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Emerging economies and institutional quality: Assessing the differential effects of institutional distances on ownership strategy

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ABSTRACT

The current study contributes to the institution-based view of internationalization that is contingent upon the home country development. We examine the differential effects of formal and informal institutions on emerging market multinational corporations' (EMNCs) ownership strategies. Facing a large informal institutional distance that represents diverse cultural beliefs, EMNCs opt for a low ownership position that alleviates legitimacy threat, whereas a large formal institutional distance leads EMNCs to establish dominant ownership control. EMNC home market conditions, including market size and regulatory institutional quality, further explain the differential effects of institutional distances.

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1. Introduction

Multinational corporations (MNCs) determine an appropriate level of ownership (i.e. the extent of equity investment) in a foreign subsidiary by evaluating various critical strategic considerations, such as ownership control and resource commitments (Delios & Beamish, 1999; Taylor & Zou, 1998). Traditionally, transaction cost economics (TCE) researchers suggest that, the environmental uncertainty increases a foreign acquirer's difficulty of searching, negotiating, and monitoring market transaction partners (Williamson, 1981). Increasing ownership control will reduce the transaction costs and thus improves governance efficiency (Brouthers & Hennart, 2007; Yang, 2015). However, examination of TCE was not fully carried out in some cases where a firm perceived host-home national differences as a high level of environmental uncertainty and opted for lower equity participation to diversify the investment risks in the unfamiliar market (Zhao, Luo, & Suh, 2004).

Seeking an alternative framework to analyze national differences, international business researchers suggest institutional theory as a promising perspective to advance entry strategy research (Brouthers & Hennart, 2007; Martin, 2014). Institutional theorists suggest institutions provide rules of the game that organizations ought to follow to gain legitimacy which is critical for their success and survival (DiMaggio & Powell, 1983; Suchman, 1995). Facing a large institutional distance, which refers to the differences in home-host countries' institutional environments, a foreign acquirer potentially faces the threat of lacking legitimacy due to their unfamiliarity with the host market (Kostova, 1997; Xu & Shenkar, 2002). To overcome the legitimacy threat, a foreign acquirer presumably can benefit from the existing acquired firm's legitimacy in the host market by sharing ownership with the acquired firm (Estrin, Ionascu, & Meyer, 2007; Xu & Shenkar, 2002). Some studies on advanced-market multinational corporations (AMNCs) render support for this legitimacy argument (Xu, Pan, & Beamish, 2004; Xu & Shenkar, 2002).

Outward investment of emerging market multinational corporations (EMNCs) provides a great opportunity for researchers to resolve the seeming paradox between the governance efficiency (i.e., high equity participation) considered in TCE and the legitimacy argument (i.e., low equity participation) discussed in institutional theory. Considering the institutional distance between EMNCs' home and host markets, we posit that the aforementioned legitimacy argument is likely to be secondary to EMNCs' governance efficiency concern for two contingencies. First, a low ownership position may not meet an EMNC's special agenda for foreign expansion, such as seeking strategic assets (Luo & Tung, 2007) and escaping home market institutional constraints (Cuervo-Cazurra & Ramamurti, 2015). A dominant position to secure ownership control rather than a minority stake can be

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desirable for EMNCs' strategic concerns derived from their home market constraints (Brouthers & Hennart, 2007; Delios & Beamish, 1999). Second, some studies such as Ang, Benischke, & Doh (2015) highlight the multi-dimensional nature and differential effects of the institutional distance. Due to the explicit nature and unified enforcement of formal institutional rules, EMNCs may comprehend and comply with the formal institutions in the absence of a local partner's assistance (Eden & Miller, 2004; Kostova & Zaheer, 1999).

Taking into account the aforementioned contingencies that arise from the unique context of EMNCs, we design the current study to take a fresh look at one of the important inquiries in international strategy research: how do dimensions of institutional distance and home market conditions influence a foreign acquirer's ownership strategy? We argue that formal and informal institutional distances have opposite effects on EMNCs' ownership strategies in their cross-border mergers and acquisitions (M&As). Driven by efficiency considerations, EMNCs will opt for a higher equity participation to enjoy a dominant ownership control in a host market with a larger formal institutional distance. On the other hand, facing a larger informal institutional distance, the EMNCs, driven by legitimacy concerns, will take less ownership and rely on the existing legitimacy of foreign counterparts to alleviate the legitimacy threat in the host market.

Further, we include two critical home market factors that highlight EMNCs' unique strategic concerns. Recent international business researchers suggest that EMNCs' particularly urgent agenda of foreign expansion mainly arises from constraints in their home markets (Cuervo-Cazurra & Ramamurti, 2015; Luo & Tung, 2007) and the contextual combinations of the home-host environmental factors are imperative in understanding EMNCs' international strategy (Child & Marinova, 2014; Cui & Jiang, 2012). Hence, we include EMNCs' home market size and regulatory institutional quality to study the moderating effects of EMNCs' home market characteristics on the relationship between institutional distance and EMNCs' ownership strategy. The two moderators of EMNCs' home market characteristics identified in the current study provide important evidence that EMNCs' ownership considerations in foreign expansion are constrained by their home market conditions (Child & Marinova, 2014; Cui & Jiang, 2012).

2. Theoretical background and hypothesis development

2.1. EMNCs' urgent need for internationalization and home market conditions

Among an array of entry modes, EMNCs have conducted a record volume of cross-border mergers and acquisitions to expediently establish global landscape (Luo & Tung, 2007). Compared to greenfield investment, acquisitions afford the EMNCs opportunities to work with the local partnering firms in exploiting cost-advantages and realizing the synergy benefits (Buckley, Elia, & Kafouros, 2014). Recent research suggests that EMNCs differ from traditional AMNCs in that EMNCs demonstrate an accelerated internationalization process (Bonaglia, Goldstein, & Mathews, 2007; Mathews, 2006). Other than the economic motivation (i.e., asset exploitation and exploration) of EMNCs' internationalization, researchers suggest that the inferior market-supporting institutions in EMNCs' home market play a significant role in driving EMNCs' early internationalization. Cuervo-Cazurra and Ramamurti (2015) argued that, in addition to the traditionally conceptualized "pull" factors (such as the large markets and wealthier consumers of advanced countries), "push" factors such as weak institutions and economic underdevelopment in their home countries drive EMNCs to invest in advanced countries. In other words, "escape motivation" will encourage EMNCs originating from countries with lower regulatory institutional quality to invest more in countries with higher regulatory institutional quality (Cuervo-Cazurra & Ramamurti, 2015).

2.2. Institutional distance and EMNCs' ownership strategy

Institutional distance, the extent of similarity or dissimilarity between home and host countries' institutions (Kostova, 1997), presents barriers for an MNC to reap the benefit of internationalization (Dikova, Sahib, & Van Witteloostuijn, 2010). In terms of formal institutional environment, countries differ with regard to the political and judicial regulations (e.g., common law vs. civil law), economic rules (e.g., contracts), and third-party enforcement (Dikova et al., 2010); as far as the informal national institutional environment, there are differences with regard to conventions, codes of conduct, and norms of behavior (Dikova et al., 2010). In the current study, we follow a majority of cross-border M&As research and use formal institutional distance to capture national differences in regulatory environment, while informal institutional distance represents the national cultural differences (Dikova et al., 2010).

A foreign firm's compliance responses to institutional pressure are critical to gain legitimacy in a host market (Raaijmakers, Vermeulen, Meeus, & Zietsma, 2015; Suchman, 1995). When responding to formal and informal institutional pressures in a host market, a foreign firm may gain legitimacy through different means. In terms of formal institutional pressures, such as regulations and laws, the legitimacy requirements are explicitly codified and usually enforced by a government agency (Scott, 1995). A foreign firm needs to change the company practices to comply with the institutional rules to be able to operate legally in the host market (e.g., Chinese firms' compliance with the product safety regulations in the U.S.). On the other hand, the isomorphism pressures from the informal institutions are exerted through mimetic and normative mechanisms (Scott, 1995). Without the centralized coercive mechanism, individual firms have discretion to comply with legitimacy requirements shaped by informal institutional pressures (Goodrick & Salancik, 1996), which thus presents greater challenges for foreign firms (Kostova & Zaheer, 1999).

A large institutional distance increases the liability of foreignness, raising the additional cost of doing business in the host market (Baik, Kang, Kim, & Lee, 2013; Bell, Moore, & Filatotchev, 2012). The liability of foreignness results in legitimacy threat in multiple ways, including the foreign acquirer's lack of host-market knowledge and relationships with local constituents, as well as potential discrimination hazards (Eden & Miller, 2004). One of the effective strategies to mitigate these legitimacy threats is by sharing ownership with a local firm to benefit from the existing legitimacy of the local firm (Xu & Shenkar, 2002). A local partner that is embedded in the host institutional environment can provide needed host-market knowledge as well as the existing network with suppliers and consumers in the host market (Xu et al., 2004). Additionally, the continuous equity involvement from the local firm benefits the foreign firm in that it allows the foreign firm to enjoy the "spillover effects" of the local firm's legitimacy in the host market, and thus becomes less likely to be the target of discrimination (Kostova & Zaheer, 1999; Yiu & Makino, 2002).

The implicit nature of informal institutional rules presents great challenges for EMNCs to comprehend the legitimacy requirements and manage acquired subsidiaries. For instance, extensive cross-cultural leadership research suggests there is no universally effective managerial approach across all cultural contexts (Jiang, Colakoglu, Lepak, Blasi, & Kruse, 2015; Kirkman, Chen, Farh, Chen, & Lowe, 2009). A managerial approach that is congruent with cultural values shared by local employees is more likely to attain positive employee outcomes, such as job satisfaction and cooperation (Hofstede, 1991; Robert, Probst, Martocchio, Drasgow, & Lawler, 2000). By sharing ownership with the acquired firm, EMNCs can gain better support from local constituents (such as employees and suppliers) who are familiar with the local firm's operational practices that are congruent with the local cultural values and normative beliefs. Thus, consistent with the above reasoning that sharing ownership mitigates legitimacy threat, we propose EMNCs' likelihood of sharing ownership increases while facing larger informal institutional distance.

Hypothesis 1. A greater informal institutional distance between EMNCs' home countries and the host countries of their M&A targets leads to a lower degree of EMNC ownership in their cross-border M&As.

EMNCs exhibit different considerations facing formal institutional distance. First, in contrast to the less codified informal institutional rules, formal institutional rules are easier to understand and comply with. Due to the coercive mechanism that enforces the formal institutional rules, EMNCs will have to overtly comply with the formal institutional rules, such as environmental protection laws, to gain legitimacy in the host market (Child & Tsai, 2005; Suchman, 1995). The compliance response to formal institutional rules can be accomplished in the absence of a local partner's assistance. Second, in general, formal institutions are less developed in EMNCs' home countries than they are in developed markets (Peng, Wang, & Jiang, 2008). Hence, by acquiring a firm in a country with stronger formal institutions, EMNCs attain the opportunity not only to learn from the corporate governance practices (Pagano, Roell, & Zechner, 2002), but also to escape from the stifling regulatory environments in their home countries. This was seen in SabMiller's internationalization to escape its South African context (as cited in Luo & Tung, 2007).

To effectively accrue the benefit of entering a host market with stronger market-supporting institutions, EMNCs have a propensity to establish a high ownership position in their M&As. A substantial ownership control helps streamline coordination tasks, which allows for the effective transfer of corporate governance practices across borders (Grossman & Hart, 1986; Kogut & Zander, 1993). Further, a dominant ownership control also benefits EMNCs' "escape motivation" (Cuervo-Cazurra & Ramamurti, 2015). By owning a majority of stake in the foreign establishment, EMNCs can effectively orchestrate their operations between their home and host markets to mitigate the investment risks that arise from the unpredictable business regulations in their home markets (Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra & Ramamurti, 2015). Given the above discussion, we believe that formal institutional distance does not elicit the same responses as does informal institutional distance. Driven by an EMNC's urgent agenda for foreign expansion, the legitimacy threat presented by differences in the formal institutional environment does not preclude EMNCs from securing ownership control. Instead, when facing formal institutional distance, EMNCs tend to opt for higher equity participation to be able to exercise ownership control.

In addition to the EMNCs' strategic concerns, from the acquired firm's perspective, the country-of-origin stereotype of emerging economies that are associated with lacking well-developed formal institutions can adversely affect an EMNC's credibility as a competent acquirer (Mulok, Raja, & Ainuddin, 2010; Sim & Pandian, 2003). Recent studies suggest that an EMNC's stock performance in its initial public offering (IPO) in a developed market is negatively influenced by the investors' perception of the EMNC's country of origin (Bell, Moore, & Al-Shammari, 2008 ; Bell et al., 2012). Thus, the to-be-acquired firm in the host market may not view an EMNC in the same positive light as it views other potential acquirers. In other words, it might be easier for the acquired firms to accept EMNCs' position as a rescuer financially and thus requires EMNCs to provide a higher degree of equity investment. As noted in a recent study on the comparison between AMNCs and EMNCs, EMNCs are likely to acquire more ownership than AMNCs in response to the country differences in trade and investment freedom (De Beule, Elia, & Piscitello, 2014). Similarly, Lahiri, Elando and Kundu (2014) compared the ownership choices of AMNCs and EMNCs in the services sector and found that a large formal institutional distance led to a higher likelihood of full acquisitions for EMNCs, but acquirers from developed economies show preference for partial acquisition under similar circumstances. In light of these recent findings, we formally propose a hypothesis as below.

Hypothesis 2. A greater formal institutional distance between EMNCs' home countries and the host countries of their M&A targets leads to a higher degree of ownership in their cross-border M&As.

2.2.1. The moderating effect of EMNC's home market size

As the population of middle income earners increases, major multinationals are eager to tap into potential emerging markets (Prahalad, 2005). Some EMNCs become determined to upgrade their core competencies to compete with the established multinationals in their home turfs (Dou, 2015). Indeed, Ramamurti (2012) drew upon the initial evidence from studies based on Chinese EMNCs (Williamson & Raman, 2011) and proposed that EMNCs cultivate their ownership advantage through their overseas investments in order to exploit their ownership advantage in their home markets. Hence, we posit that the increasing market potential in an EMNC's home market will propel that EMNC's motive to seek upgraded organizational competencies overseas. This will in turn strengthen the EMNC's concerns for establishing ownership control to enhance the governance efficiency of transferring acquired strategic assets. On the one hand, facing informal institutional distance, EMNCs originating from a larger size of home market economy have less consideration for relying on host market partners to establish legitimacy in the host market. On the other hand, facing formal institutional distance, EMNCs originating from a larger home market are driven to secure even higher ownership control to benefit from the well-regulated market-supporting institutions in the host market.

Hypothesis 3a. EMNCs' home market size negatively moderates the relationship between informal institutional distance and ownership position.

Hypothesis 3b. EMNCs' home market size positively moderates the relationship between formal institutional distance and ownership position.

2.2.2. Regulatory institutional quality

Another important characteristic of emerging economies lies in their transitioning formal institutions (Peng, 2003). Recent studies suggest that an EMNC's stock performance in a developed market can be adversely impacted by the investors' perceptions of the EMNC's country of origin (Bell et al., 2008, 2012). To overcome such a negative image, EMNCs acquire substantial ownership in well-established brands in developed markets to curtail potential discrimination hazard from their consumers and investors, as exemplified by Tata Motor's iconic acquisition of Jaguar Land Rover. Given that these EMNCs aim to escape the less developed formal institutions in their home market, we suggest that the inferior regulatory institutional quality of an EMNC's home market will strengthen the EMNC's motive to establish substantial ownership in a foreign expansion. By establishing dominant control, the EMNC can better position itself to diversify the risks in its home base and build a reputable corporate image in a foreign market. Thus, we offer the following set of moderation hypotheses that signifies the importance of considering the differences in country development among emerging economies (Child & Marinova, 2014). As the emerging economy suffers from its inferior regulatory institutions, EMNCs have stronger escape motivation, which mitigates the legitimacy threat associated with the informal institutional distance and strengthens the governance efficiency consideration of the formal institutional distance.

Hypothesis 4a. The inferior regulatory institutional quality in EMNCs' home markets negatively moderates the relationship between informal institutional distance and ownership position.

Hypothesis 4b. The inferior regulatory institutional quality in EMNCs' home markets positively moderates the relationship between formal institutional distance and ownership position.

In sum, Fig. 1 provides a conceptual framework of the current study.

3. Methods

3.1. Sample and data collection

The M&As are sought through SDC Platinum, which is produced by Thomson Reuters Financial Securities Data. We include all of the completed, worldwide cross-border M&As initiated by EMNCs from nine emerging countries between 2000 and 2012, and exclude the deals that are a series of acquisitions in the same target. These nine emerging countries, including Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Thailand, and Turkey, account for 21.5% of the world's cross-border M&As in 2012 (UNCTAD, 2014). As shown in Table 1, despite sharing the emerging economy status, the nine countries have different levels of GDP per capita as well as different degrees of regulatory institutional quality.

After deleting deals with missing values, the final sample consists of 2644 deals completed by 1097 firms. As shown in Table 2, acquiring firms in our sample are mostly from the BRICS countries. The top three destinations of these cross-border M&As include the U.S., the UK, and Russia. A majority of EMNCs are in the manufacturing industry, followed by the service industry and transportation industry. Approximately 60% of EMNC' acquisitions in our sample occurred in emerging markets and the rest of the acquisitions in developed markets.

3.1.1. Dependent variable

The measurement and the data sources of all variables are listed in Table 3. The dependent variable, *Degree of ownership* of cross-border M&As, is measured as the percentage of equity that the acquirer owned after the acquisition. The SDC Platinum database reports the degree of ownership as a continuous variable with values ranging from 0.1% to 100%. We use 10% as the cutoff value to exclude portfolio-investment-like M&As. The continuous variable of the equity participation has an advantage over the arbitrary dichotomous variable between full and partial acquisitions to explain the fine-grained distinctions of change in ownership stake (See discussion in Chen & Hennart, 2004; Malhotra, Sivakumar, & Zhu, 2011).

3.1.2. Independent variables and moderators

The measures of *Informal* and *Formal institutional distance* are described below. Cultural distance has been widely utilized to measure and analyze cross-border behaviors (e.g., Ang et al., 2015; Gaur, Delios, & Singh, 2007) and is associated with informal institutional factors (Estrin et al., 2007; House, Hanges, Javidan, Dorfman, & Gupta, 2004). Thus, *Informal institutional distance* is

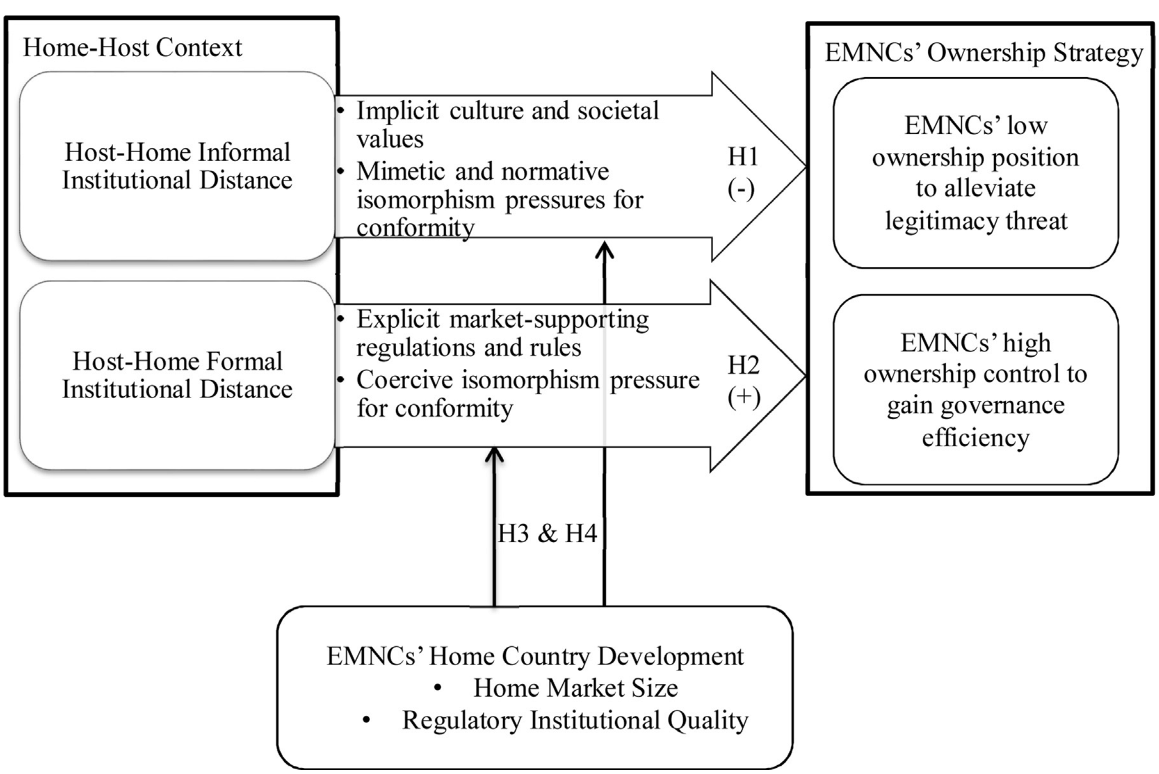

Fig. 1. Conceptual Framework of Institutions and EMNCs' Ownership Strategy.

Table 1
Major country-level characteristics of selected nine emerging economies.

	GNI per capita (US $)[a]	Population (million)[a]	2014 Outward FDI (US$ in millions)[b]	Percentage of World M&As[b]	2014 GDP per capita (US$)[c]	Regulatory Institutional Quality[d]
Brazil	11,690	200.362	−3540	2.3	11,382	56.6
China	6560	1,357.380	116,000	11.5	7595	52.7
India	1570	1,252.140	9848	0.5	1596	54.6
Indonesia	3580	249.866	7077	0.1	3491	58.1
Mexico	9940	122.332	5201	2	10,231	66.4
Russia	13,860	143.500	56,438	2.5	12,942	52.1
South Africa	7190	52.982	6938	0.3	6478	62.6
Thailand	5370	67.011	7692	1.7	5519	62.4
Turkey	10,950	74.933	6658	0.6	10,529	63.2

[a] World Bank Doing Business Report Series (2015).
[b] Percentage calculated based on the cross-border M&As data in 2012 from UNCTAD.
[c] World Bank Open Data (2015).
[d] Index of Economic Freedom (2015).

Table 2
Major characteristics of the acquisitions.

Acquirers' home country	Percentage based on the number of deals	Percentage based on the value of the deals
Brazil	9%	5.97%
China	15.80%	15.46%
India	29.30%	28.86%
Indonesia	4.10%	6.35%
Mexico	6.20%	8.20%
Russia	17.30%	17.78%
South Africa	11.40%	9.21%
Thailand	4.50%	5.41%
Turkey	2.40%	2.76%
Acquirers' industry		
Manufacturing	41.91%	40.14%
Service	15.31%	15.04%
Transportation	12.43%	14.96%
Mining/ Construction	11.79%	12.60%
Agriculture	1.30%	1.09%
Others	17.26%	16.17%
Top 10 target nation		
USA	14.78%	10.07%
UK	6.74%	9.85%
Russia	6.32%	8.37%
Brazil	5.02%	6.78%
Australia	4.67%	6.56%
China	4.60%	4.72%
India	4.25%	3.93%
Indonesia	4.00%	3.48%
Hong Kong	3.62%	2.04%
Singapore	2.84%	1.92%
Target market status		
Developed	42.60%	40.32%
Emerging	57.40%	59.68%
Diversification		
Related	67.18%	65.28%
Unrelated	32.82%	34.72%
Ownership decision		
Full	57.60%	54.92%
Partial	42.40%	45.08%

measured through the four cultural dimensions of power distance, uncertainty avoidance, individualism, and masculinity, as identified by Hofstede (1980). Following Hofstede's methodology, researchers have continuously collected data in additional countries and expanded the dataset in the original Hofstede's studies (Hofstede, Hofstede, & Minkov, 2010). We download the updated dataset from Hofstede's website and construct the measure using Kogut and Singh's (1988) formula, which produces an absolute value of the score difference between host and home cultures. A low score on this measurement represents cultural proximity and a high score means that home and host countries are culturally more distant.

The data for *Formal institutional distance* is collected from the Index of Economic Freedom developed by the Heritage Foundation. Economic freedom refers to the absence of government coercion or constraint on the production, distribution, or consumption of goods and services (O'Driscoll, Feulner, & O'Grady, 2003). The Heritage Foundation has tracked and published the time-variant index of economic freedom for 186 countries since 1995 (Johnson & Sheehy, 1996), thereby capturing the level of development of formal, regulatory institutions (e.g., Aybar & Ficici, 2009). This index consists of 10 quantitative and qualitative factors (i.e., property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom, and financial freedom) grouped into four pillars (i.e., rule of law, limited government, regulatory efficiency, and open markets). A country's overall economic freedom score is derived by averaging the grades for each of these 10 factors on a scale of 0–100. For example, China scores 52.7 and is categorized as a "mostly unfree" country, according to the 2015 Index. The *Formal institutional distance* is calculated as the score difference between the acquiring firm's home country and the host country of the target. Positive values indicate the host market has a higher score on the index of economic freedom than the EMNC's home country, and negative values indicate the opposite.

Furthermore, two home country characteristics are utilized as moderators in the present study. First, we include the size of home country economy (*Home market size*) in the moderation analysis, measured by the natural logarithm of gross domestic product divided by the population in each home market (Buckley et al., 2007; Rossi & Volpin, 2004). Second, *Regulatory institutional quality* refers to the quality of home institutions relevant to the ease of conducting business activities. It is based on the economic freedom index derived by averaging ten economic freedom factors as mentioned above. The higher the score, the better the quality is of home country institutions.

3.1.3. Control variables

We control for various factors influencing EMNCs' ownership strategy, including the characteristics of the deal, of the acquiring firm, and of the host country. For deal-specific factors, we control

Table 3
Variables, measures and data sources.

	Variable name	Description/Measure	Source
Dependent variable	Degree of ownership	The percentage of equity that the acquirer owned after the acquisition	SDC Platinum database
Independent variables	Informal institutional distance	Kogut and Singh (1988) formula produced an absolute value of the score difference between host and home cultures. To be specific, a composite index was formed based on the deviation along each of the four cultural dimensions of each host culture from the home culture ranking. The deviations were corrected for differences in the variances of each dimension and then arithmetically averaged	Power distance, uncertainty avoidance, individualism, and masculinity, as identified by Hofstede (1980)
	Formal institutional distance	Averaged ten economic freedom factors of each market and then calculated the score difference between the acquiring firm's home country and the host country of the target	Index of Economic Freedom, developed by the Heritage Foundation
Moderators	Home market size	The natural logarithm of gross domestic product per capita of each home market	The World Bank
	Regulatory institutional quality	Averaged ten economic freedom factors of each home market	Index of Economic Freedom
Control variables	Unrelated	Using the first two digits of SIC codes of acquiring and target firms, coded Unrelated as 1 when acquiring and target firms have different SIC codes and 0 if otherwise	SDC Platinum database
	Government Involvement	Coded as 1 when the acquiring firm is marked as government owned/involvement flagged by SDC database and 0 if otherwise	SDC Platinum database
	Friendly	Coded as 1 when the management at the target firm has a friendly attitude towards the acquisition event and 0 if otherwise	SDC Platinum database
	Deal size	The dollar value of each cross-border M&A deal	SDC Platinum database
	Cash	Coded as 1 when the payment is 100% in cash and 0 for other methods of payment	SDC Platinum database
	Firm size	The log value of the total assets of acquiring firms	SDC Platinum database
	Past experience	Counted the cumulative number of cross-border M&As executed by the acquirer before the focal acquisition under study	SDC Platinum database
	Market size	The natural logarithm of gross GDP of each host market	The World Bank
	R&D funding	A ratio of capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge and the use of knowledge for new applications to the GDP of each country	The World Bank
	Government restriction	Business Executive Opinion Survey on the extent of government's restriction on foreign investment	Global Competitiveness Report, developed by the World Economic Forum
	Home GDP Growth	The annual growth rate of GDP in the home country of the acquiring firm	The World Bank
	Year dummy	Created 12 dummy variables to represent the period of time between 2000 and 2012	
	Country dummy	Created 8 dummy variables to represent the nine emerging markets of acquiring firms	
	Industry dummy	Coded based on acquiring firms' first two-digit SIC codes	SDC Platinum database

for the influences of industry relatedness (*Unrelated*; Bergh, 1997), the target's attitude towards the acquisition event (*Friendly*), payment method (*Cash*) and transaction value (*Deal size*) on the ownership decisions. Prior studies have shown that the target's attitude toward the acquisition event has a direct impact on the equity stake and premium payout (e.g., Reuer, Tong, & Wu, 2012). Payment method and transaction value represent the resources required to complete the deal and have been suggested to influence ownership decisions (King, Dalton, Daily, & Covin, 2003; Lahiri et al., 2014).

Further, to account for individual firms' capability for resource commitments, we control for *Firm size*, measured by the log value of the total assets of acquiring firms (Cui & Jiang, 2009). We also consider the acquiring firm's prior experience in cross-border M&As (*Past experience*). Firms with greater experience can better bear the risks of managing foreign operations, and hence may prefer a full or high ownership in acquisition (Lahiri et al., 2014). We also control for the influence of government-related ownership (*Government Involvement*) of the acquiring firm because the attitudes of host countries are usually more conservative toward cross-border M&A deals initiated by firms that are government-involved than those initiated by privately-owned firms (Cui & Jiang, 2012).

In terms of the influences of host country characteristics on EMNC ownership decisions, we first control for the attractiveness of the host market. In the past research, the market size of the host country (*Market size*) has shown to attract a foreign acquirer to penetrate that host market and subsequently influences its ownership strategy (Buckley et al., 2007; Duanmu, 2012). Further, *R&D funding* is measured as a ratio of capital expenditures (both public and private) on creative work undertaken systematically to increase knowledge and the use of knowledge for new applications to the GDP of each country. Because investment in R&D facilities requires unique human and physical infrastructure, it could be a proxy for the technological capacity of a host country. Additionally, we control for the host country's *government restrictions* on foreign investment, which can directly impact how much ownership stake a foreign firm can acquire in the target firm. We measure government restrictions based on the "Business Executive Opinion Survey" of Global Competitiveness Report developed by World Economic Forum. This survey asked executives about their evaluations on the extent of government's restriction on foreign investment, including items such as, "To what extent do rules governing foreign direct investment (FDI) encourage or discourage it? [1 = strongly discourage FDI; 7 = strongly encourage FDI]". Other macroeconomic environmental influences on the economic growth in the acquirer's home country (*Home GDP growth*) are also included as a control variable and measured by the annual growth rate of GDP.

Table 4
Descriptive Statistics and Correlations for the Degree of Ownership in Cross-border M&As.[a]

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Degree of ownership	81.28	27.66															
2. Informal institutional distance	1.13	1.17	−0.12***														
3. Formal institutional distance	11.66	13.43	0.07***	0.48***													
4. Unrelated	0.33	0.47	0.01	−0.01	−0.01												
5. Gov. involvement	0.05	0.21	−0.05*	0.07***	0.15***	0.01											
6. Friendly	0.93	0.25	0.21***	0.08***	0.05*	−0.02	0.01										
7. Dealsize (log)	3.35	2.21	0.08***	0.08***	0.20***	0.02	0.03	−0.06**									
8. Cash	0.18	0.38	−0.03	0.05*	0.02	0.01	−0.03	−0.08***	0.06**								
9. Firm size (log)	13.78	2.59	−0.08***	−0.13***	0.04	−0.01	0.05*	−0.06**	0.43***	0.01							
10. Past experience	0.51	1.10	−0.01	−0.07***	−0.03	0.03	0.03	−0.01	0.14***	−0.01	0.25***						
11. Market size	75.96	15.92	−0.02	−0.01	−0.01	−0.01	−0.02	−0.07**	−0.03	−0.02	0.01	0.05*					
12. R&D funding	1.42	0.94	0.01	−0.03	−0.01	−0.01	−0.01	0.01	0.01	0.01	−0.02	0.03	0.46***				
13. Gov. restriction	72.82	10.87	0.01	0.05*	0.05*	−0.01	0.01	0.01	0.06**	−0.04	0.01	−0.05*	0.07***	0.25***			
14. Home GDP growth	6.07	3.87	0.01	0.03	0.02	0.01	0.03	0.02	0.03	0.02	0.01	0.06*	0.07***	0.13***	0.20***		
15. Home market size (log)	3.48	0.42	0.04	0.05*	−0.02	0.06**	0.05*	0.03	0.02	0.02	0.03	0.02	0.04	0.12***	0.34***	0.40***	
16. Regulatory institutional quality	79.21	8.13	0.03	−0.03	0.02	0.08***	−0.01	−0.01	0.02	−0.01	0.05*	0.05*	−0.07***	0.02	−0.22***	−0.08***	0.30***

[a] sample size is 2644.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

Finally, to control for the exogenous variance in individual countries and industry environment over the study period, we use year dummies to code the year of acquisitions, create eight dummy variables to represent the nine emerging economies, and include industry dummy variables that are coded based on acquiring firms' first two-digit SIC codes (Brouthers & Brouthers, 2003).

3.2. Model and analysis

To examine the relationships affecting the degree of ownership, we conduct a Tobit regression analysis, because this dependent variable is bounded between 0 and 1 (Chari & Chang, 2009). The model can be summarized as:

$$Yn = bo + \sum biXi + \sum bjIj + \sum bkCk + E$$

where: Yn refers to the degree of ownership in cross-border M&As, Xi stands for a set of independent variables proposed in the hypotheses, Ij refers to the moderating variables, and Ck denotes control variables.

To address the potential concern of the common-factor effect (Lincoln, 1984) resulting from deals initiated by the same firm, we cluster the error terms of these deals that were initiated by the same firm. Additionally, we plot significant interactions by splitting the sample on the moderating variables, including home market size and regulatory institutional quality, into high and low categories, which are created based on one standard deviation above and below the mean value of the moderating variable respectively.

4. Results

Table 4 presents the descriptive statistics and the correlation coefficients for all variables except country, acquisition year, and industry dummy variables. The highest correlation occurs between *formal* and *informal institutional distance* (0.48). To assess whether multi-collinearity is a major concern, we examine variance inflation factor scores (Belsley, Kuh, & Welsch, 1980); they are under 10 in all regression models. Thus, we find no evidence of multi-collinearity in all regression results.

Table 5 displays the regression results for the degree of ownership. For the informal institutional distance, Models 2 and 5 show that the estimated coefficients are negative ($\beta = -2.83$ in Model 2; $\beta = -2.81$ in Model 6) and significant at 0.05 level. These support Hypothesis 1 that EMNCs are likely to have a lower ownership position when entering a target market with a larger informal institutional distance. Hypothesis 2, which states that the degree of ownership is positively associated with the formal institutional distance, is supported by Model 3 ($\beta = 0.84$, $p < 0.05$) and Model 6 ($\beta = 0.85$, $p < 0.05$). Therefore, EMNCs are likely to have higher ownership positions when entering a target market with a larger formal institutional distance.

In terms of the moderating influence of the economic situation of the home country, the interaction between *Informal institutional distance* and *Home market size* ($\beta = -1.25$, $p > 0.05$ in Model 4; $\beta = -1.25$, $p > 0.05$ in Model 6) was not significantly related to the degree of ownership in cross-border M&As. On the other hand, the interaction of *Formal institutional distance* and *Home market size* was positively related to the degree of ownership in cross-border M&As ($\beta = 1.06$, $p < 0.05$ in Model 4; $\beta = 1.06$, $p < 0.05$ in Model 6). Fig. 2 depicts the significant moderating effect of the EMNC's home market size. This graph shows an ordinal interaction, such that the relationship between the formal institutional distance and the degree of ownership is positive for acquiring firms coming from countries of both low and high GDP per capita, but the positive relationship is stronger for acquiring firms with a high home

Table 5
Results of the Regression Analysis for the Degree of Ownership in Cross-border M&As.

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Test Hypotheses
Step 1: Control							
Unrelated	−1.674	−1.673	−1.672	−1.589	−1.587	−1.586	
	(1.713)	(1.997)	(2.001)	(1.642)	(1.642)	(1.642)	
Gov. involvement	12.505**	12.387**	12.421**	12.435**	12.426**	12.432*	
	(4.421)	(4.866)	(4.882)	(4.523)	(4.520)	(4.521)	
Friendly	18.256***	18.078***	18.086***	18.034***	18.035***	18.035**	
	(3.685)	(3.978)	(4.049)	(4.154)	(4.156)	(4.155)	
Dealsize (log)	1.734**	1.701**	1.713**	1.674**	1.676**	1.672**	
	(0.538)	(0.502)	(0.524)	(0.496)	(0.474)	(0.476)	
Cash	2.282	2.193	2.194	2.186	2.185	2.185	
	(1.881)	(1.183)	(1.184)	(1.185)	(1.183)	(1.184)	
Firm size (log)	−1.621**	−1.443*	−1.476*	−1.570*	−1.582*	−1.571*	
	(0.486)	(0.576)	(0.579)	(0.653)	(0.648)	(0.651)	
Past experience	−0.409	−0.408	−0.406	−0.408	−0.408	−0.408	
	(0.876)	(0.875)	(0.873)	(0.876)	(0.875)	(0.875)	
Market size	−3.631*	−3.595*	−3.576*	−3.572*	−3.579*	−3.576*	
	(1.430)	(1.476)	(1.474)	(1.421)	(1.428)	(1.422)	
R&D funding	2.403	2.368	2.374	2.524	2.386	2.325	
	(1.256)	(1.284)	(1.465)	(1.846)	(1.845)	(1.842)	
Gov. restriction	−1.624	−1.558	−1.528	−1.603	−1.612	−1.602	
	(1.381)	(1.634)	(1.627)	(1.821)	(1.835)	(1.827)	
Home GDP growth	0.510	0.532	0.526	0.583	0.585	0.508	
	(0.363)	(0.412)	(0.411)	(0.438)	(0.444)	(0.442)	
Moderators							
Home market size (log)	3.142+	3.143+	3.140	3.112+	3.142	3.112+	
	(1.486)	(1.486)	(1.954)	(1.508)	(1.574)	(1.510)	
Regulatory institutional quality	−1.248*	−1.343*	−1.340*	−1.341*	−1.340*	−1.340*	
	(0.521)	(0.574)	(0.602)	(0.601)	(0.602)	(0.602)	
Step 2: Main effects							
Informal institutional distance		−2.833*		−2.835*	−2.811*	−2.812*	Hypothesis 1 is supported
		(1.210)		(1.215)	(1.209)	(1.210)	
Formal institutional distance			0.843*	0.844*	0.844*	0.846*	Hypothesis 2 is supported
			(0.372)	(0.375)	(0.373)	(0.373)	
Step3:Moderating interactions							
Informal institutional distance X Home market size				−1.254		−1.253	Hypothesis 3a is not supported
				(0.846)		(0.847)	
Formal institutional distance X Home market size				1.061*		1.060*	Hypothesis 3b is supported
				(0.430)		(0.428)	
Informal institutional distance X Regulatory institutional quality					−1.008*	−1.007*	Hypothesis 4a is supported
					(0.407)	(0.405)	
Formal institutional distance X Regulatory institutional quality					0.031*	0.030*	Hypothesis 4b is supported
					(0.010)	(0.011)	
R Square	0.186	0.247	0.215	0.303	0.324	0.326	
R Square Change to Model 1		0.06**	0.03**	0.12***	0.14***	0.14***	
Model F	1.48***	2.84***	2.75***	3.18***	3.32***	3.36***	

N = 2644. All the models were run with home country, acquisition year and industry dummies. Due to space limit, the results of these dummies are not shown above.
+ $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

market GDP per capita. Thus, as expected in Hypothesis 3b, an EMNC's home market size strengthens the positive relationship between formal institutional distance and ownership position.

For the moderating effect of home country institutional quality, the interaction of *Informal institutional distance* and *Regulatory institutional quality* is negatively related to the degree of ownership in cross-border M&As ($\beta = -1.01$, $p < 0.05$ in Model 5; $\beta = -1.01$,

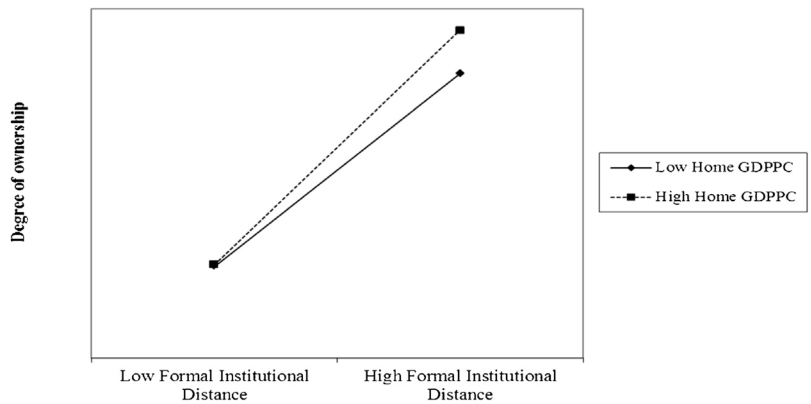

Fig. 2. Moderating Effect of Home market size on the Relationship between the Formal Institutional Distance and the Degree of Ownership in Cross-border M&As.

$p < 0.05$ in Model 6), while the interaction of *Formal institutional distance* and *Regulatory institutional quality* is positively related to the degree of ownership in cross-border M&As ($\beta = 0.03$, $p < 0.05$ in Model 5; $\beta = 0.03$, $p < 0.05$ in Model 6). Figs. 3 and 4 further depict the moderating effects of the regulatory institutional quality in EMNCs' home country. Fig. 3 shows that the negative association between the informal institutional distance and ownership position is weaker for EMNCs coming from countries with low institutional quality. Thus, Hypothesis 4a is supported: an EMNC's home country plagued by regulatory institutional quality strengthens an EMNC's strategic concerns to secure ownership controls in the host market. Fig. 4 suggests that the lack of market-supporting institutions in EMNCs' home country propels EMNCs to acquire higher ownership even in host countries with smaller formal institutional distance, thus rendering support for Hypothesis 4b.

As for the influence of control variables, the estimated coefficients of *Government Involvement*,*Friendly*, and *Dealsize* are both positive and significant. Taken together, we find that government-involved, friendly, and larger M&A deals are associated with EMNCs with higher ownership positions. Furthermore, the host market size and firm size are negatively associated with the degree of ownership. These results are consistent with those of past studies, such as the negative association with firm size in Chari and Chang (2009) and the negative association with host market size in Hernández and Nieto (2015).

4.1. Robustness checks

We take the following actions to assess the robustness of the results. First, we employ an alternative measure of *Formal institutional distance*. Using data from the World Bank's worldwide governance indicators produced by Kaufmann, Kraay, and Mastruzzi (2010), we follow Lahiri et al. (2014) and take the square root of the sum of the squares of the difference between acquiring and target nations across six governance indicators. These six indicators are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. A positive value of this measure indicates that the host market has a higher development of formal institutions than the home country of EMNC, and a negative value indicates the opposite. Likewise, we use an alternative measure of *Past experience* by computing the cumulative number of cross-border M&As by the acquirer in the same target country before the focal acquisition under study. Alternative measures of these variables render similar results reported in Table 5. Second, we conduct a post-hoc subsample analysis to only include acquisitions made by one home country, including the subsample of India and subsample of China. The results of the sub-sample analyses are consistent to what we report in Table 5.

In addition, EMNCs' different responses to formal and informal institutional distance are amplified when we conduct an additional subgroup analysis to see whether EMNC ownership strategies differ between acquiring developed market targets and acquiring emerging market targets. The opposite responses to formal and informal institutional distance are observed in the sample with only emerging market targets. While acquiring targets in a developed market, EMNCs opt for higher ownership positions in response to formal institutional distance, but EMNC ownership strategy is not influenced by informal institutional distance. This finding strengthens our argument that the legitimacy threat is less concerning to EMNCs that are seeking ownership control to

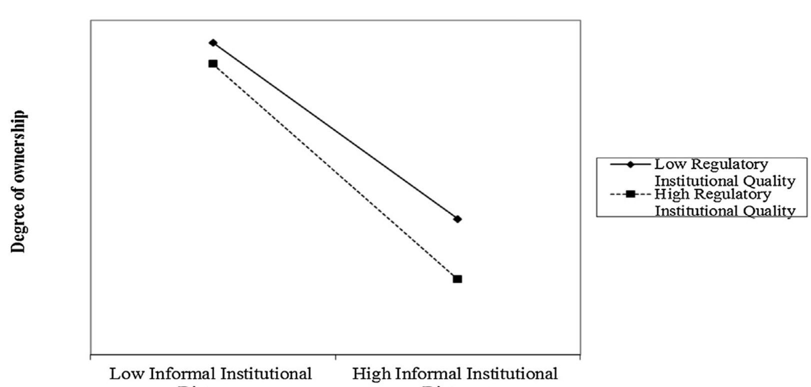

Fig. 3. Moderating Effect of Regulatory Institutional Quality on the Relationship between the Informal Institutional Distance and the Degree of Ownership in Cross-border M&As.

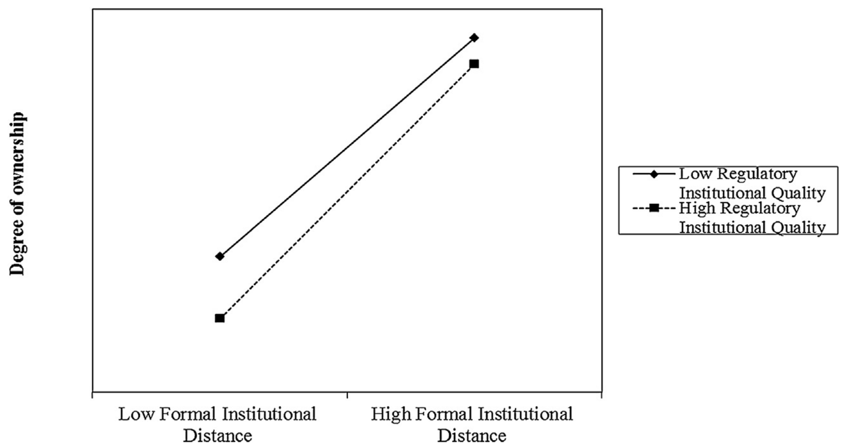

Fig. 4. Moderating Effect of Regulatory Institutional Quality on the Relationship between the Formal Institutional Distance and the Degree of Ownership in Cross-border M&As.

acquire upgraded strategic capabilities in their foreign expansion, particularly in a developed market.

5. Discussion

The findings of this study improve our understanding of TCE and institutional theory. As evident in the finding that there exist opposite effects of formal and informal distance on EMNC ownership positions, the salience of governance efficiency (i.e. high ownership) or legitimacy threat (i.e. low ownership) in the host market can be explained based on the unique context of EMNC internationalization. This test of the boundary condition of institutional distance was not readily available before the emergence of EMNCs. Prior to 2000, the prevalence of AMNCs' investment in emerging economies had not presented the opportunity to study a scenario in which EMNCs were motivated to engage in the foreign expansion to escape from their stifling regulatory institutional environments.

As expected, EMNCs tend to secure higher ownership control to enjoy the governance efficiency when they conduct the acquisitions in a country with better developed formal institutions. Contrary to their responses to the formal institutional distance, EMNCs tend to lower their equity participation and rely on the acquired firms to alleviate the legitimacy threat when they acquire a target in a country with large informal institutional distance. Additionally, we argue and find support that EMNC responses to formal and informal institutional distance in formulating its ownership strategy are contingent upon the EMNC's home country development. As the home market size grows, an EMNC becomes more eager to learn from its internationalization experience that can be utilized to improve its competitiveness in its home market. The positive association between formal institutional distance and percentage of ownership thus will be even more profound when the EMNC's home market size increases. This finding is in line with Luo and Tung's (2007) springboard perspective and provides evidence that EMNCs are motivated to enhance their competitive advantage in their home turfs. The null finding associated with informal institutional distance is also in line with our explanation that EMNCs are less sensitive to the synergy benefits provided by informal institutional distance.

Further, in line with Cuervo-Cazurra and Ramamurti's (2015) escape motivation argument, we observe the main effect of the negative association between regulatory institutional quality and equity participation, which suggests that EMNCs originating from a market with weaker formal institutions tend to opt for a higher ownership control in their foreign operations. In turn, the inferior regulatory institutional quality in their home market also strengthens EMNCs' desire in securing higher ownership control, thus mitigating the negative association between informal institutional distance and ownership position

Noteworthy, in the present study, we observe that EMNCs might not view institutional distance purely as a legitimacy threat, but also view it as an opportunity to compensate for their inferior home market conditions. Only recently did some researchers suggest that deviating from the isomorphic pressures in a host institutional environment may not necessarily put a firm at disadvantage and, rather, can be an advantage (Shi & Hoskisson, 2012). Deviating from the institutional requirements costs a firm a certain degree of legitimacy, but affords the chance for innovation and exponential growth. In sum, this study contributes to the existing international business strategy literature by providing a holistic understanding of how home and host institutional environmental differences influence EMNC ownership strategies in cross-board M&As. As suggested by Ramamurti (2012), a new internationalization theory for EMNCs might not be needed, but the "contextualization" issue, which includes home and host institutional effects, certainly needs to be incorporated to enrich the existing theoretical framework (Child & Marinova, 2014).

5.1. Limitation and future research

Given the newly rising phenomena of EMNCs, we focus on EMNCs from nine major emerging economies between 2000 and 2012. While this sample provides timely, relevant findings of some major EMNCs' internationalization activities, the findings may not be applied to all emerging economies, which have various levels of institutional constraints. For instance, an emerging economy with abundant capable labor force and intense FDI from developed economies might create an environment where domestic firms may learn and develop strategic competencies domestically. Thus, a further delineation on the various characteristics of an EMNC's home country can provide additional insights on the degree to which that EMNC's ownership decisions are influenced by the institutional constraints in its home market. For instance, governmental support policies, such as the Chinese government's open door policy, can significantly improve the financial resources of EMNCs. We exclude confounding factors like this by controlling for state ownership of the firm and home country dummies. However, further studies are needed to take a closer look at the influence of home country government policies on EMNC ownership positions.

Additional measures of cross-national distance can augment our understanding of EMNC ownership strategy. For instance, we acknowledge the limitation of Hofstede's cultural distance measure (Shenkar, 2001) and a cross-national measure of formal institutional distance. Future research is encouraged to look into other measures of informal institutional distance, such as language distance and religious distance, as well as the differences in regional or provincial regulatory institutional quality.

Our theoretical framework heavily calls for an understanding of EMNCs' unique urgent agenda through international expansion. The current study utilizes large-scale archival data to test our hypotheses and gain some support. As a future research direction, we encourage researchers to utilize a mixed methodology, such as incorporating a primary survey instrument designed to document EMNCs' motives and ownership decisions in their international endeavors. One particularly insightful approach will be to interview both the business executives from the acquirer and the target firm. As mentioned in the theory development leading up to Hypothesis 2, due to the association with a less developed home economy, the target firm may not view EMNCs in the same positive light as view other potential acquirers. The target firm's perspective can be fruitful in advancing our understanding of EMNCs' ownership strategy.

Moreover, we encourage future researchers to consider the topic of institutional deviance, escape motivation, and its performance implications on EMNC internationalization. The recent call for the Positive Organizational Scholarship (Cameron, Dutton, & Quinn, 2003; Stahl & Tung, 2015) investigates positive deviance, or the ways in which organizations and their members deviate from the institutional demands and cultivate extraordinary performance, thus taking a more positive view on the distance. The diverse cultural perspectives between acquiring and acquired firms have been discussed as a double-edged sword that may serve as the source of innovation derived from differing world views as well as pose obstacles to overcoming the cultural barriers in post-acquisition integration (Reus & Lamont, 2009; Stahl & Tung, 2015; Stahl & Voigt, 2008). By opting for lower ownership, a foreign acquirer can alleviate the legitimacy threat in the entry stage; in the long run, however, the lack of ownership control may present challenges for the EMNC to effectively transfer acquired strategic capabilities.

5.2. Managerial relevance

The findings of the current study provide a systematic understanding of the international strategies of these newly emerging but formidable global players. In the current study, we select nine emerging economies to formally propose and find support that the status of the home market economy and institutional quality can significantly influence the impact of institutional distance on these EMNC ownership strategies. Venturing into the global marketplace, EMNCs have wide opportunities to be flexible in overcoming legitimacy in culturally distant countries or to be strategic in benefiting from well-developed formal institutions in the host market. EMNCs' considerations in either response to institutional pressures will be contingent on the economic development and regulatory institutional quality in their home markets. While conducting cross-border M&As, international business managers are advised to take into consideration both home and host institutional environment factors.

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