly owned subsidiaries rather than acquisitions (Brouthers & Brouthers, 2000; Harzing, 2002; Kogut & Singh, 1988). Similarly, Davis, Desai, and Francis (2000) found that firms from countries with relatively higher quality institutions were more likely to invest in wholly owned subsidiaries, while those from relatively lower quality institutions tend to invest through acquisitions, suggesting cross-border acquisitions will be a primary vehicle of internationalization for EMNEs.

Berry, Guillen, and Zhou (2010)recent review of the concept of institutional distance suggests that there is a need to organize the research stream, since authors often use disparate proxies of the institutional distance notion, most often in the form of some variation of cultural distance (e.g., Xu & Shenkar, 2002). As such, Berry et al. (2010) offer nine sub-dimensions of institutional distance that are theoretically separate and give a more nuanced understanding of the concept, which when employed by researchers can more accurately differentiate and depict when, how, and why different elements of institutional distance matters. These nine sub-dimensions are Economic, Financial, Political, Administrative, Cultural, Demographic, Knowledge, Global Connectedness, and Geographic. Another difference in their approach is how they measure distance, by using the mahalanobis method rather than the more traditional euclidean distance method, which is more prevalent in the literature. The major advantage of their technique is that the multivariate distance measures are scale invariant and take into consideration the variance-covariance matrix.

Two of these sub-dimensions are of particular interest to EMNE cross-border acquisitions, economic distance and knowledge distance, because EMNEs are increasingly targeting firms based in economically developed locations with strong protections for intellectual property (e.g. tacit and other indigenous knowledge) (Elango & Pattnaik, 2011). The primary EMNE impetus are the global capabilities housed in target firms which EMNEs need and seek through acquisitions (Kedia, Gaffney, & Clampit, 2012; Luo & Tung, 2007). Furthermore, it has been argued that a more robust operationalization of distance will be achieved by focusing on a couple of key dimensions of distance, rather than clustering them all together under one overarching multidimensional measure, labeled "psychic or institutional distance" (Zaheer, Schomaker, & Nachum, 2012). Following this *key dimensions approach* facilitates selection of more acutely defined dimensions along which countries may differ, thus yielding increased insight specificity into the actual relationship being examined (Zaheer et al., 2012).

While economic distance is typically assumed to deter internationalization behavior and decrease associated outcomes, in the case of EMNEs it has the opposite effect. Emerging markets sometimes have deficiencies in their formal institutional structure that encourage internationalization by EMNEs in order to seek

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

safer environments for business (Khanna & Palepu, 2006, Luo & Tung, 2007). To this end, as EMNEs seek to become globally competitive, they are enticed to pursue cross-border acquisitions in economically distant locations. Thus, it is expected that EMNEs will seek a higher equity share in these acquisitions to increase control and facilitate the transfer of tacit assets.

Hypothesis 1. Greater economic distance between the home and host countries will increase EMNE equity participation during a cross-border acquisition.

Focused on the capacity to innovate and create knowledge, knowledge distance is a relatively new dimension of institutional frameworks (Berry et al., 2010; Furman, Porter, & Stern, 2002; Nelson & Rosenberg, 1993). Innovation, for instance, has been shown to not be distributed equally across locations (Florida, 2002), thereby affecting the distance between countries. Indeed, Guler and Guillen (2010) argue that countries differ in terms of the inputs allocated to the creation of knowledge, technology and innovation, the quality of the institutions that help transform those inputs, and the resulting level of performance. Furthermore, proximity to knowledge has been argued to influence foreign location choice of MNEs (Berry, 2006; Guler & Guillen, 2010; Nachum, Zaheer, & Gross, 2008; Shaver & Flyer, 2000). EMNEs in their search for strategic assets will be more aggressive in their cross-border acquisitions in countries with high concentrations of knowledge promoting and protecting institutions. To gain greater control over the capabilities of these targets they will pursue a higher equity share.

Hypothesis 2. Greater knowledge distance between the home and host countries will increase EMNE equity participation during a cross-border acquisition.

2.3.1. MNE classification effect

EMNEs have been argued to require a different explanation than the OLI Paradigm (Dunning, 1980, 1988), due to their accelerated internationalization pace (Mathews, 2002, 2006; Luo & Tung, 2007; Luo & Rui, 2009). Recent research on EMNE internationalization and, specifically, cross-border acquisitions also suggest that their behavior may differ from more traditional developed country MNEs (Aybar & Ficici, 2009; Chakrabarti, Gupta-Mukherjee, & Narayanan, 2009; Dikova et al., 2010; Gubbi et al., 2010; Hope et al., 2011).

Based on this logic, we expect EMNEs to be less deterred, and possibly more enticed, by institutional distance when engaging in cross-border acquisitions than their counterparts from developed countries. Specifically, we expect that economic and knowledge distance will have a larger positive effect for EMNE equity participation as compared to more traditional MNEs. Thus, we hypothesize.

Hypothesis 3a. For EMNEs economic distance will have a larger positive effect on equity participation during a cross-border acquisition than for more traditional MNEs.

Hypothesis 3b. For EMNEs knowledge distance will have a larger positive effect on equity participation during a cross-border acquisition than for more traditional MNEs.

3. Methods

We test our hypotheses with an analysis of two samples of all completed cross-border acquisitions that were valued more than $5 million ($US) between 2000 to 2010 as reported in the Thomson Financial SDC Platinum Database for Worldwide M&As. SDC Platinum is the premier source of up to date information on cross-border transactions from around the world and is most often used by investment banks to quote prices on companies that are being investigated for acquisition. It has also been used as the source of deal information by numerous recent top-tier academic journal publications focused on cross-border acquisitions (e.g., Chakrabarti et al., 2009; Dikova et al., 2010). The statistical technique we employ is hierarchical regression, which is similar to extant research on the topic in top tier international business publications (e.g., Aybar & Ficici, 2009; Gubbi et al., 2010; Hope et al., 2011).

The first sample comprises all completed cross-border acquisitions by MNEs based in Brazil, Russia, India, or China during the period under examination. This EMNE specific sample will be used to answer hypotheses 1 and 2. For each deal we match the deal characteristics provided in the SDC with the economic and financial distance between the home and host country as calculated by Berry, Guillen, and Zhou (2010) by year and country pair for each acquisition. Brazil, Russia, India, and China are the largest and most influential of the emerging markets, as defined by the United Nations Conference on Trade and Development (UNCTAD), and thus, are a representative sample of the classification of Emerging Market Multinationals (EMNEs). After removing acquisitions with missing data, our initial sample contains 519 unique acquisitions over the 11 year period.

To test for differences associated with MNE classification and answer hypotheses 3a and 3b, we add to the original sample all completed cross-border acquisitions by MNEs based in the UK for the same time period. Again, deal characteristics were derived from the SDC Platinum and matched with the economic and knowledge distance measures by year and country pair as calculated by Berry et al. (2010). MNEs originating in the United Kingdom are one of the largest sources of cross-border acquisitions, and thus can be argued to represent the behavior of more traditional MNEs. After removing acquisitions with missing data, our second sample contains 2363 unique acquisitions over the 11 year period. Each acquirer was then classified as either an EMNE or UK MNE, based on country of origin.

3.1. Measures

The dependent variable of interest is equity participation, or the percentage of equity in the target firm that the acquirer obtains in the international acquisition; it is a continuous scale provided in the SDC Platinum for each acquisition and ranges from 0.1% to 100%. Rather than using the dichotomous variable of partial or full acquisition like previous research, we join more recent scholars (Chari & Chang, 2009; Chen & Hennart, 2004; Malhotra et al., 2011) in examining the full range of equity participation sought. This provides a more nuanced incremental examination when compared to a dichotomous variable, which may artificially intensify findings. In our sample of EMNE cross-border acquisitions, equity participation had a mean of 73.78% and a standard deviation of 33.31%. In our full sample, which included a sample of UK MNEs, the mean for equity participation was 82.6% with a standard deviation of 29.87%. These values are consistent with prior research on cross-border acquisitions (Chari and Change, 2009; Malhotra et al., 2011).

The distance measures are operationalized as the dyadic distances between acquirer nation and target nation using the mahalanobis method, which is scale invariant and takes into consideration the variance-covariance matrix. Specifically, we use two of the disaggregated sub-dimensions of institutional distance (economic and knowledge) proposed and calculated by Berry et al. (2010).

Economic distance is defined as differences in economic development and macroeconomic characteristics as determined

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

by variation in Income, Inflations, Exports, and Imports (Campa & Guillén, 1999; Caves, 1996; Iyer, 1997; Whitley, 1992; Yeung, 1997; Zaheer & Zaheer, 1997). Thus it is a good proxy of the differences in economic development and macroeconomic characteristics between the home and host country. This dimension has emerged, in part, as a reaction to convergence theory (Dunlop, Harbison, Kerr, &Myers, 1975), which proposed that the aggregate effects of economics and technology would drive countries toward analogous patterns of work organization. Extant literature suggests that the global integration of markets and international diffusion of practices within MNEs will weaken country level effects (Mueller, 1994; Ohmae, 1990).

Berry et al. (2010) calculate economic distance based on three indicators of economic differences that predominate in the international business literature: income (GDP per capita), inflation (GDP deflator), and intensity of worldwide trade (exports and imports of goods and services). These have been shown to affect firm survival, performance, and foreign market entry mode (e.g., Iyer, 1997; Yeung, 1997; Zaheer & Zaheer, 1997). They also correlate with consumer preferences and purchasing power, openness of the economy to exogenous influences, and macroeconomic stability.

Berry et al. (2010) define knowledge distance as the difference in patents and scientific production as determined by variation in the number of patents and number of scientific articles per 1 million population (Anand & Kogut, 1997; Berry, 2006; Furman et al., 2002; Guler & Guillen, 2010; Nachum et al., 2008; Nelson & Rosenberg, 1993; Shaver & Flyer, 2000). In line with extant literature on national innovation systems, knowledge distance is operationalized through the number of scientific articles and patents per capita (Guler & Guillen, 2010; Furman et al., 2002; Nelson & Rosenberg, 1993). Articles and patents are widely used empirical indicators of the performance of national systems of innovation (Furman et al., 2002; Guler, Guillen, & MacPherson, 2002; Kumaresan & Miyazaki, 1999; Niosi, 2002). Moreover, Guler and Guillen (2010), through extensive field interviews, revealed that many industry experts and venture capital firms use scientific articles and patents as indicators of innovation in foreign countries.

To test for differences between the two theoretically different groups of MNEs, we define MNE Classification based on the country of origin for each acquirer, which is classified as either EMNE (Brazil, Russia, India, and China) or UK MNEs.

We control for several relevant factors to clarify the true influence of the two dimensions of institutional distance on equity participation. These are country level effects, industry effects, ownership type, firm size, deal value, and year. Home Country is the Acquirer's Home Nation, coded as 0 = Brazil, 1 = Russia, 2 = India, and 3 = China. In the second study, the following code is added as 4 = UK. Industry Type is the Acquirer's Macro Industry as defined by Thomson Financial based on SIC codes, coded as 0 = consumer products and services, 1 = consumer staples, 2 = energy and power, 3 = financials, 4 = healthcare, 5 = high technology, 6 = industrials, 7 = materials, 8 = media and entertainment, 9 = real estate, 10 = retail, 11 = telecommunications, and 12 = government and agencies. Ownership Type is the Acquirer's ownership type, coded as 0 = publicly traded, 1 = privately held, and 2 = government owned. Year is coded for the calendar year of the deal, to help account for economic shifts over time. Firm Size is calculated as the net sales of the acquirer for the last 12 months in US$ as reported in the SDC Platinum. Deal Value is the reported size of the acquisition as reported in the SDC Platinum.

4. Results

Table 1 presents the descriptive statistics and the correlation matrix for our sample of EMNE cross-border acquisitions. We see that there are positive correlations between our predictors, economic and knowledge distance, and the dependent variable equity participation.

Table 2 shows the findings of the fixed-effect hierarchical regression analysis for our EMNE sample. The *F*-statistics for all three models are significant at $p < 0.001$, suggesting that economic distance, knowledge distance and the control variables are important predictors of equity participation in EMNE cross-border acquisitions. The adjusted R^2 values increase from 0.15 to 0.18 when our IVs are added in Model 2, which are slightly less, but in line with extant literature (e.g., Malhotra et al., 2011, Lee, Shenkar, & Li, 2008; McNamara, Haleblian, & Dykes, 2008).

Model 1 includes all the control variables. We use dummy variables for all the control variables except firm size and deal value because of their categorical nature. However, for clarity of presentation we do not show these specific factors in our tables though their inclusion is important to partial out the influence of year, industry, country, and ownership type for a more clear understanding of the influence of our predictor variables on EMNE equity participation. Model 2 adds our two main predictor variables, and the R^2 change for Model 2 from Model 1 is significant at the $p < 0.001$ level. Economic distance has a significant, but surprisingly, negative effect on equity participation ($\beta = -0.11$, $p < 0.05$) which does not support hypothesis 1. Knowledge distance is positively associated with equity participation as predicted in hypothesis 2 ($\beta = 0.22$, $p < 0.001$). To further examine our surprising findings for hypothesis 1, we test for a curvilinear relationship between economic distance and equity participation. Model 3 introduces the squared economic distance term. This changes the sign of the economic distance coefficient from negative to positive ($\beta = 0.60$, $p < 0.001$) with the squared economic distance coefficient negative ($\beta = -0.59$, $p < 0.001$). This reveals that there is an inverted U relationship between economic distance and equity participation. This finding offers partial support to our hypothesis, in that equity share does have a positive relationship with economic distance to a point, but then becomes sharply negative as the level of economic distance climbs from moderate to high levels. This relationship is graphed in Fig. 1.

Table 1
EMNE sample Pearson correlations and summary statistics.

No.	Variables[a]	Mean	Std. Dev.	1	2	3	4	5
1	Equity participation	73.78	33.31	1				
2	Knowledge distance	9.18	8.63	0.23**	1			
3	Economic distance	15.59	16.47	0.06	0.58**	1		
4	Deal value	426.51	1413.30	0.03	−0.08*	−0.08*	1	
5	Acquirer size	8882.56	25236.80	−0.23**	−0.11**	−0.11**	0.09*	1

N = 519.
[a] Correlation matrix incorporates dummy controls for acquirer country, industry, year, and ownership type, but are not shown for ease of display.
* $p < 0.05$ (2-tailed).
** $p < 0.01$ (2-tailed).

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

Table 2
Knowledge and economic distance and EMNE equity participation.

Variables	Model 1	Model 2	Model 3
	β	β	B
Controls[a]			
Deal value	0.09*	0.09*	0.08
Acquirer size	−0.13**	−0.131**	−0.12**
Predictors			
Knowledge distance		0.22***	
Economic distance		−0.11*	0.60***
Economic distance^2			−0.59***
F	4.29***	4.71***	4.60***
Adjusted R^2	0.15	0.18	0.16
F for change in R^2		8.70***	

Standardized coefficients reported.
$N = 519$ for Model 1 and 2; $N = 577$ for Model 3.
[a] All models incorporate fixed effects for dummy controls for acquirer country, industry, year, and ownership type, but are not shown for ease of display.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

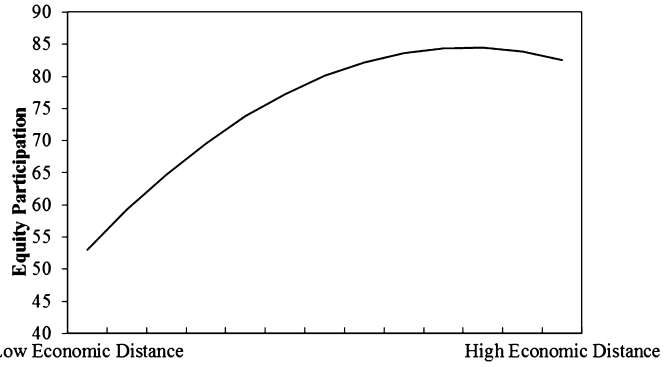

Fig. 1. Curvilinear graph for economic distance and EMNE Equity participation.

Table 3 presents the descriptive statistics and the correlation matrix for our second sample which adds a sample of UK MNE cross-border acquisitions for the same time period. We see that economic distance has a negative correlation with equity participation, while knowledge distance has a positive correlation with the dependent variable.

Table 4 shows the findings of the fixed-effect hierarchical regression analysis for our combined EMNE and UK MNE sample. The F-statistics for all four models are significant at $p < 0.001$, suggesting that economic distance, knowledge distance and the control variables are important predictors of equity participation in cross-border acquisitions. The R^2 values increase from 0.15, 0.18, to 0.183.

Model 1 includes all the control variables. We use dummy variables for all the control variables except firm size and deal value because of their categorical nature. However, for clarity of presentation we do not show these specific factors in our tables though their inclusion is important to partial out the influence of year, industry, and country for a more clear understanding of the influence of our predictor variables on equity participation for the two MNE classifications. Model 2 adds our two main predictor variables, and the R^2 change for Model 2 from Model 1 is significant at the $p < 0.001$ level. Similar to our initial findings in the EMNE only sample, economic distance has a significant negative effect on equity participation in our enlarged sample ($\beta = -0.07$, $p < 0.001$). Knowledge distance is also similar to our previous findings that it is positively associated with equity participation ($\beta = 0.15$, $p < 0.001$). Model 3 tests hypothesis 3, that economic and knowledge distance have differing effects on equity participation for EMNEs and UK MNEs. The R^2 change for Model 3 from Model 2 is significant at $p < 0.01$. The interaction term of knowledge distance and MNE classification is positive which means that there is a significant difference in the equity share sought by EMNEs when targeting firms in knowledge distant locations through cross-border acquisitions ($\beta = 0.11$, $p < 0.01$). This supports hypothesis 3a. We plotted the interaction graph for knowledge distance and MNE classification in Fig. 2. The interaction term for economic distance and MNE classification was not found to be significant, which fails to support hypothesis 3b.

Due to the curvilinear relationship that we found in our EMNE sample, the failure to find a positive relationship might not be surprising. In Model 4 we test for curvilinearity. This changes the sign of the economic distance coefficient from negative to positive ($\beta = 0.94$, $p < 0.001$) with the squared economic distance coefficient negative ($\beta = -0.74$, $p < 0.001$). This suggests that the combined sample has an inverted U shaped relationship. However, we also found support that there was an interaction with MNE classification ($\beta = 0.94$, $p < 0.001$; $\beta = -0.74$, $p < 0.001$). We graphed the interaction in Fig. 3, which demonstrates that economic distance affects cross-border acquisition equity participation differently for EMNEs than UK MNEs. Specifically, for EMNEs distance increases equity participation, but for UK MNEs it decreases it.

5. Discussion

Our findings that two dimensions of institutional distance have a positive impact on EMNE cross-border acquisition equity participation and that these relationships are significantly different than a sample of MNEs from the UK contributes to both the cross-border acquisition and EMNE internationalization literatures. It also holds important implications for practice. While there are limitations to our study, most provide opportunity for future contributions to the literature.

5.1. Implications for theory

Building on limited extant research (Aybar & Ficici, 2009; Gubbi et al., 2010; Hope et al., 2011) our findings extend understanding of

Table 3
EMNE and UK sample Pearson correlations and summary statistics.

No.	Variables[a]	Mean	Std. Dev.	1	2	3	4	5
1	Equity participation	82.60	29.87	1				
2	Knowledge distance	12.58	13.21	0.225**	1			
3	Economic distance	7.29	11.77	−0.125**	−0.033	1		
4	Deal value	397.84	2519.09	0.013	−0.018	−0.018	1	
5	Acquirer size	7432.83	21454.39	−0.214**	−0.067**	0.020	0.133**	1

$N = 2363$; $N = 2293$.
[a] Correlation matrix incorporates dummy controls for acquirer country, industry, year, and ownership type, but are not shown for ease of display.
* $p < 0.05$ (2-tailed).
** $p < 0.01$ (2-tailed).

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

Table 4
MNE classification effect on equity participation.

Variables	Model 1	Model 2	Model 3	Model 4
	β	B	β	β
Controls[a]				
Deal value	0.07***	0.07**	0.07***	0.07***
Acquirer size	−0.13***	−0.13***	−0.13***	−0.12***
Predictors				
Knowledge distance		0.15***	0.13***	
Economic distance		−0.07***	−0.12***	−0.62***
Economic distance^2				0.52***
Moderators				
Knowledge × MNE type			0.11**	
Economic × MNE type			0.27	0.94***
Economic^2 × MNE type				−0.74***
F	16.68***	18.49***	17.88***	17.87***
Adjusted R^2	0.15	0.18	0.18	0.18
F for change in R^2		35.99***	7.58**	

Standardized coefficients reported.
$N = 2363$ for Model 1, 2, and 3; $N = 2442$ for Model 4.
[a] All models incorporate fixed effects for dummy controls for acquirer country, industry, and year, but are not shown for ease of display.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

the motivations of EMNE cross-border acquisition behavior. For example, while institutional distance has been shown to decrease equity participation taken during cross-border acquisitions normally (Pan & Tse, 2000), our findings suggest that the effect of distance may be positive in the case of EMNEs. This integrates with the findings of Davis et al. (2000) who found that firms from countries with relatively higher quality institutions were more likely to invest in wholly owned subsidiaries, while those from relatively lower quality institutions tend to invest through acquisitions, suggesting that cross-border acquisitions are an important avenue of internationalization for EMNEs.

Evidence that distance is not always a linear relationship, but rather sometimes curvilinear has been shown in a cultural distance context (Malhotra et al., 2011). Our findings of a similar relationship between economic distance and equity participation suggests that more institutional dimensions may have nonlinear relationships, and that the field needs more theorizing and testing of curvilinear relationships in the cross-border acquisition literature. The inverted U shaped relationship was also found to be different in nature than the UK MNE sample, suggesting the need for further study of when and how relationships shift from linear to nonlinear.

As hypothesized, knowledge distance is shown to have a significant positive relationship with the equity participation of EMNEs in cross-border acquisitions. Furthermore, this relationship

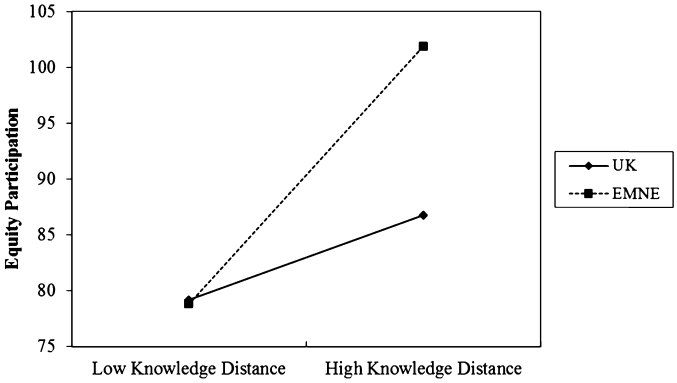

Fig. 2. Interaction graph for knowledge distance and equity participation by MNE type.

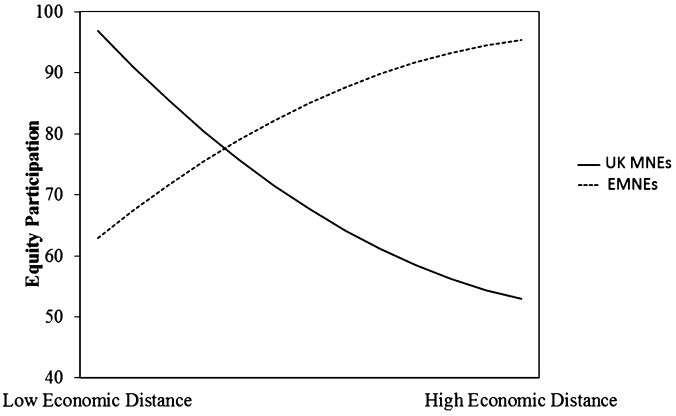

Fig. 3. Curvilinear interaction for economic distance and equity participation by MNE type.

is shown to be significantly different than the relationship of knowledge distance and UK MNE equity participation. This supports the findings of Chen (2011) that found that firms were more likely to opt for a larger equity share in acquisitions when they are trying to acquire complementary capabilities. However, Chun (2009) found that when intellectual property protection was low, firms sought higher equity shares in acquisitions so as to protect their intellectual property. Our findings suggest that this relationship is reversed in the case of EMNEs. This again supports the broader assertion of the EMNE internationalization literature that EMNEs are looking to acquire strategic assets through the internationalization process (Kedia, Gaffney, & Clampit, 2012; Gaffney et al., 2013). By taking a larger equity share, EMNEs increase control over the tangible and intangible assets of the target firm, which facilitates the transfer of organizational knowledge and capabilities.

This study also informs the broader institutions research from a theoretical perspective. It helps answer calls for increased international business research focus on the context of institutions (Leung, Bhagat, Buchan, Erez, & Gibson, 2005; Peng et al., 2008; Redding, 2005). Hoskisson, Eden, Lau, and Wright (2000) argued that institutional theory is possibly the most contextually influential theory supporting behavior demonstrated within emerging economies, though they predicted its eventual fading in practical use as emerging markets develop. Whether true or not, our findings suggest that institutional theory underpinned factors remain highly influential in markets, developed and developing alike (e.g., Peng et al., 2008, 2009; Redding, 2005). Using select institutional distance dimensions also provides a more nuanced study of firm conduct/behavior within developing markets, as well as between developed and developing markets, which also lends support to the position that the context of institutions, and institutional theory, matter.

Most importantly, our findings contribute to the EMNE internationalization literature by providing some evidence that, on at least these two dimensions, EMNE cross-border acquisition behavior is significantly different than a sample of developed country MNEs. This suggests that there may truly be differences between developed country MNEs and EMNEs, as suggested in the EMNE literature (Mathews, 2002, 2006; Ramamurti, 2009; Rugman, 2009), and encourages further theorizing and study on the origins and nature of these differences.

5.2. Implications for practice

Despite an absence of direct findings related to performance factors, implications for practice may still be inferred from our

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

analysis of conduct, while natural follow-up studies provide more direct guidance.

Previous studies have suggested that EMNEs are more willing to take risks in order to acquire firms that may help them quickly develop capabilities and obtain strategic assets that they need but do not possess. We extend this literature by examining how various forms of distance are likely to affect the degree of control EMNEs seek when acquiring such firms. The literature, as it currently stands, is coalescing around a set of revealed preferences of EMNE activity that highlights the importance of tacit asset transfer. Chari and Chang (2009) and Das and Teng (2000) find that greater levels of control with respect to target firms facilitate such asset transfer. We add to this by suggesting that EMNE managers investing in countries that are economically or knowledge distant may wish to consider increasing levels of equity participation even further. Follow-up studies that test whether or not the managerial decisions we observed were actually beneficial have yet to be completed. While this does limit our ability to offer more direct prescription, the presence of isomorphic conduct (DiMaggio & Powell, 1983), in conjunction with related findings that have been verified (e.g., Das & Teng, 2000), does offer some guidance.

Isomorphism does sometimes contain an embedded logic that may be especially apt during nascent stages of business activity, when consensus based on hard experience has yet to be achieved and firms are operating in circumstances that are a bit uncertain. For example, there is often wisdom in the decisions of crowds (Surowiecki, 2005), and perhaps your competitors know something that you do not. Moreover, even if the crowd is wrong, you will be less apt to find yourself at a competitive disadvantage relative to your peers if you are making similar decisions. In other words, perhaps it makes sense for managers who are not entirely sure of what their firms should do to try to remain level with competitors until the day arrives when they do find a degree of clarity with respect to how their firm should act. They may then make a more educated departure from herd behavior that allows their firm to stand apart and gain a true competitive advantage.

We thus suggest that in the absence of strong reasons to do otherwise, managers of EMNEs who are considering acquiring firms in distant nations for the purpose of tacit asset transfer should strongly consider acquiring at least a moderate share of target companies (as opposed to a series of smaller investments).

5.3. Limitations and directions for future research

In this study we use only two dimensions of distance that were relevant to our study. Future work in this area should examine other key dimensional aspects of distance and how they impact equity participation and other outcomes of cross-border acquisitions in different contexts. Furthermore, whether these relationships change based on MNE classification would also be an interesting pursuit. For example, it might be interesting to build on our findings and others (Malhotra et al., 2011) to examine if the curvilinear relationship between institutional and cultural dimensions and equity participation varies based on MNE classification; and further, initiate commensurate rigor in operationalizing the cultural distance construct by limiting the number of key dimensions and accurately selecting those with specific relevance and meaning.

While this study only compares EMNEs to a MNE sample from the UK, there is a need to compare EMNEs to other developed countries to verify that these and other important relationships demonstrate differences between their internationalization behaviors. Furthermore, it is important to study MNEs from specific emerging markets in isolation and in comparison to MNEs from other countries, developed or emerging. It is clear that Brazil, Russia, India, and China are vastly different countries with unique institutional histories and current policies. While their method of economic development shares many parallels and their MNEs exhibit similar behavior, it is important to gain a fuller understanding of potential differences between them.

It is also logical that there will be significant variance in internationalization behavior between industries, as each has a unique history and competitive landscape. It would appear the competitive dynamics of the pharmaceutical industry, consumer products, and high technology, for example, may be dramatically different and influence internationalization decisions. Furthermore, it would also be interesting to see how different forms of ownership alter EMNE cross-border acquisition behavior.

6. Conclusion

Motivated by the need to further understand a prominent new group of cross-border acquirers, we investigated EMNE acquisitions over an 11 year period. We posited that when pursuing targets in locations that are more economically developed and more protective of knowledge assets, EMNEs would pursue greater equity share to gain greater control over the target and facilitate the transfer of tacit assets. These acquisitions are a part of the broader goal to become and remain globally competitive. We found support for this in that both dimensions of institutional distance were found to have a significant positive effect on equity participation. Furthermore, as suggested by EMNE specific internationalization theory, we found that these dimensions of institutional distance affected EMNEs differently than MNEs from a more developed country. This offers support for the idea that EMNEs are different than more traditional MNEs from the developed world. Though institutional distance has long been held to be a deterrent to aggressive acquisition behavior, EMNEs may see institutional distance between their home country and the targets country as a positive during internationalization.

References

Anand, J., & Kogut, B. (1997). Technological capabilities of countries, firm rivalry, and foreign direct investment. *Journal of International Business Studies, 28*(3), 445–465.
Anderson, E., & Gatignon, H. (1986). Models of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies, 17*(3), 1–26.
Aybar, B., & Ficici, A. (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals. *Journal of International Business Studies, 40*, 1317–1338.
Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996). Foreign entry, cultural barriers, and learning. *Strategic Management Journal, 17*(2), 151–166.
Barkema, H. G., & Schijven, M. (2008). How do firms learn to make acquisitions? A review of past research and an agenda for the future. *Journal of Management, 34*(3), 594–634.
Barkema, H. G., & Vermeulen, F. (1998). International expansion through start-up or acquisition: A learning perspective. *Academy of Management Journal, 41*(1), 7–26.
Berry, H. (2006). Leaders, laggards and the pursuit of foreign knowledge. *Strategic Management Journal, 27*(2), 151–168.
Berry, H., Guillen, M., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies, 41*, 1460–1480.
Brouthers, K. D., & Brouthers, L. E. (2000). Acquisition or greenfield start-up? Institutional, cultural and transaction cost influences. *Strategic Management Journal, 21*, 89L 97.
Brouthers, K. D., & Hennart, J. F. (2007). Boundaries of the firm: Insights from international entry mode research. *Journal of Management, 33*(3), 395–425.
Campa, J., & Guillén, M. F. (1999). The internalization of exports: Firm- and location-specific factors in a middle-income country. *Management Science, 45*(11), 1463–1478.
Caves, R. E. (1996). *Multinational enterprise and economic analysis*. New York: Cambridge University Press.
Chakrabarti, R., Gupta-Mukherjee, S., & Narayanan, J. (2009). Mars–Venus marriages: Culture and cross-border M&A. *Journal of International Business Studies, 40*(2), 216–236.
Chari, M. D., & Chang, K. (2009). Determinants of the share of equity sought in cross-border acquisitions. *Journal of International Business Studies, 40*, 1277–1297.
Chatterjee, S., Lubatkin, M., Schweiger, D., & Weber, Y. (1992). Cultural differences and shareholder value in related mergers linking equity and human capital. *Strategic Management Journal, 13*, 319L 334.

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005

Chen, S., & Hennart, J. (2004). A hostage theory of joint ventures: Why do Japanese investors choose partial over full acquisitions to enter the United States? *Journal of Business Research, 57*(10), 1126–1134.
Chen, W. (2011). The effect of investor origin on firm performance: Domestic and foreign direct investment in the United States. *Journal of International Economics, 83*(2), 219–228.
Chun, B. G. (2009). Firm's choice of ownership structure: An empirical test with Korean multinationals. *Japan and the World Economy, 21*(1), 26–38.
Das, T. K., & Teng, B. S. (2000). A resource-based theory of strategic alliances. *Journal of Management, 26*(1), 31–61.
Datta, D., & Puia, G. (1995). Cross-border acquisitions: An examination of the influence of relatedness and cultural fit on shareholder value creation in U.S. acquiring firms. *Management International Review, 35*, 337–359.
Davis, P., Desai, A., & Francis, J. (2000). Mode of international entry: An isomorphism perspective. *Journal of International Business Studies, 31*, 239–258.
Dikova, D., Sahib, P., & Witteloostuijn, A. (2010). Cross-border acquisition abandonment and completion: The effect of institutional differences and organizational learning in the international business service industry, 1981–2001. *Journal of International Business Studies, 41*, 223–245.
DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48*, 147–160.
Dunlop, J. T., Harbison, F. H., Kerr, C., & Myers, C. A. (1975). *Industrialism and industrial man reconsidered*. Princeton, N.J Princeton University Press.
Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of International Business Studies, 11*, 9–31.
Dunning, J. H. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*, 1–31.
Elango, B., & Pattnaik, C. (2011). Learning before making the big leap: Acquisition strategies of emerging market firms. *Management International Review, 51*, 461–481.
Florida, R. (2002). *The rise of the creative class*. New York: Basic Books.
Furman, J. L., Porter, M. E., & Stern, S. (2002). The determinants of national innovative capacity. *Research Policy, 31*(6), 899–933.
Gaffney, N., Kedia, B., & Clampit, J. (2013). A resource dependence perspective of EMNE FDI strategy. *International Business Review, 22*(6), 1092–1100.
Ghemawat, P. (2001). Distance still matters: The hard reality of global expansion. *Harvard Business Review, 79*(8), 137–147.
Gubbi, S., Aulakh, P., Ray, S., Sarkar, M., & Chittoor, R. (2010). Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms. *Journal of International Business Studies, 41*(3), 397–418.
Guler, I., & Guillen, M. F. (2010). Institutions and the internationalization of US venture capital firms. *Journal of International Business Studies, 41*(2), 185–205.
Guler, I., Guillen, M. F., & MacPherson, J. M. (2002). Global competition, institutions, and the diffusion of organizational practices: The international spread of ISO 9000 quality certificates. *Administrative Science Quarterly, 47*(3), 207–232.
Haleblian, J., Devers, C., McNamara, G., Carpenter, M., & Davison, R. (2009). Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management, 35*(3), 469–502.
Harzing, A. W. (2002). Acquisitions versus greenfield investments: International strategy and management of entry modes. *Strategic Management Journal, 23*, 211–227.
Hennart, J. F. (1991). The transaction costs theory of joint ventures: An empirical study of Japanese subsidiaries in the United States. *Management Science, 37*(4), 483–497.
Hope, O., Thomas, W., & Vyas, D. (2011). The cost of pride: Why do firms from developing countries bid higher? *Journal of International Business Studies, 42*, 128–151.
Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of Management Journal, 43*(3), 249–267.
Inkpen, A. C. (2001). Strategic alliances. In A. M. Rugman & T. L. Brewer (Eds.), *The Oxford handbook of international business* (pp. 402–427). Oxford: Oxford University Press.
Iyer, G. R. (1997). Comparative marketing: An interdisciplinary framework for institutional analysis. *Journal of International Business Studies, 28*(3), 531–561.
Kedia, B., Gaffney, N., & Clampit, J. (2012). Emerging market multinationals and knowledge-seeking FDI. *Management International Review, 52*(2), 155–173.
Khanna, T., & Palepu, K. (2006). Emerging giants: Building world-class companies in developing economies. *Harvard Business Review, 84*, 60–70.
Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies, 19*(3), 411–432.
Kogut, B., & Zander, U. (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies, 24*(4), 625–645.
Kostova, T. (1996). *Success of the transnational transfer of organizational practices within multinational companies*. Minneapolis: University of Minnesota (Unpublished doctoral dissertation).
Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review, 24*, 308–324.
Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review, 24*, 64–81.
Kumaresan, N., & Miyazaki, K. (1999). An integrated network approach to systems of innovation: The case of robotics in Japan. *Research Policy, 28*(6), 563–585.
Lee, H. S., Shenkar, O., & Li, J. (2008). Cultural distance, investment flow, and control in cross-border cooperation. *Strategic Manage Journal, 29*(10), 1117–1125.
Leung, K., Bhagat, R. S., Buchan, N. R., Erez, M., & Gibson, C. B. (2005). Culture and international business: Recent advances and their implications for future research. *Journal of International Business*.
Li, J., & Guisinger, S. (1991). Comparative business failures of foreign-controlled firms in the United States. *Journal of International Business Studies, 22*, 209–224.
Luo, Y., & Rui, H. (2009). An ambidexterity perspective toward multinational enterprises from emerging economies. *Academy of Management Perspectives, 23*, 49–70.
Luo, Y., & Tung, R. L. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies, 38*, 481–498.
Malhotra, S., Sivakumar, K., & Zhu, P. (2011). Curvilinear relationship between cultural distance and equity participations: An empirical analysis of cross-border acquisitions. *Journal of International Management, 17*, 316–332.
Mathews, J. A. (2002). Competitive advantages of the latecomer firm: A resource-based account of industrial catch-up strategies. *Asia Pacific Journal of Management, 19*, 467–488.
Mathews, J. A. (2006). Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management, 23*, 5–27.
McNamara, G. M., Haleblian, J., & Dykes, B. J. (2008). The performance implications of participating in an acquisition wave: Early mover advantages, bandwagon effects, and the moderating influence of industry characteristics and acquirer tactics. *Academy of Management Journal, 51*(1), 113–130.
Morschett, D., Schramm-Klein, H., & Swoboda, B. (2010). Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice? *Journal of International Management, 16*, 60–77.
Mueller, F. (1994). Societal effect, organizational effect, and globalization. *Organization Studies, 15*, 407–428.
Nachum, L., Zaheer, S., & Gross, S. (2008). Does it matter where countries are? Proximity to knowledge, markets and resources, and MNE location choices. *Management Science, 54*(7), 1252–1265.
Nelson, R. R., & Rosenberg, N. (1993). Technical innovation and national systems. In R. R. Nelson (Ed.), *National innovation systems* (pp. 3–21). New York: Oxford University Press.
Niosi, J. (2002). National systems of innovation are "x-efficient" (and x-effective): Why some are slow learners. *Research Policy, 31*(2), 291–302.
Ohmae, K. (1990). *The borderless world*. New York: Harper Business.
Pan, Y., & Tse, D. (2000). The hierarchical model of market entry modes. *Journal of International Business Studies, 31*, 535L 554.
Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. (2009). The institution-based view as a third leg for a strategy tripod. *The Academy of Management Perspectives, 23*(3), 63–68.
Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy. A focus on emerging economies. *Journal of International Business Studies, 39*(5), 920–936.
Pisano, G. P. (1989). Using equity participation to support exchange: Evidence from the biotechnology industry. *Journal of Law, Economics, and Organization, 5*(1), 109–126.
Ramamurti, R. (2009). What we have learned about emerging-market MNEs? In R. Ramamurti & J. V. Singh (Eds.), *Emerging multinationals in emerging markets* (pp. 399–424). New York: Cambridge.
Redding, G. (2005). The thick description and comparison of societal systems of capitalism. *Journal of International Business Studies, 36*(2), 123–155.
Richards, M. (2000). Control exercised by U.S. multinationals over their overseas affiliates: Does location make a difference? *Journal of International Management, 6*(2), 105–120.
Rugman, A. M. (2009). Theoretical aspects of MNEs from emerging economies. In R. Ramamurti & J. V. Singh (Eds.), *Emerging multinationals in emerging markets* (pp. 42–63). New York: Cambridge.
Shaver, J. M., & Flyer, F. (2000). Agglomeration economies, firm heterogeneity and foreign direct investment in the United States. *Strategic Management Journal, 21*(12), 1175–1191.
Shimizu, K., Hitt, M., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management, 10*, 307–353.
Surowiecki, J. (2005). The wisdom of crowds. Random House LLC.
UNCTAD. (2013). Developing and transitioning markets global investment trends monitor (October 31, 2013).
Whitley, R. (1992). *Business systems in East Asia: Firms, markets, and societies*. London: Sage Publications.
Xu, D., & Shenkar, O. (2002). Institutional distance and the multinational enterprise. *Academy of Management Review, 27*, 608–618.
Yeung, H. W. C. (1997). Business networks and transnational corporations: A study of Hong–Kong firms in the ASEAN region. *Economic Geography, 73*(1), 1–25.
Zaheer, S., Schomaker, M. S., & Nachum, L. (2012). Distance without direction: Restoring credibility to a much-loved construct. *Journal of International Business Studies, 43*(1), 18–27.
Zaheer, S., & Zaheer, A. (1997). Country effects on information seeking in global electronic networks. *Journal of International Business Studies, 28*(1), 77–100.

Please cite this article in press as: Gaffney, N., et al. Emerging market MNE cross-border acquisition equity participation: The role of economic and knowledge distance. *International Business Review* (2015), http://dx.doi.org/10.1016/j.ibusrev.2015.05.005