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Institutional Distance and Entry Mode: How do Emerging-Market Multinational Companies Overcome Competitive Disadvantages in a Developed Market?

Ru-Shiun Liou

University of Arkansas, Fayetteville

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INSTITUTIONAL DISTANCE AND ENTRY MODE: HOW DO EMERGING-MARKET
MULTINATIONAL COMPANIES OVERCOME COMPETITIVE DISADVANTAGES IN A
DEVELOPED MARKET?

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MULTINATIONAL COMPANIES OVERCOME COMPETITIVE DISADVANTAGES IN A
DEVELOPED MARKET?

A dissertation submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy in Business Administration

By

Ru Shiun Liou
National Taiwan University
Bachelor of Science in Public Health, 1999
University of Hawaii
Master in Business Administration, 2004

May 2013
University of Arkansas

ABSTRACT

As latecomers to global business competition, emerging-market multinational companies (EMNCs) utilize cross-border merger and acquisitions to swiftly acquire strategic assets, such as brands and distribution channels, compensating for their competency deficiency. Developed markets with well-established firms and well-developed market-supporting institutions become important destinations for EMNCs' strategic asset-seeking investments. Institutional distance, national differences in the institutional environment, constitutes a major source of competitive disadvantage for foreign firms competing with indigenous firms. Foreign firms need to overcome the challenges of unfamiliarity, relational, and discriminatory hazards to establish legitimacy in the host market. Compared to established multinationals that originate from other advanced markets (AMNCs), EMNCs potentially face additional legitimacy threats derived from their countries of origin. Facing large institutional distance, AMNCs are likely to take less ownership to rely on a local firm's legitimacy, but EMNCs may lack the opportunity to find a willing local partner. The findings of the current study generally support that the negative association between institutional distance and ownership position is less apparent for EMNCs than for AMNCs. Furthermore, not all emerging markets are homogeneous in their country development. EMNCs, originating from countries with higher levels of human capital development and global connectedness are less impacted by institutional distance in their ownership strategy. The findings of the current study also suggest EMNCs' firm level characteristics have minimal effects in alleviating the influence of institutional distance on their ownership decisions. Additionally, controlling for institutional distance, I find that EMNCs with a higher level of ownership position experience better sales growth in subsequent years.

This dissertation is approved for recommendation
to the Graduate Council.

Dissertation Director:

Dr. Alan E. Ellstrand

Dissertation Committee:

Dr. Jon Johnson

Dr. Anne O'Leary-Kelly

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DEDICATION

This dissertation is dedicated to my loving family members. My husband, Kevin Lee, has been a wonderful resource and support during my studies in the doctoral program. My children, Abigail Lee and Anderson Lee, have been a great driving force behind my studies. I would also like to dedicate this dissertation to my original family in Taiwan. Without their confidence in me, it would've been impossible to complete this dissertation.

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I. INTRODUCTION

Since the 1990s, due to the rapid growth of emerging economies, emerging market multinational companies (EMNCs) have become important players in global business (Guillen & Garcia-Canal, 2009). Despite the global economic downturn, foreign direct investment (FDI) from emerging economies accounted for 25% of the world FDI in 2009, up from 19% in 2008 (UNCTAD, 2010). Some of these emerging economies have become major investors; for instance, China, Hong Kong (China), and the Russian Federation, have become three of the top twenty investors in the world (UNCTAD, 2010). The majority of international research examining emerging economies has been focused on FDI into those countries (e.g., Hoskisson, Eden, Lau & Wright, 2000; Peng, Wang & Jiang, 2008). Given the rising trend of outbound FDI from emerging economies, research examining EMNCs is particularly timely, relevant, and important (Mathews, 2006; Wright, Filatotchev, Hoskisson & Peng, 2005).

Due to their unique home market characteristics, EMNCs demonstrate very different patterns of internationalization than multinational firms that originated in advanced markets¹ (Mathews, 2002; Guillen & Garcia-Canal, 2009). Traditionally, international scholars observed that firms consider seeking international expansion after they have established a solid foundation for their business in their home market. For example, the Uppsala model of internationalization (Johanson & Vahlne, 1977) depicts that only after firms have gained substantial experience in their domestic market will they move on to foreign markets which are proximal to their home market. After they accumulate sufficient international business experience in adjacent markets, firms subsequently enter other less familiar foreign markets (Johanson & Vahlne, 1977).

¹ I use the terms advanced market and developed market interchangeably throughout this paper to refer to EMNCs' host, developed economies, such as the U.S., Japan, and continental European countries. Conversely, the terms emerging market and less developed market are used interchangeably to refer to EMNCs' home markets.

EMNCs, however, do not usually follow the path depicted in the traditional internationalization model. Because of limited resources in their home countries and latecomer status, EMNCs seek international expansion at an early stage (Luo, & Tung, 2007). Particularly, the less developed economy and weak market-supporting institutions in their home countries may limit EMNCs' opportunities to develop or acquire advanced managerial or technological capabilities in their home markets (Makino, Lau, & Yeh, 2002). Thus, developed markets with well-established business environments become the ideal locations for EMNCs' internationalization to enhance their core competencies (Makino, et al., 2002; Mathews, 2006; Wright, et al., 2005).

To successfully achieve their goals in a developed market, however, EMNCs must overcome several competitive disadvantages, such as limited resources and lack of international experience (Mathews, 2006). Employing an institutional theoretical perspective, I analyze an EMNC's competitive disadvantage by delineating their organizational legitimacy in a developed market. Organizational legitimacy is defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Organizational legitimacy is an especially salient issue in international business settings because multinational corporations (MNCs) generally face diverse legitimacy requirements from multiple institutional environments across the globe (Kostova & Zaheer, 1999). The environmental complexity facing MNCs to establish and maintain legitimacy in various host markets mainly comes from the institutional distance between the MNCs' host and home markets (Kostova & Zaheer, 1999). Institutional distance refers to the national differences between two institutional environments (Kostova & Zaheer, 1999). Based on Scott's (1995) framework, the institutional environment consists of three pillars, regulative, cognitive, and normative. The regulative pillar reflects the rules and

laws that exist to ensure stability and order in societies; the normative pillar captures societal values and norms in the institutional field; and the cognitive pillar represents established cognitive structures and social knowledge shared by people in a given country (Scott, 1995).

EMNCs, compared with other multinational firms, may encounter greater threats to their status as a legitimate player in a developed market given the three pillars of institutional distance. First, differences between the emerging market and the advanced market on the regulative pillar are readily visible. Formal institutions, consisting of formal rules and regulations related to all sorts of business dealings, are less developed in EMNCs' home countries (Peng, et al, 2008). For instance, accounting standards and legal requirements surrounding listing and registration in a stock market (Karolyi, 1998; Marosi, & Massoud, 2008), and investor protection procedures (Pagano, Roell, & Zechner, 2002) all differ between emerging and advanced markets. Thus, EMNCs may find it challenging to establish legitimacy in a developed market if their corporate practices are not consistent with more rigorous regulations in a developed market. Second, in regard to the cognitive pillar, historically, developed markets are mainly located in North America and Western Europe, two areas that share substantial cultural overlap. EMNCs, on the other hand, are likely to be from other regions (e.g., Asia or Latin America) and will thus be embedded in different cultures. As such, EMNCs are likely to face substantial cultural differences, and thus encounter challenges to conform to the institutional pressures reflecting the cognitive pillar of advanced markets. Third, in terms of the normative pillar of institutional distance, some common practices among EMNCs are not shared with advanced-market MNCs (AMNCs), for example, the prevalence of family-owned business groups. Thus, well-established best practices in the emerging market might be very different from those in the advanced market.

To gain legitimacy, EMNCs need to change their accustomed practices to comply with dominant practices in a developed market.

Given the EMNC's potential difficulties in establishing legitimacy in a developed market, I conduct a two-phase study to examine whether EMNCs base their ownership strategy on legitimacy concerns to expand their operations into developed markets. Determining an appropriate level of ownership (i.e. the extent of equity investment) in a foreign subsidiary is an important strategic decision regarding a firm's international expansion (Delios & Beamish, 1999; Anderson & Gatignon, 1986; Taylor, & Zou, S. 1998). It involves strategic decisions on important matters such as resource commitment, degree of control, and type of risk (Brouthers, 1995, Delios & Beamish, 1999; Anderson & Gatignon, 1986; Taylor, & Zou, 1998). Traditionally, entry mode researchers rely on transaction cost economics (TCE) and emphasize operational efficiency considerations (Brouthers & Hannart, 2007). TCE assumes information asymmetry and opportunism among trading parties (Williamson, 1975, 1981). The discussion of ownership position focuses on the premise that the increase in ownership enhances the extent of an investing firm's control, but intensifies its financial risks over the foreign establishment (Brouthers, 1995; Brouthers & Hannart, 2007; Delios & Beamish, 1999; Anderson & Gatignon, 1986). When entering a less familiar foreign market, a foreign investor may opt for lower equity participation to avoid the risks associated with the greater likelihood of a partnering firm's opportunistic behaviors due to environmental uncertainty (Anderson & Gatignon, 1986). On the other hand, without the complete control associated with full ownership, the foreign investor may face undue risk by working closely with a partnering firm because the partnering firm can readily attain the foreign investor's intangible strategic assets through the partnership and become a major competitor (Brouthers, 1995).

Recently, researchers have gone beyond the traditional TCE approach and the associated assumption of partnering firm's opportunistic behaviors. Seeking a comprehensive framework to analyze macro level national differences, researchers have proposed institutional theory as a promising perspective to advance entry strategy research (Brouthers & Hannart, 2007). For example, Yiu & Makino (2002) suggest that the choice of entry mode can be viewed as the consequence of organizational responses to isomorphic pressures arising from a firm's external legitimacy requirement in the host market or internal legitimacy concern within the MNC. Utilizing a sample of 364 Japanese subsidiaries, they find support for the position that legitimacy requirements in a host market significantly affect firms' entry mode choices above and beyond traditional transaction cost considerations (Yiu & Makino, 2002).

In the current context, given the institutional distance between emerging markets and developed markets, I argue EMNCs' ownership strategy would be influenced by the legitimacy threat facing EMNCs. To examine this issue, I conduct a two-phase examination to study EMNCs' ownership position in a developed market. Specifically, this study focuses on cross-border merger and acquisition (M&A) events in the United States, an ideal context to study EMNCs' internationalization behavior. To compensate for their latecomer disadvantages, EMNCs have largely utilized M&As to swiftly establish their presence in developed markets (Aybar & Ficici, 2009; Luo & Tung, 2007). Particularly, the U.S. has had, by far, the highest frequency of EMNCs' M&A events of all the advanced markets (Economist, 2011).

In *Phase One*, I compare and contrast EMNCs' ownership position in response to institutional distance with the ownership position of MNCs from other advanced markets (AMNCs). Basically, I argue that given EMNCs' unique characteristics, EMNCs will respond to institutional pressures differently than AMNCs in a developed market. The findings of the

current study suggest EMNCs are less sensitive to institutional distance than AMNCs. For instance, facing normative distance, AMNCs are likely to take less ownership, while EMNCs' ownership position is not influenced by normative distance.

In *Phase Two*, focusing on EMNCs, I provide a more in-depth examination of the influence of various home country and firm characteristics on a EMNCs' ownership position as well as their post-acquisition firm performance. Influenced by various levels of country development among emerging markets, EMNCs may have different degrees of legitimacy threat associated with their country of origin. The country of origin effect has been widely utilized in marketing literature to study how consumers' perceptions about a product or brand are biased based on their perceptions associated with a particular country (Roth & Romeo, 1992). Similarly, lacking information related to EMNCs, developed market stakeholder may evaluate EMNCs based on the country level characteristics of their home emerging economies. A stakeholder refers to "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46). Because of EMNCs' latecomer status in global business competition, EMNCs' stakeholders in developed markets have less information about the firm and are likely to evaluate EMNCs based on the stereotypes associated with the country of origin (Bitektine, 2011). Conversely, the indicators of country development, such as human capital, may alleviate developed market stakeholders' negative evaluation and differentiate one emerging economy from another. The findings of the current study render some support for the hypothesized relationship between legitimacy and various home market characteristics.

Furthermore, various EMNCs' firm characteristics, such as international presence and third-party endorsements, may alleviate the legitimacy threat associated with institutional distance. For instance, in the current study, I find that media coverage moderates the association

between normative distance and EMNCs' ownership position. Finally, I am interested in assessing the association between EMNCs' ownership position and subsequent firm performance. Specifically, I offer a set of competing hypotheses to examine whether higher or lower ownership position improves EMNCs' overall firm performance. The results suggest higher ownership position lead to better sales growth for EMNCs.

In summary, through a multi-phase empirical examination of EMNC's entry mode in the U.S., I provide evidence in regard to the influence of institutional distance on EMNCs' internationalization. Given the rising phenomenon of EMNCs, the findings of this study have great implications for practitioners to formulate effective strategies to respond to the challenges facing EMNCs in developed markets. In addition, utilizing institutional theory, I contribute to the international business literature by comparing EMNCs' entry mode decisions with other MNCs. This finding may provide a foundation for a new internationalization theory. Further, despite the common characteristic of a less developed economy, emerging markets can differ on several important dimensions. In this study, I differentiate among the levels of institutional constraints associated with EMNCs' countries of origin by looking into various home market characteristics, such as human capital development in an emerging economy.

Moreover, the current study may contribute to institutional theory by expanding the theory to examine organizational responses under multiple institutional constraints. As researchers point out, much of the research using institutional theory focuses on institutional pressure to explain the isomorphism of organizational responses in an institutional field (Boxenbaum & Jonsson, 2008). The current study focuses on the firm level and examines EMNCs' entry mode decisions in response to competing institutional demands from their developed host market and developing home market. Facing institutional distance, EMNCs

behave differently from AMNCs due to EMNCs' unique characteristics. Further, EMNCs that originated in the same home country may have different entry mode decisions based on their unique firm characteristics. As such, the finding of this study aids our understanding of how organizations respond differently to isomorphic pressures despite being under similar institutional constraints.

II. LITERATURE REVIEW

A. EMERGING-MARKET MULTINATIONAL COMPANIES (EMNCs)

1. THE HOME BASE OF EMNCs—EMERGING ECONOMIES

Emerging economies are not well defined in the international literature. Part of the difficulty in classifying a country as emerging market may be due to the rapidly changing landscape of foreign direct investment (FDI), which involves a firm's cross-border transfer of resources by any *intra-firm* mode, such as joint ventures and wholly owned subsidiaries (Dunning, 1998). Just a few decades ago, most FDI originated from the so-called Triad countries, including the United States, continental European countries, and Japan (UNCTAD, 2006), and these countries constitute the commonly discussed *developed* markets. Due to the prevalence of FDI originated from developed markets, traditional research on FDI activities tracked multinational corporations (MNCs) from developed markets and their strategies in entering other developed markets and/or less developed markets (Peng, Wang, & Jiang, 2008).

During the 1960s, MNCs from the so-called Asian tiger economies, including Taiwan, South Korea, Hong Kong, and Singapore, were among the earliest non-traditional MNCs. Researchers documented this first wave of non-traditional MNCs' activities as "The New Multinationals" (Lall, 1983) and "Third World Multinationals" (Wells, 1983). Many of these countries with rapid industrial growth have been referred to as newly industrialized countries and

some of them have since graduated to developed economies. For example, South Korea has been included in the Organization for Economic Co-operation and Development (OECD), most of the members of which are high-income economies with a high Human Development Index (HDI)² and are considered developed countries. In the last ten years, another group of emerging economies, including the so-called BRICS countries (i.e. Brazil, Russia, India, China and South Africa) are considered to be the next group of newly industrialized economies having the potential to compete with major economies. The aforementioned groups of rising economies (the Asian Tigers and BRICS) are exemplar sources of major non-traditional FDI. Other emerging economies may include so-called Tiger Cubs (i.e. The Philippines, Thailand, Indonesia, and Malaysia), formerly socialist countries in Central and Eastern Europe, and the newly independent states of the former Soviet Union.

The above brief documentation of the transition of emerging economies suggests as time changes, various unique characteristics associated with country development are utilized to classify emerging economies and present difficulty in having a consistent definition of emerging economies. In practice there is also no universal definition of which countries are considered to be emerging economies. The World Bank classifies countries into four income groups, using Gross National Income (GNI) per capita as cutoff values. The International Monetary Fund (IMF) bases their classification of the advanced and emerging economies on three indicators of country development, including GNI per capita, export diversification and the degree of integration into the global financial system. UNCTAD, the statistic division of the United Nation, publishes a series of lists including top 100 non-financial MNCs from developing and transition

² HDI originated in the annual Human Development Reports of the United Nations Development Programme. HDI combines three dimensions, including life expectancy at birth, mean years of schools and expected years of schooling, and GNI per capita.

economies.³ For example, in 2008, 67 firms on the list of top 100 non-financial MNCs were from Asian economies, including China, Taiwan, Hong Kong, India, South Korea, Malaysia, Singapore, and Thailand (Table 1). Despite using the term developing economies, UNCTAC, whose reports are frequently cited in international literature, made an effort to emphasize that the classification code is only for the convenience of reporting statistics and that there is no established convention for the classification.

Insert Table 1 About Here

Despite the various classifications, it is agreed that emerging markets are important to the world economy because of their rapid economic growth (Economist, 2011). In contrast with the recent sluggish economic growth in the developed markets, less economically developed countries, mostly in Latin America and Asia, continue to demonstrate impressive economic growth (UNCTAD, 2006). For example, the U.S. is expected to have economic growth of 2.2 percent in 2012, while several emerging markets are predicted to grow by 15 percent. China, one of the major emerging economies, is expected to have 8.2 percent growth in GDP (Economist, 2011). Moreover, newly internationalized firms from these less developed economies increasingly become important players in the global business landscape. Despite the recent global economic downturn, foreign direct investment (FDI) from emerging economies accounts for 25% of the world FDI in 2009. The World Investment Report suggests that FDI from emerging economies will continue to rise (UNCTAD, 2010). Studies tracing the development of

³ UNCTAD classifies countries into three groups of development, including developing economies, transition economies and developed economies. In the current paper, developing and transition economies are considered as emerging markets in contrast with developed markets.

these firms demonstrate the promise of these non-traditional MNCs to become an important avenue for theorizing or empirical testing (e.g. Cuervo-Cazurra, & Genc, 2008; Luo, & Tung, 2007; Wright, Filatotchev, Hoskisson, & Peng, 2005).

Other than rapid economic growth, another distinguishing characteristic of emerging markets lies in their institutional environment. Institutions consist of “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior” (Scott, 1995, p.33). Economists, represented by North (1991), view institutions as consisting of formal rules (constitutions, laws, property rights) and informal restraints (sanctions, taboos, customs, traditions, code of conduct). Extant economic research has been focused on the evolution of formal institutions which promote a set of economic rules of the game (with enforcement) that induce sustained economic growth (Assane, & Grammy, 2003; De Haan, & Lundstrom, 2006; North, 1991). In ancient hunting and gathering societies, simple forms of economic exchange were enforced by a dense social network of informal constraints, such as trust and reciprocity. As trade became more complex, the impersonal contract enforcement through various institutions became necessary, because personal ties, voluntary constraints, and ostracism were no longer effective (North, 1991). Similarly, as emerging markets become more competitive in the world economy, recent research suggests that these emerging markets will experience a transition process from a “relationship-based, personalized transaction structure to a rule-based, impersonal exchange structure” (Peng, 2003, p. 275). Along similar lines, other researchers suggest that emerging markets are characterized by ‘weak’ formal market-supporting institutions, such as their legal framework and enforcement, property rights, information systems, and regulatory regimes (Meyer, Estrin, Bhaumik, & Peng, 2009). Whereas market-supporting institutions are strong in developed markets, weak market-supporting institutions in emerging markets may “fail

to ensure effective markets or even undermine markets (as in the case of corrupt business practices)” (Meyer, et al., 2009, p. 63).

In sum, there is no consistent definition of *emerging markets* in either the academic or practitioner literature. At the conceptual level, the current study utilizes emerging economy as an umbrella term to represent countries that experience rapid economic growth, but do not achieve the maturity of developed markets, particularly in the development of their formal institutions. For empirical purposes, in *Phase One*, acquirers’ home countries are classified into emerging economies and advanced economies based on conventional standards, offered by United Nation and OECD association. In *Phase Two*, I rely on several country level characteristics to further delineate the country-of-origin effects on EMNC’s internationalization behaviors.

2. EMNCS’ INTERNATIONALIZATION MOTIVES

In the current study, I follow Luo & Tung (2007) and define emerging-market multinational companies (EMNCs) as “international companies that originated from emerging markets and are engaged in outward FDI, where they exercise effective control and undertake value-adding activities in one or more foreign countries” (p.482). This definition excludes firms which are only engaged in the exporting-importing business, and focuses on EMNCs which have substantial investment in foreign activities and are perceived as having influence in the eyes of developed market stakeholders. In this section, I will further elaborate EMNCs’ unique motivation to opt for accelerated internationalization, where traditional asset-exploiting consideration is secondary to the primary asset-seeking motivation, particularly when EMNCs enter developed markets.

Because of their unique home market conditions, EMNCs, considered “new” MNCs, are following a different path than traditional multinationals from advanced markets (Guillen & Garcia-Canal, 2009). Traditionally, the internationalization model based on the established MNCs portrays internationalization as a sequential, learning process. The Uppsala model (Johanson & Vahlne, 1977) predicts that after establishing a substantial domestic base of operation, a firm looks for adjacent areas for expansion. Only when a firm accumulates substantial international business will a firm seek to enter a less familiar market (Johanson & Vahlne, 1977). This line of research has shown that psychic distance, measuring managers’ perceptions of cross-national differences, is a powerful predictor of a firm’s foreign target selection (Benito & Grisprud, 1992; Stottinger & Schlegelmilch, 1998; Whitelock & Jobber, 2004) and entry strategy (Brouthers, 1995; Ellis, 2007). Psychic distance refers to the factors that prevent a firm understanding of a foreign environment (Nordstrom & Vahlne, 1994). When managers perceive a large distance between their home country and host location, they are less likely to pursue the host location as the first foreign entry. In other words, managers’ perceptions of risk and uncertainty associated with a less familiar market dictate a firm’s internationalization behavior. EMNCs, however, do not follow the exact trajectory predicted by this sequential process. Based on a sample of successful firms originating from peripheral countries, including Thailand, India and Brazil, Bartlett & Ghoshal (2000) reveal that executives of these successful EMNCs demonstrate two strong qualities: 1) their commitment and confidence in their firms’ ability to compete internationally, even before the company achieves the scale needed for international expansion, and 2) their willingness to accept new ideas even when those ideas challenge established practices and core capabilities. As a result, these adventurous business executives successfully led their firms abroad at an early stage without having established a solid

foundation in their home markets. Similarly, Bonaglia, Goldstein & Mathews (2007) document the accelerated internationalization pattern demonstrated by three successful EMNCs in the home appliance industry, including Haier from China, Mabe from Mexico and Arcelik from Turkey.

The above discussion suggests that EMNCs differ from traditional, advanced market multinational companies (AMNCs) in that EMNCs internationalize at an earlier stage than AMNCs. The expedient internationalization process mainly results from EMNCs' unique motivation for expanding overseas. Traditionally, firms seek international expansion to increase market share or to access low-cost factors of production (e.g. labor, raw material, etc.) (Bartlett, Ghoshal & Beamish, 2008). Internationalization theories suggest that to compete with indigenous firms in the host market, a multinational firm needs to have some ownership-specific advantages (i.e. strategic competencies) to counteract "the liability of foreignness" –a foreign firm's cost of doing business abroad compared to an indigenous firm (Zaheer, 1995). Thus, substantial success in the home market is essential for the firm to be equipped with strategic competencies to compete abroad. When a firm successfully establishes an overseas operation to exploit their ownership advantages, the multinational firm can further reap the benefit of internationalization to enjoy economies of scale or scope (Bartlett, et al. 2008).

The asset-exploitation motive of internationalization is further elaborated in Dunning's (1980) well-established eclectic paradigm, Ownership-Location-Internalization (OLI) framework. Dunning (1980) suggests the ownership-specific (O) advantages as the first condition to be satisfied for a firm to benefit from internationalization. As Dunning (1993) notes, "These O (i.e. ownership-specific) advantages largely take the form of the privileged possession of intangible assets as well as those which arise as a result of the common governance of cross-

border value-added activities. These advantages and the use made of them are assumed to increase the wealth creating capacity of a firm, and hence the value of its assets” (parenthesis added, p. 79). Further, location (L) indicates that the distribution of these resources and capabilities are not evenly allocated across nations and can be specific to one nation or a few countries. Given these L advantages, when firms perceive it to be in their best interest to internally govern these advantages rather than transact them in the market place, internalization by establishing foreign operations is considered to be advantageous. Thus, a traditional view on internationalization has largely assumed the “exploitation perspective where firms make the most of their rent-yielding ownership advantages expanding into overseas market” (Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2010, p. 398).

As international researchers suggest, various motivations for firms’ internationalization result in different internationalization patterns and one single theory may not adequately explain all of the international activities (Dunning, 1980). Particularly pertinent to the research on EMNCs’ early internationalization behavior is the perspective that EMNCs may not possess firm-specific advantages prior to their pursuit of internationalization (Wood, Khavul, Perez-Nordtvedt, Prakhya, Dabrowski, Zheng, 2011). At least, they may not possess the traditional conceptualization of firm-specific advantages, such as advanced technology and managerial capabilities (Makino, et al., 2002). Since EMNCs are less likely to possess aforementioned firm-specific advantages, the traditionally prescribed motivation of asset-exploitation may not be the main motivation for EMNCs to expand overseas (Yiu, Lau & Bruton, 2007). Instead of asset-exploitation motives, EMNCs may choose to internationalize to seek strategic competencies to compensate for their latecomer disadvantages (Child & Rodriguez, 2005; Rui & Yip, 2008). For instance, to offset their competitive disadvantages, Chinese firms are shown to utilize a series of

cross-border acquisitions of established firms to acquire strategic capabilities (Rui-Yip, 2008). In addition, by surveying a sample of 328 Taiwanese firms, Makino, Lau, and Yeh (2002) validated their prediction that EMNCs are motivated to expand abroad for asset-exploiting as well as asset-seeking purposes. Specifically, EMNCs are motivated to acquire strategic assets primarily in developed markets, while gaining additional market share by entering both developed and less developed countries (Makino, et al, 2002).

The asset-seeking motivation is not completely omitted in the traditional discussion of internationalization. For example, Dunning (1993) identifies three major motives for MNC's international expansion, including seeking of markets, resources, and strategic assets. The first two motives fit the asset-exploiting argument—by investing in a foreign location, MNCs are portrayed as increasing market share or reducing production cost, thus achieving scale or scope economies. For the third motive, seeking strategic assets demonstrates the asset-seeking argument that MNCs expand overseas to acquire strategic competencies which can be complementary to the MNC's competitive advantages (Makino, et al., 2002). Essentially, these three motives can be applied to explain both AMNCs' and EMNCs' international activities. However, because of their latecomer status, EMNCs are much more motivated to acquire strategic assets, including traditionally conceptualized strategic assets, such as technology, marketing and management expertise, as well as other strategic assets, such as brands and distribution channels (Luo & Tung, 2007; Mathews, 2002).

For instance, building on research developed in the mid-1980s related to outward expansion by “third world” multinationals (e.g. Lecraw, 1977, 1983; Wells, 1983; Lall, 1983), Lung & Tung (2007) propose a “springboard” perspective that describes the expedient pattern of EMNCs' internationalization. EMNCs are suggested to be less path-dependent and much more

risk-taking through aggressive M&As than established firms. Basically, due to their latecomer status, they are much more motivated to “use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home” (Luo & Tung, 2007, p.484). They further conclude that asset-seeking is one of the major reasons for EMNCs to expand overseas. Through a systematic use of international expansion, EMNCs seek various strategic assets to compensate for their competitive disadvantages, the strategic assets which traditional MNCs are not usually seeking through internationalization, such as brands and distribution channels (Luo & Tung, 2007).

Other than the strategic asset-seeking motive, researchers discuss additional factors to motivate EMNCs’ internationalization at an early stage. In some cases, EMNCs may utilize internationalization to avoid poor institutional environments in their home markets (Cuervo-Cazurra & Genc, 2008; Witt & Lewin, 2007). For example, firms may choose to incorporate in countries outside their home markets to bypass tariff barriers. In other cases, EMNCs, such as some Chinese firms, are state-owned enterprises and encouraged by their governments to expand overseas to acquire the resources needed for the development of their home countries (Deng, 2004). While the above cases suggest some unique EMNC’s motives to venture abroad, in general, strategic asset-seeking serves as the most compelling reason for EMNCs’ accelerated internationalization, particularly into developed markets.

3. EMNCS’ COMPETITIVE ADVANTAGES AND DISADVANTAGES

Given the prevalence of research on EMNC’s motivation for internationalization, less is known about how EMNCs can succeed in global business competition. A few pioneering studies utilize cases of successful EMNCs to demonstrate EMNCs are nimble players which have

flexibility and cost advantages to compete with established giants (Mathews, 2006; Wright et al., 2005). There has not been a systematic examination of how EMNCs may address their competitive disadvantages while entering developed markets. In this section, I mainly review literature of the pioneering studies on EMNCs' competitive advantages and explicate the urgency to study EMNCs' competitive disadvantages in their expansion in developed markets.

A few researchers have suggested that EMNCs possess both market-based and non-market based advantages (Cuervo-Cazurra & Genc, 2011; Sun, Peng, Ren, & Yan, 2012). First, market-based advantage refers to advantages based on resources developed to compete against other firms in the industry (Cuervo-Cazurra & Genc, 2011). EMNCs have advantages in providing lower cost products as well as in designing products for a niche market, particularly serving emerging market customers. EMNCs' cost advantage is mainly derived from the factor endowment in their home country, such as cheaper labor and raw materials (Sun, Peng, Ren, & Yan, 2012). Since the 1950's, lower trading barriers have encouraged foreign direct investment, and established multinationals have shifted their manufacturing facilities to less developed countries to capitalize on relatively lower wages. Low labor cost becomes the major location-specific advantage among these less developed economies (Porter, 1990). Such a location-specific advantage, however, is readily utilized by other firms which have operations in these countries, and does not constitute an EMNC's unique competitive advantage over their developed-market counterparts. Built upon the location-specific advantage of low production cost, EMNCs primarily propel their growth through innovation which focuses on the unique needs of the emerging economies (Mathews, 2006). The Tata Nano, a small car with a sale price of around 4,000 U.S. dollars, is a great example of this type of innovation. Similarly, Mathews (2006) studied dragon multinationals, successful firms originating from Asian countries, and

showed that Pacific Asian firms appear to be nimble, competitive players, finding niche markets or innovative ways to complement the incumbent multinational giants' strategies (Mathews, 2006).

In combining their cost advantage and their local knowledge of serving emerging market customers, EMNCs can build their competitive advantage by utilizing existing technology or business models previously developed by AMNCs to design innovative, affordable products. Indeed, several researchers document that successful EMNCs build their competitive advantage by utilizing their connections and linkages with AMNCs (Mathews, 2006; Wright, et al., 2005; Guillen & Garcia-Canal, 2009). Mathews (2006)'s Linkage-Leverage-Learning (LLL) framework further elaborated EMNCs' competitive advantage of leveraging connections. Based on his finding that dragon multinationals did not depend on their ownership advantage for international expansion, Mathews (2006) revised Dunning's (1980) Ownership-Location-Internalization (OLI) framework. By establishing linkages (L) with AMNCs through partnership or acquisition, dragon multinationals developed their competitive competences by leveraging (L) the connections associated with AMNCs. Through the leveraging experience, dragon multinationals learned (L) how to compete with AMNCs by replicating the success of linkage and leverage. For instance, Ispat, the world's largest steel producer, started as a small steel producer in Indonesia. Ispat expanded their overseas business by following its major client, GM, to establish their foreign operations in different parts of the world (Mathews, 2006). Originating from Taiwan as a PC assembler, Acer also accelerated its internationalization through a series of acquisitions and partnerships with established firms in various target markets and became one of the most successful PC components, PC, and IT firms in the world (Mathews, 2006). The above two examples, along with other successful cases, suggest that EMNCs, lacking traditionally

conceptualized ownership advantages, can still successfully venture abroad by utilizing their connections with AMNCs. By leveraging the connections of the established firms, EMNCs are standing on the shoulders of giants to achieve further development, making accelerated internationalization possible.

Second, non-market advantages refer to advantages based on resources developed by the firm to operate in a country's institutional environment (Cuervo-Cazurra & Genc, 2011). Early international research studying emerging economies has been focused on the inward FDI to these countries (e.g. Hoskisson, et al., 2000; Peng, Wang, & Jiang, 2008). The research agenda was to understand how firms from developed markets may operate successfully in emerging economies to enjoy economies of scale or scope. Emerging economies were characterized as low in environmental munificence and high in environmental uncertainty because of a less developed economy and institutions. Institutions have been described as the "rules of the game" (North, 1990). Without fully developed, formal market-supporting institutions, there are not many clear rules to follow in doing business. Thus, for a foreign firm to be successful in an emerging economy, the firm would need to master navigating the informal institutions, and deal with the uncertainty associated with changing regulations and governmental interventions (Hoskisson, et al., 2000).

In contrast with the AMNCs' potential disadvantage of lacking the capacity to deal with the aforementioned uncertain institutional environment, EMNCs may be in an advantageous position because they have the experience to cope with such uncertainty in their home markets. Recent studies generally support that EMNCs have better firm performance in other less developed markets than do established MNCs, because EMNCs are skillful in dealing with an unstable, uncertain institutional environment (Guillen, & Garcia-Canal, 2009; Wright,

Filatotchey, et al., 2005). Indeed, given the uncertainty associated with unstable institutional rules, EMNCs need to be equipped with great strategic flexibility to be able to excel in their home markets (Wright et al., 2005). Thus, successful EMNCs are credited as institutional entrepreneurs who can adapt easily to changing institutional rules (Caves, 1996; Lall, 1983; Lecraw, 1993).

Compared to the EMNC's ability to utilize their connections with AMNCs to create market-based advantages, EMNCs can also develop non-market based advantages by building network-ties with business groups (Wright, et al., 2005). Some researchers suggest that in a less developed institutional environment, informal networks substitute for formal institutions and reduce the environmental uncertainty associated with changing institutional rules (Gullien, 2000). EMNCs, originating from less developed market-supporting institutions, sustain their competitive advantage by forming business groups which constitute informal ties across different industries (Guillen & Garcia-Canal, 2009). Thus, diversified business groups, a prevailing form of organization in emerging economies, are believed to be substitutes for the imperfect product, capital, and labor market in the emerging market (Leff, 1978; Guillien, 2000). Further, EMNCs that have affiliations with business groups usually perform better than other independent firms in emerging markets (Gullien, 2000).

Insert Table 2 About Here

Table 2 summarizes the aforementioned preliminary research on EMNC's competitive advantage. Relatively limited research, however, probes their competitive disadvantages, particularly when their host location is in a developed market. Given the high economic growth

rate, emerging markets are viewed as attractive locations for established MNCs from advanced markets (Peng, Wang, & Jiang, 2008). For some EMNCs, to survive domestically, they must compete effectively with established MNCs. Thus, a majority of EMNCs consider their investment in advanced markets as an important means to seek more sophisticated marketing, managerial and technological capabilities as well as brands and distribution channels (Luo & Tung, 2007; Makino, et al., 2002; Wright et al., 2005). To successfully achieve their strategic goals in developed markets, EMNCs, however, need to overcome their competitive disadvantages, such as limited resources and less international experience (Mathews, 2006), not to mention that EMNCs may not be able to utilize their non-market advantages, which are useful in a nation with similar institutional environments to their home country (Cuervo-Cazurra, & Genc, 2008; Wan, 2005). Despite the importance of such a research inquiry, little existing research provides a systematic examination of EMNCs' competitive disadvantages, particularly in developed markets. In the following section, I will further delineate EMNCs' competitive disadvantages in a developed market through the lens of organizational legitimacy.

B. EMNCs' COMPETITIVE DISADVANTAGES— CHALLENGES IN ESTABLISHING LEGITIMACY IN A DEVELOPED MARKET

1. ORGANIZATIONAL LEGITIMACY AND INSTITUTIONAL DISTANCE

A fundamental premise of institutional theory is that organizations which are isomorphic to their institutional fields have a greater chance of survival because such conformity grants the organizations political power and institutional legitimacy to exist (DiMaggio & Powell, 1983). According to earlier work in sociology, organizational legitimacy refers to the congruence between the organizational values implied by the firms' activities and the social values of the environment which these organizations are in (Dowling & Pfeffer, 1975). In other words, firms

may choose to adopt specific business activities to conform to socially-constructed value systems so that they may gain legitimacy (DiMaggio & Powell, 1983; Oliver, 1991; Scott, 1995). Suchman's (1995) seminal work on legitimacy clearly portrays sources of legitimacy and proposes that to secure different types of legitimacy, organizations need to adopt various strategies, such as co-opting constituents, offering symbolic displays and professionalizing operations. Various researchers apply institutional theory and suggest that firms' activities to enhance legitimacy are critical to their survival and success (e.g. Cohen & Dean, 2005; Elsbach, 1994; Lounsbury, & Glynn, 2001). For example, by analyzing a sample of central banks, Deephouse (1996) found support for the central premise of institutional theory—organizational isomorphism increases organizational legitimacy. The results show that controlling for organizational age, size and performance, the banks' isomorphism in their strategies increases the legitimacy conferred by bank regulators and the media (Deephouse, 1996). Further, drawing on a sample of U.S. firms, Cohen & Dean (2005) find that the characteristics of top management teams can be a signal of a firm's legitimacy, thus increasing the firm's values in initial public offerings (IPO).

Organizational legitimacy is an especially salient issue in the international context because MNCs are faced with diverse legitimacy requirements from multiple institutional environments across the globe. Notably, Kostova & Zaheer (1999) develop an influential model delineating the complexity of organizational legitimacy in the context of multinational firms. They propose that "MNCs face at least as many different institutional environments as the number of countries in which they operate, since institutions tend to be country specific" (Kostova & Zaheer, 1999, p.68). Further, they propose that the environmental complexity that MNCs face when establishing or trying to maintain their legitimacy in their host markets mainly

comes from the institutional distance between the host and home markets. The three pillars of institutional distance illustrate the different types of conformity needed to gain legitimacy. The regulative pillar of institutional pressure emphasizes conformity to rules and is enforced by the isomorphism mechanism of coercion (DiMaggio & Powell, 1983; Scott, 1995). The normative pillar stresses a deeper, moral base for assessing organizational legitimacy, which is established through normative isomorphism (DiMaggio & Powell, 1983; Scott, 1995). The cognitive pillar of institutional pressure views organizational legitimacy as the organizations' activities congruent with the shared cognitive structure in a society, and this type of conformity is represented by mimetic isomorphism (DiMaggio & Powell, 1983; Scott, 1995). These three pillars of institutional environment thus exert qualitatively different pressures for organizational conformity. For example, the regulative pillar of the institutional environment consists of explicit rules and regulations, so the institutional pressure from the regulative pillar is easier for foreign organizations to understand, compared with the cognitive and normative pillars of institutional pressure.

Existing empirical work illustrates the importance of analyzing legitimacy along the three pillars of national institutional distance (Kostova & Roth, 2002; Xu, Pan, & Beamish, 2004). For instance, studying a U.S. based MNC's implementation of quality management practices, Kostova and Roth (2002) find that the institutional profile of the host country (i.e. three pillars of institutional environments, Kostova, 1997) influences the foreign subsidiary's decision in adopting quality management practices. Their results demonstrate that even with strong and consistent support for the practice from the parent organization, subsidiary firms will implement the practice only to varying degrees. Basically, if a given practice is consistent with the cognitive pillar of the institutional field in the host market, then the subsidiary is more likely to implement

such a practice (Kostova & Roth, 2002). This result also demonstrates that foreign subsidiaries will strategically respond to pressures from the institutional fields in the host market in an effort to gain legitimacy in the host market.

A note is warranted when discussing different institutional environments. The previous discussion related to the three pillars of the institutional environment is based on Scott's (1995) framework and widely accepted by neoinstitutional sociologists. Neoinstitutional economists, represented by North (1991), conceptualize the institutional environment based on two types of institutions, formal and informal institutions, instead of the three pillars of institutional environment. North (1991) defines institutions as "humanly devised constraints that structure political, economic and social interactions." He views institutional constraints as consisting of formal rules (constitutions, laws, property rights) and informal restraints (sanctions, taboos, customs, traditions, code of conduct), which usually contribute to the perpetuation of order and safety within a market or society. In my view, North's (1991) formal institutional rules coincide with the regulative pillar in Scott's (1995) framework, while Scott (1995) further delineates North's (1991) informal institutions into cognitive and normative pillars of institutional environment. In the current study, generally, I adopt Scott's (1995) framework in analyzing institutional distance between emerging markets and developed markets. Occasionally, to enhance the readability of the writing, I use formal institutions to refer to the regulative pillar of the institutional environment. For example, one of the salient characteristics of an emerging market lies in its transition to develop formal institutions, which consist of sophisticated regulations and rules associated with business dealings.

2. EMNCs' LEGITIMACY IN A DEVELOPED MARKET

EMNCs, compared to other multinational firms, may potentially encounter greater threats to their status as a legitimate player in a developed market. This is primarily due to the large institutional distance between EMNC's host, developed market and home, emerging market. First, differences between the emerging market and the advanced market on the regulative pillar are readily visible. For instance, accounting standards, investor protection procedures (Pagano, Roell, & Zechner, 2002), and legal requirements surrounding listing and registration in a stock market (Karolyi, 1998; Marosi, & Massoud, 2008) all differ between emerging and advanced markets. Formal institutions, consisting of rules and regulations related to all sorts of business dealings, are less developed in EMNCs' home countries (Peng, et al, 2008). Thus, EMNCs may find it challenging to establish legitimacy in a developed market if their original corporate practices are not consistent with more rigorous regulations in the developed market.

Second, the cognitive-cultural distance between emerging markets and developed markets can be analogues to the difference between western and eastern cultures. Most of the developed markets are located in North America and Western Europe, two areas that share substantial cultural overlap. EMNCs, on the other hand, are likely to be from other regions (e.g., Asia or Latin America) and will thus be embedded in different cultures. As such, it is likely that EMNCs face large cultural differences and may thus find it difficult to conform to pressures reflecting the cognitive pillar of advanced markets. For example, one of Hofstede's cultural dimensions, individualism, captures one of the major cultural differences between the Western and Eastern culture. EMNCs, originating in an Eastern culture that values collectivism over individualism, may adopt an organizational design valuing collective effort, such as group-based rewards for performance. When EMNCs utilize such collective-oriented practices in a more

individualistic host market, the host market employees and other stakeholders may not readily view these practices as legitimate.

Third, normative pressures in regards to what is considered as best practice in the industry can vary between developed markets and emerging markets. Particularly, some widely acceptable practices among EMNCs are not commonly adopted by AMNCs. For instance, family-owned business groups are a prevalent form of organization among some EMNCs, such as Chinese and some Latin-American firms (Yeung, 2000). This practice may be derived from a collective culture where the family affiliation is deemed as an important criterion to earn a stake in the company. Established Japanese and South Korean enterprises also utilize these forms of business conglomerates, such as the Keiretsu (Lonien, 2007) and Chaebol (Kim, 2003), to efficiently expand their business landscape. Similarly, family members' cross-holding of company stock among affiliated companies is observed in some European countries with a collectivistic culture, such as in Switzerland (Faccio & Lang, 2002), but not among U.S. firms embedded in an individualistic culture.

Additionally, several common practices designed to improve the transparency of corporate governance in developed markets are not commonly adopted among firms in emerging markets. For example, the separation of ownership and control in modern, western corporations promotes several corporate governance practices, such as independent boards and third-party auditing, to improve the effective monitoring of the management (Fama & Jensen, 1983; Johnson, Daily, & Ellstrand, 1996). These corporate governance practices may be gradually adopted by EMNCs due to the globalization of financial markets, but these practices are not well established as best practices in the EMNCs' home institutional environment.

Based on the above discussion of the three pillars of institutional environments, Table 3 summarizes the threats to EMNCs' organizational legitimacy in developed markets. The three pillars serve as a convenient categorization scheme to analyze national differences in institutional environments. The influences of these pillars on corporate practices, however, are not necessarily independent of one another. For instance, the ethical beliefs of a society promoting corporate social responsibility (CSR) may drive the cognitive categorization of which type of practice is considered to be socially responsible (Tang & Wang, 2011). Further, these CSR practices can also influence and be influenced by various governmental regulations (Williams, Lynch-Wood, & Ramsay, 2006). The aforementioned normative pressure associated with modern corporate governance is another example of the cognitive-cultural influence. Hence, I acknowledge that for a given predominant practice in the institutional field, the three pillars and their corresponding pressures may facilitate the proliferation of the practice and its isomorphism within the field. However, there may be a more salient pressure from one pillar than the others in a given organizational practice. For instance, the minimum wage requirement imposed by labor law may be a stronger regulative pressure for a company's pay policy than the pressures from the normative and cognitive pillars.

Insert Table 3 About Here

C. ENTRY MODE SELECTION

The previous section suggests that EMNCs have great needs to enhance their legitimacy so that they can compete effectively in developed markets. In other words, facing diverse institutional demands from host developed markets, EMNCs need to strategically formulate their

responses to enhance their legitimacy in developed markets, and thereby enhance their chance of survival. In the current study, an EMNC's entry mode strategy in their cross-border merger and acquisition events is identified as an important strategic posture to enhance EMNCs' legitimacy in a developed market.

1. TYPE OF ENTRY MODE

International entry mode research explores the forms of operation firms use to expand their boundaries overseas. Firms may choose to "enter foreign markets through contracts (with distributors, resource suppliers, licensees and franchisees) or by extending the firm abroad, setting up sales or manufacturing subsidiaries, and should they decide to set up such affiliates, whether they will share the ownership of such affiliates with other firms (an equity joint venture [JV]) or decide to keep full ownership (a wholly owned subsidiary [WOS])" (Brouthers & Hannart, 2007, p. 395-396). Thus, one way to categorize entry mode is based on the amount of equity investment. For instance, based on a sample of foreign entry activities into China between 1979 and 1998, Pan & Tse (2000) find support for a hierarchy of entry modes. While entering a foreign market, firms first consider between non-equity-based modes and equity-based modes. Within the equity-based modes, the choice is between wholly owned operations and partially owned operations, while within the non-equity-based modes, the choice is between exporting and contractual agreements, such as licensing and franchising.

Furthermore, some researchers suggest that equity investment, in contrast with market contracts, signals a form of internalization and should be considered as an expansion of a firm's boundary. In other words, the equity investment involved in a JV or WOS to gain ownership of foreign affiliates reflects a firm's internalization effort by establishing hierarchical forms of organization (Hennart, 2000; Pan & Tse, 2000). In the form of market contract transactions,

input suppliers, the contracting parties are paid ex ante. By contrast, in an equity involved investment, input suppliers, the partnering firms are paid ex post from the profits of the venture. Thus, when it is difficult to define, and costly to measure the contribution ex ante, firms may opt for equity investment, rather than non-equity investment, to gain either partial or full ownership of the entity. Both partially and fully owned operations are considered types of hierarchical form of foreign investment (Hennart, 2000). Extended from the above view, Brouthers & Hennart (2007) propose that equity-involved modes of entry can be categorized into four types based on two dimensions, establishment mode and ownership mode, as shown in Table 4.

Insert Table 4 About Here

Brouthers & Hennart (2007) further suggest that both partial acquisitions (i.e. acquiring partial ownership of an existing firm) and Greenfield JV (i.e. starting a joint equity firm from ground up) should be categorized as JVs as both involve a process where input providers are paid for their inputs through a share of the profits of the venture (Brouthers & Hennart, 2007). As such, entry mode can be classified into a joint hierarchical structure (Greenfield JV and Partial acquisition) and a sole hierarchical structure (Greenfield WOS and Full acquisition). This classification has great theoretical appeal. Both forms of organizational structure share the common characteristics of a hierarchy, which utilizes bureaucracy to internalize market contracting activities. The dichotomous classification of hierarchical structures versus joint hierarchical structures extends the traditional TCE view on entry mode. While a sole hierarchical structure rises as markets fail, a joint hierarchical structure rises as both markets and sole hierarchical structures fail.

2. OWNERSHIP POSITION AND NATIONAL DIFFERENCES

Determining an appropriate level of equity ownership in a foreign investment is an important international strategic decision (Delios & Beamish, 1999; Anderson & Gatignon, 1986; Taylor, & Zou, 1998). This decision making involves important considerations such as resource commitment, degree of control and type of risk (Delios & Beamish, 1999; Anderson & Gatignon, 1986; Taylor, & Zou, 1998). Traditionally, researchers assume a continuum of commitment, control, and risk involved in various types of entry modes, ranging from exporting, market contracts (e.g. licensing and franchising), JV to WOS. Most of the early entry mode research relied on TCE and posited that asset specificity and information asymmetry drive firms' entry mode choices. Asset specificity is defined as a durable investment which is transaction-specific and cannot be readily deployed without a sacrifice of productive values (Williamson, 1975). In international entry mode research, R&D intensity is usually operationalized as a main predictor of asset specificity (Delios & Henisz, 2000; Erramilli & Rao, 1990; Gatignon & Anderson, 1988; Kim & Hwang, 1992). The TCE view on entry mode suggests that asset specificity significantly increases switching costs and predicts a high level of equity ownership. An increasing equity ownership may enhance the focal firm's strategic control to mitigate the risks associated with its transaction partner's opportunistic behaviors.

TCE researchers focusing on the relationship between ownership position and national differences hypothesized that country risk and cultural distance are major sources of uncertainty (Brouthers, & Hannart, 2007). According to Williamson (1975), uncertainty is only problematic when it is in combination with asset specificity. When there is little asset specificity, switching costs are negligible so uncertainty will not significantly increase transaction costs. Such a discussion of national differences focuses on behavioral uncertainty. Transaction costs increase

as national differences intensify negotiation and monitoring challenges. Therefore, based on TCE, a hierarchical form of ownership structure, such as full acquisition, rather than a joint hierarchical form is prescribed to be a better form for entry as it mitigates the trading partners' opportunistic behaviors (Williamson, 1975, 1981).

Such a view on national differences is somewhat simplistic. Facing greater environmental uncertainty, a foreign acquirer may not necessarily opt for a higher ownership position. A recent review suggests that national differences between the acquirer's and target's nations should be conceptualized as two types of uncertainty—endogenous and exogenous uncertainty (Ahsan & Musteen, 2011). Endogenous uncertainty, exemplified by cultural differences, can be overcome through acquisition experience (Chi, 2000; Folta, 1998; Roberts & Weitzman, 1981). In other words, through learning from the local partner, acquirers will be able to reduce the risks associated with endogenous uncertainty over time, and this learning experience becomes a firm-specific advantage. As such, a high level of endogenous uncertainty would predict a high level of equity ownership. Exogenous uncertainty, such as economic volatility, however, is independent of the firm's actions and can only be resolved through passive observation. Firms may choose to delay the decision to invest directly and passively observe the host-country environment. Thus, a high level of exogenous uncertainty would predict a low-control entry mode. Other research also indicates that when there is a large amount of uncertainty, foreign acquirers prefer lower equity ownership, so that they can be flexible in dealing with contingencies (e.g. Erramilli & Rao, 1993; Herrmann & Datta, 2002; Rajan & Pangarkar, 2000). Further, a meta-analysis has shown that various measures of country risk and cultural distance demonstrate a negative relationship with the probability of choosing a sole hierarchical (WOS) mode of entry over a joint hierarchical structure, such as JV (Zhao, Luo, & Suh, 2004).

TCE is powerful in explaining firms' behaviors built upon assumptions related to trading partners' information asymmetry and opportunistic behaviors, but it is limited in conceptualizing environmental uncertainty in international business activities, such as the aforementioned difference between endogenous and exogenous uncertainty. Given the limitations of transaction cost explanations of entry mode, researchers have begun to derive predictions of entry mode using other theoretical perspectives. For example, Yiu & Makino (2002) utilize institutional theory and suggest that the choice of entry mode can be viewed as the consequence of organizational responses to isomorphic pressures arising from a firm's need to establish legitimacy in the host market. Utilizing a sample of 364 Japanese subsidiaries, they find support that institutional theory offers additional explanatory power for foreign entry mode choice beyond predictions based on transaction cost theory (Yiu, & Makino, 2002). Their finding suggests that a JV, instead of WOS, provides Japanese MNCs' needed legitimacy to enter markets with more regulative and normative pressures towards isomorphism. In other words, based on institutional theory, foreign acquirers may benefit from the spillover effect of the local partners' legitimacy. Thus, a large institutional distance predicts foreign acquirers' lower equity ownership.

In the current study, I utilize the theoretical lens of institutional theory to analyze national difference based on the three pillars of institutional distance, which provides a comprehensive examination of national differences, including regulative, cognitive, and normative institutional demands. Further, based on EMNCs' unique characteristics, I predict that EMNCs respond to institutional pressures differently from AMNCs in the next chapter.

3. EMNCs' INTERNATIONALIZATION AND ENTRY MODE CHOICES

As mentioned, due to their latecomer status in competing in the global economy, EMNCs may internationalize at an early stage to reap the benefits of owning operations overseas. First, some emerging economies may lack a sizable customer base (e.g. Taiwan) or sufficient consumers' purchasing power (e.g. China) to sustain EMNCs' growth. Hence, expanding overseas is critical for these EMNCs to achieve economies of scale or scope (Bonaglia, Goldstein & Mathews, 2007). Second, due to the less developed economy and transitional institutions in the home market, EMNCs may have limited opportunities to acquire needed strategic resources at home. EMNCs, thus, may benefit from acquiring additional resources in a foreign location (Bonaglia et al, 2007; Makino, et al., 2002). Third, EMNCs may diversify market risks associated with their home markets (e.g. unpredictable governmental regulations) by operating in a foreign location (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). Based on the above reasoning, we may conclude that internationalization serves a more fundamental purpose than to improve performance—it may be critical for an EMNC's survival.

To accrue the benefits of foreign expansion, EMNCs, however, need to make a prudent strategic decision on entry mode. Among an array of possible entry mode options, cross-border mergers and acquisitions (M&As) are more advantageous, because foreign firms utilizing M&As can build a local presence quickly, overcome traditional trade barriers, and encounter fewer financial risks than when utilizing Greenfield investments (Datta & Puia, 1995). While outward FDI from emerging economies continues to increase, cross-border M&As are shown to be a popular entry mode among EMNCs. For example, the value of cross-border M&As undertaken by Chinese MNCs in 2008 was 68 billion dollars, which makes up 18% of the outward FDI from China. Overall, EMNCs accounted for 17% of worldwide mergers and acquisitions in 2010

(Economist, 2011). Researchers have documented that EMNCs utilize a series of cross-border M&As to accelerate their internationalization process (Luo & Tung, 2007; Ramamurti & Singh, 2009). A recent comparative study reveals that Chinese and Indian MNCs utilize cross-border M&As to exploit their “comparative ownership advantages” (Sun, Peng, Ren, & Yan, 2012). Building on Ricardo’s (1817) concept of comparative advantage and Dunning’s (1980) OLI framework, Sun et al. (2012) propose that EMNCs may utilize cross-border M&As as an instrument to capitalize on the factor endowments of their home economies, mainly cheap labor and natural resources, and thus compensate for their latecomer disadvantages. For instance, Chinese firms, having access to cheaper labor in manufacturing industries, tend to have intensive cross-border M&As in manufacturing industries, while Indian firms, having access to cheaper labor in service industries, tend to have intensive cross-border M&As in service industries (Sun et al., 2012).

Cross-border M&A activity thus provides an ideal context to study EMNCs’ legitimacy in a developed market because 1) it is a prevalent entry mode for EMNCs; 2) there is substantial equity involved in M&A events, so EMNCs’ decisions to enter the developed market are likely to be a planned action rather than a trial, short-term decision. Given the increasing numbers of EMNCs, a few studies have focused on predicting EMNCs’ entry mode. As shown in Table 5, most research on EMNCs’ internationalization activities utilized a sample of firms originating from a single emerging economy (except for Aybar & Ficici, 2009 and Malhotra, Sivakumar, & Zhu, 2011). For instance, Chinese firms are shown to prefer wholly owned subsidiaries to seek strategic assets and rely on joint ventures to expand market share (Cui & Jiang, 2009). Turkish firms prefer joint ventures over wholly owned subsidiaries while entering a market with great ethical-societal uncertainty (Demirbag, McGuinness & Altay, 2010). Taiwanese firms are found

to utilize high-control entry mode when locating their investments in parts of China with greater social, cultural and economic linkages (Filatotchev, Strange, Piesse & Lien, 2007).

These pioneering studies showcased country-based differences across EMNCs from a few emerging markets. A logical next step will be to utilize a greater sample of EMNCs from various emerging economies to conduct a systematic examination of EMNCs' internationalization behavior. In the current study, I apply institutional theory to offer a systematic examination of whether EMNC's ownership position and subsequent firm performance in cross-border M&A events are influenced by institutional distance.

Insert Table 5 About Here

4. CROSS-BORDER MERGERS AND ACQUISITIONS AND FIRM PERFORMANCE

As globalization advances, cross-border mergers and acquisitions (CBAs) have become a particularly important entry mode for firm' internationalization (Gubbi, et al., 2010). Worldwide M&A activity reached a record of \$4.5 trillion in announced deals in 2007, a 24% increase over the previous year. Among all M&As worldwide, CBA accounted for 47 % of transactions in 2007 (Platt, 2008). Despite their popularity, CBAs often fail (Cartwright & Cooper, 1993). Recently, KPMG reported that only 17% of international acquisitions accomplished pre-acquisition performance expectations.

Even though CBA events have been examined using several financial and strategic approaches, our knowledge about predictors of CBA performance are still limited. A recent

meta-analysis suggests that commonly considered factors, such as relatedness of business and payment methods, do not significantly explain the performance of CBA events (King, Dalton, Daily, & Covin, 2004). Organizational researchers have contributed to this issue by examining cultural difference as a major hurdle for the integration of two entities, which may substantially determine post-acquisition performance. In domestic acquisition events, cultural clashes were shown to increase administrative difficulty (Sales & Mirvis, 1984) and feelings of discomfort and hostility (Buono et al., 1985). Add to this, the differences in culture at the national level and it is clear that these differences may be a major determinant of CBA success or failure.

Based on Hofstede's (1980) influential framework on national cultural dimensions, cultural distance has become the most commonly employed measure of national difference in CBA studies. Findings of the relationship between cultural distance and firm performance remain equivocal (Reus, & Lamont, 2009; Stahl, & Voigt, 2005). While some studies reported negative effects of cultural distance on the performance of CBAs, other studies suggested that a large cultural distance leads to enhanced acquisition performance (cf. Stahl & Voigt, 2005). Reus & Lamont (2009) propose that cultural distance is a "double-edged sword", which may impact the performance of a CBA in both positive and negative ways. Specifically, they find that cultural distance is negatively associated with acquisition performance through the mediating effects of inferior integration caused by low understandability and communication between acquirer and target (Reus & Lamont, 2009). Conversely, cultural distance provides potential synergy benefits for the combined entity by tapping diverse knowledge and resources in two countries. The more dramatically different the acquirer and target are from each other, the greater the synergy benefits. However, without successful integration activities, such synergy potential

may not be realized, and cultural distance can pose a serious challenge to the ongoing performance of the combined entity.

As latecomers to the global business landscape, EMNCs are particularly lacking in international experience and expertise in cross-cultural management. Thus, integration may become a major obstacle for them to accrue the benefits of synergy expected after merger and acquisition events. According to a recent study on EMNCs' M&As events between 1991 and 2004, while 60% of EMNCs' acquisition targets are located in emerging economies, the remainder of the targets are in developed economies (Aybar & Ficici, 2009). In this study, on average, the announcement of most cross-border expansions in developing markets led to value destruction of EMNCs' stock performance, while EMNCs' acquisitions in developed markets are associated with positive stock market reaction (Aybar & Ficici, 2009). In addition, several factors appear to improve the market reaction to EMNCs' decision on overseas expansion through M&A, such as the extent of equity participation (Aybar & Ficici, 2009). In the next chapter, I further illustrate that EMNC's ownership position can be an important contributing factor to the success of CBA events, which ultimately leads to an EMNC's superior long-term firm performance.

III. THEORETICAL MODEL AND HYPOTHESES

Given an EMNC's potential difficulty in establishing legitimacy in developed markets, I conduct a *two-phase* study to examine whether EMNCs' ownership decision is influenced by institutional distance. Specifically, this study focuses on EMNCs' ownership position, the percentage of acquired stake in cross-border merger and acquisition (M&A) events. As shown in the conceptual framework depicted in Figure 1, the three pillars of institutional distance between emerging markets and developed markets are conceptualized as the source of EMNCs'

competitive disadvantage—providing challenges for EMNCs to establish legitimacy in developed markets. To address these challenges, EMNCs may formulate their ownership strategy, taking into account institutional distance, to enter the developed market and subsequently enjoy better firm performance.

Insert Figure 1 About Here

In *Phase One*, I compare and contrast whether EMNCs and AMNCs opt for different ownership positions in response to institutional distance. EMNCs and AMNCs, both of which are foreign acquirers entering a developed market, are susceptible to legitimacy threats rising from the institutional distance between their home and host markets. Due to EMNCs' unique motivation for internationalization—seeking strategic resources in the developed market, EMNCs may respond to such legitimacy threats differently than their counterparts. Further, the three pillars of institutional distance may also result in differential pressures on AMNCs and EMNCs. Thus, I examine whether EMNCs and AMNCs experience these institutional pressures differently. In *Phase Two*, moving beyond the comparison between AMNCs and EMNCs, I focus solely on EMNCs. In the first step, I examine whether several emerging market characteristics may influence EMNCs' acquired stake in the developed market. Emerging markets are not homogeneous in their country development, so several important indicators of country development, such as human capital development, may differentiate EMNCs' need for legitimacy. In the second step, focusing on individual EMNCs, I further account for specific firm characteristics, such as international experience and market position, which can mitigate the legitimacy threat. Finally, I examine how EMNCs' ownership position, accounting for

institutional distance and EMNC firm characteristics, subsequently influences EMNCs' firm performance.

A. PHASE ONE: EMNCS VS. AMNCS

1. COMPARING EMNCS' AND AMNCS' OWNERSHIP POSITION

According to institutional theory, an organization's conformity to institutional pressures grants organizations legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1991) and legitimacy is important to organizational survival and success (Cohen & Dean, 2005; Elsbach, 1994; Lounsbury, & Glynn, 2001). Strategically, organizations utilize multiple means to signal their legitimacy (Suchman, 1995). Based on the practices of traditional, established MNCs, recent studies suggest that by sharing ownership with local firms, foreign acquirers can effectively mitigate their threats to establishing legitimacy in the host market (Brouthers, 2002; Yiu, & Makino, 2002). By contrast, few studies have systematically examined EMNCs' entry mode, particularly EMNCs' ownership position in cross-border M&As. Based on EMNCs' unique characteristics, I argue that EMNCs may choose different entry strategies than do AMNCs. In the following section, I will first examine AMNCs' ownership position and then predict EMNCs' ownership position.

Based on past literature, AMNCs are expected to opt for a smaller equity share while entering a target market with larger institutional distance (e.g. Erramilli & Rao, 1993; Herrmann & Datta, 2002; Rajan & Pangarkar, 2000). Specifically, by venturing with a local partner in the host market, the foreign firm can mitigate the liability of foreignness (Zaheer, 1995, 343). Institutional distance constitutes a major source of liability of foreignness, which results in three major competitive disadvantages for foreign firms, including unfamiliarity hazard, relational hazard, and discrimination hazard (Eden, & Miller, 2004). First, unfamiliarity costs reflect a

foreign firm's lack of host-market knowledge (Eden, & Miller, 2004). For example, a local bank may have a better sense in regard to the central bank's actions in lowering interest rates than a foreign bank (Zaheer, 1995). Unfamiliarity hazard may be overcome by a foreign firm with operational experience in the host market, but entering the host market with a local partner who can readily provide host-market knowledge may efficiently alleviate unfamiliarity hazard (Makino, & Delios, 1996).

Second, relational hazard refers to organization costs, in terms of both coordinating within the firm and with constituents outside the firm (Eden & Miller, 2004). The extant TCE literature suggests that a foreign firm may face relational hazards coming from external or internal constituents' potential opportunistic behaviors under conditions of information asymmetry and bounded rationality (Buckley & Casson, 1998; Henisz & Williamson, 1999). Even without the constituents' intentional opportunism, a foreign firm may encounter difficulty in smoothly completing intra-firm and inter-firm transactions in the host market. A foreign firm is at a disadvantage in effectively communicating with host market constituents due to the diverse values, beliefs and worldviews resulting from the cognitive and normative pillars of institutional distance (Kostova, 1997). Thus, the relational hazard facing a foreign firm comes from the lack of innate host-cultural knowledge needed to monitor host-market constituents' potential opportunistic behaviors as well as to reconcile diverse values and beliefs. A local partner, who is embedded in the host institutional environment, may provide effective monitoring and constant facilitation of daily operations to enhance coordination within the firm and outside the firm.

Third, discriminatory hazard refers to the discriminatory treatment inflicted on the foreign firm relative to local firms in the host country (Eden, & Miller, 2004). Kostova & Zaheer

(1997) suggest that the host-country stakeholders' unfamiliarity with the foreign firm may result in stereotypes and higher standards being imposed on foreign firms. By partnering with a local firm, a foreign firm can benefit from the "spillover effects" of the local firm's legitimacy in the host market by sharing the local firm's reputational capital, which resides in the local network (Yiu & Makino, 2002). Thus, having a local partner with a certain level of equity participation can help alleviate the host market stakeholders' concern about the foreign acquirers' legitimacy.

In sum, in sharing ownership with a local partner, AMNCs may effectively and efficiently alleviate unfamiliarity, relational, and discriminatory hazards resulting from the liability of foreignness associated with institutional distance. Thus, I expect that in facing larger institutional distance, AMNCs will opt for a smaller ownership position to mitigate the disadvantages associated with liability of foreignness.

H1: For AMNCs, institutional distance, including regulative distance (H1a), cognitive distance (H1b), and normative distance (H1c), is negatively associated with their ownership position in a cross-border merger and acquisition event in a developed market.

The hypothesized negative relationship between institutional distance and ownership position, however, may not hold true for EMNCs due to their unique motivation to enter developed markets as well as their potential large deficit of legitimacy in developed markets. First, a recent review suggests that MNC's motives for market entry are an important yet understudied predictor of entry mode (Brouthers & Hennart, 2007). Such a case can be made particularly for EMNCs' entry into developed markets. To compensate for their latecomer disadvantages, EMNCs enter advanced markets to acquire advanced technology, as well as

managerial and marketing knowledge (Makino, et al., 2002). As such, a developed target market with greater institutional distance may have potentially significant learning benefits for EMNCs. For instance, a large normative institutional distance between the home and host market indicates a large difference in business practices, so EMNCs may improve their strategic competence by adopting the best practices in the developed market. This learning benefit has been termed a synergy effect in the cross-border M&A literature (Eun, Kolodny, & Scheraga, 1996; Larsson, & Finkelstein, 1999; Stahl & Voigt, 2008). Such a synergy effect may be particularly salient for EMNCs. For instance, a recent study suggests that an Indian firm may increase its value through international acquisitions because the firm can acquire tangible and intangible resources that are both difficult to acquire through market transactions and challenging to develop internally (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010). Further, such value creation is greater when Indian firms enter developed markets, where target firms are more likely to carry higher quality resources and thus provide stronger complementarities to Indian firms' existing capabilities (Gubbi, et al., 2010).

To fulfill their strategic goals in developed markets, EMNCs may need substantial control over the foreign entity (Demirbag, Tatoglu, & Glaister, 2009). The transfer of tacit technological know-how particularly requires an extensive coordination effort between the sending and receiving parties (Teece, 1977). A sole hierarchical structure has superior efficiency over other forms of organization structure in transferring tacit knowledge across borders (Kogut & Zander, 1993). Therefore, to successfully transfer the acquired strategic assets to other subunits, EMNCs may opt for a high level of control, denoted by a high ownership position (Grossman & Hart, 1986; Milgrom & Roberts, 1992). An opposing argument can be made by suggesting that a dominant equity position is not the only way to secure control. Researchers

suggest control can also be exercised through non-ownership mechanisms such as formal contracts, management teams and other informal control mechanism (Beamish & Banks, 1987; Yan & Gray, 1994). However, EMNCs that have limited resources and less international experience may not be skillful in utilizing these non-ownership control mechanisms (Demirbag, et al., 2009). Therefore, to successfully transfer acquired strategic assets, EMNCs have a propensity to seek large ownership positions to effectively exercise substantial formal control.

Second, ownership position does not only indicate degree of control but also the level of partner involvement (Kogut, 1988; Makino & Delios, 1996). Due to their large deficit in legitimacy, EMNCs may simply not be able to find local partners who are willing to share ownership (Mulok, Raja & Ainuddin, 2010; Sim & Pandian, 2003). In the marketing literature, country-of-origin effects have been utilized to refer to the degree to which generalization and perceptions about a country influence an actor's judgment of that country's products and/or brands (Lampert & Jaffe, 1996; Roth & Romeo, 1992). Similarly, in the current context, EMNCs are likely to bear additional liability of foreignness due to country-of-origin stereotypes associated with the less developed economy of their home country. For instance, a Chinese piano maker found it difficult to enter the U.S. market because customers are reluctant to purchase Chinese made pianos due to the low quality stereotype associated with products made in China. To overcome consumers' stereotypes, this Chinese firm acquired a German piano brand and marketed its products strictly under the German brand (Peng, 2009).

Due to the country-of-origin stereotype, EMNCs may not have an egalitarian stand in cross-border deal negotiations and need to pay above market value to offset the liability. For instance, a recent study suggests that compared to their developed-market counterparts, EMNCs tend to bid higher on average to acquire assets in developed countries (Hope, Thomas, & Vyas,

2010). Given the greater challenges that EMNCs face compared to AMNCs, sharing ownership with a local firm may not be a feasible option for EMNCs to overcome their liability of foreignness as discussed in H1a.

Based on the above reasoning related to EMNCs' strategic motivations and country-of-origin liability, I expect that the negative association between institutional distance and equity ownership suggested for AMNCs does not apply to EMNCs. Instead, there will be a positive association between institutional distance and ownership position.

H2: For EMNCs, institutional distance, including regulative distance (H2a), cognitive distance (H2b), and normative distance (H2c), is positively associated with their ownership position in a cross-border merger and acquisition event in a developed market.

2. DIFFERENT PRESSURES OF THE THREE PILLARS OF INSTITUTIONAL DISTANCE

The institutional literature suggests that institutional pressures from each of the three pillars may influence the isomorphism of the institutional field and corporate strategies differently (Busenitz, Gomez, & Spencer, 2000; Kostova, 1997; Kostova & Zaheer, 1999; Xu & Shenkar, 2002). For instance, by analyzing a sample of Japanese MNCs and their subsidiaries located across 44 host countries, Xu & Shenkar (2002) found that regulative and normative distances are negatively related to the percentage of equity ownership and expatriate staffing. Thus, they conclude that MNCs may choose to lower their ownership and expatriate staffing to gain legitimacy in a host country where the regulative and normative distances are high.

Along similar lines, I expect that the three pillars of institutional distance affect the corporations' need for legitimacy differently, and thus place differential isomorphic pressures on their entry mode choices. For example, compared with the cognitive and normative pillars of institutional environments, the regulative pillar, consisting of regulations and laws, is more explicit than social values and norms, and thus presents less difficulty for foreign firms to understand (Kostova, & Zaheer, 1999). In addition, regulative pillars of institutional pressure are enacted through rule-setting, monitoring, and sanctioning activities in a society (Scott, 1995). The interpretation of regulative institutional demands is usually controlled by a centralized enforcement mechanism, such as a governmental judicial system, so foreign firms simply need to follow one set of rules to become compliant with regulative institutional pressures. After all, in developed markets, regulatory institutions are generally well developed. Thus, regulative institutional rules in a developed market are often clearly set and applied to all relevant organizations in a consistent manner.

On the other hand, the normative and cognitive pillars of institutional pressures do not have the coercive enforcement power carried by regulatory institutions. Without the restrictive constraints from the regulatory body, organizations have more discretion when responding to such institutional pressures (Goodrick & Salancik, 1996). As such, it takes more time and effort for foreign firms to learn the specifics of cognitive and normative institutional demands. In addition to understanding institutional pressures, foreign firms will also need to allocate extensive resources to be compliant with cognitive and normative institutional pillars. For instance, Kostova & Zaheer (1999) discuss one of Cargill's projects in India and suggest that Cargill was able to deal with the more explicit regulatory requirements related to environmental issues, but had much greater difficulty understanding Indian farmers' resistance, which resulted

from the shared fear among Indian farmers that their cooperation would become the first step toward a “new colonization” of India by the West (Dewan, 1994). Therefore, they concluded that compared to the regulative pillar, the cognitive and normative pillars of the institutional environment present greater challenges for a foreign firm in establishing legitimacy (Kostova & Zaheer, 1997).

Given the above discussion of the nature of the three pillars of institutional pressures, we can see that foreign firms face greater challenges associated with the cognitive and normative institutional distance in establishing legitimacy. Thus, MNCs’ decisions on ownership position are less likely to be influenced by the institutional distance of the regulative pillar when acquiring a foreign target in a developed market. Particularly, for AMNCs, to comply with regulative institutional rules in another developed market may only require minor adjustments to original daily operating procedures because AMNCs have learned to operate in an institutional environment with sophisticated business regulations in their home country. In some cases, AMNCs may not need to adjust their original operational procedures, if the host, developed market does not place more restrictive regulative pressures on the AMNC than the AMNC’s home market. For instance, a German firm entering the U.S. market may face less regulative pressure to adjust its environmentally friendly procedures to conform to the U.S. standard, since the firm is accustomed to operating in an institutional environment with stringent environmental protection regulations. Therefore, I expect that among the three pillars of institutional distance, the regulative pillar has the weakest association with AMNCs’ ownership position in cross-border merger and acquisition events.

H3: For AMNCs, the effect of the regulative pillar of institutional distance on ownership position has the least influence among the three pillars of institutional distance.

Compared with AMNCs' operational experience in their home, developed markets, EMNCs are not as accustomed to following well-developed regulative institutional rules. For EMNCs, the development of additional organizational routines is required to become compliant with extensive, more sophisticated business regulations and rules. Recent research suggests that EMNCs are not universally disadvantaged in competing with other MNCs in various institutional environments (Cuervo-Cazurra, & Genc, 2008; Cuervo-Cazurra, & Genc, 2011). Accustomed to operating in a weak market-supporting institutional environment in their home markets, EMNCs have an advantage in utilizing their experience to deal with uncertainty in another country with a similar institutional environment (Cuervo-Cazurra, & Genc, 2008; Cuervo-Cazurra, & Genc, 2011). By contrast, when EMNCs enter a dissimilar institutional environment, such as the one in developed markets characterized by well-defined, market-supporting institutional rules, EMNCs cannot effectively utilize their existing non-market based advantage, and need to develop additional organizational routines to respond to more sophisticated, complex institutional demands (Cuervo-Cazurra, & Genc, 2011). For instance, advanced capital markets are more stringent in evaluating the quality of information provided; a complex political system with more extensive political rights and civil liberties requires firms to be more sophisticated in responding to multiple stakeholders' potentially competing demands (Cuervo-Cazurra, & Genc, 2011). Thus, the regulative pillar of institutional distance may not be easily overcome by EMNCs in attempting to establish legitimacy in a developed market.

In addition, compared to the cognitive and normative pillars of institutional distance, regulative institutional distance represents a large, readily observable difference between developed markets and emerging markets. Extant finance and economic research on emerging market characteristics centers on the inefficiency of the market mechanism, such as a lack of transparency and high levels of corruption, in emerging economies (Doidge, Karolyi, & Stulz, 2007; Klapper, & Love, 2004). Much less discussion has been focused on the non-regulative institutional environments of emerging markets. Thus, most of the developed market stakeholders' negative evaluations of emerging markets may come from differences in the regulative pillar of institutional distance rather than the other two pillars. In other words, the institutional distance of the regulative pillar may become a more salient country-of-origin stereotype of emerging markets for developed market stakeholders than the other two pillars. In addition, the cognitive and normative pillars of institutional distance, such as national cultural difference, may only be viewed as differences between countries, and are less likely to be associated with the negative evaluation of EMNCs' country of origin (Cuervo-Cazurra, & Genc, 2011). Therefore, for EMNCs, regulative institutional distance presents larger challenges to establishing legitimacy in developed markets.

In sum, EMNCs may not readily overcome regulative institutional distance because of EMNCs' lack of experience in complying with more sophisticated business-related institutional rules as well as considerable country-of-origin stereotypes associated with the regulative institutional environments of EMNCs' home, emerging economies. Therefore, I expect that the regulative pillar of institutional distance has a stronger association with an EMNC's ownership position than other two pillars. The positive association between institutional distance and ownership position is expected to be larger for the regulative pillar than the two other pillars.

H4: For EMNCs, the effect of the regulative pillar of institutional distance on ownership position is the strongest among the three pillars of institutional distance.

B. PHASE TWO: EMNCs' OWNERSHIP POSITION AND FIRM PERFORMANCE

In *Phase One*, EMNCs were treated as a homogeneous group to contrast with AMNCs' when considering internationalization behavior. In *Phase Two*, moving beyond the comparison between EMNCs and other MNCs, I focus on EMNCs to further delineate whether various home market and firm characteristics influence EMNCs' ownership position and subsequent firm performance. First, salient home market characteristics, including human capital development, global connectedness, and historical connections to the host market, are selected to differentiate one emerging market from another. Second, firm characteristics, including market leading position, international presence, media coverage and stock market cross-listing, differentiate one EMNC from another EMNC originating from the same emerging economy.

1. EMNCs' HOME MARKET CHARACTERISTICS

As discussed earlier, EMNCs encounter greater liability of foreignness, which emanates from the country-of-origin stereotypes associated with their home, emerging economies. These country-of-origin effects have been shown to influence important firm strategies and outcomes, such as product positioning strategies and resulting product performance (Roth & Romeo, 1992; Samiee, 1994). Product performance generally decreases when consumers' perceptions of the product are negatively impacted by the country of origin effect (Roth, & Romeo, 1992). Recent studies suggest that an EMNC's stock performance in its initial public offering (IPO) in a developed market can also be influenced by the investors' perception of the EMNC's country of origin (Bell, Moore, & Filatotchev, 2012; Bell, Moore, Al-Shammari, 2008). Lacking company-

specific information related to EMNCs, foreign investors in the developed market utilize the country level characteristics of the EMNCs' home emerging economy as information cues to determine whether to invest in EMNCs' IPOs (Bell, Moore, & Filatotchev, 2012; Bell, Moore, Al-Shammari, 2008). Thus, unfavorable impression of EMNC's home economy, such as lacking a sophisticated auditing system, is carried over to evaluate EMNCs unfavorably.

The aforementioned country-of-origin effect can be further explained through the social categorization process in individual level research. Social categorization theory (Tajfel, & Turner, 1985) suggests that to reduce uncertainty, individuals tend to categorize other individuals into social groups and interpret these individuals' behaviors according to the features of the social groups. Thus, each individual is often evaluated either based on his or her social category membership (e.g. gender or ethnicity), or his or her personal attributes (e.g. personalities or abilities). When social category memberships (e.g. a person's gender and ethnicity) are readily visible features, individuals may rely on social categorization process to expedite the cognitive processing of the information related to the individual (Tajfel, & Turner, 1985). Stereotyping, and subsequent discrimination behaviors, occurs when social actors rely heavily on the social category membership to evaluate an individual without taking into account an individual's personal attributes (Elsass, & Graves, 1997; Dovidio, & Hebel, 2005).

Similarly, studies of the country-of-origin effect (see review in Samiee, 1994) support that consumers sometimes rely on perceptions of country of origin (a social group) to evaluate a product with less consideration for the product attributes. Particularly, in the context of international business decisions, corporate purchasing managers are shown to be influenced by their country-of-origin perception in their sourcing decisions among suppliers across the globe, even though the global sourcing decisions are made in a more complex social context than a

consumer's buying decision on a product (see review in Anderson & Chao, 2003). Along similar lines, developed market stakeholders considering EMNCs' entry mode into developed markets may evaluate EMNCs unfavorably when they apply stereotypes associated with emerging economies, such as low product quality, to evaluate EMNCs' legitimacy. In other words, the stereotyping effect further explains the aforementioned EMNCs' challenges to find a local partner who is willing to share ownership with.

Building on the findings of stereotyping process, I propose several home market characteristics can alleviate EMNCs' challenges to form partnership with a local firm. The stereotyping process has been studied as an individual's schematic processing (e.g. Locksley, Borgida, Brekke, & Hepburn, 1980; Kulik, Bainbridge, Hugh, & Cregan, 2008). Schema refers to mental representations of knowledge regarding a specific domain, such as the stereotypical beliefs associated with a social category (Fiske, & Taylor, 1991). Schematic processing requires less time and effort (Fiske & Taylor, 1991). Two contingencies may alleviate the likelihood of an individual's automatic schematic processing. First, stereotyping processing is reinforced by the match between the focal individual's characteristics and the social actor's prototypes of the traits and behaviors of a certain social category (e.g. stereotypical beliefs) (Kulik, et al., 2008). On the other hand, when the social actor recognizes that discrepancy exists between the focal individual characteristics and his or her stereotypic beliefs, the social actor is often motivated to engage in a more deliberate cognitive processing route to resolve such discrepancies, and thus, is less likely to stereotype the focal individual (Kulik, et al., 2008). In the current context, I propose that human capital development in an emerging economy serves as an important indicator of the nation's capability in producing high quality products, thus creating such a cognitive discrepancy

for developed market stakeholders. Hence, developed market stakeholders are less likely to stereotype EMNCs, originating from an emerging market with high levels of human capital.

Second, schema researchers also found that individuating information (e.g. personal attributes) decreases social actors' tendency to judge an individual based on stereotypical beliefs associated with a social category (Locksley, et al. 1980; Locksley, Hepburn, Ortiz, 1982a; Locksley, Hepburn, Ortiz, 1982b). When individuating information is available, social actors are more likely to utilize individuating information rather than the stereotypes (Locksley, et al. 1980; Locksley, et al., 1982a; Locksley, et al., 1982b). In the current context, I argue that an emerging nation's global connectedness and historical connection with the host market suggests the extent to which the developed market stakeholders have individuating information about the nation, thus decreasing the likelihood of attributing stereotypes to evaluate EMNCs' legitimacy. In a latter section, I will elaborate on how global connectedness and historical connections may enhance developed market stakeholders understanding of the emerging nation as an individual nation rather than as a member of emerging economies.

a) HUMAN CAPITAL

Historically, MNCs often relocate their manufacturing plants to less developed countries to exploit both cheaper labor as well as less rigorous labor standards (Porter, 1990). But skilled labor is harder to come by in these countries due to lower levels of economic development and reduced opportunities for education. Consequently, MNCs have traditionally mass produced low-end, labor-intensive products in less developed countries and produced parts and products which require greater technology and skilled labor in advanced countries (Porter, 1990). Because of the unskilled labor force, products manufactured in these less developed countries have traditionally been associated with lower quality. For example, South Korean products used to be stigmatized

as being of poor quality and only after several electronics brands, such as Samsung and Goldstar, began seeing success in the global marketplace did the perceptions of South Korean products improve (Holt, Quelch, & Taylor, 2004).

Due to cheaper labor and inferior infrastructure, EMNCs may be plagued with country-of-origin stereotypes that are associated with mass-produced, cheap quality products. On the other hand, human capital development in an emerging economy, including skilled labor and innovative capacity, may alleviate the developed market stakeholders' negative evaluation. A nation's innovative capacity refers to a country's progress in producing and commercializing innovative technology over the long term (Furman, Porter, & Stern, 2002). Human capital, including skilled labor and innovative capacity, may provide the stock of a capable labor force and advanced technology in a nation which may propel economic growth (Romer, 1986). Human capital availability in a nation does not only increase the amount of FDI, but it also brings more upstream FDI activities into these host markets (Dunning, 1998).

Particularly, human capital in an emerging market has been shown to attract foreign direct investment into an emerging economy (Pourshahabi, Mahmoudinia, & Soderjani, 2011). Human capital development in an emerging nation thus may serve as an effective indicator that the stereotype associated with low product quality does not match with the characteristics of the focal emerging nation. As discussed above, due to this cognitive discrepancy, individuals are less likely to attribute stereotypes to such an emerging nation. Therefore, EMNCs, originating from an emerging market with more human capital, are less likely to be influenced by the developed market stakeholders' negative evaluation on their legitimacy. For instance, the innovative capacity of Taiwanese and Indian IT industries may help alleviate Taiwanese and Indian firms'

challenges to establish legitimacy in a developed market. As such, the legitimacy threat associated with institutional distance is mitigated.

H5: Human capital development in an EMNC's home country moderates the relationship between institutional distance and an EMNC's ownership position such that human capital development, including skilled labor (H5a) and innovative capacity (H5b), decreases the influence of institutional distance on an EMNC's ownership position in a developed market.

b) GLOBAL CONNECTEDNESS

Global connectedness refers to the ability of resident individuals and companies to interact and exchange information with other parts of the world (Berry, Guille'n, & Zhou, 2010). Global connectedness, usually operationalized as the extent of internet coverage in a nation, has been a particularly important concept in the studies of online commercial activities (Oxley & Yeung, 2001) and economic growth (Lucas, 1993, 2002). These studies suggest that countries with greater global connectedness are in a better position to integrate in the global community, increasing the information exchange between the country and the world. Further, a country may strengthen its innovative capacity through the integration of global knowledge, subsequently experiencing economic growth (Lucas, 1988, 1993). Thus, global connectedness can be considered to be a source of a nation's competitive advantage. For instance, through a large volume of international trade, emerging nations, such as the BRICS countries, may provide an environment in which domestic firms are accustomed to competing with other international firms.

Specifically, in the context of contemplating the stereotypes associated with emerging economies, global connectedness alleviates developed market stakeholders' stereotyping of

EMNCs. As discussed earlier, greater country-specific information availability motivates social actors to engage in deliberate cognitive processing based on country-specific information rather than the stereotypes associated with emerging economies. Thus, an emerging nation well connected with the global community is more likely to be known as an individual nation rather than a member of emerging economies. In addition, an emerging nation's image can be improved because the country may be granted a high status through global connectedness which indicates the nation's competitive advantage (Lucas, 1988, 1993). For instance, through a high level of global connectedness, emerging economies, such as the BRICS countries, are more likely to be known as emerging nations with great potential to compete with advanced economies.

H6: The global connectedness of an EMNC's home country moderates the relationship between institutional distance and an EMNC's ownership position such that the global connectedness of an EMNC's home country decreases the influence of institutional distance on an EMNC's ownership position in a developed market.

c) HISTORICAL CONNECTIONS TO THE HOST DEVELOPED MARKET

In contrast with global connectedness, which describes general connections with a global community, historical connection denotes a specialized tie with the host market. The historical connections may be formed through colonizer-colonized link, common language, common religion, and common trade block membership, etc. The historical connections indicate interaction history between two countries at some point in time. For instance, Christian missionaries have purposefully gone into remote areas in the world to improve local education, literacy, social justice, and economic development (Lakina, & Getachew, 2012). While developing local churches, these missionaries introduced the western style of living into

emerging economies and cultivated important human capital for the emerging economies (Lankina, & Getachew, 2012).

The historical connection is stronger when the emerging nation has multiple connections with the host developed market. For instance, even though English is commonly used in India, Indian firms may have a closer tie with the British culture than with American culture because of the additional colonizer-colonized link with the British. An emerging nation's historical connection to the host developed market may alleviate a EMNCs' legitimacy threat in a couple of ways. First, EMNCs, originating from emerging nations with historical connections, have greater understanding of the host developed country, thus having better capability to overcome the liability of foreignness, such as unfamiliarity hazard (Eden & Miller, 2004). Second, developed market stakeholders may view emerging nations with historical connections in a more positive light than other emerging economies. The historical connections may foster a sense of proximity and encourage developed market stakeholders to view such an emerging market as more similar than different from the developed nation. In the internationalization literature, Johanson and Wiedersheim-Paul (1975, p.308) have famously used the British Commonwealth as an example to illustrate that previous colonial links can alleviate business managers' concerns of the negative impacts of geographic distance on efficient international operations. In the previous example, India and the United Kingdom may seem to be far apart geographically but are often viewed to share some common features because of the previous colonial link (Dow & Karunaratna, 2006).

H7: The historical connections of an EMNC's home country to the host developed market moderates the relationship between institutional distance and an EMNC's ownership position such that the historical connections of an EMNC's home

country decreases the influence of institutional distance on an EMNC's ownership position in a developed market.

2. EMNCS' FIRM CHARACTERISTICS AND FIRM PERFORMANCE

a) EMNCS' FIRM CHARACTERISTICS AND OWNERSHIP POSITION

Based on previous discussions, a shared ownership control may grant foreign firms needed legitimacy in the host market. Institutional distance, a major threat to establishing legitimacy in the developed market, does not equally impact all EMNCs. Several firm characteristics may signal EMNC legitimacy, which should be factored into their consideration of ownership strategy. Referencing the institutional literature, researchers have recently suggested that EMNCs may signal their legitimacy in two important ways—through organizational capabilities and the validation by third-party institutions (Ivanova, & Castellano, 2010).

First, organizational capabilities can be resources or competencies (Johnson, Scholes, & Whittington, 2005). Possessing fewer resources in relation to their counterpart AMNCs, EMNCs may demonstrate their competencies through their performance as indicated by a market leading position and international presence. Suchman (1995) notes that an organization's immediate constituents may judge the organization's legitimacy based on a pragmatic calculation of an organization's activities. In the context of CBA events, an EMNC may prove its worthiness as a partner by demonstrating its competence. For instance, Asus is a multinational computer hardware and electronics company headquartered in Taiwan. Asus started out as a motherboard manufacturer for Intel and successfully built its leading position in the PC component market by leveraging its connection with Intel. After Intel recognized Asus' superior engineering capacities in the manufacture of Intel486 processors, Asus gained exclusive contracts to manufacture

processors and other computer components for Intel, despite competition from many other established PC manufacturers, such as IBM (Bushell-Embling, 2009). Ever since, Asus has become one of the major global players for laptop and hand-held device. In a case like this, Asus has proven itself through its leading position in the industry, so its legitimacy will be less likely to be questioned in a developed market.

H8: The extent of an EMNC's market leading position moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's market leading position decreases the influence of institutional distance on its ownership position in a developed market.

The level of international experience, both general and target-country specific, has been widely discussed in entry mode literature (Brouthers & Brouthers, 2000; Kogut & Singh, 1988). An EMNC's familiarity with the region of the target market and international business in general may enhance their ability to identify good investment opportunities, reduce information asymmetry, and alleviate the liability of foreignness (Harzing, 2002; Martin, Swaminathan, & Mitchell, 1998). While fewer EMNCs have a worldwide presence than AMNCs, EMNCs present in multiple foreign locations are in a better position to alleviate the legitimacy threat associated with institutional distance than EMNCs with only a few foreign locations.

H9: An EMNC's international presence moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's international presence decreases the influence of institutional distance on its ownership position in the developed market.

Second, in addition to EMNCs' demonstration of organizational capabilities through their market leading position and international presence, EMNCs may utilize third-party endorsements to mitigate the threat to their legitimacy. Bitektine (2011) reviewed various conceptualizations of organizational legitimacy and suggested a long-standing method for organizations to improve stakeholders' evaluation of an organization's legitimacy was through the organization's linkages with highly legitimate social actors in its environment. In the context of CBA events, the local media plays an important role in bolstering an EMNC's legitimacy in a developed market by providing positive coverage (Rottig, & Reus, 2009). Particularly, in the U.S., popular news magazines, such as *BusinessWeek* and *Forbes*, periodically track the development of emerging markets. They may provide immediate access for developed market stakeholders to evaluate a EMNCs' past performance. Thus, media coverage from these popular magazines can effectively improve the public's impression of an EMNC's reputation and thus improve its legitimacy (Rottig, & Reus, 2009).

H10: Media coverage of an EMNC moderates the relationship between institutional distance and an EMNC's ownership position such that media coverage in a developed market decreases the influence of institutional distance on its ownership position in a developed market.

Additionally, a potentially effective way for EMNCs to alleviate their stakeholders' concerns is by cross-listing their shares in a stock market in a developed market, such as in the U.S. The cross-listing premium, the higher market return of listed foreign firms versus non-listed foreign firms, has been well documented in the finance literature (Karolyi, 1998; Pagano, Roell, & Zechner, 2002). Basically, through the endorsement of a powerful government agency or quasi-government agency, these foreign firms signal their commitment to compliance with the

dominant practices in the field, such as adhering to more stringent accounting standards (Pagano, et al., 2002). For example, for foreign firms to list on U.S. exchanges, they must comply fully with GAAP (Generally Accepted Accounting Principles) reporting and Securities and Exchange Commission (SEC) regulations, which typically require a higher level of disclosure than most international accounting standards (Karolyi, 1998). In other words, these firms are under rigorous monitoring of their financial reports, and thus may improve the transparency of their corporate governance. As a result, stakeholders of the foreign firms may be encouraged to view these foreign firms as legitimate players in their business. Particularly, EMNCs may benefit greatly from such an endorsement to alleviate their country-of-origin stereotype, resulting from less rigorous, unsophisticated business regulations in their home countries.

H11: An EMNC's cross-listing in a developed market moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's cross-listing in a developed market decreases the influence of institutional distance on its ownership position in a developed market.

b) EMNCs' OWNERSHIP POSITION AND FIRM PERFORMANCE

Pioneering research on EMNC's internationalization suggests that developed markets provide an ideal location for EMNCs to acquire strategic assets to compensate for their latecomer disadvantages (Makino, et al., 2002; Wright et al., 2005). Empirically, studies on EMNCs' CBA events demonstrate that an EMNC's acquisition of target firms in developed markets receives positive reactions from the stock market (i.e. cumulative abnormal returns). Gubbi, Aulakh, Ray, Sarkar, & Chittor (2010) conducted an event study of 425 CBAs by Indian firms during 2000-2007 to support their prediction that EMNCs' acquisitions of target firms in more advanced markets generate greater abnormal returns. In addition, Aybar & Ficici (2009) also utilize an

event study but examine a broader sample of 433 CBA announcements associated with 58 EMNCs during the sample period of 1991-2004. Their results show that EMNCs' CBA events, on average, lead to value destruction (i.e. lower firm abnormal returns), while acquisitions involving targets that are located in culturally distant and economically developed markets lead to higher firm value.

Given the initial evidence of investors' positive reactions towards EMNCs' CBA events in developed markets, I further probe the association between the EMNCs' ownership position and subsequent firm performance. In the CBA literature, post-acquisition performance is considered related to the success of integration between two entities (Slangen, 2006; Stahl, & Voigt, 2008). Post-acquisition integration involves combining people, resources, and activities from two entities into one organization. Based on Hofstede's cultural distance dimensions, CBA researchers find inconsistent effects of cultural distance on firm performance after acquisitions. Some studies suggest that cultural distance is negatively associated with firm performance (Datta, & Puia, 1995; Francis, Hasan & Sun, 2008), while other studies supported the view that the performance of CBAs is enhanced if the acquirer and the target come from culturally distant countries (Eun, Kolodny, & Scheraga, 1996; Tihanyi, Griffith, & Russell, 2005; Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009). Recently, a few researchers have suggested that the mixed results occurred because there are both positive and negative effects of national cultural differences (Stahl & Voigt, 2008; Slangen, 2006; Reus, & Lamont, 2009). The positive effects come from the diverse knowledge and resources provided by a large national cultural difference between the acquirer and the target. CBAs provide the acquirer with access to a diverse set of routines embedded in national cultures (Barney, 1986; Hofstede, 1980; Kogut & Singh, 1988; Morosini & Singh, 1994). The negative effect is associated with post-acquisition integration. The

larger the national cultural differences between the acquirer and the target, the harder it is to integrate the two entities due to incompatible organizational practices, which are largely influenced by national cultures (Weber et al., 1996). As Chakrabarti et al. (2009) posited, “Cultural difference may enhance the potential synergies of a merger, particularly through capability transfer, resource sharing and learning, but only at the cost of increased integration challenges.” Thus, to increase CBA performance, the acquirer needs to improve integration by minimizing the obstacles of post-acquisition integration. In turn, this will allow for the realization of greater synergy originating from a larger cultural difference between the acquirer and the target (Stahl & Voigt, 2008).

Above all, EMNCs’ ownership position may influence the success of post-acquisition integration and subsequent firm performance. Taking into consideration institutional distance, EMNCs may formulate their ownership position to alleviate legitimacy threat in a developed market. The EMNCs, opting for lower ownership position, would have a better chance to navigate post-acquisition challenges by counting on their local partners, thus enjoying better firm performance. However, a counter argument can be made based on EMNCs’ primary motivation to enter developed markets. Seeking complimentary strategic assets, EMNCs may fulfill their goal to compensate for their latecomer disadvantages only when they can successfully transfer these acquired strategic assets back to other units of EMNCs. Based on the rationales provided in Hypothesis 2, EMNCs may need dominant control in the acquired entity to ensure the transfer of strategic assets. Thus, a high ownership position may be more effective in contributing to overall firm performance. As such, a set of competing hypotheses is provided below to assess the association between EMNCs’ ownership position and subsequent firm performance.

H12a: Controlling for institutional distance, EMNCs with a higher ownership position experience better post-acquisition overall firm performance.

H12b: Controlling for institutional distance, EMNCs with a lower ownership position experience better post-acquisition overall firm performance.

C. SUMMARY

Given the rising phenomenon of EMNCs, the current study intends to provide an in-depth examination of a practical strategic issue facing EMNCs. To successfully compete with AMNCs, developed markets are attractive locations of foreign entry for EMNCs to acquire strategic assets, which may compensate for their latecomer disadvantages in global competition. However, to fulfill their strategic goals, EMNCs need to make prudent decisions on their entry strategy to address the challenges of establishing legitimacy in developed markets. Through a multi-phase empirical examination of EMNC's ownership position in a developed market, I provide evidence to demonstrate how institutional distance impacts an EMNC's chance of success in a developed market.

In *Phase One*, I consider how EMNCs may formulate their ownership position differently from other MNCs given the potentially larger institutional distance between EMNCs' home and host markets. In general, a large institutional distance may lead a foreign firm to consider taking less ownership to enjoy the spillover effects of the local firm's legitimacy. However, this prediction of a negative association between the institutional distance and equity ownership may differ for EMNCs for a couple of reasons. First, EMNCs, seeking to transfer learned practices from the developed market to the rest of its organization, may prefer a higher percentage of ownership to ensure substantial control in transferring core competencies between subsidiaries

(Makino & Beamish, 1998). Second, due to their large deficit in legitimacy, EMNCs may simply not be able to find local partners who are willing to share ownership. Therefore, based on the above two explanations, I expect that the anticipated negative association between institutional distance and equity ownership does not exist for EMNCs. Instead, there may be a positive association between institutional distance and full equity ownership.

Furthermore, the various dimensions of institutional distance may place differential isomorphic pressures on their entry mode choices. The regulative pillars of institutional distance are most easily understood (Kostova, 1997) and thus present less difficulty for foreign firms to establish legitimacy than the cognitive or normative pillars of institutional distance. Thus, for developed MNCs, I propose that the regulative pillar will have a weaker association with entry mode than the cognitive or normative pillars. However, such predictions may not hold true for EMNCs for two reasons. EMNCs may not readily overcome regulative institutional distance because of EMNCs' lack of experience in complying with more sophisticated business-related institutional rules as well as considerable country-of-origin stereotypes associated with the regulative institutional environments of EMNCs' home, emerging economies. Therefore, I expect that the regulative pillar of institutional distance has a stronger association with an EMNC's ownership position than other two pillars.

In *Phase Two*, moving beyond the comparison between EMNCs and AMNCs, I focus on a sample of emerging market firms to delineate how EMNCs' specific home market and firm characteristics influence their entry mode choices, and subsequently, their firm performance. First, not all emerging markets are homogeneous. Emerging markets may vary in their degree of human capital development, global connectedness, and historical connections with the host developed market. These home market characteristics are hypothesized to influence developed

market stakeholders' perceptions of EMNCs' legitimacy. As a result, EMNCs from various countries of origin may have different degrees of need for legitimacy. Second, according to the recent discussion about organizational agency, firms are believed to be able to position themselves differently within similar institutional fields. In the current context, firm level characteristics, including the EMNCs' market leading position, global presence, media exposure, and cross-listing in the developed market, are hypothesized to mitigate the effect of institutional distance on their ownership positions. Thus, the threat of legitimacy is not equally salient to all EMNCs from the same emerging market. Furthermore, ownership decision is suggested to influence post-acquisition performance. On the one hand, a shared ownership control may enhance EMNCs' legitimacy in the developed market, thus contributing to better performance. On the other hand, a dominant control may enhance EMNC's ability to transfer acquired strategic assets, thus leading to better performance. Thus, a set of competing hypotheses is offered to investigate the performance implication of EMNCs' ownership position. Table 6 summarizes the above proposed hypotheses.

Insert Table 6 About Here

IV. METHODOLOGY

In this chapter, I discuss the research methodology used to test the hypotheses developed in Chapter 3. This chapter provides a detailed description of the sample, a discussion of the dependent and independent variables, as well as an overview of the statistical methods used to test the hypotheses.

A. SAMPLE

The sample of the current study includes all of the foreign firms that made cross-border acquisitions in the United States during the sampling period (noted below). This data was acquired through the Thomson SDC Platinum database. The U.S. market is a particularly ideal location to study EMNCs' cross-border acquisitions for two reasons. First, besides the relatively stable investment environment, the U.S. has very few restrictions on foreign investment, so foreign firms generally have great discretion in making entry mode decisions to respond to institutional pressures (Goodrisk & Salancik, 1996). Second, the U.S. market is by far the most popular developed market for EMNCs' cross-border M&A activities (Economist, 2011). Thus, I can capture the greatest amount of variance of EMNCs' internationalization patterns in the U.S. market using this approach.

The sampling period is from 2005 to 2011, which includes the year of the beginning of the global financial crisis, 2008. By observing activity during this period, I have the opportunity to control for the impact of the global financial downturn on internationalization for AMNCs and EMNCs. In addition, variables measuring home market characteristics are more widely available after 2005⁴ which allows me to test my hypotheses more fully by examining more variables associated with emerging markets.

Financial firms are excluded from the sample as they are usually subject to regulations and laws that other firms are not subject to (Doidge, et al., 2007). In addition, it should be noted that different samples are used for the two phases of the examination. While in *Phase One*, I include all cross-border M&A events from both AMNCs and EMNCs in the sample, in *Phase*

⁴ A portion of the data used for the institutional distance measure is collected through the Global Competiveness Report, which encompasses more countries and more survey items after the year of 2005.

Two, I only include EMNCs as a subsample for analysis. The subsamples, AMNCs and EMNCs, are created based on a dummy variable to classify the acquirers' nation into advanced markets and emerging markets. ("1" indicates emerging markets and "0" indicates developed market). This classification is developed using the member countries of the Organization for Economic Co-operation and Development (OECD), and developed countries in the classification offered by United Nation Conference on Trade and Development (UNCTAD). The OECD is comprised of 34 highly industrialized member countries and such a classification has been used in past literature (e.g. Gubbi et al., 2010). Additionally, UNCTAD publishes their worldwide economic statistics based on a list of developed, transitional, and developing economies, which have been utilized by researchers in sorting countries into developed or emerging markets as well (e.g. Cuervo-Cazurra, & Genc, 2008). These two classification criteria have slight inconsistencies, in which some of the OECD countries are not listed as developed economies in the UNCTAD classification and vice versa. To reconcile the classification difference, in the current study, countries are classified as developed markets only when the country meets both criteria—OECD member countries and developed markets in UNCTAD classification. This creates a classification with inter-rater reliability (Saal, Downey, & Lahey, 1980) between two well-established agencies in relation to international business. My initial search generated 1288 cross-border M&A events. The acquirers' country of origin is shown in Table 7.

Insert Table 7 About Here

B. DEPENDENT VARIABLES

OWNERSHIP POSITION. The dependent variable for all of the hypotheses except for H12a&b is the acquirers' ownership position, measured as the percentage of the acquired stake in the target firm. Data for this variable is obtained from the Thomson SDC Platinum database. In past entry mode research, while some researchers treat ownership position as a continuous variable (e.g. Hannart, & Reddy, 1997; Malhotra, Sivakumar, & Zhu, 2011), others used a dichotomous variable classifying ownership position into full acquisitions (95% or higher) and partial acquisitions (any acquired stake less than 95%) (e.g. Anderson & Gatignon, 1986; Yiu, & Makino, 2002). In the current study, I opt for treating ownership position as a continuous variable for two reasons. Theoretically, any arbitrary dichotomizing method may create artifacts and mask a meaningful relationship. In addition, treating the data as a continuous variable often generates greater power to detect statistical relationships (Fitzsimons, 2008).

FIRM PERFORMANCE. The last hypotheses in *Phase Two* (H12a & H12b) predict EMNCs' firm performance, which is measured in multiple ways. I include an accounting measure of firm performance, return on assets (ROA), as well as total sales (revenue). This data is obtained from Worldscope Datastream database. The change in sales revenue and ROA in a three year window (years 1-3) after the acquisition year is constructed as the dependent variable. As shown in the equation below, the change in sales is calculated by using the firm's total sales in the year of the acquisition as the base year of comparison. (t refers to the year of acquisition, and i refers to 1, 2, and 3 years.) The change in ROA is calculated in the same manner.

$$sales\ growth_{t+i} = \frac{(total\ sales_{t+i} - total\ sales_t)}{total\ sales_t}$$

Focusing on investor reaction, the aforementioned two previous studies on EMNC's cross-border M&As have used event study methodology, utilizing stock performance within a

very short window of time after the announcement of the M&A event (Aybar & Ficici, 2009; Gubbi et al., 2010). Alternatively, I collect 1-year, 2-year, and 3-year lagged stock market performance data for a supplemental analysis. The construction of dependent variables is similar to the equation above, except replacing sales data with stock performance data. Also, the base data is the year end data prior to the acquisition to account for the stock market's reaction to the acquisition event.

C. INDEPENDENT VARIABLES

INSTITUTIONAL DISTANCE. As discussed above, institutional distance is analyzed along the three pillars of institutional environment, including *regulative distance*, *cognitive distance*, and *normative distance*. Theoretically, each of the three pillars of institutional distance captures meaningful national differences. Thus, the three pillars of institutional distance are treated as three separate dimensions and entered in the regression analysis as three separate predictors.

The measures of each pillar of *institutional distance* are described below. First, the data for *regulative distance* is collected from the Index of Economic Freedom, offered by the Heritage Foundation. Economic freedom is a widely discussed concept in the economics literature and it is designed to capture the degree of governmental policies in place to promote market efficiency (Gwartney, 1996). According to 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'Grandy, 2003). The Heritage Foundation has tracked and published an Index of Economic Freedom for 184 countries since 1995 (Johnson & Sheehy, 1996). A single index value of economic freedom has been widely utilized to capture the level of development of formal, regulatory institutions (e.g. Aybar &

Ficici, 2009). *Regulative distance* is calculated as the difference between the index values for a given country and the United States (the host country).

Second, *normative distance* is obtained from the Global Competiveness Report published by the World Economic Forum. The World Economic Forum and its associate institutes conduct annual surveys among business executives in 153 countries. The survey items are aimed at capturing the competitiveness of a nation's business environment. In the past, data from this report has been utilized by various researchers to construct institutional distance measures (Chao & Kumar, 2010; Xu, Pan & Beamish, 2004). Considering the survey items utilized in previous research, I generate a list of survey items pertaining to normative institutional distance. These survey items tap into conventional corporate practices in each nation and are included in Table 8. Further, for each acquiring firm's home country, I aggregate the data of survey items from the Global Competiveness Report to generate a summation score for the normative pillar of the institutional environment. As such, *normative distance* is the difference between the values for a given country and for the United States. The Cronbach's alpha of country scores on these eight survey items across multiple years in the sample period ranges between .945 and .963.

Insert Table 8 About Here

Third, in the past, institutional researchers tended to omit testing the *cognitive* pillar of institutional environment for a couple of reasons. First, it overlaps with the traditional conceptualization of cultural distance (Yiu & Makino, 2002), so the cognitive pillar of institutional distance may not provide additional explanatory power beyond cultural distance, which has been studied widely in the entry strategy literature based on the cases of established

multinational firms. However, the current study is aimed at understanding EMNCs' internationalization activities, which have not been widely studied utilizing cultural distance. Second, both the cognitive and normative pillars of institutionalized practices are highly influenced by national cultures, so researchers assume that the normative pillar of the institutional environment encompasses the influence of the cognitive pillar. Thus, some researchers have concluded that the cognitive pillar does not need to be studied separately or is beyond the scope of their studies (Chao & Kumar, 2010; Xu, Pan & Beamish, 2002). As discussed in the literature review, EMNCs potentially encounter distinct threats along these three pillars of the institutional environment, and developing a better understanding of the cognitive pillar may help capture significant challenges that EMNCs have in establishing legitimacy based on national cultural differences. While *regulative distance* captures the difference in country development of regulatory institutions, *normative distance* represents the difference in predominant corporate practices across nations. *Cognitive distance*, represented by cultural distance, reflects the national culture difference between acquirers' home markets and host market. Therefore, I include a measure of cultural distance in the current study to study the effect of the cognitive pillar of institutional distance.

The data for *cognitive distance* is obtained through Hofstede's website which has updated country scores for five cultural dimensions, including individualism, uncertainty avoidance, power distance, masculinity, and long-term orientation⁵ (e.g. Malhortra et al., 2011). Further, to account for the difference in the variance of each dimension, Kogut & Singh (1998) have utilized a composite index to represent cultural distance. This calculation of cultural distance has been widely adopted among cultural distance researchers (e.g. Barkema & Vermeulen, 1998;

⁵ Note that long-term orientation is a recently added dimension of Hofstede's cultural distance, which captures an important cultural difference between the West and the East.

Brouthers & Brouthers, 2000; Cho & Padmanabhan, 1995) and will be utilized in the current study to calculate cognitive distance. The calculation of a composite index will be determined as follows:

$$Cognitive\ Distance_j = \sum_{i=1}^4 \left\{ \frac{(I_{ij} - I_{iu})^2}{V_i} \right\} / 4,$$

where I_{ij} stands for the value for the i th cultural dimension and j th country, V_i is the variance of the value on the i th cultural dimension, u indicates the United States, and $Cognitive\ Distance_j$ is the cultural distance of the j th country from the United States. This equation takes into account the variance of each dimension, thus standardizing the influence of each dimension on the final composite index of cultural distance. Also, note that the composite index, produced by squaring the difference score between two countries, does not carry the directionality of the difference between the raw scores of two countries. It is a theoretically appealing way of deriving cultural distance as it does not have implications for “more” or “less” (better than or worse than), but instead indicates the *differences* in national cultures (Cuervo-Cazurra, & Genc, 2011).

HUMAN CAPITAL. The indicators of human capital development include *skilled labor* and *innovative capacity*. Data representing these two measures is obtained from the Global Competitiveness Report. *Skilled labor* (Crobach’s alpha ranges between 0.91 and 0.92 across sample period) is measured by four items and *innovative capacity* (Crobach’s alpha ranges between 0.93 and 0.95 across sample period) is measured by five items. Both measures are on a 7-point scale and items are listed in Table 9.

Insert Table 9 About Here

GLOBAL CONNECTEDNESS. This construct is measured by two items, including the percentage of internet users to total population, as well as the foreign market size of a country. Internet usage captures the global connectedness of information flow while foreign market size represents the global connectedness of commercial activities. The data for internet users is from the International Telecommunication Union. The data for the foreign market size is ranked by the World Economic Forum on a 7-point scale (7=best) based on the value of exports of goods and services in a country. Given the distinct meanings and measurements of these two indicators, *Internet usage* and *Foreign market size* are entered as separate predictors in the regression analysis.

HISTORICAL CONNECTIONS TO THE HOST DEVELOPED MARKET. The construct is measured by three items, including common language, common major religion, and common trade block membership. The data for common language and common religion are measured as *language distance* and *religion distance* between the EMNCs' home country and the host market, the United States, where the main language is English and the predominant religion is Christianity. The data for *language distance* and *religion distance* are collected from Dr. Douglas Dow's database, hosted by the Melbourne Business School's website.⁶ Dr. Dow included multiple sources and constructed *religion distance* and *language distance* between pairs of countries to aid his research on the stimuli of psychic distance (e.g. Dow & Karunaratna, 2006; Dow & Larimo, 2009). Table 10 illustrates the distance from acquirer's home countries to the U.S.

⁶ <https://sites.google.com/site/ddowresearch/home/scales> retrieved on August, 1st, 2012.

The variable common, current trade block membership is measured by a dummy variable, *free trade agreement*; “1” indicates that EMNC’s home country has a free trade agreement with the U.S., while “0” indicates that EMNC’s home country does not have a free trade agreement with the U.S. Due to conceptual and scale differences among these three indicators of historical connection, *religion distance*, *language distance*, and *free trade agreement* are entered as separate predictors in the regression analysis.

Insert Table 10 About Here

MARKET LEADING POSITION. This variable is constructed by using total sales divided by average industry sales in the acquisition year. Individual firm sales data is obtained from the Worldscope Datastream database. Given that industry sales data is not widely available for many emerging economies, average industry sales is calculated based on total sales of all of firms with the same first digit of the SIC code in the sample.

INSTITUTIONAL PRESENCE. Referencing past researchers’ measures of international experience (Barkema & Vermeulen, 1998; Kogut & Singh, 1988) and considering the particular context of the current study, I create this measure by counting the number of geographic regions in which the firm has sales activities. Thus, the variable is essentially a measure of *geographic dispersion* of EMNCs’ sales activities. The data is obtained through the Worldscope Datastream database in which a firm can have as many as ten geographic segments of sales.

Media coverage. Given the relatively rare media coverage on EMNCs, I use a dummy variable to indicate whether there is media coverage of the firm in business magazines, such as

Forbes, *Fortune*, and *BusinessWeek*, prior to the acquisition events (“1” indicates “yes”, and “0” indicates “no”). The data is collected through LexisNexis *Academic* search.

CROSS-LISTING. This measure is a dummy variable (“1” indicates “yes”, and “0” indicates “no”) to indicate whether the firm lists its stock in major stock exchanges in the United States. The data is obtained through a company search of the EDGAR database, maintained by the U.S. Securities and Exchange Commission (SEC). In the current study, EMNCs are classified as cross-listing in the U.S. when they list their stocks on NASDAQ and the New York Stock Exchange as well as having American Depositary Receipt (ADR) issues in the United States.

CONTROL VARIABLES. Firm size and R&D intensity have been shown to influence corporate strategy including international expansion strategy, so these two variables are included as control variables. Firm size indicates the firm’s operational experience, and may enhance managerial learning in evaluating contingencies related to entry mode decisions (see the review of acquisition research in Barkema & Schijven, 2008). *Firm size* is measured by the total assets of a firm prior to the acquisition. R&D intensity has been used by various researchers to measure firm competence as well as asset specificity, both of which may influence entry mode strategy (Brouthers & Hennart, 2007). Due to the lack of data on EMNCs’ R&D expenses, I create a dummy variable as a proxy, *high tech industry*, to indicate whether the acquiring firm is in a high tech industry (“1” indicates “yes”, and “0” indicates “no”) and has the propensity to heavily invest in R&D. Data for the aforementioned measures is obtained from Thompson SDC Platinum and Worldscope Datastream databases. In addition, *geographic distance*, which may significantly increase communication and transportation costs, has been widely discussed in entry mode research (Berry et al., 2010) and is included as a control variable. The data for *geographic distance* is collected from the CIA Factbook and calculated as the great circle

distance (orthodromic distance) between two countries according to the coordinates of the geographic center of the countries (Berry et al., 2010).

D. ANALYSIS

POWER ANALYSIS. In the past, research on the effect of cultural distance on entry mode suggests an effect size of 0.06 (Tihanyi, Griffith, & Russel, 2005). Based on power analysis, to achieve a desired statistical power of 0.8 in conducting a hierarchical regression of 10 predictors, I need a minimum sample size of 223 (Soper, 2012). Given the final sample size of merger and acquisition events ($N=1650$ for the *phase one* sample; $N=497$ for the *phase two* sample), I should be able to detect meaningful statistical relationships.

HYPOTHESIS TESTING. The tests of the hypotheses related to ownership position are conducted by using multivariate regression in SPSS. In *Phase Two*, to test the moderation effects (i.e. H4-H11), I use centered variables to create interaction terms to help avoid multicollinearity. All of the VIF values are below 10 in the regression analysis of the interaction effects. Thus, the influence of multicollinearity on the statistical relationship should be limited (Aiken & West, 1991).

In terms of the last set of hypotheses related to firm performance, two-stage least-square regressions are utilized. Since previous hypotheses suggest that various measures of institutional distance influence EMNCs' ownership position, the relationship between ownership position and firm performance can be better modeled by controlling for these influences of institutional distance on ownership position. Two-stage least-square regression models can provide such an optimal identification (Angrist & Krueger, 2001). In the first stage, the three pillars of institutional distance and control variables are entered to compute estimated values of ownership

position. In the second stage, the computed values of ownership position are entered to predict firm performance. The analysis is conducted using SPSS 17.0.

V. RESULTS

A. PHASE ONE: EMNCS VS. AMNCS

1. COMPARING EMNCS' AND AMNCS' OWNERSHIP POSITION

Insert Table 11 and Table 12 about here

The mean, standard deviation, and correlation among the main variables used in *Phase One* are reported in Table 11. In *Phase One*, I predict that while institutional distance is negatively related to an AMNC's ownership position, it is positively related to an EMNC's ownership position. As suggested in Table 12, the acquirer's home country status significantly moderates the associations between the normative pillar of institutional distance and the acquirers' ownership position. In other words, AMNCs and EMNCs differ in their ownership position in response to normative institutional pressures, but do not differ in their ownership position in response to the other two pillars of institutional pressure. To further probe the moderation effect of the acquirers' home country status (i.e. emerging markets or advanced markets), I plot the interaction as shown in Figure 2. As suggested in Figure 2, facing larger normative distance, AMNCs tend to adopt a lower ownership position while such a trend is not demonstrated among EMNCs. The simple slope tests further reveal that the downward trend of AMNCs' ownership position is significant ($\beta=-1.35, p<0.001$), while the slight upward trend of EMNCs' ownership position is not significant ($\beta=0.41, p=0.66$).

Insert Figure 2 and Table 13 about here

To further examine the differential effects of the three pillars of institutional distance, I conduct separate regression analyses for the subsamples of EMNCs and AMNCs. The subsample analysis results, shown in Table 13, demonstrate the aforementioned differences among EMNCs and AMNCs in responding to institutional distance. None of the three pillars of institutional distance is significantly related to EMNCs' ownership position. For AMNCs, cognitive distance and normative distance are negatively related to AMNCs' ownership position, while regulative distance does not have a significant association with their ownership position. Associating the above results related to the first two sets of hypotheses, I find that *H1b* and *H1c* are supported while the rest of the hypotheses, including *H1a*, *H2a*, *H2b*, and *H2c*, are not supported.

2. DIFFERENTIAL PRESSURES OF THE THREE PILLARS OF INSTITUTIONAL DISTANCE

To extend the analysis, I conduct post-regression coefficient difference tests within each subsample to examine whether the three pillars of institutional distance have differential effects on ownership position (Cohen, Cohen, West, & Aiken, 2003). A series of paired coefficient difference test among the three pillars of institutional distance suggests no statistically significant differential effects in the subsample of EMNCs. By contrast, for AMNCs, as predicted, the regulative pillar has the weakest effect on AMNCs' ownership position among the three pillars of institutional distance. Thus, *H3* is supported while there is no support for *H4*.

B. PHASR TWO: EMNCs' OWNERSHIP POSITION AND FIRM PERFORMANCE

According to Table 13, the non-significant results across the three pillars of institutional distance in EMNC sample maybe due to the relatively small sample size of EMNCs ($N=185$),

thus lacking power to detect a significant statistical relationship. To enlarge the sample size, I collected additional data through Worldscope Datastream, which is known to have more comprehensive coverage of EMNCs. After merging data with SDC data of EMNCs' acquisition events, the sample size increases to 497 cross-border acquisition events conducted by 337 EMNCs, originating from 36 emerging economies. Table 14 shows the break-down of acquisition events by country of origin and by acquisition year. The descriptive statistics and bivariate correlations among the main variables in *Phase Two* are reported in Table 15.

Insert Table 14, Table 15 and Table 16 about here

Table 16 demonstrates the association of the three pillars of institutional distance on EMNCs' ownership position based on the enlarged sample. According to Table 16, the cognitive pillar of institutional distance is consistently negatively associated with EMNCs' ownership position and is the only pillar with a significant association among the three pillars of institutional distance. Thus, as indicated in *Phase One*, the empirical results do not support the positive association between the three pillars of institutional distance and an EMNC's ownership position, which was suggested in H2a-H2c. Among the three pillars of institutional distance, only cognitive distance shows a significant negative association with ownership position, whereas regulative and normative distances do not seem to associate with the EMNCs' ownership position.

1. EMNCS' HOME MARKET CHARACTERISTICS

The first set of hypotheses in *Phase Two* deals with country-of-origin stereotypes, which constitutes one of the major sources of legitimacy concerns in EMNCs' acquisition events in the

United States. Three types of EMNC home market characteristics are hypothesized to weaken such stereotyping effects, thus mitigating the association between institutional distance and EMNC ownership position. *H5* suggests the degree of human capital development in an emerging economy, measured by skilled labor and innovation capacity, may weaken this association. According to Table 17, the extent of skilled labor in the EMNCs' home country moderates the association of regulative and normative distances with an EMNC's ownership position. The extent of innovation capacity moderates the association between cognitive distance and EMNCs' ownership position. Further, the main effect of the regulative pillar becomes positive as hypothesized in H2a, while the main effect of cognitive distance remains negative. The main effect of normative distance is not significant.

Insert Table 17 and Figures 3-5 about here

Figures 3-5 further illustrate the directionality of the moderation effect. H5a & H5b suggest that the indicators of human capital development *decrease* the main effects of institutional distance on EMNCs' ownership position. The empirical evidence partially supports the above assertion. Figure 3 suggests that facing larger regulative distance, EMNCs from countries with low levels of skilled labor tend to take higher ownership positions (as illustrated by a significant simple slope ($\beta=1.15, p=0.01$)), while such a relationship does not exist when EMNCs are from countries with higher levels of skilled labor ($\beta=-0.13, p=0.5$). Likewise, this weakening effect of the presence of skilled labor on the effect of institutional distance is observed in the association between normative distance and the EMNCs' ownership position. As shown in Figure 5, facing larger normative distance, EMNCs from countries with low levels of

skilled labor tend to take higher ownership positions (as illustrated by a simple slope, significant at 0.1 level ($\beta=2.7, p=0.07$)), while such a relationship does not exist when EMNCs are from countries with higher levels of skilled labor ($\beta=-0.71, p=0.55$). Thus, *H5a* is supported for regulative and normative distance, but not for cognitive distance.

Furthermore, Figure 4 suggests the degree of innovation capacity *strengthens* the negative association between cognitive distance and EMNCs' ownership position, exhibiting the opposite direction of the hypothesized moderation effect in *H5b*. Facing larger cognitive distance, EMNCs from countries with high innovation capacity tend to take on a smaller ownership stake (simple slope $\beta=-13.44, p=0.001$). For EMNCs from countries with low levels of innovation capacity, their ownership position does not differ based on the extent of cognitive distance (simple slope $\beta=1.34, p=0.78$).

Insert Table 18 and Figures 6-9 about here

Moreover, in *H6*, the global connectedness of EMNCs' home countries is suggested to *decrease* the association between institutional distance and the EMNCs' ownership position. As shown in Table 18, the extent of internet usage in the EMNCs' home country moderates the association with ownership position across all three pillars of institutional distance, while foreign market size only moderates the association between regulative distance and ownership position at a significance level of 0.1. Figures 6-9 further demonstrate the patterns of the moderation effect. In Figure 6, facing a larger regulative distance, EMNCs, originating from countries with high levels of internet usage tend to take lower ownership positions (simple slope $\beta=-0.87, p<0.001$). By contrast, for EMNCs originating from countries with low levels of internet usage,

ownership position does not differ based on the degree of regulative distance (simple slope $\beta=0.77$, $p=0.27$). In terms of cognitive distance, Figure 8 reports a similar pattern. The negative association between cognitive distance and EMNCs' ownership position exists for EMNCs originating from countries with high levels of internet usage (simple slope $\beta=-7.76$, $p=0.001$), but does not exist for EMNCs originating from countries with low levels of internet usage (simple slope $\beta=0.77$, $p=0.75$). Similarly, Figure 9 suggests that EMNCs from countries with high levels of internet usage tend to take smaller ownership positions to enter countries with larger normative distance (simple slope $\beta=-4.01$, $p<0.001$). Such a significant negative association between normative distance and ownership position does not exist for EMNCs from countries with low levels of internet usage (simple slope $\beta=-1.20$, $p=0.38$). In addition, Figure 7 suggests a cross-over moderation effect of foreign market size on the association between regulative distance and EMNCs' ownership position. However, simple slope tests reveal EMNCs from countries with large (simple slope $\beta=0.24$, $p=0.61$) or small (simple slope $\beta=-0.45$, $p=0.14$) foreign market size do not significantly influence EMNCs' ownership position decision while entering markets with different degrees of regulative distance.

Therefore, the moderation effect of internet usage actually *increases* the association between the three pillars of institutional distance and the EMNCs' ownership position, rendering contradictory support to *H6a*. And there is minimal support for *H6b* because of the barely significant result associated with foreign market size.

Insert Table 19 and Figure 10 about here

Third, in terms of the moderation effects of the historical connections hypothesized in *H7*, only minimal support is found. Table 19 reports regression results associated with indicators of historical connections, including religious distance, language distance and free trade agreements with the U.S. In this set of analyses, VIF values are above 10 when the three indicators enter the regression models at the same time. To avoid the potential biased result due to multicollinearity, two indicators, *religious distance* and *language distance*, are separate from *free trade agreement* for regression analyses, as shown in Model 3-Model 6. VIF values in these models are below 10, suggesting multicollinearity is not a concern. The same approach was taken when conducting regression analyses for regulative distance and normative distance. Since the relationships of the predictors do not differ while separating the indicators into separate regression models, for the sake of parsimony, regression results using the three indicators in the same regression model are reported.

Across all indicators of historical connections, the only significant interaction term occurs when language distance moderates the association between regulative distance and EMNCs' ownership position as shown in Model 4. Figure 10 further demonstrates the moderation effect. For EMNCs originating from countries with large language distance from the U.S., cognitive distance is negatively associated with EMNCs' ownership position (simple slope $\beta=-11.09$, $p=0.003$). When the EMNCs are from countries with small language distances, a marginally significant positive association is observed (simple slope $\beta=6.872$, $p=0.08$). Thus, language distance exacerbates the influence of cognitive distance on the EMNCs' ownership position, rendering support for *H7*.

2. EMNCS' FIRM CHARACTERISTICS AND FIRM PERFORMANCE

In *H8-H11*, various firm level characteristics, including market position, international presence, media coverage, and cross-listing in U.S. markets, are hypothesized to decrease the influence of institutional distance on EMNCs' ownership position. As shown in Table 20, the only significant interaction term, indicated in Model 6, occurs in the regression model of normative distance. Figure 11 further reveals the pattern of the interaction effect. Facing larger normative distance, EMNCs with low media coverage take higher ownership positions (simple slope $\beta=8.12$, $p=0.03$). For EMNCs with high media coverage, their ownership position is negatively related to normative distance (simple slope $\beta=-5.56$, $p=0.04$). In this case, media coverage nullifies the positive association between normative distance and the EMNC's ownership position, rendering partial support for *H10*. In addition, there is no support for *H8*, *H9*, and *H11*.

Insert Table 20 and Figure 11 about here

Finally, a set of competing hypotheses is offered to test EMNCs' post-acquisition performance in relation to their ownership position. Since the previous hypotheses suggest that various measures of institutional distance influence EMNCs' ownership position, the relationship between ownership position and firm performance is modeled controlling for the influence of institutional distance on ownership position by utilizing two-stage least-square regression models (Angrist & Krueger, 2001). In the first stage, the three pillars of institutional distance and control variables are entered as instrumental variables to compute estimated values of ownership position. In the second stage, the computed values of ownership position are entered to predict

firm performance, including changes in ROA, sales growth, and stock price in a three-year window after the acquisition event.

The regression results suggest EMNCs' ownership position is positively related to 1-year ($\beta=0.36, p=0.04$), 2-year ($\beta=0.75, p=0.01$), and 3-year ($\beta=0.63, p=0.02$) sales growth after the acquisition event. In addition, EMNCs' ownership position is not significantly related to the change in ROA or long-term stock performance. Therefore, we may conclude that controlling for the influence of institutional distance, higher ownership position contributes to better sales growth.

C. SUMMARY

Table 21 summarizes the hypotheses and correspondent results.

Insert Table 21 about here

VI. DISCUSSION

Given the rising phenomenon of EMNCs, the findings of this study contribute to the management literature in important ways. Utilizing institutional theory, I compare EMNCs' entry mode decisions with other MNCs. The findings of this study may provide a foundation for a new internationalization theory as well as inform executives about their entry strategy for both EMNCs and AMNCs. Further, despite the common characteristics of a less developed economy, emerging markets can differ on several important dimensions. In this study, I differentiate among the levels of institutional constraints associated with EMNCs' countries of origin by looking into various home market characteristics, including human capital, global connectedness, and historical connections with the host developed market. In this chapter, I first discuss the main

findings of the study, and then the limitations of the study, potential future research directions, and implications for practice.

A. COMPARISON OF AMNCs AND EMNCs IN RESPONSE TO INSTITUTIONAL DISTANCE

First, I seek to determine whether institutional distance influences EMNCs' ownership position differently than AMNCs' ownership position. The evidence from the first phase suggests AMNCs are more susceptible to institutional distance in their ownership position than EMNCs. As expected, the cognitive and normative pillars of institutional distance are negatively associated with an AMNC's ownership position. This finding is consistent with past literature in suggesting that when facing larger legitimacy concerns, as indicated by larger institutional distance, AMNCs are likely to take a smaller ownership position, thus relying more on the legitimacy of local partner firms. In addition, as expected, regulative distance has the weakest association among the three pillars of institutional distance with an AMNC's ownership position. Equipped with organizational routines which can be adapted to comply with another set of sophisticated, regulatory institutional rules, AMNCs may find it easier to overcome legitimacy threats in relation to the regulative pillar than the other two pillars of institutional distance.

On the other hand, in *Phase One*, the EMNCs' ownership position decisions do not seem to be influenced by any of the pillars of institutional distance. However, in *Phase Two* with a larger sample of EMNCs, the empirical evidence offers a complex picture of how institutional distance influences EMNCs' ownership decisions. At first, based on a larger sample of EMNCs, cognitive distance seems to exhibit the strongest negative association with EMNCs' ownership position across the three pillars of institutional distance (refer to Table 16). Cognitive distance influences EMNCs' ownership position in the same way that it influences an AMNC's

ownership position, thus rendering support for the legitimacy argument. Facing legitimacy concerns exhibited by national cultural differences, EMNCs opt for lower ownership positions, relying on local firms' legitimacy to navigate in the host developed market. Overall, regulative distance and normative distance do not seem to influence an EMNC's ownership position when not considering other home market characteristics.

B. INTERACTION EFFECTS OF EMNCs' HOME MARKET CHARACTERISTICS AND INSTITUTIONAL DISTANCE

As I proceed to test *H5-H11*, it is further revealed that the three pillars of institutional distance demonstrate complex associations with EMNCs' ownership position. First, in terms of the regulative pillar of institutional distance, as expected, when the EMNC's home country suffers from low levels of human capital development as indicated by a lack of a skilled labor force, an EMNC's ownership position is positively associated with regulative distance. Without the buffering effect of human capital development in their home economy, EMNCs would need to take on a greater ownership stake when faced with a large legitimacy deficit which may limit them from finding local firms willing to share ownership. This finding may also be explained by examining an EMNC's strategic intent to enter a developed market. Lacking valuable human capital in their home country, EMNCs may view the acquisition in the developed market as a way to expediently upgrade their organizational capabilities to comply with a more sophisticated regulatory institutional environment. Specifically, acquiring a greater stake in a developed market target may signal an EMNC's commitment to its stakeholders in implementing a higher quality of corporate governance. Thus, EMNCs tend to acquire more ownership when facing a larger regulative distance.

In addition, global connectedness, as measured by high internet usage, buffers the stereotyping effect derived from regulative distance in a different way than human capital development. EMNCs, originating in countries well connected globally, through internet usage, may not be plagued by country of origin stereotypes associated with emerging economies. Thus, EMNCs may view regulative distance simply as a source of legitimacy threat, not dissimilar from the threat of cognitive and normative distance. To rely on local firms' legitimacy, these EMNCs tend to take a smaller ownership stake when entering a country with larger regulative distance. On the other hand, EMNCs, originating from countries with low internet usage, may not have a choice but to acquire larger stakes when entering a developed market because these EMNCs suffer from an additional liability of foreignness and cannot easily find firms to partner with in the host market.

Second, in terms of cognitive distance, high innovation capacity and high internet usage of the EMNCs' home country promotes the likelihood for EMNCs to behave in a way similar to the way AMNCs react to legitimacy concerns in their ownership decisions. Like AMNCs, these EMNCs tend to take less ownership when entering a market with larger cognitive distance. Furthermore, one of the historical connection indicators, language distance, further exacerbates the influence of cognitive distance. EMNCs originating from a country with a larger language distance and cognitive distance tend to take even less ownership. Third, in terms of normative distance, global connectedness indicated by the extent of internet usage, once again, promotes the likelihood for EMNCs to behave in a similar way to AMNCs. Like AMNCs, facing larger normative distance, EMNCs originating from a globally connected emerging economy tend to take less ownership in cross-border acquisition events.

Overall, human capital development which is indicated by skilled labor and innovation capacity, global connectedness which is indicated by internet usage, and historical connection which is indicated by language distance are important home market characteristics that differentiate emerging economies from each other. EMNCs, originating from various levels of country development on these indicators, formulate ownership decisions differently to enter a developed market.

C. MODERATION EFFECTS OF EMNCs' FIRM CHARACTERISTICS

Among the various firm characteristics considered, the only significant interaction effect is found while evaluating the moderation effect of media coverage on the association between normative distance and EMNCs' ownership position (refer to Figure 11). Under less media coverage, EMNCs do not have the third-party endorsement necessary to eliminate developed market stakeholders' legitimacy concerns. Thus, EMNCs with less media coverage are likely to take on more ownership facing large normative distance. On the other hand, EMNCs with media coverage can buffer the stereotyping associated with their country of origin, thus behaving in the same way as AMNCs. Facing large normative distance, EMNCs with media coverage take less ownership to rely on local partners' legitimacy.

It is interesting that none of the other firm characteristics, including market position, international presence, and cross-listing, show moderation effects. This may suggest EMNCs cannot easily attain legitimacy through individual firm business activities to overcome the country of origin effects.

D. EMNCs' OWNERSHIP POSITION AND FIRM PERFORMANCE

The above findings suggest that various home country and firm level characteristics interact to influence EMNCs' ownership position in their acquisition events in the U.S. Ownership position decisions are shown to be critical decisions to influence overall firm performance in the international literature (Delios & Beamish, 1999; Anderson & Gatignon, 1986; Taylor, & Zou, S. 1998). Various contingencies, such as cultural distance and legitimacy concerns, have been proposed to study the relationship between ownership position and firm performance (Tihanyi, Griffith, & Russell, 2005). In the context of EMNCs, I provide initial empirical evidence that ownership position is positively related to EMNCs' sales growth. By acquiring larger stakes in the developed market targets, EMNCs are able to expand their sales volume in the subsequent years. However, EMNCs' ownership position does not significantly influence their long-term stock performance and ROA.

E. LIMITATION AND FUTURE RESEARCH

Based on pioneering studies of EMNCs' entry strategy, I derive two major EMNC considerations, legitimacy arguments and strategic asset-seeking motives, for hypotheses building in the current study. Facing large institutional distance, an EMNC may tend to acquire more ownership in their acquisition targets either because large legitimacy deficits inhibit them from finding local firms to partner with or because these EMNCs desire dominant control to be able to transfer acquired strategic assets. The hypotheses in *Phase Two* take the legitimacy arguments further to examine various moderators which are suggested to buffer legitimacy threats associated with institutional distance. Based on the findings of the current study, while some home market characteristics show moderation effects, various firm level characteristics do not. Thus, it renders some support for the legitimacy argument that EMNCs' ownership

decisions are influenced by their country of origin characteristics, but, with the lone exception of media coverage, not by their individual firm characteristics.

Without a fine-grained study on the micro processes associated with the acquisition event, we will not be able to determine exactly how legitimacy or strategic considerations operate under various contingencies. As a first step for future studies, I suggest formally including an EMNC's motivation to enter developed markets in building hypotheses. For instance, EMNCs in a knowledge intensive industry may have a stronger motivation to acquire complementary strategic assets in a developed market, so they have greater need to establish dominant control. Thus, given the same institutional distance, EMNCs in a knowledge intensive industry would acquire higher ownership stakes. One of the control variables in the current study provides initial evidence that EMNCs in high technology industries are likely to acquire more ownership (refer to the significant positive coefficients associated with "High Tech Industry" in Tables 16-20). Other indicators of EMNCs' strategic intent can be more thoroughly examined in future studies.

Along a similar line, I suggest that researchers further probe the performance implications of EMNCs' ownership strategy. The finding in the current study provides initial evidence that, controlling for institutional distance, EMNCs' ownership position is related to their performance outcomes. A closer examination may reveal a more detailed understanding. Particularly, recent research proposes that institutional deviance may not necessarily be a liability, and can be an advantage for foreign firms (Shi & Hoskisson, 2012). Firms, complying with institutional constraints, may gain legitimacy to increase their likelihood of survival and success. However, firms that deviate from institutional expectations may have a greater chance for innovation and experience exponential growth. Similarly, EMNCs, plagued by legitimacy

threats associated with their country of origin, are forced to take on a greater ownership stake, and lack the opportunity to rely on a local partner's existing legitimacy. These EMNCs, however, may not necessarily be at a disadvantage to compete with established firms. As shown in the current study, EMNCs with larger ownership stakes experience greater sales growth in subsequent years. Further examination of the interaction between degrees of institutional deviance and performance implications can be even more informative. In addition, future studies of the comparison between AMNCs and EMNCs on their post-acquisition performance can further reveal differences in the performance implications of their ownership positions. Do AMNCs, which largely rely on sharing ownership with local partnering firms to mitigate legitimacy threats, experience better post-acquisition performance than EMNCs that do not have the option to share ownership with local partners?

Moreover, the United States is chosen as a single developed host market in the current study. In addition to the merits of the investment environment in the United States market, I deliberately choose a single target market because the construction of institutional distance is more straightforward without the complication of multiple host markets. In future studies, the findings of the current study can be compared with EMNCs' entry into other developed markets such as the U.K. or Japan.

F. IMPLICATIONS FOR PRACTICE

These findings provide guidelines for practitioners to formulate effective strategies to respond to the challenges facing EMNCs in developed markets. The three pillars of institutional distance present different types of legitimacy requirements in the host, developed market. Additionally, various home market characteristics interact with the three pillars of institutional distance in very different ways in influencing EMNCs' ownership decisions. Business executives

of EMNCs may use the findings of the current study as a reference to formulate their entry strategy in various developed markets. Which pillar of institutional distance present larger threats to their individual firm's entry into the market? Do legitimacy threats need to be a primary concern or are there other, more important considerations, such as strategic control?

In addition, as the frequency of EMNC acquisitions in developed markets increase, business executives of developed market firms have an increasing likelihood of either becoming the target of an EMNC's acquisition or competing with EMNCs in acquiring other firms. An understanding of EMNCs' acquisition pattern can provide invaluable insights when competing with these newly emergent formidable players in global competition.

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Table 1 Top 100 Non-financial Multinational Companies from Emerging Economies in 2008

Home economy	Corporation	Industry ^a	Foreign Asset ^b (\$Millions)	TNI ^c (%)
Argentina	Ternium SA	Metal and metal products	7 063	64.5
Brazil	Vale S.A	Mining & quarrying	19 635	38.3
	Petroleo Brasileiro S.A. - Petrobras	Petroleum expl./ref./distr.	15 075	16.2
	Metalurgica Gerdau S.A.	Metal and metal products	13 658	48.6
China	CITIC Group	Diversified	43 750	21
	China Ocean Shipping (Group) Company	Transport and storage	28 066	49.9
	China National Petroleum Corporation	Petroleum expl./ref./distr.	9 409	2.7
	China State Construction Engineering Corp.	Construction and real estate	7 015	16.6
	Sinochem Corp.	Petroleum expl./ref./distr.	6 409	36.8
	China National Offshore Oil Corp.	Petroleum expl./ref./distr.	5 247	9.4
	China Communications Construction Co.	Construction and real estate	4 010	12.1
	Beijing Enterprises Holdings Ltd.	Diversified	3 662	77
	China Railway Construction Corporation Ltd	Construction	3 146	9.1
	ZTE Corp.	Other consumer goods	3 143	44.2
	Lenovo Group	Electrical & electronic equipment	2 732	41.1
	China Minmetals Corp.	Metal and metal products	2 269	11.6
	TPV Technology Limited	Wholesale trade	2 266	69.8
Egypt	Orascom Telecom Holding	Telecommunications	6 718	64.4
Hong Kong, China	Hutchison Whampoa Limited	Diversified	70 762	82
	Jardine Matheson Holdings Ltd	Diversified	17 544	69.2
	New World Development Co., Ltd.	Diversified	9 061	37.5
	China Resources Enterprises	Petroleum expl./ref./distr.	7 371	89
	China Merchants Holdings International	Diversified	7 154	96.8
	First Pacific Company Limited	Electrical & electronic equipment	6 998	99
	Shangri-La Asia Limited	Other consumer services	6 587	61

	Orient Overseas International Ltd	Transport and storage	6 412	67.3
	CLP Holdings	Utilities (Electricity, gas and water)	6 071	35.7
	Li & Fung Limited	Wholesale trade	4 761	90.3
	Noble Group Limited	Wholesale trade	4 346	42.2
	Swire Pacific Limited	Business services	3 903	37.7
	Guangdong Investment Limited	Diversified	3 749	95.1
	Shougang Concord International	Metal and metal products	2 630	89.1
	Road King Infrastructure Limited	Transport and storage	2 428	90.4
	Techtronic Industries Company Limited	Other equipments goods	2 334	81.8
India	Tata Steel Ltd.	Metal and metal products	16 826	69.8
	Oil And Natural Gas Corporation	Petroleum expl./ref./distr.	13 477	23.8
	Hindalco Industries Limited	Diversified	8 564	71.6
	Tata Motors Ltd	Automobile	6 767	48.9
	Suzlon Energy Limited	Diversified	5 310	75.7
South Korea	Samsung Electronics Co., Ltd.	Electrical & electronic equipment	28 765	54.2
	Hyundai Motor Company	Motor vehicles	28 359	36.5
	LG Corp.	Electrical & electronic equipment	13 256	43.8
	STX Corporation	Other equipments goods	8 308	34.5
	Posco	Metal and metal products	5 335	21.4
Kuwait	Zain	Telecommunications	18 746	61.2
	National Industries Group Holdings SAK	Diversified	2 504	47.5
	Agility Public Warehousing Company	Construction and real estate	2 264	38.6
Malaysia	Petronas - Petroliam Nasional Bhd	Petroleum expl./ref./distr.	28 447	29.6
	Axiata Group Bhd	Telecommunications	8 184	67.7
	YTL Corp. Berhad	Utilities (Electricity, gas and water)	7 014	47.8
	Genting Berhad	Other consumer services	5 139	47.9
	Sime Darby Berhad	Diversified	4 307	45.7
	Tanjong Public Limited Company	Pharmaceuticals	2 445	49.5
Mexico	Cemex S.A.	Non-metalic mineral products	40 258	81.6

	América Móvil	Telecommunications	10 428	52.6
	Telefonos De Mexico S.A. De C.V.	Telecommunications	3 948	28.6
	FEMSA-Fomento Economico Mexicano	Food, beverages and tobacco	3 508	30.3
Philippines	San Miguel Corporation	Food, beverages and tobacco	2 655	21.7
Qatar	Qatar Telecom	Telecommunications	10 598	69.7
Russian Federation	Lukoil	Petroleum and natural gas	21 515	42.2
	Evrax	Metal and metal products	11 196	47.5
	Severstal	Metal and metal products	8 066	30.2
	JSFC Sistema	Telecommunications	5 698	19.1
	MMC Norilsk Nickel	Metal and metal products	4 389	13.3
	VimpelCom	Telecommunications	3 726	21.8
	Mechel	Metal and metal products	2 911	16
	TMK	Metal and metal products	2 361	27.4
Singapore	Singtel Ltd.	Telecommunications	17 326	63.2
	Capitaland Limited	Construction and real estate	9 852	60.9
	Wilmar International Limited	Food, beverages and tobacco	7 812	58.4
	Flextronics International Ltd.	Electrical & electronic equipment	5 338	65.2
	Fraser & Neave Limited	Food, beverages and tobacco	4 717	54.7
	Keppel Corporation Limited	Diversified	3 820	38.3
	Neptune Orient Lines Ltd.	Transport and storage	2 640	52.3
South Africa	MTN Group Limited	Telecommunications	13 266	67.4
	Sasol Limited	Chemicals	6 679	29.6
	Sappi Limited	Wood and paper products	5 933	85.2
	Netcare Limited	Other consumer services	5 590	56.1
	Steinhoff International holdings	Other consumer goods	5 060	56.5
	Gold Fields Limited	Metal and metal products	4 839	35.7
	Medi Clinic Corp. Limited	Other consumer services	4 788	78.7
	Naspers Limited	Other consumer services	3 821	55.3
Taiwan	Formosa Plastics Group	Chemicals	16 937	40.9

	Hon Hai Precision Industries	Electrical & electronic equipment	14 664	58.1
	Asustek Computer Inc	Electrical & electronic equipment	6 746	55.9
	Quanta Computer Inc	Electrical & electronic equipment	6 711	41.6
	Pou Chen Corp.	Other consumer goods	4 553	71.6
	Acer Inc.	Electrical & electronic equipment	4 455	79.9
	Taiwan Semiconductor Manufacturing Co Lt	Electrical & electronic equipment	3 813	30.8
	Chi MEI Optoelectronics	Electrical & electronic equipment	3 070	11.9
	United Microelectronics Corporation	Electrical & electronic equipment	2 901	52.7
	Inventec Company	Electrical & electronic equipment	2 874	61.2
	Compal Electronics Inc	Other consumer goods	2 573	43.9
	Qisda Corp. (Benq)	Electrical & electronic equipment	2 441	53.5
	Wistron Corp.	Other equipments goods	2 316	42.7
Thailand	PTT Public Company Limited	Petroleum expl./ref./distr.	2 525	10
Turkey	Enka Insaat ve Sanayi	Construction and real estate	3 540	46.5
	Turkcell Iletisim Hizmetleri AS	Telecommunications	2 263	21.2
United Arab Emirates	Abu Dhabi National Energy Company	Utilities (Electricity, gas and water)	13 519	69.5
Venezuela	Petróleos De Venezuela	Petroleum expl./ref./distr.	19 244	21.5

Source: UNCTAD/Erasmus University database

^a Industry classification for companies follows the United States Standard Industrial Classification as used by the United States

Securities and Exchange Commission (SEC).

^b All data are based on the companies' annual reports unless otherwise stated.

^c TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Table 2 Emerging-Market Multinational Companies' (EMNCs) Competitive Advantages

Advantage	Example	References
Cost advantage derived from the factor endowment of home country	The access to low-cost labor pools; local knowledge of serving emerging market customers	Aguiar, Bailey, Bhattacharya, Bradtke, Juan, Hemerling, et al. 2009; Mathews, 2002, 2006
Leveraging connections with AMNCs	Working as suppliers for established MNCs	Guillen & Garcia-Canal, 2009; Mathews, 2002, 2006
Institutional entrepreneurship	Adaptability to institutional environment with less clear formal institutional rules	Caves, 1996; Lall, 1983; Lecraw, 1993; Guillen, & Garcia-Canal, 2009; Hoskisson, et al., 2000
Network-ties with other EMNCs	Business group affiliation	Leff, 1978; Gullien, 2000;

Table 3 EMNC's Legitimacy in a Developed Market

	Definition (adapted from Kostova, 1997; Scott, 1995)	Examples: EMNC's potential challenges to establish legitimacy in a developed market
Regulative pillar	National differences in the existing laws and rules which promote certain types of behaviors and restrict others	Listing and registration in a stock market (Karolyi, 1998; Marosi, & Massoud, 2008); accounting standards and investor protection procedures (Pagano, Roell, & Zechner, 2002); food and safety requirements; labor law; environmental protection procedures (Kostova & Zaheer, 1999)
Cognitive pillar	National differences in the established cognitive structures, reflected in national cultural differences	Cultural dimensions, such as individualism or collectivism (Hofstede, 1980)
Normative pillar	National differences in the societal values and norms in the institutional field	Ethical beliefs in promoting corporate social responsibility (Tan & Wang, 2011); corporate governance practices to improve board independence (Shipilov, Greve, & Rowley, 2010); organizational structures (Suchman, 1995; Zaheer, 1995); societal values in basic human rights, such as freedom of speech (Tan & Wang, 2011)

Table 4 Equity-based Entry Mode

		Establishment mode	
		<i>Greenfield*</i>	<i>Acquisition</i>
Ownership mode	<i>Shared</i>	1. Greenfield JV	3. Partial acquisition
	<i>Full</i>	2. Greenfield WOS	4. Full acquisition

*Greenfield operations refer to a foreign firm's investment to start the foreign operations from ground up.

Table 5 EMNC's Entry Mode and Performance Research

Authors	Sample	Independent variables	Major results
Aybar & Ficici (2009)	433 merger and acquisitions by 58 EMNCs	Firm size, target is privately owned, value of the transaction to the bidder's market value, level of development of the institutional infrastructure, geographic and/or cultural proximity, level of control (percentage of shares acquired)	On average, cross-border expansions of EMNCs through acquisitions do not create value, but point to value destruction for more than half of the transactions analyzed. Target size, ownership structure of the target (private vs. public) and structure of the bidder (diversified vs. non-diversified) positively affect the bidder value, high-tech nature of the bidder and pursuit of targets in related industries negatively affect the bidder value. The stake pursued in the target firm and cultural distance positively affects value, but international experience and enhanced corporate governance do not.
Chiao, Lo, & Yu (2010)	819 Taiwanese firms investing in China	Firm-specific assets, international experience, whether a firm is investing abroad in pursuit of a particular customer, whether a firm seeks complementary assets abroad, and the perceived institutional differences	Firms with more firm-specific assets, less need for complementary assets, greater parental R&D capability, more international experience, and the tendency to following their customers are more likely to enter foreign markets by means of wholly-owned subsidiaries. The firm's perception of institutional difference weakens the positive relationship between complementary assets pursuit and joint venture because of great difficulty to coordinate with partners.
Cui & Jiang (2009)	138 Chinese firms	Host competition, host industry growth, asset seeking motivation, global strategic infrastructure, industry groupings, R&D intensity, parent firm diversity, subsidiary	Chinese firms prefer wholly owned subsidiary entry mode when they adopt a global strategy, face severe host industry competition, and seek strategic assets. A joint venture is preferred when Chinese firms are investing in a high growth host market.

		size, entry timing	
Demirbag, McGuinness & Altay (2010)	Turkish firms investing in the Central Asian Republics	Perceptions of arbitrariness, attitude towards FDI, risk of intervention, political & economic uncertainties, international relations of the host country, law and order uncertainties, size of operation, corruption, entry route to the host country, resource dependency	Greater ethical-societal uncertainties result in a preference for joint venture over wholly owned subsidiary. There is a strong correlation between the perceived risk of intervention and joint venture entry mode, and limited support for the Uppsala internationalization model.
Filatotchev, Strange, Piesse & Lien (2007)	Taiwan FDI in China; various industries	Parent corporate governance, network relationship	The choice of equity stake in an affiliate depends upon the extent of family and institutional share ownership in the parent company. High-commitment entry is found to be positively associated with the affiliate being located in areas with strong economic, cultural and historic links with the parent company. Furthermore, the entry mode and location decisions appear to be interrelated—the parent's equity stake in the affiliate depending, inter alia, upon the location within China, and the favored location depending, inter alia, upon the equity stake.
Gubbi, Aulakh, Ray, Sarkar & Chittoor (2010)	425 cross-border M&A by Indian firms	Firm age, firm size, average net profit margin, average export intensity, average leverage, annual market capitalization, foreign subsidiary, private target, business group affiliation,	The magnitude of value created will be higher when the target firms are located in advanced economic and institutional environments, country markets that carry the promise of higher quality of resources, and therefore, offering stronger complementarity to the existing capabilities of emerging economy firms

		manufacturing sector	
Luo, Zhao, Wang, & Xi (2011)	1,355 Chinese private enterprises	Ownership-specific advantages; market imperfection residuals	Their ownership-specific advantages in areas such as corporate governance, inherited advantage from mergers and acquisitions of state-owned companies, and inward internationalization increase the level of outward internationalization. Market imperfection residuals, such as industry structure uncertainty, also propel the inclination for internationalization.
Malhotra, Sivakumar, & Zhu (2011)	A comparison of cross-border acquisitions by firms from the United States and 18 emerging countries	Cultural distance; market potential	(1) firms from both the United States and emerging countries target countries that are culturally closer to their home countries, (2) a strong interaction effect occurs between market potential and cultural distance for emerging country firms as the market potential increases (i.e., at high market potential, firms from emerging economies are willing to overlook cultural distance), (3) no interaction effect occurs between market potential and cultural distance for U.S. firms, and (4) different cultural dimensions affect the market entry strategies of U.S. firms and firms from emerging countries.
Mulok, Raja, & Ainuddin (2010)	13 Malaysian MNEs	Cultural distance	Wholly-owned subsidiaries do not perform better than joint ventures; Wholly-owned subsidiaries are preferred over joint ventures in a cultural distant host country; Malaysian MNEs perform better when they form wholly-owned subsidiaries entering culturally similar countries and when they form joint ventures entering culturally dissimilar countries.

Sim & Pandian (2003)	12 case studies of Taiwanese and Singaporean MNEs	Firm size, internationalization motives	The largest textile firm (Taiwanese firm TC) invested in a joint-venture in Canada to produce feedstock (ethylene glycol) from natural gas—a backward integrative motive.
Sun, Peng, Ren, & Yan (2012)	1526 cross-border M&As by Chinese and Indian MNEs from 2000 to 2008	National-industry factor endowments; dynamic learning; value creation; reconfiguration of value chain; institutional facilitation and constraints	<p>P1: Comparatively, China will have intensive cross-border M&As in manufacturing industries, and India will have intensive cross-border M&As in service industries. P2: Comparatively, Chinese MNEs prefer to acquire companies in Asia, and Indian MNEs prefer to acquire companies in the United States and in Europe. P3: Both Chinese and Indian MNEs prefer friendly rather than hostile M&As when structuring M&A deals. Indian MNEs are more likely to adopt tender offer modes in M&A deals than Chinese MNEs because Indian MNEs' M&As deals are more likely to occur in the United States and Europe than Chinese MNEs' M&A deals. P4: Chinese MNEs prefer to acquire natural resource intensive firms, while Indian MNEs prefer to acquire technology intensive firms in cross-border M&As. Chinese MNEs prefer backward integration in cross-border M&As, while Indian MNEs prefer forward integration in cross-border M&As. P5: In large-scale cross-border M&As, Chinese state-owned enterprises generally play the lead role among Chinese MNEs, and Indian private enterprises play the lead role among Indian MNEs.</p>

Table 6 Summary of Hypotheses

Phase	Main Predictors	Hypotheses
<i>Phase One</i> AMNCs & EMNCs	Institutional distance	H1: For AMNCs, institutional distance, including regulative distance (H1a), cognitive distance (H1b), and normative distance (H1c), is negatively associated with their ownership position in a cross-border merger and acquisition event in a developed market.
		H2: For EMNCs, institutional distance, including regulative distance (H2a), cognitive distance (H2b), and normative distance (H2c), is positively associated with their ownership position in a cross-border merger and acquisition event in a developed market.
	Differential effects of three pillars of institutional distance	H3: For AMNCs, the effect of the regulative pillar of institutional distance on ownership position has the least influence among the three pillars of institutional distance.
		H4: For EMNCs, the effect of the regulative pillar of institutional distance on ownership position is the strongest among the three pillars of institutional distance.
<i>Phase Two</i> EMNCs	Home market characteristics	H5: Human capital development in an EMNC's home country moderates the relationship between institutional distance and an EMNC's ownership position such that human capital development, including skilled labor (H5a) and innovative capacity (H5b), decreases the influence of institutional distance on an EMNC's ownership position in a developed market.
		H6: The global connectedness of an EMNC's home country moderates the relationship between institutional distance and an EMNC's ownership position such that the global connectedness of an EMNC's home country decreases the influence of institutional distance on an EMNC's ownership position in a developed market.
		H7: The historical connections of an EMNC's home country to the host developed market moderates the relationship between institutional distance and an EMNC's ownership position such that the historical connections of an EMNC's home country decreases the influence of institutional distance on an EMNC's ownership position in a developed market.
	Firm characteristics	H8: The extent of an EMNC's market leading position moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's market leading position decreases the influence of institutional distance on

		its ownership position in a developed market.
		H9: An EMNC's international presence moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's international presence decreases the influence of institutional distance on its ownership position in a developed market.
		H10: Media coverage of an EMNC moderates the relationship between institutional distance and an EMNC's ownership position such that media coverage in a developed market decreases the influence of institutional distance on its ownership position in a developed market.
		H11: An EMNC's cross-listing in a developed market moderates the relationship between institutional distance and an EMNC's ownership position such that an EMNC's cross-listing in a developed market decreases the influence of institutional distance on its ownership position in a developed market.
	Firm performance	H12a: Controlling for institutional distance, EMNCs with a higher ownership position experience better post-acquisition overall firm performance. H12b: Controlling for institutional distance, EMNCs with a lower ownership position experience better post-acquisition overall firm performance.

Table 7 Acquirers' Country of Origin in Cross-border Merger and Acquisition Events with the Target Firm in the United States from 2005 to 2011

AMNCs' M&As*	EMNCs' M&As*
Canada(376); U.K.(222); Japan(59); France(58); Australia(57); Germany(56); Switzerland(36); Netherlands(33); Israel(28); Sweden(25); Spain(20); Ireland(14); Norway(14); Italy(13); Denmark(11); New Zealand(8); Austria(7); Belgium(5); Finland(5); Greece(3); Luxembourg(3); Poland(2); Portugal(2); Estonia(1); Iceland(1)	India(53); China(21); Bermuda(16); Hong Kong(15); Singapore(14); South Korea**(13); Russian Fed(11); Taiwan(11); Brazil(10); British Virgin Islands(6); Colombia(5); Mexico**(5); Bahamas(4); Guernsey(4); Malaysia(4); Cyprus(3); Philippines(3); South Africa(3); Argentina(2); Chile**(2); Kuwait(2); Thailand(2); Turkey**(2); United Arab Emirates(2); Vietnam(2); Barbados(1); Belize(1); Cayman Islands(1); Georgia(1); Latvia(1); Lebanon(1); Macau(1); Mauritius(1); Nigeria(1); Panama(1); Puerto Rico(1); Zimbabwe(1)

*The number in the brackets following the nation indicates the frequency of M&As from the country in the sample period between 2005 and 2011.

**These countries meet only one criterion to be classified as developed markets, and therefore these countries are classified as emerging markets in the current study.

Table 8 Measure of Normative Pillar of Institutional Distance

Corporate practice	Survey items	Scale
Corporate governance	How would you characterize corporate governance by investors and boards of directors in your country?	1 = management has little accountability to investors and boards; 7 = investors and boards exert strong supervision of management decisions
Employee training	To what extent do companies in your country invest in training and employee development?	1 = hardly at all; 7 = to a great extent
Customer orientation	How well do companies in your country treat customers?	1 = generally treat their customers badly; 7 = are highly responsive to customers and customer retention
Buyer sophistication	In your country, how do buyers make purchasing decisions?	1 = based solely on the lowest price; 7 = based on a sophisticated analysis of performance attributes
Pay and productivity	To what extent is pay in your country related to productivity?	1 = not related to worker productivity; 7 = strongly related to worker productivity
Reliance on professional management	In your country, who holds senior management positions?	1 = usually relatives or friends without regard to merit; 7 = mostly professional managers chosen for merit and qualifications
Production process sophistication	In your country, how sophisticated are production processes	1 = not at all – labor-intensive methods or previous generations of process technology prevail; 7 = highly – the world's best and most efficient process technology prevails
Willingness to delegate authority	In your country, how do you assess the willingness to delegate authority to subordinates?	1 = low – top management controls all important decisions; 7 = high – authority is mostly delegated to business unit heads and other lower-level managers

Table 9 Measures of Human Capital

Measure	Survey items	Scale
Skilled labor	How would you assess the quality of management or business schools in your country?	1="very poor" to 7="excellent—among the best in the world."
	How would you rate the level of access to the Internet in schools in your country?	1="very limited"; 7="extensive"
	How would you assess the quality of math and science education in your country's schools?	1 = "poor"; 7 = "excellent - among the best in the world"
	How well does the educational system in your country meet the needs of a competitive economy?	1 = "not well at all"; 7 = "very well"
Innovative capacity	To what extent are scientists and engineers available in your country?	1="not at all"; 7="widely available"
	How would you assess the quality of scientific research institutions in your country?	1="very poor"; 7="the best in their field internationally"
	To what extent do business and universities collaborate on research and development (R&D) in your country?	1 = "do not collaborate at all"; 7 = "collaborate extensively"
	To what extent are the latest technologies available in your country?	1 = "not available"; 7 = "widely available"
	In your country, how do companies obtain technology?	1 = "exclusively from licensing or imitating foreign companies"; 7 = "by conducting formal research and pioneering their own new products and processes"

Table 10 Country scores of religious distance and language distance from the U.S.

Country	Language distance	Religious distance	M&A deals counts
Argentina	-0.69	-1.29	2
Brazil	0.27	-1.29	15
Chile	-0.69	-1.29	3
China	0.53	1.01	43
Colombia	-0.69	-1.29	4
Hong Kong	0.53	-0.51	34
India	-2.43	1.27	169
Indonesia	0.53	0.76	2
Kenya	-2.43	-1.03	1
Kuwait	0.05	0.76	3
Malaysia	0.53	0.76	6
Mexico	-0.69	-1.29	24
Panama	-0.69	-1.03	1
Peru	-0.69	-1.29	1
Philippines	-2.43	-1.29	5
Russian Fed	0.27	-0.53	14
Saudi Arabia	0.05	0.76	2
Singapore	-2.43	1.01	24
South Africa	-2.43	-0.78	11
South Korea	0.53	-0.52	46
Taiwan	0.53	1.01	34
Thailand	0.53	1.27	2
Turkey	0.53	1.02	1
Utd Arab Em	0.05	0.76	2
Vietnam	0.53	1.01	1
Zimbabwe	-2.43	-1.03	1

Table 11 Mean, Standard Deviation, and Correlation among Variables Used in the Regression in Phase One (N=1650)

	Mean	SD	1	2	3	4	5
1. Ownership position	90.1	23.79					
2. Year2006Dummy	0.15	0.35	0.02				
3. Year2007Dummy	0.19	0.39	0.04	-0.2**			
4. Year2008Dummy	0.17	0.37	0.03	-	-		
5. Year2009Dummy	0.11	0.31	-0.1**	0.15**	0.17**	0.16**	
6. Year2010Dummy	0.13	0.34	-0.04*	0.16**	0.19**	0.18**	0.14**
7. Year2011Dummy	0.13	0.34	0	0.16**	0.19**	0.18**	0.14**
8. Total assets	6.43	2.8	-0.04*	-0.05*	0.02	0.13**	-0.03
9. High tech industry	0.15	0.35	0.08**	0	0	0.03	-0.03
10. Geographic distance	8.59	0.61	-	-	0.09**	0.06**	-0.03
11. Home country status	0.11	0.32	-	0.03	0.02	-0.02	0
12. Regulative distance	7.77	7.86	0.01	0.01	0	0.04	-0.02
13. Cognitive distance	1.09	1.21	-	-	0.01	0.04	0.02
14. Normative distance	2.92	2.82	-	-	-	0.08**	0

	6	7	8	9	10	11	12	13
7. Year2011Dummy	-							
8. Total assets	0.15**							
9. High tech industry	-0.02	-0.04*						
10. Geographic distance	0.01	-	-					
11. Home country status	0	0.06**	0.12**					
12. Regulative distance	0	-	-	0.16**				
13. Cognitive distance	0	0.09**	0.42**	0.04	0.33**			
14. Normative distance	-0.02	0.01	0.04	0.02	0	0		
	0.04	-0.03	0.34**	0.06**	0.61**	0.51**	0.02	
	-	-	-	-	-	-	-	-
	0.10**	0.13**	0.12**	0.01	0.24**	0.54**	0.03	0.34**

* p -value<0.05 ** p -value <0.001; Both total assets and geographic distance variables have been transformed into natural logs.

“Home country status”: 1=emerging market; 0=developed market

“Total assets” refers to the acquiring firm's total assets prior to the acquisition.

“High-tech industry” refers to whether the acquiring firm is in high-technology industries. 0=no;

1=yes

Table 12 Regression Result of the Moderation Effect of Acquirers' Home Country Status

	Model 1	Model 2	Model 3
Year 2006 dummy	-0.041	-0.042	-0.047
Year 2007 dummy	-0.017	-0.038	-0.042
Year 2008 dummy	-0.028	-0.034	-0.034
Year 2009 dummy	-0.134 **	-0.136 **	-0.137 **
Year 2010 dummy	-0.087 **	-0.097 **	-0.099 **
Year 2011 dummy	-0.054	-0.066	-0.069 *
Total Assets	0.014	0.024	0.017
High Tech Industry	0.101 **	0.095 **	0.094 **
Geographic Distance	-0.125 **	-0.038	-0.008 **
Home Country Status		-0.009	-0.092
Regulative Distance		0.005	0.004
Cognitive Distance		-0.111 **	-0.115 **
Normative Distance		-0.079 *	-0.143 **
Home Country Status X Regulative Distance			0.008
Home Country Status X Cognitive Distance			-0.007
Home Country Status X Normative Distance			0.154 **
Observations	1650	1650	1650
Adjusted R^2	0.03	0.045	0.051
Change in R^2 from the previous model		0.018 **	0.007 **

N=1650

* p -value<0.05 ** p -value <0.001

Table 13 Subsample Regression Analyses for EMNCs and AMNCs

	AMNCs	EMNCs
Year 2006 dummy	-0.043	-0.162
Year 2007 dummy	-0.053	-0.147
Year 2008 dummy	-0.031	-0.123
Year 2009 dummy	-0.131 **	-0.274 *
Year 2010 dummy	-0.12 **	-0.247 *
Year 2011 dummy	-0.064	-0.36 **
Total Assets	0.028	-0.061
High Tech Industry	0.088 **	0.11
Geographic Distance	0.017	-0.184
Regulative Distance	-0.006	0.043
Cognitive Distance	-0.148 **	-0.066
Normative Distance	-0.137 **	-0.053
Observations	1465	185
Adjusted R^2	0.038	0.065

* p -value<0.05 ** p -value <0.01

Table 14 Merger and Acquisitions by EMNCs in *Phase Two* by Acquisition Years and Acquirer's Home Country

	Acquisition years							Total
	2005	2006	2007	2008	2009	2010	2011	
Anguilla	1	0	0	0	0	0	0	1
Argentina	0	1	1	0	0	0	0	2
Bahamas	0	0	0	0	0	1	2	3
Bermuda	1	5	6	7	2	4	4	29
Brazil	0	2	0	3	1	6	3	15
British Virgin	0	0	0	0	2	0	0	2
Cayman Islands	0	0	0	0	0	1	0	1
Chile	2	0	0	0	0	0	1	3
China	2	1	5	11	5	9	10	43
Colombia	2	1	0	0	0	1	0	4
Cyprus	0	0	0	2	0	0	0	2
Guernsey	1	1	0	0	1	0	0	3
Hong Kong	3	11	4	4	2	3	7	34
India	25	24	45	24	14	22	15	169
Indonesia	0	0	0	0	2	0	0	2
Isle of Man	1	0	0	0	0	0	0	1
Jersey	0	0	0	1	0	1	0	2
Kenya	0	0	0	1	0	0	0	1
Kuwait	1	0	1	1	0	0	0	3
Malaysia	0	1	2	0	1	1	1	6
Mexico	2	8	0	3	2	2	7	24
Neth Antilles	0	1	0	0	0	0	1	2
Panama	0	0	1	0	0	0	0	1
Peru	0	0	0	0	0	1	0	1
Philippines	0	0	2	2	1	0	0	5
Russian Federation	0	1	1	9	3	0	0	14
Saudi Arabia	0	0	1	0	0	0	1	2
Singapore	4	5	5	4	1	5	0	24
South Africa	1	0	5	3	0	1	1	11
South Korea	2	5	6	5	12	9	7	46
Taiwan	3	4	4	10	7	4	2	34

Thailand	0	1	0	0	0	0	1	2
Turkey	1	0	0	0	0	0	0	1
Utd Arab Emirates	0	0	1	0	1	0	0	2
Vietnam	0	1	0	0	0	0	0	1
Zimbabwe	0	1	0	0	0	0	0	1
Total	52	74	90	90	57	71	63	497

Table 15 Descriptive Statistics and Correlations in *Phase Two*

	Mean	SD	N	1	2	3	4	5	6
1. Ownership position	84.82	29.11	467						
2. Total assets	6776800	22502900	455	-0.14**					
3. High tech industry	0.46	0.50	496	0.17**	-0.08				
4. Geographic distance	9.20	0.57	495	0.01	-0.12*	0.23**			
5. Regulative distance	13.28	12.22	456	0	-0.01	0	0.04		
6. Cognitive distance	2.72	1.29	431	-0.20**	0.12*	-0.10*	-0.07	-0.32**	
7. Normative distance	5.93	3.78	497	0	0.02	-0.14**	-0.04	0.62**	-0.3**
8. Innovation capacity	17.21	1.94	453	0.01	-0.05	0.24**	0.47**	-0.43**	0.48**
9. Skilled labor	18.77	2.77	454	0.08	-0.14**	0.28**	0.55**	-0.56**	0.21**
10. Free trade	0.11	0.32	497	0.06	-0.02	-0.11*	-0.4**	-0.39**	0.07
11. Religious distance	0.45	0.97	451	0.18**	-0.24**	0.34**	0.63**	0.35**	-0.33**
12. Language distance	-0.98	1.40	451	-0.17**	0.19**	-0.19**	-0.26**	-0.33**	0.75**
13. Internet users	28.67	26.53	452	-0.18**	0.17**	-0.04	-0.02	-0.74**	0.73**
14. Foreign market size	5.91	0.58	450	-0.03	-0.03	0.15**	0.18**	0.31**	0.14**
15. Market position	1.00	2.21	461	-0.02	0.59**	0.05	-0.29**	-0.16**	0.22**
16. Crosslisting	0.27	0.44	497	0.09	0.14**	-0.04	-0.37**	-0.19**	0.07
17. Media coverage	0.45	0.51	497	0	0.19**	-0.07	0	-0.14**	0
18. Geographic dispersion	3.48	2.06	367	0	0.1	-0.12*	-0.22**	-0.26**	0.24**
19. Sales growth t+1	0.43	1.97	401	0.07	-0.05	0.09	0.08	0.08	-0.12*
20. Sales growth t+2	2.47	32.42	338	0.03	-0.12*	-0.05	0.04	0.18**	-0.15**
21. Sales growth t+3	1.05	2.54	270	0.14*	-0.13*	0.12*	0.16**	0.16*	-0.21**
22. Stock price t+1	0.33	2.19	391	-0.08	-0.02	-0.03	0	0.07	0.07
23. Stock price t+2	0.49	2.67	331	-0.09	-0.01	-0.05	-0.03	0.1	0.08
24. Stock price t+3	0.12	1.25	266	-0.02	-0.04	-0.05	0.01	0.06	-0.04
25. Income growth t+1	1.15	14.55	407	0.04	-0.01	0.03	0.06	0.06	-0.05
26. Income growth t+2	-1.76	46.02	343	-0.02	-0.04	0.05	-0.02	-0.18**	-0.05

27. Income growth t+3	0.64	13.50	277	0.06	-0.03	0.08	0.04	0.01	0.02
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	7	8	9	10	11	12	13	14	15
8. Innovation capacity	-0.73**								
9. Skilled labor	-0.72**	0.84**							
10. Free trade	0.09	-0.08	-0.02						
11. Religious distance	-0.14**	0.35**	0.42**	-0.29**					
12. Language distance	-0.15**	0.2**	-0.01	-0.12**	-0.48**				
13. Internet users	-0.65**	0.58**	0.49**	0.12*	-0.37**	0.65**			
14. Foreign market size	-0.1*	0.22**	0.14**	-0.29**	0.44**	0.1399	-0.04		
15. Market position	-0.16**	-0.01	-0.07	-0.02	-0.27**	0.27**	0.3**	-0.05	
16. Crosslisting	-0.24**	-0.1*	-0.09	0.16**	-0.23**	0.17**	0.14**	0.1*	0.35**
17. Media coverage	-0.07	-0.03	0.02	0.01	-0.08	0.08	0.12*	0.04	0.19**
18. Geographic dispersion	-0.03	-0.14*	-0.11*	0.18**	-0.46**	0.3**	0.27**	-0.12*	0.22**
19. Sales growth t+1	0.04	0	0.03	-0.05	0.11*	-0.11*	-0.11*	0	-0.08
20. Sales growth t+2	0.14*	-0.14*	-0.1	-0.02	-0.08	-0.06	-0.05	-0.27**	-0.1
21. Sales growth t+3	0.14*	0	0.03	-0.1	0.2**	-0.2**	-0.22**	0.06	-0.15*
22. Stock price t+1	0.09	-0.03	-0.04	-0.04	-0.04	0.04	-0.01	0.05	-0.03
23. Stock price t+2	0.15**	-0.08	-0.09	-0.03	-0.09	0.06	-0.01	0.04	-0.04
24. Stock price t+3	0.15*	-0.05	-0.04	-0.02	0.01	-0.02	-0.05	-0.03	-0.01
25. Income growth t+1	0.05	-0.01	-0.03	-0.03	0.04	-0.06	-0.08	0.02	-0.04
26. Income growth t+2	-0.13*	0.14*	0.09	0.01	0.09	0.04	0.04	0.26**	-0.05
27. Income growth t+3	0.02	0	0	-0.04	0.01	0.06	-0.01	0.08	-0.03

	16	17	18	19	20	21	22	23	24	25	26
17. Media coverage	0.21**										
18. Geographic dispersion	0.32**	0.27**									

19. Sales growth t+1	-0.08	-0.09	-0.13*								
20. Sales growth t+2	-0.04	-0.05	-0.09	0.02							
21. Sales growth t+3	-0.09	-0.08	-0.14*	0.75**	0.84**						
22. Stock price t+1	-0.07	-0.03	0.07	0.04	-0.03	0.2**					
23. Stock price t+2	-0.08	-0.02	0.06	0	0.08	0.17**	0.93**				
24. Stock price t+3	-0.13*	0.01	-0.19**	-0.04	0.01	0.13*	0.39**	0.58**			
25. Income growth t+1	-0.05	-0.04	-0.06	0.05	-0.01	0.06	0.03	0.04	0.03		
26. Income growth t+2	0.02	0.05	-0.03	0.04	-0.98**	-0.01	0.03	-0.07	0.01	0.01	
27. Income growth t+3	-0.04	-0.03	0.02	-0.02	0.02	0.04	0.09	0.13*	0.1	0.3**	-0.1

Table 16 Three Pillars of Institutional Distance and EMNCs' Ownership Position in *Phase Two*

	Model 1	Model 2	Model 3	Model 4
Year 2006 dummy	-0.053	-0.038	-0.055	-0.026
Year 2007 dummy	-0.047	-0.048	-0.046	-0.011
Year 2008 dummy	-0.127	-0.09	-0.16 *	-0.057
Year 2009 dummy	-0.196 **	-0.158 *	-0.212 **	-0.132
Year 2010 dummy	-0.165 *	-0.153 *	-0.153 *	-0.126
Year 2011 dummy	-0.125 ^	-0.115	-0.124 ^	-0.087
Total Assets	-0.123 *	-0.107 *	-0.113 *	-0.105 *
High Tech Industry	0.162 **	0.147 **	0.184 **	0.149 **
Geographic Distance	-0.045	-0.032	-0.061	-0.01
Regulative Distance	-0.012			-0.097
Cognitive Distance		-0.162 *		-0.18 **
Normative Distance			-0.002	0.046
Observations	384	364	423	364
Adjusted R ²	0.052	0.08	0.063	0.079

^p-value<0.10; *p-value<0.05; **p-value<0.01

Table 17 Human Capital Development in EMNCs' Home Country

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Year 2006 dummy	-0.043	-0.054	-0.038	-0.038	-0.034	-0.04
Year 2007 dummy	-0.042	-0.047	-0.035	-0.01	-0.011	0.009
Year 2008 dummy	-0.117	-0.137 [^]	-0.052	-0.012	-0.093	-0.078
Year 2009 dummy	-0.183*	-0.193**	-0.127 [^]	-0.097	-0.165*	-0.154 [^]
Year 2010 dummy	-0.165*	-0.186*	-0.126	-0.076	-0.14	-0.129
Year 2011 dummy	-0.131	-0.142*	-0.095	-0.055	-0.105	-0.077
Total Assets	-0.098 [^]	-0.104*	-0.094 [^]	-0.1 [^]	-0.1 [^]	-0.104*
High Tech Industry	0.15**	0.162**	0.128*	0.133*	0.154**	0.166**
Geographic Distance	-0.062	-0.123	-0.128 [^]	-0.224*	-0.046	-0.003
Regulative Distance	0.035	0.188*				
Cognitive Distance			-0.219**	-0.262**		
Normative Distance					0.05	0.102
Skilled Labor	0.22 [^]	0.189	0.133	0.055	0.206 [^]	0.158
Innovation Capacity	-0.18 [^]	-0.111	0.022	0.291 [^]	-0.152	-0.086
Regulative Distance X Skilled Labor		-0.283*				
Regulative Distance X Innovation Capacity		0.145				
Cognitive Distance X Skilled Labor				-0.008		
Cognitive Distance X Innovation Capacity				-0.212 [^]		
Normative Distance X Skilled Labor						-0.232*
Normative Distance X Innovation Capacity						0.165
Observations	381	381	364	364	381	381
Adjusted R ²	0.058	0.068	0.085	0.103	0.058	0.064
Change in R ² from the previous model		0.015		0.023		0.011

[^]p-value<0.10; *p-value<0.05; **p-value<0.01

Table 18 Global Connectedness of EMNCs' Home Country

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Year 2006 dummy	-0.046	-0.045	-0.063	-0.082	-0.116	-0.078
Year 2007 dummy	-0.049	-0.03	-0.08	-0.104	-0.238*	-0.169
Year 2008 dummy	-0.095	-0.079	-0.13*	-0.185*	-0.231**	-0.174^
Year 2009 dummy	-0.139	-0.111	-0.197*	-0.225**	-0.244**	-0.189*
Year 2010 dummy	-0.125	-0.119	-0.194^	-0.233*	-0.261**	-0.217*
Year 2011 dummy	-0.081	-0.061	-0.155^	-0.199*	-0.217*	-0.163^
Total Assets	-0.07	-0.061	-0.106**	-0.086	-0.079	-0.067
High Tech Industry	0.152**	0.157**	0.15	0.169**	0.13*	0.126*
Geographic Distance	-0.023	-0.109	-0.041^	-0.035	-0.141*	-0.131^
Regulative Distance	-0.294**	-0.028				
Cognitive Distance			-0.159	-0.151^		
Normative Distance					-0.292**	-0.299*
Internet User	-0.35***	-0.309***	0.006	0.098	-0.309***	-0.384***
Foreign Market Size	0.069	-0.044	0.032	0.097	-0.006	0.026
Regulative Distance X Internet Users		-0.257*				
Regulative Distance X Foreign Market Size		0.11^				
Cognitive Distance X Internet Users				-0.182**		
Cognitive Distance X Foreign Market Size				-0.092		
Normative Distance X Internet Users						-0.134*
Normative Distance X Foreign Market Size						-0.058
Observations	377	377	361	361	377	377
Adjusted R ²	0.096	0.104	0.078	0.097	0.086	0.094
Change in R ² from the previous model				0.023*		0.013^

^p-value<0.10; *p-value<0.05; **p-value<0.01

Table 19 Historical Connections of EMNCs' Home Country with the U.S.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Year 2006 dummy	-0.029	-0.027	-0.036	-0.021	-0.016	-0.018	-0.02	-0.027
Year 2007 dummy	-0.029	-0.025	-0.044	-0.013	-0.024	-0.026	-0.014	-0.019
Year 2008 dummy	-0.082	-0.075	-0.086	-0.061	-0.056	-0.059	-0.079	-0.087
Year 2009 dummy	-0.152*	-0.15*	-0.159*	-0.129^	-0.125^	-0.125^	-0.147^	-0.154^
Year 2010 dummy	-0.147*	-0.149*	-0.152*	-0.139^	-0.136^	-0.139^	-0.138^	-0.143
Year 2011 dummy	-0.102	-0.107	-0.122	-0.104	-0.087	-0.087	-0.088	-0.09
Total Assets	-0.07	-0.069	-0.085	-0.078	-0.09^	-0.096^	-0.075	-0.076
High Tech Industry	0.11*	0.11*	0.127*	0.136*	0.135*	0.138*	0.121*	0.12*
Geographic Distance	-0.124	-0.184	-0.14*	-0.178*	0.079	0.007	-0.026	-0.034
Regulative Distance	-0.076	0.028						
Cognitive Distance			-0.169*	-0.091	-0.171**	-0.182**		
Normative Distance							0.029	0.036
Religious Distance	0.213*	0.201*	0.198*	0.351*			0.172*	0.173*
Language Distance	-0.065	-0.021	0.083	0.141			-0.019	-0.018
Free Trade Agreement with the U.S.	0.058	-0.038			0.169*	0.108	0.14^	0.112
Regulative Distance X Religious Distance		0.064						
Regulative Distance X Language Distance		-0.064						
Regulative Distance X Free Trade Agreement		-0.199						
Cognitive Distance X Religious Distance					-0.122			
Cognitive Distance X Language Distance					-0.279*			
Cognitive Distance X Free Trade Agreement						0.062		
Normative Distance X Religious Distance								-0.053
Normative Distance X Language Distance								-0.017

Normative Distance X Free Trade Agreement									-0.038
Observations	379	379	364	364	364	364	379	379	
Adjusted R ²	0.081	0.076	0.088	0.11	0.094	0.092	0.079	0.073	
Change in R ² from the previous model		0.003		0.026**		0.001		0.001	

^p-value<0.10; *p-value<0.05; **p-value<0.01

Table 20 EMNCs' Firm Characteristics

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Year 2006 dummy	-0.043	-0.033	-0.035	-0.034	-0.046	-0.042
Year 2007 dummy	-0.008	0	0.002	0.002	-0.008	0.027
Year 2008 dummy	-0.186*	-0.18*	-0.157	-0.167	-0.206*	-0.189*
Year 2009 dummy	-0.183*	-0.183*	-0.169*	-0.164	-0.226**	-0.212**
Year 2010 dummy	-0.158	-0.156	-0.158	-0.168	-0.143	-0.121
Year 2011 dummy	-0.162	-0.158	-0.169	-0.172	-0.154	-0.133
Total Assets	-0.099	-0.073	-0.115	-0.146	-0.107	-0.089
High Tech Industry	0.211*	0.218*	0.191**	0.184*	0.237**	0.258**
Geographic Distance	0.003*	-0.016	0.027	0.025	-0.008	-0.017
Regulative Distance	-0.001	0.019				
Cognitive Distance			-0.04	-0.014		
Normative Distance					-0.014	0.017
Market Position	-0.078	-0.128	-0.03	0.075	-0.075	-0.125
International presence	0.075	0.085	0.085	0.097	0.065	0.085
Crosslisting	0.166*	0.148*	0.168*	0.139	0.123	0.108
Media Coverage	-0.084	-0.078	-0.115	-0.114	-0.016	-0.021
Regulative Distance X Market Position		-0.044				
Regulative Distance X International Presence		-0.026				
Regulative Distance X Crosslisting		-0.057				
Regulative Distance X Media Coverage		0.003				
Cognitive Distance X Market Position				-0.143		
Cognitive Distance X International Presence				0.012		
Cognitive Distance X Crosslisting				0.114		
Cognitive Distance X Media Coverage				0.018		
Normative Distance X Market Position						-0.06
Normative Distance X International Presence						-0.024
Normative Distance X Crosslisting						-0.078
Normative Distance X Media Coverage						-0.127*
Observations	293	293	279	279	329	329

Adjusted R ²	0.096	0.089	0.102	0.101	0.102	0.119
Change in R ² from the previous model		0.006		0.012		0.027*

^p-value<0.10; *p-value<0.05; **p-value<0.01

Table 21 Hypotheses and results

Phase	Main Predictors & Predictions	Result
<i>Phase One</i> AMNCs & EMNCs	H1: For AMNCs, regulative distance (H1a), cognitive distance (H1b), and normative distance (H1c) are negatively related to ownership position.	H1b & c are supported
	H2: For EMNCs, regulative distance (H2a), cognitive distance (H2b), and normative distance (H2c) are positively related to ownership position.	Not supported
	H3: For AMNCs, the effect of the regulative pillar of institutional distance on ownership position has the least influence.	Supported
	H4: For EMNCs, the effect of the regulative pillar of institutional distance on ownership position is the strongest.	Not supported
<i>Phase Two</i> EMNCs	H5: Human capital development in an EMNC's home country, including skilled labor (H5a) and innovative capacity (H5b), decreases the influence of institutional distance.	H5a is supported for regulative and normative distance but not supported for cognitive distance; H5b is not supported.
	H6: The global connectedness of an EMNC's home country, including internet usage (H6a) and foreign market size (H6b) decreases the influence of institutional distance on an EMNC's ownership position.	The opposite effects are found for H6a: internet usage strengthens the influences of institutional distance on EMNCs' ownership. No support is found for H6b.
	H7: The historical connections of an EMNC's home country to the host developed market decrease the influence of institutional distance on an EMNC's ownership position in a developed market.	Partially supported by the moderation effect of language distance on the association between cognitive distance and ownership position.
	H8: An EMNC's market leading position decreases the influence of institutional distance on its ownership position in a developed market.	Not supported
	H9: An EMNC's international presence decreases the influence of institutional distance on its ownership position in a developed market.	Not supported
	H10: Media coverage of an EMNC in a developed market decreases the influence of institutional distance on its ownership position in a developed market.	Supported for normative distance.
	H11: An EMNC's cross-listing in a developed market decreases the influence of institutional distance on its ownership position in a	Not supported

	developed market.	
	H12a: Controlling for institutional distance, EMNCs with a greater ownership position have better firm performance.	Higher ownership position leads to better sales growth
	H12b: Controlling for institutional distance, EMNCs with a lower ownership position have better firm performance.	Not supported

Figure 1

A Conceptual Framework of EMNC's Competitive Disadvantages in a Developed Market



Figure 2

Normative Distance and Ownership Position for AMNCs and EMNCs

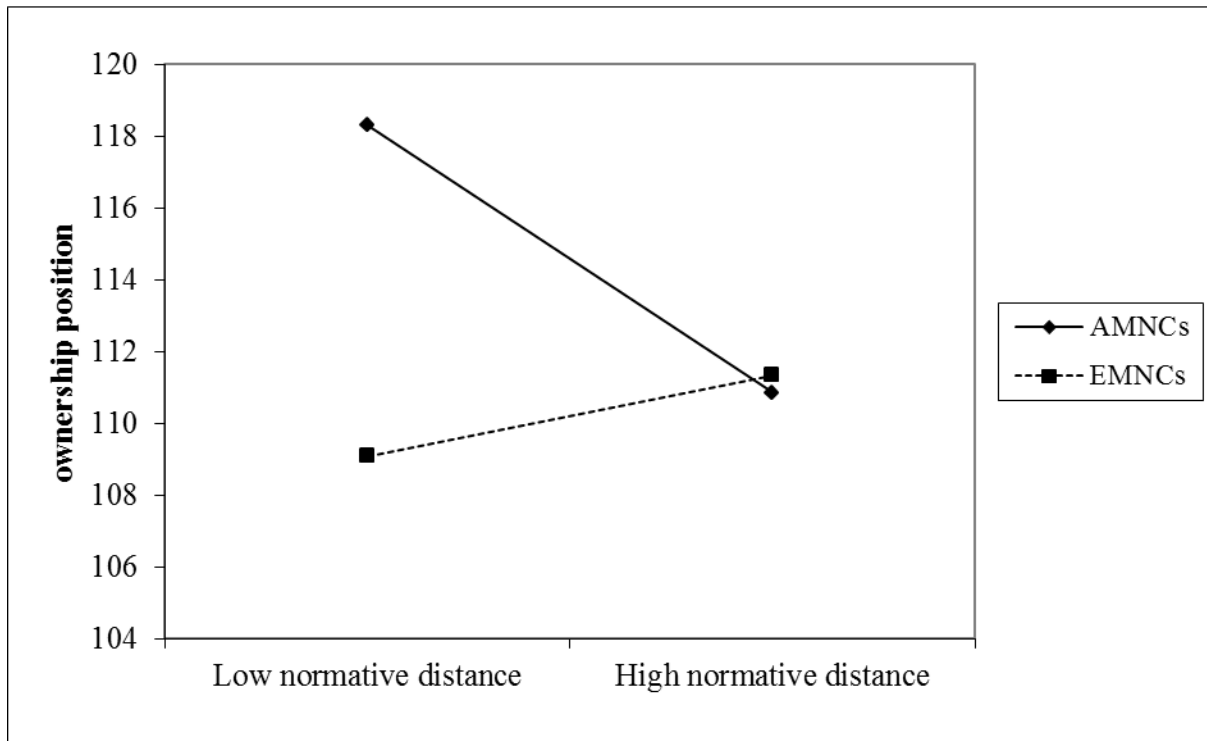


Figure 3

Skilled Labor in EMNCs' Home Country and Regulative Distance

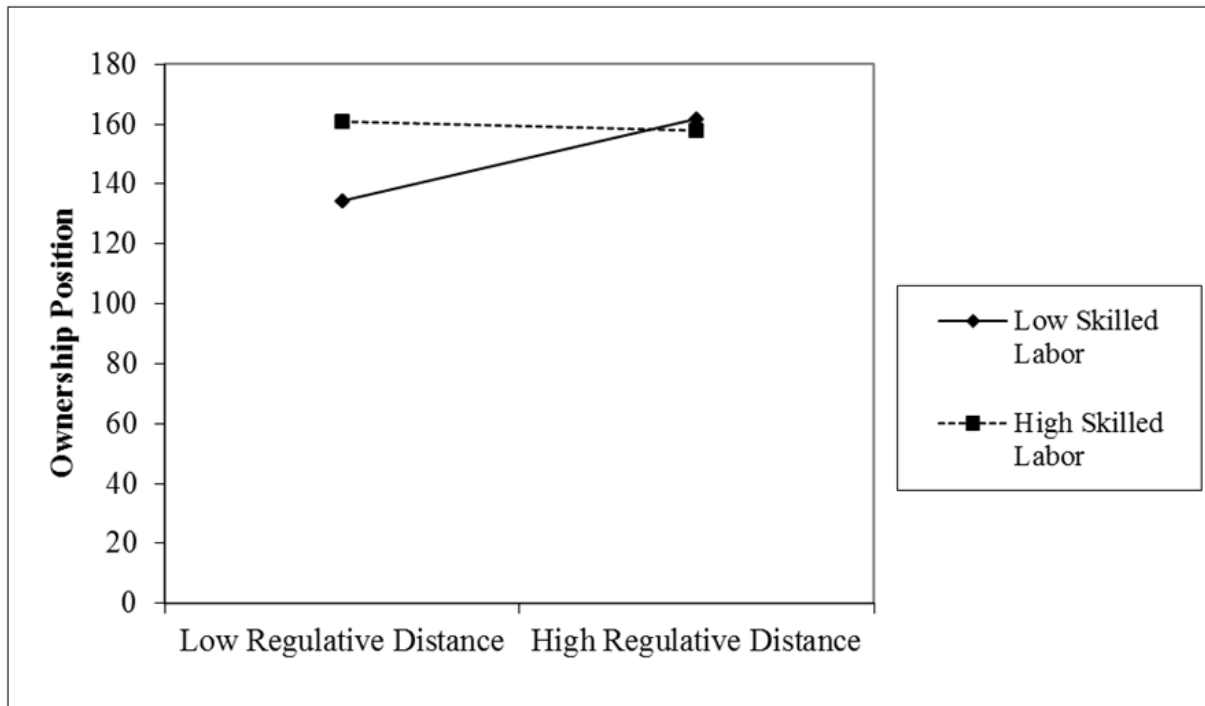


Figure 4

Innovation Capacity in EMNCs' Home Country and Cognitive Distance

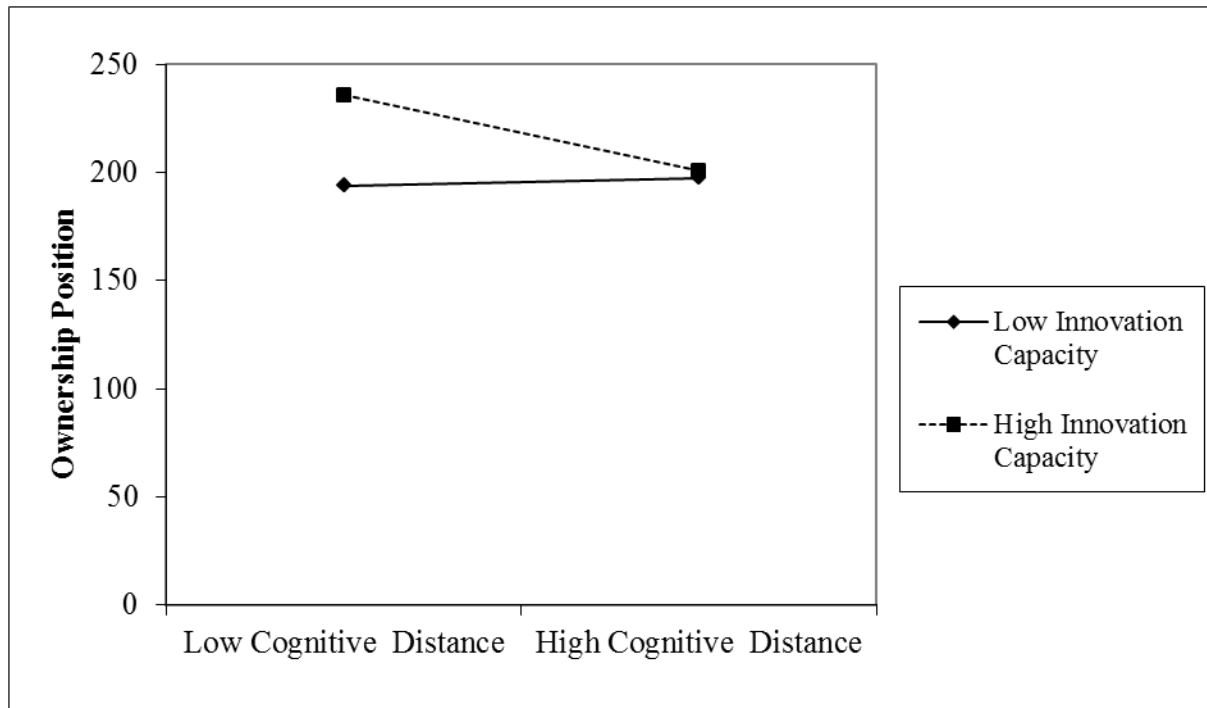


Figure 5

Skilled Labor in EMNCs' Home Country and Normative Distance

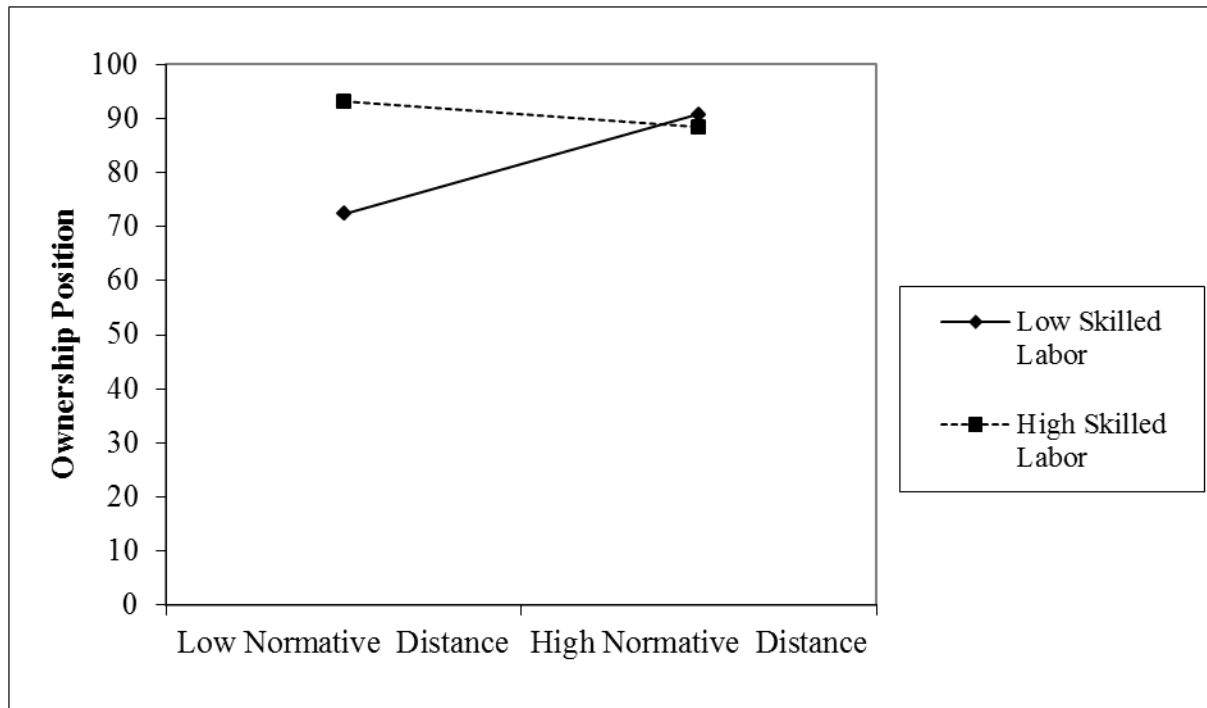


Figure 6

The Extent of Internet Usage in EMNCs' Home Country and Regulative Distance

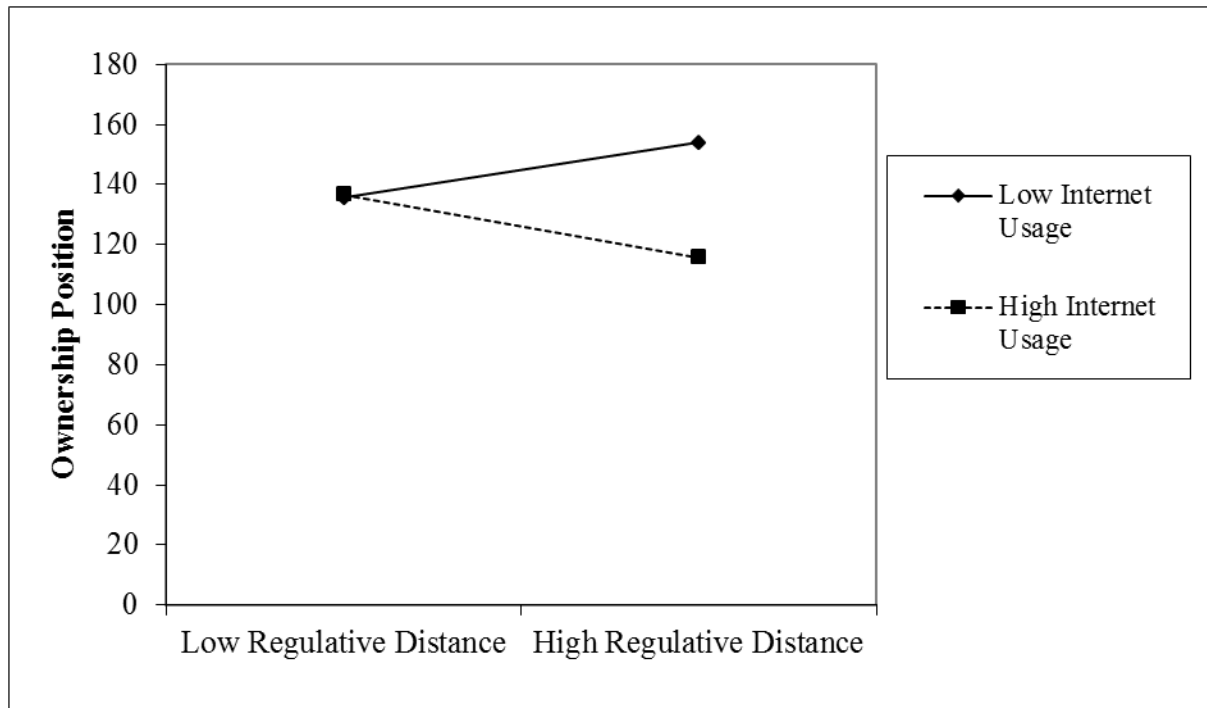


Figure 7

The Foreign Market Size in EMNCs' Home Country and Regulative Distance

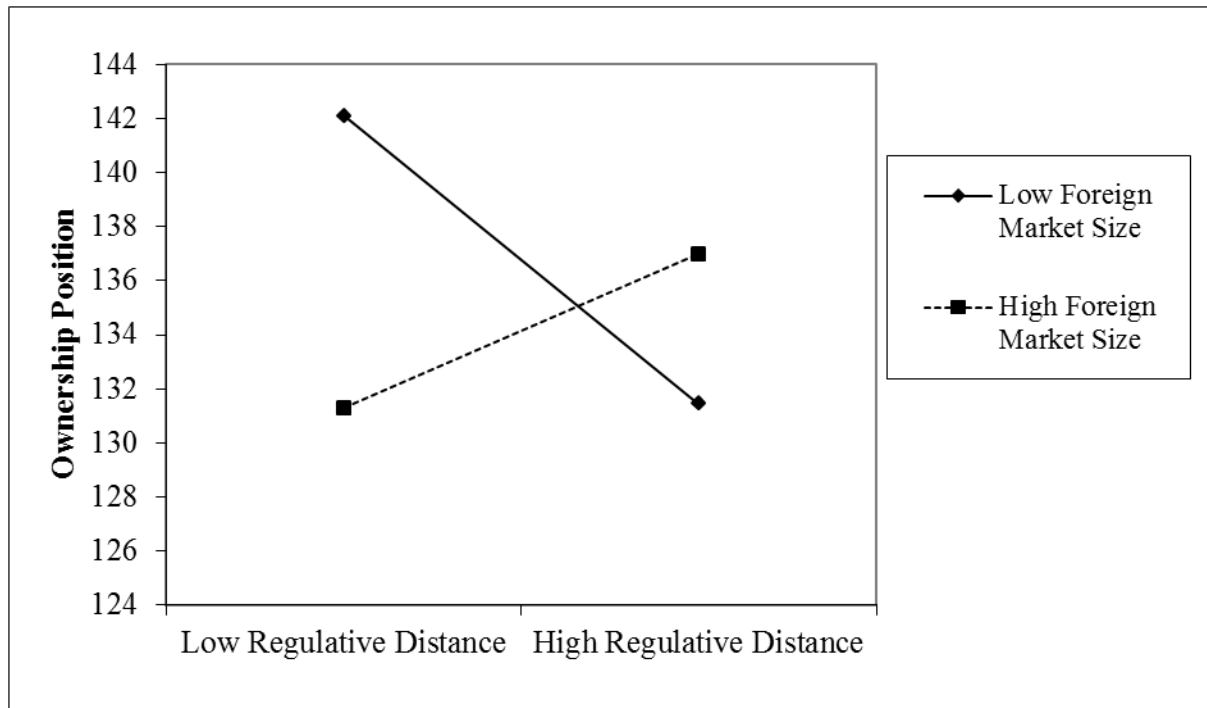


Figure 8

The Extent of Internet Usage in EMNCs' Home Country and Cognitive Distance

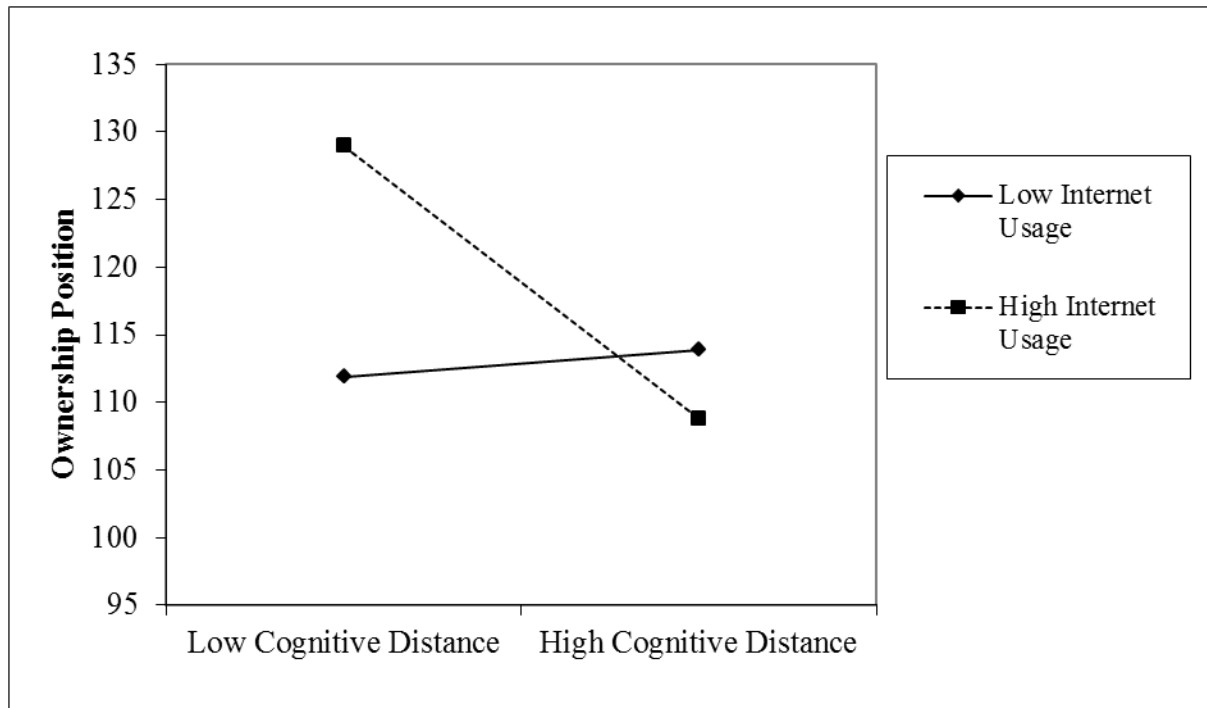


Figure 9

The Extent of Internet Usage in EMNCs' Home Country and Normative Distance

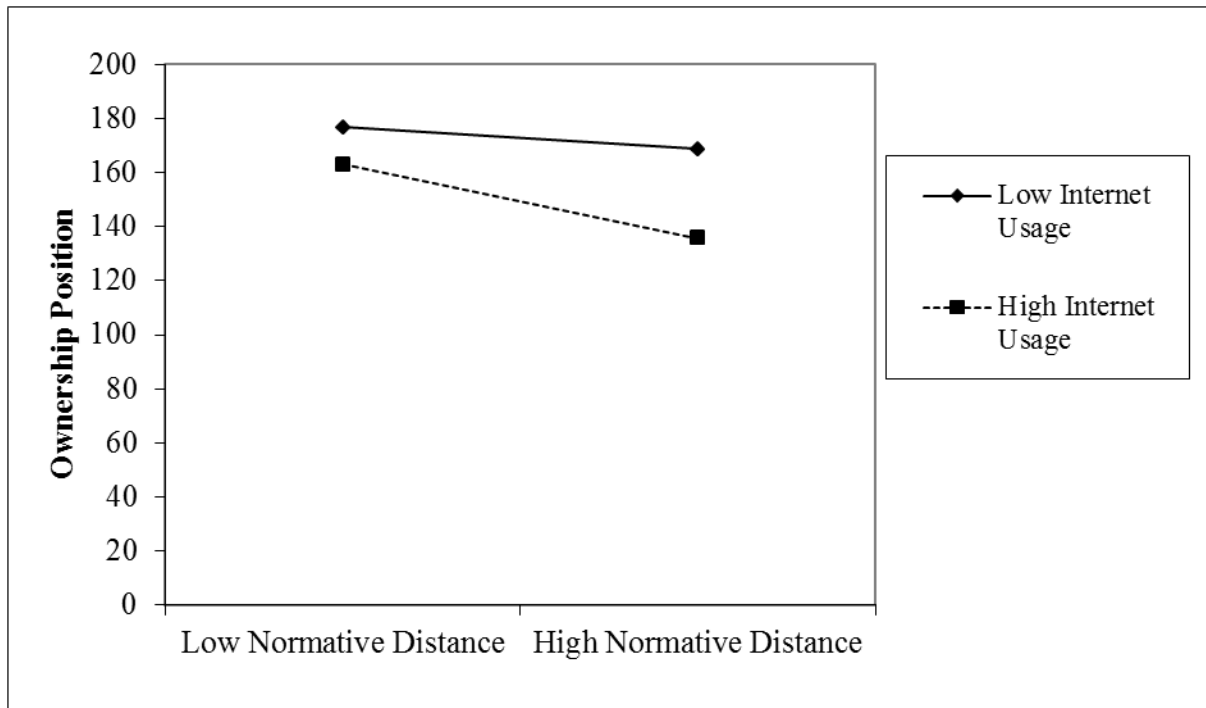


Figure 10

The Extent of Language Distance from EMNCs' Home Country to the U.S. and Cognitive Distance

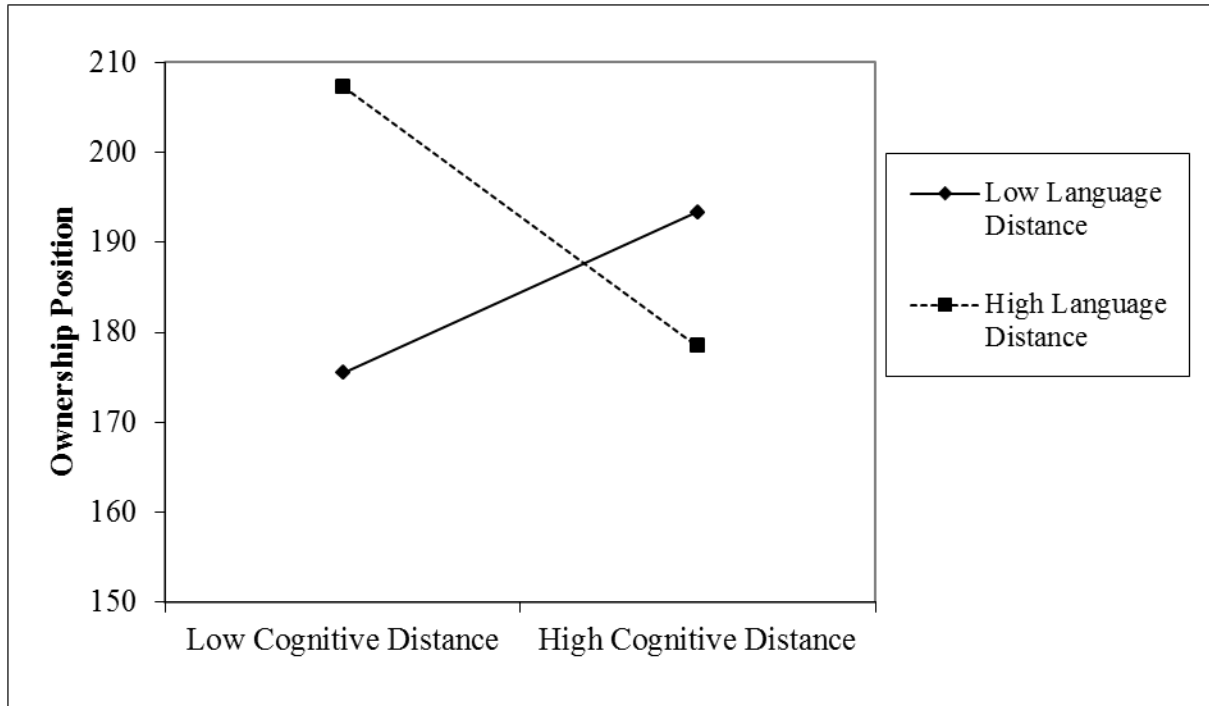


Figure 11

The Extent of EMNCs' Media Coverage and Normative Distance

